



NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

750 First Street N.E., Suite 1140

Washington, D.C. 20002

202/737-0900

Fax: 202/783-3571

www.nasaa.org

October 22, 2014

Submitted electronically to rule-comments@sec.gov

Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Release No. 34-73238, File Number SR-FINRA-2014-038

Dear Mr. Fields:

On behalf of the North American Securities Administrators Association (“NASAA”),¹ I hereby submit the following comments in response to Release No. 34-73238, File No. SR-FINRA-2014-038 entitled Notice of Filing of a Proposed Rule Change to Adopt FINRA Rule 3110(e) (Responsibility of Member to Investigate Applicants for Registration) in the Consolidated FINRA Rulebook² (“the proposed rule”). NASAA appreciates the opportunity to offer its comments on the above-referenced proposal.

NASAA supports the clarification and streamlining of proposed FINRA Rule 3110(e) in comparison to the predecessor rule NASD Rule 3010(e), as well as the addition of a provision requiring firms to adopt written procedures that are reasonably designed to verify the accuracy and completeness of the information contained in an applicant’s Uniform Application for Securities Industry Registration and Transfer (“Form U4”). NASAA also supports the proposed rule clarifying a firm’s requirement to review the applicant’s most recently filed Uniform Termination Notice for Securities Industry Registration (“Form U5”) if the applicant had been previously registered with FINRA or another regulator. While NASD Rule 3010(e) requires that the firm review an applicant’s most recent Form U5, the proposed rule’s inclusion of this provision further emphasizes the importance of this review.

¹ NASAA is the association of the 67 state, provincial, and territorial securities regulatory agencies of the United States, Canada, and Mexico. NASAA serves as the forum for these regulators to work with each other in an effort to protect investors at the grassroots level and to promote fair and open capital markets.

² 79 Fed. Reg. 59884 (Oct. 3, 2014).

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NASAA also supports the proposed rule's measures to further ensure the accuracy of the information provided on the Form U4. NASAA supports the added requirement of establishing and implementing written procedures reasonably designed to verify the accuracy and completeness of the information contained in an applicant's Form U4 on a timely basis. Adding this requirement will contribute to ensuring the accuracy and completeness of the information disclosed in Form U4, which provides information used by regulators to make decisions on applicants' registrations. Information contained in the Form U4 is also the basis for the information displayed in BrokerCheck, a system used by investors to learn more about their current or prospective broker. Further, some investors utilize state freedom of information laws to gather broker information contained in Central Registration Depository ("CRD") snapshot reports. While these laws are generally broader in scope and contain information not found in BrokerCheck, CRD snapshot reports contain information also drawn from the Form U4. Because the Form U4 serves as the primary avenue through which investors obtain important information about brokers, NASAA strongly supports the proposed additional requirements to ensure the accuracy of such information.

NASAA believes that the proposed rule increases information accuracy while not placing overly burdensome new requirements on firms. While the proposed rule has an additional requirement for written procedures, the proposed rule mandates procedures reasonably designed to verify the accuracy and completeness of information. Mandating a reasonableness requirement ensures that firms can implement internal systems commensurate with their regulatory requirements and size. The proposed rule requires firms to verify the accuracy and completeness of information while allowing firms the flexibility to choose to conduct their own searches of reasonably available public records or rely on the reviews conducted by a third-party service provider. NASAA supports this flexibility, as it allows a firm to determine for itself the most cost effective means by which to comply with the additional requirements. Furthermore, NASAA notes that firms usually have in place a review process to verify the information contained in the Form U4 for most registration applicants and that this additional requirement simply formalizes an industry best practice.

Finally, NASAA supports FINRA's proposed addition of Supplementary Material .15, which would create a temporary refund program for any Late Disclosure Fees levied against firms that made amended Form U4 filings to update information about previously undisclosed judgments or liens. The proposed temporary refund program creates an incentive for firms to make the required updated filings disclosing relevant information. The disclosure of this information would increase the completeness of information contained in CRD; therefore, NASAA supports the temporary refund program.

NASAA reiterates the importance of the proposed rule, as it contributes to the integrity of the information in the CRD, which is used by regulators and self-regulatory organizations in making determinations on an applicant's registration status. State securities regulators also draw from information beyond the Form U4 in making registration determinations, but the underlying integrity of the system rests on filings being accurate. The information disclosed on the Form U4 allows a state securities regulator to determine whether an applicant is subject to statutory disqualification or whether the applicant may present a regulatory risk to the firm or to investors.

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As a long-standing advocate of providing investors with a complete picture of a broker's background, NASAA appreciates the opportunity to comment on the proposed FINRA rule change, as the proposed rule will contribute to the level and accuracy of disclosure. Please do not hesitate to reach out to me or NASAA's Deputy General Counsel, A. Valerie Mirko, if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "William Beatty". The signature is fluid and cursive, with a large initial "W" and "B".

William Beatty
NASAA President
Washington Securities Commissioner