

FINRA to Firms: Disclose Signing Bonuses

December 01, 2013

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.

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