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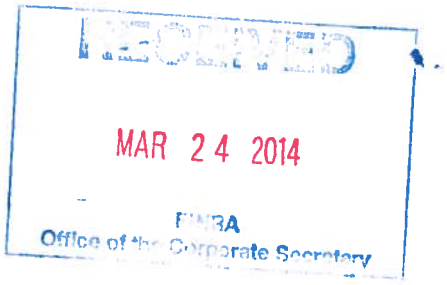

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006-1506

RE: Regulatory Notice 14-09; Limited Corporate Financing Broker

Ms. Asquith:

Thank you for the opportunity to comment on the proposed Rule Set for Limited Corporate Financing Brokers.

Colorado Financial Service Corporation is a full service general securities firm that includes an investment banking division. We have been involved in investment banking transactions since 2008 and conduct approximately 50 transactions per year. We operate on the independent contractor model that has proved to be beneficial to both our Firm and our registered representatives and very attractive to investment banking professionals. For the most part, our clients are private corporations seeking both mergers and acquisitions services as well as capital in the form of both debt and equity.

In reviewing this proposal, we could not help but look back at the rollout of the Series 79 Investment Banking registration[1] and the unintended consequences it placed on firms. FINRA did not provide clear cut definitions that allowed firms to make reasonable interpretations of the rule and reasonably expect to have a FINRA examiner make a similar interpretation. From our own experience, FINRA staff, including the general counsel's office could not provide a definition of the term "facilitate" as used in the rule. I see similar confusion in the proposed rule set that will lead to very differing interpretations of the rule when it comes to application. Though not FINRA's responsibility, the US Securities and Exchange Commission's letter to exempt most mergers and acquisitions brokers from any registration adds to the confusion and creates an atmosphere of "no direction" when viewing the regulatory scheme surrounding securities registration. We see confusion in the proposed rule set that will lead to very

[1] [1] **1032(i) Limited Representative—Investment Banking** (1) Each person associated with a member who is included within the definition of a representative as defined in NASD Rule 1031 shall be required to register with FINRA as a Limited Representative—Investment Banking and pass a qualification examination as specified by the Board of Governors if such person's activities involve: (A) advising on or facilitating debt or equity securities offerings through a private placement or a public offering, including but not limited to origination, underwriting, marketing, structuring, syndication, and pricing of such securities and managing the allocation and stabilization activities of such offerings, or (B) advising on or facilitating mergers and acquisitions, tender offers, financial restructurings, asset sales, divestitures or other corporate reorganizations or business combination transactions, including but not limited to rendering a fairness, solvency or similar opinion.

differing interpretations of the rule when it comes to application. We believe FINRA's mission is being compromised to retain firm and representative registrations.

As an example, the proposed Rule 016(h)(1)(F) and footnote 3 of Regulatory Notice 14-09 indicates that qualifying, identifying or soliciting securities to potential institutional investors by LCFB will be permissible. This creates confusion. Because, it appears that, pursuant to 016(h) (F) and the footnote, LCFB will be allowed to engage in traditional broker-dealer's activities to institutional investors. Allowing solicitation of institutional investors creates confusion and further blurs the line between a normal broker-dealer and an LCFB.

By way of response, I have repeated your specific requests:

1. *Does the proposed rule set provide sufficient protections to customers of an LCFB? If not, what additional protections are warranted and why?*

   a. The term "customer", pursuant to the proposed rule LCFB 016(d), means any natural person and any entity receiving *corporate financing services* from a limited corporate financing broker. "*Corporate Financing services*" is a broadly used term, and typically includes capital raising activities which should be outside the scope of an LCFB.

      However, FINRA did not clearly indicate whether capital raising activities would be allowed by LCFB in the proposed rule. We propose, to make reasonable interpretations of the rule, either: (i) to clarify the term "Customer" by stating "any natural person and any entity receiving or having an engagement with LCFB for the services listed, identified or defined in LCFB Rule 016(h); or (ii) to provide FINRA's view or expectation on capital raising activities by LCFB; a bright-line of demarcation.

   b. According to the proposed rules, registered associated persons of LCFB will be subject to FINRA Rule 3270. However, the proposed rule is silent on the activities which are currently subject to NASD Rule 3040, private securities transactions.

      We request; (i) FINRA's view on securities transactions of which associated persons of LCFB participated in; and (ii) to provide FINRA's interpretation of the following circumstances.

      - Whether such activities will be viewed as the business activity outside the scope of the relationship with the LCFB firm, therefore will be subject to FINRA Rule 3270;
      - When/if an associated person of LCFB is also registered with an affiliated full service broker-dealer for the purpose of conducting traditional brokerage activities;
      - When/if an associated person of LCFB is also registered with an unaffiliated full service broker-dealer for the purpose of conducting traditional brokerage activities; and
      - When/if an associated person of LCFB refers a customer (either institutional or non-institutional customers) to a broker-dealer (either affiliated or unaffiliated) for capital raise of an issuer of which the LCFB firm engaged in one of the activities of 016(h) (1).

   c. The proposed rule 221 appears to disregard the existing rules concerning communications with the public:

      - The one-year filing requirement appears to be waived.
      - There appears to be no required supervision of communications

The rules appear to be vague and contradict their intent. The rule proposal allows capital raise transactions to institutional clients and yet the rules appear to match retail clients. An LCFB should be limited to services only and NO transactions, institutional or otherwise.

There is no reason to exempt an LCFB from the annual requirement for the AML independent examination. The existing exemption applies to Firm's that do not have *any* transactions. FINRA propose to allow transactions, though institutional which we believe are contrary to AML rules.

2. *Does the proposed rule set appropriately accommodate the scope of LCFB business models? If not, what other accommodations are necessary and how would customers be protected?*

   a. The proposed rules appear to have removed or limited LCFB's and its associated persons' direct contact with general public customers (aka retail customers). However, LCFB's and/or its associated persons' certain conduct may still impact general public customers.

      As an example, LCFB can possess non-public information that may impact, either positively or negatively, an issuer's stock price, when/if the issuer is a publicly traded company. Therefore, LCFB's and its associated persons' securities transactions need to be scrutinized and supervised by a qualified principal.

      Accordingly, we propose to require LCFB's and their associated persons' compliance with NASD Rule 3050(C) and (d). In addition, due to the fact that the investment bankers do often receive stocks or equity shares as compensation from the issuer, we suggest to modify personal securities related rules similar to 204(A)-1 of the Investment Advisers Act of 1940.

   b. There should be a bright-line of distinction between an LCFB and any other broker-dealer firm registration category. I would repeat response to Item 1 above. As an example, LCFB Rule 209; LCFB Rule 211; LCFB Rule 451 (b); LCFB Rule 512; LCFB Rule 900 (d); we believe, contradict the spirit and intent of the rule; especially as they may relate to individual customers rather than entities which are the norm in corporate finance.

3. *Is the definition of "limited corporate financing broker" appropriate? Are there any activities in which broker-dealers with limited corporate financing functions typically engage that are not included in the definition? Are there activities that should be added to the list of activities in which an LCFB may not engage?*

   a. NASD Rule 1032(i) requires an individual who provides investment banking services to register as a Limited Representative-Investment Banking. The rule also defines what activities are to be provided by such individual. We are asking FINRA to clarify whether registered representatives of LCFB will also be deemed a Limited Representative-Investment Banking or not. If yes, why does FINRA use two different terms, Investment Banking and Limited Corporate Financing. The description looks very similar to a Series 82 registration. If not, what's the difference?

   b. The proposed LCFB 016(h) (1) (A) currently states that "advising an issuer, including a private fund, concerning its securities offerings or other capital raising activities." Will the valuing of securities of or for an issuer be permitted by LCFB? If yes, we propose to add as such in the proposed LCFB 016(h) (1) (A). If no, also state as such.

c. LCFB should be also prohibited from raising capital from any source what-so-ever; debt or equity. To do anything less would compromise the whole intent of the rule set.

4. *Are there firms that would qualify for the proposed rule set but that would choose not to be treated as an LCFB? If so, what are the reasons for this choice?*

Adopting an LCFB format should be strictly for an investment banking firm that limits itself to mergers and acquisitions transactions, no capital raise whatsoever and other usual and normal fee-based investment banking consulting or drop the idea all together.

5. *What is the likely economic impact to an LCFB, other broker-dealers and their competitors of adoption of the LCFB rules?*

Carving out the LCFB would create an un-level playing field for existing broker-dealers who conduct corporate finance activities in addition to their other lines of business.

6. *FINRA welcomes estimates of the number of firms that would be eligible for the proposed rule set.*

An M & A firm would more than likely use the SEC's exemption and not register.

7. *Proposed LCFB Rule 123 would limit the principal and representative registration categories that would be available for persons associated with an LCFB. Are there any registration categories that should be added to the rule? Are there any registration categories that are currently included in the proposed rule but that are unnecessary for persons associated with an LCFB?*

The IB (Series 79, either completed or grandfathered by waiver on May 3, 2010) should be a required registered representative registration that cannot default to a Series 7, 62, or 82 registration. Allowing the use of the Series 7, 62, or 82 contradicts the intent of the rule and creates additional confusion. An LCFB by being "limited" forfeits it rights to other business lines that are allowed for full service broker-dealers that also conduct investment banking activities.

8. *Should principals and representatives that hold registration categories not included within LCFB Rule 123 be permitted to retain these registrations?*

No. As is the rule now, if a firm is not licensed for a particular line of business, the broker-dealer cannot "park" the license. To repeat, an LCFB by being limited forfeits it rights to other business lines that are allowed for full service broker-dealers that also conduct investment banking activities.

9. *Does an LCFB normally make recommendations to customers to purchase or sell securities? Should an LCFB be subject to rules requiring firms to know their customers (LCFB Rule 209) and imposing suitability obligations (LCFB Rule 211) to an LCFB?*

a. Typically, an LCFB does not engage in recommending any securities (either of the issuers with investment banking engagement or of those with no investment banking engagement or relationship) to any customers. When/if an LCFB firm does engage in such activities, it would be in the form of a capital raise. Accordingly, by removing or prohibiting LCFB from directly or indirectly engaging in capital raise for or on behalf of any issuers will eliminate the suitability obligations. Furthermore, allowing an LCFB firm to make recommendations to customers to purchase or sell securities defeats the purpose of the rule (accepts orders to

purchase or sell securities). Such a recommendation indicates business other than what is intended under this rule.

b. An LCFB should be subject to LCFB Rule 209, "Know Your Customer."

10. Does the SEC staff no-action letter issued to Faith Colish, et al., dated January 31, 2014, impact the analysis of whether a firm would become an LCFB? Is it likely that some limited corporate financing firms will not register as a broker consistent with the fact pattern set forth in the no-action letter, or will they register as an LCFB?

The SEC letter issued on January 31, 2014 has opened the floodgates for anybody to hang out a shingle and be an "Investment Banker". Public Protection has been disregarded in this letter in favor of a very small vocal minority of individuals who do not want to be registered. FINRA and the membership should make every effort to have the Colish letter rescinded.

The creation of the LCFB is contrary to FINRA's mission of market integrity and investor protection. The mergers and acquisitions market has been populated by numerous unsavory characters. The prevailing attitude since creation of the Series 79 license in the legal community had become one of "if the banker is not registered, don't use them". The creation of the LCFB and the SEC's no-action letter referenced earlier, I believe, will result in the unsavory characters returning to the market place and taking advantage of, what could be, very vulnerable small business owners and market integrity being compromised. Perhaps, FINRA and the industry would be better served by expanding existing rules rather than creating a whole new category to accommodate business that is already being conducted in an orderly fashion.

Respectfully submitted,

Chester Hebert

Chester Hebert
CEO