

Broker Dealer Franchise vs Direct Ownership Ownership

Prepared for Crowdfunding Lawyers

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Nobles & Richards, Inc. (est. 2007) was specifically formed to accommodate companies who seek the benefits of broker dealer ownership without the overwhelming costs and regulatory burdens imposed on FINRA member firms. We offer a company branded solution to those securities issuers through a franchising model.

In order to provide you with a better understanding of the difference between starting your own firm and using the services of our firm, we've outlined some items to consider below, including the basic differences between your options.

Startup Costs & Timing

Starting a firm from scratch (captive broker dealer scenario) requires the submission of a New Member Application ("NMA")

- \$7,500 Application Fee minimum (not including all other annual fees)
- Must have two Supervisory principals with one year direct or two years indirect experience identified on the application, plus a Financial Operational Principal, approximate total combined annual salaries ~\$200k
- \$100,000+ legal and compliance costs for creating manuals, documenting supervisory procedures, filing submissions, responding to records requests, etc.
- Lengthy 180 day application process where you may not conduct securities business until approved
- If the application is "not substantially complete" upon initial submission, FINRA will give you five days to rectify the application or it will be rejected
- If you make it past the initial submission, you still risk not getting approved within 180 days (this risk has increased significantly over the years)

Buying an existing, approved FINRA shell requires the submission of a Continuing Membership Application ("CMA")

- Cost of purchase ranges from \$50,000 to \$100,000 just to buy the shell (which will carry over legacy issues that occurred prior to purchase)
- \$5,000 Application Fee
- Still need at least two licensed principals, plus a FinOp
- Legal and compliance costs may be cheaper since the manuals and documented procedures may already exist but still must be tailored to your business and could cost as much as starting from scratch
- FINRA requires 30 days notice prior to ownership changes where they may restrict your ability to start operating under your new firm
- Still have to undergo lengthy application process with FINRA where you still risk not getting final approval which will prevent you from operating under your new firm

Franchise of Nobles & Richards

- \$15,000 Initial due diligence retainer and branch set up fee (depending on the types of activities to be conducted through the franchise)
- \$6,000 Monthly compliance/supervision cost - less than one compliance officer salary

- Success based fees depend on structure (MBD for Selling Group vs direct sales or combination)
- Fastest start up time: no FINRA approval process
- Ability to operate under your brand name
- Direct access to the owner and decision maker. This is especially important when evaluating new goals and direction for your company

Yearly Savings

The items listed below are expenses we cover on behalf of our franchises. This means potential annual savings to you of hundreds of thousands of dollars to operate with the minimum coverage requirements and registration in all states.

Two Appropriately Registered Supervisory Principals

One Financial Operations Principal

Fidelity Bond

3rd Party PCAOB Annual Financial Audit

Annual Anti-Money Laundering

State Registrations (Nobles & Richards is already registered in all jurisdictions)

Independence

Having independence from the broker dealer creates the checks and balances that make the regulators more comfortable with the compliance structures. Broker dealers owned by the registered representatives engaging in the sales, tend to come under additional scrutiny from FINRA, the state regulators and the SEC. They look very closely at whether the principals of the firm are truly impartial and able to implement the compliance programs.

Efficiency

As a securities issuer, it can be more efficient to stay focused on your core business while outsourcing the compliance and regulatory oversight.

If at some point you decide direct ownership of your own broker dealer is the direction you want to go, operating as an Office of Supervisory Jurisdiction (OSJ) of our firm will allow you to get the required “one year direct or two years of indirect” experience to help you sail through the approval process...with our help, of course 😊

Next Steps

Nobles & Richards has extensive experience in running compliance in the securities industry for sponsors of private placements. If you would like to explore this opportunity further, please take some time to discuss and reach out to me with any questions.

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Nobles & Richards, Inc. is a Member of FINRA & SIPC