

FINRA to Firms: Disclose Signing Bonuses

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FINRA recently approved a proposed rule requiring disclosure of the details of any "enhanced compensation" paid by a broker-dealer to a registered representative whom it recruits from another firm. FINRA believes that such compensation creates a conflict of interest when registered representatives encourage former customers to follow them to a new firm. Enhanced compensation could include signing bonuses, up front or back-end bonuses, loans, accelerated payouts, transition assistance, and similar benefits provided to a registered representative in connection with the transfer of securities employment. As proposed in January 2013, the rule would have required specific disclosure only if such incentives to a registered representative exceeded \$50,000. Several commenters challenged FINRA to better explain the nature of any conflict of interest and to require disclosure only when enhanced compensation actually creates such a conflict. Also, SIFMA and other commenters suggested the creation of model enhanced compensation disclosure. As approved by FINRA's Board of Governors on September 19, 2013, the disclosure threshold has been increased to \$100,000, and a reporting component has been added. Specifically, firms would be required to report "significant increases in total compensation paid to a newly recruited registered representative during the first year." FINRA intends to use this information in its risk-based examinations. FINRA must send the proposed rule to the SEC before it can become effective. As of this writing, FINRA had not yet done so.

Authored By



Ann Began Furman

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