April 28, 2014

Attention: Marcia E. Asquith
Office of the Corporate Secretary FINRA
1735 K Street, NW
Washington, D.C. 20006-1506

RE: Regulatory Notice 14-09 Proposed Rule Set for Limited Corporate Finance Brokers

Dear Ms. Asquith:

This comment letter is being submitted to the Financial Industry Regulatory Authority ("FINRA") on behalf of Stonehaven, LLC, a FINRA member firm and its associated persons (collectively "Stonehaven") with respect to Regulatory Notice 14-09 and the Proposed Rule Set for Limited Corporate Finance Brokers ("LCFB"). Stonehaven is also a member of the Third Party Marketers Association ("3PM"), and has had the opportunity to review 3PM's comprehensive comments regarding the rule set proposed by Regulatory Notice 14-09 or LCFBs. Stonehaven urges FINRA's Board to carefully consider 3PM's thoughtful and informed commentary which has earned Stonehaven's strong support.

Although Stonehaven understands the prescribed format which must be followed regarding the informational exchange executed in these comment periods, it should be noted that this particular topic covers a broad range of material and nuances which we believe warrants an oral discussion to truly understand the details and drivers of the proposed reform on this topic in addition to the conventional comment period and responses which shall be in written format. Stonehaven suggests that a round table discussion be held following FINRA's review of the collective response letters from members to achieve this goal.

Stonehaven is a global alternative asset capital raising firm which was founded with the mission of representing "best of breed" investment managers in connection with raising capital for their alternative investment vehicles. Stonehaven has cultivated relationships on a global basis with professional allocators and sophisticated investors since its inception in 2001. Stonehaven's business model, along with other dedicated capital raising firms which are serving the U.S. alternative asset management industry, is materially distinct and different from traditional broker dealers' business models which are carrying and clearing members.

This comment letter has been formatted to directly convey our "Suggestions" and the correlating "Reasons to support this suggestion".

<u>Suggestion #1:</u>

The proposed rule set for LCFB members should remove the net capital requirement applied to the LCFB members which currently has the threshold set at $5,000.

Reasons supporting this suggestion:

The current net capital requirement thresholds of $250,000, $100,000, and $50,000 respectively for carrying members and introducing members are rather arbitrary in nature, however the materiality of these dollar amounts substantively supports the spirit of the net capital requirements which is in part to protect the investor should a scenario unfurl which causes damage to an investor, and in theory the broker dealer carrying or clearing that customer account would have minimally sufficient reserves to apply to a remedial solution. When applying this methodology to the $5,000 net capital requirement for non-carrying and non-clearing members, it is clear that $5,000 would universally be determined as an insufficient amount to apply to any hypothetical remedial solution involving a customer. One may then deduce that this specific net capital requirement is in only place to ensure that all member firms remain on the grid and adhere to the general net capital requirement apparatus, and that perhaps the intention was that a well thought out resolution would be implemented down the line. This time has now finally come, and we collectively need to implement specific rules which effectively and efficiently regulate the LCFB universe of member firms.

Stonehaven submits that the FOCUS reporting requirements for LCFB members would need to be overhauled as the current set of calculations and data points are not directly applicable to LCFB members and more specifically, placement agents. For example, a specific issue that illustrates this disconnect is demonstrated through the revenue generation framework relating private placement activity. The accrual requirements set forth by the PCAOB accounting regime directly conflict with a placement agent firm's ability to accurately reflect its true capital condition because of the Aggregate Indebtedness variable and its function relating to allowable and non-allowable assets. A placement agent may accrue a substantial receivable in the form of an incentive allocation referral fee which has been accrued on its books with a correlating net pass through payable to registered representatives, but the current net capital calculation methodology does not allow the accrued net retained earnings amount to impact the net capital, and therefore can negatively impact the excess capital as well. This makes no sense to member firms in this situation, nor does it make sense to our PCAOB registered accounting firms which are auditing us. The reason is directly related to the net capital rules which were written to apply to trading firms who carry accounts, and not to placement agent firms which do not carry accounts or trade securities. Countless hours and resources have been allocated to this $5,000 minimum net capital requirement by member firms and FINRA examiners alike. This is clearly not an effective and efficient use of our collective resources when recognizing that the de minimis threshold amount does not translate to investor protection, but rather to FINRA maintaining a rule requirement to get every non-carrying and non-clearing member firm to ensure similar forensic accounting scrutiny applied to member firms which carry, custody and clear investor accounts.

More importantly, the compliance exposure which is forcibly imposed onto non-carrying member firms that results from this disconnected framework must be corrected, and this can be achieved by removing the $5,000 minimum net capital requirement and revising the FOCUS reporting requirements so that the data points are streamlined and meaningful for non-carrying member firms.

Suggestion #2:

Remove or overhaul the current Supplemental Statement of Income ("SSOI") content and filing requirement for LCFB.

Reasons supporting this suggestion:

The questions and data requests outlined in the SSOI in theory have been implemented to assist FINRA in intelligence gathering of member firms engaged in private placement activity among other items, but in practice this has not been achieved in a satisfactory manner. This recently implemented layer of recurring and required informational exchange does not provide accurate information to FINRA or the SEC because of the wide array of methods, timelines and fee structures which apply to the private placement framework and the placement agents which operate within this framework. The SSOI is clearly written inferring that a uniform application of method, timeline and fee structures applies to the private placement framework similar to the uniform process which applies to framework for trading public securities. This is simply inaccurate, and when Stonehaven specifically identified this issue to FINRA, we were told that FINRA understands this disconnect, but we should just make best efforts to interpret the questions and attempt to provide punctual and accurate data anyway. This reflects another disconnected channel of required informational exchange where non-carrying and non-clearing member firms are allocating resources to the FOCUS reports, and now SSOI filings as well, which does not promote effective and efficient regulation or accurate informational exchange, and this collectively results in valuable resources being wasted. One obvious example of this would be relating to the questions posed in the SSOI which request information regarding the revenue generated from the sales made in the reference period. Generally, private placements closed in any particular quarter will not generate commissions in the same quarter which would require the member firm filing the SSOI to reflect a "0" in the answer to the aforementioned question. This is just one example of the poorly written questions in the SSOI which confuse regulatory liaisons and examiners alike, precipitate unnecessary scrutiny relating to perceived hotspots by the regulators, and indirectly increases exposure for private placement agents due to the disconnected framework.

Suggestion #3:

Exempt LCFB members from or revise the specific rules that apply to carrying members and clearing members, and cause material expenses in the form of premiums for non-carrying members which arguably have no tangible insurance payoff in the equation. Specifically, Rule 4360 regarding the Fidelity Bond.

Reasons supporting this suggestion:

Rule 4360 and the maintenance of a $100,000 fidelity bond applies to non-carrying member firms. The spirit of this requirement dovetails with the general spirit of the net capital requirements which is to secure a minimum reserve amount of capital that may be applied to remedial solutions involving investors. A fidelity bond insures a firm against intentional fraudulent and dishonest acts committed by employees and registered representatives under

certain specified circumstances. In cases of theft of customer funds, a fidelity bond generally will indemnify a firm for covered losses sustained in the handling of customers' accounts. Clearly, this does not apply to non-carrying member firms and therefore LCFB members should be exempted from Rule 4360, or the Rule should be revised accordingly.

Suggestion #4:

Exempt LCFB members from the Securities Investor Protection Corporation required payments relating to the SIPC-6 and SIPC-7 filings which impose assessment payments based on a member firm's gross revenues.

Reasons for supporting this suggestion:

Non-carrying member firms do not carry investor accounts, but must pay these ever increasing amounts which are effectively premium payments funding the SIPC Fund. These rules are not aligned properly and disproportionately create significant expenses for LCFB without providing any tangible benefit to the non-carrying member firm. This is clear through reading the SIPC Mission Statement below (with most relevant language underlined for emphasis):

SIPC was created under the Securities Investor Protection Act as a non-profit membership corporation. SIPC oversees the liquidation of member broker-dealers that close when the broker-dealer is bankrupt or in financial trouble, and customer assets are missing. In a liquidation under the Securities Investor Protection Act, SIPC and the court-appointed Trustee work to return customers' securities and cash as quickly as possible. Within limits, SIPC expedites the return of missing customer property by protecting each customer up to $500,000 for securities and cash (including a $250,000 limit for cash only).

SIPC is an important part of the overall system of investor protection in the United States. While a number of federal and state securities agencies and self-regulatory organizations deal with cases of investment fraud, SIPC's focus is both different and narrow: restoring customer cash and securities left in the hands of bankrupt or otherwise financially troubled brokerage firms.

In SIPC's own words, their mission directly relates to protecting customer assets. It is unfair and unjust to be collecting premium payments from all member firms, when non-carrying member firms do not carry accounts and therefore have nothing for SIPC to protect.

In closing, Stonehaven submits that it is critical to understand the motive of the proposed rule set for LCFB members, which is effectively to draw a line of intelligent distinction regarding the applicable core rules which have been thematic and consistent in application for all member firms since the passage of the 1933 Act and 1934 Act, and to create a subset of the member universe to effectively differentiate a carrying and clearing member firm, such as Morgan Stanley, from a non-carrying and non-clearing member firm, such as Stonehaven. This much is common sense. It is imperative to understand the large universe of the distinct differences and nuances which apply to universe of non-carrying and non-clearing member firms, and subsequently apply that understanding in a streamlined application of rules to effectively and efficiently regulate this bifurcated universe of member firms.

Stonehaven appreciates the opportunity to offer comments on the proposed rule set for LCFB and would be pleased to discuss any of the points made in this letter in more detail. Should you have any questions, please contact Steven Jafarzadeh at (212) 616-7678.

Sincerely,

/s/ Steven Jafarzadeh, CAIA, CRCP
Managing Director, CCO & Partner
Stonehaven, LLC