



August 18, 2010

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

Re: Proposed Rule for Supplemental FOCUS Information

Dear Ms. Asquith,

Wedbush Securities Inc. (WS) appreciates the opportunity to provide the Financial Industry Regulatory Authority (FINRA) with comments on the proposed rule requiring the filing of supplemental FOCUS Information and on the proposed supplementary schedule to the Statement of Income (Loss) Page of FOCUS Report Parts II and IIA.

WS is a self-clearing broker registered with the SEC under Section 15 of the Exchange Act. WS executes and clears trades for retail clients, institutional clients, proprietary accounts and those of its correspondent broker-dealers (which also include computer algorithmic trading firms, hedge funds, electronic communications networks, network service providers and other high volume electronic trading entities). WS has been among the top liquidity providers on NASDAQ for NASDAQ and/or NYSE listed stocks since June 2006. Accordingly, WS is a major provider of both liquidity and volume in the U.S. securities markets.

WS believes that the FOCUS report (including the Statement of Income (Loss) page) should be prepared on a basis that is consistent with generally accepted accounting principles ("GAAP"), which requires transactions done as a principal to be reported gross, and transactions done as an agent on a net basis. There is little clarity in the proposed rule as to whether and in what circumstances revenues and expenses should be reported on a gross or net basis. The reporting of inappropriately "grossed up" revenues and expenses will result in an unfair collection of SIPC assessments, FINRA annual member regulation fees and SIFMA dues, since these fees are computed based on revenues reported on FOCUS. These fees may be duplicated over multiple member firms, since the same revenues may be reported by more than one entity. Examples are outlined below:

- 1) Commissions earned from transactions with clients of correspondent firms. The proposed rule should clarify that the clearing firm should not report as FOCUS revenues the gross commissions collected from the correspondent firm's clients. Instead, the clearing firm should report revenues equal to the amount of the fee charged to the correspondent for execution and clearance for the transaction, i.e. the commission received less the commission rebated to the correspondent.
- 2) Interest. There are many instances when "net interest" is more relevant as a management and analytical tool. In a matched book business (whether "conduit" for securities lending, or for repurchase activity) reporting the spread earned is more relevant than the gross income on the long side and gross expense on the short side. The proposed rule should allow for reporting interest on a net basis for such matched book or other relevant "hedged" activities.
- 3) Reimbursable expenses. Expenses incurred by the firm that are paid on behalf of others (whether for clients, affiliates or others) with the amounts recovered from the other entities, should not be reported as expenses of the firm. Such activity generally indicates that the firm is acting as an agent and the expense is normally recorded in financial statements directly as a receivable from the other entity. Alternatively, if FINRA wishes to see the amount of expenses paid by the firm on behalf of others, then the same category should include a "contra expense" line to show that the expenses have been recharged and show any under or over-recovery of the expense.

4) Rebateable income. Conversely, a firm that receives income on behalf of others and pays (“rebates”) such income to those others should show the amount as a payable, or at least show the revenue with an offsetting “contra revenue” line in the same category to indicate the amount rebated and any difference between the total of receipts and payments.

5) “Soft dollar costs.” The proposed rules requires the reporting of “Soft dollar costs” as an expense. The income that is directly related to the expense is included in commissions, thus resulting in the gross-up of revenues. The rule should provide that soft dollar costs incurred for institutional clients may be netted against institutional commission revenues, especially since the firms are acting as a paying agent and not as a principal. In other words, because they are not the expenses of the broker-dealer, soft dollar costs should be treated as pass-thru costs and should be shown net of associated revenues.

6) “Business expenses of other broker-dealers” and “Business expenses of affiliates or subsidiaries.” Broker-dealers generally expect to be reimbursed for business expenses incurred on behalf of other entities. If reimbursable expenses are to be recorded as expenses, then the proposed rule should provide a line that allows the reimbursement to be reported as a contra expense. Without such treatment, firms would report the reimbursement as revenues.

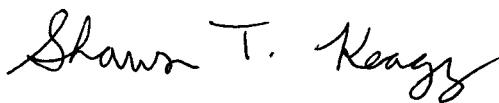
7) “Commission rebate/recapture.” It is unclear what should be included in “Commission rebate/recapture,” but if it is related to commission or rebate income then this line should an offsetting “contra revenue” rather than an expense so that there is no gross-up of revenues.

8) “Fees Paid Under a Service Level Agreement to Vendors and Outsourcing Providers.” Because other expense lines conflict with “Fees Paid Under a Service Level Agreement to Vendors and Outsourcing Providers,” this expense line should be either clarified or removed. For example, the proper classification of expenses paid to a third party for data processing services could be reported in either or both “Technology, data and communications” or “Fees Paid Under a Service Level Agreement to Vendors and Outsourcing Providers.”

The proposed rules seek to incorporate informational details (such as “Costs incurred on behalf of affiliates or clients”) into the Schedule of Income (Loss), but in so doing, the Schedule of Income (Loss) is no longer consistent with GAAP. Many of the line items in the proposed rules suggest improper gross-up revenue reporting, which is not only inconsistent with GAAP but would also result in unfair increases in industry costs. Instead, the items should be reported as informational lines elsewhere on the FOCUS report rather than in the Schedule of Income (Loss).

In conclusion, WS believes that FINRA should provide member firms with more guidance on the expected content for each category of revenues and expenses to avoid differing interpretations and inconsistent reporting. Thank you for the consideration of our comments. Please feel free to contact me at (213)688-4516 to discuss them in more detail.

Respectfully,

A handwritten signature in black ink that reads "Shawn T. Keagy". The signature is fluid and cursive, with the first name "Shawn" being more prominent than the last name "Keagy".

Shawn T. Keagy
Vice President