

LENDALE SECURITIES, INC.

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April 3, 2018

Via Electronic Submission

Jennifer Piorko Mitchell
Office of the Corporate Secretary FINRA
1735 K Street, NW Washington, DC 20006-1506 pubcom@finra.org

Re: FINRA Regulatory Notice 17-41: Response to FINRA's Request for Comment on the Effectiveness and Efficiency of Its Payments for Market Making Rule

Dear Ms. Mitchell:

Glendale Securities, Inc. ("Glendale"), respectfully submits to the Financial Industry Regulatory Authority, Inc. ("FINRA") the following comments on FINRA Rule 5250 ("Rule 5250") in response to FINRA's request for comments in FINRA Regulatory Notice 17-41. Glendale strongly supports amendments to Rule 5250 that would allow issuers to compensate broker-dealers for preparing and submitting a Form 211 and for making a market in an issuer's securities.

Glendale is a FINRA registered member broker/dealer which occupies a unique niche in the securities business. Few introducing brokers or clearing firms are willing to service the needs of early round investors and founders of microcap companies because of the intense regulatory scrutiny and labor-intensive processes that are required. Glendale assists its customers in depositing microcap securities, trading and market-making in those same securities. It further assists new public companies in becoming DTC eligible and in filing FINRA Form 211 pursuant to SEC Rule 15c2-11. Glendale is in a position to help customers realize the rewards of President Barack Obama's Jumpstart Our Business Startups Act of 2012 or "JOBS Act," a law intended to encourage funding of United States small businesses by easing various securities regulations.

When broker-dealers assist companies going public on a U.S. national securities exchange, they are not restricted from receiving payment for the investment banking services necessary to price the companies' securities and complete the public offering. Similarly, filing a Form 211 for an emerging company requires information gathering and due diligence, and acts as an objective pricing analysis similar to that provided by an investment bank bringing a company public on a national exchange. Because FINRA Rule 5250 prohibits payment for filing a Form 211, FINRA thereby restricts the ability of small companies to access public markets and limits the overall availability of company information.

Filing a Form 211 requires a broker-dealer to collect, review and analyze the issuer's disclosures, as well as respond to FINRA's comments and questions. The process presents a significant cost and time commitment, with no possibility of remuneration. Companies looking to efficiently access the public markets may have difficulty finding a broker-dealer willing to undertake this process.

Glendale agrees with other commenters who have opined that Rule 5250 should be amended to

allow broker-dealers to receive remuneration for time expended and for reasonable out-of-pocket expenses incurred in the preparation and filing of a Form 211.

FINRA could incorporate in its Rule 5250 revision that the amount of such remuneration be fully disclosed to investors, as required by Section 17(b) under the Securities Act of 1933 (the “Securities Act”).

If the Form 211 process were financially incentivized, broker-dealers could demand higher quality disclosure from issuers and submit quotations that better reflected issuers’ operations and prospects. The information gathering and review process contemplated under Exchange Act Rule 15c2-11 cannot be performed without cost. In addition to the time expended, a broker-dealer undertaking the Form 211 filing process currently must shoulder the out-of-pocket expenses involved in conducting this review, including preliminary due diligence, legal and administrative costs.

Enhanced review and research of small cap companies would benefit investors and the company’s overall access to capital. A reasonable payment for these services would offset the costs of gathering and reviewing issuer information, encourage relationships between companies and investment banking professionals, incentivize higher quality disclosures and promote competitive price transparency and liquidity in public secondary markets.

Once a security has passed the initial hurdle of having a Form 211 approved, the filing broker-dealer cannot accept payments for making a market in the security going forward. This prohibition frustrates the creation of healthy secondary markets.

Rule 5250 was designed to ensure that broker-dealers are independent and unbiased when publishing a quotation or making a market in a security. This blanket prohibition on market making compensation is based out of a concern that broker-dealers receiving payments from issuers, or promoters, creates a conflict of interest that would influence the broker-dealer’s decision as to whether to quote the security and at what price.

The SEC reiterated the policy concerns behind this prohibition in a 2013 Notice:

“In particular, the existence of undisclosed, private arrangements between market makers and an issuer and/or its promoters may make it difficult for investors to ascertain the true market for the securities, such that what might appear to be independent trading activity may well be illusory.” (SEC Release No. 34-69398; April 18, 2013).

The objective of Rule 5250 should be to create straightforward pathways to markets where current information is publicly available and multiple market makers can compete with one another on price, execution quality and liquidity.

There is little justification for the belief that allowing broker-dealers to accept payments from issuers for submitting a Form 211 or making a market would compromise broker independence.

Rather than banning payments all together, FINRA can more effectively deter market manipulation and protect investors by requiring disclosure of the financial relationship between the company and the broker-dealer filing its Form 211 and/or making a market in its securities.

The solution is more disclosure – not less. Increased disclosure allows greater regulatory oversight that can quell bad practices. FINRA’s ban on payments for research and review as part of bringing a company public via Form 211 effectively creates a prohibition-like environment.

Glendale reiterates its opinion that Rule 5250 should be amended to allow broker-dealers to accept compensation from issuers for the reasonable out-of- pocket expenses involved in preparing and submitting a Form 211, and for making a market in an issuer’s securities. These compensation arrangements should be fully disclosed to investors, as required by Section 17(b) under the Securities Act.

Glendale appreciates the opportunity to comment on FINRA Regulatory Notice 17-41. Please contact me at (818) 907-1515, ext. 201, or eflesche@glendalesecurities.com with any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read "Paul EJ", written over the typed name "Eric Flesche".

Eric Flesche
CCO