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

**Re: Request for Comment on a Proposed Rule to Require Disclosure
of Conflicts of Interest Relating to Recruitment Compensation Practices**

Dear Ms. Asquith:

We appreciate the opportunity to respond to FINRA's proposed rule requiring disclosure of "enhanced compensation" when financial advisers move from one firm to another. As discussed below, we support the proposal and commend FINRA for striking the right balance by providing investors with meaningful disclosure of enhanced compensation without prohibiting legitimate compensation practices.

BACKGROUND

UBS Financial Services Inc. is dually registered as a broker-dealer and an investment adviser. We have a preeminent practice serving the needs of ultra high net worth and high net worth individuals and families. We employ approximately 16,000 people in the United States, and are one of the largest securities firms in the United States. Our parent company, UBS AG, is one of the premier wealth management firms in the world. With offices in more than 50 countries, it has a 150-year heritage serving private, institutional and corporate clients worldwide.

Our primary mission is to provide advice-based solutions to our clients through professional advisers who are fully dedicated to helping clients meet their investment and broader wealth management objectives. Our more than 7,000 financial advisers are among the best in the industry—with average assets per adviser of \$119 million.

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DISCLOSURE OF ENHANCED COMPENSATION
IS IN THE BEST INTERESTS OF CLIENTS

The most talented financial advisers are in demand, and top tier firms aggressively recruit them. As FINRA points out, when financial advisers change firms, they often receive “enhanced compensation” in the form of upfront bonuses, forgivable loans, transition assistance and back-end production bonuses. This enhanced compensation may amount to a multiple of the commissions and fees produced by an adviser in the previous year.

We agree with FINRA that it is in the best interests of clients to receive uniform, industry-wide disclosure of enhanced compensation. We also agree that in the absence of such disclosure, the financial advisers’ conversations with clients are likely to focus on platform, products and services of the new firm (or shortcomings of the old firm) rather than any inducements the financial advisers have received to change firms. Thus, at the time clients must decide whether to stay with their existing firm or follow their adviser to a new firm (which may involve burdens on the client, including moving their accounts and liquidating existing proprietary positions), they may not be aware that advisers are motivated to leave, at least in part, by financial incentives rather than differences in platform.

This is not to say that disclosure of enhanced compensation will cause clients to leave their financial advisers when they change firms. To the contrary, many clients may not care that their financial advisers receive significant enhanced compensation. But other clients might just as reasonably come to the opposite conclusion. They may choose to stay where they are rather than follow the recommendation of an adviser whose decision to change firms may have been influenced by enhanced compensation. Our view is not that the client should be pushed in one direction or the other or that there is anything wrong with financial advisers receiving enhanced compensation; it is simply that our industry exists to serve clients and the clients’ decision-making process should be an informed one. As the Supreme Court has stated on many occasions, the fundamental purpose of the securities laws is “to substitute a philosophy of disclosure for the philosophy of *caveat emptor*, and thus to achieve a high standard of business ethics in the securities industry.”¹ FINRA’s proposal enhances current disclosure practices and supports a high standard of business ethics.

We do not oppose current enhanced compensation practices. We understand, however, that some clients might object to them if they better understood them. In this regard, we agree with Justice Brandeis’s observation, “Sunlight is said to be the best of disinfectants; electric light the most efficient policeman.”² We are in a client-focused business based on trust and confidence.

¹ *Basic Inc. v. Levinson*, 485 U.S. 224, 234 (1988) (quoting *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 186 (1963)).

² *L. Brandeis, Other People’s Money* 62 (1933).

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Fundamental business practices should survive, if at all, not because they are hidden from clients but because they are understood and accepted by clients.

In short, FINRA's proposal puts the interests of clients first, supports a high standard of business ethics, and provides disclosure appropriate for clients to make more informed decisions. For these reasons, we support it.

THERE IS A NEED FOR UNIFORM, INDUSTRY-WIDE STANDARDS

We also agree that *uniform, industry-wide* standards are the best way to achieve better disclosure for clients. We are not aware of any firms that provide the type of disclosure that the rule would mandate, and in the absence of a rule we do not expect existing practices to change. No firm wants its ability to compete for the best financial advisers to be damaged because they provide more disclosure than other firms about the enhanced compensation financial advisers will receive.

Indeed, disclosure of enhanced compensation is tailor made for an industry-wide solution. For firms that do not provide enhanced compensation, the rule imposes no burden whatsoever. For firms that do, every client has the exact same interest of every other client in receiving full disclosure of the incentives a financial adviser has received to change firms. These are precisely the circumstances in which rulemaking can elevate the standards in the industry and best serve the interests of clients.

INVESTORS SHOULD NOT HAVE TO SEARCH FOR THE DETAILS OF ENHANCED COMPENSATION

As currently drafted, FINRA's proposal requires the disclosure of "the details of enhanced compensation," which we interpret to include the amount of signing bonuses, upfront or back-end bonuses, loans, accelerated payouts, transition assistance and similar arrangements paid in connection with a financial adviser changing firms. You have also asked for comments on a possible alternative approach of providing general disclosure with a generic statement that additional information regarding the details of the compensation is available on the firm's website or upon request.

We agree with the proposal as drafted (*i.e.*, requiring detailed disclosure to the client). Disclosure is most effective when it is self-contained and is made prior to the client's decision whether to change firms. Its impact will be diluted and the goal of proactive, timely disclosure will not be met if the burden is placed on clients to seek out the information on a website, make a special request, or tell their financial advisers that they want to know more about their advisers' compensation. Particularly at the point when the client is being asked to change firms, our industry should tell the client whether the request may have been influenced by the incentives provided to the financial adviser.

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We also do not think a generic disclosure that the financial adviser is receiving material enhanced compensation is enough. There is a significant difference between a financial adviser who receives, for example, a modest amount of transition assistance, and a financial adviser who receives, for example, a seven-figure back-end bonus. The mandated disclosures should distinguish between those two situations so clients understand the magnitude of the incentive the financial adviser is receiving to change firms.

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The proposal also asks for responses on a number of discrete issues. Our views are set forth below:

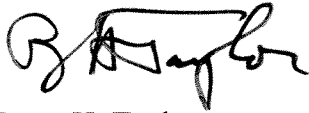
1. We do not think it is practical to require written disclosure at the first individualized contact. Prominent written disclosure should be provided, however, before a client is on-boarded at the new firm and should become one of the firm's required books and records.
2. We think the rule should focus on the conflict that exists when financial advisers recommend that clients move with them to a new firm. We believe that the disclosure should be made to clients the financial advisers had at the prior firms, rather than to clients who had no prior relationship with the financial adviser.
3. We do not think it is appropriate for financial advisers to recommend clients leave the financial advisers' existing firms while the financial advisers still work for those firms. As a result, we do not believe disclosure should be required before a financial adviser has left his or her firm.
4. We agree with the one-year time period for the proposed mandated disclosures.
5. We think that \$25,000, rather than \$50,000, would be an appropriate *de minimis* exception. A \$50,000 inducement could be material to clients.
6. We believe that the primary direct costs will be modest – principally creating the disclosures, making sure the clients receive them before they are on-boarded, and incorporating the disclosures into the firm's books and records.
7. It is difficult to predict what the indirect costs will be of helping clients become better informed. It is possible that one indirect cost will be that enhanced compensation practices will be changed if clients find them distasteful, but that remains to be seen. Whatever the indirect costs are, the industry should accept them if that is the cost of better informing clients about important practices.

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8. The principal benefit of the rule is that clients will be able to make better informed choices about whether they wish to transfer to a new firm or not. The rule will serve the interests of clients and raise the standards of the industry without prohibiting legitimate business practices.
9. We believe that the costs of the rule are warranted. An industry-wide standard facilitated by rule-making is important to raising the standards in the industry and improving the quality of information made available to clients. Absent rulemaking, the status quo is likely to continue.
10. We think there will continue to be vigorous competition for talented financial advisers whether or not firms disclose enhanced compensation. Disclosure, however, will enable clients to make better informed decisions.

Again, we appreciate the opportunity to comment on FINRA's proposal. We support the proposed rule because we believe it is in the best interests of clients, will improve disclosure in an area where industry-wide standards are necessary, and will appropriately balance the need for more information without prohibiting legitimate compensation practices.

Respectfully submitted,



Brent H. Taylor
Managing Director
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