



COMMONWEALTH *financial network*

VIA ELECTRONIC MAIL

August 27, 2010

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

RE: File Number SR-FINRA-2010-034
Proposed FINRA Rule 4530

Dear Ms. Murphy:

In its Release No. 34-62621, the Securities and Exchange Commission (SEC) has requested public comment on the Financial Industry Regulatory Authority's (FINRA) proposed Rule 4530 (Reporting Requirements). The rule would, among other things, expand the scope of conduct requiring self-reporting well beyond the standard set forth in New York Stock Exchange Information Memorandum 06-11.

Commonwealth Financial Network (Commonwealth) is an independent broker/dealer and an SEC registered investment adviser with home office locations in Waltham, Massachusetts, and San Diego, California, and more than 1,600 registered representatives who are independent contractors conducting business in all 50 states.

Commonwealth welcomes the opportunity to comment on the proposed rule. While we appreciate the need to report *material* violative conduct resulting in harm to investors, we believe Rule 4530, as proposed, is overly broad, vague, and ambiguous, particularly with regard to sections 4530(b) and 4530.01, which require firms to report internal conclusions of violative conduct.

Internal Conclusions – Proposed FINRA Rule 4530(b)

Proposed Rule 4530(b) is problematic because it requires members to report internal conclusions of “*any*” violation of “. . . securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization.”

Commonwealth does not disagree with the need to report material sales practice violations or material violations of rules that may result in customer harm. We are concerned, however, that the rule, as proposed, requires firms to report each and every internal audit finding, no matter how ministerial or administrative in nature. This requirement would impose a tremendous burden on member firms to evaluate each and every audit finding, individually and collectively, with a view to determining whether or not such findings are reportable. Without clear and unambiguous guidance or application of the rule, such a process has the potential of placing member firms directly at odds with FINRA staff who may disagree with a firm's conclusions with respect to the reporting requirements associated with a particular matter. We believe that such a requirement has the potential to have a chilling effect on the integrity of member firms' findings in a manner that is contrary to the purpose of the Rule and firms' efforts to document and correct inadvertent noncompliant conduct.

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At the time NASD proposed Rule 3012, NASD officials assured firms that NASD would not use internal reports as a road map for disciplinary action against firms; Rule 4530(b), as proposed, signals a dramatic shift in that position. The burden of reviewing every single branch audit and each annual Rule 3012 supervisory controls report to determine whether cited deficiencies require reporting would require member firms' compliance departments to reallocate resources away from more productive endeavors, rendering them less effective at remedying genuine compliance concerns. Therefore, rather than leave the interpretation of reportable events up to the respective individual opinions of member firms and FINRA staff, the Rule should include specific and unambiguous criteria for the reporting of such events.

Supplementary Materials – Proposed FINRA Rule 4530.01

In the Supplementary Materials, FINRA excludes from the reporting requirements a firm's internal conclusions of ". . . isolated violations by the member or an associated person of the member that can be reasonably viewed as a ministerial violation of the applicable rules that did not result in customer harm . . . remedied promptly upon discovery." This exclusion does not go far enough, particularly in light of FINRA's belief, according to its comments in the release, that the existence of internal audit findings "creates a strong presumption that the matter is reportable." This belief, which appears to negate the exclusion, risks having a detrimental effect on member firms' audits, as it may cause auditors to think twice before citing certain deficiencies for fear that a particular cited deficiency will require reporting.

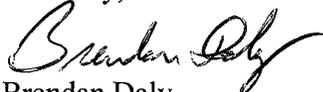
Even more worrisome is the potential for entirely subjective, arbitrary enforcement of proposed Rule 4530(b) by FINRA using "20/20 hindsight." In fact, this rule could push the concept of "20/20 hindsight" to the extreme. It would allow FINRA examiners to pick apart every single internal audit report and annual supervisory controls report and question member firms about every citation, no matter how ministerial or immaterial.

Conclusion

Commonwealth sees the value of self-reporting to FINRA material sales practice violations and violations that could result in material financial harm to customers; however, the rule, as written, is rife with vagueness and ambiguities that set member firms up to fail based on the unique opinions of FINRA staff. We urge the SEC to send proposed Rule 4530 back to FINRA to limit the scope of the reporting requirements of internal conclusions to include specific and unambiguous criteria for the reporting of specific events, and to make the rule more consistent with the standard set forth in New York Stock Exchange Information Memorandum 06-11.

If you have any questions regarding our comments or concerns, please contact me at 781.736.0700.

Sincerely,



Brendan Daly

Legal and Compliance Counsel