

March 5, 2013

VIA E-MAIL (pubcom@finra.org)

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Regulatory Notice 13-02 (Recruitment Compensation Practices)

Dear Ms. Asquith:

I write on behalf of H.D. Vest Investment Services (“H.D. Vest” or “Firm”) in response to Regulatory Notice 13-02, FINRA’s request for comment on a proposed rule to require disclosure of conflicts of interest relating to recruitment compensation practices. H.D. Vest is a broker-dealer and FINRA member with approximately 4,800 registered representatives nationwide. The Firm actively recruits new registered representatives into the securities business (*i.e.*, individuals who have not previously been registered), and also recruits transfers from other firms.

H.D. Vest supports the proposal and believes that FINRA should move forward with adopting the proposed rule. The proposed disclosure would shed light on significant financial arrangements that can materially impact a registered representative’s decision to change firms, a decision that also has significant implications for customers. H.D. Vest does not oppose the practice of providing financial incentives as a means to recruit new representatives, but supports additional disclosure so clients can make an informed decision before they, in turn, agree to follow the representative to the new firm.

In the proposal, FINRA correctly states that “recruitment programs raise conflicts of interest that often are not disclosed when registered representatives encourage former customers to move to their new firm.” H.D. Vest does not believe that most registered representatives transfer firms based *exclusively* on enhanced compensation offered by the recruiting firm. The new firm presumably must offer at least a minimum level of technology, products and service. However, given that recruiting payments are specifically designed to encourage the representative to make a change, there can be no doubt that “enhanced compensation” provides a powerful incentive to registered representatives to transfer firms, even if the new platform is not as advantageous to

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their clients in terms of available products and pricing. Clients have a right to know what benefit their representative is receiving as an incentive to make the change.

The nature and magnitude of recruiting compensation has grown because: (a) clients are typically inclined to move to the new firm based on the relationship they have established with the representative; and (b) the client will never know that the representative has substantial financial incentives to recommend that clients move their accounts. Under the current regulatory regime, recruiting deals that would raise questions in a reasonable person's mind go undisclosed. If, as posited in the proposal, a representative will make 200%-300% more than their entire prior year's earnings by switching firms, then that is likely a material factor in the representative's decision to make the change. Recruiting compensation provides direct incentives that can influence the registered representative's recommendation that a client change firms, and in that respect the proposed disclosure seems more important than other disclosures already required which do not involve any point-of-sale incentives.

H.D. Vest also supports FINRA's proposal to include a \$50,000 exemption below which additional disclosure would not be required. That provision will significantly reduce the burden of the proposal for firms that pay some amount to cover true transition costs, as opposed to payments that are specifically intended to influence the transfer decision by making the move more profitable for the representative. Although the actual costs of transferring to a new firm may exceed \$50,000 in certain cases, the out-of-pocket cost in many cases is much lower than that. The \$50,000 level is a rational place to draw the line and has the benefit of providing clarity as to when disclosure is required.

In summary, the proposed rule is in the best interests of customers. It will provide customers valuable information regarding conflicts of interest and incentives their representative has in recommending that they change firms, and will help them make better informed decisions regarding whether they should transfer their business to the new firm. Accordingly, H.D. Vest supports the proposal.

Sincerely,



LuAnn Colosimo

Manager, Advisor Recruiting

H.D. Vest Investment Services