

FINRA Sends Targeted Exam Letter Concerning the Sale of Non-Traded Business Development Companies

Article By:

John K. Wells

FINRA recently sent a sweep letter (or targeted exam letter) to select broker dealers, inquiring about those firms' sale of non-traded Business Development Companies (BDCs). BDCs are SEC-registered investment companies (usually closed-end funds) that pool investor funds in a debt or equity portfolio (typically of small- or medium-sized companies), with the objective of generating income or capital growth (or both). Non-traded BDCs are illiquid and have no secondary market. The product has come under recent scrutiny for allegedly high upfront fees.

FINRA is asking firms for information related to non-traded BDCs for the period from Jan. 1, 2015, through June 30, 2016, including:

1. A list of each BDC offered by the firm that includes the name of the BDC, the dates of each offering, and the firm's role in each offering (e.g., sole dealer-manager, lead dealer-manager, distributor, etc.);
2. For each BDC offered: (a) a list of all participating broker-dealers that have a selling agreement with the firm per each registration statement; and, (b) sample copies representative of each type of selling agreement utilized;
3. A spreadsheet which lists, by date, all broker-dealers that sold the identified BDCs to its customers in initial or follow-on offerings that includes for each BDC: (a) the name of the participating broker-dealer; (b) the total number of shares bought and sold; (c) the total dollar value of proceeds; and, (d) the number of customers purchasing the BDC; and
4. A copy of the firm's due diligence procedures and a written description of the due diligence that the firm conducts of the BDC initially and on an ongoing basis (as well as a written description of the due diligence that the firm conducts of participating broker-dealers with which the firm has a selling agreement.)

The sweep letter follows recent enforcement actions by FINRA concerning the sale of non-traded BDCs (most specifically with regard to the alleged failure by firms to pass on volume discounts or

other savings to customers). Firms receiving the sweep letter have until Sept. 9, 2016, to respond.

FINRA's press release announcing the sweep letter may be viewed [here](#).

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