



Financial Industry Regulatory Authority

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Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

**Re: SR-FINRA-2011-011 – Proposed Rule Change to Amend the By-Laws of
FINRA Regulation, Inc. With Regard to District Committee Structure and
Governance – Response to Comments**

Dear Ms. Murphy:

This letter responds to the comment submitted to the Securities and Exchange Commission (“SEC”) in response to the publication in the Federal Register of Notice of Filing of SR-FINRA-2011-011.¹ The purpose of the proposed rule change is to amend the By-Laws of FINRA’s regulatory subsidiary (“FINRA Regulation”) with regard to District Committee structure and governance to, among other things, adjust the size and composition of the District Committees to align more closely with industry representation on the FINRA Board and replace District Nominating Committees with a process of direct nomination and election based on firm size. The SEC received one comment in response to the proposed rule change.² This letter responds to that comment.

Proposed Rule Change

As described in more detail in the rule filing, the proposed rule change would modify the FINRA Regulation By-Laws with regard to District Committees in several respects, including replacing District Nominating Committees with a process of direct nomination and election based on firm size.

Specifically, District Committee candidates would represent one of the following three classifications, as currently defined in the By-Laws: Small Firm (up to 150 registered

¹ See Securities Exchange Act Release No. 64002 (March 2, 2011), 76 FR 12390 (March 7, 2011) (Notice of Filing of SR-FINRA-2011-011). The comment period closed on March 28, 2011.

² Letter from Ed Horwitz, Horwitz and Associates Inc., dated March 25, 2011.

representatives), Mid-Size Firm (151 to 499 registered representatives), or Large Firm (500 or more registered representatives) (the “firm size classifications”). As proposed, the Board would determine the composition of District Committees based on firm size classifications, taking into account the composition of the membership and the Board.

To reflect the District Committees’ current composition, as well as the representation classifications employed by the FINRA Board of Governors (i.e., Large Firm, Mid-Size Firm and Small Firm Governors), the FINRA Regulation Board has determined that, if the proposed rule change is approved, three-sevenths of the District Committee members would be associated with Small Firms, one-seventh with Mid-Size Firms, and three-sevenths with Large Firms. Such ratios are generally consistent with those approved by the SEC and established under the FINRA By-Laws for the election of industry Governors on the Board of Governors and under the FINRA Regulation By-Laws for the election of industry members of the National Adjudicatory Council (“NAC”).

Comment Received

The commenter expressed concern that, under the proposed rule change, Small Firms, which make up 91.48 % of FINRA member firms (but employ 11.95 % of the total membership’s registered representatives) would not have as much representation as the remaining firms,³ which make up only 8.52 % of FINRA member firms (but employ 88.04 % of the total membership’s registered representatives). As noted above, Small Firms would represent three-sevenths, or approximately 42 %, of District Committee members; Large Firms would also represent three-sevenths of members, and Mid-Size Firms would represent the remaining one-seventh, or approximately 8 %, of members. The commenter claimed that the proposed allotment was “gerrymandering,” presumably based on the belief that the proposed 3-1-3 ratio based on the firm size classifications would unfairly reduce or limit the representation of Small Firms.

FINRA disagrees with this characterization. The current overall representation on District Committees, if analyzed based on firm size classifications (Small, Mid-Sized and Large Firms), closely mirrors the proposed 3-1-3 ratio. In addition, as noted above, the proposed 3-1-3 ratio is generally consistent with the ratios established under the FINRA By-Laws for the election of industry Governors on the FINRA Board of Governors and under the FINRA Regulation By-Laws for the election of industry members of the NAC. FINRA believes it is appropriate that the composition of the District Committees serve to ensure fairness and balance between those firms that make up the largest percentage of membership and those firms that employ the largest percentage of the registered representative population, similar to the compositional structures of industry representatives on the Board of Governors and the NAC. Requiring representation from

³ The commenter identifies the remaining firms as “large firms” but they would include both Mid-Sized Firms and Large Firms as defined in the proposed rule change.

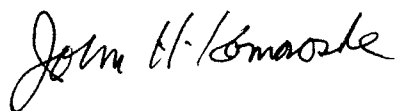
firms of different sizes also fosters inclusion of firms having different business models on the District Committees, to more fully represent the interests of FINRA's diverse membership in committee discussions. FINRA is cognizant of the importance of including elected representatives of firms of different size classification in its rule making process. In this regard, in 2006 FINRA enhanced the Small Firm Advisory Board ("SFAB"), which reviews FINRA proposed rules and makes recommendations to the Board of Governors, by making half of the SFAB seats elected.

The commenter also disagreed that the District Nominating Committees should be eliminated, based on the belief that the current nominating committee process results in nominees being selected by peers based on track record and industry background, rather than being a "popularity contest." As described above, the proposed rule change would replace the current process with one of direct candidate nomination and election by the membership. As described in the proposed rule change, in recent years, FINRA has witnessed a decline in eligible individuals willing to serve on the District or District Nominating Committees or undergo the nomination process. FINRA believes that direct candidate nomination and election by the membership would create a more accessible, transparent and effective election process. FINRA further notes that District Nominating Committees, which currently help to ensure a diverse and representative membership, are made up of a majority of former District Committee members, or current or former Directors of the FINRA Regulation Board and Governors of the FINRA Board. Under the process envisioned by the proposal, FINRA intends to seek informal input from retiring District Committee members regarding potential future members, which would continue to draw upon the expertise of this group without the need for the formal structure, effort, and expense of District Nominating Committees.

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FINRA believes that the foregoing fully responds to the issues raised by the commenter to the rule filing. Please feel free to contact me at (202) 728-8475 if you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read "John H. Komoroske". The signature is fluid and cursive, with the first name "John" and last name "Komoroske" clearly legible.

John Komoroske
Vice President