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April 25, 2014

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

RE: Comment on LCFB rule set regarding Net Capital Compliance

Ms. Asquith,

Regarding net capital compliance for Limited Corporate Financing Broker (LCFB), we request for FINRA to consider a modification to the Aggregate Indebtedness (AI) Standard ratio requirement. Currently, the AI ratio requirement increases a member firm's minimum net capital requirement (MNCR) as a result of a member firm's aggregate current liabilities (liabilities due within 12 months). Most member firms who will qualify as a LCFB will have a $5,000 MNCR which will increase from time-to-time as a result of the LCFB's aggregate liabilities.

The most common current liability that causes a member firm's MNCR to increase above $5,000 is commissions or concession payable to sales representatives as a result of a receivable from an investment banking transaction that closes, but the receivable has not been collected. In most cases this receivable is collected between 2 to 5 days from the day of closing and the payable to the representative is paid shortly after it has been received. Most member firms that will qualify as a LCFB actually don't have an obligation to pay the commissions or concession payable until the revenue is received because they have written agreements with the sale representatives that waives the sales representative's right to receive payment of the commission or the concession until the member firm has received payment. However, according to GAAP, the commission or concession payable is required to be booked at the same time the commission or concession receivable is booked regardless of the agreement in place. Because of the manner in which the Aggregate Indebtedness Standard (AI) ratio requirement is currently written and applied, this liability increases the member firm's MNCR. Below is an example of how the AI standard affects a member firm's MNCR:

A member firm has executed agreements with all sales representatives that waive their right to receive any payment from the member firm until such time that the member firm receives the payment due from the issuer in cleared funds. The same member firm closes an investment banking transaction on December 31, 2013, which yields a

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commission or concession receivable of $1,000,000 and has an agreement to pay a commission or concession payable to the sales representatives of $900,000.

According to GAAP, the member firm must book the commissions or concession payable to the registered representative at the same time it books the receivable even though the member firm does not have an obligation to pay it until the free and clear funds are received by the member firm. As a result, the AI standard ratio requirement causes the member firm's MNCR to increase to almost $60,000 and its early warning net capital requirement to approx $72,000. This increase is temporary until it receives the cash and pays the commission; however, the member firm must maintain the $72,000+ in order to comply with the moment-to-moment net capital requirement.

Since the proposed LCFB will not be carrying or maintaining customer funds, then the AI standard should be modified to exclude from AI short term commission or concession payable liabilities that obligate the member firm to have a higher MNCR.

Sincerely,

Rick Alvarez, CPA
CFO & Controller

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