



VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS  
AND INDEPENDENT FINANCIAL ADVISORS

## VIA ELECTRONIC MAIL

July 20, 2015

Mr. John Morgan  
Commissioner  
Texas State Securities Board  
208 E. 10<sup>th</sup> Street, 5<sup>th</sup> Floor  
Austin, TX 78701

Re: Proposed Amendments to the Allowable Communication Methods between Securities Dealers, Investment Advisers and their Agents 7 TAC §104.4, §104.5, 7

Proposed Amendments to the Balance Sheet Reporting Requirements for Newly Registered Securities Dealers and Investment Advisers 7 TAC §115.2, 7 TAC §116.2, Proposed New Rule: 7 TAC §133.18

Dear Commissioner Morgan:

On June 5, 2015, the Texas States Securities Board (Securities Board) published its request for public comment on proposed amendments concerning the application requirements for securities dealers, investment advisers and their agents.<sup>1</sup> The proposed amendments would allow securities dealers, investment advisers and their agents to communicate with, and submit information to, the Securities Board via e-mail. Currently, such communications are generally sent physically via U.S. Mail. In addition these amendments also require a new registrant as a securities dealer and/or investment adviser in the State of Texas to submit an audited balance sheet to the Securities Board as a part of their initial application.

The Financial Services Institute<sup>2</sup> (FSI) appreciates the opportunity to comment on this important proposal. FSI applauds the Securities Board for modernizing the means by which securities dealers, investment advisers and their agents communicate with the Securities Board to include email. In addition, FSI commends the Securities Board for the increased disclosure that will result from requiring an audited balance sheet be provided by newly registered securities dealers and investment advisers in Texas, as well as for standardizing this disclosure via the newly created form 133.18.

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<sup>1</sup> Notice of proposed rules, available at,

[http://www.ssb.state.tx.us/Texas\\_Securities\\_Act\\_and\\_Board\\_Rules/Proposed\\_Rules/PD\\_June\\_5\\_2015.php](http://www.ssb.state.tx.us/Texas_Securities_Act_and_Board_Rules/Proposed_Rules/PD_June_5_2015.php)

<sup>2</sup> The Financial Services Institute (FSI) is an advocacy association comprised of members from the independent financial services industry, and is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has been working to create a healthier regulatory environment for these members so they can provide affordable, objective financial advice to hard-working Main Street Americans.

## **Background on FSI Members**

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the U.S., there are approximately 167,000 independent financial advisors, which account for approximately 64.5% percent of all producing registered representatives. These financial advisors are self-employed independent contractors, rather than employees of Independent Broker-Dealers (IBD).

FSI member firms provide business support to financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners who typically have strong ties to their communities and know their clients personally. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations and retirement plans with financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide middle-class Americans with the financial advice, products, and services necessary to achieve their investment goals.

## **Discussion**

FSI appreciates the opportunity to comment on the Securities Board's Proposed Amendments. FSI strongly supports these updates as discussed below.

### **I. Amendments to Allowable Communication Methods between Securities Dealers, Investment Advisers and their Agents and the Securities Board**

FSI commends the Securities Board for updating its allowable communication methods to include email. This change will increase communications speeds and simplify the document delivery process.

Over the last 20 years, email has become not only an integral and secure means by which FSI members conduct business but also has become a key part of their individual day to day lives. With these proposed amendments the Securities Board has rightfully recognized the importance of this key technology by adding it to the approved list of communication methods and bringing its regulations in line with those found in many other states.

### **II. Amendments to the Balance Sheet Reporting Requirements for Newly Registered Securities Dealers and Investment Advisers**

Currently, newly registered securities dealers and/or investment advisers are required to submit a balance sheet at the time of their application to the Securities Board. The proposed amendments would require such balance sheet be "compiled, reviewed, or audited"<sup>3</sup> instead of simply being "prepared"<sup>4</sup> by an independent CPA. The proposal also contains new rule 7 TAC §133.18, which would create a standardized form for the certification of a securities dealer's and/or investment adviser's balance sheet by its Principal Financial Officer.

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<sup>3</sup> Notice of proposed rules, available at, [http://www.ssb.state.tx.us/Texas\\_Securities\\_Act\\_and\\_Board\\_Rules/Proposed\\_Rules/PD\\_June\\_5\\_2015.php](http://www.ssb.state.tx.us/Texas_Securities_Act_and_Board_Rules/Proposed_Rules/PD_June_5_2015.php)

<sup>4</sup> Id.

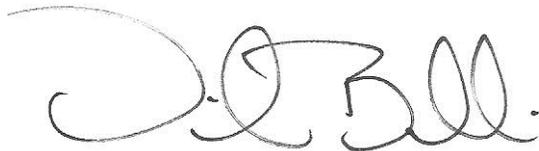
FSI supports the Securities Board's proposal to require that the newly registered securities dealers and investment advisers provide to it a balance sheet that is "compiled, reviewed, or audited"<sup>5</sup>. FSI welcomes the enhanced disclosure these requirements will bring to the securities industry in the State of Texas. By requiring audited financials, it is less likely that firms which could be engaged in fraudulent activity will be able to access the Texas securities market. In turn, this change may increase investor confidence when engaging in a business relationship with FSI member firms. In addition, FSI commends the Securities Board for proposing new form 133.18. The new form will simplify compliance with the new reporting requirements by providing a standardized Securities Board approved form for a firm to attest that its balance sheet has been certified by its Principal Financial Officer.

### **Conclusion**

We are committed to constructive engagement in the regulatory process and welcome the opportunity to work with Securities Board on this and other important regulatory efforts

Thank you for considering FSI's comments. Should you have any questions, please contact me at (202) 803-6061.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. T. Bellaire". The signature is fluid and cursive, with a large initial "D" and "T" followed by the name "Bellaire".

David T. Bellaire, Esq.  
Executive Vice President & General Counsel

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<sup>5</sup> Notice of proposed rules, available at,  
[http://www.ssb.state.tx.us/Texas\\_Securities\\_Act\\_and\\_Board\\_Rules/Proposed\\_Rules/PD\\_June\\_5\\_2015.php](http://www.ssb.state.tx.us/Texas_Securities_Act_and_Board_Rules/Proposed_Rules/PD_June_5_2015.php)