Appendix C

From:	Bergstresser, Keith - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
Start:	Tuesday, October 07, 2014 1:00:00 PM
End:	Tuesday, October 07, 2014 2:30:00 PM
Location:	Chair"s Large Conference Room

From: Jenson, Paula R.
To: Bergstresser, Keith - EBSA
Subject: Accepted: EBSA Data Condition
Start: Wednesday, May 29, 2013 1:00:00 PM
End: Wednesday, May 29, 2013 1:30:00 PM
Location: 888[redacted] passcode: [redacted]

From: Russell, Emily
To: Bergstresser, Keith - EBSA
Subject: Accepted: EBSA Data Condition
Start: Wednesday, May 29, 2013 1:00:00 PM
End: Wednesday, May 29, 2013 1:30:00 PM
Location: 888[redacted] passcode: [redacted]

From:	Marietta-Westberg, Jennifer
To:	Bergstresser, Keith - EBSA
Subject:	Accepted: EBSA Data Condition
Start:	Wednesday, May 29, 2013 1:00:00 PM
End:	Wednesday, May 29, 2013 1:30:00 PM
Location:	888[redacted] passcode: [redacted]

From:	Kozora, Matthew
To:	Bergstresser, Keith - EBSA
Subject:	Accepted: EBSA Data Condition
Start:	Wednesday, May 29, 2013 1:00:00 PM
End:	Wednesday, May 29, 2013 1:30:00 PM
Location:	888-[redacted] passcode: [redacted]

From: Hunter-Ceci, Holly L.
To: Bergstresser, Keith - EBSA
Subject: Accepted: EBSA Data Condition
Start: Wednesday, May 29, 2013 1:00:00 PM
End: Wednesday, May 29, 2013 1:30:00 PM
Location: 888-[redacted] passcode: [redacted]

From:	Bergstresser, Keith - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: FW: Call to Discuss DOL Fiduciary and Exemption Outline
Start:	Tuesday, September 30, 2014 1:00:00 PM
End:	Tuesday, September 30, 2014 2:00:00 PM
Location:	Chair"s Large Conference Room

From:	Kozora, Matthew
To:	Bergstresser, Keith - EBSA
Subject:	Accepted: Presentation by Matthew Kozora, SEC Economist
Start:	Friday, October 25, 2013 3:00:00 PM
End:	Friday, October 25, 2013 4:00:00 PM
Location:	OPR Conference Room - N5707

From:	Kozora, Matthew
To:	Bergstresser, Keith - EBSA
Subject:	Accepted: records that BDs maintain
Start:	Thursday, June 20, 2013 9:00:00 AM
End:	Thursday, June 20, 2013 10:00:00 AM
Location:	888[redacted] passcode: [redacted]

From:	McGovern, Suzanne
To:	Bergstresser, Keith - EBSA
Subject:	Accepted: records that BDs maintain
Start:	Thursday, June 20, 2013 9:00:00 AM
End:	Thursday, June 20, 2013 10:00:00 AM
Location:	888[redacted] passcode: [redacted]

From:	Bergstresser, Keith - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: SEC/DOL/Treasury Call - Point of Sale Disclosures
Start:	Friday, September 26, 2014 11:45:00 AM
End:	Friday, September 26, 2014 12:45:00 PM
Location:	Chair"s Large Conference Room; Call-in 888[redacted] Code [redacted]

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Subject: RE: date for paper presentation
Date: Thursday, September 26, 2013 1:55:00 PM

Ok. So, 1-2pm?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, September 26, 2013 1:52 PM
To: Bergstresser, Keith - EBSA
Subject: RE: date for paper presentation

Lets try for Thursday afternoon.?

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Thursday, September 26, 2013 1:35 PM
To: Kozora, Matthew
Subject: date for paper presentation

Hey Matt,

I'd like to have you present on Thursday, October 17th from 11 am to 12 noon. Does that work for you? The afternoon of the 17th is also pretty wide open, and Friday the 18th is a possibility, too.

Thanks,
Keith

Keith D. Bergstresser, Ph.D.
Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
Phone: [redacted]
Fax: [redacted]
Telework Phone: [redacted]
[redacted]@dol.gov

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: date for paper presentation
Date: Thursday, September 26, 2013 1:56:16 PM

Sure!

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Thursday, September 26, 2013 1:56 PM
To: Kozora, Matthew
Subject: RE: date for paper presentation

Ok. So, 1-2pm?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, September 26, 2013 1:52 PM
To: Bergstresser, Keith - EBSA
Subject: RE: date for paper presentation

Lets try for Thursday afternoon.?

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From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
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To: Kozora, Matthew
Subject: date for paper presentation

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Thanks,
Keith

Keith D. Bergstresser, Ph.D.
Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
Phone: [redacted]
Fax: [redacted]
Telework Phone: [redacted]

[redacted]@dol.gov

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: quick question...
Date: Tuesday, April 10, 2012 1:26:14 PM

Yes it does thanks!

Matt

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 10, 2012 1:24 PM
To: Kozora, Matthew
Subject: RE: quick question...

Hey Matt,

I wasn't at the FSI meeting (that was the one on the Friday, right?). But I'm guessing that the same people led that meeting as the other one on the Tuesday. They were Joe Piacentini, Tim Hauser, and Adriana Kugler.

Joe is the head of my office (Office of Policy and Research) and the chief economist of EBSA.
Adriana is the chief economist of DOL.
Tim Hauser is the Associate Solicitor for PBSD (Plan Benefits Security Division) of the Solicitor's Office. PBSD is not housed within EBSA, but they are our practicing lawyers, so Tim is the top lawyer on the project.

Joe and Tim are both tall, but I think Tim is probably a little taller than Joe. Hope that helps.

Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Monday, April 09, 2012 5:19 PM
To: Bergstresser, Keith - EBSA
Subject: quick question...

Who are the primary lawyers on the fiduciary rule?

I know Chris Cosby.

There were three people basically running the FSI meeting I attended with Jennifer. Do you happen to know what their names were?

Tall guy (Joseph Piacentini?), lawyer guy, and I think Adriana.

Thanks

Matt

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Subject: RE: quick question...
Date: Tuesday, April 10, 2012 1:24:00 PM

Hey Matt,

I wasn't at the FSI meeting (that was the one on the Friday, right?). But I'm guessing that the same people led that meeting as the other one on the Tuesday. They were Joe Piacentini, Tim Hauser, and Adriana Kugler.

Joe is the head of my office (Office of Policy and Research) and the chief economist of EBSA.
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Joe and Tim are both tall, but I think Tim is probably a little taller than Joe. Hope that helps.

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From: Kozora, Matthew [redacted]@SEC.GOV]
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Subject: quick question...

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I know Chris Cosby.

There were three people basically running the FSI meeting I attended with Jennifer. Do you happen to know what their names were?

Tall guy (Joseph Piacentini?), lawyer guy, and I think Adriana.

Thanks

Matt

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: today
Date: Friday, October 25, 2013 9:51:29 AM

---

ok

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Friday, October 25, 2013 9:45 AM
To: Kozora, Matthew
Cc: Edozie, Melinda U - EBSA
Subject: RE: today

Yes, please arrive at the visitor's entrance (3rd and C St) at 2:45 to allow time to get through security and up to the room. Security will ask for a name (me), phone number [redacted], and room number [redacted]. They will then call me and I'll come down to escort you through the building. In case I don't answer, please try Melinda Edozie at [redacted].

Thanks,
Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, October 25, 2013 9:33 AM
To: Bergstresser, Keith - EBSA
Subject: today

Dear Keith,

Do I use your name when I arrive at the DOL today?

Thanks!

m|k

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Cc: Edozie, Melinda U - EBSA
Subject: RE: today
Date: Friday, October 25, 2013 9:44:00 AM

Yes, please arrive at the visitor's entrance (3rd and C St) at 2:45 to allow time to get through security and up to the room. Security will ask for a name (me), phone number ([redacted]), and room number ([redacted]). They will then call me and I'll come down to escort you through the building. In case I don't answer, please try Melinda Edozie at [redacted].

Thanks,
Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, October 25, 2013 9:33 AM
To: Bergstresser, Keith - EBSA
Subject: today

Dear Keith,

Do I use your name when I arrive at the DOL today?

Thanks!

m|k

From:	Marietta-Westberg, Jennifer
To:	Bergstresser, Keith - EBSA
Subject:	Tentative: records that BDs maintain
Start:	Thursday, June 20, 2013 9:00:00 AM
End:	Thursday, June 20, 2013 10:00:00 AM
Location:	888-[redacted] passcode: [redacted]

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: today
Date: Friday, October 25, 2013 9:32:38 AM

Dear Keith,

Do I use your name when I arrive at the DOL today?

Thanks!

m|k

From: Canary, Joe - EBSA
To: Jennif @SEC.GOV
Cc: Elaine Buckberg treasury.gov; George Bostick treasury.gov; Jonah Crane treasury.gov; Mark Iwry treasury.gov; Patricia Kao treasury.gov; Gerard Hughes treasury.gov; William Evans treasury.gov; Christopher Soares treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: Calls to discuss COI Disclosure
Date: Thursday, September 18, 2014 12:48:15 PM

Jen: Next Friday (9/26) at 11:45am seems to be the best for most from Labor and Treasury that can participate. Do you want to send out a calendar item and include your folks? I know we are thinking about a conference call, but if some want to do it in person, we can set up a conference room here with a conference phone. Your choice. Thanks.

From:	Canary, Joe - EBSA on behalf of Porter, Jennifer R.
To:	Campagna, Lou - EBSA; Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Hall, Lyssa - EBSA; Taylor, William - SOL; Gharanfoli, Siamack - EBSA; Mares, Judith - EBSA; Khawar, Ali - EBSA; Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Hansen, Megan D - SOL; Lloyd, Karen - EBSA
Subject:	FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
Start:	Tuesday, October 07, 2014 1:00:00 PM
End:	Tuesday, October 07, 2014 2:30:00 PM
Location:	Chair"s Large Conference Room

-----Original Appointment-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Thursday, October 02, 2014 11:34 AM
To: Porter, Jennifer R.; Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Hall, Lyssa - EBSA; Taylor, William - SOL; Gharanfoli, Siamack - EBSA; Mares, Judith - EBSA; Khawar, Ali - EBSA; Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Hansen, Megan D - SOL; Lloyd, Karen - EBSA
Subject: FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 07, 2014 1:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Please forward to anybody else you'd like to participate for your office. Thanks.

-----Original Appointment-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Wednesday, October 01, 2014 5:06 PM
To: Porter, Jennifer R.; Russell, Emily Westerberg; Jenson, Paula R ; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J ; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Taylor, William - SOL; Hansen, Megan D - SOL; Lloyd, Karen - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA; Mares, Judith - EBSA
Subject: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 07, 2014 1:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Dial-in: [redacted]
Code: [redacted]

From: Canary, Joe - EBSA
To: Elaine Buckberg [redacted]treasury.gov; George Bostick [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Cc: Porter, Jennifer R. [redacted]@SEC.GOV)
Subject: FW: Calls to discuss fiduciary duty exemption
Date: Wednesday, September 17, 2014 5:29:29 PM

FYI: See below. This Friday no longer works for the SEC. George Bostick said he and Mark Iwry are available Friday, 9/26 at 11:45am. That works for me too. Absent objection, I want to firm up with Jen next Friday, 11:45am to 12:45pm. Please let me know if you plan to participate. Thanks.

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Wednesday, September 17, 2014 9:01 AM
To: Canary, Joe - EBSA; George Bostick [redacted]treasury.gov'
Cc: Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Joe and George,

Unfortunately, I just learned that I will probably have to be out of the office on Friday. Can we schedule the disclosures call for next week? Here are the times that work for our team:

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 7:36 PM
To: George Bostick [redacted]treasury.gov; Porter, Jennifer R.
Cc: Elaine Buckberg [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA

Subject: RE: Calls to discuss fiduciary duty exemption

Thanks, George. Does this mean you think we should wait to have the call or can others at Treasury cover (if they are available on Friday) even if you three cannot participate?

From: [redacted]treasury.gov [mailto:[redacted]treasury.gov]
Sent: Tuesday, September 16, 2014 6:12 PM
To: Canary, Joe - EBSA; [redacted]@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Joe – Thanks. Unfortunately, Mark, Bill and I will be in meetings out of town on Friday.

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 5:42 PM
To: Porter, Jennifer R.
Cc: Buckberg, Elaine; Bostick, George; Crane, Jonah; Iwry, Mark; Kao, Patricia; Hughes, Gerry; Evans, William; Soares, Chris; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Hi, Jen. We would like to continue the discussion of "point of sale" disclosure this week. Thursday is not good, but Friday (9/19) between 12-3 is open for me. I am copying Treasury folks and others here in EBSA to see who wants to participate in the call and who is available on Friday. Thanks.

From: Hauser, Timothy - EBSA
Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

Thanks, Jen. I think it would be terrific if we could get another discussion of point of sale disclosures done this week and include the Treasury folks. Then, we could move on to the other topics next week when I'm back.

I've asked the head of our Office of Regulations and Interpretations, Joe Canary, to work with you on getting this set up. More generally, he's always a good person to talk to on this project! Joe's number is [redacted].

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

Tim,

My apologies for the delay getting back to you with proposed times to discuss point of sale disclosures, the low-fee safe harbor, and the general exemption outline. Since you are out of the office for the next several days, maybe we should try to schedule the point of sale disclosure discussion with DOL/Treasury staff first. I list below the days and times this week when our staff is available. Please let me know if there is someone else I should contact about scheduling this call while you are gone.

Thurs. (9/18) 11:30-12:30; 2-3:30
Fri. (9/19) 12-3

For the other two topics, the team is available the following days and times next week. Please let me know what works for all of you.

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From:	Davis, Julie Z.
To:	Wong, Fred - EBSA; O"Brien, Tracey
Cc:	Canary, Joe - EBSA; Campagna, Lou - EBSA
Subject:	RE: background information on DOL regulatory project
Date:	Wednesday, February 13, 2013 11:27:16 AM

Thanks, Fred! I have passed this along internally. Appreciate you reaching out.

~~~~~~~~~~~~~~~~~~~~~
Julie Z. Davis
Deputy Director, Office of Legislative and Intergovernmental Affairs
U.S. Securities and Exchange Commission
[redacted]@sec.gov

From: Wong, Fred - EBSA [redacted]@dol.gov]
Sent: Wednesday, February 13, 2013 11:06 AM
To: Davis, Julie Z.; O'Brien, Tracey
Cc: Canary, Joe - EBSA; Campagna, Lou - EBSA; Wong.Fred@dol.gov
Subject: background information on DOL regulatory project

Ms. Davis and Ms. O'brien:

As I mentioned in my voicemail, we are aware that Chairman Walter is scheduled to testify at Thursday's Senate Committee on Banking, Housing and Urban Affairs hearing on Wall Street Reform, and thought it might be helpful for you to have some background information (attached) on the Department of Labor's regulatory project to re-define fiduciary investment advice under the Employee Retirement Income Security Act of 1974 (ERISA). Please contact me if you have any questions. Thank you.

Fred Wong
[redacted]
~~~~~~~~~~~~~~~~~~~~~

From:	Canary, Joe - EBSA
To:	Porter, Jennifer R.
Cc:	Elaine Buckberg [redacted]treasury.gov; George Bostick [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject:	RE: Calls to discuss fiduciary duty exemption
Date:	Tuesday, September 16, 2014 5:42:19 PM

Hi, Jen. We would like to continue the discussion of "point of sale" disclosure this week. Thursday is not good, but Friday (9/19) between 12-3 is open for me. I am copying Treasury folks and others here in EBSA to see who wants to participate in the call and who is available on Friday. Thanks.

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Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

Thanks, Jen. I think it would be terrific if we could get another discussion of point of sale disclosures done this week and include the Treasury folks. Then, we could move on to the other topics next week when I'm back.

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To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

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Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From: George Bostick treasury.gov
To: Canary, Joe - EBSA; PorterJ@SEC.GOV
Cc: Elaine Buckberg treasury.gov; Jonah Crane treasury.gov; Mark Iwry treasury.gov; Patricia Kao treasury.gov; Gerard Hughes treasury.gov; William Evans treasury.gov; Christopher Soares treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Tuesday, September 16, 2014 6:14:44 PM

Joe – Thanks. Unfortunately, Mark, Bill and I will be in meetings out of town on Friday.

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 5:42 PM
To: Porter, Jennifer R.
Cc: Buckberg, Elaine; Bostick, George; Crane, Jonah; Iwry, Mark; Kao, Patricia; Hughes, Gerry; Evans, William; Soares, Chris; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

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Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

Thanks, Jen. I think it would be terrific if we could get another discussion of point of sale disclosures done this week and include the Treasury folks. Then, we could move on to the other topics next week when I'm back.

I've asked the head of our Office of Regulations and Interpretations, Joe Canary, to work with you on getting this set up. More generally, he's always a good person to talk to on this project! Joe's number is [redacted].

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

Tim,

My apologies for the delay getting back to you with proposed times to discuss point of sale disclosures, the low-fee safe harbor, and the general exemption outline. Since you are out of the office for the next several days, maybe we should try to schedule the point of sale disclosure

discussion with DOL/Treasury staff first. I list below the days and times this week when our staff is available. Please let me know if there is someone else I should contact about scheduling this call while you are gone.

Thurs. (9/18) 11:30-12:30; 2-3:30
Fri. (9/19) 12-3

For the other two topics, the team is available the following days and times next week. Please let me know what works for all of you.

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Canary, Joe - EBSA
To: [redacted] treasury.gov; PorterJ@SEC.GOV
Cc: [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Tuesday, September 16, 2014 7:35:20 PM

Thanks, George. Does this mean you think we should wait to have the call or can others at Treasury cover (if they are available on Friday) even if you three cannot participate?

From: [redacted] treasury.gov [mailto:[redacted] treasury.gov]
Sent: Tuesday, September 16, 2014 6:12 PM
To: Canary, Joe - EBSA; [redacted] @SEC.GOV
Cc: [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Joe – Thanks. Unfortunately, Mark, Bill and I will be in meetings out of town on Friday.

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 5:42 PM
To: Porter, Jennifer R.
Cc: Buckberg, Elaine; Bostick, George; Crane, Jonah; Iwry, Mark; Kao, Patricia; Hughes, Gerry; Evans, William; Soares, Chris; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

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From: Hauser, Timothy - EBSA
Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

Thanks, Jen. I think it would be terrific if we could get another discussion of point of sale disclosures done this week and include the Treasury folks. Then, we could move on to the other topics next week when I'm back.

I've asked the head of our Office of Regulations and Interpretations, Joe Canary, to work with you on getting this set up. More generally, he's always a good person to talk to on this project! Joe's number is [redacted].

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

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Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From:	Porter, Jennifer R.
To:	Campagna, Lou - EBSA
Cc:	Wong, Fred - EBSA
Subject:	RE: COI Regulation Comments - Swap Limitation
Date:	Thursday, January 08, 2015 9:36:37 AM

I will, thank you.

Regards,
Jen

-----Original Message-----
From: Campagna, Lou - EBSA [redacted]@dol.gov]
Sent: Thursday, January 08, 2015 8:57 AM
To: Porter, Jennifer R.
Cc: Wong, Fred - EBSA
Subject: RE: COI Regulation Comments - Swap Limitation

Ms. Porter - I will be away from the office today. Would you call Fred Wong at 3pm on [redacted] and he will be able to conference me in. Thanks.

-----Original Message-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, January 06, 2015 1:31 PM
To: Campagna, Lou - EBSA
Cc: Wong, Fred - EBSA
Subject: RE: COI Regulation Comments - Swap Limitation

Lou,

SEC staff will be happy to speak with you. I will identify the appropriate individuals and find a time that works for everyone. What does your schedule look like tomorrow?

Regards,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

-----Original Message-----
From: Campagna, Lou - EBSA [redacted]@dol.gov]
Sent: Tuesday, January 06, 2015 12:33 PM
To: Porter, Jennifer R.
Cc: Wong, Fred - EBSA
Subject: COI Regulation Comments - Swap Limitation

Pursuant to your comments in our conversation on December 18 with you and other SEC staff, we would like to have a follow call with you or relevant staff on Swap Counterparty limitation in the COI regulation. I can be reached by email or on [redacted].

From: Porter, Jennifer R.
To: Campagna, Lou - EBSA
Cc: Wong, Fred - EBSA
Subject: RE: COI Regulation Comments - Swap Limitation
Date: Tuesday, January 06, 2015 1:32:21 PM

Lou,

SEC staff will be happy to speak with you. I will identify the appropriate individuals and find a time that works for everyone. What does your schedule look like tomorrow?

Regards,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

-----Original Message-----
From: Campagna, Lou - EBSA [redacted]@dol.gov]
Sent: Tuesday, January 06, 2015 12:33 PM
To: Porter, Jennifer R.
Cc: Wong, Fred - EBSA
Subject: COI Regulation Comments - Swap Limitation

Pursuant to your comments in our conversation on December 18 with you and other SEC staff, we would like to have a follow call with you or relevant staff on Swap Counterparty limitation in the COI regulation. I can be reached by email or on [redacted].

From: Porter, Jennifer R.

To: Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Canary, Joe - EBSA; '[redacted]treasury.gov"; '[redacted]treasury.gov"; '[redacted]treasury.gov"; '[redacted]treasury.gov"; '[redacted]treasury.gov"; '[redacted]treasury.gov"; '[redacted]treasury.gov"; '[redacted]treasury.gov"; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA

Subject: SEC/DOL/Treasury Call - Point of Sale Disclosures

Start: Friday, September 26, 2014 11:45:00 AM

End: Friday, September 26, 2014 12:45:00 PM

Location: Chair"s Large Conference Room; Call-in 888[redacted], Code [redacted]

Canary, Joe - EBSA

From: Canary, Joe - EBSA
Sent: Thursday, September 18, 2014 3:14 PM
To: Porter, Jennifer R.
Subject: Accepted: SEC/DOL/Treasury Call - Point of Sale Disclosures

From: Canary, Joe - EBSA
To: [redacted]@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: Calls to discuss COI Disclosure
Date: Thursday, September 18, 2014 12:48:00 PM

Jen: Next Friday (9/26) at 11:45am seems to be the best for most from Labor and Treasury that can participate. Do you want to send out a calendar item and include your folks? I know we are thinking about a conference call, but if some want to do it in person, we can set up a conference room here with a conference phone. Your choice. Thanks.

From:	Hauser, Timothy - EBSA on behalf of Porter, Jennifer R.
To:	Canary, Joe - EBSA; Hall, Lyssa - EBSA; Russell, Emily Westerberg; Piacentini, Joseph - EBSA; Jenson, Paula R.; Taylor, William - SOL; Gonzalez, Lourdes; Mares, Judith - EBSA; Buescher, Sarah A.; Wong, Fred - EBSA; Scheidt, Douglas J.; Lloyd, Karen - EBSA; Bergstresser, Keith - EBSA; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Hansen, Megan D - SOL; Cosby, Chris - EBSA; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA
Subject:	FW: Call to Discuss DOL Fiduciary and Exemption Outline
Start:	Tuesday, September 30, 2014 1:00:00 PM
End:	Tuesday, September 30, 2014 2:00:00 PM
Location:	Chair"s Large Conference Room

-----Original Appointment-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Friday, September 26, 2014 8:58 AM
To: Porter, Jennifer R.; Russell, Emily Westerberg; Jenson, Paula R ; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA
Subject: Call to Discuss DOL Fiduciary and Exemption Outline
When: Tuesday, September 30, 2014 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Dial-in: 888-[redacted]
Code[redacted]

From:	Canary, Joe - EBSA on behalf of Porter, Jennifer R.
To:	Campagna, Lou - EBSA; Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Hall, Lyssa - EBSA; Taylor, William - SOL; Gharanfoli, Siamack - EBSA; Mares, Judith - EBSA; Khawar, Ali - EBSA; Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Hansen, Megan D - SOL; Lloyd, Karen - EBSA
Subject:	FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
Start:	Tuesday, October 07, 2014 1:00:00 PM
End:	Tuesday, October 07, 2014 2:30:00 PM
Location:	Chair"s Large Conference Room

-----Original Appointment-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Thursday, October 02, 2014 11:34 AM
To: Porter, Jennifer R.; Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Hall, Lyssa - EBSA; Taylor, William - SOL; Gharanfoli, Siamack - EBSA; Mares, Judith - EBSA; Khawar, Ali - EBSA; Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Hansen, Megan D - SOL; Lloyd, Karen - EBSA
Subject: FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 07, 2014 1:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Please forward to anybody else you'd like to participate for your office. Thanks.

-----Original Appointment-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Wednesday, October 01, 2014 5:06 PM
To: Porter, Jennifer R.; Russell, Emily Westerberg; Jenson, Paula R ; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J ; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Taylor, William - SOL; Hansen, Megan D - SOL; Lloyd, Karen - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA; Mares, Judith - EBSA
Subject: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 07, 2014 1:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Dial-in: 888-[redacted]
Code: [redacted]

From:	Hauser, Timothy - EBSA on behalf of Porter, Jennifer R.
To:	Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Russell, Emily Westerberg; Hall, Lyssa - EBSA; Jenson, Paula R.; Taylor, William - SOL; Gonzalez, Lourdes; Gharanfoli, Siamack - EBSA; Buescher, Sarah A.; Mares, Judith - EBSA; Scheidt, Douglas J.; Khawar, Ali - EBSA; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Hansen, Megan D - SOL; Lloyd, Karen - EBSA
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Subject: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 07, 2014 1:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Dial-in: 888-[redacted]
Code: [redacted]

From:	Canary, Joe - EBSA
To:	Elaine Buckberg [redacted]treasury.gov; George Bostick [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Cc:	Porter, Jennifer R. [redacted]@SEC.GOV)
Subject:	FW: Calls to discuss fiduciary duty exemption
Date:	Wednesday, September 17, 2014 5:29:00 PM

FYI: See below. This Friday no longer works for the SEC. George Bostick said he and Mark Iwry are available Friday, 9/26 at 11:45am. That works for me too. Absent objection, I want to firm up with Jen next Friday, 11:45am to 12:45pm. Please let me know if you plan to participate. Thanks.

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Wednesday, September 17, 2014 9:01 AM
To: Canary, Joe - EBSA; George Bostick [redacted]treasury.gov'
Cc: Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Joe and George,

Unfortunately, I just learned that I will probably have to be out of the office on Friday. Can we schedule the disclosures call for next week? Here are the times that work for our team:

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 7:36 PM
To: George Bostick [redacted]treasury.gov; Porter, Jennifer R.
Cc: Elaine Buckberg [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA

Subject: RE: Calls to discuss fiduciary duty exemption

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Sent: Tuesday, September 16, 2014 6:12 PM
To: Canary, Joe - EBSA; [redacted]@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Subject: RE: Calls to discuss fiduciary duty exemption

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From: Hauser, Timothy - EBSA
Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
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Importance: High

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From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

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Thurs. (9/25) 9-10; 11-5
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Thanks,

Jen Porter
Chair's Office
[redacted]

From:	Canary, Joe - EBSA
To:	Porter, Jennifer R.
Subject:	Meeting Forward Notification: FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
Start:	Tuesday, October 07, 2014 1:00:00 PM
End:	Tuesday, October 07, 2014 2:30:00 PM
Location:	Chair"s Large Conference Room

Your meeting was forwarded

HYPERLINK "mailto:/o=ExchangeLabs/ou=Exchange%20Administrative%20Group%20(FYDIBOHF23SPDLT)/cn=Recipients/cn=f4bce0f6a0e2435cae8828811b415440-Canary,%20Joe"Canary, Joe - EBSA has forwarded your meeting request to additional recipients

Meeting

FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2

Meeting Time

Tuesday, October 07, 2014 1:00 PM - Tuesday, October 07, 2014 2:30 PM

Recipients

HYPERLINK "mailto:/o=ExchangeLabs/ou=Exchange%20Administrative%20Group%20(FYDIBOHF23SPDLT)/cn=Recipients/cn=25f59e1adf8a4a2299c3a97b0a1ad30c-Campagna,%20L"Campagna, Lou - EBSA

All times listed are in the following time zone: (UTC-05:00) Eastern Time (US & Canada)

From: Hauser, Timothy - EBSA
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Tuesday, September 16, 2014 4:39:29 PM
Importance: High

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From: Porter, Jennifer R. [redacted]@SEC.GOV]
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Subject: Calls to discuss fiduciary duty exemption

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Thanks,

Jen Porter
Chair's Office
[redacted]

From: Porter, Jennifer R.
To: Canary, Joe - EBSA; "[redacted]treasury.gov"
Cc: Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Wednesday, September 17, 2014 9:02:40 AM

Joe and George,

Unfortunately, I just learned that I will probably have to be out of the office on Friday. Can we schedule the disclosures call for next week? Here are the times that work for our team:

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 7:36 PM
To: [redacted]treasury.gov; Porter, Jennifer R.
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA

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Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
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Importance: High

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From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

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Thanks,

Jen Porter
Chair's Office
[redacted]

From: George Bostick [redacted]treasury.gov
To: PorterJ@SEC.GOV; Canary, Joe - EBSA
Cc: Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Wednesday, September 17, 2014 3:38:04 PM

Friday (9/26) between 11:45 a.m. and 1:00 p.m. work for Mark Iwry and for me.

(Joe. I'll assume you will email to check with others unless I hear otherwise. Thanks.)

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Wednesday, September 17, 2014 9:01 AM
To: 'Canary, Joe - EBSA'; Bostick, George
Cc: 'Hauser, Timothy - EBSA [redacted]@dol.gov)'
Subject: RE: Calls to discuss fiduciary duty exemption

This message was sent securely using ZixCorp.

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Date: Tuesday, September 16, 2014 7:35:00 PM

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Chair's Office
[redacted]

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To:	Porter, Jennifer R.
Cc:	Elaine Buckberg [redacted]treasury.gov; George Bostick [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject:	RE: Calls to discuss fiduciary duty exemption
Date:	Tuesday, September 16, 2014 5:42:00 PM

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Subject: RE: Calls to discuss fiduciary duty exemption
Date: Tuesday, September 16, 2014 6:15:08 PM

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Sent: Tuesday, September 16, 2014 5:42 PM
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Jen Porter
Chair's Office
[redacted]

5-28-13

Name	Organization	Number
Tim Hauser	DOL/PBSD/SOL	[redacted]
Douglas Scheidt	SEC/IM	
Dan Kahl	SEC/IM	
Jennifer Marietta-Westberg	SEC/RSFI	
Lourdes Gonzalez	SEC/DTM	
Joe Piacentini	DOL/EBSA	
Holly Hunter-Ceci	SEC/IM	
Emily Russell	SEC/TM	
David Blass (on phone)	SEC/TM	
Joe Canary	DOL/EBSA	
Lyssa Hall	DOL/EBSA	
Sara Crovitz	SEC/IM	
FRED WONG	DOL/EBSA	
Brian Shiker	DOL/EBSA	
Uchenna Evans	DOL/PBSD	
Karen Lloyd	DOL/EBSA	
Tom Bloom	DOL/EBSA	
Matthew L. Kozora	SEC/RSFI	
Dan Fisher	SEC/TM	
Bill TAYLOR	DOL/SOL	

From:	Hauser, Timothy - SOL
To:	"Stoddard, Troy"; Gonzalez, Lourdes; McHugh, Jennifer B.; Blass, D.W. (David); Grim, David W.; Scheidt, Douglas J.; Crovitz, Sara P.; Kahl, Daniel; Marietta-Westberg, Jennifer; Russell, Emily; Piacentini, Joseph - EBSA; Canary, Joe - EBSA; Hall, Lyssa - EBSA; Evans, Uchenna - SOL; Lloyd, Karen - EBSA; Taylor, William - SOL
Cc:	Fisher, Daniel
Subject:	RE: Hold for Meeting with DOL on Fiduciary Duty
Date:	Tuesday, May 28, 2013 2:56:02 PM
Attachments:	5-28mtglist.pdf

The attendance list from today's meeting is attached. Thanks for participating.

-----Original Appointment-----
From: Stoddard, Troy [redacted]@SEC.GOV]
Sent: Thursday, May 09, 2013 1:44 PM
To: Stoddard, Troy; Gonzalez, Lourdes; McHugh, Jennifer B.; Blass, D.W. (David); Grim, David W.; Scheidt, Douglas J.; Crovitz, Sara P.; Kahl, Daniel; Marietta-Westberg, Jennifer; Russell, Emily; Hauser, Timothy - SOL; Piacentini, Joseph - EBSA [redacted]@dol.gov); Canary, Joe - EBSA [redacted]@dol.gov); Hall, Lyssa - EBSA [redacted]@dol.gov); Evans, Uchenna - SOL; Lloyd, Karen - EBSA; Taylor, William - SOL [redacted]@dol.gov)
Cc: Fisher, Daniel
Subject: Hold for Meeting with DOL on Fiduciary Duty
When: Tuesday, May 28, 2013 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Department of Labor Building

I apologize for the change but some at DOL had a conflict come up.

From: Marietta-Westberg, Jennifer
To: Cosby, Chris - EBSA
Subject: economic guidance document
Date: Monday, May 07, 2012 10:15:54 AM

Chris,

Sorry for my late response, but I've been away on adoption leave.

I checked on the economic guidance document, and it turns out it is not public yet. There was only a discussion held with reporters, but no release yet. As soon as it becomes public, I will send you the link.

Best,

Jennifer

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: meeting
Date: Wednesday, March 12, 2014 1:07:02 PM

Dear Chris,

I received your message…is there a phone number that I can call you at?

Thanks!

Matt

From:	Marietta-Westberg, Jennifer
To:	Piacentini, Joseph - EBSA; Cosby, Chris - EBSA
Subject:	phone call
Date:	Thursday, February 23, 2012 9:17:13 AM

Joe,

I got your phone call. No worries there – I had already told the members of our working group who will be on the call that we want to hear as much as possible from the academics. We defer to your lead on the questions, and won't be overly talkative.

Thanks again for letting us participate!

Jennifer

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Marietta-Westberg, Jennifer
To: Cosby, Chris - EBSA
Subject: Re: call tomorrow
Date: Wednesday, May 16, 2012 10:17:49 AM

My # is [redacted].

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Wednesday, May 16, 2012 10:10 AM
To: Marietta-Westberg, Jennifer
Cc: Kozora, Matthew
Subject: RE: call tomorrow

Good morning:

Still trying to set up number – our assistant is out today. Please send me your numbers, and we will call you from Joe's office if we can't set up line.

Thanks,

Chris

From: Cosby, Chris - EBSA
Sent: Tuesday, May 15, 2012 5:44 PM
To: [redacted]@SEC.GOV'
Cc: [redacted]@SEC.GOV'
Subject: Re: call tomorrow

Heard from Joe and we are on. Will send call-in info tomorrow morning.

Best,

Chris

From: Cosby, Chris - EBSA
Sent: Tuesday, May 15, 2012 05:39 PM
To: [redacted]@SEC.GOV' [redacted]
Cc: [redacted]@SEC.GOV' [redacted]
Subject: Re: call tomorrow

Hi Matt and Jennifer:

I will get back to you in the morning regarding this as soon as I can make sure Joe is available.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Tuesday, May 15, 2012 03:57 PM

To: Cosby, Chris - EBSA
Cc: Kozora, Matthew [redacted]@SEC.GOV>
Subject: call tomorrow

Hi, Chris. I received your phone message. I can discuss your disclosure option on a call tomorrow to at 1:30, but not at 1:00. Will that work? If so, would you put together a dial-in #? I would be phoning from home, but Matt would need to phone from the office.

Thanks,

Jennifer

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: [redacted]@SEC.GOV"
Cc: [redacted]@SEC.GOV"
Subject: Re: call tomorrow
Date: Tuesday, May 15, 2012 5:44:12 PM

Heard from Joe and we are on. Will send call-in info tomorrow morning.

Best,

Chris

From: Cosby, Chris - EBSA
Sent: Tuesday, May 15, 2012 05:39 PM
To: [redacted]@SEC.GOV' [redacted]
Cc: [redacted]@SEC.GOV' [redacted]
Subject: Re: call tomorrow

Hi Matt and Jennifer:

I will get back to you in the morning regarding this as soon as I can make sure Joe is available.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Tuesday, May 15, 2012 03:57 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew [redacted]@SEC.GOV>
Subject: call tomorrow

Hi, Chris. I received your phone message. I can discuss your disclosure option on a call tomorrow to at 1:30, but not at 1:00. Will that work? If so, would you put together a dial-in #? I would be phoning from home, but Matt would need to phone from the office.

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U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From:	Cosby, Chris - EBSA
To:	[redacted]@SEC.GOV"
Cc:	[redacted]@SEC.GOV"
Subject:	Re: call tomorrow
Date:	Tuesday, May 15, 2012 5:39:28 PM

Hi Matt and Jennifer:

I will get back to you in the morning regarding this as soon as I can make sure Joe is available.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Tuesday, May 15, 2012 03:57 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew [redacted]@SEC.GOV>
Subject: call tomorrow

Hi, Chris. I received your phone message. I can discuss your disclosure option on a call tomorrow to at 1:30, but not at 1:00. Will that work? If so, would you put together a dial-in #? I would be phoning from home, but Matt would need to phone from the office.

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100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From:	Cosby, Chris - EBSA
To:	[redacted]@SEC.GOV"
Subject:	Re: call tomorrow
Date:	Wednesday, May 16, 2012 11:17:44 AM

Yes.

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, May 16, 2012 10:26 AM
To: Cosby, Chris - EBSA; Marietta-Westberg, Jennifer [redacted]@SEC.GOV>
Subject: RE: call tomorrow

Dear Chris,

My number is [redacted]. The call is for 1:30?

Thanks

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Wednesday, May 16, 2012 10:11 AM
To: Marietta-Westberg, Jennifer
Cc: Kozora, Matthew
Subject: RE: call tomorrow

Good morning:

Still trying to set up number – our assistant is out today. Please send me your numbers, and we will call you from Joe's office if we can't set up line.

Thanks,

Chris

From: Cosby, Chris - EBSA
Sent: Tuesday, May 15, 2012 5:44 PM
To: [redacted]@SEC.GOV'
Cc: [redacted]@SEC.GOV'
Subject: Re: call tomorrow

Heard from Joe and we are on. Will send call-in info tomorrow morning.

Best,

Chris

From: Cosby, Chris - EBSA
Sent: Tuesday, May 15, 2012 05:39 PM

To: Jennifer Westberg [redacted]SEC.GOV>
Cc: Matt Kozora [redacted]@SEC.GOV>
Subject: Re: call tomorrow

Hi Matt and Jennifer:

I will get back to you in the morning regarding this as soon as I can make sure Joe is available.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Tuesday, May 15, 2012 03:57 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew [redacted]@SEC.GOV>
Subject: call tomorrow

Hi, Chris. I received your phone message. I can discuss your disclosure option on a call tomorrow to at 1:30, but not at 1:00. Will that work? If so, would you put together a dial-in #? I would be phoning from home, but Matt would need to phone from the office.

Thanks,

Jennifer

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U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: RE: call with SEC
Date: Friday, January 27, 2012 2:55:17 PM

Thanks Chris!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, January 27, 2012 1:59 PM
To: Marietta-Westberg, Jennifer
Cc: Kozora, Matthew
Subject: RE: call with SEC

Hi Matt and Jennifer:

Sorry for the short notice. We will be doing our last industry meeting with the Financial Services Institute @ 2 today. We would like for Matt to participate if possible. Please send me his number, and I will conference him in.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, January 26, 2012 3:27 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew
Subject: call with SEC

Hi, Chris. I have a group ready to discuss our request for comment with you next week. Our calendars are open between 3:00 and 5:00 on Tuesday, 1/31, and between 2:00 and 4:00 on Wednesday, 2/1. Can you find a 30-minute slot in one of those windows that works for your group?

Thanks,

Jennifer

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Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]

[redacted]@sec.gov

From: Marietta-Westberg, Jennifer
To: Cosby, Chris - EBSA
Subject: RE: call with SEC
Date: Friday, January 27, 2012 2:00:01 PM

His number is [redacted]

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, January 27, 2012 1:59 PM
To: Marietta-Westberg, Jennifer
Cc: Kozora, Matthew
Subject: RE: call with SEC

Hi Matt and Jennifer:

Sorry for the short notice. We will be doing our last industry meeting with the Financial Services Institute @ 2 today. We would like for Matt to participate if possible. Please send me his number, and I will conference him in.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, January 26, 2012 3:27 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew
Subject: call with SEC

Hi, Chris. I have a group ready to discuss our request for comment with you next week. Our calendars are open between 3:00 and 5:00 on Tuesday, 1/31, and between 2:00 and 4:00 on Wednesday, 2/1. Can you find a 30-minute slot in one of those windows that works for your group?

Thanks,

Jennifer

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U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer
Cc: Kozora, Matthew
Subject: RE: call with SEC
Date: Friday, January 27, 2012 1:58:00 PM

Hi Matt and Jennifer:

Sorry for the short notice. We will be doing our last industry meeting with the Financial Services Institute @ 2 today. We would like for Matt to participate if possible. Please send me his number, and I will conference him in.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, January 26, 2012 3:27 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew
Subject: call with SEC

Hi, Chris. I have a group ready to discuss our request for comment with you next week. Our calendars are open between 3:00 and 5:00 on Tuesday, 1/31, and between 2:00 and 4:00 on Wednesday, 2/1. Can you find a 30-minute slot in one of those windows that works for your group?

Thanks,

Jennifer

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Assistant Director, Office of Investments and Intermediaries
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U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From:	Marietta-Westberg, Jennifer
To:	Cosby, Chris - EBSA
Cc:	Kozora, Matthew
Subject:	RE: call with SEC
Date:	Friday, January 27, 2012 9:02:52 AM

Chris,

Yes, I will obtain a dial-in. Talk to you soon.

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, January 26, 2012 10:26 PM
To: Marietta-Westberg, Jennifer
Cc: Kozora, Matthew
Subject: RE: call with SEC

Hi Jennifer:

We are on for Tuesday @ 3. Will you be establishing a call-in number?

Thanks and look forward to speaking with you and your team then!

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, January 26, 2012 3:27 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew
Subject: call with SEC

Hi, Chris. I have a group ready to discuss our request for comment with you next week. Our calendars are open between 3:00 and 5:00 on Tuesday, 1/31, and between 2:00 and 4:00 on Wednesday, 2/1. Can you find a 30-minute slot in one of those windows that works for your group?

Thanks,

Jennifer

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Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission

100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer
Cc: Kozora, Matthew
Subject: RE: call with SEC
Date: Thursday, January 26, 2012 10:25:00 PM

Hi Jennifer:

We are on for Tuesday @ 3. Will you be establishing a call-in number?

Thanks and look forward to speaking with you and your team then!

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, January 26, 2012 3:27 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew
Subject: call with SEC

Hi, Chris. I have a group ready to discuss our request for comment with you next week. Our calendars are open between 3:00 and 5:00 on Tuesday, 1/31, and between 2:00 and 4:00 on Wednesday, 2/1. Can you find a 30-minute slot in one of those windows that works for your group?

Thanks,

Jennifer

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100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer
Subject: RE: call with SEC
Date: Thursday, January 26, 2012 5:47:00 PM

Hi Jennifer:

I sent out a message to the team here requesting a meeting at 3. I think most people can make it, but I will get back to you tomorrow to confirm.

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, January 26, 2012 3:27 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew
Subject: call with SEC

Hi, Chris. I have a group ready to discuss our request for comment with you next week. Our calendars are open between 3:00 and 5:00 on Tuesday, 1/31, and between 2:00 and 4:00 on Wednesday, 2/1. Can you find a 30-minute slot in one of those windows that works for your group?

Thanks,

Jennifer

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Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From:	Cosby, Chris - EBSA
To:	Marietta-Westberg, Jennifer
Cc:	Kozora, Matthew
Subject:	RE: call with SEC
Date:	Thursday, January 26, 2012 3:28:00 PM

Hi Jennifer:

I will get on it and get back to you soon.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, January 26, 2012 3:27 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew
Subject: call with SEC

Hi, Chris. I have a group ready to discuss our request for comment with you next week. Our calendars are open between 3:00 and 5:00 on Tuesday, 1/31, and between 2:00 and 4:00 on Wednesday, 2/1. Can you find a 30-minute slot in one of those windows that works for your group?

Thanks,

Jennifer

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U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: Kozora, Matthew
Subject: RE: call with SEC
Date: Friday, January 27, 2012 2:56:00 PM

Thanks you for participating, Matt!

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, January 27, 2012 2:55 PM
To: Cosby, Chris - EBSA
Subject: RE: call with SEC

Thanks Chris!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, January 27, 2012 1:59 PM
To: Marietta-Westberg, Jennifer
Cc: Kozora, Matthew
Subject: RE: call with SEC

Hi Matt and Jennifer:

Sorry for the short notice. We will be doing our last industry meeting with the Financial Services Institute @ 2 today. We would like for Matt to participate if possible. Please send me his number, and I will conference him in.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, January 26, 2012 3:27 PM
To: Cosby, Chris - EBSA
Cc: Kozora, Matthew
Subject: call with SEC

Hi, Chris. I have a group ready to discuss our request for comment with you next week. Our calendars are open between 3:00 and 5:00 on Tuesday, 1/31, and between 2:00 and 4:00 on Wednesday, 2/1. Can you find a 30-minute slot in one of those windows that works for your group?

Thanks,

Jennifer

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Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Cc: Piacentini, Joseph - EBSA; Marietta-Westberg, Jennifer
Subject: RE: Data
Date: Thursday, July 18, 2013 3:16:25 PM

Dear Chris,

I apologize for not getting back to you earlier. Can we try to set up something next week? I have not been able to get through the comment letters sufficiently enough to be able to discuss them with you.

The most of what I have seen regarding information through the primary industry groups comments is in the form of survey responses.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 09, 2013 1:42 PM
To: Kozora, Matthew; Marietta-Westberg, Jennifer
Cc: Piacentini, Joseph - EBSA
Subject: RE: Data

Sounds good. Please let me know what works for you next week.

Thanks!

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Tuesday, July 09, 2013 1:22 PM
To: Cosby, Chris - EBSA; Marietta-Westberg, Jennifer
Cc: Piacentini, Joseph - EBSA
Subject: RE: Data

Dear Chris,

I have not had a chance to run through the comment letters as of yet. I believe that there were a few that did provide some survey information. Can we set something up for next week?

Thanks!

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries

Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 09, 2013 12:24 PM
To: Marietta-Westberg, Jennifer; Kozora, Matthew
Cc: Joseph Piacentini [redacted]dol.gov
Subject: Data

Hi Jennifer and Matt:

I hope you are enjoying the beginning of summer. Joe and I would like to speak with you about what, if any, data you received in response to your data request. Are you free at 1 tomorrow?

Thanks,

Chris

From: Cosby, Chris - EBSA
To: Kozora, Matthew; Marietta-Westberg, Jennifer
Cc: Piacentini, Joseph - EBSA
Subject: RE: Data
Date: Tuesday, July 09, 2013 1:42:00 PM

Sounds good. Please let me know what works for you next week.

Thanks!

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Tuesday, July 09, 2013 1:22 PM
To: Cosby, Chris - EBSA; Marietta-Westberg, Jennifer
Cc: Piacentini, Joseph - EBSA
Subject: RE: Data

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Thanks!

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 09, 2013 12:24 PM
To: Marietta-Westberg, Jennifer; Kozora, Matthew
Cc: Joseph Piacentini [redacted]dol.gov
Subject: Data

Hi Jennifer and Matt:

I hope you are enjoying the beginning of summer. Joe and I would like to speak with you about what, if any, data you received in response to your data request. Are you free at 1 tomorrow?

Thanks,

Chris

From:	Cosby, Chris - EBSA
To:	Kozora, Matthew
Cc:	Piacentini, Joseph - EBSA; Marietta-Westberg, Jennifer
Subject:	RE: Data
Date:	Thursday, July 18, 2013 3:17:00 PM

Sure, Matt. Next week is relatively open for Joe and me, so please let know when you are ready.

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, July 18, 2013 3:17 PM
To: Cosby, Chris - EBSA
Cc: Piacentini, Joseph - EBSA; Marietta-Westberg, Jennifer
Subject: RE: Data

Dear Chris,

I apologize for not getting back to you earlier. Can we try to set up something next week? I have not been able to get through the comment letters sufficiently enough to be able to discuss them with you.

The most of what I have seen regarding information through the primary industry groups comments is in the form of survey responses.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Cosby, Chris - EBSA [redacted]@dol.gov]
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Cc: Piacentini, Joseph - EBSA
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Sounds good. Please let me know what works for you next week.

Thanks!

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Tuesday, July 09, 2013 1:22 PM
To: Cosby, Chris - EBSA; Marietta-Westberg, Jennifer
Cc: Piacentini, Joseph - EBSA
Subject: RE: Data

Dear Chris,

I have not had a chance to run through the comment letters as of yet. I believe that there were a few that did provide some survey information. Can we set something up for next week?

Thanks!

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
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U.S. Securities & Exchange Commission
Phone: [redacted]

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 09, 2013 12:24 PM
To: Marietta-Westberg, Jennifer; Kozora, Matthew
Cc: Joseph Piacentini [redacted]dol.gov
Subject: Data

Hi Jennifer and Matt:

I hope you are enjoying the beginning of summer. Joe and I would like to speak with you about what, if any, data you received in response to your data request. Are you free at 1 tomorrow?

Thanks,

Chris

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer
Subject: RE: economic guidance document
Date: Monday, May 07, 2012 10:18:00 AM

Thanks, Jennifer! Congratulations regarding your adoption!

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, May 07, 2012 10:15 AM
To: Cosby, Chris - EBSA
Subject: economic guidance document

Chris,

Sorry for my late response, but I've been away on adoption leave.

I checked on the economic guidance document, and it turns out it is not public yet. There was only a discussion held with reporters, but no release yet. As soon as it becomes public, I will send you the link.

Best,

Jennifer

Jennifer Marietta-Westberg, PhD
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Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From:	Cosby, Chris - EBSA
To:	Kozora, Matthew; Piacentini, Joseph - EBSA
Cc:	Marietta-Westberg, Jennifer
Subject:	RE: iabd comment letters
Date:	Friday, July 26, 2013 3:19:00 PM

Thanks, Matt!

Best,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, July 26, 2013 9:11 AM
To: Cosby, Chris - EBSA; Piacentini, Joseph - EBSA
Cc: Marietta-Westberg, Jennifer
Subject: iabd comment letters

Dear Chris,

Unfortunately I have not been able to get through all of the comment letters as of yet, but there are a few that do provide some form of quantitative information. These include

Financial Planning Coalition
http://www.sec.gov/comments/4-606/4606-3126.pdf
Charles Schwab
http://www.sec.gov/comments/4-606/4606-3137.pdf
sifma (including info on IRA accounts)
http://www.sec.gov/comments/4-606/4606-3128.pdf
Financial Services Institute
http://www.sec.gov/comments/4-606/4606-3138.pdf
State Farm Investment Management Corp
http://www.sec.gov/comments/4-606/4606-3104.pdf

Also, the letter from the Consumer Federation of America is worth a read.
http://www.sec.gov/comments/4-606/4606-3119.pdf

Lastly, the attached paper came across my desk recently. I am sure you are probably already aware of it but just in case you are not…

To my knowledge we have not received any kind of dataset with account level or other granular information. I will let you know if I come across any other interesting/applicable comment letters. Please ask if you have any questions.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries

Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Marietta-Westberg, Jennifer
To: Cosby, Chris - EBSA
Subject: RE: meeting with the SEC
Date: Monday, November 07, 2011 4:49:53 PM

One hour.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, November 07, 2011 4:48 PM
To: Marietta-Westberg, Jennifer
Subject: RE: meeting with the SEC

No problem, Jennifer. I have a quick question: how long is tomorrow's meeting scheduled to last.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, November 07, 2011 4:44 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting with the SEC

Thanks, Chris. We look forward to meeting with you tomorrow.

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, November 07, 2011 4:41 PM
To: Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA; Kozora, Matthew; Wong, Fred - EBSA; Campagna, Lou - EBSA
Subject: RE: meeting with the SEC

Hi Jennifer:

Please find attached the requested slides with questions. We drafted these broadly to facilitate an open discussion of the issues. Please contact me if you have any questions. We look forward to meeting with you and the group tomorrow.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, November 03, 2011 10:28 AM
To: Cosby, Chris - EBSA; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: RE: meeting with the SEC

Chris,

We are able to schedule for Nov. 8th. Please arrive at the SEC (100 F St. NE) between 9:30 and 9:45 so you can complete the security check-in process. It takes a bit of time to have your photo taken, etc. You can supply Matt Kozora's name at the front desk when you arrive.

Could you provide a few bullet points outlining your questions that I can circulate to the working group ahead of the meeting?

Thanks,

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Wednesday, November 02, 2011 3:59 PM
To: Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: RE: meeting with the SEC

Hi Jennifer:

Thanks for your message and invitation. We would like to meet with the group on November 8 (preferably) or 15. We look forward to meeting with the group.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Wednesday, November 02, 2011 2:27 PM
To: Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: meeting with the SEC

Hi, everyone. I would like to coordinate a meeting for you to meet with our fiduciary working group here at the SEC. Together we can discuss some of the industry comments you've received about potential changes to a BD business model. We have a normal working group meeting at 10:00 on Tuesdays. If this time and day works for you, could you suggest two future dates that would accommodate your schedules? I will then check schedules here and confirm with you.

Thanks,

Jennifer

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries

Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer
Subject: RE: meeting with the SEC
Date: Monday, November 07, 2011 4:48:00 PM

No problem, Jennifer. I have a quick question: how long is tomorrow's meeting scheduled to last.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, November 07, 2011 4:44 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting with the SEC

Thanks, Chris. We look forward to meeting with you tomorrow.

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, November 07, 2011 4:41 PM
To: Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA; Kozora, Matthew; Wong, Fred - EBSA; Campagna, Lou - EBSA
Subject: RE: meeting with the SEC

Hi Jennifer:

Please find attached the requested slides with questions. We drafted these broadly to facilitate an open discussion of the issues. Please contact me if you have any questions. We look forward to meeting with you and the group tomorrow.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, November 03, 2011 10:28 AM
To: Cosby, Chris - EBSA; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: RE: meeting with the SEC

Chris,

We are able to schedule for Nov. 8th. Please arrive at the SEC (100 F St. NE) between 9:30 and 9:45 so you can complete the security check-in process. It takes a bit of time to have your photo taken, etc. You can supply Matt Kozora's name at the front desk when you arrive.

Could you provide a few bullet points outlining your questions that I can circulate to the working group ahead of the meeting?

Thanks,

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Wednesday, November 02, 2011 3:59 PM
To: Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: RE: meeting with the SEC

Hi Jennifer:

Thanks for your message and invitation. We would like to meet with the group on November 8 (preferably) or 15. We look forward to meeting with the group.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Wednesday, November 02, 2011 2:27 PM
To: Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: meeting with the SEC

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Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From:	Marietta-Westberg, Jennifer
To:	Cosby, Chris - EBSA
Subject:	RE: meeting with the SEC
Date:	Monday, November 07, 2011 4:45:35 PM

Thanks, Chris. We look forward to meeting with you tomorrow.

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, November 07, 2011 4:41 PM
To: Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA; Kozora, Matthew; Wong, Fred - EBSA; Campagna, Lou - EBSA
Subject: RE: meeting with the SEC

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Cc: Kozora, Matthew
Subject: RE: meeting with the SEC

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100 F St NE
Washington, D.C. 20549
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From:	Cosby, Chris - EBSA
To:	Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc:	Kozora, Matthew
Subject:	RE: meeting with the SEC
Date:	Thursday, November 03, 2011 2:47:00 PM

Great, thanks Jennifer. I will work on some bullet point questions and send them to you.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, November 03, 2011 10:28 AM
To: Cosby, Chris - EBSA; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: RE: meeting with the SEC

Chris,

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To: Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
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Cc: Kozora, Matthew
Subject: meeting with the SEC

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U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Marietta-Westberg, Jennifer
To: Cosby, Chris - EBSA; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: RE: meeting with the SEC
Date: Thursday, November 03, 2011 10:29:51 AM

Chris,

We are able to schedule for Nov. 8th. Please arrive at the SEC (100 F St. NE) between 9:30 and 9:45 so you can complete the security check-in process. It takes a bit of time to have your photo taken, etc. You can supply Matt Kozora's name at the front desk when you arrive.

Could you provide a few bullet points outlining your questions that I can circulate to the working group ahead of the meeting?

Thanks,

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To: Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: RE: meeting with the SEC

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To: Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Decressin, Anja - EBSA
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Division of Risk, Strategy and Financial Innovation
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100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer
Subject: RE: meeting with the SEC
Date: Monday, November 07, 2011 5:31:00 PM

Here are the DOL attendees:

Adriana Kugler – DOL Chief Economist
Joe Piacentini – Director, Employee Benefits Security Administration's (EBSA) Office of Policy and Research and EBSA Chief Economist
Anja Decressin – Chief, EBSA Office of Policy and Research Division of Research and Economic Analysis
Chris Cosby – Chief, EBSA Office of Policy and Research Division of Regulatory Policy Analysis
Lou Campagna – Chief, EBSA Office of Regulations and Interpretations Division of Fiduciary Interpretations
Fred Wong – Senior Employee Benefits Specialist , EBSA Office of Regulations and Interpretations
Zach Epstein – DOL Chief Economist's Office

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, November 07, 2011 4:49 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting with the SEC

One hour.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, November 07, 2011 4:48 PM
To: Marietta-Westberg, Jennifer
Subject: RE: meeting with the SEC

No problem, Jennifer. I have a quick question: how long is tomorrow's meeting scheduled to last.

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, November 07, 2011 4:44 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting with the SEC

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Subject: RE: meeting with the SEC

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U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: RE: meeting
Date: Friday, March 14, 2014 3:14:13 PM

Dear Chris,

We have a placeholder here for Thursday March 20th from 11 to 12.

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 12:45 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

Looks like we are on for next Thursday, March 20 @ 11. We will come over there. Do I need to send you a list of attendees?

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, March 12, 2014 1:06 PM
To: Cosby, Chris - EBSA
Subject: meeting

Dear Chris,

I received your message…is there a phone number that I can call you at?

Thanks!

Matt

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: RE: meeting
Date: Friday, March 14, 2014 1:00:34 PM

Yeah that would be great.

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 12:45 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

Looks like we are on for next Thursday, March 20 @ 11. We will come over there. Do I need to send you a list of attendees?

Thanks,

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Sent: Wednesday, March 12, 2014 1:06 PM
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Thanks!

Matt

From: Cosby, Chris - EBSA
To: Kozora, Matthew
Subject: RE: meeting
Date: Wednesday, March 12, 2014 2:58:00 PM

Hi Matt: Sorry I didn't leave it.

[redacted]

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, March 12, 2014 1:06 PM
To: Cosby, Chris - EBSA
Subject: meeting

Dear Chris,

I received your message…is there a phone number that I can call you at?

Thanks!

Matt

From:	Cosby, Chris - EBSA
To:	Hauser, Timothy - SOL; [redacted]@SEC.GOV"
Subject:	Re: Our meeting
Date:	Monday, August 05, 2013 11:05:46 PM

Hi Brian:

I will be the sole Office of Policy and Research representative.

Chris

----- Original Message -----
From: Hauser, Timothy - SOL
Sent: Monday, August 05, 2013 06:31 PM
To: 'Baltz, Brian' [redacted]@SEC.GOV>
Cc: Hauser, Timothy - SOL; Cosby, Chris - EBSA
Subject: RE: Our meeting

Thanks. On our end, I expect that Bill Taylor and I will attend from the Solicitor's Office; Lou Campagna and Fred Wong from EBSA's Office of Regulations and Interpretations; Lyssa Hall and Karen Lloyd from EBSA's Office of Exemptions and Determinations; and Chris Cosby (and possibly one other person) from EBSA's Office of Policy and Research.

Chris, do you expect anybody else to attend from your office? If so, could you send a note to Brian and cc me?

Tim

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 10:50 AM
To: Hauser, Timothy - SOL
Subject: RE: Our meeting

Thanks, Tim. On our end there will be staff from the Division of Trading and Markets, Division of Investment Management, and Division of Economic and Risk Analysis.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 10:00 AM
To: Baltz, Brian
Subject: RE: Our meeting

One or two people will be attending from each of the relevant EBSA offices. I'll get you a list. Which SEC offices will be represented?

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:31 AM
To: Jenson, Paula R.; Hauser, Timothy - SOL; Russell, Emily
Subject: RE: Our meeting

Tim, will anyone else be joining you? If so, can you please send me their names as well so I can let security know? Thank you.

-----Original Message-----
From: Jenson, Paula R.
Sent: Monday, August 05, 2013 9:21 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Great. No trick to getting in - just be sure you have ID. And you can give them Brian Baltz's name. His phone number is [redacted].

We look forward to seeing you on Wednesday.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:19 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Ok. We'll plan to be there at 10:30 if that works for you. Is there any trick to getting in? Whose name should I give the guards?

-----Original Message-----
From: Jenson, Paula R. [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:14 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Thanks for following up, Tim. I didn't realize there were loose ends regarding arrangements.

We'd be grateful if we could have the meeting at our office, given the number of people here who are interested. It looks like Lourdes set aside 2 hours to meet - either 10-12 or 10:30-12:30 on Wednesday - whichever would work best for you.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From: Cosby, Chris - EBSA
To: [redacted]@SEC.GOV"
Subject: Re: Our meeting
Date: Tuesday, August 06, 2013 9:53:53 AM

Thanks, Brian. Looking forward to the meeting.

Best,

Chris

----- Original Message -----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Tuesday, August 06, 2013 09:50 AM
To: Cosby, Chris - EBSA; Hauser, Timothy - SOL
Subject: RE: Our meeting

Tim and Chris,

Thank you very much. I'll let security know. See you tomorrow.

Brian

-----Original Message-----
From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, August 05, 2013 11:06 PM
To: Hauser, Timothy - SOL; Baltz, Brian
Subject: Re: Our meeting

Hi Brian:

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Chris

----- Original Message -----
From: Hauser, Timothy - SOL
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Chris, do you expect anybody else to attend from your office? If so, could you send a note to Brian and cc me?

Tim

notify the sender immediately.

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 10:50 AM
To: Hauser, Timothy - SOL
Subject: RE: Our meeting

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Subject: RE: Our meeting

Great. No trick to getting in - just be sure you have ID. And you can give them Brian Baltz's name. His phone number is [redacted].

We look forward to seeing you on Wednesday.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:19 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Ok. We'll plan to be there at 10:30 if that works for you. Is there any trick to getting in? Whose name should I give the guards?

-----Original Message-----
From: Jenson, Paula R. [redacted]@SEC.GOV]

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To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
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Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From: Buescher, Sarah A.
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation
Date: Thursday, July 26, 2012 2:46:39 PM

Thanks Chris. I'm also looking forward to seeing him. We worked together a while ago.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 2:45 PM
To: Buescher, Sarah A.
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Thanks, Sarah! I just talked to Arthur and told him you are coming over, and he is looking forward to seeing you.

From: Buescher, Sarah A. [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 2:37 PM
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Sure. Parisa Haghshenas and Sarah ten Siethoff.

Thanks

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 11:44 AM
To: Buescher, Sarah A.
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Hi Sarah:

Can you please provide your colleagues names?

Thanks,
Chris

From: Buescher, Sarah A. [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 10:37 AM
To: Cosby, Chris - EBSA
Cc: Haghshenas, Parisa
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Chris,

I'm planning to attend in person along with two colleagues who are not listed below.

Thanks,

Sarah

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 10:21 AM
To: Kozora, Matthew; Marietta-Westberg, Jennifer; Bagnall, Robert; Hunter-Ceci, Holly L.; Courtney, Catherine A.; Buescher, Sarah A.; Fisher, Daniel; Russell, Emily
Subject: Professor Arthur Laby Fiduciary Presentation

Good morning:

I am glad that you accepted (or tentatively accepted) my invitation to attend Professor Laby's fiduciary presentation tomorrow here at DOL. It would be great if you can attend in person, but we have a call-in number available as well. Please respond to this email as soon as possible indicating whether you will be attending in person or calling in. I am tracking attendance to make sure the room will be large enough to accommodate everyone, and I am going to try to email the PowerPoint presentation to those the will be calling in. I will send out a follow-up email with our address and security clearance instructions for those of you who will be coming over.

Thanks and I look forward to seeing you tomorrow!

Chris

From: Buescher, Sarah A.
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation
Date: Thursday, July 26, 2012 2:46:39 PM

Thanks Chris. I'm also looking forward to seeing him. We worked together a while ago.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
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To: Buescher, Sarah A.
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Thanks, Sarah! I just talked to Arthur and told him you are coming over, and he is looking forward to seeing you.

From: Buescher, Sarah A. [redacted]@SEC.GOV]
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Subject: RE: Professor Arthur Laby Fiduciary Presentation

Sure. Parisa Haghshenas and Sarah ten Siethoff.

Thanks

From: Cosby, Chris - EBSA [redacted]@dol.gov]
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To: Buescher, Sarah A.
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Hi Sarah:

Can you please provide your colleagues names?

Thanks,
Chris

From: Buescher, Sarah A. [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 10:37 AM
To: Cosby, Chris - EBSA
Cc: Haghshenas, Parisa
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Chris,

I'm planning to attend in person along with two colleagues who are not listed below.

Thanks,

Sarah

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 10:21 AM
To: Kozora, Matthew; Marietta-Westberg, Jennifer; Bagnall, Robert; Hunter-Ceci, Holly L.; Courtney, Catherine A.; Buescher, Sarah A.; Fisher, Daniel; Russell, Emily
Subject: Professor Arthur Laby Fiduciary Presentation

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Thanks and I look forward to seeing you tomorrow!

Chris

From: Marietta-Westberg, Jennifer
To: Cosby, Chris - EBSA
Subject: Re: Professor Arthur Laby Fiduciary Presentation
Date: Thursday, July 26, 2012 5:43:26 PM

Thanks!

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 05:41 PM
To: Marietta-Westberg, Jennifer
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Sorry you can't make it Jennifer. I included you on the email I just sent to attendees in case you were interested in seeing the PowerPoint presentation.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 10:43 AM
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Chris,

Unfortunately, I will be unable to attend now due to a meeting with the Chairman. I know others plan to be there, though. Thanks again for the invitation!

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 10:21 AM
To: Kozora, Matthew; Marietta-Westberg, Jennifer; Bagnall, Robert; Hunter-Ceci, Holly L.; Courtney, Catherine A.; Buescher, Sarah A.; Fisher, Daniel; Russell, Emily
Subject: Professor Arthur Laby Fiduciary Presentation

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Thanks and I look forward to seeing you tomorrow!

Chris

From: Cosby, Chris - EBSA
To: Buescher, Sarah A.
Subject: RE: Professor Arthur Laby Fiduciary Presentation
Date: Thursday, July 26, 2012 2:45:00 PM

Thanks, Sarah! I just talked to Arthur and told him you are coming over, and he is looking forward to seeing you.

From: Buescher, Sarah A. [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 2:37 PM
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Sure. Parisa Haghshenas and Sarah ten Siethoff.

Thanks

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 11:44 AM
To: Buescher, Sarah A.
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Hi Sarah:

Can you please provide your colleagues names?

Thanks,
Chris

From: Buescher, Sarah A. [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 10:37 AM
To: Cosby, Chris - EBSA
Cc: Haghshenas, Parisa
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Chris,

I'm planning to attend in person along with two colleagues who are not listed below.

Thanks,

Sarah

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 10:21 AM
To: Kozora, Matthew; Marietta-Westberg, Jennifer; Bagnall, Robert; Hunter-Ceci, Holly L.; Courtney, Catherine A.; Buescher, Sarah A.; Fisher, Daniel; Russell, Emily
Subject: Professor Arthur Laby Fiduciary Presentation

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Thanks and I look forward to seeing you tomorrow!

Chris

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer
Subject: RE: Professor Arthur Laby Fiduciary Presentation
Date: Thursday, July 26, 2012 5:41:00 PM

Sorry you can't make it Jennifer. I included you on the email I just sent to attendees in case you were interested in seeing the PowerPoint presentation.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 10:43 AM
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Chris,

Unfortunately, I will be unable to attend now due to a meeting with the Chairman. I know others plan to be there, though. Thanks again for the invitation!

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 10:21 AM
To: Kozora, Matthew; Marietta-Westberg, Jennifer; Bagnall, Robert; Hunter-Ceci, Holly L.; Courtney, Catherine A.; Buescher, Sarah A.; Fisher, Daniel; Russell, Emily
Subject: Professor Arthur Laby Fiduciary Presentation

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Thanks and I look forward to seeing you tomorrow!

Chris

From: Buescher, Sarah A.
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation
Date: Thursday, July 26, 2012 2:37:05 PM

Sure. Parisa Haghshenas and Sarah ten Siethoff.

Thanks

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 11:44 AM
To: Buescher, Sarah A.
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Hi Sarah:

Can you please provide your colleagues names?

Thanks,
Chris

From: Buescher, Sarah A. [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 10:37 AM
To: Cosby, Chris - EBSA
Cc: Haghshenas, Parisa
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Chris,

I'm planning to attend in person along with two colleagues who are not listed below.

Thanks,

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Thanks and I look forward to seeing you tomorrow!

Chris

From: Hunter-Ceci, Holly L.
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation
Date: Thursday, July 26, 2012 11:43:14 AM

Calling in, thanks.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 11:42 AM
To: Hunter-Ceci, Holly L.
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Hi Holly:

Are you coming in person or calling?

Thanks,

Chris

-----Original Appointment-----
From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, July 26, 2012 10:54 AM
To: Cosby, Chris - EBSA
Subject: Accepted: Professor Arthur Laby Fiduciary Presentation
When: Friday, July 27, 2012 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Fishbowl

From: Cosby, Chris - EBSA
To: Buescher, Sarah A.
Subject: RE: Professor Arthur Laby Fiduciary Presentation
Date: Thursday, July 26, 2012 11:43:00 AM

Hi Sarah:

Can you please provide your colleagues names?

Thanks,
Chris

From: Buescher, Sarah A. [redacted]@SEC.GOV]
Sent: Thursday, July 26, 2012 10:37 AM
To: Cosby, Chris - EBSA
Cc: Haghshenas, Parisa
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Chris,

I'm planning to attend in person along with two colleagues who are not listed below.

Thanks,

Sarah

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 10:21 AM
To: Kozora, Matthew; Marietta-Westberg, Jennifer; Bagnall, Robert; Hunter-Ceci, Holly L.; Courtney, Catherine A.; Buescher, Sarah A.; Fisher, Daniel; Russell, Emily
Subject: Professor Arthur Laby Fiduciary Presentation

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Thanks and I look forward to seeing you tomorrow!

Chris

From:	Cosby, Chris - EBSA
To:	Hunter-Ceci, Holly L.
Subject:	RE: Professor Arthur Laby Fiduciary Presentation
Date:	Thursday, July 26, 2012 11:42:00 AM

Hi Holly:

Are you coming in person or calling?

Thanks,

Chris

-----Original Appointment-----
From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, July 26, 2012 10:54 AM
To: Cosby, Chris - EBSA
Subject: Accepted: Professor Arthur Laby Fiduciary Presentation
When: Friday, July 27, 2012 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Fishbowl

From: Courtney, Catherine A.
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation
Date: Tuesday, July 24, 2012 2:30:57 PM

Thank you!

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 24, 2012 1:32 PM
To: Courtney, Catherine A.
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Hi Courtney:

Here is the information you requested.

Best,

Chris

Call-in number: 888[redacted]; Participant passcode: [redacted].

-----Original Appointment-----
From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Monday, July 23, 2012 12:33 PM
To: Cosby, Chris - EBSA
Subject: Tentative: Professor Arthur Laby Fiduciary Presentation
When: Friday, July 27, 2012 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Fishbowl

Thank you Chris. Would a dial-in number be available?

From:	Cosby, Chris - EBSA
To:	Courtney, Catherine A.
Subject:	RE: Professor Arthur Laby Fiduciary Presentation
Date:	Tuesday, July 24, 2012 1:32:00 PM

Hi Courtney:

Here is the information you requested.

Best,

Chris

Call-in number: 888-[redacted]; Participant passcode: [redacted].

-----Original Appointment-----
From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Monday, July 23, 2012 12:33 PM
To: Cosby, Chris - EBSA
Subject: Tentative: Professor Arthur Laby Fiduciary Presentation
When: Friday, July 27, 2012 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Fishbowl

Thank you Chris. Would a dial-in number be available?

From: Cosby, Chris - EBSA
To: [redacted]@SEC.GOV"
Subject: Re: Professor Arthur Laby Fiduciary Presentation
Date: Friday, July 27, 2012 10:34:37 AM

Great! Thanks, Matt.

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, July 27, 2012 10:27 AM
To: Cosby, Chris - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Dear Chris,

I am coming to DOL today for the discussion.

Thanks

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, July 26, 2012 5:40 PM
To: Kozora, Matthew; Marietta-Westberg, Jennifer; Bagnall, Robert; Hunter-Ceci, Holly L.; Courtney, Catherine A.; Buescher, Sarah A.; Fisher, Daniel; Russell, Emily
Cc: Buyniski, Brian - EBSA; Butikofer, James - EBSA; Beckmann, Allan - EBSA; Puskin, Dan - EBSA
Subject: RE: Professor Arthur Laby Fiduciary Presentation

Good evening:

Thanks for responding to my email earlier today. For those of you joining us in-person for tomorrow's presentation, please come to the DOL visitor's entrance at 3rd and C and ask security to call Brian Buyniski at [redacted]. He will escort you to the 5th floor conference room.

For those of you participating by phone, I have attached Professor Laby's presentation.

Please forward this message to any of you colleagues that I did not include on the email.

Best,

Chris

From: Cosby, Chris - EBSA
Sent: Thursday, July 26, 2012 10:21 AM
To: 'Kozora, Matthew'; 'Marietta-Westberg, Jennifer'; 'Bagnall, Robert'; 'Hunter-Ceci, Holly L.'; 'Courtney, Catherine A.'; 'Buescher, Sarah A.'; 'Fisher, Daniel'; 'Russell, Emily'
Subject: Professor Arthur Laby Fiduciary Presentation

Good morning:

I am glad that you accepted (or tentatively accepted) my invitation to attend Professor Laby's fiduciary presentation tomorrow here at DOL. It would be great if you can attend in person, but we have a call-in number available as well. Please respond to this email as soon as possible indicating whether you will be attending in person or calling in. I am tracking attendance to make sure the room will be large enough to accommodate everyone, and I am going to try to email the PowerPoint presentation to those the will be calling in. I will send out a follow-up email with our address and security clearance instructions for those of you who will be coming over.

Thanks and I look forward to seeing you tomorrow!

Chris

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer; Kozora, Matthew [redacted]@SEC.GOV)
Cc: 'Joseph Piacentini [redacted]dol.gov"
Subject: RE: SEC Data Request
Date: Thursday, March 07, 2013 10:39:00 AM

Hi Jennifer:

Sorry we missed speaking yesterday. Are you free between 10:30 and 11:30 or after 2:30 tomorrow?

Thanks,

Chris

-----Original Message-----
From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Tuesday, March 05, 2013 1:27 PM
To: Cosby, Chris - EBSA; Piacentini, Joseph - EBSA; Kozora, Matthew; Beckmann, Allan - EBSA; Puskin, Dan - EBSA; Butikofer, James - EBSA; Bergstresser, Keith - EBSA
Subject: SEC Data Request

Just a heads up - my calendar is only open for 30 minutes of this call. If there are still items to discuss after that, we can schedule a follow-up call.

From:	Marietta-Westberg, Jennifer
To:	Cosby, Chris - EBSA; Kozora, Matthew
Cc:	Piacentini, Joseph - EBSA
Subject:	RE: SEC Data Request
Date:	Thursday, March 07, 2013 11:40:10 AM

Hi, Chris. I am free from 2:30 to 3:00 tomorrow.

-----Original Message-----
From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, March 07, 2013 10:40 AM
To: Marietta-Westberg, Jennifer; Kozora, Matthew
Cc: Joseph Piacentini [redacted]dol.gov
Subject: RE: SEC Data Request

Hi Jennifer:

Sorry we missed speaking yesterday. Are you free between 10:30 and 11:30 or after 2:30 tomorrow?

Thanks,

Chris

-----Original Message-----
From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Tuesday, March 05, 2013 1:27 PM
To: Cosby, Chris - EBSA; Piacentini, Joseph - EBSA; Kozora, Matthew; Beckmann, Allan - EBSA; Puskin, Dan - EBSA; Butikofer, James - EBSA; Bergstresser, Keith - EBSA
Subject: SEC Data Request

Just a heads up - my calendar is only open for 30 minutes of this call.
If there are still items to discuss after that, we can schedule a follow-up call.

From:	Marietta-Westberg, Jennifer
To:	Cosby, Chris - EBSA; Kozora, Matthew
Subject:	RE: SEC RIABD Request
Date:	Monday, March 04, 2013 1:30:18 PM

I am free at 1:00 on Wednesday.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, March 04, 2013 12:12 PM
To: Marietta-Westberg, Jennifer; Kozora, Matthew
Subject: RE: SEC RIABD Request

Hi Jennifer:

Are you and Matt free at 1:00 tomorrow or Wednesday?

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, March 04, 2013 11:07 AM
To: Cosby, Chris - EBSA; Kozora, Matthew
Subject: RE: SEC RIABD Request

Chris,

I am only available today between 1:00 and 2:30. Would that work for you? Otherwise, feel free to schedule a 4:00 with Matt only, and we can always follow-up with you further sometime later this week.

Thanks,

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 01, 2013 4:46 PM
To: Kozora, Matthew; Marietta-Westberg, Jennifer
Subject: RE: SEC RIABD Request

Hi Matt:

Great talking to you on the phone today, and thanks again for the heads up. In follow-up to our call, I am wondering you and Jennifer available to discuss the release with Joe and me on Monday at 10:30 or 4? We would like to talk before we attend a meeting on Tuesday morning where this may come up.

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 01, 2013 3:27 PM
To: Piacentini, Joseph - EBSA
Cc: "Cosby, Chris-EBSA"[redacted] Bergstresser, Keith - EBSA; Decressin, Anja - EBSA
Subject: SEC IABD Request

Dear All,

The SEC has released a release seeking information to assess the standards of conduct regarding the obligations of broker-dealers and investment advisers. Please see the link below.

http://www.sec.gov/news/press/2013/2013-32.htm

Matt

From:	Cosby, Chris - EBSA
To:	Marietta-Westberg, Jennifer; Kozora, Matthew
Subject:	RE: SEC RIABD Request
Date:	Monday, March 04, 2013 12:12:00 PM

Hi Jennifer:

Are you and Matt free at 1:00 tomorrow or Wednesday?

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, March 04, 2013 11:07 AM
To: Cosby, Chris - EBSA; Kozora, Matthew
Subject: RE: SEC RIABD Request

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From: Cosby, Chris - EBSA [redacted]@dol.gov]
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To: Kozora, Matthew; Marietta-Westberg, Jennifer
Subject: RE: SEC RIABD Request

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Thanks,

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Sent: Friday, March 01, 2013 3:27 PM
To: Piacentini, Joseph - EBSA
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Matt

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To: Cosby, Chris - EBSA; Kozora, Matthew
Subject: RE: SEC RIABD Request
Date: Monday, March 04, 2013 11:07:57 AM

Chris,

I am only available today between 1:00 and 2:30. Would that work for you? Otherwise, feel free to schedule a 4:00 with Matt only, and we can always follow-up with you further sometime later this week.

Thanks,

Jennifer

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Sent: Friday, March 01, 2013 4:46 PM
To: Kozora, Matthew; Marietta-Westberg, Jennifer
Subject: RE: SEC RIABD Request

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From: Cosby, Chris - EBSA
To: Kozora, Matthew [redacted]@SEC.GOV); Marietta-Westberg, Jennifer [redacted]@SEC.GOV)
Subject: RE: SEC RIABD Request
Date: Friday, March 01, 2013 4:45:00 PM

Hi Matt:

Great talking to you on the phone today, and thanks again for the heads up. In follow-up to our call, I am wondering you and Jennifer available to discuss the release with Joe and me on Monday at 10:30 or 4? We would like to talk before we attend a meeting on Tuesday morning where this may come up.

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 01, 2013 3:27 PM
To: Piacentini, Joseph - EBSA
Cc: "Cosby, Chris-EBSA"[redacted] Bergstresser, Keith - EBSA; Decressin, Anja - EBSA
Subject: SEC IABD Request

Dear All,

The SEC has released a release seeking information to assess the standards of conduct regarding the obligations of broker-dealers and investment advisers. Please see the link below.

http://www.sec.gov/news/press/2013/2013-32.htm

Matt

From: Marietta-Westberg, Jennifer
To: Cosby, Chris - EBSA
Cc: Piacentini, Joseph - EBSA
Subject: Re: SEC RIABD Request
Date: Monday, March 04, 2013 4:16:16 PM

[redacted]

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, March 04, 2013 03:53 PM
To: Marietta-Westberg, Jennifer
Cc: Joseph Piacentini [redacted]dol.gov [redacted]
Subject: RE: SEC RIABD Request

Hi Jennifer:

I will set up an Outlook meeting for the call. We just want to have a general discussion about your data request. We will call you from Joe's office. What is the best number to reach you?

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, March 04, 2013 1:30 PM
To: Cosby, Chris - EBSA; Kozora, Matthew
Subject: RE: SEC RIABD Request

I am free at 1:00 on Wednesday.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, March 04, 2013 12:12 PM
To: Marietta-Westberg, Jennifer; Kozora, Matthew
Subject: RE: SEC RIABD Request

Hi Jennifer:

Are you and Matt free at 1:00 tomorrow or Wednesday?

Thanks,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, March 04, 2013 11:07 AM
To: Cosby, Chris - EBSA; Kozora, Matthew
Subject: RE: SEC RIABD Request

Chris,

I am only available today between 1:00 and 2:30. Would that work for you? Otherwise, feel free to schedule a 4:00 with Matt only, and we can always follow-up with you further sometime later this week.

Thanks,

Jennifer

From: Cosby, Chris - EBSA [[redacted]@dol.gov]
Sent: Friday, March 01, 2013 4:46 PM
To: Kozora, Matthew; Marietta-Westberg, Jennifer
Subject: RE: SEC RIABD Request

Hi Matt:

Great talking to you on the phone today, and thanks again for the heads up. In follow-up to our call, I am wondering you and Jennifer available to discuss the release with Joe and me on Monday at 10:30 or 4? We would like to talk before we attend a meeting on Tuesday morning where this may come up.

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 01, 2013 3:27 PM
To: Piacentini, Joseph - EBSA
Cc: "Cosby, Chris-EBSA"[redacted] Bergstresser, Keith - EBSA; Decressin, Anja - EBSA
Subject: SEC IABD Request

Dear All,

The SEC has released a release seeking information to assess the standards of conduct regarding the obligations of broker-dealers and investment advisers. Please see the link below.

http://www.sec.gov/news/press/2013/2013-32.htm

Matt

From:	Nagesh, Ammani
To:	Davis, Michael. L- EBSA
Subject:	RE: Confirmation on meeting with Assistant Secretary Borzi- follow-up
Date:	Wednesday, June 06, 2012 3:16:05 PM

We look forward to seeing all of you soon. If you have any questions, please don't hesitate to call me, at [redacted]. Thanks!

From: Davis, Michael. L- EBSA [redacted]@dol.gov]
Sent: Thursday, May 31, 2012 9:27 PM
To: Nagesh, Ammani
Subject: Confirmation on meeting with Assistant Secretary Borzi- follow-up

Ammani,

Thx again for your help in arranging this meeting. As a follow-up, you wanted the names of other EBSA staff we plan to bring to the meeting. Our preference was to keep this first meeting small, so we decided not to bring lots of people. Consequently, in addition to Phyllis and myself, we will only bring our lead ERISA attorney, Tim Hauser, who can speak to some of the mutual interactions we have had with SEC staff over the years. Finally, one of the topics we hope to discuss with Chairman Schapiro is our current Memorandum of Understanding with the SEC which was signed back in 2008. It expires in 2013. I have attached a copy of it for your review and so that you can share it with interested staff there. We would like to discuss a renewal of the MOU and potential ways in which it could serve to benefit several of our mutual activities. If you have any questions, please do not hesitate to call. All the best.

Michael L. Davis
Deputy Assistant Secretary
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Ave, NW
Washington, DC 20210
P: [redacted]
[redacted]@dol.gov

From: Nagesh, Ammani [redacted]@sec.gov]
Sent: Wednesday, May 23, 2012 11:33 AM
To: Davis, Michael. L- EBSA
Subject: RE: Confirmation on meeting with Assistant Secretary Borzi

Michael,

We're all set for your meeting on the 6^{th}. We look forward to seeing you in a couple of weeks. Thanks so much for your help.

Kind regards,
Ammani

Ammani V. Nagesh
Confidential Assistant to the Chairman
U.S. Securities & Exchange Commission
Washington, D.C. 20549
----
p. [redacted] | f. [redacted]

From: Davis, Michael. L- EBSA [redacted]@dol.gov]
Sent: Wednesday, May 23, 2012 9:11 AM
To: Nagesh, Ammani
Subject: Confirmation on meeting with Assistant Secretary Borzi

Ammani,

Thanks so much for your help yesterday. I spoke with Assistant Secretary Borzi last night and we are indeed confirmed for a meeting with Chairman Schapiro on Wednesday, June 6 at 4:30pm. Both Phyllis and I will be there. We will likely bring a few members of our staff along as well and will get you those names as soon as we confirm them. Thanks again for your help and we look forward to seeing you all on June 6th. All the best. md

Michael L. Davis
Deputy Assistant Secretary
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Ave, NW
Washington, DC 20210
P: [redacted]
[redacted]@dol.gov

From:	Davis, Michael. L- EBSA
To:	"Nagesh, Ammani"
Subject:	RE: Confirmation on meeting with Assistant Secretary Borzi- follow-up
Date:	Wednesday, June 06, 2012 3:21:07 PM

Thx Ammani. Tim, Phyllis and I are all set and are looking forward to visiting with you all as well. Thx again for all your work to arrange this meeting. See you soon!! All the best.

Michael L. Davis
Deputy Assistant Secretary
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Ave, NW
Washington, DC 20210
P: [redacted]
[redacted]@dol.gov

From: Nagesh, Ammani [redacted]@sec.gov]
Sent: Wednesday, June 06, 2012 3:15 PM
To: Davis, Michael. L- EBSA
Subject: RE: Confirmation on meeting with Assistant Secretary Borzi- follow-up

We look forward to seeing all of you soon. If you have any questions, please don't hesitate to call me, at [redacted]. Thanks!

From: Davis, Michael. L- EBSA [redacted]@dol.gov]
Sent: Thursday, May 31, 2012 9:27 PM
To: Nagesh, Ammani
Subject: Confirmation on meeting with Assistant Secretary Borzi- follow-up

Ammani,

Thx again for your help in arranging this meeting. As a follow-up, you wanted the names of other EBSA staff we plan to bring to the meeting. Our preference was to keep this first meeting small, so we decided not to bring lots of people. Consequently, in addition to Phyllis and myself, we will only bring our lead ERISA attorney, Tim Hauser, who can speak to some of the mutual interactions we have had with SEC staff over the years. Finally, one of the topics we hope to discuss with Chairman Schapiro is our current Memorandum of Understanding with the SEC which was signed back in 2008. It expires in 2013. I have attached a copy of it for your review and so that you can share it with interested staff there. We would like to discuss a renewal of the MOU and potential ways in which it could serve to benefit several of our mutual activities. If you have any questions, please do not hesitate to call. All the best.

Michael L. Davis
Deputy Assistant Secretary
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Ave, NW
Washington, DC 20210
P: [redacted]
[redacted]@dol.gov

From: Nagesh, Ammani [redacted]@sec.gov]
Sent: Wednesday, May 23, 2012 11:33 AM
To: Davis, Michael. L- EBSA
Subject: RE: Confirmation on meeting with Assistant Secretary Borzi

Michael,

th

We're all set for your meeting on the 6 . We look forward to seeing you in a couple of weeks. Thanks so much for your help.

Kind regards,
Ammani

Ammani V. Nagesh
Confidential Assistant to the Chairman
U.S. Securities & Exchange Commission
Washington, D.C. 20549
----
p. [redacted] | f. [redacted]

From: Davis, Michael. L- EBSA [redacted]@dol.gov]
Sent: Wednesday, May 23, 2012 9:11 AM
To: Nagesh, Ammani
Subject: Confirmation on meeting with Assistant Secretary Borzi

Ammani,

Thanks so much for your help yesterday. I spoke with Assistant Secretary Borzi last night and we are indeed confirmed for a meeting with Chairman Schapiro on Wednesday, June 6 at 4:30pm. Both Phyllis and I will be there. We will likely bring a few members of our staff along as well and will get you those names as soon as we confirm them. Thanks again for your help and we look forward to seeing you all on June 6th. All the best. md

Michael L. Davis
Deputy Assistant Secretary
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Ave, NW
Washington, DC 20210
P: [redacted]
[redacted]@dol.gov

From:	Decressin, Anja - EBSA
To:	Criswell, Donald - EBSA; Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Blumenthal, Mara - EBSA; Albert, Scott - EBSA; Goodman, Elizabeth - EBSA; Bond, Dennis - EBSA; Butikofer, James - EBSA; [redacted]@sec.gov"; Aderton, Adam S. [redacted]@sec.gov); Reese, James R. [redacted]@sec.gov); Kahl, Daniel [redacted]@SEC.GOV)
Subject:	Form 5500 meeting with SEC - room change [redacted]
Date:	Thursday, August 07, 2014 1:36:39 PM

We moved to [redacted] - OPRs conference room

Anja Decressin, Ph.D.
Deputy Director, Office of Policy and Research,
EBSA, Dept. Of Labor

From:	Hall, Lyssa - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
Start:	Tuesday, October 07, 2014 1:00:00 PM
End:	Tuesday, October 07, 2014 2:30:00 PM
Location:	Chair"s Large Conference Room

From:	Hall, Lyssa - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: FW: Call to Discuss DOL Fiduciary and Exemption Outline
Start:	Tuesday, September 30, 2014 1:00:00 PM
End:	Tuesday, September 30, 2014 2:00:00 PM
Location:	Chair"s Large Conference Room

From:	Hall, Lyssa - EBSA
To:	Stoddard, Troy
Subject:	Accepted: FW: Hold for Meeting with DOL on Fiduciary Duty
Start:	Tuesday, May 28, 2013 1:00:00 PM
End:	Tuesday, May 28, 2013 2:00:00 PM
Location:	Department of Labor Building

From:	Hall, Lyssa - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: SEC/DOL/Treasury Call - Point of Sale Disclosures
Start:	Friday, September 26, 2014 11:45:00 AM
End:	Friday, September 26, 2014 12:45:00 PM
Location:	Chair"s Large Conference Room; Call-in 888-[redacted], Code [redacted]

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: Automatic reply: Outline of Fiduciary Regulation and Global Exemption Conditions
Date: Friday, April 18, 2014 1:46:14 PM

I will be out of the office on vacation through April 21. I will have limited access to e-mail during that time. Thank you.

From:	Porter, Jennifer R.
To:	Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA
Subject:	Call to Discuss DOL Fiduciary and Exemption Outline
Start:	Tuesday, September 30, 2014 1:00:00 PM
End:	Tuesday, September 30, 2014 2:00:00 PM
Location:	Chair"s Large Conference Room

Dial-in: 888[redacted]
Code: [redacted]

From:	Porter, Jennifer R.
To:	Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Taylor, William - SOL; Hansen, Megan D - SOL; Lloyd, Karen - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA; Mares, Judith - EBSA
Subject:	Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
Start:	Tuesday, October 07, 2014 1:00:00 PM
End:	Tuesday, October 07, 2014 2:30:00 PM
Location:	Chair"s Large Conference Room

Dial-in: 888-[redacted]
Code: [redacted]

From: Canary, Joe - EBSA
To: Jennifer Porer [redacted]@SEC.GOV
Cc: Elaine Buckberg [redacted]treasury.gov; George Bostick [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: Calls to discuss COI Disclosure
Date: Thursday, September 18, 2014 12:48:15 PM

Jen: Next Friday (9/26) at 11:45am seems to be the best for most from Labor and Treasury that can participate. Do you want to send out a calendar item and include your folks? I know we are thinking about a conference call, but if some want to do it in person, we can set up a conference room here with a conference phone. Your choice. Thanks.

From:	Porter, Jennifer R.
To:	Hauser, Timothy - EBSA
Subject:	Calls to discuss fiduciary duty exemption
Date:	Tuesday, September 16, 2014 3:31:21 PM

Tim,

My apologies for the delay getting back to you with proposed times to discuss point of sale disclosures, the low-fee safe harbor, and the general exemption outline. Since you are out of the office for the next several days, maybe we should try to schedule the point of sale disclosure discussion with DOL/Treasury staff first. I list below the days and times this week when our staff is available. Please let me know if there is someone else I should contact about scheduling this call while you are gone.

Thurs. (9/18) 11:30-12:30; 2-3:30
Fri. (9/19) 12-3

For the other two topics, the team is available the following days and times next week. Please let me know what works for all of you.

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Gonzalez, Lourdes
To: Hauser, Timothy - EBSA
Subject: chance to talk?
Date: Thursday, January 09, 2014 10:23:41 AM

Boy,

This is kind of funny at this point. If you have time between 12-1, I'm free then and can call you. I spoke to your secretary and she suggested this may be the best way to reach you.

Thanks Tim.

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From:	Nallengara, Lona
To:	Hauser, Timothy - EBSA
Cc:	Porter, Jennifer R.; Block, Sharon I - OSEC
Subject:	Contact
Date:	Wednesday, July 16, 2014 5:13:34 PM

Tim,

Very nice to speak with you and Sharon today.

I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: Disclosure and Audit Requirements
Date: Tuesday, August 26, 2014 4:59:30 PM

Tim,

I enjoyed our meeting earlier today. It was great to put faces to names. I would like to schedule a call to discuss the disclosure and audit requirements under the federal securities laws. Due to vacation schedules this week, it looks like sometime next week is our best bet with everyone on the team. Are you free at any of the following times?

Tuesday Sept. 2 at 3 - 5
Wednesday Sept. 3 at 1:30
Thursday Sept. 4 at 4-5

Also, following our conversation today, please let me know if it would be helpful for our economists to talk again about data and the economic analysis. I will be happy to set something up.

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: Fiduciary Call on Thursday
Date: Tuesday, December 16, 2014 12:55:19 PM

Tim,

Our staff is available for a call on Thursday from 2:30-4. We plan to have the whole team, including our economists. Hopefully we can cover everything in an hour and a half, but if we need additional time we can make ourselves available on Friday or early next week.

Please let me know if this works for you, and feel free to give me a call if you want to discuss anything further.

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From:	Davis, Michael, L- EBSA
To:	[redacted]@SEC.GOV"
Cc:	Borzi, Phyllis - EBSA; Hauser, Timothy - SOL; Canary, Joe - EBSA; Lebowitz, Alan - EBSA
Subject:	Follow-up from our meeting this week
Date:	Friday, June 08, 2012 3:21:52 PM

Jennifer,

It was great to meet with you, Chairman Schapiro, and members of your senior team earlier this week. We appreciated the opportunity to have Chairman Schapiro and Assistant Secretary Borzi connect directly on matters of mutual concern. During the meeting, we talked about the Memorandum of Understanding (MOU) between DOL and the SEC and the importance of updating it. As mentioned, we strongly believe the MOU has helped strengthen our inter-agency relationship, and that it has been a valuable tool in our coordination of regulatory activities, examination of research and market trends, and in leveraging resources with respect to enforcement cases. We were delighted that Chairman Schapiro shared our interest in starting that renewal process and asked that we work with you to take the next steps.

As follow-up, we are interested in opening discussions with the SEC regarding extending the effective period of the MOU, and the possibility of expanding it to include other federal agencies that have been important partners in our more recent inter-agency coordination efforts, for example the Commodities Futures Trading Commission. It might be helpful for us to have a brief conference call first to talk about scheduling, sketch out a draft agenda, identify members of our respective staffs who should be included in this process, and discuss the idea of whether we should invite staff from the CFTC to the first meeting.

As to the draft agenda, in addition to discussing an extension and expansion of the MOU, it may make sense to also use the meeting as an opportunity to discuss the status of our ongoing activities on two pending initiatives and two new opportunities for consultation on areas of mutual interest:

- DOL fiduciary definition regulation under section 3(21) of ERISA and your initiative on a uniform fiduciary standard of conduct for broker-dealers and investment advisers under the federal securities laws;
- Our respective regulatory initiatives on improving disclosure requirements for target date funds;
- Options for coordination on development of best practices guidance for hedge fund and private equity investors. GAO and a Department of Labor's ERISA Advisory Council have recommended that the department publish guidance for ERISA plans that invest in such alternative assets. To date, we have not done so, in part because of a concern that the lack of uniformity among such investments could make development of useful guidance difficult; and
- Options for confirming that FINRA rule 2210(d)(1)(D) and any similar SEC standard would not conflict with a DOL regulatory requirement to include on a pension plan periodic benefit statement a projection of a plan participants current account balance to retirement age as part of a projected lifetime income/annuity illustration

Let us know what you think. I expect SEC staff may also have matters that they would like to include on the agenda, so please let me know if you think there are additional items we should discuss. Thanks again for your time this Wednesday, and for your consideration. We so richly appreciate it. Have a great weekend. All the best.

Michael L. Davis
Deputy Assistant Secretary
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Ave, NW
Washington, DC 20210
P[redacted]
[redacted]@dol.gov

From: Canary, Joe - EBSA
To: Elaine Buckberg [redacted]treasury.gov; George Bostick [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.[redacted]@SEC.GOV)
Subject: FW: Calls to discuss fiduciary duty exemption
Date: Wednesday, September 17, 2014 5:29:29 PM

FYI: See below. This Friday no longer works for the SEC. George Bostick said he and Mark Iwry are available Friday, 9/26 at 11:45am. That works for me too. Absent objection, I want to firm up with Jen next Friday, 11:45am to 12:45pm. Please let me know if you plan to participate. Thanks.

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Wednesday, September 17, 2014 9:01 AM
To: Canary, Joe - EBSA; George Bostick [redacted]treasury.gov'
Cc: Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Joe and George,

Unfortunately, I just learned that I will probably have to be out of the office on Friday. Can we schedule the disclosures call for next week? Here are the times that work for our team:

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 7:36 PM
To: George Bostick [redacted]treasury.gov; Porter, Jennifer R.
Cc: Elaine Buckberg [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA

Subject: RE: Calls to discuss fiduciary duty exemption

Thanks, George. Does this mean you think we should wait to have the call or can others at Treasury cover (if they are available on Friday) even if you three cannot participate?

From: [redacted]treasury.gov [mailto:[redacted]treasury.gov]
Sent: Tuesday, September 16, 2014 6:12 PM
To: Canary, Joe - EBSA; [redacted]@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Joe – Thanks. Unfortunately, Mark, Bill and I will be in meetings out of town on Friday.

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 5:42 PM
To: Porter, Jennifer R.
Cc: Buckberg, Elaine; Bostick, George; Crane, Jonah; Iwry, Mark; Kao, Patricia; Hughes, Gerry; Evans, William; Soares, Chris; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Hi, Jen. We would like to continue the discussion of "point of sale" disclosure this week. Thursday is not good, but Friday (9/19) between 12-3 is open for me. I am copying Treasury folks and others here in EBSA to see who wants to participate in the call and who is available on Friday. Thanks.

From: Hauser, Timothy - EBSA
Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

Thanks, Jen. I think it would be terrific if we could get another discussion of point of sale disclosures done this week and include the Treasury folks. Then, we could move on to the other topics next week when I'm back.

I've asked the head of our Office of Regulations and Interpretations, Joe Canary, to work with you on getting this set up. More generally, he's always a good person to talk to on this project! Joe's number is [redacted].

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

Tim,

My apologies for the delay getting back to you with proposed times to discuss point of sale disclosures, the low-fee safe harbor, and the general exemption outline. Since you are out of the office for the next several days, maybe we should try to schedule the point of sale disclosure discussion with DOL/Treasury staff first. I list below the days and times this week when our staff is available. Please let me know if there is someone else I should contact about scheduling this call while you are gone.

Thurs. (9/18) 11:30-12:30; 2-3:30
Fri. (9/19) 12-3

For the other two topics, the team is available the following days and times next week. Please let me know what works for all of you.

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Jenson, Paula R.
To: Hauser, Timothy - EBSA
Subject: FW: Customer Account Agreements -- Provision of Investment Advice
Date: Monday, August 18, 2014 10:12:13 AM

Tim – here is a random assortment of disclosures. Hope this helps. Please let me know if we can help with anything else.

Paula

TD Ameritrade

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From:	Hauser, Timothy - EBSA
To:	Porter, Jennifer R. [redacted] @SEC.GOV)
Cc:	Hauser, Timothy - EBSA
Subject:	FW: Disclosure and Audit Requirements
Date:	Tuesday, August 26, 2014 5:08:25 PM

Thanks. I was glad to see you in person! Looking strictly at my own schedule, I think both Tuesday and Wednesday would probably work. Is either day better for you?

From: Porter, Jennifer R. [redacted] @SEC.GOV]
Sent: Tuesday, August 26, 2014 4:59 PM
To: Hauser, Timothy - EBSA
Subject: Disclosure and Audit Requirements

Tim,

I enjoyed our meeting earlier today. It was great to put faces to names. I would like to schedule a call to discuss the disclosure and audit requirements under the federal securities laws. Due to vacation schedules this week, it looks like sometime next week is our best bet with everyone on the team. Are you free at any of the following times?

Tuesday Sept. 2 at 3 - 5
Wednesday Sept. 3 at 1:30
Thursday Sept. 4 at 4-5

Also, following our conversation today, please let me know if it would be helpful for our economists to talk again about data and the economic analysis. I will be happy to set something up.

Thanks,

Jen Porter
Chair's Office
[redacted]

ADMINISTRATIVE LAW — CORPORATE GOVERNANCE REGULATION — D.C. CIRCUIT FINDS SEC PROXY ACCESS RULE ARBITRARY AND CAPRICIOUS FOR INADEQUATE ECONOMIC ANALYSIS. — *Business Roundtable v. SEC*, 647 F.3d 1144 (D.C. Cir. 2011).

In the midst of a contested, voluminous notice-and-comment rulemaking, Congress's Dodd-Frank Wall Street Reform and Consumer Protection Act[1] (Dodd-Frank Act) authorized the Securities and Exchange Commission (SEC) to expand proxy ballot access for shareholder-nominated candidates for boards of directors.[2] Recently, in *Business Roundtable v. SEC*,[3] the D.C. Circuit struck down the resulting SEC rule, finding that the Commission's failure to adequately consider economic consequences made its decision arbitrary and capricious.[4] By parsing in fine detail the methods and results of the SEC's cost-benefit analysis, the panel asserted judicial power in a field that courts struggle to oversee and applied an excessively exhausting standard that all but bars contested reforms.

While proxy access proposals are nearly as old as the SEC, a renewed proxy access debate has raged for nearly a decade.[5] Before directors' elections, companies distribute proxy materials that allow shareholders who do not attend annual meetings to vote their shares.[6] Typically, these proxy materials include only those director candidates nominated by the existing board, but reformers have sought enhanced accountability by requiring that companies include shareholder nominees in official proxy materials.[7] Critics have countered that mandating access to proxy ballots would encourage expensive election fights and create corporate inefficiency.[8]

Thus the battle lines were drawn for a June 2009 proposal regarding one of "the most controversial regulatory issues in the Commis-

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[1] Pub. L. No. 111-203, 124 Stat. 1376 (2010) (codified as amended in scattered sections of the U.S. Code).

[2] *See id.* § 971, 124 Stat. at 1915 (codified at 15 U.S.C. § 78n(a) (2006 & Supp. IV 2011)).

[3] 647 F.3d 1144 (D.C. Cir. 2011).

[4] *Id.* at 1148.

[5] Before its recent rulemaking, the SEC considered but did not adopt proxy access reform in 1942, 1977, 1992, and 2003. Facilitating Shareholder Director Nominations, 74 Fed. Reg. 29,024, 29,029 & n.73 (proposed June 18, 2009).

[6] *See* Jeffrey N. Gordon, *Proxy Contests in an Era of Increasing Shareholder Power: Forget Issuer Proxy Access and Focus on E-Proxy*, 61 VAND. L. REV. 475, 478–79 (2008).

[7] *See, e.g.*, Lucian Arye Bebchuk, *The Business Roundtable's Untenable Case Against Shareholder Access* 1 (Harvard Univ. John M. Olin Ctr. for Law, Econ. & Bus., Discussion Paper No. 516, 2005), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=686184.

[8] *See, e.g.*, Martin Lipton & William Savitt, *The Many Myths of Lucian Bebchuk*, 93 VA. L. REV. 733, 743–49 (2007).

sion's history."[9] Concerned about links between limited board accountability and the economic crisis,[10] the SEC proposed Exchange Act Rule 14a-11 (Rule 14a-11), which would require that companies include qualifying shareholder nominees on proxy ballots.[11] Over the next fifteen months, the Commission received about 600 letters regarding the proposed rule from an array of interested parties.[12]

Near the end of the contentious process, and amid concerns about the SEC's statutory authority to issue a proxy access rule, Congress interceded.[13] Section 971 of Dodd-Frank provides that "[t]he Commission may issue rules [expanding proxy access], under such terms and conditions as the Commission determines are in the interests of shareholders and for the protection of investors."[14] Legislative history suggests Congress intended that the SEC have "wide latitude in setting the terms of such proxy access."[15]

In September 2010, two months after Dodd-Frank became law, the SEC promulgated a final regulation adopting Rule 14a-11 by a partisan three to two vote.[16] The final rule devoted nineteen pages in the Federal Register to cost-benefit analysis of the SEC proposals[17] and another six to potential burdens on efficiency, competition, and capital formation.[18] The Commission explained that Rule 14a-11 would increase corporate performance and argued that any costs of the rule were a necessary consequence of enforcing traditional state law rights.[19]

The Business Roundtable, a consortium of prominent corporate executives, challenged Rule 14a-11 in the Court of Appeals for the D.C. Circuit as based "on a fundamentally flawed assessment of the rules'

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[9] Reply Brief of Petitioners Business Roundtable and Chamber of Commerce of the United States of America at 16, *Bus. Roundtable*, 647 F.3d 1144 (No. 10-1305), 2011 WL 2014801, at *16.

[10] *See* Facilitating Shareholder Director Nominations, 74 Fed. Reg. at 29,025.

[11] *Id.* at 29,031. The SEC proposal also included amendments to Rule 14a-8(i)(8) that would have allowed shareholders to change an individual company's proxy procedures by placing reform proposals on proxy ballots. *Id.* at 29,056.

[12] Facilitating Shareholder Director Nominations, 75 Fed. Reg. 56,668, 56,669 n.23 (Sept. 16, 2010).

[13] *See* Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010) (codified as amended in scattered sections of the U.S. Code).

[14] *Id.* § 971, 124 Stat. at 1915 (codified at 15 U.S.C. § 78n note (2006 & Supp. IV 2011)).

[15] S. REP. NO. 111-176, pt. V, at 146 (2010).

[16] Ronald D. Orol, *SEC Approves Rule Giving Shareholders New Power*, MARKETWATCH (Aug. 25, 2010, 11:19 AM), http://www.marketwatch.com/story/sec-approves-rule-giving-shareholders-new-power-2010-08-25. Commissioners Troy Paredes and Kathleen Casey both criticized the theory and the methodology behind the final rule. *See Bus. Roundtable*, 647 F.3d at 1148.

[17] *See* Facilitating Shareholder Director Nominations, 75 Fed. Reg. at 56,753–71.

[18] *See id.* at 56,771–76. The SEC conducted this analysis to comply with 15 U.S.C. §§ 78c(f), 78w(a)(2), and 80a-2(c) (2006).

[19] Facilitating Shareholder Director Nominations, 75 Fed. Reg. at 56,755, 56,765.

costs, benefits, and effects on efficiency, competition, and capital formation."[20] The plaintiffs alleged that the application of Rule 14a-11 to investment companies was similarly arbitrary and capricious and that the rule violated First Amendment protections of corporate speech.[21] The SEC stayed the rule pending the outcome of the case.[22]

The D.C. Circuit vacated Rule 14a-11.[23] Writing for a unanimous panel, Judge Ginsburg[24] concluded that the SEC had "failed once again . . . adequately to assess the economic effects of a new rule."[25] Under arbitrary and capricious review,[26] the Commission must have "examine[d] the relevant data and articulate[d] a satisfactory explanation for its action including a rational connection between the facts found and the choices made."[27] Further, Congress in 1996 imposed on the SEC a special obligation to consider effects on "efficiency, competition, and capital formation."[28] Action is thus arbitrary and capricious if the SEC has failed to "apprise itself — and hence the public and Congress — of the economic consequences of a proposed regulation."[29] As in *American Equity Investment Life Insurance Co. v. SEC*[30] and *Chamber of Commerce v. SEC*,[31] recent D.C. Circuit cases assessing SEC economic analyses, the court held that the Commission's action fell short. Judge Ginsburg rebuked an agency that, in his eyes, had "inconsistently and opportunistically framed the costs and benefits of the rule; failed adequately to quantify the certain costs or to explain why those costs could not be quantified; neglected to support its predictive judgments; contradicted itself; and failed to respond to substantial problems raised by commenters."[32]

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[20] Opening Brief of Petitioners Business Roundtable and Chamber of Commerce of the United States of America at 31, *Bus. Roundtable*, 647 F.3d 1144 (No. 10-1305), 2010 WL 5116461, at *31.

[21] *Id.* at 53–59, 2010 WL 5116461, at *53–59.

[22] Order Granting Stay of Effect of Commission's Facilitating Shareholder Director Nominations Rules, Exchange Act Release No. 63,031 (Oct. 4, 2010), *available at* http://www.sec.gov/rules/other/2010/33-9149.pdf.

[23] *Bus. Roundtable*, 647 F.3d at 1156.

[24] Chief Judge Sentelle and Judge Brown joined the opinion.

[25] *Bus. Roundtable*, 647 F.3d at 1148.

[26] *See* Administrative Procedure Act, 5 U.S.C. § 706(2)(A) (2006).

[27] *Bus. Roundtable*, 647 F.3d at 1148 (alterations in original) (quoting Motor Vehicle Mfrs. Ass'n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co., 463 U.S. 29, 43 (1983)) (internal quotation marks omitted).

[28] *Id.* (quoting 15 U.S.C. §§ 78c(f), 78w(a)(2), 80a-2(c) (2006)) (internal quotation marks omitted). The new language sought to extend SEC consideration to economic efficiency, beyond its traditional focus on investor protection. *See* 15 U.S.C. §§ 78c(f), 80a-2(c).

[29] *Bus. Roundtable*, 647 F.3d at 1148 (quoting Chamber of Commerce v. SEC, 412 F.3d 133, 144 (D.C. Cir. 2005)) (internal quotation marks omitted).

[30] 613 F.3d 166, 167–68 (D.C. Cir. 2010) (vacating SEC rule regarding fixed index annuities for failure to consider the rule's economic effects).

[31] 412 F.3d 133, 136 (D.C. Cir. 2005) (vacating SEC rule regarding independent directors on investment company boards for failure to consider costs and alternatives).

[32] *Bus. Roundtable*, 647 F.3d at 1148–49.

The court found that Rule 14a-11 was arbitrary and capricious on three basic grounds.[33] First, and most prominently, the court adjudged the SEC's analysis of costs and benefits to be insufficient.[34] The SEC underestimated the expenses that directors would incur campaigning against shareholder nominees because the Commission relied on projections with "no basis beyond mere speculation."[35] The SEC similarly erred when, to support its position that Rule 14a-11 would improve board performance and increase shareholder value, it "relied exclusively and heavily upon two relatively unpersuasive studies" instead of following "the numerous studies submitted by commenters that reached the opposite result."[36] The SEC's analysis also broke down when it explained that existing state law rights, not the SEC rules designed to enforce them, were to blame for potential costs: "[T]his type of reasoning, which fails to view a cost at the margin, is illogical and, in an economic analysis, unacceptable."[37]

Second, the court held that the SEC failed to consider properly how institutional investors like unions and pension funds might manipulate Rule 14a-11.[38] Such concerns pervaded corporate comment letters but were strenuously opposed by shareholder advocates.[39] Judge Ginsburg sympathized with the Business Roundtable's view of institutional investors, finding arbitrary action because, though "[t]he Commission did not completely ignore these potential costs, . . . it [did not] adequately address them."[40]

Third, the court criticized the SEC's projections of the frequency of election contests.[41] The Commission argued that its figures were correct, and that they applied only for purposes of the Paperwork Reduction Act,[42] but the court was not persuaded, declaring the estimates "internally inconsistent and therefore arbitrary."[43]

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[33] *Id.*

[34] *Id.* at 1149–51.

[35] *Id.* at 1150. The SEC "did nothing to estimate and quantify the costs it expected companies to incur" even though "empirical evidence about expenditures in traditional proxy contests was readily available." *Id.*

[36] *Id.* at 1150–51.

[37] *Id.* at 1151.

[38] *Id.* at 1151–52.

[39] *Id.*

[40] *Id.* at 1152.

[41] *Id.* at 1152–54.

[42] Final Brief of the Securities and Exchange Commission at 42–43, *Bus. Roundtable*, 647 F.3d 1144 (No. 10-1305), 2011 WL 2014799, at *42–43 (claiming that estimates for the Paperwork Reduction Act, 44 U.S.C. §§ 3501–3521 (2006 & Supp. IV 2011), designed to assess the burden of collecting and reporting information, did not have wide implications); *cf.* Balt. Gas & Elec. Co. v. Natural Res. Def. Council, Inc., 462 U.S. 87, 105 (1983) (suggesting a faulty projection was not necessarily arbitrary and capricious if it was made for a limited purpose).

[43] *Bus. Roundtable*, 647 F.3d at 1153.

Beyond those three basic reasons, the court explained that the application of Rule 14a-11 to investment companies would have been separately arbitrary and capricious because it had been justified with "unutterably mindless" reasoning.[44] The court did not reach the First Amendment corporate speech challenge.[45]

In *Business Roundtable*, the D.C. Circuit waded into a political fight under the guise of dispassionate scientific oversight to vacate a proxy access rule produced after years of open, contentious debate. While statutes require the SEC to consider the consequences of its regulations,[46] courts should recognize the limitations of economics and of their own expertise by acknowledging thorough, competent analyses. Perpetuating *Business Roundtable*'s exacting review could impose a judicial blockade on complex financial rulemaking, which would impede regulators' ability to police the marketplace in accordance with congressional intent.

Courts hardly outperform the SEC at evaluating the imperfect science of economics.[47] Judges can struggle with expert testimony in their own decisions,[48] and traditional training leaves most jurists ill-prepared to engage with sophisticated econometrics.[49] And the validity of economic analysis is cloudier than that of many other scientific methods because economic models rely on complex, interrelated assumptions.[50] Even practiced analysts struggle to isolate the impact of

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[44] *Id.* at 1156. The SEC claimed that costs for investment companies would be incurred only if shareholder nominees won elections, an argument the court faulted as undercutting the rule's basic rationale. *Id.* at 1155–56.

[45] *Id.* at 1156.

[46] *See* 15 U.S.C. §§ 78c(f), 78w(a)(2), 80a-2(c) (2006).

[47] In previous decisions, the D.C. Circuit has recognized expertise as a reason for deference. *See, e.g.*, Milk Indus. Found. v. Glickman, 132 F.3d 1467, 1478 (D.C. Cir. 1998) ("Under the arbitrary and capricious standard of review, 'an agency's predictive judgments about areas that are within the agency's field of discretion and expertise' are entitled to 'particularly deferential' review, as long as they are reasonable." (citations omitted) (quoting Int'l Ladies' Garment Workers' Union v. Donovan, 722 F.2d 795, 821 (D.C. Cir. 1983))).

[48] *See* Daubert v. Merrell Dow Pharm., Inc., 509 U.S. 579, 599 (1993) (Rehnquist, C.J., concurring in part and dissenting in part) ("[The briefs here] deal with definitions of scientific knowledge, scientific method, scientific validity, and peer review — in short, matters far afield from the expertise of judges. . . . [T]he unusual subject matter should cause us to proceed with great caution in deciding more than we have to, because our reach can so easily exceed our grasp.").

[49] *See* Patricia M. Wald, *Judicial Review: Talking Points*, 48 ADMIN. L. REV. 350, 352 (1996) ("[Q]uestions have been raised about whether we in the courts are competent to review the minutiae of risk or cost-benefit analysis. For most of us, the answer is no."). *See generally* Patricia M. Wald, *Limits on the Use of Economic Analysis in Judicial Decisionmaking*, LAW & CONTEMP. PROBS., Autumn 1987, at 225.

[50] *See generally* JOSHUA D. ANGRIST & JÖRN-STEFFEN PISCHKE, MOSTLY HARMLESS ECONOMETRICS 4–7 (2009) (explaining the limits of econometric experimental design).

factors like proxy access,[51] and good-faith differences abound. Critics have little trouble singling out a controversial projection or a contentious source on either side of a reasoned debate. In such cases, it can be exceedingly difficult to distinguish principled from political nitpicking. Economic models rely on politically controversial assumptions: the numbers may look concrete, but their origins often are not.[52] Whether one believes that proxy access will improve corporate performance, for example, depends a great deal on one's political ideology.[53] In *Business Roundtable*, the court took aim at just such political judgments despite the judiciary's institutional limitations.[54]

Not surprisingly given the complexity of economic analysis, Judge Ginsburg's opinion made missteps similar to those for which he scolded the SEC. When the court faulted the SEC's discounting of potential costs of proxy fights without empirical evidence as "mere speculation,"[55] it mistakenly assumed that the Chamber of Commerce's economic arguments rested on firmer ground.[56] Pages later, the court, without empirical support, relied solely on a single, speculative sentence to criticize the SEC for failing to estimate the costs of union pension plans using proxy access as leverage in contract negotiations.[57]

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[51] *See generally* Yair Listokin, *Interpreting Empirical Estimates of the Effect of Corporate Governance*, 10 AM. L. & ECON. REV. 90 (2008) (explaining the confounding effect of endogeneity problems on corporate governance analyses).

[52] *Cf.* Jerome Culp, *Judex Economicus*, 50 LAW & CONTEMP. PROBS., Autumn 1987, at 95, 96–100 (exploring the assumptions behind Judge Posner's law and economics analysis). *See generally* Kenneth G. Dau-Schmidt, *Relaxing Traditional Economic Assumptions and Values: Toward a New Multidisciplinary Discourse on Law*, 42 SYRACUSE L. REV. 181 (1991) (examining assumptions underlying "neoclassical efficiency analysis," *id.* at 182).

[53] *See* Joseph A. Grundfest, *The SEC's Proposed Proxy Access Rules: Politics, Economics, and the Law*, 65 BUS. LAW 361, 378 (2010) ("The proxy access debate is not an abstract academic controversy . . . . It is a knockdown, drag-out political brawl.").

[54] *Cf.* Chevron U.S.A. Inc. v. Natural Res. Def. Council, Inc., 467 U.S. 837, 865 (1984) ("Judges are not experts in the field . . . . Courts must [not] . . . reconcile competing political interests . . . on the basis of the judges' personal policy preferences."); *id.* (holding that the judiciary should defer to an agency interpretation because "the regulatory scheme is technical and complex, the agency considered the matter in a detailed and reasoned fashion, and the decision involves reconciling conflicting policies"); Thomas J. Miles & Cass R. Sunstein, *The Real World of Arbitrariness Review*, 75 U. CHI. L. REV. 761, 814 (2008) (presenting empirical findings "that in important domains, the hard look is hardened, or softened, by the political predilections of federal judges").

[55] *Bus. Roundtable*, 647 F.3d at 1150.

[56] *See* J. Robert Brown, Jr., *Shareholder Access and Uneconomic Economic Analysis:* Business Roundtable v. SEC 3–4 (Univ. of Denver Legal Studies Research Paper Series, Working Paper No. 11-14, 2011), *available at* http://ssrn.com/abstract=1917451 ("The approach used by the court . . . incorrectly interpreted the board's fiduciary obligations . . . [and relied on a comment letter that] was based upon a faulty premise.").

[57] *Bus. Roundtable*, 647 F.3d at 1152 ("[S]tate governments and labor unions . . . often appear to be driven by concerns other than a desire to increase the economic performance of the companies in which they invest." (alteration in original) (quoting Leo E. Strine, Jr., *Toward a True Corporate Republic: A Traditionalist Response to Bebchuk's Solution for Improving Corporate America*,

Worse, in arguing that the SEC chose wrongly from conflicting studies about the effects of dissident directors on board performance,[58] the court simply chose the opposite side of a politically charged debate. Empirical evidence drawn from this very case suggests the court's error: markets preferred the 2010 proxy access rule, as shares of firms that would have been most affected lost value when the SEC stayed Rule 14a-11.[59]

These inconsistencies help demonstrate that no analysis of a politically contentious issue could survive *Business Roundtable*'s exacting arbitrary and capricious review. Over the years, the D.C. Circuit has earned a reputation for rigorous review of agency action,[60] but its current approach sets the bar even higher. When costs and benefits are inestimable and projections differ, a panel could always vacate rulemaking, and would be particularly likely to do so when the agency's political assumptions affront the court's sensibilities.

Such stringent oversight should be especially suspect when statutes suggest proregulatory congressional intent. Since Congress fell short of legislating Rule 14a-11, Dodd-Frank cannot be understood as fully endorsing the SEC's proposal.[61] Still, at the very least, Dodd-Frank's

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119 HARV. L. REV. 1759, 1765 (2006)) (internal quotation marks omitted)); *see also* Brown, *supra* note 56, at 5.

[58] *Bus. Roundtable*, 647 F.3d at 1150–51. Theoretical models relating proxy access to board performance are especially unscientific. *See* Bo Becker et al., *Does Shareholder Proxy Access Improve Firm Value? Evidence from the Business Roundtable Challenge* 12 (Harvard Bus. Sch., Working Paper No. 11-052, 2010) ("[Boards' endogeneity] makes the effect of any board characteristic . . . impossible to identify based only on the observed correlation between that characteristic and firm performance." (citing Benjamin E. Hermalin & Michael S. Weisbach, *Endogenously Chosen Boards of Directors and Their Monitoring of the CEO*, 88 AM. ECON. REV. 96 (1998))), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1695666.

[59] Becker et al., *supra* note 58, at 4 ("Using a 1-day event window around October 4, 2010, we find that share prices of companies that would have been most exposed to shareholder access declined significantly compared to share prices of companies that would have been most insulated from the rule.").

[60] *See* Peter L. Strauss, *Changing Times: The APA at Fifty*, 63 U. CHI. L. REV. 1389, 1407–09 (1996). The D.C. Circuit's strict standards persist despite past corrections from the Supreme Court. *See, e.g.*, Balt. Gas & Elec. Co. v. Natural Res. Def. Council, Inc., 462 U.S. 87, 108 (1983) (finding the court's scrutiny of a "minor ambiguity" to be "totally inappropriate"); Vt. Yankee Nuclear Power Corp. v. Natural Res. Def. Council, Inc., 435 U.S. 519, 525 (1978) (concluding that the court "improperly intruded into the agency's decisionmaking process"); *see also* Stephen Breyer, Vermont Yankee *and the Courts' Role in the Nuclear Energy Controversy*, 91 HARV. L. REV. 1833, 1833 (1978) ("In the *Vermont Yankee* case, the Court of Appeals for the District of Columbia Circuit sought to require additional agency procedures [when dealing with a complex and important scientific or technical issue]. . . . The Supreme Court has reversed that approach, correctly so in my view . . . ." (footnotes omitted)).

[61] *See* Dodd-Frank Act, Pub. L. No. 111-203 § 971(b), 124 Stat. 1376, 1915 (2010) (codified at 15 U.S.C. § 78n(a) (2006 & Supp. IV 2011)) (providing that the SEC "may" issue a proxy rule, but not requiring that it shall do so). *But see* Thomas Quaadman, *Dodd-Frank: Governance Issues Galore and Not Limited to Financial Institutions*, METROPOLITAN CORP. COUNS., Aug. 2010, at 18 ("Some have speculated that [Dodd-Frank's] legislative grant of authority was given to try

grant of rulemaking authority contemplated the possibility of a proxy access rule.[62] But the strictness of the *Business Roundtable* standard of review ensured that the D.C. Circuit would only entrench the status quo.

The effects of this decision are troubling. The *Business Roundtable* ruling disrupts the SEC's ability to fulfill its statutory mandate to oversee the proxy process.[63] Many imagine *Business Roundtable* as the first domino to fall in the Dodd-Frank universe.[64] In an evolving financial climate, ossification of SEC regulations[65] may contribute to market failures that Congress designed Dodd-Frank to prevent.

Because the height of the *Business Roundtable* hurdle may prevent the SEC from demonstrating adequate analysis even after extraordinary efforts, Congress should guard desirable actions from excessive scrutiny. Congress could repeal the economic analysis requirement, or it could ensure that future legislation instructs courts to apply more deferential standards of review to particular regulations. Without such action, Congress may have to expend scarce resources enacting specific legislation absent a different judicial position.

The D.C. Circuit's hard-line application of economic review should change. Courts have little place joining political fights or parsing complex economic analyses. They should avoid using arbitrary and capricious review to impose unattainable standards that bar agency action.

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and inoculate the SEC from a legal challenge."); Becker et al., *supra* note 58, at 11 ("Congress's authorization to the SEC under Section 971 of the Dodd-Frank was intended to largely shut down [the] kind of challenge [brought in *Business Roundtable*].").

[62] *See* 156 CONG. REC. S5916 (daily ed. July 15, 2010) (statement of Sen. Jack Reed) ("[A]fter much dispute, the bill makes it clear that the SEC has the authority to grant shareholders proxy access to nominate directors."); 156 CONG. REC. H5237 (daily ed. June 30, 2010) (statement of Rep. Paul Kanjorski) ("[The Dodd-Frank Act] clarifies the ability of the SEC to issue rules regarding the nomination by shareholders of individuals to serve on the boards of public companies. These provisions regarding proxy access will enhance democratic participation in corporate governance and give investors a greater voice in the companies that they own.").

[63] Facilitating Shareholder Director Nominations, 74 Fed. Reg. 29,024, 29,025 (proposed June 18, 2009) ("Regulation of the proxy process and disclosure is a core function of the Commission . . . . Section 14(a) of the Exchange Act stemmed from a Congressional belief that '[f]air corporate suffrage is an important right that should attach to every equity security bought on a public exchange.'" (second alteration in original) (footnote omitted) (quoting H.R. REP. NO. 73-1383, at 14 (1934))).

[64] *See, e.g.*, Ben Protess, *Court Ruling Offers Path to Challenge Dodd-Frank*, N.Y. TIMES DEALBOOK, Aug. 17, 2011, http://dealbook.nytimes.com/2011/08/17/court-ruling-offers-path-to-challenge-dodd-frank.

[65] *See* Kathryn A. Watts, *Proposing a Place for Politics in Arbitrary and Capricious Review*, 119 YALE L.J. 2, 41 (2009) (arguing that considering political factors during arbitrary and capricious review would help to mitigate the "ossification" problem); *cf.* Mark Seidenfeld, *Demystifying Deossification: Rethinking Recent Proposals to Modify Judicial Review of Notice and Comment Rulemaking*, 75 TEX. L. REV. 483, 492 (1997) ("From the agency's perspective, hard look review has become an icy stare that freezes action; no matter how much care the agency believes it has given to a decision, the agency faces uncertainty about whether the reviewing court will find that the agency performed its decisionmaking task adequately.").

From:	Hauser, Timothy - SOL
To:	"McHugh, Jennifer B."
Subject:	FW: Harvard Law Review Article on Business Roundtable v SEC
Date:	Tuesday, March 27, 2012 9:04:45 AM
Attachments:	vol125_business_roundtable_v_SEC[1].pdf

You might find this interesting too if you haven't already seen it.

From: Hauser, Timothy - SOL
Sent: Tuesday, March 27, 2012 8:52 AM
To: 'Gonzalez, Lourdes'
Cc: Hauser, Timothy - SOL
Subject: Harvard Law Review Article on Business Roundtable v SEC

I imagine you already saw this, but if not, here it is.

From: McHugh, Jennifer B.
To: Hauser, Timothy - SOL
Subject: Got your voicemail
Date: Friday, June 01, 2012 5:00:32 PM

Probably won't be able to call today, but let's talk Monday. I'll be in the meeting between Phyllis Borzi and Mary Schapiro. Understand you will be too.

Thanks,

Jennifer

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

ADMINISTRATIVE LAW — CORPORATE GOVERNANCE REGULATION — D.C. CIRCUIT FINDS SEC PROXY ACCESS RULE ARBITRARY AND CAPRICIOUS FOR INADEQUATE ECONOMIC ANALYSIS. — *Business Roundtable v. SEC*, 647 F.3d 1144 (D.C. Cir. 2011).

In the midst of a contested, voluminous notice-and-comment rulemaking, Congress's Dodd-Frank Wall Street Reform and Consumer Protection Act[1] (Dodd-Frank Act) authorized the Securities and Exchange Commission (SEC) to expand proxy ballot access for shareholder-nominated candidates for boards of directors.[2] Recently, in *Business Roundtable v. SEC*,[3] the D.C. Circuit struck down the resulting SEC rule, finding that the Commission's failure to adequately consider economic consequences made its decision arbitrary and capricious.[4] By parsing in fine detail the methods and results of the SEC's cost-benefit analysis, the panel asserted judicial power in a field that courts struggle to oversee and applied an excessively exhausting standard that all but bars contested reforms.

While proxy access proposals are nearly as old as the SEC, a renewed proxy access debate has raged for nearly a decade.[5] Before directors' elections, companies distribute proxy materials that allow shareholders who do not attend annual meetings to vote their shares.[6] Typically, these proxy materials include only those director candidates nominated by the existing board, but reformers have sought enhanced accountability by requiring that companies include shareholder nominees in official proxy materials.[7] Critics have countered that mandating access to proxy ballots would encourage expensive election fights and create corporate inefficiency.[8]

Thus the battle lines were drawn for a June 2009 proposal regarding one of "the most controversial regulatory issues in the Commis-

[1] Pub. L. No. 111-203, 124 Stat. 1376 (2010) (codified as amended in scattered sections of the U.S. Code).

[2] *See id.* § 971, 124 Stat. at 1915 (codified at 15 U.S.C. § 78n(a) (2006 & Supp. IV 2011)).

[3] 647 F.3d 1144 (D.C. Cir. 2011).

[4] *Id.* at 1148.

[5] Before its recent rulemaking, the SEC considered but did not adopt proxy access reform in 1942, 1977, 1992, and 2003. Facilitating Shareholder Director Nominations, 74 Fed. Reg. 29,024, 29,029 & n.73 (proposed June 18, 2009).

[6] *See* Jeffrey N. Gordon, *Proxy Contests in an Era of Increasing Shareholder Power: Forget Issuer Proxy Access and Focus on E-Proxy*, 61 VAND. L. REV. 475, 478–79 (2008).

[7] *See, e.g.*, Lucian Arye Bebchuk, *The Business Roundtable's Untenable Case Against Shareholder Access* 1 (Harvard Univ. John M. Olin Ctr. for Law, Econ. & Bus., Discussion Paper No. 516, 2005), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=686184.

[8] *See, e.g.*, Martin Lipton & William Savitt, *The Many Myths of Lucian Bebchuk*, 93 VA. L. REV. 733, 743–49 (2007).

sion's history."[9] Concerned about links between limited board accountability and the economic crisis,[10] the SEC proposed Exchange Act Rule 14a-11 (Rule 14a-11), which would require that companies include qualifying shareholder nominees on proxy ballots.[11] Over the next fifteen months, the Commission received about 600 letters regarding the proposed rule from an array of interested parties.[12]

Near the end of the contentious process, and amid concerns about the SEC's statutory authority to issue a proxy access rule, Congress interceded.[13] Section 971 of Dodd-Frank provides that "[t]he Commission may issue rules [expanding proxy access], under such terms and conditions as the Commission determines are in the interests of shareholders and for the protection of investors."[14] Legislative history suggests Congress intended that the SEC have "wide latitude in setting the terms of such proxy access."[15]

In September 2010, two months after Dodd-Frank became law, the SEC promulgated a final regulation adopting Rule 14a-11 by a partisan three to two vote.[16] The final rule devoted nineteen pages in the Federal Register to cost-benefit analysis of the SEC proposals[17] and another six to potential burdens on efficiency, competition, and capital formation.[18] The Commission explained that Rule 14a-11 would increase corporate performance and argued that any costs of the rule were a necessary consequence of enforcing traditional state law rights.[19]

The Business Roundtable, a consortium of prominent corporate executives, challenged Rule 14a-11 in the Court of Appeals for the D.C. Circuit as based "on a fundamentally flawed assessment of the rules'

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9 Reply Brief of Petitioners Business Roundtable and Chamber of Commerce of the United States of America at 16, *Bus. Roundtable*, 647 F.3d 1144 (No. 10-1305), 2011 WL 2014801, at *16.

10 *See* Facilitating Shareholder Director Nominations, 74 Fed. Reg. at 29,025.

11 *Id.* at 29,031. The SEC proposal also included amendments to Rule 14a-8(i)(8) that would have allowed shareholders to change an individual company's proxy procedures by placing reform proposals on proxy ballots. *Id.* at 29,056.

12 Facilitating Shareholder Director Nominations, 75 Fed. Reg. 56,668, 56,669 n.23 (Sept. 16, 2010).

13 *See* Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010) (codified as amended in scattered sections of the U.S. Code).

14 *Id.* § 971, 124 Stat. at 1915 (codified at 15 U.S.C. § 78n note (2006 & Supp. IV 2011)).

15 S. REP. NO. 111-176, pt. V, at 146 (2010).

16 Ronald D. Orol, *SEC Approves Rule Giving Shareholders New Power*, MARKETWATCH (Aug. 25, 2010, 11:19 AM), http://www.marketwatch.com/story/sec-approves-rule-giving-shareholders-new-power-2010-08-25. Commissioners Troy Paredes and Kathleen Casey both criticized the theory and the methodology behind the final rule. *See Bus. Roundtable*, 647 F.3d at 1148.

17 *See* Facilitating Shareholder Director Nominations, 75 Fed. Reg. at 56,753–71.

18 *See id.* at 56,771–76. The SEC conducted this analysis to comply with 15 U.S.C. §§ 78c(f), 78w(a)(2), and 80a-2(c) (2006).

19 Facilitating Shareholder Director Nominations, 75 Fed. Reg. at 56,755, 56,765.

costs, benefits, and effects on efficiency, competition, and capital formation."[20] The plaintiffs alleged that the application of Rule 14a-11 to investment companies was similarly arbitrary and capricious and that the rule violated First Amendment protections of corporate speech.[21] The SEC stayed the rule pending the outcome of the case.[22]

The D.C. Circuit vacated Rule 14a-11.[23] Writing for a unanimous panel, Judge Ginsburg[24] concluded that the SEC had "failed once again . . . adequately to assess the economic effects of a new rule."[25] Under arbitrary and capricious review,[26] the Commission must have "examine[d] the relevant data and articulate[d] a satisfactory explanation for its action including a rational connection between the facts found and the choices made."[27] Further, Congress in 1996 imposed on the SEC a special obligation to consider effects on "efficiency, competition, and capital formation."[28] Action is thus arbitrary and capricious if the SEC has failed to "apprise itself — and hence the public and Congress — of the economic consequences of a proposed regulation."[29] As in *American Equity Investment Life Insurance Co. v. SEC*[30] and *Chamber of Commerce v. SEC*,[31] recent D.C. Circuit cases assessing SEC economic analyses, the court held that the Commission's action fell short. Judge Ginsburg rebuked an agency that, in his eyes, had "inconsistently and opportunistically framed the costs and benefits of the rule; failed adequately to quantify the certain costs or to explain why those costs could not be quantified; neglected to support its predictive judgments; contradicted itself; and failed to respond to substantial problems raised by commenters."[32]

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[20] Opening Brief of Petitioners Business Roundtable and Chamber of Commerce of the United States of America at 31, *Bus. Roundtable*, 647 F.3d 1144 (No. 10-1305), 2010 WL 5116461, at *31.

[21] *Id.* at 53–59, 2010 WL 5116461, at *53–59.

[22] Order Granting Stay of Effect of Commission's Facilitating Shareholder Director Nominations Rules, Exchange Act Release No. 63,031 (Oct. 4, 2010), *available at* http://www.sec.gov/rules/other/2010/33-9149.pdf.

[23] *Bus. Roundtable*, 647 F.3d at 1156.

[24] Chief Judge Sentelle and Judge Brown joined the opinion.

[25] *Bus. Roundtable*, 647 F.3d at 1148.

[26] *See* Administrative Procedure Act, 5 U.S.C. § 706(2)(A) (2006).

[27] *Bus. Roundtable*, 647 F.3d at 1148 (alterations in original) (quoting Motor Vehicle Mfrs. Ass'n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co., 463 U.S. 29, 43 (1983)) (internal quotation marks omitted).

[28] *Id.* (quoting 15 U.S.C. §§ 78c(f), 78w(a)(2), 80a-2(c) (2006)) (internal quotation marks omitted). The new language sought to extend SEC consideration to economic efficiency, beyond its traditional focus on investor protection. *See* 15 U.S.C. §§ 78c(f), 80a-2(c).

[29] *Bus. Roundtable*, 647 F.3d at 1148 (quoting Chamber of Commerce v. SEC, 412 F.3d 133, 144 (D.C. Cir. 2005)) (internal quotation marks omitted).

[30] 613 F.3d 166, 167–68 (D.C. Cir. 2010) (vacating SEC rule regarding fixed index annuities for failure to consider the rule's economic effects).

[31] 412 F.3d 133, 136 (D.C. Cir. 2005) (vacating SEC rule regarding independent directors on investment company boards for failure to consider costs and alternatives).

[32] *Bus. Roundtable*, 647 F.3d at 1148–49.

The court found that Rule 14a-11 was arbitrary and capricious on three basic grounds.[33] First, and most prominently, the court adjudged the SEC's analysis of costs and benefits to be insufficient.[34] The SEC underestimated the expenses that directors would incur campaigning against shareholder nominees because the Commission relied on projections with "no basis beyond mere speculation."[35] The SEC similarly erred when, to support its position that Rule 14a-11 would improve board performance and increase shareholder value, it "relied exclusively and heavily upon two relatively unpersuasive studies" instead of following "the numerous studies submitted by commenters that reached the opposite result."[36] The SEC's analysis also broke down when it explained that existing state law rights, not the SEC rules designed to enforce them, were to blame for potential costs: "[T]his type of reasoning, which fails to view a cost at the margin, is illogical and, in an economic analysis, unacceptable."[37]

Second, the court held that the SEC failed to consider properly how institutional investors like unions and pension funds might manipulate Rule 14a-11.[38] Such concerns pervaded corporate comment letters but were strenuously opposed by shareholder advocates.[39] Judge Ginsburg sympathized with the Business Roundtable's view of institutional investors, finding arbitrary action because, though "[t]he Commission did not completely ignore these potential costs, . . . it [did not] adequately address them."[40]

Third, the court criticized the SEC's projections of the frequency of election contests.[41] The Commission argued that its figures were correct, and that they applied only for purposes of the Paperwork Reduction Act,[42] but the court was not persuaded, declaring the estimates "internally inconsistent and therefore arbitrary."[43]

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33 *Id.*

34 *Id.* at 1149–51.

35 *Id.* at 1150. The SEC "did nothing to estimate and quantify the costs it expected companies to incur" even though "empirical evidence about expenditures in traditional proxy contests was readily available." *Id.*

36 *Id.* at 1150–51.

37 *Id.* at 1151.

38 *Id.* at 1151–52.

39 *Id.*

40 *Id.* at 1152.

41 *Id.* at 1152–54.

42 Final Brief of the Securities and Exchange Commission at 42–43, *Bus. Roundtable*, 647 F.3d 1144 (No. 10-1305), 2011 WL 2014799, at *42–43 (claiming that estimates for the Paperwork Reduction Act, 44 U.S.C. §§ 3501–3521 (2006 & Supp. IV 2011), designed to assess the burden of collecting and reporting information, did not have wide implications); *cf.* Balt. Gas & Elec. Co. v. Natural Res. Def. Council, Inc., 462 U.S. 87, 105 (1983) (suggesting a faulty projection was not necessarily arbitrary and capricious if it was made for a limited purpose).

43 *Bus. Roundtable*, 647 F.3d at 1153.

Beyond those three basic reasons, the court explained that the application of Rule 14a-11 to investment companies would have been separately arbitrary and capricious because it had been justified with "unutterably mindless" reasoning.[44] The court did not reach the First Amendment corporate speech challenge.[45]

In *Business Roundtable*, the D.C. Circuit waded into a political fight under the guise of dispassionate scientific oversight to vacate a proxy access rule produced after years of open, contentious debate. While statutes require the SEC to consider the consequences of its regulations,[46] courts should recognize the limitations of economics and of their own expertise by acknowledging thorough, competent analyses. Perpetuating *Business Roundtable*'s exacting review could impose a judicial blockade on complex financial rulemaking, which would impede regulators' ability to police the marketplace in accordance with congressional intent.

Courts hardly outperform the SEC at evaluating the imperfect science of economics.[47] Judges can struggle with expert testimony in their own decisions,[48] and traditional training leaves most jurists ill-prepared to engage with sophisticated econometrics.[49] And the validity of economic analysis is cloudier than that of many other scientific methods because economic models rely on complex, interrelated assumptions.[50] Even practiced analysts struggle to isolate the impact of

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[44] *Id.* at 1156. The SEC claimed that costs for investment companies would be incurred only if shareholder nominees won elections, an argument the court faulted as undercutting the rule's basic rationale. *Id.* at 1155–56.

[45] *Id.* at 1156.

[46] *See* 15 U.S.C. §§ 78c(f), 78w(a)(2), 80a-2(c) (2006).

[47] In previous decisions, the D.C. Circuit has recognized expertise as a reason for deference. *See, e.g.*, Milk Indus. Found. v. Glickman, 132 F.3d 1467, 1478 (D.C. Cir. 1998) ("Under the arbitrary and capricious standard of review, 'an agency's predictive judgments about areas that are within the agency's field of discretion and expertise' are entitled to 'particularly deferential' review, as long as they are reasonable." (citations omitted) (quoting Int'l Ladies' Garment Workers' Union v. Donovan, 722 F.2d 795, 821 (D.C. Cir. 1983))).

[48] *See* Daubert v. Merrell Dow Pharm., Inc., 509 U.S. 579, 599 (1993) (Rehnquist, C.J., concurring in part and dissenting in part) ("[The briefs here] deal with definitions of scientific knowledge, scientific method, scientific validity, and peer review — in short, matters far afield from the expertise of judges. . . . [T]he unusual subject matter should cause us to proceed with great caution in deciding more than we have to, because our reach can so easily exceed our grasp.").

[49] *See* Patricia M. Wald, *Judicial Review: Talking Points*, 48 ADMIN. L. REV. 350, 352 (1996) ("[Q]uestions have been raised about whether we in the courts are competent to review the minutiae of risk or cost-benefit analysis. For most of us, the answer is no."). *See generally* Patricia M. Wald, *Limits on the Use of Economic Analysis in Judicial Decisionmaking*, LAW & CONTEMP. PROBS., Autumn 1987, at 225.

[50] *See generally* JOSHUA D. ANGRIST & JÖRN-STEFFEN PISCHKE, MOSTLY HARMLESS ECONOMETRICS 4–7 (2009) (explaining the limits of econometric experimental design).

factors like proxy access,[51] and good-faith differences abound. Critics have little trouble singling out a controversial projection or a contentious source on either side of a reasoned debate. In such cases, it can be exceedingly difficult to distinguish principled from political nitpicking. Economic models rely on politically controversial assumptions: the numbers may look concrete, but their origins often are not.[52] Whether one believes that proxy access will improve corporate performance, for example, depends a great deal on one's political ideology.[53] In *Business Roundtable*, the court took aim at just such political judgments despite the judiciary's institutional limitations.[54]

Not surprisingly given the complexity of economic analysis, Judge Ginsburg's opinion made missteps similar to those for which he scolded the SEC. When the court faulted the SEC's discounting of potential costs of proxy fights without empirical evidence as "mere speculation,"[55] it mistakenly assumed that the Chamber of Commerce's economic arguments rested on firmer ground.[56] Pages later, the court, without empirical support, relied solely on a single, speculative sentence to criticize the SEC for failing to estimate the costs of union pension plans using proxy access as leverage in contract negotiations.[57]

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[51] *See generally* Yair Listokin, *Interpreting Empirical Estimates of the Effect of Corporate Governance*, 10 AM. L. & ECON. REV. 90 (2008) (explaining the confounding effect of endogeneity problems on corporate governance analyses).

[52] *Cf.* Jerome Culp, *Judex Economicus*, 50 LAW & CONTEMP. PROBS., Autumn 1987, at 95, 96–100 (exploring the assumptions behind Judge Posner's law and economics analysis). *See generally* Kenneth G. Dau-Schmidt, *Relaxing Traditional Economic Assumptions and Values: Toward a New Multidisciplinary Discourse on Law*, 42 SYRACUSE L. REV. 181 (1991) (examining assumptions underlying "neoclassical efficiency analysis," *id.* at 182).

[53] *See* Joseph A. Grundfest, *The SEC's Proposed Proxy Access Rules: Politics, Economics, and the Law*, 65 BUS. LAW 361, 378 (2010) ("The proxy access debate is not an abstract academic controversy . . . . It is a knockdown, drag-out political brawl.").

[54] *Cf.* Chevron U.S.A. Inc. v. Natural Res. Def. Council, Inc., 467 U.S. 837, 865 (1984) ("Judges are not experts in the field . . . . Courts must [not] . . . reconcile competing political interests . . . on the basis of the judges' personal policy preferences."); *id.* (holding that the judiciary should defer to an agency interpretation because "the regulatory scheme is technical and complex, the agency considered the matter in a detailed and reasoned fashion, and the decision involves reconciling conflicting policies"); Thomas J. Miles & Cass R. Sunstein, *The Real World of Arbitrariness Review*, 75 U. CHI. L. REV. 761, 814 (2008) (presenting empirical findings "that in important domains, the hard look is hardened, or softened, by the political predilections of federal judges").

[55] *Bus. Roundtable*, 647 F.3d at 1150.

[56] *See* J. Robert Brown, Jr., *Shareholder Access and Uneconomic Economic Analysis:* Business Roundtable v. SEC 3–4 (Univ. of Denver Legal Studies Research Paper Series, Working Paper No. 11-14, 2011), *available at* http://ssrn.com/abstract=1917451 ("The approach used by the court . . . incorrectly interpreted the board's fiduciary obligations . . . [and relied on a comment letter that] was based upon a faulty premise.").

[57] *Bus. Roundtable*, 647 F.3d at 1152 ("[S]tate governments and labor unions . . . often appear to be driven by concerns other than a desire to increase the economic performance of the companies in which they invest." (alteration in original) (quoting Leo E. Strine, Jr., *Toward a True Corporate Republic: A Traditionalist Response to Bebchuk's Solution for Improving Corporate America*,

Worse, in arguing that the SEC chose wrongly from conflicting studies about the effects of dissident directors on board performance,[58] the court simply chose the opposite side of a politically charged debate. Empirical evidence drawn from this very case suggests the court's error: markets preferred the 2010 proxy access rule, as shares of firms that would have been most affected lost value when the SEC stayed Rule 14a-11.[59]

These inconsistencies help demonstrate that no analysis of a politically contentious issue could survive *Business Roundtable*'s exacting arbitrary and capricious review. Over the years, the D.C. Circuit has earned a reputation for rigorous review of agency action,[60] but its current approach sets the bar even higher. When costs and benefits are inestimable and projections differ, a panel could always vacate rulemaking, and would be particularly likely to do so when the agency's political assumptions affront the court's sensibilities.

Such stringent oversight should be especially suspect when statutes suggest proregulatory congressional intent. Since Congress fell short of legislating Rule 14a-11, Dodd-Frank cannot be understood as fully endorsing the SEC's proposal.[61] Still, at the very least, Dodd-Frank's

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119 HARV. L. REV. 1759, 1765 (2006)) (internal quotation marks omitted)); *see also* Brown, *supra* note 56, at 5.

[58] *Bus. Roundtable*, 647 F.3d at 1150–51. Theoretical models relating proxy access to board performance are especially unscientific. *See* Bo Becker et al., *Does Shareholder Proxy Access Improve Firm Value? Evidence from the Business Roundtable Challenge* 12 (Harvard Bus. Sch., Working Paper No. 11-052, 2010) ("[Boards' endogeneity] makes the effect of any board characteristic . . . impossible to identify based only on the observed correlation between that characteristic and firm performance." (citing Benjamin E. Hermalin & Michael S. Weisbach, *Endogenously Chosen Boards of Directors and Their Monitoring of the CEO*, 88 AM. ECON. REV. 96 (1998))), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1695666.

[59] Becker et al., *supra* note 58, at 4 ("Using a 1-day event window around October 4, 2010, we find that share prices of companies that would have been most exposed to shareholder access declined significantly compared to share prices of companies that would have been most insulated from the rule.").

[60] *See* Peter L. Strauss, *Changing Times: The APA at Fifty*, 63 U. CHI. L. REV. 1389, 1407–09 (1996). The D.C. Circuit's strict standards persist despite past corrections from the Supreme Court. *See, e.g.*, Balt. Gas & Elec. Co. v. Natural Res. Def. Council, Inc., 462 U.S. 87, 108 (1983) (finding the court's scrutiny of a "minor ambiguity" to be "totally inappropriate"); Vt. Yankee Nuclear Power Corp. v. Natural Res. Def. Council, Inc., 435 U.S. 519, 525 (1978) (concluding that the court "improperly intruded into the agency's decisionmaking process"); *see also* Stephen Breyer, Vermont Yankee *and the Courts' Role in the Nuclear Energy Controversy*, 91 HARV. L. REV. 1833, 1833 (1978) ("In the *Vermont Yankee* case, the Court of Appeals for the District of Columbia Circuit sought to require additional agency procedures [when dealing with a complex and important scientific or technical issue]. . . . The Supreme Court has reversed that approach, correctly so in my view . . . ." (footnotes omitted)).

[61] *See* Dodd-Frank Act, Pub. L. No. 111-203 § 971(b), 124 Stat. 1376, 1915 (2010) (codified at 15 U.S.C. § 78n(a) (2006 & Supp. IV 2011)) (providing that the SEC "may" issue a proxy rule, but not requiring that it shall do so). *But see* Thomas Quaadman, *Dodd-Frank: Governance Issues Galore and Not Limited to Financial Institutions*, METROPOLITAN CORP. COUNS., Aug. 2010, at 18 ("Some have speculated that [Dodd-Frank's] legislative grant of authority was given to try

grant of rulemaking authority contemplated the possibility of a proxy access rule.[62] But the strictness of the *Business Roundtable* standard of review ensured that the D.C. Circuit would only entrench the status quo.

The effects of this decision are troubling. The *Business Roundtable* ruling disrupts the SEC's ability to fulfill its statutory mandate to oversee the proxy process.[63] Many imagine *Business Roundtable* as the first domino to fall in the Dodd-Frank universe.[64] In an evolving financial climate, ossification of SEC regulations[65] may contribute to market failures that Congress designed Dodd-Frank to prevent.

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The D.C. Circuit's hard-line application of economic review should change. Courts have little place joining political fights or parsing complex economic analyses. They should avoid using arbitrary and capricious review to impose unattainable standards that bar agency action.

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and inoculate the SEC from a legal challenge."); Becker et al., *supra* note 58, at 11 ("Congress's authorization to the SEC under Section 971 of the Dodd-Frank was intended to largely shut down [the] kind of challenge [brought in *Business Roundtable*].").

[62] *See* 156 CONG. REC. S5916 (daily ed. July 15, 2010) (statement of Sen. Jack Reed) ("[A]fter much dispute, the bill makes it clear that the SEC has the authority to grant shareholders proxy access to nominate directors."); 156 CONG. REC. H5237 (daily ed. June 30, 2010) (statement of Rep. Paul Kanjorski) ("[The Dodd-Frank Act] clarifies the ability of the SEC to issue rules regarding the nomination by shareholders of individuals to serve on the boards of public companies. These provisions regarding proxy access will enhance democratic participation in corporate governance and give investors a greater voice in the companies that they own.").

[63] Facilitating Shareholder Director Nominations, 74 Fed. Reg. 29,024, 29,025 (proposed June 18, 2009) ("Regulation of the proxy process and disclosure is a core function of the Commission . . . . Section 14(a) of the Exchange Act stemmed from a Congressional belief that '[f]air corporate suffrage is an important right that should attach to every equity security bought on a public exchange.'" (second alteration in original) (footnote omitted) (quoting H.R. REP. NO. 73-1383, at 14 (1934))).

[64] *See, e.g.*, Ben Protess, *Court Ruling Offers Path to Challenge Dodd-Frank*, N.Y. TIMES DEALBOOK, Aug. 17, 2011, http://dealbook.nytimes.com/2011/08/17/court-ruling-offers-path-to-challenge-dodd-frank.

[65] *See* Kathryn A. Watts, *Proposing a Place for Politics in Arbitrary and Capricious Review*, 119 YALE L.J. 2, 41 (2009) (arguing that considering political factors during arbitrary and capricious review would help to mitigate the "ossification" problem); *cf.* Mark Seidenfeld, *Demystifying Deossification: Rethinking Recent Proposals to Modify Judicial Review of Notice and Comment Rulemaking*, 75 TEX. L. REV. 483, 492 (1997) ("From the agency's perspective, hard look review has become an icy stare that freezes action; no matter how much care the agency believes it has given to a decision, the agency faces uncertainty about whether the reviewing court will find that the agency performed its decisionmaking task adequately.").

From:	Hauser, Timothy - SOL
To:	"Gonzalez, Lourdes"
Cc:	Hauser, Timothy - SOL
Subject:	Harvard Law Review Article on Business Roundtable v SEC
Date:	Tuesday, March 27, 2012 8:52:21 AM
Attachments:	vol125_business_roundtable_v_SEC[1].pdf

I imagine you already saw this, but if not, here it is.

From: Stoddard, Troy
To: Gonzalez, Lourdes; McHugh, Jennifer B.; Blass, D.W. (David); Grim, David W.; Scheidt, Douglas J.; Crovitz, Sara P.; Kahl, Daniel; Marietta-Westberg, Jennifer; Russell, Emily; Hauser, Timothy - SOL
Subject: Hold for Meeting with DOL on Fiduciary Duty

From:	Stoddard, Troy
To:	Hauser, Timothy - SOL
Subject:	Meeting Confirmation for next Tuesday @ 1:00
Date:	Thursday, May 23, 2013 11:35:39 AM

Timothy,

Just wanted to confirm that we are still on for the meeting next Tuesday? With the holiday next Monday we just to make sure everything is still in place.

Thanks.

Troy B. Stoddard
Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
[redacted]

From:	Hauser, Timothy - EBSA
To:	Porter, Jennifer R. (PorterJ@SEC.GOV)
Cc:	Hauser, Timothy - EBSA
Subject:	Meeting with DOL/Treasury on Point of Sale Disclosure, etc.
Date:	Friday, September 05, 2014 6:28:55 PM

Do Tuesday after 4:00 or Thursday after 3:00 work for you?

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Cc:	Stoddard, Troy
Subject:	meeting with SEC
Date:	Monday, April 15, 2013 5:27:22 PM

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

From:	Hauser, Timothy - SOL
To:	Gonzalez, Lourdes [redacted] @SEC.GOV)
Cc:	Hauser, Timothy - SOL [redacted] @dol.gov)
Subject:	Meeting
Date:	Friday, August 30, 2013 2:54:15 PM

Bill Taylor just filled me in on your phone call. Could I talk you into a meeting just with me next week? Lunch? I'd be happy to meet you wherever you'd like.

Tim

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Cc:	Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject:	Our meeting
Date:	Thursday, August 01, 2013 2:58:49 PM

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time
Date: Thursday, March 13, 2014 9:27:23 AM

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: Possible Time to Meeting
Date: Friday, February 21, 2014 10:04:46 AM

Tim,

I've canvassed a core group of our staff for Feb. 26 and 28, and a meeting on Feb. 28 from 10:30 to 11:30 would work well for us. How does that look on your end? Also, would you be willing to meet at the SEC?

Thanks,

Jennifer

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: Potential Call Times
Date: Friday, July 25, 2014 3:30:58 PM

Tim,

I enjoyed speaking with you today. As we discussed, here are the times that our staff are available for calls to talk about their comments on the draft general exemption and economic analysis.

General exemption: Tuesday 12-2 or 4:30 to 5:30; Wed. 12-1
Economic analysis: Tuesday 11:30-1:30 or after 4

Also I do not think that I have your direct phone number. Would you mind sending it to me?

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Gonzalez, Lourdes
To: Hauser, Timothy - EBSA
Subject: question
Date: Tuesday, January 07, 2014 11:57:59 AM

Hi Tim:

I hope you are having a good start to the year (although 7 degrees is a bit much for me). I need to call you to ask a question but I seem to have misplaced your telephone number. May I have it again?

Thank you,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: McHugh, Jennifer B.
To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes
Subject: RE: Harvard Law Review Article on Business Roundtable v SEC
Date: Tuesday, March 27, 2012 9:17:54 AM

Thank you. Really interesting. I hadn't seen it.

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, March 27, 2012 9:05 AM
To: McHugh, Jennifer B.
Subject: FW: Harvard Law Review Article on Business Roundtable v SEC

You might find this interesting too if you haven't already seen it.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Hauser, Timothy - SOL
Sent: Tuesday, March 27, 2012 8:52 AM
To: 'Gonzalez, Lourdes'
Cc: Hauser, Timothy - SOL
Subject: Harvard Law Review Article on Business Roundtable v SEC

I imagine you already saw this, but if not, here it is.

From: Blass, D.W. (David)
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Subject: RE: Are we still on for 1 today?
Date: Friday, April 25, 2014 11:36:42 AM

Yes, we are still on for 1 – 2 today. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, April 25, 2014 10:55 AM
To: McHugh, Jennifer B.; Blass, D.W. (David)
Subject: Are we still on for 1 today?

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: Re: Are we still on for 1 today?
Date: Friday, April 25, 2014 11:13:37 AM

Either one.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, April 25, 2014 11:01 AM
To: McHugh, Jennifer B.
Subject: RE: Are we still on for 1 today?

Thanks. More or less the same here too. Do we give the front desk your name or David's?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, April 25, 2014 11:00 AM
To: Hauser, Timothy - EBSA; Blass, D.W. (David)
Subject: Re: Are we still on for 1 today?

Yes. Thanks. From the SEC's perspective, it is basically the same group as last time.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, April 25, 2014 10:54 AM
To: McHugh, Jennifer B.; Blass, D.W. (David)
Subject: Are we still on for 1 today?

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Are we still on?
Date: Wednesday, September 04, 2013 9:11:19 AM

Yes. Let me follow up with you in a little while.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 04, 2013 09:08 AM Eastern Standard Time
To: Gonzalez, Lourdes
Subject: Are we still on?

From:	Canary, Joe - EBSA
To:	Porter, Jennifer R.
Cc:	Elaine Buckberg [redacted]treasury.gov; George Bostick [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject:	RE: Calls to discuss fiduciary duty exemption
Date:	Tuesday, September 16, 2014 5:42:19 PM

Hi, Jen. We would like to continue the discussion of "point of sale" disclosure this week. Thursday is not good, but Friday (9/19) between 12-3 is open for me. I am copying Treasury folks and others here in EBSA to see who wants to participate in the call and who is available on Friday. Thanks.

From: Hauser, Timothy - EBSA
Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

Thanks, Jen. I think it would be terrific if we could get another discussion of point of sale disclosures done this week and include the Treasury folks. Then, we could move on to the other topics next week when I'm back.

I've asked the head of our Office of Regulations and Interpretations, Joe Canary, to work with you on getting this set up. More generally, he's always a good person to talk to on this project! Joe's number is [redacted].

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

Tim,

My apologies for the delay getting back to you with proposed times to discuss point of sale disclosures, the low-fee safe harbor, and the general exemption outline. Since you are out of the office for the next several days, maybe we should try to schedule the point of sale disclosure discussion with DOL/Treasury staff first. I list below the days and times this week when our staff is available. Please let me know if there is someone else I should contact about scheduling this call while you are gone.

Thurs. (9/18) 11:30-12:30; 2-3:30
Fri. (9/19) 12-3

For the other two topics, the team is available the following days and times next week. Please let

me know what works for all of you.

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Hauser, Timothy - EBSA
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Tuesday, September 16, 2014 4:39:13 PM
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Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From:	[redacted]treasury.gov
To:	[redacted]@SEC.GOV; Canary, Joe - EBSA
Cc:	Hauser, Timothy - EBSA
Subject:	RE: Calls to discuss fiduciary duty exemption
Date:	Wednesday, September 17, 2014 3:37:31 PM

Friday (9/26) between 11:45 a.m. and 1:00 p.m. work for Mark Iwry and for me.

(Joe. I'll assume you will email to check with others unless I hear otherwise. Thanks.)

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Wednesday, September 17, 2014 9:01 AM
To: 'Canary, Joe - EBSA'; Bostick, George
Cc: 'Hauser, Timothy - EBSA [redacted]@dol.gov)'
Subject: RE: Calls to discuss fiduciary duty exemption

This message was sent securely using ZixCorp.

Joe and George,

Unfortunately, I just learned that I will probably have to be out of the office on Friday. Can we schedule the disclosures call for next week? Here are the times that work for our team:

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 7:36 PM
To: [redacted]treasury.gov; Porter, Jennifer R.
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Thanks, George. Does this mean you think we should wait to have the call or can others at Treasury cover (if they are available on Friday) even if you three cannot participate?

From: George Bostick [redacted]treasury.gov [redacted]
Sent: Tuesday, September 16, 2014 6:12 PM
To: Canary, Joe - EBSA; Jennifer Porter [redacted]@SEC.GOV
Cc: Elaine Buckberg [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Joe – Thanks. Unfortunately, Mark, Bill and I will be in meetings out of town on Friday.

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 5:42 PM
To: Porter, Jennifer R.
Cc: Buckberg, Elaine; Bostick, George; Crane, Jonah; Iwry, Mark; Kao, Patricia; Hughes, Gerry; Evans, William; Soares, Chris; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

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I’ve asked the head of our Office of Regulations and Interpretations, Joe Canary, to work with you on getting this set up. More generally, he’s always a good person to talk to on this project! Joe’s number is [redacted].

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Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Canary, Joe - EBSA
To: [redacted] treasury.gov; [redacted] @SEC.GOV
Cc: [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Cc: [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; [redacted] treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Thanks,

Jen Porter
Chair's Office
[redacted]

From: [redacted]treasury.gov
To: Canary, Joe - EBSA; [redacted]@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Tuesday, September 16, 2014 6:14:39 PM

Joe – Thanks. Unfortunately, Mark, Bill and I will be in meetings out of town on Friday.

From: Canary, Joe - EBSA[redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 5:42 PM
To: Porter, Jennifer R.
Cc: Buckberg, Elaine; Bostick, George; Crane, Jonah; Iwry, Mark; Kao, Patricia; Hughes, Gerry; Evans, William; Soares, Chris; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

Tim,

My apologies for the delay getting back to you with proposed times to discuss point of sale disclosures, the low-fee safe harbor, and the general exemption outline. Since you are out of the office for the next several days, maybe we should try to schedule the point of sale disclosure

discussion with DOL/Treasury staff first. I list below the days and times this week when our staff is available. Please let me know if there is someone else I should contact about scheduling this call while you are gone.

Thurs. (9/18) 11:30-12:30; 2-3:30
Fri. (9/19) 12-3

For the other two topics, the team is available the following days and times next week. Please let me know what works for all of you.

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From: [Porter, Jennifer R.]
To: [Canary, Joe - EBSA]; '[redacted]treasury.gov"
Cc: [Hauser, Timothy - EBSA]
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Wednesday, September 17, 2014 9:02:23 AM

Joe and George,

Unfortunately, I just learned that I will probably have to be out of the office on Friday. Can we schedule the disclosures call for next week? Here are the times that work for our team:

Tues. (9/23) 9-10
Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 7:36 PM
To: [redacted]treasury.gov; Porter, Jennifer R.
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Thanks, George. Does this mean you think we should wait to have the call or can others at Treasury cover (if they are available on Friday) even if you three cannot participate?

From: [redacted]treasury.gov [mailto:[redacted]treasury.gov]
Sent: Tuesday, September 16, 2014 6:12 PM
To: Canary, Joe - EBSA; [redacted]@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA

Subject: RE: Calls to discuss fiduciary duty exemption

Joe – Thanks. Unfortunately, Mark, Bill and I will be in meetings out of town on Friday.

From: Canary, Joe - EBSA [[redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 5:42 PM
To: Porter, Jennifer R.
Cc: Buckberg, Elaine; Bostick, George; Crane, Jonah; Iwry, Mark; Kao, Patricia; Hughes, Gerry; Evans, William; Soares, Chris; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption

Hi, Jen. We would like to continue the discussion of "point of sale" disclosure this week. Thursday is not good, but Friday (9/19) between 12-3 is open for me. I am copying Treasury folks and others here in EBSA to see who wants to participate in the call and who is available on Friday. Thanks.

From: Hauser, Timothy - EBSA
Sent: Tuesday, September 16, 2014 4:39 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA; Canary, Joe - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

Thanks, Jen. I think it would be terrific if we could get another discussion of point of sale disclosures done this week and include the Treasury folks. Then, we could move on to the other topics next week when I'm back.

I've asked the head of our Office of Regulations and Interpretations, Joe Canary, to work with you on getting this set up. More generally, he's always a good person to talk to on this project! Joe's number is [redacted].

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

Tim,

My apologies for the delay getting back to you with proposed times to discuss point of sale disclosures, the low-fee safe harbor, and the general exemption outline. Since you are out of the office for the next several days, maybe we should try to schedule the point of sale disclosure discussion with DOL/Treasury staff first. I list below the days and times this week when our staff is available. Please let me know if there is someone else I should contact about scheduling this call while you are gone.

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Wed. (9/24) 9-12:30; 4-5
Thurs. (9/25) 9-10; 11-5
Fri. (9/26) 10-1; 3:30-5

Thanks,

Jen Porter
Chair's Office
[redacted]

From:	Porter, Jennifer R.
To:	Hauser, Timothy - EBSA
Cc:	Block, Sharon I - OSEC; Nallengara, Lona
Subject:	RE: Contact
Date:	Thursday, July 24, 2014 11:47:37 AM

Tim, my apologies for the delay getting back to you. Do you have time tomorrow afternoon to speak with me about this project? I am free at any time after 2:30.

Many thanks,

Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

-----Original Message-----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 16, 2014 5:19 PM
To: Nallengara, Lona
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC; Hauser, Timothy - EBSA
Subject: RE: Contact

Thank you very much. I'm looking forward to continuing our conversations. In the next day or two, I'll reach out to Ms. Porter in the hope of providing a bit of a status report on our work since we last met on this project.

Tim

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Wednesday, July 16, 2014 5:13 PM
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact

Tim,

Very nice to speak with you and Sharon today.

I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Hauser, Timothy - EBSA
To: "Nallengara, Lona"
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC; Hauser, Timothy - EBSA
Subject: RE: Contact
Date: Wednesday, July 16, 2014 5:18:00 PM

Thank you very much. I'm looking forward to continuing our conversations. In the next day or two, I'll reach out to Ms. Porter in the hope of providing a bit of a status report on our work since we last met on this project.

Tim

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Wednesday, July 16, 2014 5:13 PM
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact

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My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Hauser, Timothy - EBSA
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Contact
Date: Thursday, July 24, 2014 11:49:44 AM

I'll give you a call at 3 if that works for you.

-----Original Message-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Thursday, July 24, 2014 11:46 AM
To: Hauser, Timothy - EBSA
Cc: Block, Sharon I - OSEC; Nallengara, Lona
Subject: RE: Contact

Tim, my apologies for the delay getting back to you. Do you have time tomorrow afternoon to speak with me about this project? I am free at any time after 2:30.

Many thanks,

Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

-----Original Message-----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 16, 2014 5:19 PM
To: Nallengara, Lona
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC; Hauser, Timothy - EBSA
Subject: RE: Contact

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Tim

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Sent: Wednesday, July 16, 2014 5:13 PM
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact

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I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Contact
Date: Thursday, July 24, 2014 11:51:00 AM

Perfect. I look forward to speaking with you at 3 tomorrow.

Jen Porter
Chair's Office
[redacted]

-----Original Message-----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, July 24, 2014 11:50 AM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Contact

I'll give you a call at 3 if that works for you.

-----Original Message-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Thursday, July 24, 2014 11:46 AM
To: Hauser, Timothy - EBSA
Cc: Block, Sharon I - OSEC; Nallengara, Lona
Subject: RE: Contact

Tim, my apologies for the delay getting back to you. Do you have time tomorrow afternoon to speak with me about this project? I am free at any time after 2:30.

Many thanks,

Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

-----Original Message-----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 16, 2014 5:19 PM
To: Nallengara, Lona
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC; Hauser, Timothy - EBSA
Subject: RE: Contact

Thank you very much. I'm looking forward to continuing our conversations. In the next day or two, I'll reach out to Ms. Porter in the hope of providing a bit of a status report on our work since we last met on this project.

Tim

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Wednesday, July 16, 2014 5:13 PM
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact

Tim,

Very nice to speak with you and Sharon today.

I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Disclosure and Audit Requirements
Date: Friday, August 29, 2014 1:05:51 PM

Tim, let's use the following number:
888-[redacted]
Code [redacted]

I hope you enjoy the long weekend!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, August 28, 2014 2:49 PM
To: Porter, Jennifer R.
Subject: RE: Disclosure and Audit Requirements

Is there a call-in number you'd like us to use?

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, August 26, 2014 5:19 PM
To: Hauser, Timothy - EBSA
Subject: RE: Disclosure and Audit Requirements

I think we have a longer block of time available on Tuesday, so let's plan on a call from 4-5. Thanks!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, August 26, 2014 5:08 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: FW: Disclosure and Audit Requirements

Thanks. I was glad to see you in person! Looking strictly at my own schedule, I think both Tuesday and Wednesday would probably work. Is either day better for you?

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, August 26, 2014 4:59 PM
To: Hauser, Timothy - EBSA
Subject: Disclosure and Audit Requirements

Tim,

I enjoyed our meeting earlier today. It was great to put faces to names. I would like to schedule a call to discuss the disclosure and audit requirements under the federal securities laws. Due to vacation schedules this week, it looks like sometime next week is our best bet with everyone on the team. Are you free at any of the following times?

Tuesday Sept. 2 at 3 - 5
Wednesday Sept. 3 at 1:30

Thursday Sept. 4 at 4-5

Also, following our conversation today, please let me know if it would be helpful for our economists to talk again about data and the economic analysis. I will be happy to set something up.

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Disclosure and Audit Requirements
Date: Tuesday, August 26, 2014 5:19:40 PM

I think we have a longer block of time available on Tuesday, so let's plan on a call from 4-5. Thanks!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, August 26, 2014 5:08 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: FW: Disclosure and Audit Requirements

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Sent: Tuesday, August 26, 2014 4:59 PM
To: Hauser, Timothy - EBSA
Subject: Disclosure and Audit Requirements

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Thursday Sept. 4 at 4-5

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Thanks,

Jen Porter
Chair's Office
[redacted]

From:	Hauser, Timothy - EBSA
To:	McHugh, Jennifer B. [redacted] @SEC.GOV)
Cc:	Hauser, Timothy - EBSA
Subject:	RE: Draft RIA -- Privileged and Confidential
Date:	Tuesday, February 11, 2014 9:10:12 AM

Jennifer –

I wanted to check in and see about setting up some dates to discuss our project. I think I'll be able to send you operative text on all aspects of this project yet this week. Also, I'm curious about any reactions you had to the reg impact analysis.

Hope you're doing well.

Tim

From: Hauser, Timothy - EBSA
Sent: Friday, January 17, 2014 6:05 PM
To: McHugh, Jennifer B. [redacted] @SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: Draft RIA -- Privileged and Confidential
Importance: High

Jennifer, I've attached the draft regulatory impact analysis and technical appendix for our conflict of interest regulation. As mentioned in my voicemail, the documents are still works in progress and, of course, should be held close. But please feel free to circulate the documents to the appropriate people within the SEC, subject to an understanding that the documents and their contents should not be more broadly disclosed. In the past, I think Joe Piacentini, our chief economist, has worked with Jennifer Marietta-Westberg and Matthew Kozora, but I leave it to you whether they are the right people for these documents. Also, as I indicated on the phone, the regulatory impact analysis includes some discussion of the laws you enforce, and that discussion (which hasn't yet been scrubbed by our attorneys) would undoubtedly benefit from your expertise -- as, of course, would the rest of the documents and analyses. I very much appreciate your consistent willingness to help us with this project.

Have a great weekend.

Tim

FINRA®
Financial Industry Regulatory Authority

January 6, 2015

Introduction

This year marks the tenth edition of the Regulatory and Examinations Priorities Letter. Over the past decade, we have witnessed tremendous change to firms, markets and regulation.

Many changes have been positive. Firms have improved their review of new products by integrating business functions with independent perspectives, such as compliance and risk management, articulating standards, documenting decisions and monitoring product performance. Firms have taken steps to better manage conflicts of interest by aligning compensation more closely with customer interests or through risk-adjusted compensation.

The markets have become more transparent to retail investors with expanded trade report dissemination. FINRA took steps to enhance transparency in "dark pool" trading through the publication of reports on alternative trading systems' volume on a stock-by-stock basis. Both equity and debt markets have become more open internationally, enabling companies to raise capital where it is most advantageous and investors to diversify their portfolios.

Regulators have adopted more risk-based approaches, increased their use of data and analytics, and improved coordination and information sharing. FINRA's examination program is now substantially risk-based, enabling us to allocate our resources to higher-risk firms and individuals. For example, we identify registered representatives with higher risk profiles using analytics, resulting in expedited regulatory responses. FINRA is also sharing information more frequently with domestic and international securities and banking regulators, in particular with the U.S. Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB).

Recurring Challenges

In addition to the positive changes FINRA has observed, there are a number of lessons learned that firms can find instructive. Over the years, FINRA has observed that challenges in five areas contribute to firms and registered representatives at times compromising the quality of service they provide to customers as well as contribute to compliance and supervisory breakdowns. Addressing these challenges will enable firms to get ahead of many of the concerns that FINRA raises in this letter.

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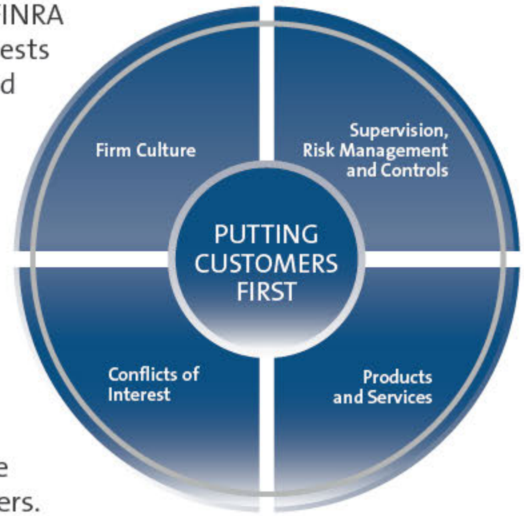

Putting customer interests first: A central failing FINRA has observed is firms not putting customers' interests first. The harm caused by this may be compounded when it involves vulnerable investors (*e.g.,* senior investors) or a major liquidity or wealth event in an investor's life (*e.g.,* an inheritance or Individual Retirement Account rollover). Poor advice and investments in these situations can have especially devastating and lasting consequences for the investor. Irrespective of whether a firm must meet a suitability or fiduciary standard, FINRA believes that firms best serve their customers—and reduce their regulatory risk—by putting customers' interests first. This requires the firm to align its interests with those of its customers.

Firm culture: Many of the problems we have observed in the financial services industry have their roots in firm culture. A poor culture may arise, for example, if firm management places undue emphasis on short-term profits or pursues rapid growth without a concomitant concern for controls. Beyond creating the proper business environment for a good culture to flourish, firms' boards and senior executives must articulate and practice high standards of ethical behavior that are expected and visible throughout the organization and are embedded in the firm's incentives. These standards should come from the board and executives and not be viewed as a compliance task. The absence of stated standards can contribute to failures at the individual broker level (*e.g.,* disregard for customer needs in recommending securities) and can likewise bring about problems with potentially market wide implications (*e.g.,* manipulation of indices or the manufacture and marketing of unsuitable securities). Firms must protect their culture against individual bad actors, as well as firm wide behaviors that can gradually erode that culture. Firm policies should signify that poor practices, whatever the magnitude of the harm caused or potential implications, will not be tolerated.

Supervision, risk management and controls: A firm's systems of supervision, risk management and controls are essential safeguards to protect and reinforce a firm's culture. Maintaining the right culture includes having robust processes around basic functions such as hiring. Strong supervisory and risk management systems also prevent inadvertent harm to customers (*e.g.,* a firm failing to provide the proper breakpoint), as well as defend against deliberate acts of malfeasance (*e.g.,* a trader concealing position limit breaches or an executive manipulating accounting balances to make the firm's financial status and results appear stronger than they are). Proactive supervisory programs and controls play a crucial role in this effort and many firms have turned to data analytics to help identify problematic behavior. One indicator that a firm is succeeding in a proactive approach would be that it has already identified and addressed the concerns FINRA identifies in this letter.

Product and service offerings: While firms have improved new-product review processes, the sales of novel products and services remain a regulatory flashpoint. Some of the issues that have caused harm to investors and landed firms in regulatory difficulties include product complexity, opacity in the market for a product or its underlying components, insufficient or generic disclosure, enticing teaser rate fee structures and insufficient training for salespersons to understand the products. These challenges underscore the need for firms to continue to conduct rigorous new product reviews, assess reasonable-basis and customer-specific suitability prior to offerings and permit wealth management to make independent decisions about the products and services that are best for their customers.

Conflicts of interest: Conflicts of interest are a contributing factor to many regulatory actions FINRA (and other regulators) have taken against firms and associated persons. In October 2013, FINRA highlighted effective practices in identifying and managing conflicts of interest. While we have observed positive change since we issued the Report on Conflicts of Interest, FINRA has also recently announced enforcement actions involving firms' failure to adequately address conflicts of interest by offering favorable research in connection with potential investment banking business.[1] We are also reviewing situations where market access customers self-monitor and self-report suspicious trading despite this inherent conflict of interest. And, we continue to focus on fee and compensation structures that lie at the heart of many conflicts and which can at times compromise the objectivity registered representatives provide to customers. FINRA underscores the importance of firms moving to identify and mitigate conflicts of interest.

Areas of Focus in 2015

FINRA's 2015 priorities focus on key sales practice, financial and operational and market integrity matters. Before discussing the priorities, we highlight an important issue that cuts across all of FINRA's regulatory programs. Specifically, FINRA has experienced an increasing number of situations where some firms have repeatedly failed to provide timely responses to its information requests made in connection with examinations and investigations. This is particularly troubling as FINRA discusses large and complex information requests with firms and is flexible with respect to due dates, rolling productions, scope and format—as long as the integrity of the regulatory matter is not compromised. These situations are not acceptable, as timely productions of information (as well as oral information through interviews and on-the-record testimony) are critical to FINRA achieving its investor protection and market integrity mission by identifying and shutting down bad practices and bad actors at the earliest possible time. FINRA reiterates firms' obligation to respond to FINRA inquiries in a full and timely fashion, and cautions firms that production failures expose firms to disciplinary action.

Sales Practice

Products

In this section, FINRA discusses product-focused concerns. These concerns may include features of the product itself as well as sales or distribution practices. Some of the products we address are complex and may be subject to substantial market, credit, liquidity or operational risks. In some cases, products previously available only to sophisticated investors have been modified and are now offered to retail investors. These products require firms and registered representatives to perform due diligence, make sound suitability decisions and describe product risks in a balanced manner that retail investors can understand. As always, firms and registered representatives should be attentive to changing circumstances—such as the precipitous fall in oil prices or the rapid fall in some emerging and frontier market indices—that may affect suitability decisions and risk descriptions. Training registered representatives about product features, pricing and valuation, and providing guidance around suitability are important steps in meeting these challenges. With these concerns in mind, FINRA's 2015 surveillance and examination activities that include product-related risk reviews will routinely focus on due diligence, suitability, disclosure, supervision and training.

Interest Rate-Sensitive Fixed Income Securities

The United States has experienced a period of sustained and unusually low interest rates. FINRA's 2014 Regulatory and Examination Priorities letter detailed FINRA's concerns regarding the interest rate environment and the potential harm to customers holding interest rate-sensitive products that could result from shifts in that environment. Those concerns remain unchanged. FINRA also recognizes, however, that fixed income products play an important role in a well-constructed portfolio. What is critical is that firms' communications discuss the impact of interest rate changes on price when marketing products that are interest rate sensitive. In 2015, FINRA examiners will look for concentrated positions in products that are highly sensitive to interest rates—such as long-duration fixed income securities, high yield bonds, mortgage-backed securities, or bond funds composed of interest rate-sensitive securities—and test for suitability and adequate disclosures. Examiners may also review firms' efforts to educate registered representatives and customers about such products.

Variable Annuities

FINRA's focus on sales practice issues with variable annuities—both new purchases and 1035 exchanges—will include assessments of compensation structures that may improperly incent the sale of variable annuities, the suitability of recommendations, statements made by registered representatives about these products and the adequacy of disclosures made about material features of variable annuities. FINRA examiners will also focus on the design and implementation of procedures and training by compliance and supervisory personnel to test the level of brokers' and supervisors' product knowledge, to prevent and detect problematic sales practices in variable annuities and to assess compliance with requirements that firms file retail communications concerning variable annuities with FINRA within 10 business days of first use. FINRA will particularly focus on the sale and marketing of "L share" annuities as these shares typically have shorter surrender periods, but higher costs.

Alternative Mutual Funds

Sales of alternative mutual funds ("alt funds" or "liquid alts") have increased rapidly over the past several years, with hundreds of new funds launched and currently available. Estimates place assets under management in alternative funds at over $300 billion as of November 2014, up from less than $50 billion at year-end 2008. Net inflows for 2014 through November reportedly exceeded $40 billion.[2]

 DOL Conflict of Interest Rulemaking 000234

Alternative mutual funds are often marketed as a way for retail customers to invest in sophisticated, actively-managed hedge fund-like strategies that will perform well in a variety of market environments. Alternative mutual funds generally purport to reduce volatility, increase diversification, and produce non-correlated returns and higher yields compared to traditional long-only equity and fixed-income funds, all while offering daily liquidity. There is no standard definition of alternative mutual funds, but if a fund's strategy involves non-traditional asset classes, non-traditional strategies or illiquid assets, the fund could be considered an alt fund. FINRA recommends firms refer to such funds based on their specific strategies, as opposed to bundling them under one umbrella category. In this regard, firms must ensure that their communications regarding alternative funds accurately and fairly describe how the products work, ensuring that the descriptions of the funds are consistent with the representations in the funds' prospectuses. For example, a retail communication that includes a discussion of an alternative fund's objectives that is inconsistent with the objectives included in the fund's prospectus, or that does not clearly indicate there is no assurance that the objectives will be met, would not meet regulatory requirements.[3]

Despite their possible benefits, alternative mutual funds raise concerns when compared to conventional funds. In particular, FINRA is concerned that registered representatives and customers will not understand how the funds will respond to various market conditions or even the strategy in which the fund's adviser will engage in various market scenarios. In addition, FINRA has learned that some firms are not reviewing alt funds through their new-product review process, especially if the firm already has an existing agreement with the fund company.

Non-Traded Real Estate Investment Trusts (REITs)

FINRA identified several concerns with non-traded REITs in last year's letter, including general lack of liquidity, high fees and valuation difficulty. FINRA had noted risks to investors who may be attracted to the projected yields of these securities.[4] These risks remain relevant with respect to customer-specific suitability obligations that firms must perform when recommending non-traded REITs to clients. FINRA also emphasizes that firms should perform due diligence on an ongoing basis on REITs they allow their representatives to recommend. "Red flags" arising from a REIT's financial statements or management may cause firms to change the types of clients to whom the firm recommends the product or even to discontinue sale of the product.

FINRA also notes that on October 10, 2014, the SEC approved proposed amendments to the Customer Account Statement Rule and the Direct Participation Program (DPP) Rule regarding how these products are valued on customer account statements.[5] Because the offering price, typically $10 per share, often remains constant on customer account statements during the offering period even though various costs and fees have reduced investors' capital, FINRA amended the rule to require broker-dealers to provide a more accurate per share estimated value on customer account statements, as well as various important disclosures. Firms that sell REITs should read and understand the full requirements of the amendments in *Regulatory Notice 15-02*, which also contains the effective date of the rule amendments.

Exchange-Traded Products (ETPs) Tracking Alternatively Weighted Indices

Indexing has continued to expand beyond traditional market capitalization-weighted methods to alternatively weighted strategies, (*e.g.,* using equally weighted, fundamentally weighted, volatility weighted indices).[6] These indices provide exposure to specific investment risk factors or strategies. Products tracking such indices may be marketed as providing superior risk-adjusted performance relative to products tracking more traditional capitalization-weighted indices. The exchange-traded products market, in particular, has seen significant growth in the use of alternatively weighted indices in terms of products and investor assets.

For individual investors, products tracking these indices may be complex or unfamiliar. Moreover, ETPs tracking these indices may be thinly traded and have wide bid-ask spreads, making these funds more costly to trade, in addition to their generally higher expenses. Some alternatively weighted indices may have significantly higher turnover than more traditional indices, leading to greater transaction costs for ETPs that track them. While back-tested results and some academic research have highlighted the potential efficacy and attractiveness of alternatively weighted indices, it remains an open question how the indices and products tracking them will behave in different market environments going forward.

Structured Retail Products (SRPs)

FINRA continues to see firms creating and distributing SRPs, including structured notes, with complex payout structures and using proprietary indices as reference assets. Complex features, long maturities, and linkages to less-traditional or less well-understood reference assets in some structured retail products may present investors with unique or unfamiliar risks. FINRA is concerned that some brokers and retail investors may not be familiar with the complexities of SRPs, compounded by the uncertain impact of a changing interest rate environment. FINRA reminds firms that retail communications concerning derivatives registered under the Securities Act of 1933, including SRPs, must be filed with FINRA within 10 business days of first use.

In addition, we are focused on the incentive to increase revenue from structured (and other) product sales through distribution channels that may not have adequate controls to protect customers' interests, such as the distribution of structured or complex products through retail distributors that have insufficient expertise to make sound suitability reviews. To mitigate the risk that sales incentives create, wholesalers should have robust Know-Your-Distributor policies and procedures reasonably designed to ensure potential distributors have adequate controls and systems in place. FINRA examiners will focus attention on additional conflict issues that might arise where the distributor and wholesaler are affiliated companies.

Floating-Rate Bank Loan Funds

These products primarily invest in floating-rate bank loans. While such loans are typically geared to institutional investors, retail investors have increased their exposure to these products through mutual funds, closed-end funds and exchange-traded funds (ETFs) in an effort to protect against the threat of rising interest rates. Despite the promise of hedged exposure to interest-rate risk, these loans can carry significant credit and call risk.

In addition, they are difficult to value, have longer settlement times than other investments and are relatively illiquid. As a consequence, funds investing in these loans could face liquidity challenges if a significant number of investors make redemption requests at the same time.

Securities-Backed Lines of Credit (SBLOCs)

SBLOCs are revolving, non-purpose loans that allow investors to borrow money from lending institutions using fully paid-for securities held in their brokerage accounts as collateral. FINRA has observed that the number of firms offering SBLOCs is increasing and is concerned about how they are marketed. They are now offered by a large number of firms and we see some clearing firms offering SBLOCs to retail investors via their correspondents. Proceeds are typically used to purchase a second home, luxury items or pay other expenses. Eligible securities collateralizing SBLOCs include stocks, bonds and mutual funds that are held in fully paid, cash accounts.

Broker-dealers offering SBLOCs should have proper controls in place to supervise these programs. Customers should be fully apprised of program features, including loan restrictions and how changing market conditions may affect their brokerage account and their ability to draw on the SBLOC. Moreover, firms should have operational procedures that enable them to interact with the lending institution to monitor the customer's account, keep adequate records and ensure that customers are promptly notified when collateral shortfalls occur.

Supervision Rules

FINRA's new supervision rules (FINRA Rules 3110, 3120, 3150 and 3170) became effective on December 1, 2014.[7] These new rules modify requirements relating to, among other things: (1) supervising offices of supervisory jurisdiction and inspecting non-branch offices; (2) managing conflicts of interest in a firm's supervisory system; (3) performing risk-based review of correspondence and internal communications; (4) carrying out risk-based review of investment banking and securities transactions; (5) monitoring for insider trading, conducting internal investigations and reporting related information to FINRA; and (6) testing and verifying supervisory control procedures. FINRA regulatory coordinators and examiners will contact and inspect their assigned firms to address regulatory questions and become familiar with how the firms are implementing the new rule requirements.

Individual Retirement Account (IRA) Rollovers (and Other "Wealth Events")

FINRA is focused on firms' controls around the handling of wealth events in investors' lives. Wealth events refer to those situations where an investor faces the decision about what to do with a large amount of money arising from an inheritance, life insurance payout, sale of a business or other major asset, divorce settlement or an IRA rollover, among other events. A broker's recommendations made in connection with a wealth event can have long-lasting consequences for the customer. In 2015, examiners will focus on the controls firms have in place related to wealth events, with an emphasis on firms' compliance with their supervisory, suitability and disclosure obligations. Firms' systems should be reasonably designed to help ensure that financial incentives to the associated person or the firm do not compromise the objectivity of suitability reviews.

Part of FINRA's focus will be IRAs, one of the principal vehicles Americans use to save for their retirement. According to the Investment Company Institute, over one-quarter of Americans' retirement savings are held in IRAs and this percentage is growing. Rollovers from employer plans—such as 401(k) plans—play an important role in funding these IRAs.[8] FINRA has stated that, whether in retail communications or an oral marketing campaign, it would be false and misleading to imply that a retiree's only choice, or only sound choice, is to roll over plan assets to an IRA sponsored by the broker-dealer.[9] Any communications that discuss IRA fees must be fair and balanced,[10] and the broker-dealer may not claim that its IRAs are "free" or carry "no fee" when the investor will incur costs related to the account, account investments or both.

If a broker-dealer does not intend for its registered representatives to recommend securities transactions as part of the IRA rollovers of their customers, then the broker-dealer should have policies, procedures, controls and training reasonably designed to ensure that no recommendation occurs. Similarly, if registered representatives are authorized to provide educational information only, a firm's written supervisory procedures should be reasonably designed to ensure that recommendations are not made. Without strong oversight, investors may not obtain the information necessary to make an informed decision, and firms may fail to detect recommendations otherwise prohibited by firm policy.

Excessive Trading and Concentration Controls

FINRA has observed shortcomings in firms' supervision of quantitative suitability and concentration, for example, through the failure to supervise for compliance with issuer concentration guidelines (such as those contained in the prospectus for some REITs).[11] In 2015, FINRA examiners will focus on firms' supervisory processes, systems and controls concerning how firms monitor for excessive trading and product concentration. FINRA examiners will review the criteria for exception reports firms use and the adequacy of firms' follow-up on such exceptions. FINRA has provided firms with practices that may help bolster their supervision of suitability determinations.[12] FINRA examiners will also review customer communications and account activity to determine whether aggressive trading strategies were recommended, and whether broker-recommended transactions, or series of transactions, constitute excessive trading or result in a customer's portfolio becoming over-concentrated.

Private Placements

Private placements continue to raise concerns and will be an area of focus in 2015. Broker-dealers participate in private offerings in a number of capacities, and common concerns across these capacities include inadequate due diligence and suitability analysis. These concerns remain relevant regardless of the investment sector, investment type (*e.g.,* EB-5 investment funds, pre-Initial Public Offering investment funds, virtual currency funds), or the type of investor. Firms must file most private placement materials with FINRA pursuant to Rules 5122 or 5123. FINRA reviews firms' private placements to determine whether broker-dealers performed sufficient due diligence on the issuer and the offering prior to recommendations to customers. We have learned that in some cases, the level of due diligence 1) did not comply with the broker-dealer's procedures, and 2) appeared to be inadequate to support a suitability determination. Furthermore, FINRA staff has identified offering documents and communications containing misrepresentations, omissions of material information or inconsistencies with FINRA's communication rules.

FINRA's review of private placement filings has also revealed a number of problems associated with contingency offerings and escrow procedures. Pursuant to Securities Exchange Act of 1934 (SEA) Rule 10b-9, a broker-dealer selling an offering pursuant to a contingency is required to return investor funds if the terms of the contingency are not met or have been materially amended. SEA Rule 15c2-4(b) requires broker-dealers to ensure that investor funds are properly segregated. In a number of instances, an offering's terms were amended and a rescission offer was not properly conducted. In other instances, broker-dealers participating in an offering with a contingency failed to either establish escrow procedures or had deficient procedures such as not employing an independent bank as the escrow agent.

FINRA also notes that amendments to Rule 506 of Regulation D[13]—which, pursuant to the Jumpstart Our Business Startups Act, became effective September 23, 2013—permit general solicitation and advertising when offering private placements, provided that all purchasers of the offering are accredited investors. FINRA and the SEC have reminded investors to be prudent when evaluating the risks of these types of investments, especially as, under the new rules, it is expected that investors will be more exposed to private placement sales pitches and advertising.[14]

High-Risk and Recidivist Brokers

The activities of certain high-risk brokers cause outsized risk to investors, including the heightened potential to become a fraud victim. FINRA devotes substantial attention to brokers that may pose greater risk to the investing public and to quickly stopping those engaged in actual misconduct. To do this, FINRA is expanding its use of data mining, analytics, specially targeted examinations, and expedited investigations and enforcement actions to remove from the securities industry unscrupulous registered representatives who prey on investors.

Firms that hire or seek to hire high-risk brokers, including statutorily disqualified and recidivist brokers, can expect rigorous regulatory attention. FINRA will cover all aspects of this topic, including hiring and supervision practices. With respect to hiring, FINRA will review firms' due diligence on prospective hires. Examiners will also assess the supervision of high-risk registered representatives to determine whether it is tailored to specifically address the risks associated with the particular individual based on prior misconduct and regulatory disclosures. We will also assess whether a firm implements and documents a stated supervisory plan.

Sales Charge Discounts and Waivers

FINRA has observed that in some instances customers do not receive the volume discounts (breakpoints) or sales charge waivers to which they are entitled when purchasing products like non-traded REITs, Unit Investment Trusts, Business Development Corporations and mutual funds.[15] FINRA addressed this issue through examinations and enforcement actions in the last few years and will make it a priority again in 2015. FINRA will determine if firms have an adequate system to ensure breakpoints and sales charge waivers are provided to their customers for products they sell that possess these features. Further, as some products offering volume discounts can have a direct impact on a broker's compensation, FINRA examiners will consider whether brokers disclose that the volume discount is available and make appropriate recommendations to customers.

Senior Investors

The population of senior investors is large and growing; between 2012 and 2020, the number of Americans aged 65 or greater is projected to increase from 43 million to 56 million, and to 73 million by 2030.[16] The consequences of unsuitable investment advice can be particularly severe for this investor group since they rarely can replenish investment portfolios with fresh funds and lack time to make up losses. Reflecting concern about the treatment of senior investors, FINRA recently completed an examination initiative on senior issues. Preliminary findings show that many firms are increasingly proactive in dealing with senior investors by developing specific internal guidelines to strengthen suitability decisions and providing training on the needs of these investors, including, in some cases handling individuals experiencing diminished capacity or elder abuse. FINRA urges firms to review their procedures to identify ways they may be able to improve their treatment of senior investors. FINRA examiners will continue to review communications with seniors; the suitability of investment recommendations made to seniors, including with respect to the products discussed above; the training of registered representatives to handle senior-specific issues; and the supervision firms have in place to protect seniors. Firms that conduct seminars directed to senior investors must ensure that the presentations are fair, balanced and not misleading. Protecting senior investors also means compliance with requirements apart from the federal securities laws and FINRA rules that, for example, require reporting or the intervention of court-appointed guardians when elder abuse is detected.

Anti-Money Laundering (AML)

FINRA will focus on certain types of accounts, including Cash Management Accounts (CMAs) and certain Delivery versus Payment/Receipt versus Payment (DVP/RVP) accounts. CMAs are brokerage accounts used for activity typically associated with bank accounts. FINRA will review the adequacy of firm surveillance systems and processes to identify potentially suspicious transfers to and from CMA accounts, and to verify the business purpose of activity conducted through these accounts. FINRA will also focus on DVP/RVP accounts of foreign financial institutions. FINRA has observed an increase in microcap activity and foreign currency conversion activity in DVP/RVP accounts, which may be based in jurisdictions with weak regulatory regimes. DVP/RVP accounts may provide less transparency as to the source of the shares being sold. FINRA has observed that some firms are not monitoring activity in DVP/RVP accounts for suspicious activity, and are not conducting adequate due diligence to ensure that securities being sold are registered under Section 5 of the Securities Act of 1933 or the transaction is subject to an exemption from registration.

FINRA examiners will also focus on the adequacy of firms' surveillance of customer trading. Firms should tailor customer trading surveillance around the AML risks inherent in their business lines, products and customer bases.[17] Customer trading activity can involve different types of suspicious activity reportable on Suspicious Activity Reports, including market manipulation, insider trading and microcap fraud. FINRA examiners will evaluate whether firms have systems to monitor for red flags indicative of suspicious customer trading activity. In fact, FINRA has found that firms' due diligence in microcap securities for AML and Section 5 compliance is at times inadequate, regardless of whether they receive shares from another broker-dealer or transfer agent, and whether in physical form or electronically. FINRA's continued emphasis on microcap fraud and insider trading is evident through the more than 700 referrals to the SEC and other federal or state law enforcement agencies in 2014, involving potential fraudulent conduct through insider trading, private investment in public equity transactions, microcap fraud and market manipulation.

Municipal Advisors and Securities

Municipal Advisor Registration

In 2015, FINRA examiners will focus on current SEC and MSRB municipal advisor requirements, reviewing for proper application of exclusions and exemptions, and potential unregistered activity. Examiners will adjust their reviews to include new rules as they become effective.

In addition to statutory requirements promulgated under Dodd-Frank Act amendments to the SEA, the SEC's municipal advisor registration rules became effective July 1, 2014. FINRA has observed through onsite examination and regulatory coordinator outreach that some firms do not realize that the activities in which they engage subject them to municipal advisor registration requirements. Specifically, any firm that provides advice to customers that are municipal entities or obligated persons, whether with respect to an issuance of municipal securities or to the investment of proceeds from such an issuance (or municipal escrow investments) may be required to register as a municipal advisor. The SEC has published a set of frequently asked questions providing guidance about statutory exclusions and rule-based exemptions from the municipal advisor registration requirement. Further, the MSRB has developed a regulatory framework for municipal advisors and is currently developing municipal advisor rules regarding standards of conduct, supervision requirements, professional qualification requirements, pay-to-play, gifts and gratuities, and duties of solicitors.

Minimum Denomination Bonds

In 2015, FINRA will focus on firms that sell municipal bonds in less than the minimum denomination, in violation of MSRB Rule G-15. Issuers often set high minimum denominations for lower-rated bonds that may make the investments inappropriate for retail investors. Investors who buy the bonds in smaller denominations may find limited liquidity, and thus poor pricing, when they choose to sell the bonds.

Financial and Operational Priorities

Funding and Liquidity: Valuing Non-High-Quality Liquid Assets

Broker-dealers need to develop and monitor funding and liquidity risk management programs. A cornerstone of any such programs is the accuracy of the price firms assign to securities. FINRA has observed that at times firms' funding and liquidity plans rely on being able to sell or enter into repurchase transactions at or very near to the prices at which the firms have marked their inventory to market. The issue of mark-to-market pricing is particularly acute with respect to infrequently traded positions in corporate, asset-backed and municipal debt securities. Accordingly, FINRA will examine for the integrity of marks-to-market for such securities and for supervisory controls surrounding the overall valuation process.

Sales to Customers Involving Tax-Exempt or Federal Deposit Insurance Corporation (FDIC)-Insured Products

Firms that sell tax-exempt securities or FDIC-insured instruments, or products with similar characteristics, should be aware that in certain circumstances firm actions may cause customers to lose the tax-exempt status on interest payments or the FDIC protection they believe they have. These risks can arise if a firm is in a short position with respect to the security (*e.g.*, if a firm sells more securities to customers than it has purchased or holds in inventory, or it has a fail-to-receive allocated to a customer position). In the case of tax-exempt securities, the short position creates a situation where a customer expecting tax-exempt income will, in fact, receive taxable "substitute interest" from the firm.

Similarly, for FDIC-insured certificates of deposit, the firm's short position may create a situation where the customer's certificate of deposit may be denied status as an insured deposit from the FDIC if the issuing bank or savings and loan association becomes insolvent. Thus, the customer is at risk with respect to both FDIC insurance and with respect to priority of his or her claim in the event of an insolvency of the issuing depository institution. FINRA will examine for the creation and resolution of such short positions, including compliance with the SEA Rule 15c3-3(d) possession or control requirements and the adequacy of supervisory processes in place for the expeditious resolution of these positions.

Cybersecurity

FINRA examiners will review firms' approaches to cybersecurity risk management, including their governance structures and processes for conducting risk assessments and addressing the output of those assessments. In January 2014, FINRA initiated a sweep to understand better the type of threats to which member firms are subject, as well as their responses to those threats. FINRA expects to publish the results of that sweep in early 2015. That report will include principles and effective practices firms should consider in developing and implementing their cybersecurity programs, for example, with respect to their overall approach to cybersecurity, the use of frameworks and standards, the role of risk assessments, the identification of critical assets, and the implementation of controls to protect those assets based on the scale and business model of the firm.

In addition, FINRA observes that recent events have highlighted the potential adverse consequences of cyber attacks that destroy data. In accordance with SEA Rule 17a-4(f), firms are permitted to store records electronically, provided that the media "(p)reserve the records exclusively in a non-rewriteable, non-erasable format." In a 2003 Interpretation to SEA Rule 17a-4, the SEC noted that the rule does not specify the type of storage technology that may be used, but rather sets forth standards that the electronic storage media must meet to be considered an acceptable method of storage. In its 2003 interpretation, the SEC clarified that firms may use integrated hardware and software control codes to store data, provided "the electronic storage system prevents the overwriting, erasing or otherwise altering of a record during its required retention period." Given the widespread use of electronic storage media for record storage and the fundamental importance of firms' books and records to their ability to conduct business, a cyber attack that permanently destroys data may severely impact a firm's ability to continue operating. In 2015, FINRA examiners will review firms' approaches to ensuring compliance with Rule 17a-4(f) in the event of a cyber attack.

Outsourcing

As firms continue to outsource key operational functions to reduce expenses and focus on core business activities, FINRA reminds firms that outsourcing covered activities in no way diminishes a broker-dealer's responsibility for 1) full compliance with all applicable federal securities laws and regulations, and FINRA and MSRB rules, and 2) supervising a service provider's performance.[19] Outsourcing will be a priority area of review during 2015 examinations, and will include an analysis of the due diligence and risk assessment firms perform on potential providers, as well as the supervision they implement for the outsourced activities and functions.

Investor Protection Requires Timely Reporting of Disclosable Information

Through its BrokerCheck® and Central Registration Depository (CRD®) systems, FINRA provides comprehensive information on firms and associated persons as a key part of its investor protection mission. Investors, regulators and firms rely on this information and depend on it to be complete and accurate. Much of this information is derived from Form U4 and Form U5 registration filings. The FINRA By-Laws require that associated persons of member firms promptly disclose to FINRA reportable U4 and U5 events, including, but not limited to, regulatory actions, customer complaints, bankruptcy filings, liens, judgments and criminal charges.

Despite its importance, FINRA has found that in a number of instances firms do not report this information, or do not do so in a timely manner. FINRA is making changes to its registration review process, rules and examination program to address this noncompliance. This includes a public records review of all active registered persons. FINRA will continue this review process on a periodic basis for all registered persons.

In addition, FINRA has filed amendments to its Rule 3110 that requires firms to perform public records checks when registering associated persons to verify the accuracy and completeness of initial or transfer Form U4 filings. In 2015, FINRA examiners will review whether required disclosures are complete, accurate and made within the required time periods; determine whether firms have controls, processes and procedures in place to ensure timely filings; and determine whether public records reviews are occurring. Finally, FINRA expects firms to investigate representatives that fail to report appropriately.

Market Integrity

Maintaining fair and orderly markets is a central objective for FINRA and is critical to restoring and preserving investor confidence in the U.S. capital markets. FINRA is adapting its surveillance program to identify potentially violative conduct made possible by advances in technology and changes in market structure, (*e.g.,* abusive algorithms). Firms also must be more vigilant in detecting and preventing misconduct. Firms are well positioned to serve as the first line of defense in identifying bad actors through, among other things, the analysis of market participants' activities on their systems.

Supervision and Governance Surrounding Trading Technology

Maintaining a robust technology governance framework for electronic trading is a key responsibility for broker-dealers. FINRA has identified a number of concerns in this area, and in 2015, FINRA examination teams will review firms' technology and related controls with an emphasis on the development and ongoing supervision of algorithms. For example, FINRA examiners will review the adequacy of firms' formal supervisory processes—and related controls—for the development and testing of technology changes. Part of this review is a heightened focus on unscheduled trading technology changes that may not have benefitted from offline testing before handling live trades. FINRA examiners also will review the segregation of duties for technology staff performing various functions, namely, developing, testing, deploying, and modifying new and existing technologies. Examiners will also focus on firms' risk management and financial and operational controls, with a focus on firms' net capital, because the speed with which orders enter the market and are executed, often in numerous symbols on multiple markets, can introduce risk to the financial soundness of high-frequency trading firms.

Abusive Algorithms

FINRA views abusive trading algorithms and deficient supervision for potential manipulation as among the most significant risks to the integrity of the markets. For that reason, FINRA will continue to pursue firms whose traders or customers use algorithms to manipulate the markets, including through layering, spoofing, wash sales and marking the close, among other means. In addition, FINRA will continue to further enhance its surveillance program to detect new types of potentially manipulative trading activity brought about through the use of abusive trading algorithms. FINRA will also continue to review whether firms' supervisory and other controls failed to appropriately detect abusive activity by the firm's traders or its customers.

Cross-Market and Cross-Product Manipulation

Fragmented markets provide opportunities for market participants to disguise misconduct by trading in multiple markets. In 2015, FINRA will continue to enhance both its equities and options cross-market surveillance patterns. FINRA's cross-market surveillance now covers over 99 percent of the U.S. equity markets. Along with identifying potentially manipulative activity by single market participants on either a single or multiple markets, the cross-market surveillance patterns also identify potential relationship trading activity, that is, activity involving two or more market participants apparently acting in concert through one or more markets to engage in manipulative activity. These patterns mark a material step forward in promoting market integrity.

With the Chicago Board Options Exchange and C2 Options Exchange outsourcing most of their regulatory functions to FINRA starting in January 2015, FINRA will also now provide surveillance services to approximately 65 percent of the options market. As with equities, FINRA will continue to enhance its cross-market options surveillance capabilities in 2015 by addressing new threat scenarios.

In 2014, on behalf of some of FINRA's options exchange clients, FINRA also brought an action against a firm for cross-product manipulation. The case involved multiple instances of coordinated equity and options market activity designed to create momentary, artificial options prices that enabled the trader to purchase or sell options at more favorable prices. In 2015, FINRA plans to continue to expand its cross-product reviews and potentially bring additional actions.

Order Routing Practices, Best Execution and Disclosure

Last year, FINRA began the process to assess whether trading-fee rebates create conflicts of interest that compromise the execution quality of customer orders. Specifically, FINRA is presently conducting a sweep of firms that route a significant percentage of their unmarketable customer limit orders to trading venues that provide the highest trading rebates for providing liquidity. The concern is that firms may receive inferior executions of their customers' unmarketable limit orders because of market movements during the pendency of the orders, while the firm still collects a trading rebate. As part of the sweep, FINRA is in the process of reviewing routing decisions for marketable versus non-marketable orders and how such decisions are impacted by rebates. While the review is ongoing, the assessment has revealed that some firms do not have active best execution committees or other supervisory structures in place to meet their obligation to regularly and rigorously evaluate the quality of customer order executions. We will use the knowledge of our 2014 efforts to enhance our approach in determining whether firms base routing decisions on benefits to the firms without thoroughly evaluating the potential conflicts presented and the quality of execution they receive for customer orders.

We have also seen evidence of firms failing to meet their duty of best execution in routing some customer options orders. We have initiated reviews of firms that appear to have ignored a better market on one options exchange to achieve a clean cross on another market. FINRA will continue to review whether options floor brokers meet their best execution obligations and conduct appropriate reviews of the execution quality they receive on their customers' behalf.

Regarding fixed income, the evolution of market structure and the related expansion in electronic trading of debt securities has contributed to firms having access to improved data and tools to evaluate best execution and mark-ups. In 2015, FINRA will increase its emphasis on reviewing firms' pricing practices, including whether firms have the supervision and controls in place to ensure they are using reasonable diligence and employing their market expertise to achieve best execution for their customers and avoiding excessive mark-ups (and mark-downs).

In addition, in our fair pricing reviews, we are looking for instances in which firms that are intermediating transactions in structured products may not have disclosed information to their customers about how they would charge the customer. Dealers that position a trade for the purpose of taking a spread when their customer has agreed to pay the dealer an explicit fee for the transaction, should look closely at whether they are meeting the customer's expectations about how the dealer should execute the trade and be compensated.

Lastly, starting in 2015, FINRA will launch a pilot program to conduct fixed income-based examinations focusing on trading issues, including related controls. As with other trading examination programs, the fixed income program will focus on areas that complement FINRA's surveillance program. Among other things, the fixed income examinations will focus on the operation of alternative trading systems trading fixed income instruments, books and records, supervision and order execution practices.

Market Access

While the four years since the SEC adopted Rule 15c3-5 (the "Market Access Rule") have seen improvements in firms' risk management controls, we continue to find examples of firms' inadequate market access controls in both the equities and options markets related to potential rules violations (*e.g.,* manipulation) and erroneous activity (*e.g.,* erroneous quotes). Similarly, we have observed confusion regarding the applicability of the Market Access Rule to the fixed income markets. We have frequently found that firms have not developed sufficient financial controls around fixed income market access with respect to principal trading activity.

FINRA recognizes the control challenges firms face when customers conduct potentially manipulative activity through multiple broker-dealers. Therefore, beginning in 2015, FINRA plans to commence a pilot program to leverage the relationship trading alert activity detected in its cross-market surveillance program to provide firms with information intended to supplement firms' supervision efforts with respect to detecting and preventing manipulative trading activity.

Audit Trail Integrity

FINRA will continue to focus on late reporting in TRACE-eligible and municipal securities that appears to result from inadequate processes and procedures on trading desks. In many cases, firms appear to report larger-sized trades up to several hours late. These delays in reporting potentially affect FINRA's audit trail and its ability to assess whether a firm was at risk when executing a trade.

FINRA has created a new team to focus on identifying potential equity audit trail issues not typically detected through routine compliance sweeps and reviews. An important objective of this group is to resolve reporting errors promptly so that surveillance patterns can scan the most accurate data possible, reducing the risk of false alerts and potentially unnecessary inquiries to firms. The team looks at Order Audit Trail System, trade reporting and exchange audit trail data to identify potential reporting errors.

Conclusion

FINRA urges firms to review their business in light of the concerns addressed in this letter. Serving the interests of the investing public and entities raising capital in a fair manner should be a guiding principle as firms pursue their business in 2015. It is also important for firms to stay current on new and existing priorities and developments as they arise throughout the year. As always, we urge you to contact your firm's regulatory coordinator with specific questions or comments. In addition, if you have general comments regarding this letter or suggestions on how we can improve it, please send them to Daniel M. Sibears, Executive Vice President, at *dan.sibears@finra.org*.

Endnotes

1 *See* FINRA press release, FINRA Fines 10 Firms a Total of $43.5 Million for Allowing Equity Research Analysts to Solicit Investment Banking Business and for Offering Favorable Research Coverage in Connection With Toys"R"Us IPO, Dec. 11, 2014.

2 Based on data from Morningstar.

3 *See* FINRA Rule 2210.

4 *See* FINRA Investor Alert, Public Non-Traded REITs—Perform a Careful Review Before Investing.

5 *See* Order Approving Proposed rule Change Relating to Per Share Estimated Valuations for Unlisted DPP and REIT Securities, Exchange Act Release No. 34-73339; File No. SR-FINRA-2014-006 (Oct. 10, 2014), 79 Fed. Reg. 62,489 (Oct. 17, 2014). *See also* NASD Rule 2340 and FINRA Rule 2310 respectively.

6 These funds are referred to using a variety of terms, including smart beta, strategic beta, and alternative beta.

7 These rules revise and consolidate NASD Rules 3010, 3012 and 3110(i) and other corresponding NYSE rule provisions. Firms can find more information about the rules in *Regulatory Notice 14-10*.

8 *See* Sarah Holden and Daniel Schrass, "The Role of IRAs in U.S. Households' Saving for Retirement, 2013,"19 ICI Research Perspective pp. 1-2, (Nov., 2013), available at: www.ici.org/pdf/per19-11.pdf.

9 *See Regulatory Notice 13-45*.

10 *See Regulatory Notice 13-23*.

11 *See* FINRA press release, FINRA Fines LPL Financial LLC $950,000 for Supervisory Failures Related to Sales of Alternative Investments, Mar. 24, 2014; and FINRA Fines Berthel Fisher and Affiliate, Securities Management & Research $775,000 for Supervisory Failures Related to Sales of Non-Traded REITs and Leveraged and Inverse ETFs, Feb. 24, 2014.

12 *See Regulatory Notice 13-31*.

13 Eliminating the Prohibition Against General Solicitation and General Advertising in Rule 506 and Rule 144A Offerings, Exchange Act Release No. 69959 (July 10, 2013), 78 Fed. Reg. 44,771 (July 24, 2013).

14 *See* FINRA Investor Alert: Private Placements – Evaluate the Risks Before Placing Them in Your Portfolio. *See also* SEC Office of Investor Education and Advocacy, Investor Alert: Advertising for Unregistered Securities Offerings.

15 *See* FINRA press release, FINRA Fines Merrill Lynch $8 Million; Over $89 Million Repaid to Retirement Accounts and Charities Overcharged for Mutual Funds, June 16, 2014.

16 *An Aging Nation: The Older Population in the United States*, Population Estimates and Projections, Current Population Reports, United States Census Bureau, May 2014, p. 6.

17 *See* FINRA press releases, FINRA Fines Brown Brothers Harriman a Record $8 Million for Substantial Anti-Money Laundering Compliance Failures, Feb. 5, 2014; FINRA Fines COR Clearing LLC $1 Million for Extensive Regulatory Failures; Anti-Money Laundering, Financial Reporting and Supervisory Responsibilities Neglected Over Four-Year Period, Dec. 16, 2013.

18 MSRB Municipal Advisor Resources.

19 FINRA's *Notice to Members 05-48* provides guidance on this subject.

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Cc: Hauser, Timothy - EBSA
Subject: RE: EBSA responses to SEC comments
Date: Friday, January 09, 2015 11:49:54 PM
Attachments: FINRA priorities letter.pdf

Thanks, Sharon. I was very nice to meet you.

During our meeting Mary Jo mentioned to the Secretary that FINRA recently issued its Regulatory Examinations Priorities Letter and the letter had a reference to FINRA's perspective on interests of a client. It is a small reference, but an interesting one. I have attached the letter and I have highlighted the section on page 2. I was hoping you could pass this on to the Secretary, if you think he would be interested in looking at this.

I hope you have a nice weekend.

- Lona

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Friday, January 09, 2015 4:19 PM
To: Nallengara, Lona
Cc: Hauser, Timothy - EBSA
Subject: EBSA responses to SEC comments

Lona – It was great to finally meet you in person this week. Following up on our bosses' conversation, attached please find a chart that details the most recent comments on the draft that we've received from Jen Porter and her team and our responses. I've copied Tim Hauser, who leads our reg drafting team and who has been working with Jen, in case Jen has any follow up questions. Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From:	Block, Sharon I - OSEC
To:	Nallengara, Lona
Cc:	Hauser, Timothy - EBSA
Subject:	RE: EBSA responses to SEC comments
Date:	Saturday, January 10, 2015 4:43:25 PM

Thanks Lona. It is certainly an interest (and I think helpful) reference. I will certainly share it with the Secretary.

From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Friday, January 09, 2015 11:50 PM
To: Block, Sharon I - OSEC
Cc: Hauser, Timothy - EBSA
Subject: RE: EBSA responses to SEC comments

Thanks, Sharon. I was very nice to meet you.

During our meeting Mary Jo mentioned to the Secretary that FINRA recently issued its Regulatory Examinations Priorities Letter and the letter had a reference to FINRA's perspective on interests of a client. It is a small reference, but an interesting one. I have attached the letter and I have highlighted the section on page 2. I was hoping you could pass this on to the Secretary, if you think he would be interested in looking at this.

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Subject: EBSA responses to SEC comments

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Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Fiduciary Call on Thursday
Date: Wednesday, December 17, 2014 4:39:24 PM

Let's use the same call-in number we used before: 888-[redacted], passcode [redacted]. I look forward to speaking with you tomorrow.

Regards,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, December 16, 2014 2:40 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Fiduciary Call on Thursday

Thanks! Sounds like a plan. Do you have a call-in number or would you prefer that I set something up? Also, happy to troop over to your office if you'd prefer.

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, December 16, 2014 12:54 PM
To: Hauser, Timothy - EBSA
Subject: Fiduciary Call on Thursday

Tim,

Our staff is available for a call on Thursday from 2:30-4. We plan to have the whole team, including our economists. Hopefully we can cover everything in an hour and a half, but if we need additional time we can make ourselves available on Friday or early next week.

Please let me know if this works for you, and feel free to give me a call if you want to discuss anything further.

Thanks,
Jen

JENNIFER R. PORTER

Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - EBSA
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Fiduciary Call on Thursday
Date: Tuesday, December 16, 2014 2:39:48 PM

Thanks! Sounds like a plan. Do you have a call-in number or would you prefer that I set something up? Also, happy to troop over to your office if you'd prefer.

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, December 16, 2014 12:54 PM
To: Hauser, Timothy - EBSA
Subject: Fiduciary Call on Thursday

Tim,

Our staff is available for a call on Thursday from 2:30-4. We plan to have the whole team, including our economists. Hopefully we can cover everything in an hour and a half, but if we need additional time we can make ourselves available on Friday or early next week.

Please let me know if this works for you, and feel free to give me a call if you want to discuss anything further.

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - SOL
To: "McHugh, Jennifer B."
Cc: Hauser, Timothy - SOL
Subject: RE: Got your voicemail
Date: Tuesday, June 05, 2012 5:22:02 PM

Yes. I just left you a message. My office number is [redacted] and my cell phone number is [redacted].

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, June 05, 2012 5:00 PM
To: Hauser, Timothy - SOL
Subject: RE: Got your voicemail

Tim,

Are you free for me to call you now – or tomorrow morning?

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: McHugh, Jennifer B.
Sent: Friday, June 01, 2012 5:00 PM
To: Tim Hauser [redacted]@dol.gov'
Subject: Got your voicemail

Probably won't be able to call today, but let's talk Monday. I'll be in the meeting between Phyllis Borzi and Mary Schapiro. Understand you will be too.

Thanks,

Jennifer

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: McHugh, Jennifer B.
To: Hauser, Timothy - SOL
Subject: Re: Got your voicemail
Date: Tuesday, June 05, 2012 6:33:57 PM

Sounds good, Tim. Thanks very much.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, June 05, 2012 06:15 PM
To: McHugh, Jennifer B.
Subject: Re: Got your voicemail

I'm trapped in meetings starting at 8:30 am, but if you call me on my cell [redacted]) I'll be grateful for the opportunity to escape.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, June 05, 2012 05:43 PM
To: Hauser, Timothy - SOL
Subject: Re: Got your voicemail

Got pulled into something unexpected. Can we talk tomorrow morning?

From: McHugh, Jennifer B.
Sent: Tuesday, June 05, 2012 05:24 PM
To: 'Hauser.Timothy@dol.gov' [redacted]@dol.gov>
Subject: Re: Got your voicemail

Sorry. I got pulled out.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, June 05, 2012 05:22 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: Got your voicemail

Yes. I just left you a message. My office number is [redacted] and my cell phone number is [redacted].

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, June 05, 2012 5:00 PM
To: Hauser, Timothy - SOL
Subject: RE: Got your voicemail

Tim,

Are you free for me to call you now – or tomorrow morning?

Jennifer B. McHugh

Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: McHugh, Jennifer B.
Sent: Friday, June 01, 2012 5:00 PM
To: [redacted]@dol.gov'
Subject: Got your voicemail

Probably won't be able to call today, but let's talk Monday. I'll be in the meeting between Phyllis Borzi and Mary Schapiro. Understand you will be too.

Thanks,

Jennifer

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: McHugh, Jennifer B.
To: Hauser, Timothy - SOL
Subject: Re: Got your voicemail
Date: Tuesday, June 05, 2012 5:43:43 PM

Got pulled into something unexpected. Can we talk tomorrow morning?

From: McHugh, Jennifer B.
Sent: Tuesday, June 05, 2012 05:24 PM
To: Tim Hauser [redacted]@dol.gov' [redacted]
Subject: Re: Got your voicemail

Sorry. I got pulled out.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, June 05, 2012 05:22 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: Got your voicemail

Yes. I just left you a message. My office number is [redacted] and my cell phone number is [redacted].

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From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, June 05, 2012 5:00 PM
To: Hauser, Timothy - SOL
Subject: RE: Got your voicemail

Tim,

Are you free for me to call you now – or tomorrow morning?

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: McHugh, Jennifer B.
Sent: Friday, June 01, 2012 5:00 PM
To: Tim Hauser [redacted]@dol.gov'
Subject: Got your voicemail

Probably won't be able to call today, but let's talk Monday. I'll be in the meeting between Phyllis Borzi and Mary Schapiro. Understand you will be too.

Thanks,

Jennifer

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: McHugh, Jennifer B.
To: Hauser, Timothy - SOL
Subject: Re: Got your voicemail
Date: Tuesday, June 05, 2012 5:24:37 PM

Sorry. I got pulled out.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, June 05, 2012 05:22 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: Got your voicemail

Yes. I just left you a message. My office number is [redacted] and my cell phone number is [redacted].

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, June 05, 2012 5:00 PM
To: Hauser, Timothy - SOL
Subject: RE: Got your voicemail

Tim,

Are you free for me to call you now – or tomorrow morning?

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: McHugh, Jennifer B.
Sent: Friday, June 01, 2012 5:00 PM
To: Tim Hauser [redacted]@dol.gov'
Subject: Got your voicemail

Probably won't be able to call today, but let's talk Monday. I'll be in the meeting between Phyllis Borzi and Mary Schapiro. Understand you will be too.

Thanks,

Jennifer

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Harvard Law Review Article on Business Roundtable v SEC
Date: Tuesday, March 27, 2012 8:53:36 AM

I hadn't Tim. Thank you!

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Timothy Hauser [redacted]@dol.gov>
Date: Tue, 27 Mar 2012 08:52:21 -0400
To: SEC [redacted]@sec.gov>
Cc: Timothy Hauser [redacted]@dol.gov>
Subject: Harvard Law Review Article on Business Roundtable v SEC

I imagine you already saw this, but if not, here it is.

From: Hauser, Timothy - SOL
To: "Stoddard, Troy"
Cc: Hauser, Timothy - SOL
Subject: RE: Meeting Confirmation for next Tuesday @ 1:00
Date: Thursday, May 23, 2013 11:38:35 AM

It's still on!

From: Stoddard, Troy [redacted]@SEC.GOV]
Sent: Thursday, May 23, 2013 11:35 AM
To: Hauser, Timothy - SOL
Subject: Meeting Confirmation for next Tuesday @ 1:00

Timothy,

Just wanted to confirm that we are still on for the meeting next Tuesday? With the holiday next Monday we just to make sure everything is still in place.

Thanks.

Troy B. Stoddard
Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
[redacted]

From: Stoddard, Troy
To: Hauser, Timothy - SOL
Subject: RE: Meeting on Fiduciary Reg and Exemptions
Date: Monday, April 29, 2013 8:38:12 AM

Tim,

There are few people who had a conflict at the proposed time.

Thanks.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, April 26, 2013 2:01 PM
To: Stoddard, Troy
Cc: Hauser, Timothy - SOL
Subject: Meeting on Fiduciary Reg and Exemptions

The 14th turns out (of course) to be a bad day for one of our participants that I would really like to attend. I've checked with everybody here, and the 17th would work for everybody. Is there any possibility of moving the meeting to the 17th? If not, let's leave it on the 14th and somebody will just have to cover for my colleague. Sorry for the difficulties – no doubt, I'm one of the world's worst schedulers.

From: Hauser, Timothy - EBSA
To: Jennifer R. Porter
Cc: Hauser, Timothy - EBSA
Subject: Re: Meeting with DOL/Treasury on Point of Sale Disclosure, etc.
Date: Saturday, September 06, 2014 1:39:19 PM

Thank you. Sounds good.

From: Porter, Jennifer R. [redacted]@SEC.GOV>
Sent: Saturday, September 6, 2014 1:22:54 PM
To: Hauser, Timothy - EBSA
Subject: RE: Meeting with DOL/Treasury on Point of Sale Disclosure, etc.

Thursday at 4:30 works for our team. We can use the same dial-in number we used previously –
888-[redacted]
Code [redacted]

Thanks,
Jen

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, September 05, 2014 6:29 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: Meeting with DOL/Treasury on Point of Sale Disclosure, etc.

Do Tuesday after 4:00 or Thursday after 3:00 work for you?

From:	Porter, Jennifer R.
To:	Hauser, Timothy - EBSA
Subject:	RE: Meeting with DOL/Treasury on Point of Sale Disclosure, etc.
Date:	Saturday, September 06, 2014 1:23:09 PM

Thursday at 4:30 works for our team. We can use the same dial-in number we used previously –
[redacted]
Code [redacted]

Thanks,
Jen

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, September 05, 2014 6:29 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: Meeting with DOL/Treasury on Point of Sale Disclosure, etc.

Do Tuesday after 4:00 or Thursday after 3:00 work for you?

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: meeting with SEC
Date: Wednesday, April 17, 2013 7:04:26 PM

Really appreciate it Tim. Thanks.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 06:34 PM Eastern Standard Time
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: meeting with SEC

Here are cites to some of the literature with abstracts. I hope it's helpful. We also have a much larger bibliography on the advice issues generally, but we are still working on it and I'd prefer to hold off passing it along for the moment if that's ok.

Hope you're doing well.

Tim

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Wednesday, April 17, 2013 5:50 PM
To: Hauser, Timothy - SOL
Subject: Re: meeting with SEC

No worries Tim. I can only guess your "to do" list.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 11:43 AM Eastern Standard Time
To: Gonzalez, Lourdes
Subject: RE: meeting with SEC

I dropped the ball on that – let me check with the economists' office.

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Wednesday, April 17, 2013 10:45 AM
To: Hauser, Timothy - SOL
Subject: RE: meeting with SEC

Also Tim, if you can remember to let me know those moral licensing studies some time, I'd appreciate it. My boss mentioned it to me recently and I told him i was following up. Definitely no hurry. Thanks. Lourdes

---

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 9:31 AM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL
Subject: RE: meeting with SEC

Everybody could attend, except the head of EBSA's regulations division – he really should be there. Is there another date that might work?

These scheduling things are always a nightmare. Sorry to inflict it on you!

Tim

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Monday, April 15, 2013 5:26 PM
To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: meeting with SEC

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

From: [Stoddard, Troy]
To: [Hauser, Timothy - SOL]
Subject: RE: meeting with SEC
Date: Tuesday, April 23, 2013 4:25:49 PM

We will come to you. I know some of the people here probably know the drill for getting into your building but if you wouldn't mind sometime before the 14th just sending some quick highlights I would appreciate it.

Thanks.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, April 23, 2013 3:36 PM
To: Stoddard, Troy
Cc: Hauser, Timothy - SOL
Subject: RE: meeting with SEC

Let's pencil it in. I'm still waiting to hear from one straggler, but it works for everybody else. Can you all come here or should we come to you?

Thanks.

From: Stoddard, Troy [redacted]@SEC.GOV]
Sent: Tuesday, April 23, 2013 3:24 PM
To: Hauser, Timothy - SOL
Subject: RE: meeting with SEC

Tim,

I just wanted to follow up with you to see if the time below would work on your end.

Thanks.

From: Stoddard, Troy
Sent: Thursday, April 18, 2013 10:42 AM
To: Tim Hauser [redacted]@dol.gov'
Subject: RE: meeting with SEC

Tim,

Could you check to see if the below time would work on your end? It is a little far out but hopefully it can work.

Tuesday May 14 1-4:00 (select whichever hour works best)

From: Gonzalez, Lourdes
Sent: Wednesday, April 17, 2013 9:34 AM
To: 'Hauser.Timothy@dol.gov'
Cc: Stoddard, Troy
Subject: Re: meeting with SEC

We'll give you a new date.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 09:31 AM Eastern Standard Time
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: meeting with SEC

Everybody could attend, except the head of EBSA's regulations division – he really should be there. Is there another date that might work?

These scheduling things are always a nightmare. Sorry to inflict it on you!

Tim

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Monday, April 15, 2013 5:26 PM
To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: meeting with SEC

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: meeting with SEC
Date: Wednesday, April 17, 2013 5:51:09 PM

No worries Tim. I can only guess your "to do" list.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 11:43 AM Eastern Standard Time
To: Gonzalez, Lourdes
Subject: RE: meeting with SEC

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Sent: Monday, April 15, 2013 5:26 PM
To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: meeting with SEC

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If this doesn't work, we'll keep looking.

Best,

Lourdes

From: Stoddard, Troy
To: Hauser, Timothy - SOL
Subject: RE: meeting with SEC
Date: Tuesday, April 23, 2013 3:24:10 PM

Tim,

I just wanted to follow up with you to see if the time below would work on your end.

Thanks.

From: Stoddard, Troy
Sent: Thursday, April 18, 2013 10:42 AM
To: [redacted]@dol.gov'
Subject: RE: meeting with SEC

Tim,

Could you check to see if the below time would work on your end? It is a little far out but hopefully it can work.

Tuesday May 14 1-4:00 (select whichever hour works best)

From: Gonzalez, Lourdes
Sent: Wednesday, April 17, 2013 9:34 AM
To: [redacted]@dol.gov'
Cc: Stoddard, Troy
Subject: Re: meeting with SEC

We'll give you a new date.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 09:31 AM Eastern Standard Time
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: meeting with SEC

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Tim

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Monday, April 15, 2013 5:26 PM
To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: meeting with SEC

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: Re: meeting with SEC
Date: Wednesday, April 17, 2013 9:34:08 AM

We'll give you a new date.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 09:31 AM Eastern Standard Time
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: meeting with SEC

Everybody could attend, except the head of EBSA's regulations division – he really should be there. Is there another date that might work?

These scheduling things are always a nightmare. Sorry to inflict it on you!

Tim

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To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: meeting with SEC

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

From: Stoddard, Troy
To: Hauser, Timothy - SOL
Subject: RE: meeting with SEC
Date: Thursday, April 18, 2013 10:42:34 AM

Tim,

Could you check to see if the below time would work on your end? It is a little far out but hopefully it can work.

Tuesday May 14 1-4:00 (select whichever hour works best)

From: Gonzalez, Lourdes
Sent: Wednesday, April 17, 2013 9:34 AM
To: [redacted]@dol.gov'
Cc: Stoddard, Troy
Subject: Re: meeting with SEC

We'll give you a new date.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 09:31 AM Eastern Standard Time
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: meeting with SEC

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Cc: Stoddard, Troy
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If this doesn't work, we'll keep looking.

Best,

Lourdes

From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: meeting with SEC
Date: Wednesday, April 17, 2013 9:31:05 AM

Everybody could attend, except the head of EBSA's regulations division – he really should be there. Is there another date that might work?

These scheduling things are always a nightmare. Sorry to inflict it on you!

Tim

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Monday, April 15, 2013 5:26 PM
To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: meeting with SEC

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
[redacted] [redacted]
Date: Monday, April 15, 2013 5:31:10 PM

Thanks. I'll check with everybody and get back to you. It works for me.

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Monday, April 15, 2013 5:26 PM
To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: meeting with SEC

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: RE: meeting with SEC
Date: Wednesday, April 17, 2013 10:45:52 AM

Also Tim, if you can remember to let me know those moral licensing studies some time, I'd appreciate it. My boss mentioned it to me recently and I told him i was following up. Definitely no hurry. Thanks. Lourdes

---

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 9:31 AM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL
Subject: RE: meeting with SEC

Everybody could attend, except the head of EBSA's regulations division – he really should be there. Is there another date that might work?

These scheduling things are always a nightmare. Sorry to inflict it on you!

Tim

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
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Subject: meeting with SEC

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: RE: Meeting
Date: Friday, August 30, 2013 2:57:44 PM

Happy to have lunch next week Tim. Any day but Thursday would work for me.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, August 30, 2013 2:54 PM
To: Gonzalez, Lourdes
Cc: [redacted]@dol.gov
Subject: Meeting

Bill Taylor just filled me in on your phone call. Could I talk you into a meeting just with me next week? Lunch? I'd be happy to meet you wherever you'd like.

Tim

From: Hauser, Timothy - SOL
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov)
Subject: RE: Meeting
Date: Friday, August 30, 2013 5:02:37 PM

Perfect. I'll leave the location to you. I'm looking forward to it. Have a great weekend.

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Friday, August 30, 2013 3:02 PM
To: Hauser, Timothy - SOL
Subject: RE: Meeting

Wednesday would be great. I don't know of any places between us. i can figure that out though. i have colleagues who actually go out to lunch! (Maybe you do?)

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, August 30, 2013 2:59 PM
To: Gonzalez, Lourdes
Subject: RE: Meeting

Terrific. Would Wednesday work? Happy to meet you wherever you'd like.

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Friday, August 30, 2013 2:57 PM
To: Hauser, Timothy - SOL
Subject: RE: Meeting

Happy to have lunch next week Tim. Any day but Thursday would work for me.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, August 30, 2013 2:54 PM
To: Gonzalez, Lourdes
Cc: [redacted]@dol.gov
Subject: Meeting

Bill Taylor just filled me in on your phone call. Could I talk you into a meeting just with me next week? Lunch? I'd be happy to meet you wherever you'd like.

Tim

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: RE: Meeting
Date: Friday, August 30, 2013 3:02:27 PM

Wednesday would be great. I don't know of any places between us. i can figure that out though. i have colleagues who actually go out to lunch! (Maybe you do?)

From: Hauser, Timothy - SOL [[redacted]@dol.gov]
Sent: Friday, August 30, 2013 2:59 PM
To: Gonzalez, Lourdes
Subject: RE: Meeting

Terrific. Would Wednesday work? Happy to meet you wherever you'd like.

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Friday, August 30, 2013 2:57 PM
To: Hauser, Timothy - SOL
Subject: RE: Meeting

Happy to have lunch next week Tim. Any day but Thursday would work for me.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, August 30, 2013 2:54 PM
To: Gonzalez, Lourdes
Cc: Tim Hauser [redacted]@dol.gov
Subject: Meeting

Bill Taylor just filled me in on your phone call. Could I talk you into a meeting just with me next week? Lunch? I'd be happy to meet you wherever you'd like.

Tim

From: Baltz, Brian
To: Hauser, Timothy - SOL
Subject: RE: Our meeting
Date: Monday, August 05, 2013 10:50:27 AM

Thanks, Tim. On our end there will be staff from the Division of Trading and Markets, Division of Investment Management, and Division of Economic and Risk Analysis.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 10:00 AM
To: Baltz, Brian
Subject: RE: Our meeting

One or two people will be attending from each of the relevant EBSA offices. I'll get you a list. Which SEC offices will be represented?

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:31 AM
To: Jenson, Paula R.; Hauser, Timothy - SOL; Russell, Emily
Subject: RE: Our meeting

Tim, will anyone else be joining you? If so, can you please send me their names as well so I can let security know? Thank you.

-----Original Message-----
From: Jenson, Paula R.
Sent: Monday, August 05, 2013 9:21 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Great. No trick to getting in - just be sure you have ID. And you can give them Brian Baltz's name. His phone number is [redacted].

We look forward to seeing you on Wednesday.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:19 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Ok. We'll plan to be there at 10:30 if that works for you. Is there any trick to getting in? Whose name should I give the guards?

-----Original Message-----
From: Jenson, Paula R. [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:14 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Thanks for following up, Tim. I didn't realize there were loose ends regarding arrangements.

We'd be grateful if we could have the meeting at our office, given the number of people here who are interested. It looks like Lourdes set aside 2 hours to meet - either 10-12 or 10:30-12:30 on Wednesday - whichever would work best for you.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From: Baltz, Brian
To: Jenson, Paula R.; Hauser, Timothy - SOL; Russell, Emily
Subject: RE: Our meeting
Date: Monday, August 05, 2013 9:31:52 AM

Tim, will anyone else be joining you? If so, can you please send me their names as well so I can let security know? Thank you.

-----Original Message-----
From: Jenson, Paula R.
Sent: Monday, August 05, 2013 9:21 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Great. No trick to getting in - just be sure you have ID. And you can give them Brian Baltz's name. His phone number is [redacted].

We look forward to seeing you on Wednesday.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:19 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Ok. We'll plan to be there at 10:30 if that works for you. Is there any trick to getting in? Whose name should I give the guards?

-----Original Message-----
From: Jenson, Paula R. [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:14 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

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-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Our meeting
Date: Thursday, August 01, 2013 3:04:05 PM

That's very kind Tim. I was too. Let's catch up when I get back to Washington.

----- Original Message -----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Thursday, August 01, 2013 02:59 PM Eastern Standard Time
To: Gonzalez, Lourdes
Subject: RE: Our meeting

I'm so sorry to hear that. I was looking forward to seeing you. I hope everything works out for you.

Tim

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From:	Jenson, Paula R.
To:	Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc:	Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject:	RE: Our meeting
Date:	Monday, August 05, 2013 9:22:28 AM

Great. No trick to getting in - just be sure you have ID. And you can give them Brian Baltz's name. His phone number is [redacted].

We look forward to seeing you on Wednesday.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:19 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Ok. We'll plan to be there at 10:30 if that works for you. Is there any trick to getting in? Whose name should I give the guards?

-----Original Message-----
From: Jenson, Paula R. [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:14 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Thanks for following up, Tim. I didn't realize there were loose ends regarding arrangements.

We'd be grateful if we could have the meeting at our office, given the number of people here who are interested. It looks like Lourdes set aside 2 hours to meet - either 10-12 or 10:30-12:30 on Wednesday - whichever would work best for you.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From:	Jenson, Paula R.
To:	Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc:	Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject:	RE: Our meeting
Date:	Monday, August 05, 2013 9:14:14 AM

Thanks for following up, Tim. I didn't realize there were loose ends regarding arrangements.

We'd be grateful if we could have the meeting at our office, given the number of people here who are interested. It looks like Lourdes set aside 2 hours to meet - either 10-12 or 10:30-12:30 on Wednesday - whichever would work best for you.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

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From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

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I hope to catch up soon.

Best,

Lourdes

From:	Hauser, Timothy - SOL
To:	"Baltz, Brian"
Cc:	Cosby, Chris - EBSA; Hauser, Timothy - SOL
Subject:	RE: Our meeting
Date:	Monday, August 05, 2013 6:32:30 PM

It's supposed to be EBSA's "Office of Exemption Determinations" in the email below -- some neurons misfired or something when I was writing the email!

-----Original Message-----
From: Hauser, Timothy - SOL
Sent: Monday, August 05, 2013 6:31 PM
To: 'Baltz, Brian'
Cc: Hauser, Timothy - SOL; Cosby, Chris - EBSA
Subject: RE: Our meeting

Thanks. On our end, I expect that Bill Taylor and I will attend from the Solicitor's Office; Lou Campagna and Fred Wong from EBSA's Office of Regulations and Interpretations; Lyssa Hall and Karen Lloyd from EBSA's Office of Exemptions and Determinations; and Chris Cosby (and possibly one other person) from EBSA's Office of Policy and Research.

Chris, do you expect anybody else to attend from your office? If so, could you send a note to Brian and cc me?

Tim

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 10:50 AM
To: Hauser, Timothy - SOL
Subject: RE: Our meeting

Thanks, Tim. On our end there will be staff from the Division of Trading and Markets, Division of Investment Management, and Division of Economic and Risk Analysis.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 10:00 AM
To: Baltz, Brian
Subject: RE: Our meeting

One or two people will be attending from each of the relevant EBSA offices. I'll get you a list. Which SEC offices will be represented?

-----Original Message-----

From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:31 AM
To: Jenson, Paula R.; Hauser, Timothy - SOL; Russell, Emily
Subject: RE: Our meeting

Tim, will anyone else be joining you? If so, can you please send me their names as well so I can let security know? Thank you.

-----Original Message-----
From: Jenson, Paula R.
Sent: Monday, August 05, 2013 9:21 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Great. No trick to getting in - just be sure you have ID. And you can give them Brian Baltz's name. His phone number is [redacted]

We look forward to seeing you on Wednesday.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:19 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Ok. We'll plan to be there at 10:30 if that works for you. Is there any trick to getting in? Whose name should I give the guards?

-----Original Message-----
From: Jenson, Paula R. [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:14 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Thanks for following up, Tim. I didn't realize there were loose ends regarding arrangements.

We'd be grateful if we could have the meeting at our office, given the number of people here who are interested. It looks like Lourdes set aside 2 hours to meet - either 10-12 or 10:30-12:30 on Wednesday - whichever would work best for you.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]

Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From: Hauser, Timothy - SOL
To: "Baltz, Brian"
Cc: Hauser, Timothy - SOL; Cosby, Chris - EBSA
Subject: RE: Our meeting
Date: Monday, August 05, 2013 6:31:03 PM

Thanks. On our end, I expect that Bill Taylor and I will attend from the Solicitor's Office; Lou Campagna and Fred Wong from EBSA's Office of Regulations and Interpretations; Lyssa Hall and Karen Lloyd from EBSA's Office of Exemptions and Determinations; and Chris Cosby (and possibly one other person) from EBSA's Office of Policy and Research.

Chris, do you expect anybody else to attend from your office? If so, could you send a note to Brian and cc me?

Tim

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 10:50 AM
To: Hauser, Timothy - SOL
Subject: RE: Our meeting

Thanks, Tim. On our end there will be staff from the Division of Trading and Markets, Division of Investment Management, and Division of Economic and Risk Analysis.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 10:00 AM
To: Baltz, Brian
Subject: RE: Our meeting

One or two people will be attending from each of the relevant EBSA offices. I'll get you a list. Which SEC offices will be represented?

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:31 AM
To: Jenson, Paula R.; Hauser, Timothy - SOL; Russell, Emily
Subject: RE: Our meeting

Tim, will anyone else be joining you? If so, can you please send me their names as well so I can let security know? Thank you.

-----Original Message-----
From: Jenson, Paula R.
Sent: Monday, August 05, 2013 9:21 AM

To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Great. No trick to getting in - just be sure you have ID. And you can give them Brian Baltz's name. His phone number is [redacted].

We look forward to seeing you on Wednesday.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:19 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Ok. We'll plan to be there at 10:30 if that works for you. Is there any trick to getting in? Whose name should I give the guards?

-----Original Message-----
From: Jenson, Paula R. [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:14 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Thanks for following up, Tim. I didn't realize there were loose ends regarding arrangements.

We'd be grateful if we could have the meeting at our office, given the number of people here who are interested. It looks like Lourdes set aside 2 hours to meet - either 10-12 or 10:30-12:30 on Wednesday - whichever would work best for you.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From:	Hauser, Timothy - SOL
To:	Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc:	"Gonzalez, Lourdes"; Hauser, Timothy - SOL
Subject:	RE: Our meeting
Date:	Monday, August 05, 2013 9:06:08 AM

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From: Baltz, Brian
To: Cosby, Chris - EBSA; Hauser, Timothy - SOL
Subject: RE: Our meeting
Date: Tuesday, August 06, 2013 9:50:55 AM

Tim and Chris,

Thank you very much. I'll let security know. See you tomorrow.

Brian

-----Original Message-----
From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, August 05, 2013 11:06 PM
To: Hauser, Timothy - SOL; Baltz, Brian
Subject: Re: Our meeting

Hi Brian:

I will be the sole Office of Policy and Research representative.

Chris

----- Original Message -----
From: Hauser, Timothy - SOL
Sent: Monday, August 05, 2013 06:31 PM
To: 'Baltz, Brian' [redacted]@SEC.GOV>
Cc: Hauser, Timothy - SOL; Cosby, Chris - EBSA
Subject: RE: Our meeting

Thanks. On our end, I expect that Bill Taylor and I will attend from the Solicitor's Office; Lou Campagna and Fred Wong from EBSA's Office of Regulations and Interpretations; Lyssa Hall and Karen Lloyd from EBSA's Office of Exemptions and Determinations; and Chris Cosby (and possibly one other person) from EBSA's Office of Policy and Research.

Chris, do you expect anybody else to attend from your office? If so, could you send a note to Brian and cc me?

Tim

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 10:50 AM
To: Hauser, Timothy - SOL
Subject: RE: Our meeting

Thanks, Tim. On our end there will be staff from the Division of Trading and Markets, Division of Investment

Management, and Division of Economic and Risk Analysis.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 10:00 AM
To: Baltz, Brian
Subject: RE: Our meeting

One or two people will be attending from each of the relevant EBSA offices. I'll get you a list. Which SEC offices will be represented?

-----Original Message-----
From: Baltz, Brian [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:31 AM
To: Jenson, Paula R.; Hauser, Timothy - SOL; Russell, Emily
Subject: RE: Our meeting

Tim, will anyone else be joining you? If so, can you please send me their names as well so I can let security know? Thank you.

-----Original Message-----
From: Jenson, Paula R.
Sent: Monday, August 05, 2013 9:21 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Great. No trick to getting in - just be sure you have ID. And you can give them Brian Baltz's name. His phone number is [redacted].

We look forward to seeing you on Wednesday.

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:19 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Ok. We'll plan to be there at 10:30 if that works for you. Is there any trick to getting in? Whose name should I give the guards?

-----Original Message-----
From: Jenson, Paula R. [redacted]@SEC.GOV]
Sent: Monday, August 05, 2013 9:14 AM
To: Hauser, Timothy - SOL; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Scheidt, Douglas J.; Kozora, Matthew
Subject: RE: Our meeting

Thanks for following up, Tim. I didn't realize there were loose ends regarding arrangements.

We'd be grateful if we could have the meeting at our office, given the number of people here who are interested. It looks like Lourdes set aside 2 hours to meet - either 10-12 or 10:30-12:30 on Wednesday - whichever would work best for you.

-----Original Message-----

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, August 05, 2013 9:06 AM
To: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Cc: Gonzalez, Lourdes; Hauser, Timothy - SOL
Subject: RE: Our meeting

I hadn't yet finalized arrangements with Lourdes when I got the email below. Are we still on for Wednesday at 10? Should I reserve a room here or would you prefer that we come to your offices?

-----Original Message-----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 01, 2013 2:55 PM
To: Hauser, Timothy - SOL
Cc: Jenson, Paula R.; Russell, Emily; Baltz, Brian
Subject: Our meeting

Hi Tim,

I'm sorry but I have a family emergency so I will miss our meeting next week. Any of my colleagues whom I've cc'd on this email will be able to finalize scheduling it for next week and they will participate for Trading and Markets as well.

I hope to catch up soon.

Best,

Lourdes

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Tuesday, April 01, 2014 9:44:20 AM

... Also, let me know what you need in terms of security info.

From: McHugh, Jennifer B.
Sent: Tuesday, April 01, 2014 9:42 AM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Possible Meeting Time

FYI: I've secured the 15-passenger van, so we can come to you on Thursday. Let me know when would be a good time for us to talk in advance. Thanks.

From: McHugh, Jennifer B.
Sent: Monday, March 31, 2014 11:25 AM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Possible Meeting Time

Yes, that would be good. Also, I am still working to make sure that we can come to DOL.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, March 31, 2014 11:23 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Still on. Should we talk before the meeting?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Monday, March 31, 2014 11:22 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

Tim,

Welcome back!! I hope you had a wonderful trip. I just wanted to confirm that we are still set for April 3 at 11:00.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:41 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Thank you. I'm looking forward to it. I'll resist the temptation to spend the meeting on pictures from my trip!

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 5:39 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

I THINK we can go to you. Glad we're set.

Have a fantastic trip!!!

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:37 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

April 3 at 11:00 works! Will you come here or do you need us to come to you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Tuesday, April 01, 2014 9:42:55 AM

FYI: I've secured the 15-passenger van, so we can come to you on Thursday. Let me know when would be a good time for us to talk in advance. Thanks.

From: McHugh, Jennifer B.
Sent: Monday, March 31, 2014 11:25 AM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Possible Meeting Time

Yes, that would be good. Also, I am still working to make sure that we can come to DOL.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, March 31, 2014 11:23 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Still on. Should we talk before the meeting?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Monday, March 31, 2014 11:22 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

Tim,

Welcome back!! I hope you had a wonderful trip. I just wanted to confirm that we are still set for April 3 at 11:00.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:41 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Thank you. I'm looking forward to it. I'll resist the temptation to spend the meeting on pictures from my trip!

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 5:39 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

I THINK we can go to you. Glad we're set.

Have a fantastic trip!!!

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:37 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

April 3 at 11:00 works! Will you come here or do you need us to come to you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Monday, March 31, 2014 11:26:04 AM

Yes, that would be good. Also, I am still working to make sure that we can come to DOL.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, March 31, 2014 11:23 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Still on. Should we talk before the meeting?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Monday, March 31, 2014 11:22 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

Tim,

Welcome back!! I hope you had a wonderful trip. I just wanted to confirm that we are still set for April 3 at 11:00.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:41 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Thank you. I'm looking forward to it. I'll resist the temptation to spend the meeting on pictures from my trip!

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 5:39 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

I THINK we can go to you. Glad we're set.

Have a fantastic trip!!!

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:37 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

April 3 at 11:00 works! Will you come here or do you need us to come to you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Monday, March 31, 2014 11:22:56 AM

Tim,

Welcome back!! I hope you had a wonderful trip. I just wanted to confirm that we are still set for April 3 at 11:00.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:41 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Thank you. I'm looking forward to it. I'll resist the temptation to spend the meeting on pictures from my trip!

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 5:39 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

I THINK we can go to you. Glad we're set.

Have a fantastic trip!!!

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:37 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

April 3 at 11:00 works! Will you come here or do you need us to come to you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Friday, March 14, 2014 5:39:50 PM

I THINK we can go to you. Glad we're set.

Have a fantastic trip!!!

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:37 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

April 3 at 11:00 works! Will you come here or do you need us to come to you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Thursday, March 13, 2014 9:40:31 AM

Let me check. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, March 13, 2014 9:35 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Thanks. I'll push for April 3 at 11 and get back to you. And if anybody on your end wants an informal chat today or tomorrow, I'm happy to talk.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Tuesday, April 01, 2014 9:47:26 AM

Does that mean you're bringing 15 people? If so, I'll try to get a little bigger conference room than I had lined up. If you could send me everybody's names and titles, maybe (no promises) we can make the security clearance process a little easier. Could you talk around 5:00 or 5:30 today? If that's too late, how about between 8:30 and 9:45 tomorrow? Look forward to seeing you, as always.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, April 01, 2014 9:42 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

FYI: I've secured the 15-passenger van, so we can come to you on Thursday. Let me know when would be a good time for us to talk in advance. Thanks.

From: McHugh, Jennifer B.
Sent: Monday, March 31, 2014 11:25 AM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Possible Meeting Time

Yes, that would be good. Also, I am still working to make sure that we can come to DOL.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, March 31, 2014 11:23 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Still on. Should we talk before the meeting?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Monday, March 31, 2014 11:22 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

Tim,

Welcome back!! I hope you had a wonderful trip. I just wanted to confirm that we are still set for April 3 at 11:00.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:41 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Thank you. I'm looking forward to it. I'll resist the temptation to spend the meeting on pictures from my trip!

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 5:39 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

I THINK we can go to you. Glad we're set.

Have a fantastic trip!!!

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:37 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

April 3 at 11:00 works! Will you come here or do you need us to come to you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Friday, March 14, 2014 5:36:52 PM

April 3 at 11:00 works! Will you come here or do you need us to come to you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA
To: "McHugh, Jennifer B."
Subject: RE: Possible Meeting Time
Date: Thursday, March 13, 2014 9:35:00 AM

Thanks. I'll push for April 3 at 11 and get back to you. And if anybody on your end wants an informal chat today or tomorrow, I'm happy to talk.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time
Date: Tuesday, April 01, 2014 9:54:41 AM

Could we do 9:15 tomorrow? I'll get you the names.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 01, 2014 9:47 AM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

Does that mean you're bringing 15 people? If so, I'll try to get a little bigger conference room than I had lined up. If you could send me everybody's names and titles, maybe (no promises) we can make the security clearance process a little easier. Could you talk around 5:00 or 5:30 today? If that's too late, how about between 8:30 and 9:45 tomorrow? Look forward to seeing you, as always.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, April 01, 2014 9:42 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

FYI: I've secured the 15-passenger van, so we can come to you on Thursday. Let me know when would be a good time for us to talk in advance. Thanks.

From: McHugh, Jennifer B.
Sent: Monday, March 31, 2014 11:25 AM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Possible Meeting Time

Yes, that would be good. Also, I am still working to make sure that we can come to DOL.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, March 31, 2014 11:23 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Still on. Should we talk before the meeting?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Monday, March 31, 2014 11:22 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

Tim,

Welcome back!! I hope you had a wonderful trip. I just wanted to confirm that we are still set for April 3 at 11:00.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:41 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Meeting Time

Thank you. I'm looking forward to it. I'll resist the temptation to spend the meeting on pictures from my trip!

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 5:39 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

I THINK we can go to you. Glad we're set.

Have a fantastic trip!!!

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:37 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Meeting Time

April 3 at 11:00 works! Will you come here or do you need us to come to you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Thursday, March 13, 2014 9:27 AM
To: Hauser, Timothy - EBSA
Subject: Possible Meeting Time

Tim,

Thanks for your voicemail from Tuesday. Looking at April 2, 3 and 4, the time that would work best for us is April 3 at 11:00 a.m. I've put a hold on the calendars of our relevant people for that time. Does that work for your team? If not, the afternoon of April 3 also looks pretty good for us.

Thanks,

Jennifer

From:	McHugh, Jennifer B.
To:	Hauser, Timothy - EBSA
Subject:	RE: Possible Time to Meet
Date:	Tuesday, February 25, 2014 5:39:53 PM

I was even able to reserve a nice conference room.

If you have a chance on Thursday, it would be great if you could send me a list of DOL attendees so that I can provide it to Security. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 2:45 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

Terrific. Thanks for setting it up.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 12:45 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

We are set. 2:00-3:00 at the SEC.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 11:14 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

I thought maybe that was just the way people talked at the SEC!

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 11:13 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

Did you notice that I fixed the “re” line?!?! ☺

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 11:05 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 11:04 AM
To: Hauser, Timothy - EBSA

Subject: RE: Possible Time to Meet

I'm trying for 2:00 to 3:00. But there is one key person (Jennifer Marietta-Westberg) who is not free then. So I'm trying to see if she can change her schedule. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 10:24 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meeting

Were you able to find a time?

From: McHugh, Jennifer B. [mailto:McHughJ@SEC.GOV]
Sent: Monday, February 24, 2014 9:41 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

Sounds good. Let me check on afternoon availability.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 9:31 AM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

Jennifer, I have a doctor's appointment in the morning. Could we set it up for that afternoon? We'd be happy to come there, assuming we can find an afternoon time that works.

Also, I'm hoping the primary focus can be on the regulatory impact analysis that we sent to you. Does that make sense?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, February 21, 2014 1:40 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

No problem. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, February 21, 2014 1:37 PM
To: McHugh, Jennifer B.
Subject: Re: Possible Time to Meeting

Let me see if that works. Unfortunately, I'm in Philadelphia for work all day -- so it may be Monday before I can get back to you.

From: McHugh, Jennifer B. [redacted]@SEC.GOV>
Sent: Friday, February 21, 2014 10:02:07 AM

To: Hauser, Timothy - EBSA
Subject: Possible Time to Meeting

Tim,

I've canvassed a core group of our staff for Feb. 26 and 28, and a meeting on Feb. 28 from 10:30 to 11:30 would work well for us. How does that look on your end? Also, would you be willing to meet at the SEC?

Thanks,

Jennifer

From:	McHugh, Jennifer B.
To:	Hauser, Timothy - EBSA
Subject:	RE: Possible Time to Meet
Date:	Tuesday, February 25, 2014 12:46:26 PM

We are set. 2:00-3:00 at the SEC.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 11:14 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

I thought maybe that was just the way people talked at the SEC!

From: McHugh, Jennifer B. [[redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 11:13 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

Did you notice that I fixed the "re" line?!?! ☺

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 11:05 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 11:04 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

I'm trying for 2:00 to 3:00. But there is one key person (Jennifer Marietta-Westberg) who is not free then. So I'm trying to see if she can change her schedule. Thanks.

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Sent: Tuesday, February 25, 2014 10:24 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meeting

Were you able to find a time?

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To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

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From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 9:31 AM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

Jennifer, I have a doctor's appointment in the morning. Could we set it up for that afternoon? We'd be happy to come there, assuming we can find an afternoon time that works.

Also, I'm hoping the primary focus can be on the regulatory impact analysis that we sent to you. Does that make sense?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, February 21, 2014 1:40 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

No problem. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, February 21, 2014 1:37 PM
To: McHugh, Jennifer B.
Subject: Re: Possible Time to Meeting

Let me see if that works. Unfortunately, I'm in Philadelphia for work all day -- so it may be Monday before I can get back to you.

From: McHugh, Jennifer B. [redacted]@SEC.GOV>
Sent: Friday, February 21, 2014 10:02:07 AM
To: Hauser, Timothy - EBSA
Subject: Possible Time to Meeting

Tim,

I've canvassed a core group of our staff for Feb. 26 and 28, and a meeting on Feb. 28 from 10:30 to 11:30 would work well for us. How does that look on your end? Also, would you be willing to meet at the SEC?

Thanks,

Jennifer

From:	McHugh, Jennifer B.
To:	Hauser, Timothy - EBSA
Subject:	RE: Possible Time to Meet
Date:	Tuesday, February 25, 2014 11:13:25 AM

Did you notice that I fixed the "re" line?!?! ☺

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 11:05 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 11:04 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

I'm trying for 2:00 to 3:00. But there is one key person (Jennifer Marietta-Westberg) who is not free then. So I'm trying to see if she can change her schedule. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 10:24 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meeting

Were you able to find a time?

From: McHugh, Jennifer B. [[redacted]@SEC.GOV]
Sent: Monday, February 24, 2014 9:41 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

Sounds good. Let me check on afternoon availability.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 9:31 AM
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Cc: Hauser, Timothy - EBSA
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To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

No problem. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
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To: McHugh, Jennifer B.
Subject: Re: Possible Time to Meeting

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Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet
Date: Tuesday, February 25, 2014 11:04:07 AM

I'm trying for 2:00 to 3:00. But there is one key person (Jennifer Marietta-Westberg) who is not free then. So I'm trying to see if she can change her schedule. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 10:24 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meeting

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Sent: Monday, February 24, 2014 9:41 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

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Sent: Monday, February 24, 2014 9:31 AM
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Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

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To: Hauser, Timothy - EBSA
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To: McHugh, Jennifer B.
Subject: Re: Possible Time to Meeting

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Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet
Date: Tuesday, February 25, 2014 6:13:27 PM

Just say you're seeing me. For some reason, they don't let you walk the halls alone, even after you have passed through security.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 6:11 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

Will do. Do I need a room number or do I just tell them we are seeing you?

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 5:40 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

I was even able to reserve a nice conference room.

If you have a chance on Thursday, it would be great if you could send me a list of DOL attendees so that I can provide it to Security. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 2:45 PM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

Terrific. Thanks for setting it up.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 12:45 PM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

We are set. 2:00-3:00 at the SEC.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 11:14 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

I thought maybe that was just the way people talked at the SEC!

From: McHugh, Jennifer B. [redacted]@SEC.GOV]

Sent: Tuesday, February 25, 2014 11:13 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

Did you notice that I fixed the "re" line?!?! ☺

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, February 25, 2014 11:05 AM
To: McHugh, Jennifer B.
Subject: RE: Possible Time to Meet

Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 11:04 AM
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meet

I'm trying for 2:00 to 3:00. But there is one key person (Jennifer Marietta-Westberg) who is not free then. So I'm trying to see if she can change her schedule. Thanks.

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Subject: RE: Possible Time to Meeting

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Sent: Friday, February 21, 2014 1:40 PM

To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

No problem. Thanks.

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Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting
Date: Friday, February 21, 2014 1:40:20 PM

No problem. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, February 21, 2014 1:37 PM
To: McHugh, Jennifer B.
Subject: Re: Possible Time to Meeting

Let me see if that works. Unfortunately, I'm in Philadelphia for work all day -- so it may be Monday before I can get back to you.

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Thanks,

Jennifer

From:	Hauser, Timothy - EBSA
To:	McHugh, Jennifer B.
Cc:	Hauser, Timothy - EBSA
Subject:	RE: Possible Time to Meeting
Date:	Monday, February 24, 2014 9:30:40 AM

Jennifer, I have a doctor's appointment in the morning. Could we set it up for that afternoon? We'd be happy to come there, assuming we can find an afternoon time that works.

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Thanks,

Jennifer

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting
Date: Monday, February 24, 2014 9:41:04 AM

Sounds good. Let me check on afternoon availability.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 9:31 AM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Possible Time to Meeting

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To: Hauser, Timothy - EBSA
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To: McHugh, Jennifer B.
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Thanks,

Jennifer

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times
Date: Tuesday, July 29, 2014 5:46:31 PM

I'm happy to talk at 8:30 tomorrow. Please give me a call then.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 29, 2014 5:37 PM
To: Porter, Jennifer R.
Subject: Re: Potential Call Times

Thanks. I thought the calls were helpful too. I appreciate all your help. Tomorrow morning is bad except for 8:30 to 9:00 and 9:30 to 9:45 or so. After that, I'm not free again until 3.

From: Porter, Jennifer R. [redacted]@SEC.GOV>
Sent: Tuesday, July 29, 2014 5:30:15 PM
To: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times

Tim, our teams really appreciated talking with your staff today. I hope that you found the conversations to be helpful as well. I would love to speak with you briefly tomorrow if you have a few minutes to follow up on the calls. I am available most of the day before 2:30. Is there a particular time that would work for you to call me? If not, some time on Thursday could work too.

Regards,
Jen

Jen Porter
Chair's Office
[redacted]

From: Porter, Jennifer R.
Sent: Monday, July 28, 2014 1:41 PM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Potential Call Times

Yes, my apologies for misspeaking. Both of the calls are tomorrow. I look forward to talking with you then!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, July 28, 2014 1:27 PM
To: Porter, Jennifer R.
Subject: Re: Potential Call Times

Sounds like a plan. Both calls are tomorrow, right?

From: Porter, Jennifer R. [redacted]@SEC.GOV>
Sent: Monday, July 28, 2014 1:20:12 PM
To: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times

Tim, I think conference calls will work today and tomorrow. If the group feels we would benefit from further discussions in person, we will be happy to schedule something else. What do you think?

Let's use my dial-in: 888-[redacted], code: [redacted].

What is your direct number in case I need to give you a call before then?

Thanks,
Jen

Jen Porter
Chair's Office
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, July 28, 2014 12:49 PM
To: Porter, Jennifer R.
Subject: Re: Potential Call Times

Sorry! I've been in meetings all morning. Those times work. We are good to go. Should we come to you?

From: Porter, Jennifer R. [redacted]@SEC.GOV>
Sent: Monday, July 28, 2014 11:33:33 AM
To: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times

Tim, have you heard from everyone about whether these times will work? As I am sure you appreciate, we have several schedules we are coordinating and it would help to know whether these times are definite.

Many thanks,
Jen

From: Porter, Jennifer R.
Sent: Friday, July 25, 2014 5:25 PM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Potential Call Times

Thank you, we will tentatively plan on both of those times. Have a great weekend!

Jen

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, July 25, 2014 5:12 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times

I haven't heard from all quarters, but how about penciling in Tuesday 1-2 for the general exemption and Tuesday after 4 for the economic analysis? Thanks again for the call.

Tim

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Friday, July 25, 2014 3:30 PM
To: Hauser, Timothy - EBSA
Subject: Potential Call Times

Tim,

I enjoyed speaking with you today. As we discussed, here are the times that our staff are available for calls to talk about their comments on the draft general exemption and economic analysis.

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Economic analysis: Tuesday 11:30-1:30 or after 4

Also I do not think that I have your direct phone number. Would you mind sending it to me?

Thanks,
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JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times
Date: Tuesday, July 29, 2014 5:31:00 PM

Tim, our teams really appreciated talking with your staff today. I hope that you found the conversations to be helpful as well. I would love to speak with you briefly tomorrow if you have a few minutes to follow up on the calls. I am available most of the day before 2:30. Is there a particular time that would work for you to call me? If not, some time on Thursday could work too.

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Chair's Office
[redacted]

From: Porter, Jennifer R.
Sent: Monday, July 28, 2014 1:41 PM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Potential Call Times

Yes, my apologies for misspeaking. Both of the calls are tomorrow. I look forward to talking with you then!

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Chair's Office
[redacted]

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Subject: Re: Potential Call Times

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From: Porter, Jennifer R.
Sent: Friday, July 25, 2014 5:25 PM
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Subject: RE: Potential Call Times

Thank you, we will tentatively plan on both of those times. Have a great weekend!

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From: Hauser, Timothy - EBSA [redacted]@dol.gov]
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To: Porter, Jennifer R.
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U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times
Date: Monday, July 28, 2014 1:41:36 PM

Yes, my apologies for misspeaking. Both of the calls are tomorrow. I look forward to talking with you then!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, July 28, 2014 1:27 PM
To: Porter, Jennifer R.
Subject: Re: Potential Call Times

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To: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times

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Chair's Office
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Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From:	Porter, Jennifer R.
To:	Hauser, Timothy - EBSA
Subject:	RE: Potential Call Times
Date:	Monday, July 28, 2014 1:20:50 PM

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Also I do not think that I have your direct phone number. Would you mind sending it to me?

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From:	Porter, Jennifer R.
To:	Hauser, Timothy - EBSA
Subject:	RE: Potential Call Times
Date:	Monday, July 28, 2014 11:34:50 AM

Tim, have you heard from everyone about whether these times will work? As I am sure you appreciate, we have several schedules we are coordinating and it would help to know whether these times are definite.

Many thanks,
Jen

From: Porter, Jennifer R.
Sent: Friday, July 25, 2014 5:25 PM
To: 'Hauser, Timothy - EBSA'
Subject: RE: Potential Call Times

Thank you, we will tentatively plan on both of those times. Have a great weekend!

Jen

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, July 25, 2014 5:12 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times

I haven't heard from all quarters, but how about penciling in Tuesday 1-2 for the general exemption and Tuesday after 4 for the economic analysis? Thanks again for the call.

Tim

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Friday, July 25, 2014 3:30 PM
To: Hauser, Timothy - EBSA
Subject: Potential Call Times

Tim,

I enjoyed speaking with you today. As we discussed, here are the times that our staff are available for calls to talk about their comments on the draft general exemption and economic analysis.

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Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times
Date: Friday, July 25, 2014 5:26:05 PM

Thank you, we will tentatively plan on both of those times. Have a great weekend!

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Sent: Friday, July 25, 2014 5:12 PM
To: Porter, Jennifer R.
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From: Hauser, Timothy - EBSA
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Potential Call Times
Date: Friday, July 25, 2014 5:12:27 PM

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From:	Hauser, Timothy - EBSA
To:	McHugh, Jennifer B.
Cc:	Hauser, Timothy - EBSA
Subject:	Re: SEC Meeting
Date:	Wednesday, February 26, 2014 2:08:53 PM

Oops. I forgot one person -- Uchenna Evans from our Solicitor's Office.

I hope it's not too big of a crowd!

From: Hauser, Timothy - EBSA
Sent: Wednesday, February 26, 2014 1:59:44 PM
To: McHugh, Jennifer B. [redacted]@SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: SEC Meeting

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I'm looking forward to seeing you.

Tim

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Cc: 'Borzi, Phyllis - EBSA [redacted]@dol.gov)'; 'Scott, William - SOL [redacted]@dol.gov)'; 'Taylor, William - SOL [redacted]@dol.gov)'
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From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: SEC Meeting
Date: Friday, February 28, 2014 5:51:02 PM

Thanks. You have a good weekend too.

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, February 28, 2014 5:43 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: SEC Meeting

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Have a great weekend.

Tim

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Sent: Wednesday, February 26, 2014 5:30 PM
To: Hauser, Timothy - EBSA
Subject: RE: SEC Meeting

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Matt Kozora, Economist
Bob Bagnall, General Counsel's Office
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David Grim, Deputy Director, Division of Investment Management
Doug Scheidt, Chief Counsel, Division of Investment Management
Liban Jama, Senior Advisor to Chair White
Jennifer McHugh, Senior Advisor to Chair White

Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, February 26, 2014 4:56 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: SEC Meeting

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Thanks. Look forward to seeing you.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Wednesday, February 26, 2014 2:45 PM
To: Hauser, Timothy - EBSA
Subject: RE: SEC Meeting

No it's fine. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, February 26, 2014 2:09 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: Re: SEC Meeting

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Cc: Hauser, Timothy - EBSA
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From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: SEC Meeting
Date: Wednesday, February 26, 2014 5:31:25 PM

Thanks, Tim. I think a bit of a walk through would be good. In terms of attendees:

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Thanks.

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To: Hauser, Timothy - EBSA
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From:	McHugh, Jennifer B.
To:	Hauser, Timothy - EBSA
Subject:	RE: SEC Meeting
Date:	Wednesday, February 26, 2014 2:45:33 PM

No it's fine. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, February 26, 2014 2:09 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
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From:	McHugh, Jennifer B.
To:	Hauser, Timothy - EBSA
Subject:	RE: SEC Meeting
Date:	Wednesday, February 26, 2014 2:42:28 PM

Thanks, Tim.

From: Hauser, Timothy - EBSA[redacted]@dol.gov]
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To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
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Date: Friday, February 28, 2014 5:42:59 PM

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To: McHugh, Jennifer B. [redacted]@SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: SEC Meeting

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Determinations; and Judy Mares, Phyllis' other Deputy.

I'm looking forward to seeing you.

Tim

From: Hauser, Timothy - EBSA
Sent: Wednesday, February 26, 2014 11:04 AM
To: 'Piacentini, Joseph - EBSA [redacted]@dol.gov)'; Mares, Judith - EBSA [redacted]@dol.gov); 'Canary, Joe - EBSA [redacted]@dol.gov)'; 'Hall, Lyssa - EBSA [redacted]@dol.gov)'; Lloyd, Karen - EBSA; Shiker, Brian - EBSA; Evans, Uchenna - SOL
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From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: SEC Meeting
Date: Wednesday, February 26, 2014 2:42:28 PM

Thanks, Tim.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, February 26, 2014 2:00 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: SEC Meeting

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From:	McHugh, Jennifer B.
To:	Hauser, Timothy - EBSA
Subject:	RE: SEC Meeting
Date:	Wednesday, February 26, 2014 2:45:33 PM

No it's fine. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, February 26, 2014 2:09 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: Re: SEC Meeting

Oops. I forgot one person -- Uchenna Evans from our Solicitor's Office.

I hope it's not too big of a crowd!

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From:	Hauser, Timothy - EBSA
To:	McHugh, Jennifer B.
Cc:	Hauser, Timothy - EBSA
Subject:	RE: SEC Meeting
Date:	Wednesday, February 26, 2014 4:56:18 PM

I left you two of my rambling disorganized phone mails, but thought I'd follow up with an email. Our chief economist is trying to put together a bit of an agenda for the meeting, and thought it would be helpful to get a sense of the extent to which people have gone through the regulatory impact analysis in detail. In other words, should he plan to do a bit of a walk-through, or will people already be very familiar with the material? Also, if you get a chance, could you let me know who plans to attend.

Thanks. Look forward to seeing you.

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From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: RE: SEC Meeting
Date: Wednesday, February 26, 2014 5:31:25 PM

Thanks, Tim. I think a bit of a walk through would be good. In terms of attendees:

Jennifer Marietta-Westberg, Deputy Chief Economist
Matt Kozora, Economist
Bob Bagnall, General Counsel's Office
John Ramsay, Acting Director, Division of Trading and Markets
David Blass, Chief Counsel, Division of Trading and Markets
David Grim, Deputy Director, Division of Investment Management
Doug Scheidt, Chief Counsel, Division of Investment Management
Liban Jama, Senior Advisor to Chair White
Jennifer McHugh, Senior Advisor to Chair White

Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, February 26, 2014 4:56 PM
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Cc: Hauser, Timothy - EBSA
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To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: Re: SEC Meeting
Date: Wednesday, February 26, 2014 2:08:53 PM

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From:	McHugh, Jennifer B.
To:	Hauser, Timothy - EBSA
Subject:	RE: SEC Staff Attendees for April 3rd Meeting
Date:	Wednesday, April 02, 2014 10:50:35 AM

Adding one more name to the end – Liban Jama. Thanks.

From: McHugh, Jennifer B.
Sent: Wednesday, April 02, 2014 10:18 AM
To: 'Hauser, Timothy - SOL [redacted]@dol.gov)'
Subject: SEC Staff Attendees for April 3rd Meeting

Tim: Please let me know if you need anything else. Jennifer

SEC Staff Attendees for April 3rd Meeting

David Blass, Chief Counsel, Division of Trading and Markets
Lourdes Gonzalez, Assistant Chief Counsel, Division of Trading and Markets
Emily Russell, Senior Special Counsel, Division of Trading and Markets
Douglas J. Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Rachel Loko, Attorney-Adviser, Division of Investment Management
Parisa Haghshenas, Attorney-Adviser, Division of Investment Management
Holly Hunter-Ceci, Senior Counsel, Division of Investment Management
Matt Kozora, Economist, Division of Economic and Risk Analysis
Bob Bagnall, Senior Special Counsel, Office of General Counsel
Jennifer McHugh, Senior Advisor to the Chair
Nathaniel Stankard, Deputy Chief of Staff
Liban Jama, Senior Advisor to the Chair

From:	Canary, Joe - EBSA
To:	Hult, Sandra M.
Cc:	Lebowitz, Alan - EBSA; Capolongo, Mabel - EBSA; Piacentini, Joseph - EBSA; Hauser, Timothy - SOL; Watson, Sharon - EBSA; Dingwall, Ian - EBSA; Hall, Lyssa - EBSA; Davis, Michael. L- EBSA ; Borzi, Phyllis - EBSA; Taylor, William - SOL; Turner, Jeffrey - EBSA; Monhart, Jeff - EBSA; Campagna, Lou - EBSA; Nash, Susan [redacted]@SEC.GOV)
Subject:	RE: SEC/EBSA Staff Meetings
Date:	Wednesday, September 12, 2012 2:41:44 PM

Sandi: September 24 from 4pm to 5pm works for our group. Next steps are preparing a preliminary agenda, exchanging participant lists, and deciding where to have the meeting. I will develop and send over a draft preliminary agenda to get things started. Thanks.

From: Hult, Sandra M. [redacted]@SEC.GOV]
Sent: Tuesday, September 11, 2012 4:12 PM
To: Canary, Joe - EBSA
Subject: FW: SEC/EBSA Staff Meetings

Good Afternoon, Joe –

Please excuse my delay in responding. Would you all be available September 24th from 4:00pm – 5:00pm? I have put a "hold" on this date/time on the calendar. Please let me know if this will work for you and your group and I will confirm on our end.

Regards,

Sandi

Sandra M. Hult
Executive Assistant to Norman Champ, Director
Securities and Exchange Commission
Division of Investment Management
100 F Street NE
Washington, DC 20549
[redacted]
[redacted]***@sec.gov***

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Thursday, September 06, 2012 3:44 PM
To: Nash, Susan; Hult, Sandra M.
Cc: Turner, Jeffrey - EBSA
Subject: RE: SEC/EBSA Staff Meetings

Susan and Sandi: Based on responses here so far, September 24 is looking like the best date for us, but I am still waiting for some people to respond. We have had a few additions to the possible topic list. Here is the expanded list.

Possible Topics:

(1) Extending the current MOU and possibility expanding it to include other federal agencies that have been important partners in our more recent inter-agency coordination efforts, for example the CFTC
(2) Fiduciary regulation / project
(3) TDFs
(4) SEC advertising rules and participant disclosures under our lifetime income initiative
(5) Guidance on investing in hedge funds
(6) Dodd Frank issues regarding swap transactions
(7) Benchmarking issues
(8) Participant/investor assistance and outreach
(9) PCAOB's inspection program
(10) Sharing with EBSA of SEC Training that SEC tapes and distributes to its field offices
(11) Access to hedge fund data on the SEC's Form PF

From: Nash, Susan [redacted]@SEC.GOV]
Sent: Sunday, September 02, 2012 7:08 PM
To: Canary, Joe - EBSA
Cc: Turner, Jeffrey - EBSA; Hult, Sandra M.
Subject: Re: SEC/EBSA Staff Meetings

Thanks Joe. Well be back to you on dates and participants.

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Thursday, August 30, 2012 01:45 PM
To: Nash, Susan
Cc: Turner, Jeffrey - EBSA [redacted]@dol.gov>; Hult, Sandra M.
Subject: RE: SEC/EBSA Staff Meetings

Susan and Sandi:

I am checking on the following dates/times here. I will let you know early next week about the best options for us.

September 21 at 1pm, 2pm or 3pm
September 24 at 10am or 11am.
September 26 at 1pm, 2pm or 3pm.
September 27 at 11am or 3pm.

I have advised people here that my expectation is that the meeting will be scheduled for 1 hour, but may run over to 90 minutes (especially the first meeting). I have also said we will be developing an agenda and attendee list for the meeting, and noted the following as possible topics: (1) extending the current MOU and possibility expanding it to include other federal agencies that have been important partners in our more recent inter-agency coordination efforts, for example the CFTC; (2) the fiduciary reg project; (3) TDFs; (4) SEC advertising rules and participant disclosures under our lifetime income initiative; (5) guidance on investing in hedge funds; and (6) Dodd Frank issues regarding swap transactions. A copy of the current MOU is attached for your information.

I was asked whether you expect offices other than the Division of Investment Management will be participating?

From: Nash, Susan [redacted]@SEC.GOV]
Sent: Monday, August 27, 2012 4:33 PM
To: Canary, Joe - EBSA
Cc: Turner, Jeffrey - EBSA; Hult, Sandra M.
Subject: RE: Meeting

That's great. Have you thought more about the scope of subjects you want to cover? I suggest you e-mail both me and Sandi Hult (Norm Champ's assistant) when you have some dates you want to propose since I will be out of the office beginning Thursday.

From: Canary, Joe - EBSA[redacted]@dol.gov]
Sent: Monday, August 27, 2012 4:25 PM
To: Nash, Susan
Cc: Turner, Jeffrey - EBSA
Subject: RE: Meeting

Yes. Senior staff here very committed. Just need to get a date in mid to late September that works for people here to offer as a starting date for scheduling. I know this process can be difficult with so many schedules in play. If you have a better approach, let me know.

From: Nash, Susan [redacted]@SEC.GOV]
Sent: Monday, August 27, 2012 4:06 PM
To: Canary, Joe - EBSA
Subject: Meeting

Hi Joe:

Just wanted to follow up on our conversation about setting up a meeting between SEC and DOL staffs. I'll be out of the office for a week and a half starting this Thursday and was hoping to get the arrangements for the meeting underway before I go.

Have you had further thoughts about the meeting?

You can reach me at [redacted].

Thanks.

Susan

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	Re: SEC"s data request
Date:	Saturday, March 02, 2013 4:08:34 PM

Mon-Wednesday and Thursday afternoon.

----- Original Message -----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Saturday, March 02, 2013 04:05 PM
To: Gonzalez, Lourdes
Subject: Re: SEC's data request

Thanks, Lourdes. I saw this yesterday. Are you going to be around this coming week?

----- Original Message -----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Saturday, March 02, 2013 03:40 PM
To: Hauser, Timothy - SOL
Cc: Blass, D.W. (David) [redacted]@SEC.GOV>
Subject: SEC's data request

Hi Tim:

I imagine others have forwarded it to you, but my boss, David Blass, wanted to be sure you and our other colleagues at DoL saw the Commission's just issued fiduciary / harmonization request for data. It is at this link:

http://www.sec.gov/rules/other/2013/34-69013.pdf

I hope all is well. I'd love to catch up with you sometime.

Best,

Lourdes

From:	Hauser, Timothy - SOL
To:	[redacted]@SEC.GOV"
Cc:	Hauser, Timothy - SOL
Subject:	Re: SEC"s data request
Date:	Saturday, March 02, 2013 4:10:03 PM

I'll give you a call if that's ok. I hope you're doing well.

----- Original Message -----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Saturday, March 02, 2013 04:08 PM
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Best,

Lourdes

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To: Hauser, Timothy - SOL
Subject: Re: SEC''s data request
Date: Saturday, March 02, 2013 4:54:44 PM

Definitely. Always happy to catch up with you Tim. [redacted]. Lourdes.

----- Original Message -----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Saturday, March 02, 2013 04:10 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: Re: SEC's data request

I'll give you a call if that's ok. I hope you're doing well.

----- Original Message -----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Saturday, March 02, 2013 04:08 PM
To: Hauser, Timothy - SOL
Subject: Re: SEC's data request

Mon-Wednesday and Thursday afternoon.

----- Original Message -----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Saturday, March 02, 2013 04:05 PM
To: Gonzalez, Lourdes
Subject: Re: SEC's data request

Thanks, Lourdes. I saw this yesterday. Are you going to be around this coming week?

----- Original Message -----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Saturday, March 02, 2013 03:40 PM
To: Hauser, Timothy - SOL
Cc: Blass, D.W. (David) [redacted]@SEC.GOV>
Subject: SEC's data request

Hi Tim:

I imagine others have forwarded it to you, but my boss, David Blass, wanted to be sure you and our other colleagues at DoL saw the Commission's just issued fiduciary / harmonization request for data. It is at this link:

http://www.sec.gov/rules/other/2013/34-69013.pdf

I hope all is well. I'd love to catch up with you sometime.

Best,

Lourdes

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Today"s call
Date: Thursday, September 04, 2014 2:17:39 PM

Yes please. Thanks!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, September 04, 2014 2:16 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: Today's call
Importance: High

Should we use the numbers below for today's call?

From: Porter, Jennifer R. [redacted]@SEC.GOV>
Sent: Friday, August 29, 2014 1:05:15 PM
To: Hauser, Timothy - EBSA
Subject: RE: Disclosure and Audit Requirements

Tim, let's use the following number:
888-[redacted]
Code [redacted]

I hope you enjoy the long weekend!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, August 28, 2014 2:49 PM
To: Porter, Jennifer R.
Subject: RE: Disclosure and Audit Requirements

Is there a call-in number you'd like us to use?

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, August 26, 2014 5:19 PM
To: Hauser, Timothy - EBSA
Subject: RE: Disclosure and Audit Requirements

I think we have a longer block of time available on Tuesday, so let's plan on a call from 4-5. Thanks!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, August 26, 2014 5:08 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: FW: Disclosure and Audit Requirements

Thanks. I was glad to see you in person! Looking strictly at my own schedule, I think both Tuesday and Wednesday would probably work. Is either day better for you?

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, August 26, 2014 4:59 PM
To: Hauser, Timothy - EBSA
Subject: Disclosure and Audit Requirements

Tim,

I enjoyed our meeting earlier today. It was great to put faces to names. I would like to schedule a call to discuss the disclosure and audit requirements under the federal securities laws. Due to vacation schedules this week, it looks like sometime next week is our best bet with everyone on the team. Are you free at any of the following times?

Tuesday Sept. 2 at 3 - 5
Wednesday Sept. 3 at 1:30
Thursday Sept. 4 at 4-5

Also, following our conversation today, please let me know if it would be helpful for our economists to talk again about data and the economic analysis. I will be happy to set something up.

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Hauser, Timothy - SOL
To: "McHugh, Jennifer B."
Cc: Hauser, Timothy - SOL; Khawar, Ali - EBSA
Subject: RE: Your Voice Message
Date: Friday, March 08, 2013 1:04:07 PM

Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 08, 2013 1:03 PM
To: Hauser, Timothy - SOL
Subject: RE: Your Voice Message

Thanks very much, Tim. I will definitely pass this on to relevant staff in Chairman Walter's Office.

Jennifer B. McHugh
Senior Advisor to the Director
Division of Investment Management
U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, March 08, 2013 12:32 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL
Subject: Your Voice Message

Thanks for the voice mail. I'm glad to hear that you already have the background document.

Phyllis would like to meet with Chairman Walter if that's possible. If you could let me know the contact information for the SEC folks we should contact, I'll pass the information on to my EBSA colleagues so they can set something up.

If you would like to pass the information on to the person responsible for Ch. Walter's schedule, it looks like Phyllis has the following times and dates available in the next few weeks if any of these slots work on your end.

3/25: 10 am-noon, 3-5 pm
3/27: 10am-noon
3/28: 9:30-11:30 am, 2:30-5pm

Thanks again for all your help!

Tim

From: Hauser, Timothy - SOL
To: "McHugh, Jennifer B."
Cc: Hauser, Timothy - SOL
Subject: RE: Your Voice Message
Date: Friday, May 17, 2013 8:46:19 AM

Jennifer

Phyllis Borzi is hoping to meet with Chairman White now that she has been confirmed. Is this something you can help me with or could you point me in the right direction?

I hope you're doing well.

Tim
[redacted]

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 08, 2013 1:03 PM
To: Hauser, Timothy - SOL
Subject: RE: Your Voice Message

Thanks very much, Tim. I will definitely pass this on to relevant staff in Chairman Walter's Office.

Jennifer B. McHugh
Senior Advisor to the Director
Division of Investment Management
U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, March 08, 2013 12:32 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL
Subject: Your Voice Message

Thanks for the voice mail. I'm glad to hear that you already have the background document.

Phyllis would like to meet with Chairman Walter if that's possible. If you could let me know the contact information for the SEC folks we should contact, I'll pass the information on to my EBSA colleagues so they can set something up.

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3/25: 10 am-noon, 3-5 pm
3/27: 10am-noon

3/28: 9:30-11:30 am, 2:30-5pm

Thanks again for all your help!

Tim

From:	Porter, Jennifer R.
To:	Hauser, Timothy - EBSA
Subject:	Report
Date:	Tuesday, December 02, 2014 11:52:57 AM

Tim,

I'm just checking in to see whether you have been able to track down the report we discussed on the phone yesterday. I am happy to reach out to someone else directly if that is easier for you. Please let me know.

Many thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: SEC Staff Attendees for April 3rd Meeting
Date: Wednesday, April 02, 2014 10:18:35 AM

Tim: Please let me know if you need anything else. Jennifer

SEC Staff Attendees for April 3rd Meeting

David Blass, Chief Counsel, Division of Trading and Markets
Lourdes Gonzalez, Assistant Chief Counsel, Division of Trading and Markets
Emily Russell, Senior Special Counsel, Division of Trading and Markets
Douglas J. Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Rachel Loko, Attorney-Adviser, Division of Investment Management
Parisa Haghshenas, Attorney-Adviser, Division of Investment Management
Holly Hunter-Ceci, Senior Counsel, Division of Investment Management
Matt Kozora, Economist, Division of Economic and Risk Analysis
Bob Bagnall, Senior Special Counsel, Office of General Counsel
Jennifer McHugh, Senior Advisor to the Chair
Nathaniel Stankard, Deputy Chief of Staff

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Cc: Blass, D.W. (David)
Subject: SEC"s data request
Date: Saturday, March 02, 2013 3:40:59 PM

Hi Tim:

I imagine others have forwarded it to you, but my boss, David Blass, wanted to be sure you and our other colleagues at DoL saw the Commission's just issued fiduciary / harmonization request for data. It is at this link:

http://www.sec.gov/rules/other/2013/34-69013.pdf

I hope all is well. I'd love to catch up with you sometime.

Best,

Lourdes

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Thank you
Date: Friday, May 10, 2013 6:40:49 PM

Thanks a lot Tim. I would have never figured this out on my own. Have a good weekend. Lourdes

From:	Hauser, Timothy - EBSA
To:	Jennifer R. Porter
Cc:	Hauser, Timothy - EBSA
Subject:	Today"s call
Date:	Thursday, September 04, 2014 2:16:05 PM
Importance:	High

Should we use the numbers below for today's call?

From: Porter, Jennifer R. [redacted]@SEC.GOV>
Sent: Friday, August 29, 2014 1:05:15 PM
To: Hauser, Timothy - EBSA
Subject: RE: Disclosure and Audit Requirements

Tim, let's use the following number:
888-[redacted]
Code [redacted]

I hope you enjoy the long weekend!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, August 28, 2014 2:49 PM
To: Porter, Jennifer R.
Subject: RE: Disclosure and Audit Requirements

Is there a call-in number you'd like us to use?

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, August 26, 2014 5:19 PM
To: Hauser, Timothy - EBSA
Subject: RE: Disclosure and Audit Requirements

I think we have a longer block of time available on Tuesday, so let's plan on a call from 4-5. Thanks!

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, August 26, 2014 5:08 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: FW: Disclosure and Audit Requirements

Thanks. I was glad to see you in person! Looking strictly at my own schedule, I think both Tuesday and Wednesday would probably work. Is either day better for you?

From: Porter, Jennifer R.[redacted]@SEC.GOV]
Sent: Tuesday, August 26, 2014 4:59 PM
To: Hauser, Timothy - EBSA
Subject: Disclosure and Audit Requirements

Tim,

I enjoyed our meeting earlier today. It was great to put faces to names. I would like to schedule a call to discuss the disclosure and audit requirements under the federal securities laws. Due to vacation schedules this week, it looks like sometime next week is our best bet with everyone on the team. Are you free at any of the following times?

Tuesday Sept. 2 at 3 - 5
Wednesday Sept. 3 at 1:30
Thursday Sept. 4 at 4-5

Also, following our conversation today, please let me know if it would be helpful for our economists to talk again about data and the economic analysis. I will be happy to set something up.

Thanks,

Jen Porter
Chair's Office
[redacted]

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Your vm
Date: Friday, July 26, 2013 7:58:49 PM

Tim. I just picked it up. Let me look on my colleagues' calendars for other days next week.

From: Hauser, Timothy - SOL
To: "McHugh, Jennifer B."
Cc: Hauser, Timothy - SOL
Subject: Your Voice Message
Date: Friday, March 08, 2013 12:32:24 PM

Thanks for the voice mail. I'm glad to hear that you already have the background document.

Phyllis would like to meet with Chairman Walter if that's possible. If you could let me know the contact information for the SEC folks we should contact, I'll pass the information on to my EBSA colleagues so they can set something up.

If you would like to pass the information on to the person responsible for Ch. Walter's schedule, it looks like Phyllis has the following times and dates available in the next few weeks if any of these slots work on your end.

3/25: 10 am-noon, 3-5 pm
3/27: 10am-noon
3/28: 9:30-11:30 am, 2:30-5pm

Thanks again for all your help!

Tim

From:	McHugh, Jennifer B.
To:	Hauser, Timothy - SOL
Subject:	"Goldman flap underscores fiduciary issue"
Date:	Monday, March 19, 2012 10:55:24 AM

Just FYI.

InvestmentNews
The Leading News Source for Financial Advisers

InvestmentNews Reprints

Goldman flap underscores fiduciary issue

By Darla Mercado

March 18, 2012

When midlevel Goldman Sachs executive Greg Smith blasted his firm publicly last week for what he deems its rapacious behavior toward corporate and institutional clients, many retail advisers whose résumés include wirehouse stints nodded in recognition.

His New York Times Op-Ed piece struck an emotional chord with many of them who recalled relentless sales pressure.

“During the last 30 days that I worked at a brokerage firm, I received 25 e-mails from my branch manager on why every one of my clients needed to have [some] new proprietary mutual fund,” said Bob Rall, a fee-only adviser at Rall Capital Management and a veteran of Prudential Securities Inc.

“Everything was about the YTB on the product — the yield to the broker — not the yield to the client,” he said.

Russell G. Thornton, a vice president at Wealthcare Capital Management Inc. and a Merrill Lynch alumnus, agrees.

“Within the commission and sales environment of the wirehouse world, the general operating principle is: "How can I sell the most stuff to my clients?'” he said.

Although Mr. Smith's frame of reference reflects the institutional market, some advisers hope that his Op-Ed will be a wake-up call for clients, getting them to demand better quality of service they receive from advisers.

“One thing this ... will certainly do is make the idea of a client-first duty of care harder to ignore,” said Michael Branham, an adviser at Cornerstone Wealth Advisors Inc. and 2012 president-elect of the Financial Planning Association.

“Regardless of your legal obligation, it makes business sense to put the client's interests first,” he said. “Whether it's [The Goldman Sachs Group Inc.] or a small independent broker-dealer, that's what clients are really asking for.”

Some of the media coverage declared that advisers' true loyalties are to themselves and their firms, not their clients.

“A blazing resignation at Goldman Sachs shows us once again that financial advisers too often put their own interests first,” blared a sub-headline in an article posted last week on Time magazine's website.

Some advisers think that they are far enough from Wall Street so that the Op-Ed won't spur clients to question their commitment.

But others said that all the attention the Op-Ed generated only made a stronger case for highlighting the distinction between advice from a fiduciary and product information from a sales representative. If anything, it gives the public a hint of the battle brewing in Washington over from whom a fiduciary standard of care should be required.

“I think clients want to know that whoever is working with them has their interests at heart, and that there's more loyalty to the client than to the firm,” said Susan John, chairwoman of the National Association of Personal Financial Advisors.

“In the world of Greg Smith, the affected clients are institutional and presumed sophisticated — they should know and understand the rules of the game,” said William L. McCollum, a portfolio manager and chief compliance officer at Eagle Financial Management Services LLC.

“To the retail client, the revelation of conflicts of interest may come as a surprise: They have been misled to believe that their interests come first, when in most cases, there exists no fiduciary relationship,” he said.

“These firms and their representatives should not pretend to be something they are not,” Mr. McCollum said.

But other advisers think that the basic tenet of doing what is best for the client transcends business models. In other words, fee-only service arrangements aren't the only way to do right by the customer, because bad apples can turn up among those advisers, as well.

“The whole fiduciary thing has been blown out of proportion, and ultimately it boils down to trusting someone,” said Mr. Thornton, who describes his fee-only business model as “not better, but different” from his previous commission-based work.

“There were people I didn't like and didn't trust at Merrill, but I also know fee-only people who I don't truly trust or understand. Bernie Madoff should have been a fiduciary, and he was the worst.” Mr. Thornton said.

“If you do what's best for the client, you still make money — but that's long-term, as opposed to short-term,” said Rick Peterbok, chief executive of Interactive Financial Advisors, a dually registered firm. “If you do more to help the client, the rest will be OK.”

dmercado@investmentnews.com

From:	McHugh, Jennifer B.
To:	Campagna, Lou - EBSA; Wong, Fred - EBSA
Cc:	Hauser, Timothy - SOL; Marietta-Westberg, Jennifer; Kozora, Matthew; Blass, D.W. (David); Russell, Emily
Subject:	"Thanks but No Thanks on 401(k) Advice"
Date:	Tuesday, November 08, 2011 11:46:22 AM
Attachments:	ole0.bmp ole1.bmp ole2.bmp

Lou and Fred,

Here is the story I mentioned about the 401(k) advice study.

Thanks,

Jennifer

Jennifer B. McHugh

Senior Advisor to the Chairman

U.S. Securities and Exchange Commission

[redacted]

- THE WALL STREET JOURNAL.
  WSJ.com
- NOVEMBER 7, 2011

RETIREMENT SAVINGS

Thanks but No Thanks on 401(k) Advice

An increasing number of plans offer outside help, typically for a fee. So far, most participants aren't buying in.

By KAREN BLUMENTHAL

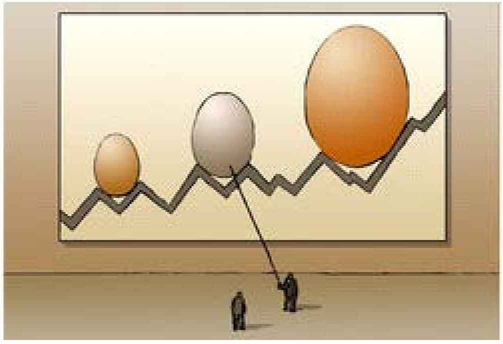
Amid volatile markets and concerns about how workers are investing their retirement savings, more 401(k) plans are offering participants specific investment advice and even automatic account management to make investing decisions easier.

More employers are offering 401(k) investors access to outside portfolio advice. We look at **whether these services are catching on** and whether they are worth it.

That should be a good thing: Survey after survey shows that formal advice leads investors to increase their savings, diversify their holdings and continue holding stocks even when the market takes a plunge.

But here's the catch: Only about a quarter of the people who have access to advice through their retirement plans actually take advantage of it, according to retirement-plan providers and firms that provide advice services. And most of those who do use advisory services neglect to provide the personal details that would make the advice more valuable.

For many years, 401(k) and similar plans offered mostly education and "guidance," such as brochures, seminars and worksheets that gave employees generic suggestions about how to manage their accounts. Providing advice goes much further, offering specific recommendations about how much to invest in specific funds in your plan.


Janusz Kapusta

It also carries a fiduciary respons bility, or a requirement to put investors' interests first. Because of that, most advice services are offered by a company other than the investment firm that provides the 401(k) plan's fund offerings.

A recent survey of 820 profit-sharing and 401(k) plans by the nonprofit Plan Sponsor Council of America found that 58% offered investment advice in 2010, most commonly online services, one-on-one counseling and telephone hot lines. That was up from 47% of firms surveyed in 2005. Just over a third of the plans offered professional account management, up from 24% in 2005.

Among large companies, 74% now offer advice or managed accounts to plan participants, up from 50% in 2009, says benefits consultant Aon Hewitt.

Consultants and advice providers say more retirement plans are offering such services in part because recent market volatility has left many people unsure of what to do. "When times are tough, there's a bigger demand for advice," says Chris Lyon, partner at Rocaton Investment Advisors LLC, a Norwa k, Conn., investment-consulting firm.

In addition, as companies continue to shift to 401(k) plans from pension plans, it has become more apparent that many employees are ill-equipped to manage their own money. They may make costly decisions, such as moving out of stocks only after the market has tanked. Many older investors are too heavily invested in stocks or worse, their own company's stock, while some young workers avoid stocks altogether.

Poor investment decisions aren't tied to specific jobs or salaries, says Sue Walton, senior investment consultant for Towers Watson, a consulting firm. She says she's seen manufacturing companies where "some of the folks on the line make more savvy decisions than those in the executive suite."

If you are comfortable studying the various funds in your company plan, assessing the funds' expenses, building a diversified mix of choices and tweaking your choices once a year or so, you probably don't need advice. But for those who are less sure, here's a rundown of what's available:

Managed accounts. In most managed accounts, a professional money manager creates and monitors a customized investment portfolio for clients, usually wealthy investors, often for a fee of 1% or more of the assets under management. A managed account for a 401(k), by contrast, is limited to the investment options offered in the plan.

Using 401(k) Help

Averages based on 425,000 people in eight 401(k) plans that offer both managed accounts and online advice

Managed accounts
Age: 48.2 years
Account balance: $66,202
Salary: $55,457
Contributions: 6.9% of pay

Online advice
Age: 40.9 years
Account balance: $106,293
Salary: $80,289
Contributions: 8.4% of pay

Don't use help
Age: 45.4 years
Account balance: $64,525
Salary: $53,406
Contributions: 6.3% of pay

Source: "Help in Defined Contribution Plans: 2006 through 2010" by Financial Engines and Aon Hewitt

Typically, a sophisticated computer program considers your age and pay, expected retirement date, the size of your 401(k) and your contr butions and then selects an appropriate allocation. The account is regularly rebalanced and adjusted as you age or when plan choices or market conditions change.

While a few plans pick up the cost of managed accounts, most people will pay fees of 0.2% to 0.6% of assets a year, or $20 to $60 for each $10,000 invested, depending on how much is invested and what the company has negotiated. It's basically the equivalent of a personal trainer or a medically monitored diet for your retirement plan.

Financial Engines Inc., which provides advice to participants of 445 mostly large plans, says that about a half-million plan participants with almost $44 billion in assets use its managed accounts, often those nearing retirement. Morningstar Inc.'s Investment Management division, which offers advice to about 150,000 plans, many of them small, manages the accounts of about 746,000 people with about $19 billion in assets.

The service is most effective when it is truly customized. To get that, participants are asked to provide data about their investments outside the plan, such as other savings, old 401(k) plans or IRAs, and a spouse's earnings and retirement accounts. The problem is, most people don't provide all of that detail. And without it, "you're not going to get what you pay for," says Ms. Walton.

One-on-one help. If you want to manage your own account, you still may have the option of sitting down with an adviser or talking with someone on the phone who will consider your individual situation and help you create a plan. It will be up to you, however, to actually make the changes to your account and monitor it in the future.

TIAA-CREF, which provides plans to 15,000 institutions with 3.7 million participants, offers such counseling at no charge. It has 400 people based in local offices, an additional 200 who visit institutions where it offers plans and about 100 phone reps to provide such guidance.

People who take advantage of that one-on-one help are more likely to make positive changes in their savings or portfolios. Still, says James Nichols, a vice president who oversees TIAA-CREF's advice and planning, "one of the challenges is getting people to stay on track," especially as they age and their situations change.

Internet services. The widely available and free do-it-yourself service, where you plug your information into an online program offered by your plan and get recommendations back, is also the least used, according to a recent study by Financial Engines and Aon Hewitt, which looked at how participants in eight plans fared between 2006 and 2010. More than twice as many participants in the plans used managed accounts as used online services.

The investors most likely to go online and put in the effort to get recommendations typically had higher earnings, saved a higher percentage of their pay and had larger balances than those who used managed accounts. They also tended to be a bit younger than the managed-account users.

The general lack of interest in taking advantage of easily access ble online services underscores how hard it is to get participants to think about and put some effort into their 401(k) investments.

"A large portion of participants are reluctant investors," says Christopher Jones, chief investment officer at Financial Engines. Retirement investing "is down on the priority list—people don't have the time for it, or the inclination."

Ms. Blumenthal is The Wall Street Journal's Getting Going columnist. Email her at karen.blumenthal@wsj.com.

From: Hauser, Timothy - SOL
To: Lourdes Gonzalez; "Cela, Phyllis J."
Cc: Tim Hauser [redacted]@dol.gov."
Subject: Another Article in BNA on My PLI Speech
Date: Thursday, April 07, 2011 7:25:48 PM

I hope this report doesn't give either of you heartburn either. Maybe I shouldn't speak publicly anymore.

Prohibited Transactions
DOL Officials Address Role of Exemptions Under Definition of Fiduciary Proposal

The Department of Labor will still provide prohibited transaction exemptions for certain practices of investment advice fiduciaries, but many existing exemptions will need to be reviewed after the department updates its regulation on the definition of a fiduciary, a DOL official said April 5 at a program sponsored by the Practising Law Institute.

“When the regulation is finalized, a lot of those exemptions will need to be massaged,” said Ivan Strasfeld, director of the Office of Exemption Determinations at the department's Employee Benefits Security Administration. “The reality is, they're old. They're from 1975, and they've been virtually unchanged,” Strasfeld said.

Another DOL official speaking at the PLI event emphasized the role that he expected prohibited transaction exemptions would play in regulating individual retirement accounts under DOL's fiduciary regulation.

The primary reason for including IRAs under the proposed fiduciary regulation is to extend the protections and exemptions of the Employee Retirement Income Security Act's prohibited transaction rules to IRAs, said Timothy Hauser, associate solicitor in the department's Plan Benefits Security Division. “Those are rules that were meant to deal with situations that are fraught with the potential for abuse,” he said.

Hauser also said the prohibited transaction rules give DOL broad authority to grant exemptions. “If we find a particular fee practice or arrangement is, on balance, beneficial to participants, we can readily grant exemptions and permit that practice to go forward,” he said.

Hauser said he is aware that many financial service providers are worried about the effects of the proposed fiduciary investment advice rules on specific financial practices and fee compensation arrangements in the retail IRA market. However, the department would be able to address those practices and arrangements through its exemption procedures, he said.

“We can put conditions on them where there is a potential for abuse, and we can flatly leave them prohibited in circumstances where no amount of conditions will make the problem go away,” Hauser said. Similarly, the fiduciary definition rules covering IRAs could accommodate the financial industry's need for certainty by providing an adequate transition period before the rules would take effect, he said.

Carve-Out for IRAs?

One practitioner asked Hauser whether DOL might consider excluding IRAs in a final version of the fiduciary regulation. “Is there any possibility at all that this rule could carve out the retail space and not apply to IRAs, being that it is a different space and it operates pursuant to broker-dealer rules [under] the Investment Advisers Act, and it really is a different ball of wax?” the practitioner said.

Hauser said that undoubtedly the final fiduciary regulation will not be identical to the proposed regulation. However, the department intends the final regulation to cover IRAs. “It's a bit of a false choice to say that our options here are simply to walk away from the IRA market entirely and leave it kind of the wild, wild West,” he said.

The choice is not between having no prohibited transaction rules apply to the IRA market or saying that all current practices are prohibited, Hauser said.

“The reality is actually somewhere in-between, and the argument that we should just walk away from it and that we shouldn't be able to impose some conditions has its own flaws,” he said.

The department's proposed regulation (RIN 1210-AB32) would revise and expand the definition of the term “fiduciary" under Section 3(21)(A) of ERISA (203 PBD, 10/22/10; 37 BPR 2305, 10/26/10).

By Florence Olsen

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: BD Compliance Guide http://www.sec.gov/divisions/marketreg/bdguide.htm
Date: Tuesday, June 07, 2011 4:02:07 PM

Tim,

This is the guide that I mentioned. It is probably too simple for you but I can certainly go more in depth next week.

Best,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Fahey, John J.
To: Hauser, Timothy - SOL
Cc: Lourdes Gonzalez; Michael Hershaft
Subject: Call-in number
Date: Monday, July 11, 2011 9:34:03 AM

Tim,

Here is a call in number for our call today at 11. If you would please pass it on to any colleagues who are participating, we would appreciate it. We have already sent the number to FINRA, who will have a few people joining us. We look forward to talking to you.

Best,

John

US Toll Free [redacted]
Access: [redacted]

John Fahey
Branch Chief
Office of Chief Counsel
Division of Trading and Markets
U.S. Securities and Exchange Commission
[redacted]
[redacted]@sec.gov

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Cases you requested
Date: Wednesday, July 20, 2011 11:51:10 AM

Tim,

I'm still looking for them.   I know we have some. I haven't forgotten.

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Cc: Marietta-Westberg, Jennifer
Subject: Comparing notes on cost-benefit efforts
Date: Thursday, September 22, 2011 10:18:00 AM

Tim,

I am following up on our conversation yesterday about our respective efforts at cost-benefit analyses. We think that it would be helpful to get our economists together to compare notes if we can arrange that. I am cc'ing our senior economist in our ia/bd working group so that she can follow up with you.

Thank you so much for thinking of this. We think that this is a terrific idea.

Best,

Lourdes

From: Hauser, Timothy - SOL
To: "McHugh, Jennifer B."
Cc: Hauser, Timothy - SOL
Subject: Fiduciary Regulation
Date: Tuesday, March 13, 2012 6:19:28 PM

Hi, Jennifer

I just wanted to confirm that we would like to start discussions about our draft text for the ERISA fiduciary advice regulation. On our end, I would expect to draw participants from the EBSA offices responsible for regulations, exemptions, and economic analysis, as well as from my office. We'd be happy to meet here or come to the SEC. If you have a few good dates and times in the next few weeks and could gather a similar group of participants, I think the discussion could be very useful. Please let me know what works for you.

Tim Hauser
[redacted]

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: FINRA account statement rule proposal - TIAA-CREF comment letter
Date: Wednesday, September 21, 2011 1:35:55 PM

Hi Tim:

I'm just following up from our email exchange last week. I was wondering if you would have time to speak to us and FINRA early next about the comment that we received on the FINRA customer account statement rule proposal. I can see that you have been busy so I know the timing may be difficult for you. I wanted to check nevertheless.

Thanks as always,

Lourdes

From:	Gonzalez, Lourdes
To:	Strasfeld, Ivan - EBSA; Hauser, Timothy - SOL
Subject:	Following up on your question
Date:	Wednesday, June 15, 2011 1:58:07 PM

Ivan, Tim:

Here are the two Commission cases on revenue sharing arrangements that I mentioned.

Edward Jones:

http://www.sec.gov/news/press/2004-177.htm

Morgan Stanley:

http://www.sec.gov/news/press/2003-159.htm

I also forgot a key fact. The Commission has noticed for comment a FINRA rule that would require broker-dealers to disclose revenue sharing arrangements, among other things. We are reviewing the comments received:

http://www.sec.gov/rules/sro/finra/2011/34-64386.pdf

Regards,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: McHugh, Jennifer B.
To: Hauser, Timothy - SOL
Subject: Forbes.com Piece
Date: Tuesday, March 29, 2011 5:17:18 PM

Tim,

Thanks again for our talk today. And I look forward to the follow-on discussion you mentioned. Below is the excerpt/summary of the Phyllis Borzi Q&A that I mentioned – and below that is a link to the full piece.

Thanks very much,

Jennifer

Q&A: Phyllis Borzi Says DoL Won't Defer to the SEC
With regard to the U.S. Department of Labor's proposed regulation to expand the definition of fiduciary, Phyllis Borzi, assistant secretary of labor and head of the Employee Benefits Security Administration, says the agency likely will not defer to the U.S. Securities and Exchange Commission (SEC). She notes that "we actually sent our proposed regulation to the SEC for their comment and input. . . . They would have flagged it at that point if they had seen an issue." Borzi says the two agencies have found some issues on which to coordinate, stating, "We're actually trying to harmonize." She adds that the ERISA fiduciary standard is higher than the standard under security laws and that the SEC has been "encouraging us to move forward."

From "Q&A: Phyllis Borzi Says DoL Won't Defer to the SEC"
Forbes.com (03/08/11) Southall, Brooke

http://blogs.forbes.com/riabiz/2011/03/08/qa-phyllis-borzi-says-dol-wont-defer-to-the-sec/

From:	Hauser, Timothy - SOL
To:	[redacted]@sec.gov"
Cc:	Hauser, Timothy - SOL
Subject:	Fw: Exemption Procedures Under Federal Pension Law
Date:	Monday, June 27, 2011 2:08:53 PM

Here's a link to the current exemption procedures (the ones we are modifying). They too define "independent."

----- Original Message -----
From: Taylor, William - SOL
Sent: Monday, June 27, 2011 01:59 PM
To: Hauser, Timothy - SOL
Subject: Exemption Procedures Under Federal Pension Law

Here is the link to the OED manual on exemptions. See the definition of "qualified independent fiduciary" in the glossary near the bottom of the page.

http://www.dol.gov/ebsa/publications/exemption_procedures.html

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	FW: IA-BD: Article of Interest
Date:	Thursday, July 14, 2011 10:03:20 AM

Tim:

Related to your question earlier this week.

Best,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

****

Fyi, please see the article below/linked which addresses a recent trend of IAs shifting to fee-based models, potentially in anticipation of the uniform fiduciary standard.
http://www.investmentnews.com/article/20110713/FREE/110719972

Land of the fee: Advisers seen switching revenue model ahead of fiduciary rewrite

MSSB big Charles Johnston says move to fee-based model has been ongoing for six months; dubbed ‘safe harbor' by RBC's Taft

By Mark Schoeff Jr. <http://www.investmentnews.com/apps/pbcs.dll/personalia?ID=MSCHOEFF>

July 13, 2011 3:51 pm ET

With one federal agency in the midst of writing a fiduciary-duty rule and another about to embark on one, many advisers are shifting their business to fee-based accounts, according to an industry executive.
Charles Johnston, vice chairman of Morgan Stanley Smith Barney, says the switch is no doubt due to the Securities and Exchange Commission's plan to propose a universal fiduciary standard for retail investment advice.

“It's an interesting trend we've noticed in the last six months,” Mr. Johnston said at the Securities Industry and Financial Markets Association regulatory summit in New York on Wednesday.
Mr. Johnston said that his firm's 18,000 advisers, who handle brokerage, advisory and retirement accounts, foresee challenges related to new rules for the brokerage business and are opting for a more stable regulatory environment on the advisory side.
“We have seen a pick up in the move to an advisory platform,” Mr. Johnston told reporters after speaking on a panel with other financial executives. “They're doing that in anticipation [that] the world's going to change on the brokerage side.”
Mr. Johnston didn't have specific numbers on the trend, noting that “it's not a wide enough sample” to determine that the pending fiduciary rules are the triggering the moves.

“There may be other reasons why it's happening,” Mr. Johnston said.

In addition to potential SEC action, the Department of Labor has proposed a regulation to expand the definition of fiduciary for advice about retirement plans.

All the regulatory activity swirling around fiduciary duty is making the traditional standard laid out by the Investment Advisers Act of 1940 — that an adviser must act in a client's best interests — more appealing, according to another financial executive who addressed the SIFMA conference.

“The simplest thing to do is to migrate to a fee-based account,” said John Taft, chief executive of RBC Wealth Management (U.S.) and chairman of the SIFMA board. “That's the safe harbor.”

The drawback, Mr. Taft asserts, is that small investors who can't afford adviser fees will be harmed.

He cited industry statistics indicating that the cost of advice could double for those with a modest amount of money invested, such as holders of individual retirement accounts.

“That is a perverse result,” Mr. Taft said.

Under the Dodd-Frank law, the SEC has the authority to write a universal fiduciary-duty rule. The agency has said it will turn to that task sometime after the first anniversary of Dodd-Frank, which will occur July 21. SIFMA conference participants anticipate the agency will move ahead in the fall.

In January, it delivered to Congress a study, also mandated by Dodd-Frank, which found that such a regulation would provide better protection for investors who are confused about the differing standards investment advisers and broker-dealers must meet. The latter are held to a less stringent “suitability” rule.

SIFMA is imploring the SEC not to foist the Investment Advisers Act on broker-dealers, maintaining that doing so would force them to change their business models and would price small consumers out of the advice market. “Rules that don't exist today need to be written to tell us how to apply the fiduciary standard to brokerage activities,” Mr. Taft said.

Among the broker roles that would have to be addressed: principal trading and the issuing of new securities.

Mr. Johnston is confident that the SEC will not try to impose the Investment Advisers Act on everyone providing retail investment advice.

“We're moving away from that,” he said. “There will be much more consent and disclosure around traditional brokerage activities.”

Disclosure requirements will be an important part of any new SEC fiduciary rule because it will be impossible to completely eliminate conflicts of interest.

“We have to focus on how we manage our conflicts,” Mr. Johnston said.

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From: McHugh, Jennifer B.
To: Campagna, Lou - EBSA; Wong, Fred - EBSA
Cc: Hauser, Timothy - SOL; Fahey, John J.
Subject: FW: Investing in a Stranger"s Retirement
Date: Tuesday, November 08, 2011 11:23:22 AM

Lou and Fred,

Below is the article I mentioned. I think we'd like a chance to talk to you about a little more after you've had a chance to review it/collect your thoughts.

Thanks,

Jennifer

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

- BUSINESS
- NOVEMBER 8, 2011

Investing in a Stranger's Retirement

By LESLIE SCISM And MICHAEL CORKERY

Last month, some financial advisers passed around to potential investors a spreadsheet with information about future pension payments for 93 people, including retired civil servants and military veterans.

The advisers' pitch: For a lump-sum amount, investors could purchase pieces of the pensions—offered up by pensioners wanting instant cash in exchange for their future monthly checks—that could yield them 6% or 7% a year. The retiree would sign a contract pledging to hand over part of each month's check for a specific number of years.

The burgeoning business of investing in someone else's pension has never been easier—or more controversial and risky.

For pensioners who are eager to sell, websites beckon with names such as BuyYourPension.com and pension4cash.com. Financial middlemen then bundle the information from pensioners into spreadsheets that are supplied to financial advisers for their clients.

In addition to the yield paid to investors, the transactions aim to reward an array of transaction facilitators. Fees are spread among the website operators, firms that pull together transactions, distributors and financial advisers who land individual investors.

No one keeps track of how many pensions are turned into instant cash, and the number for now is believed to be small. But in recent months, websites have proliferated, and obscure middlemen far from Wall Street have ramped up efforts to win over financial advisers to the concept. They are finding some acceptance among those who favor alternative investments as part of an overall diversified portfolio.

"It's becoming more of a staple part of our business," said Daniel Cordoba, founder of Asset Exchange Strategies LLC, a Leander, Texas, financial-advisory firm that has sold a handful of pension-payment deals to clients in recent weeks. "There's a starvation for yield" with most bonds paying little interest, and clients are scared of the volatile stock markets, he added.

For some pension recipients, the deals seem like the way out of a financial crisis. Joseph Serina, a metal-fabrication worker who spent 21 years in the Navy, received $57,450 three years ago from a group of investors in return for promising them $125,280 in pension payments over eight years.

The difference of $67,830 is paid to investors as interest payments and as fees to the financial arrangers.

"Even though it seemed kind of high, I felt I had no other choice," said Mr. Serina, 49 years old, who lives in Virginia Beach, Va. Mr. Serina said he was struggling to keep up with his mortgage payments and wanted his daughter to continue sleeping in a familiar place. He also faced overdue bills from a billiards-supply business.

In general, pension deals thread the needle of federal law that discourages the assignment of pensions for public policy reasons, according to court rulings. In a preliminary ruling in August, a California state-court judge said that military-pension transactions by Structured Investments Co., which has been in business since the 1990s, are "prohibited and unenforceable."

Brett Rubin, a lawyer for Structured, said the firm believes its transactions are proper. Over the years, its agreements have been enforced by other courts, including a U.S. bankruptcy court, according to court filings.

Structured is contesting an order in May from California's Corporations Commissioner to "desist and refrain" from misrepresentations or omissions of key facts to potential investors. Regulators said past omissions included a 1994 bank-fraud conviction of a company official and the deals' riskiness. "Structured looks forward to vindicating itself," said Stanley Morris, another lawyer for the firm.

The biggest risk for investors is that pension recipients renege on their promises to turn over monthly checks to the investor.

Mr. Serina decided to stop forwarding his pension checks after learning of the California lawsuits and concluding his deal terms with Structured Investments were "outrageous"—he was paying the equivalent of more than 20% annual interest on the lump sum he received. With the litigation still pending, "I didn't see why I should keep sending payments," he said.

For Sale By Owner

Details about one pension listed for sale in October, paid by the U.S. Army

- **$800:** Monthly Payment
- **72:** Number of Payments for Sale
- **$57,600:** Total Payments
- **$43,807:** Cost to Investor

Mark Cortazzo, a senior partner with financial-advisory firm Macro Consulting Group in Parsippany, N.J., said he refuses to pitch pension deals to his clients. "If these don't work out as expected, you've got a lot of headaches," he said.

Several buyers of pension payments who were interviewed by The Wall Street Journal declined to be identified because they didn't want to be seen as profiting from anyone's financial desperation.

"I had misgivings at first," said an investor in Philadelphia who this summer bought seven years of pension payments from a retired sailor. She forwarded $50,000, to be repaid in monthly installments that includes 6% annual interest.

As part of the deal, the woman got some information about the seller, including that he needed the money to escape foreclosure. The retired sailor's "distress" bothered her, she said, but she "concluded this would help him save the house."

The pensions detailed in the October spreadsheet came from recent work by Voyager Financial Group LLC, based in Little Rock, Ark. Company officials started zeroing in on pensions about a year ago, said Jonathan Sheets, Voyager's general counsel. Voyager looked to build on its expertise in the secondary market for structured settlements, or awards to accident victims and other plaintiffs that are paid out over years.

Voyager officials helped set up websites that bring in leads, Mr. Sheets said. The company regularly updates a spreadsheet with details about available pension deals. Mr. Sheets said Voyager arranges transactions "within the parameters of the law," and encourages concerned financial advisers "to seek their own independent" legal counsel.

The spreadsheet that circulated in October included deals with a total of $8.2 million in future income. Of the 93 pensions for sale, a former New Jersey cop had $72,000 up for grabs, and a retired California civil servant offered a total of $299,598. Forty-four military veterans were on the list. Among the smallest was $454.75 a month for five years from a retired Ford Motor Co. worker. The largest: $396,000 in Marine Corps payments, or $2,200 a month for 15 years, according to a copy of the spreadsheet reviewed by the Journal.

Voyager said it asks sellers to provide information on their financial situation, and Mr. Sheets said the company won't participate in deals if it becomes apparent a seller "will be incapable of supporting" himself.

The spreadsheet also noted how much insurance was in place on each seller's life. That coverage is important because it protects the investor if the pension recipient dies, ending monthly payments.

Buyers and sellers don't meet, but they do learn each other's name and address, said Mr.

Sheets. Buyers get a credit report about the seller-and a copy of a photo ID.

Write to Leslie Scism at leslie.scism@wsj.com and Michael Corkery at michael.corkery@wsj.com

From:	Hauser, Timothy - SOL
To:	"McHugh, Jennifer B."
Cc:	Hauser, Timothy - SOL
Subject:	Meeting on Fiduciary Regulation
Date:	Friday, March 16, 2012 4:39:36 PM

Would 3:30 on 3/26 work for you and your colleagues? That seems to work for everybody here. If it's good for you too, I'll line up the room, send you a meeting notice, and pass along draft reg text. Have a great weekend!

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Primerica
Date: Tuesday, June 07, 2011 11:00:09 AM

Tim,

Jennifer McHugh and I can call you at 2:30 to tell you about the Primerica meeting if that works for you. Let me know. I would need a number.

Best

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	RAND study
Date:	Thursday, September 22, 2011 9:56:53 AM

Tim,

This is the RAND study that we discussed yesterday.

Best,

Lourdes

http://www.sec.gov/news/press/2008/2008-1_randiabdreport.pdf

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	Re: Access Request for Investor Alert on Self-Directed IRAs and the Risk of Fraud
Date:	Monday, July 11, 2011 9:56:14 AM

Hi Tim.

My colleagues asked me to check on whether you had any comments on this draft investor alert on IRAs. (I told them that you have been kind of busy.)

Talk to you at 11.

Best,

Lourdes

On 6/24/11 5:08 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

> Thanks again for all your help. Here's my access letter.
>
> Tim
>
> *This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.*

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Access Request for Investor Alert on Self-Directed IRAs and the Risk of Fraud
Date: Tuesday, June 28, 2011 11:49:32 AM

Tim,

I have been told that an updated draft is coming. As soon as it does, I will send it on to you.

Lourdes

On 6/24/11 5:08 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

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>
> Tim
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Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	Re: Access Request for Investor Alert on Self-Directed IRAs and the Risk of Fraud
Date:	Monday, July 18, 2011 4:40:50 PM

Hi Tim. Sorry to bother about this but my colleagues asked again today if you would have any comments.

Hope all is going well.

Regards,

Lourdes

On 6/24/11 5:08 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

Thanks again for all your help. Here's my access letter.

Tim

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Assistant Chief Counsel – Sales Practices
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US Securities and Exchange Commission

From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: Access Request for Investor Alert on Self-Directed IRAs and the Risk of Fraud
Date: Tuesday, June 28, 2011 11:49:58 AM

Thanks.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Tuesday, June 28, 2011 11:49 AM
To: Hauser, Timothy - SOL
Subject: Re: Access Request for Investor Alert on Self-Directed IRAs and the Risk of Fraud

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Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech
Date: Thursday, June 09, 2011 3:20:17 PM

Tim,

I also plan on bringing my colleague, Joe Furey, with me. He runs the other half of the Office of Chief Counsel in the Division of Trading and Markets. He used to be the chief compliance officer of Legg Mason so he has a lot of broker-dealer experience.

Lourdes

On 6/9/11 2:21 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

> Lourdes,
>
> I'd like to take you up on your offer to come over and walk me (and a few of my colleagues) through the SEC's regulation of broker-dealers. Is your offer still open? If so, Wednesday or Thursday look good to me (except for 9:45 both days, 2:00 Wednesday, and 3:00 Thursday).
>
> Thanks again for all the help you've already given me.

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech
Date: Thursday, June 09, 2011 2:48:57 PM

Tim,

I was meaning to get back to you today anyway. Next Wednesday is best for me. Pick a time and I'll be there.

Lourdes

On 6/9/11 2:21 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

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>
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Assistant Chief Counsel – Sales Practices
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From:	Hauser, Timothy - SOL
To:	"Gonzalez, Lourdes"
Cc:	Hauser, Timothy - SOL
Subject:	RE: Another Article in BNA on My PLI Speech
Date:	Thursday, June 09, 2011 2:21:36 PM

Lourdes,

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Thanks again for all the help you've already given me.

From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: Another Article in BNA on My PLI Speech
Date: Thursday, June 09, 2011 3:31:56 PM

Terrific. Would 11:15 on Wednesday work?

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, June 09, 2011 3:20 PM
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech

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Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
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US Securities and Exchange Commission

From:	Hauser, Timothy - SOL
To:	"Gonzalez, Lourdes"
Cc:	Hauser, Timothy - SOL
Subject:	RE: Another Article in BNA on My PLI Speech
Date:	Thursday, June 09, 2011 3:34:50 PM

Thanks. See you then.

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From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, June 09, 2011 3:34 PM
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech

Yes. Joe and I will be there. See you then.

Lourdes

On 6/9/11 3:31 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

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Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL; Cela, Phyllis J.
Subject:	RE: Another Article in BNA on My PLI Speech
Date:	Thursday, April 07, 2011 9:04:01 PM

I appreciate knowing Tim. I'm supposed to be on a panel on the ia/bd study in about a month and I can just see the headlines now....

Lourdes

-----Original Message-----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Thu 4/7/2011 7:25 PM
To: Gonzalez, Lourdes; Cela, Phyllis J.
Cc: Hauser.Timothy@dol.gov
Subject: Another Article in BNA on My PLI Speech

I hope this report doesn't give either of you heartburn either. Maybe I shouldn't speak publicly anymore.

Prohibited Transactions

DOL Officials Address Role of Exemptions Under Definition of Fiduciary Proposal

The Department of Labor will still provide prohibited transaction exemptions for certain practices of investment advice fiduciaries, but many existing exemptions will need to be reviewed after the department updates its regulation on the definition of a fiduciary, a DOL official said April 5 at a program sponsored by the Practising Law Institute.

"When the regulation is finalized, a lot of those exemptions will need to be massaged," said Ivan Strasfeld, director of the Office of Exemption Determinations at the department's Employee Benefits Security Administration. "The reality is, they're old. They're from 1975, and they've been virtually unchanged," Strasfeld said.

Another DOL official speaking at the PLI event emphasized the role that he expected prohibited transaction exemptions would play in regulating individual retirement accounts under DOL's fiduciary regulation.

The primary reason for including IRAs under the proposed fiduciary regulation is to extend the protections and exemptions of the Employee Retirement Income Security Act's prohibited transaction rules to IRAs, said Timothy Hauser, associate solicitor in the department's Plan Benefits Security Division. "Those are rules that were meant to deal with situations that are fraught with the potential for abuse," he said.

Hauser also said the prohibited transaction rules give DOL broad authority to grant exemptions. "If we find a particular fee practice or arrangement is, on balance, beneficial to participants, we can readily grant exemptions and permit that practice to go forward," he said.

Hauser said he is aware that many financial service providers are worried about the effects of the proposed fiduciary investment advice rules on specific financial practices and fee compensation arrangements in the retail IRA market. However, the department would be able to address those practices and arrangements through its exemption procedures, he said.

"We can put conditions on them where there is a potential for abuse, and we can flatly leave them prohibited in circumstances where no amount of conditions will make the problem go away," Hauser said. Similarly, the fiduciary definition rules covering IRAs could accommodate the financial industry's need for certainty by providing an adequate transition period before the rules would take effect, he said.

Carve-Out for IRAs?

One practitioner asked Hauser whether DOL might consider excluding IRAs in a final version of the fiduciary regulation. "Is there any possibility at all that this rule could carve out the retail space and not apply to IRAs, being that it is a different space and it operates pursuant to broker-dealer rules [under] the Investment Advisers Act, and it really is a different ball of wax?" the practitioner said.

Hauser said that undoubtedly the final fiduciary regulation will not be identical to the proposed regulation. However, the department intends the final regulation to cover IRAs. "It's a bit of a false choice to say that our options here are simply to walk away from the IRA market entirely and leave it kind of the wild, wild West," he said.

The choice is not between having no prohibited transaction rules apply to the IRA market or saying that all current practices are prohibited, Hauser said. "The reality is actually somewhere in-between, and the argument that we should just walk away from it and that we shouldn't be able to impose some conditions has its own flaws," he said.

The department's proposed regulation (RIN 1210-AB32) would revise and expand the definition of the term "fiduciary" under Section 3(21)(A) of ERISA (203 PBD, 10/22/10; 37 BPR 2305, 10/26/10).

By Florence Olsen

share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	Re: Another Article in BNA on My PLI Speech
Date:	Thursday, June 09, 2011 3:34:15 PM

Yes. Joe and I will be there. See you then.

Lourdes

On 6/9/11 3:31 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

Terrific. Would 11:15 on Wednesday work?

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From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, June 09, 2011 3:20 PM
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech

Tim,

I also plan on bringing my colleague, Joe Furey, with me. He runs the other half of the Office of Chief Counsel in the Division of Trading and Markets. He used to be the chief compliance officer of Legg Mason so he has a lot of broker-dealer experience.

Lourdes

On 6/9/11 2:21 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:
Lourdes,

I'd like to take you up on your offer to come over and walk me (and a few of my colleagues) through the SEC's regulation of broker-dealers. Is your offer still open? If so, Wednesday or Thursday look good to me (except for 9:45 both days, 2:00 Wednesday, and 3:00 Thursday).

Thanks again for all the help you've already given me.

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From:	Cela, Phyllis J.
To:	Hauser, Timothy - SOL; Lourdes Gonzalez
Cc:	Hauser, Timothy - SOL
Subject:	Re: Another Article in BNA on My PLI Speech
Date:	Thursday, April 07, 2011 7:31:30 PM

No mention of Dodd Frank, so that's a plus for me.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Thursday, April 07, 2011 07:25 PM
To: Lourdes Gonzalez; Cela, Phyllis J.
Cc: Hauser.Timothy@dol.gov. [redacted]@dol.gov.>
Subject: Another Article in BNA on My PLI Speech

I hope this report doesn't give either of you heartburn either. Maybe I shouldn't speak publicly anymore.

Prohibited Transactions
DOL Officials Address Role of Exemptions Under Definition of Fiduciary Proposal

The Department of Labor will still provide prohibited transaction exemptions for certain practices of investment advice fiduciaries, but many existing exemptions will need to be reviewed after the department updates its regulation on the definition of a fiduciary, a DOL official said April 5 at a program sponsored by the Practising Law Institute.

"When the regulation is finalized, a lot of those exemptions will need to be massaged," said Ivan Strasfeld, director of the Office of Exemption Determinations at the department's Employee Benefits Security Administration. "The reality is, they're old. They're from 1975, and they've been virtually unchanged," Strasfeld said.

Another DOL official speaking at the PLI event emphasized the role that he expected prohibited transaction exemptions would play in regulating individual retirement accounts under DOL's fiduciary regulation.

The primary reason for including IRAs under the proposed fiduciary regulation is to extend the protections and exemptions of the Employee Retirement Income Security Act's prohibited transaction rules to IRAs, said Timothy Hauser, associate solicitor in the department's Plan Benefits Security Division. "Those are rules that were meant to deal with situations that are fraught with the potential for abuse," he said.

Hauser also said the prohibited transaction rules give DOL broad authority to grant exemptions. "If we find a particular fee practice or arrangement is, on balance, beneficial to participants, we can readily grant exemptions and permit that practice to go forward," he said.

Hauser said he is aware that many financial service providers are worried about the effects of the proposed fiduciary investment advice rules on specific financial practices and fee compensation arrangements in the retail IRA market. However, the department would be able to address those practices and arrangements through its exemption procedures, he said.

"We can put conditions on them where there is a potential for abuse, and we can flatly leave them prohibited in circumstances where no amount of conditions will make the problem go away," Hauser said. Similarly, the fiduciary definition rules covering IRAs could accommodate the financial industry's need for certainty by providing an adequate transition period before the rules would take effect, he said.

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The department's proposed regulation (RIN 1210-AB32) would revise and expand the definition of the term “fiduciary" under Section 3(21)(A) of ERISA (203 PBD, 10/22/10; 37 BPR 2305, 10/26/10).

By Florence Olsen

From: Marietta-Westberg, Jennifer
To: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts
Date: Wednesday, September 28, 2011 9:22:30 AM

Hi, Tim. Friday from 10-11 works for us. Do you have a # you'd like us to call or a dial-in?

Thanks,

Jennifer

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, September 26, 2011 6:15 PM
To: Marietta-Westberg, Jennifer
Cc: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

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From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
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From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, September 23, 2011 9:41 AM
To: Marietta-Westberg, Jennifer
Cc: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

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Tim

[redacted]

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From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
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To: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

Tim,

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Thanks,

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Gonzalez, Lourdes
Sent: Thursday, September 22, 2011 10:18 AM
To: Timothy Hauser
Cc: Marietta-Westberg, Jennifer
Subject: Comparing notes on cost-benefit efforts

Tim,

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Thank you so much for thinking of this. We think that this is a terrific idea.

Best,

Lourdes

From: Marietta-Westberg, Jennifer
To: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts
Date: Friday, September 23, 2011 9:51:03 AM

OK, I will want to loop in our Chief Economist as well. Why don't you check Joe's schedule first and send me a few available times. I'll see what fits in with Craig's schedule then, and hopefully we can find something that works. Feel free to send times on other days as well. I plan to be in all week, but would prefer not to schedule anything on Thursday.

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[redacted]

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100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

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From: Marietta-Westberg, Jennifer
To: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts
Date: Friday, September 23, 2011 9:04:44 AM

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Assistant Director, Office of Investments and Intermediaries
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U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

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From: Hauser, Timothy - SOL
To: "Marietta-Westberg, Jennifer"
Cc: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts
Date: Wednesday, September 28, 2011 10:54:03 AM

Thanks. That works for us. Please just call [redacted]. What's the best number to reach you if we have some problem connecting?

Tim

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Wednesday, September 28, 2011 9:22 AM
To: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

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Thanks,

Jennifer

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, September 26, 2011 6:15 PM
To: Marietta-Westberg, Jennifer
Cc: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

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From:	Hauser, Timothy - SOL
To:	"Marietta-Westberg, Jennifer"
Cc:	Hauser, Timothy - SOL
Subject:	RE: Comparing notes on cost-benefit efforts
Date:	Monday, September 26, 2011 6:15:21 PM

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To:	"Marietta-Westberg, Jennifer"
Cc:	Hauser, Timothy - SOL
Subject:	RE: Comparing notes on cost-benefit efforts
Date:	Friday, September 23, 2011 9:40:40 AM

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From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Comparing notes on cost-benefit efforts
Date: Wednesday, September 28, 2011 12:38:28 PM

Thanks Tim. Given it's your economists talking to our economists, I won't participate on this one. If I participate, others will have to as well. I really appreciate your setting this up.

On 9/28/11 12:24 PM, "Timothy Hauser" [redacted]@dol.gov> wrote:

Here's the call-in number for Friday morning.

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From: Hauser, Timothy - SOL
Sent: Wednesday, September 28, 2011 10:54 AM
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Cc: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

Thanks. That works for us. Please just call [redacted]. What's the best number to reach you if we have some problem connecting?

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Jennifer

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Monday, September 26, 2011 6:15 PM
To: Marietta-Westberg, Jennifer

Cc: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

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Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Marietta-Westberg, Jennifer
To: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts
Date: Wednesday, September 28, 2011 10:59:10 AM

Tim,

You can use [redacted] if necessary. We'll call you at 10:00.

Jennifer

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 10:54 AM
To: Marietta-Westberg, Jennifer
Cc: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

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To: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

OK, I will want to loop in our Chief Economist as well. Why don't you check Joe's schedule first and send me a few available times. I'll see what fits in with Craig's schedule then, and hopefully we can find something that works. Feel free to send times on other days as well. I plan to be in all week, but would prefer not to schedule anything on Thursday.

Thanks,

Jennifer

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, September 23, 2011 9:41 AM
To: Marietta-Westberg, Jennifer
Cc: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

Thanks for contacting me so quickly. I have a meeting at 2, but otherwise I'm available. I would like EBSA's chief economist, Joe Piacentini, to get on the phone too, however, and he is out until next week. If you could send me a time or two that would work for you next Tuesday, I'll talk to Joe on Monday and firm up the time then.

Tim
[redacted]

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Friday, September 23, 2011 9:05 AM
To: Hauser, Timothy - SOL
Subject: RE: Comparing notes on cost-benefit efforts

Tim,

Why don't we set up a phone call on this next week. Are you available Tuesday afternoon some time?

Thanks,

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission

100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Gonzalez, Lourdes
Sent: Thursday, September 22, 2011 10:18 AM
To: Timothy Hauser
Cc: Marietta-Westberg, Jennifer
Subject: Comparing notes on cost-benefit efforts

Tim,

I am following up on our conversation yesterday about our respective efforts at cost-benefit analyses. We think that it would be helpful to get our economists together to compare notes if we can arrange that. I am cc'ing our senior economist in our ia/bd working group so that she can follow up with you.

Thank you so much for thinking of this. We think that this is a terrific idea.

Best,

Lourdes

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Following up on your question
Date: Monday, June 20, 2011 4:49:47 PM

Tim,

My mail stop is [redacted].

Best,

Lourdes

On 6/15/11 3:07 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

> Thanks for the documents and for the helpful meeting.
>
> Tim
>
> ---
>
> **From:** Gonzalez, Lourdes [redacted]@sec.gov]
> **Sent:** Wednesday, June 15, 2011 1:58 PM
> **To:** Strasfeld, Ivan - EBSA; Hauser, Timothy - SOL
> **Subject:** Following up on your question
>
> Ivan, Tim:
>
> Here are the two Commission cases on revenue sharing arrangements that I mentioned.
>
> Edward Jones:
>
> http://www.sec.gov/news/press/2004-177.htm
>
> Morgan Stanley:
>
> http://www.sec.gov/news/press/2003-159.htm
>
> I also forgot a key fact. The Commission has noticed for comment a FINRA rule that would require broker-dealers to disclose revenue sharing arrangements, among other things. We are reviewing the comments received:
>
> http://www.sec.gov/rules/sro/finra/2011/34-64386.pdf
>
> Regards,
>
> Lourdes
>
> Lourdes Gonzalez
> Assistant Chief Counsel – Sales Practices
> Division of Trading and Markets
> US Securities and Exchange Commission

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From:	Hauser, Timothy - SOL
To:	"Gonzalez, Lourdes"
Cc:	Hauser, Timothy - SOL
Subject:	RE: Following up on your question
Date:	Wednesday, June 15, 2011 3:07:41 PM

Thanks for the documents and for the helpful meeting.

Tim

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, June 15, 2011 1:58 PM
To: Strasfeld, Ivan - EBSA; Hauser, Timothy - SOL
Subject: Following up on your question

Ivan, Tim:

Here are the two Commission cases on revenue sharing arrangements that I mentioned.

Edward Jones:

http://www.sec.gov/news/press/2004-177.htm

Morgan Stanley:

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Regards,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Hauser, Timothy - SOL
To: "McHugh, Jennifer B."
Cc: Hauser, Timothy - SOL
Subject: RE: Forbes.com Piece
Date: Tuesday, March 29, 2011 5:23:04 PM

Thanks. I'm looking forward to the discussion too.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, March 29, 2011 5:17 PM
To: Hauser, Timothy - SOL
Subject: Forbes.com Piece

Tim,

Thanks again for our talk today. And I look forward to the follow-on discussion you mentioned. Below is the excerpt/summary of the Phyllis Borzi Q&A that I mentioned – and below that is a link to the full piece.

Thanks very much,

Jennifer

Q&A: Phyllis Borzi Says DoL Won't Defer to the SEC

With regard to the U.S. Department of Labor's proposed regulation to expand the definition of fiduciary, Phyllis Borzi, assistant secretary of labor and head of the Employee Benefits Security Administration, says the agency likely will not defer to the U.S. Securities and Exchange Commission (SEC). She notes that "we actually sent our proposed regulation to the SEC for their comment and input. . . . They would have flagged it at that point if they had seen an issue." Borzi says the two agencies have found some issues on which to coordinate, stating, "We're actually trying to harmonize." She adds that the ERISA fiduciary standard is higher than the standard under security laws and that the SEC has been "encouraging us to move forward."

From "Q&A: Phyllis Borzi Says DoL Won't Defer to the SEC"
Forbes.com (03/08/11) Southall, Brooke

http://blogs.forbes.com/riabiz/2011/03/08/qa-phyllis-borzi-says-dol-wont-defer-to-the-sec/

From:	Hauser, Timothy - SOL
To:	[redacted]@sec.gov"
Cc:	Hauser, Timothy - SOL
Subject:	Re: IA-BD: Article of Interest
Date:	Thursday, July 14, 2011 10:07:42 AM

Thanks! If you think of it -- and have the cite handy -- could you also point me to the FINRA rule or guidance on the line between information/education and advice?

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, July 14, 2011 10:02 AM
To: Hauser, Timothy - SOL
Subject: FW: IA-BD: Article of Interest

Tim:

Related to your question earlier this week.

Best,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

****

Fyi, please see the article below/linked which addresses a recent trend of IAs shifting to fee-based models, potentially in anticipation of the uniform fiduciary standard.
http://www.investmentnews.com/article/20110713/FREE/110719972

Land of the fee: Advisers seen switching revenue model ahead of fiduciary rewrite

MSSB big Charles Johnston says move to fee-based model has been ongoing for six months; dubbed ‘safe harbor' by RBC's Taft

By Mark Schoeff Jr. <http://www.investmentnews.com/apps/pbcs.dll/personalia?ID=MSCHOEFF>

July 13, 2011 3:51 pm ET

With one federal agency in the midst of writing a fiduciary-duty rule and another about to embark on one, many advisers are shifting their business to fee-based accounts, according to an industry executive. Charles Johnston, vice chairman of Morgan Stanley Smith Barney, says the switch is no doubt due to the Securities and Exchange Commission's plan to propose a universal fiduciary standard for retail investment advice.

“It's an interesting trend we've noticed in the last six months,” Mr. Johnston said at the Securities Industry and Financial Markets Association regulatory summit in New York on Wednesday.

Mr. Johnston said that his firm's 18,000 advisers, who handle brokerage, advisory and retirement accounts, foresee challenges related to new rules for the brokerage business and are opting for a more stable regulatory environment on the advisory side.

“We have seen a pick up in the move to an advisory platform,” Mr. Johnston told reporters after speaking on a panel with other financial executives. “They're doing that in anticipation [that] the world's going to change on the brokerage side.”

Mr. Johnston didn't have specific numbers on the trend, noting that “it's not a wide enough sample” to determine that the pending fiduciary rules are the triggering the moves.

“There may be other reasons why it's happening,” Mr. Johnston said.

In addition to potential SEC action, the Department of Labor has proposed a regulation to expand the definition of fiduciary for advice about retirement plans.

All the regulatory activity swirling around fiduciary duty is making the traditional standard laid out by the Investment Advisers Act of 1940 — that an adviser must act in a client's best interests — more appealing, according to another financial executive who addressed the SIFMA conference.

“The simplest thing to do is to migrate to a fee-based account,” said John Taft, chief executive of RBC Wealth Management (U.S.) and chairman of the SIFMA board. “That's the safe harbor.”

The drawback, Mr. Taft asserts, is that small investors who can't afford adviser fees will be harmed.

He cited industry statistics indicating that the cost of advice could double for those with a modest amount of money invested, such as holders of individual retirement accounts.

“That is a perverse result,” Mr. Taft said.

Under the Dodd-Frank law, the SEC has the authority to write a universal fiduciary-duty rule. The agency has said it will turn to that task sometime after the first anniversary of Dodd-Frank, which will occur July 21. SIFMA conference participants anticipate the agency will move ahead in the fall.

In January, it delivered to Congress a study, also mandated by Dodd-Frank, which found that such a regulation would provide better protection for investors who are confused about the differing standards investment advisers and broker-dealers must meet. The latter are held to a less stringent “suitability” rule.

SIFMA is imploring the SEC not to foist the Investment Advisers Act on broker-dealers, maintaining that doing so would force them to change their business models and would price small consumers out of the advice market. “Rules that don't exist today need to be written to tell us how to apply the fiduciary standard to brokerage activities,” Mr. Taft said.

Among the broker roles that would have to be addressed: principal trading and the issuing of new securities.

Mr. Johnston is confident that the SEC will not try to impose the Investment Advisers Act on everyone providing retail investment advice.

“We're moving away from that,” he said. “There will be much more consent and disclosure around traditional brokerage activities.”

Disclosure requirements will be an important part of any new SEC fiduciary rule because it will be impossible to completely eliminate conflicts of interest.

“We have to focus on how we manage our conflicts,” Mr. Johnston said.

.

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	Re: IA-BD: Article of Interest
Date:	Thursday, July 14, 2011 10:09:30 AM

Yes, it was on my to do list for today. Will send it later.

On 7/14/11 10:07 AM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

Thanks! If you think of it -- and have the cite handy -- could you also point me to the FINRA rule or guidance on the line between information/education and advice?

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, July 14, 2011 10:02 AM
To: Hauser, Timothy - SOL
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Lourdes

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Assistant Chief Counsel – Sales Practices
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US Securities and Exchange Commission

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By Mark Schoeff Jr. <http://www.investmentnews.com/apps/pbcs.dll/personalia?ID=MSCHOEFF>

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.

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL; [redacted]@cftc.gov
Cc: Rutkowski, Joanne
Subject: Re: meeting dates for next week
Date: Thursday, August 11, 2011 4:01:19 PM

I will be on vacation but Joanne Rutkowski will go on my behalf. Thank you all! Lourdes
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Thursday, August 11, 2011 03:49 PM
To: Cela, Phyllis J. [redacted]@CFTC.gov>; Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: meeting dates for next week

8/17 at 11:00 would be best for me.

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From: Cela, Phyllis J. [redacted]@CFTC.gov]
Sent: Thursday, August 11, 2011 3:39 PM
To: Lourdes Gonzalez; Hauser, Timothy - SOL
Subject: meeting dates for next week

Lourdes and Tim,

Can we schedule a meeting for next week to discuss the ERISA/DFA related issues? We are in the process of making final rule recommendations to our Commission to address the business conduct standards comments. I hope to send both of you our draft comment summary and recommendations before we meet next week. You will see that the recommendations reference our ongoing consultations with SEC and DoL. Please let me know which time you prefer for a meeting at the CFTC:

Wednesday morning (8/17): any time after 10:30
Thursday afternoon (8/18): any time after 3

Best,
Phyllis

Phyllis J. Cela
Deputy Director and Chief Counsel

US Commodity Futures Trading Commission
Division of Enforcement

1155 21st Street, NW
Washington, DC 20581
Telephone: [redacted]
Fax: [redacted]
Mobile: [redacted]

From: Cela, Phyllis J.
To: Lourdes Gonzalez; Hauser, Timothy - SOL
Cc: Joanne Rutkowski
Subject: RE: meeting dates for next week
Date: Thursday, August 11, 2011 5:01:42 PM

Let's go ahead and meet next Wednesday. I'll send a meeting announcement. Please forward to relevant persons.

I'm sure that we will need a follow up meeting, late August or early September, so Lourdes won't be able to escape completely!

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, August 11, 2011 4:00 PM
To: Tim Hauser [redacted]@dol.gov; Cela, Phyllis J.
Cc: Joanne Rutkowski
Subject: Re: meeting dates for next week

I will be on vacation but Joanne Rutkowski will go on my behalf. Thank you all! Lourdes
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Thursday, August 11, 2011 03:49 PM
To: Cela, Phyllis J. [redacted]@CFTC.gov>; Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: meeting dates for next week

8/17 at 11:00 would be best for me.

From: Cela, Phyllis J. [redacted]@CFTC.gov]
Sent: Thursday, August 11, 2011 3:39 PM
To: Lourdes Gonzalez; Hauser, Timothy - SOL
Subject: meeting dates for next week

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Phyllis

Phyllis J. Cela
Deputy Director and Chief Counsel

US Commodity Futures Trading Commission
Division of Enforcement
1155 21st Street, NW
Washington, DC 20581
Telephone: [redacted]
Fax: +[redacted]
Mobile: +1 [redacted]

From:	Hauser, Timothy - SOL
To:	"Cela, Phyllis J."; Lourdes Gonzalez
Cc:	Hauser, Timothy - SOL
Subject:	RE: meeting dates for next week
Date:	Thursday, August 11, 2011 3:49:40 PM

8/17 at 11:00 would be best for me.

From: Cela, Phyllis J. [redacted]@CFTC.gov]
Sent: Thursday, August 11, 2011 3:39 PM
To: Lourdes Gonzalez; Hauser, Timothy - SOL
Subject: meeting dates for next week

Lourdes and Tim,

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Best,
Phyllis

Phyllis J. Cela
Deputy Director and Chief Counsel

US Commodity Futures Trading Commission
Division of Enforcement
1155 21st Street, NW
Washington, DC 20581
Telephone: [redacted]
Fax: [redacted]
Mobile: +1 [redacted]

From:	McHugh, Jennifer B.
To:	Hauser, Timothy - SOL
Subject:	Re: Meeting on Draft Fiduciary Regulation
Date:	Tuesday, March 20, 2012 9:15:11 AM

Thanks.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, March 20, 2012 09:02 AM
To: McHugh, Jennifer B.; Canary, Joe - EBSA [redacted]@dol.gov>; Piacentini, Joseph - EBSA [redacted]@dol.gov>; Taylor, William - SOL [redacted]@dol.gov>; Hall, Lyssa - EBSA [redacted]@dol.gov>
Subject: Meeting on Draft Fiduciary Regulation

When: Monday, March 26, 2012 2:00 PM-3:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: DOL, Rm N-4611
Note: The GMT offset above does not reflect daylight saving time adjustments.
~~*~*~*~*~*~*~*~*

From:	McHugh, Jennifer B.
To:	Hauser, Timothy - SOL
Subject:	RE: Meeting on Fiduciary Regulation
Date:	Friday, March 16, 2012 4:40:56 PM

Let me check. Thanks.

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, March 16, 2012 4:40 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL
Subject: Meeting on Fiduciary Regulation

Would 3:30 on 3/26 work for you and your colleagues? That seems to work for everybody here. If it's good for you too, I'll line up the room, send you a meeting notice, and pass along draft reg text. Have a great weekend!

From: Cela, Phyllis J.
To: Hauser, Timothy - SOL; Lourdes Gonzalez
Subject: RE: Pre meeting for hill briefing 3-24
Date: Wednesday, March 23, 2011 8:56:14 AM

Lourdes has a conflict at 4 and Tim has a something at 3:30. I have a meeting 2-3.
How is 5 pm today?

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, March 22, 2011 7:54 PM
To: Cela, Phyllis J.
Cc: Hauser, Timothy - SOL
Subject: Re: Pre meeting for hill briefing 3-24

I should be available, but may be a few minutes late depending on how a 3:30 press thing goes.

From: Cela, Phyllis J. [redacted]@CFTC.gov]
Sent: Tuesday, March 22, 2011 07:11 PM
To: Hauser, Timothy - SOL; Lourdes Gonzalez [redacted]@sec.gov>
Subject: Pre meeting for hill briefing 3-24

My outlook meeting calendar is acting up so I have to do this the old fashioned way: are you available to pre meet at 4pm tomorrow, Wednesday, March 23, 2011? I can initiate the call to each of your offices.

Phyllis J. Cela
Deputy Director and Chief Counsel

US Commodity Futures Trading Commission
Division of Enforcement
1155 21st Street, NW
Washington, DC 20581
Telephone: [redacted]
Fax: +[redacted]
Mobile: +1 [redacted]

From: Hauser, Timothy - SOL
To: Lourdes Gonzalez [redacted]@SEC.GOV"; [redacted]@CFTC.gov"
Cc: Hauser, Timothy - SOL
Subject: Re: Pre meeting for hill briefing 3-24
Date: Wednesday, March 23, 2011 9:11:21 AM

Works for me too. Thanks.

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Wednesday, March 23, 2011 09:01 AM
To: Phyllis Cela [redacted]@cftc.gov>; Hauser, Timothy - SOL
Subject: Re: Pre meeting for hill briefing 3-24

Ok for me. Lourdes.
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Cela, Phyllis J.
To: Hauser, Timothy - SOL ; Gonzalez, Lourdes
Sent: Wed Mar 23 08:56:12 2011
Subject: RE: Pre meeting for hill briefing 3-24

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To: Hauser, Timothy - SOL; Lourdes Gonzalez [redacted]@sec.gov>
Subject: Pre meeting for hill briefing 3-24

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US Commodity Futures Trading Commission

Division of Enforcement
1155 21st Street, NW
Washington, DC 20581
Telephone: +[redacted]
Fax: [redacted]
Mobile: +1 [redacted]

From: [Gonzalez, Lourdes]
To: [redacted][@cftc.gov]; [Hauser, Timothy - SOL]
Subject: Re: Pre meeting for hill briefing 3-24
Date: Wednesday, March 23, 2011 9:02:43 AM

Ok for me. Lourdes.
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Cela, Phyllis J.
To: Hauser, Timothy - SOL ; Gonzalez, Lourdes
Sent: Wed Mar 23 08:56:12 2011
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Cc: Hauser, Timothy - SOL
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Sent: Tuesday, March 22, 2011 07:11 PM
To: Hauser, Timothy - SOL; Lourdes Gonzalez [redacted]@sec.gov>
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Division of Enforcement
1155 21st Street, NW
Washington, DC 20581
Telephone: [redacted]
Fax: [redacted]
Mobile: +1 [redacted]

From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: Primerica
Date: Tuesday, June 07, 2011 12:20:45 PM

Thanks. That should work. My office number is [redacted]

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Tuesday, June 07, 2011 10:59 AM
To: Hauser, Timothy - SOL
Subject: Primerica

Tim,

Jennifer McHugh and I can call you at 2:30 to tell you about the Primerica meeting if that works for you. Let me know. I would need a number.

Best

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Hauser, Timothy - SOL
To: [redacted]@sec.gov"
Cc: Hauser, Timothy - SOL
Subject: Re: RAND study
Date: Thursday, September 22, 2011 10:36:01 AM

Thanks!

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, September 22, 2011 09:56 AM
To: Hauser, Timothy - SOL
Subject: RAND study

Tim,

This is the RAND study that we discussed yesterday.

Best,

Lourdes

http://www.sec.gov/news/press/2008/2008-1_randiabdreport.pdf

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Report on my comments at a speech yesterday
Date: Wednesday, April 06, 2011 8:51:11 AM

Thanks Tim. Lourdes.

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 06, 2011 08:24 AM
To: Cela, Phyllis J. [redacted]@CFTC.gov>; Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: Report on my comments at a speech yesterday

Here's an article from today's BNA Daily Pension Reporter. Hopefully, it doesn't cause either of you heartburn. The audience and panel were composed of financial service industry lawyers, and the questioning was fairly aggressive. Not the best article or my best remarks at the event (which on the whole went pretty well), but what can you do?

Fiduciary Responsibility

DOL Official Clarifies Seller's Exemption
In Context of Fiduciary Investment Advice

The seller's exemption, one of the most commented on provisions of the Department of Labor's proposed fiduciary regulation, requires drawing a line that is not easily drawn, Timothy Hauser, associate solicitor in the department's Plan Benefits Security Division, said April 5.

Speaking during a program sponsored by the Practising Law Institute, Hauser said the seller's exemption is especially difficult to craft in the context of business relationships that primarily involve the giving of advice. “Do we really want to say that, in some circumstances, you can have a relationship that is primarily an advice relationship, but every now and then you [can] step into a seller's role and sell something out of inventory or do a little self-dealing as long as you disclose it?” Hauser said.

Swap Transactions

Even with those concerns, Hauser said that the department intended for the seller's exemption to apply to swap dealers involved in transactions in which an independent and knowledgeable fiduciary represents the retirement plan.

The seller's exemption is included in the department's proposed regulation (RIN 1210-AB32) to revise and expand the definition of the term “fiduciary" under Section 3(21)(A) of the Employee Retirement Income Security Act (203 PBD, 10/22/10; 37 BPR 2305, 10/26/10). The seller's exemption would exempt sellers or purchasers who give advice or recommendations in the explicit context of selling or purchasing securities or other properties from being considered ERISA fiduciary investment advisers.

Hauser said that swap dealers are concerned that they would be unable to take advantage of the proposed seller's exemption under ERISA because of business conduct standards that have been proposed by the Commodity Futures Trading Commission. “That's really not the way we view it,” Hauser said. Complying with the business conduct standard in the proposed CFTC regulation, “by itself, is not going to be sufficient to make somebody who is in a bilateral transaction with a plan, on the opposite side of a swap, into a plan fiduciary,” he said.

DOL intended for the seller's exemption to apply to two-way swap transactions in which “if the swap moves one way, the plan wins and the swap dealer loses,” and vice versa, Hauser said.

Even with a line being drawn for a seller's or counterparty exemption, financial service providers are alarmed that service providers could be held to fiduciary standards by DOL's proposed regulation, Javier Hernandez, a partner at Curtis, Mallet-Prevost, Colt & Mosle in New York, said during the PLI program.

“This is an area where businesses need a lot of certainty because of the consequences of becoming a fiduciary, and where we don't have certainty, it becomes a real business problem,” Hernandez said.

ERISA Section 408(b)(2)

Hernandez asked Hauser whether the department would consider relying on its ERISA Section 408(b)(2) interim final rules for disclosing self-dealing or conflicts of interest to plan fiduciaries, “rather than just sweeping everybody into the definition of fiduciary.”

Interim final rules (RIN 1210-AB08) under ERISA Section 408(b)(2), published in July 2010, establish disclosure requirements that employers and plan fiduciaries can use to assess the reasonableness of fees charged by companies that provide services to employee retirement plans (135 PBD, 7/16/10; 37 BPR 1540, 7/20/10).

Hauser said the Section 408(b)(2) regulation would not satisfy ERISA fiduciary obligations because, being much more than a disclosure regime, “ERISA prohibits certain transactions because they are thought to be so fraught with potential for abuse” and self-dealing. Furthermore,

ERISA operates “in a unique context” of people's retirement income and preferential tax breaks, “where arguably special protections are needed,” Hauser said.

Just as DOL is struggling to draw a line on the seller's exemption, it is still weighing how the proposed fiduciary regulation should deal with myriad valuation practices, including “valuations of asset pools that do not hold plan assets but nevertheless have benefit plan investors, daily marks in the swap context, and on and on,” Hauser said.

Hard-to-Value Assets

Hauser added that he personally thinks it is logical to confer ERISA fiduciary investment adviser status on people who give advice on specific transactions involving hard-to-value assets. “There really isn't a big analytic distinction between giving someone advice on how much to pay for a given asset, as opposed to giving advice to buy a given asset at a market price. These aren't analytically distinct things for purposes of the statutory definition," Hauser said.

However, outside of that context, the question of appraisals and fairness opinions "is very much a matter for discussion," Hauser said. "I just invite your comments on that," he added. Hauser said the comment record for the proposed fiduciary regulation will remain open until April 12.

From: Gonzalez, Lourdes
To: Phyllis Cela; Hauser, Timothy - SOL
Subject: Re: Running late
Date: Thursday, March 24, 2011 5:05:11 PM

---

ok

On 3/24/11 4:58 PM, "Phyllis Cela" [redacted]@cftc.gov> wrote:

> Fine with me. Lourdes?
>
> -----Original Message-----
> From: Hauser, Timothy - SOL [redacted]@dol.gov]
> Sent: Thursday, March 24, 2011 4:58 PM
> To: Cela, Phyllis J.
> Subject: Running late
>
> Could we make it 5:15?

From: Gonzalez, Lourdes
To: Phyllis Cela; Hauser, Timothy - SOL
Subject: Re: Running late
Date: Thursday, March 24, 2011 5:05:11 PM

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> Subject: Running late
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From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: SDIRA ALert
Date: Tuesday, June 28, 2011 5:54:32 PM

Thank you!

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Tuesday, June 28, 2011 4:15 PM
To: Hauser, Timothy - SOL
Subject: SDIRA ALert

Tim,

Pursuant to your access request, attached please find a draft Self-Directed IRA Investor Alert. My colleagues have advised me that they would appreciate any comments before July 8.

Thank you,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Hauser, Timothy - SOL
To: Lourdes Gonzalez [redacted]@sec.gov"
Cc: Hauser, Timothy - SOL; Strasfeld, Ivan - EBSA
Subject: Re: SEC draft external business conduct release for swap dealers
Date: Thursday, June 23, 2011 5:48:26 PM

I'll call you in the morning

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, June 23, 2011 03:53 PM
To: Hauser, Timothy - SOL
Subject: Re: SEC draft external business conduct release for swap dealers

Thanks Tim. I am free before 1 pm if that helps.

We published our Sunshine Act notice for the 29th. It went up last night.

Lourdes

On 6/23/11 3:51 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

> Lourdes, are there any times tomorrow that would be good for you to talk? I'm in Chicago for a speech, but return tonight. I'd like to see if we can be helpful.
>
> ----- Original Message -----
> From: Gonzalez, Lourdes [redacted]@sec.gov]
> Sent: Tuesday, June 21, 2011 08:54 AM
> To: Hauser, Timothy - SOL
> Subject: SEC draft external business conduct release for swap dealers
>
> Tim,
>
> Attached is the Commission staff's draft external business conduct release in response to your access request.
>
> We are happy to answer any questions. I can be reached at 202-551-5580.
>
> Kind regards,
>
> Lourdes
>
> Lourdes Gonzalez
> Assistant Chief Counsel – Sales Practices
> Division of Trading and Markets
> US Securities and Exchange Commission

Lourdes Gonzalez

Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Hauser, Timothy - SOL
To: [redacted]@sec.gov"
Cc: Hauser, Timothy - SOL
Subject: Re: SEC draft external business conduct release for swap dealers
Date: Thursday, June 23, 2011 3:51:31 PM

Lourdes, are there any times tomorrow that would be good for you to talk? I'm in Chicago for a speech, but return tonight. I'd like to see if we can be helpful.

----- Original Message -----
From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Tuesday, June 21, 2011 08:54 AM
To: Hauser, Timothy - SOL
Subject: SEC draft external business conduct release for swap dealers

Tim,

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We are happy to answer any questions. I can be reached at [redacted].

Kind regards,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

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Subject: Re: SEC draft external business conduct release for swap dealers
Date: Thursday, June 23, 2011 3:53:26 PM

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> Division of Trading and Markets
> US Securities and Exchange Commission

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Hauser, Timothy - SOL
To: [redacted]@sec.gov"
Cc: Hauser, Timothy - SOL
Subject: Re: SEC external business conduct proposing release
Date: Wednesday, June 29, 2011 2:24:23 PM

Thanks!

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, June 29, 2011 02:15 PM
To: Hauser, Timothy - SOL; Strasfeld, Ivan - EBSA
Subject: SEC external business conduct proposing release

Tim, Ivan:

The SEC just posted the swaps external business conduct proposing release on the website. We thought you might like the link. http://www.sec.gov/rules/proposed/2011/34-64766.pdf <http://www.sec.gov/rules/proposed/2011/34-64766.pdf>

We also mentioned you two specifically at our open meeting. (In a good way, trust me!) So if you get questions, you know what generated the attention.

Thanks as always. I'm sure we'll be speaking very soon.

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From:	Hauser, Timothy - SOL
To:	"Gonzalez, Lourdes"
Cc:	Hauser, Timothy - SOL
Subject:	RE: TIAA-CREF comment letter to FINRA proposal
Date:	Wednesday, June 29, 2011 5:52:27 PM

Thanks. I'll take a look and give you a call.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, June 29, 2011 5:44 PM
To: Hauser, Timothy - SOL
Subject: TIAA-CREF comment letter to FINRA proposal

Tim,

After our last meeting, I emailed you a hyperlink to a FINRA rule proposal that would, among other things, require brokers to disclose revenue sharing arrangements. I was reading a comment letter from TIAA-CREF to that rule proposal and I wanted to see what you thought of it. Would you have a few minutes to talk about it sometime soon? I am just looking for some initial reaction rather than formal views.

Thanks,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

The comment letter is at: http://www.sec.gov/comments/sr-finra-2011-018/finra2011018-1.pdf
<http://www.sec.gov/comments/sr-finra-2011-018/finra2011018-1.pdf>

The FINRA proposal is at: http://www.sec.gov/rules/sro/finra/2011/34-64386.pdf

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Cc: Fahey, John J.
Subject: Re: TIAA-CREF comment letter to FINRA proposal
Date: Friday, July 08, 2011 5:53:28 PM

Tim, it works for me. I'm cc'ing my colleague, John Fahey, to check if it works for others. You can reach me at [redacted]. Thank you. Lourdes

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, July 08, 2011 05:50 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: TIAA-CREF comment letter to FINRA proposal

Lourdes, would 11:00 a.m. Monday work as a time to discuss the issues? Should we call you? What number should we use?

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, June 29, 2011 5:44 PM
To: Hauser, Timothy - SOL
Subject: TIAA-CREF comment letter to FINRA proposal

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Thanks,

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The FINRA proposal is at: http://www.sec.gov/rules/sro/finra/2011/34-64386.pdf

From: Hershaft, Michael
To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes; Fahey, John J.
Subject: RE: TIAA-CREF comment letter to FINRA proposal
Date: Friday, July 08, 2011 6:05:38 PM

Tim:

I work for Lourdes. 11 a.m. on Monday works for us. We're happy to call you or you can reach us in Lourdes' office at [redacted]. Please let me know what works best for you.

Regards,

Michael Hershaft

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, July 08, 2011 05:50 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: TIAA-CREF comment letter to FINRA proposal

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From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: TIAA-CREF comment letter to FINRA proposal
Date: Friday, July 08, 2011 5:50:51 PM

Lourdes, would 11:00 a.m. Monday work as a time to discuss the issues? Should we call you? What number should we use?

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, June 29, 2011 5:44 PM
To: Hauser, Timothy - SOL
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From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Today''s meeting
Date: Wednesday, June 15, 2011 8:30:07 AM

Ok thanks.
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, June 15, 2011 08:28 AM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: Today's meeting

It just occurred to me that I hadn't given you the room number for today's meeting! It's N-5677. Just give me a call on my cell phone [redacted] when you get in and I'll walk you up to the meeting.

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From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, June 09, 2011 3:34 PM
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech

Yes. Joe and I will be there. See you then.

Lourdes

On 6/9/11 3:31 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

Terrific. Would 11:15 on Wednesday work?

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From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, June 09, 2011 3:20 PM
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech

Tim,

I also plan on bringing my colleague, Joe Furey, with me. He runs the other half of the Office of Chief Counsel in the Division of Trading and Markets. He used to be the chief compliance officer of Legg Mason so he has a lot of broker-dealer experience.

Lourdes

On 6/9/11 2:21 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:
Lourdes,

I'd like to take you up on your offer to come over and walk me (and a few of my colleagues) through the SEC's regulation of broker-dealers. Is your offer still open? If so, Wednesday or Thursday look good to me (except for 9:45 both days, 2:00 Wednesday, and 3:00 Thursday).

Thanks again for all the help you've already given me.

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Gonzalez, Lourdes
To: [redacted]@cftc.gov; Hauser, Timothy - SOL
Subject: Re: Voice Mail Message
Date: Wednesday, August 10, 2011 5:44:18 AM

Me too. Thanks Tim.

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Cela, Phyllis J. [redacted]@CFTC.gov]
Sent: Tuesday, August 09, 2011 05:50 PM
To: Hauser, Timothy - SOL [redacted]@dol.gov>; Gonzalez, Lourdes
Subject: RE: Voice Mail Message

No problem. I'm here all week.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, August 09, 2011 5:50 PM
To: Cela, Phyllis J.; Lourdes Gonzalez
Cc: Hauser, Timothy - SOL
Subject: Voice Mail Message

I haven't forgotten your call. I'm just drowning in work. I'll try to call back in the next day or two if that's ok.

From:	Hauser, Timothy - SOL
To:	"Cela, Phyllis J."; Lourdes Gonzalez
Cc:	Hauser, Timothy - SOL
Subject:	Report on my comments at a speech yesterday
Date:	Wednesday, April 06, 2011 8:24:20 AM

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From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL; Strasfeld, Ivan - EBSA
Subject:	SEC external business conduct proposing release
Date:	Wednesday, June 29, 2011 2:16:00 PM

Tim, Ivan:

The SEC just posted the swaps external business conduct proposing release on the website. We thought you might like the link. http://www.sec.gov/rules/proposed/2011/34-64766.pdf <http://www.sec.gov/rules/proposed/2011/34-64766.pdf>

We also mentioned you two specifically at our open meeting. (In a good way, trust me!) So if you get questions, you know what generated the attention.

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Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: TIAA-CREF comment letter to FINRA proposal
Date: Wednesday, June 29, 2011 5:43:40 PM

Tim,

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Lourdes

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
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The comment letter is at: http://www.sec.gov/comments/sr-finra-2011-018/finra2011018-1.pdf
<http://www.sec.gov/comments/sr-finra-2011-018/finra2011018-1.pdf>

The FINRA proposal is at: http://www.sec.gov/rules/sro/finra/2011/34-64386.pdf

From:	Hauser, Timothy - SOL
To:	"Gonzalez, Lourdes"
Cc:	Hauser, Timothy - SOL
Subject:	Today"s meeting
Date:	Wednesday, June 15, 2011 8:28:40 AM

It just occurred to me that I hadn't given you the room number for today's meeting! It's [redacted]. Just give me a call on my cell phone ([redacted]) when you get in and I'll walk you up to the meeting.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, June 09, 2011 3:34 PM
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech

Yes. Joe and I will be there. See you then.

Lourdes

On 6/9/11 3:31 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

Terrific. Would 11:15 on Wednesday work?

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Thursday, June 09, 2011 3:20 PM
To: Hauser, Timothy - SOL
Subject: Re: Another Article in BNA on My PLI Speech

Tim,

I also plan on bringing my colleague, Joe Furey, with me. He runs the other half of the Office of Chief Counsel in the Division of Trading and Markets. He used to be the chief compliance officer of Legg Mason so he has a lot of broker-dealer experience.

Lourdes

On 6/9/11 2:21 PM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:
Lourdes,

I'd like to take you up on your offer to come over and walk me (and a few of my colleagues) through the SEC's regulation of broker-dealers. Is your offer still open? If so, Wednesday or Thursday look good to me (except for 9:45 both days, 2:00 Wednesday, and 3:00 Thursday).

Thanks again for all the help you've already given me.

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From:	Hauser, Timothy - SOL
To:	"Cela, Phyllis J."; [redacted]@sec.gov"
Cc:	Hauser, Timothy - SOL
Subject:	Voice Mail Message
Date:	Tuesday, August 09, 2011 5:49:45 PM

I haven't forgotten your call. I'm just drowning in work. I'll try to call back in the next day or two if that's ok.

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BEIJING BRUSSELS CHICAGO DALLAS FRANKFURT GENEVA HONG KONG LONDON LOS ANGELES NEW YORK SAN FRANCISCO SHANGHAI SINGAPORE SYDNEY TOKYO WASHINGTON, D.C.

Is Your 401(k) Default Fund on Target? New DOL and SEC Guidance on Target Date Funds

Beth J. Dickstein
Sidley Austin LLP

Topics to Cover

- Best practices for plan fiduciaries in choosing and monitoring target date funds
- Understanding a target date fund's glide path
- Evaluating the fees of target date funds
- Advice to participants on how target date funds operate
- Increased disclosure when a target date fund is the plan's qualified default investment alternative
- DOL Guidance
- SEC proposed regulation relating to advertising of target date funds
- Proposed effective date of SEC rules to marketing and other sales literature relating to target date funds

Basics

- Definition: funds that "provide varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy."
- Intended to be an "investment solution."
- Each target date fund generally is intended for participants with a target retirement year within a narrow band of years (such as a five year period).
- Glide Path – the investment strategy for shifting investments to a more conservative portfolio.
- Can be a "fund of funds," which invests in other funds or a "stand alone" product, which invests directly in a diversified portfolio of assets.

Glide Path

- Higher risk investments at early age.
- Eventually reaches a “landing point” at which time the asset allocation becomes static.
- Glide path may flatten at the target retirement date.
- Alternatively, glide path may flatten near end of life expectancy.
- Different views on when equity investments should be significantly reduced.

Allocations Used in Glide Paths of Different Funds

- 2008 returns for 2010 target date funds ranged from -3.6% to -41%.
- Due to wide variation in asset allocations.
- Vanguard - 90% equity at age 40 and younger, declining to 50% at age 65 and 30% by age 72.
- Fidelity – 50% equity at the target date, declining to 20% about 15 years after the target date.
- Bernstein – equity/bond allocation of 60%/40% at age 65.

Fund of Funds Products

- Mutual fund target date funds – exempt from the fiduciary duty and self dealing prohibited transaction restrictions of ERISA.
- Plan asset target date funds (e.g., bank collective investment funds) – subject to the fiduciary duty and prohibited transaction provisions of ERISA.
- Conflicts of interest?
- Layering of fees?

Benchmarks

- Lack of accepted industry benchmarks.
- Benchmarks have been established by Morningstar, Dow Jones, Target Date Analytics, and Standard and Poor's.
- Benchmarks of Morningstar Dow Jones and Target Date Analytics are based on each entity's hypothetical optimal glide-path.
- S&P's benchmarks are based on the average allocations of target date funds.
- Difficult to evaluate performance without accepted benchmark.

Summary of Developments

- Designation as a Qualified Default Investment Alternative by DOL Regulations (12/07).
- ERISA Advisory Council hearing and report (2008).
- Senate Committee Hearing (2/09).
- Joint Hearing by the DOL and Securities and Exchange Commission (“SEC”) (6/09).
- DOL Guidance
- SEC Proposed Rule Amendments

404(c)(5) Regulations – Target Date Funds as a QDIA

- Effective December 24, 2007.
- Named target date funds as a QDIA.
- Growth in assets invested in target date funds.
- Growth in the number of target date funds available.

2008 ERISA Advisory Council Hearing

- Working group requested testimony on various issues including the following:
  - What retirement and participant assumptions should be used when selecting and monitoring target date funds?
  - How does a plan fiduciary evaluate and monitor target date funds when there is no standardized benchmarking methodology?
  - What investment education and communication is required for participants to enable them to invest in target date funds or to assess whether they should actively manage their own investment?
  - What are the different types of target date funds?

2008 ERISA Advisory Council Hearing
(continued)

- The working group described plan participants' general need for investment education.
- The working group believes that target date funds could provide a solution to participants' general lack of knowledge/interest in plan investing.
- Working Group Recommendations:
  - ➢ The DOL should reinforce ERISA requirements relative to plan investments in target date funds.
  - ➢ The DOL should develop participant education materials and illustrations to enhance awareness of the value and the risks associated with target date funds.

Senate Committee Hearing

- February, 2009 Hearing by U.S. Senate Special Committee on Aging.
  - Concern over retirement security.
  - Focus on target date funds.
  - Senator Herb Kohl, Chairman, sent letters to the Secretary of Labor and the Chairwoman of the SEC urging review of target date funds.

Joint Hearing by the DOL and SEC

- In response to Senator Kohl's letter, the DOL and SEC held a joint hearing in June, 2009.
- DOL and SEC expressed concerns regarding:
  - Differences in the glide paths;
  - Variance in investment returns between funds with the same target retirement date;
  - Participant disclosure and understanding; and
  - Whether regulatory change or other reform is needed.

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Joint Hearing by the DOL and SEC
(continued)

- Testimony focused on certain topics, including:
  - ➢Importance of target date funds as a “simple” alternative.
  - ➢Reasons for differences in glide paths.
  - ➢Need for equity investments after retirement.
  - ➢Whether target date funds should be customized.

Joint Hearing by the DOL and SEC
(continued)

- Whether participant disclosure is adequate.
- Considerations for plan fiduciaries in selecting target date funds.
- Suggestions for additional regulation.

Should the Glide Path be Regulated?

- The Certified Financial Planner Board argues that acceptable allocation ranges should be established.
  - ➢ Help align risks with participants' expectations.
- ICI and Profit Sharing Council of America do not believe that either the SEC or the DOL should regulate the ranges of asset allocations.
  - ➢ Regulation generally would be unprecedented - except for investments in employer securities and real property, ERISA does not limit types of acceptable investments.

Joint DOL/SEC Guidance

DOL intends to issue 3 pieces of guidance:

1. Initial joint DOL/SEC guidance titled "Investor Bulletin: Target Date Retirement Funds", issued 5/6/2010;
2. Best practices checklist; and
3. Amendment to the QDIA regulation as it relates to target date funds.

Joint DOL/SEC Guidance
(continued)

Investor Bulletin (Issued May, 2010)

- Discusses basics of target date funds:
  - Target date funds are designed to be long-term investments for individuals with particular retirement dates in mind.
  - No guarantee that participant will have sufficient retirement income at the target date.
  - Fund disclosure describes the types of investments and how the investment mix will shift over the life of the fund.
  - Can change so monitor fund's investments over time.

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Joint DOL/SEC Guidance
(continued)

Investor Bulletin (Issued May, 2010)

- Evaluating a Target Date Fund:
  - ➢ Review the fund's asset allocation over the entire life of the fund.
  - ➢ Review the fund's asset allocation at its most conservative investment mix.
  - ➢ Review the fund's risk level.

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Joint DOL/SEC Guidance
(continued)

Investor Bulletin (Issued May, 2010)

- Evaluating a Target Date Fund:
  - Review the fund's performance.
    - Should participants reference a particular benchmark?
  - Review the fund's fees.
    - What should a participant review?

SEC Proposed Amendments

- Proposed amendments to rule 482 under the Securities Act.
- Proposed amendments to rule 34b-1 under the Investment Company Act.
- Proposed amendments to rule 156 under the Securities Act.

Rule 482

Background

- Rule 482 under the Securities Act permits investment companies to advertise information prior to delivery of a statutory prospectus.
- Such advertisements are "prospectuses" under Section 10(b) of the Securities Act.
- Proposed amendment applies to advertisements and supplemental sales literature that "place a more than insubstantial focus on one or more target date funds."
- Amendments apply whether or not the target date fund is a QDIA.

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Rule 34b-1

Background

- Rule 34b-1 under the Investment Company Act sets forth the requirements for supplemental sales literature.
- Under Rule 34b-1, a communication sent after the effective date of a fund's registration statement is not deemed a "prospectus" if a statutory prospectus was sent to a person prior to or at the same time the applicable communication was sent to such person.

Proposed Amendments to Rule 482 and Rule 34b-1

Disclose in print advertising:

- Investor should consider age or retirement date, as well as other factors, including the investor's risk tolerance, personal circumstances, and complete financial situation.
- Investment is not guaranteed and could loss money.
- Circumstances under which allocations can be modified without a shareholder vote.
- If the fund uses a year in its name, describe the intended allocation as of that year and the allocation as of the last quarter and specify that those allocations are as of such times.

Proposed Amendments to Rule 482 and Rule 34b-1 (continued)

Disclose in print advertising for more than one fund:

- A prominent table, chart, or graph that clearly depicts the asset allocations over the entire life of the funds:
  - at identified periodic intervals (no longer than 5 years)
  - at the inception of the funds
  - at the target dates
  - at the “landing points” (date of static asset allocation)
  - at the most recent quarter end

Radio or TV ads must state the landing point, explain that the asset allocation becomes fixed at the landing point, and describe the intended allocations at the landing point.

Rule 156

Background

- Rule 156 under the Securities Act contains guidance on the types of information in investment company sales literature that could be misleading.
- It applies to all sales literature, whether or not delivered with the fund's prospectus.
- Under rule 156, whether a statement is misleading depends on the context in which the statement is made.
- Rule 156 outlines certain situations in which a statement could be misleading.

Proposed Amendments to Rule 156

- Proposing to amend rule 156 to address certain statements suggesting that securities of an investment company are an appropriate investment.
- Will apply to all types of investment companies.
- Such a statement could be misleading because of the emphasis it places on a single factor, such as an investor's age or tax bracket, as the basis for determining that an investment is appropriate.
- Such statement could be misleading because of representations, whether express or implied, that investing in the securities is a simple investment or that it requires little or no monitoring by the investor.

Effective Date of SEC Amendments

- Changes to Rule 482 will apply to target date fund advertisements and supplemental sales literature that are used 90 days or more after the effective date of the amendments.
- Rule 156 changes will be effective immediately upon adoption.

SEC Comments Requested

SEC requests comments on:

- Does the proposed definition of "target date fund" cover the types of funds that should be subject to the proposal?
- Is it appropriate to limit application of the amendments to marketing materials that place a more than insubstantial focus on one or more target date funds?
- Should the SEC prescribe specific asset classes to be used in disclosing the asset allocation or the methodology for calculating the percentage allocations ?
- Are there additional amendments that would effectively address the concerns relating to target date fund names?
- Should the prospectus requirements provide specific disclosure requirements for target date funds?

SEC Comments Requested
(continued)

SEC requests comments on:

- Should specific materials be exempted from the rule?
- Should the SEC prescribe the specific format for the asset allocation disclosure?
- Do investors need other information along with allocation percentages in order to understand the significance of those percentages (such as risks, and volatility of different asset classes)?
- Should there be disclosure whether the glide path extends to the target date or through the life expectancy of the investor?
- Should the prospectus specify a manager's discretion to change the glide path?

SEC Comments Requested
(continued)

SEC requests comments on:

- Will the disclosure of a target date fund's asset allocation be an effective way to reduce investor misunderstanding?
- Will the disclosure cause investors to prioritize investment risk at a particular moment in time over longevity risk, inflation risk, or other risks?
- Should the proposal be modified to address any impact that it may have on investor or manager behavior?
- Are there other means to enhance comparability among target date and current asset allocations?
- Are the proposed effective dates appropriate?

Comments due August 23, 2010

Possible Legislative Actions

- Possible legislation that will require target date fund managers to take on a fiduciary responsibility in order for such funds to be eligible for the designation of QDIA.
- Response to Avatar testimony in Senate hearings and DOL advisory opinion.
- DOL issued advisory opinion to Avatar stating that manager of a target date mutual fund does not become a fiduciary under ERISA merely because the target date fund invests in affiliated funds.

Is More Regulation Needed?

- Wide differences of opinion.
- Those advocating for additional regulation want:
  - More regulation of disclosures and naming conventions;
  - Specified ranges of asset allocations; and
  - Limitation of mutual fund exception from regulation under ERISA.

Is More Regulation Needed?

- Those against more regulation state:
  - Existing disclosure rules are sufficient;
  - Regulation of disclosure would not make participants read the disclosure; and
  - Having the DOL and SEC prescribe acceptable asset allocation ranges would be unprecedented and likely unsuccessful.

Target Date Funds: Historical Volatility/Return Profiles

Michael J. Brien, PhD
Deloitte Financial Advisory Services LLP

Philip J. Cross, PhD
Deloitte Financial Advisory Services LLP

Constantijn W.A. Panis, PhD
Advanced Analytical Consulting Group Inc

October 23, 2009

A study by Deloitte Financial Advisory Services LLP in conjunction with Advanced Analytical Consulting Group Inc. for the U.S. Department of Labor, Employee Benefits Security Administration.

Audit . Tax . Consulting . Financial Advisory.

Table of Contents

Objectives and Key Findings

Objectives

- Provide update on initial Task Order work
  - Findings subject to change based on further work and additional data
- Review Life Cycle/Target Date Funds
  - Provide in-depth look at the universe of life cycle funds
- Evaluate Volatility and Return of Target Date Funds
  - Present volatility/return profiles within and across funds
  - Understand the impact of recent economic crisis
- Explore recent returns and volatility in 2010 funds

Key Findings

- Rates of returns and volatility on target-2010 funds varied substantially in 2008
  - Spread in returns can be traced to substantial variation in equity exposure
  - Some fund families maintain equity exposure of more than 60 percent, even for their 2010 fund
- Returns generally increase with equity exposure, except in 2008
- Overall objective of funds, as stated in fund prospectuses, is generally not informative of whether a fund is aggressive or conservative
- Funds that performed particularly poorly in 2008 were heavily exposed to equities
  - Performance may rebound when the returns on equity improve.
- Best performing 2010 funds in ’08 were not “typical” TDFs
  - “American Century Target Maturity 2010 Inv” invests only in Treasuries
  - “DWS Target 2010” does not have 2020, 2030, 2040, 2050 sibling funds

Data and Methodology

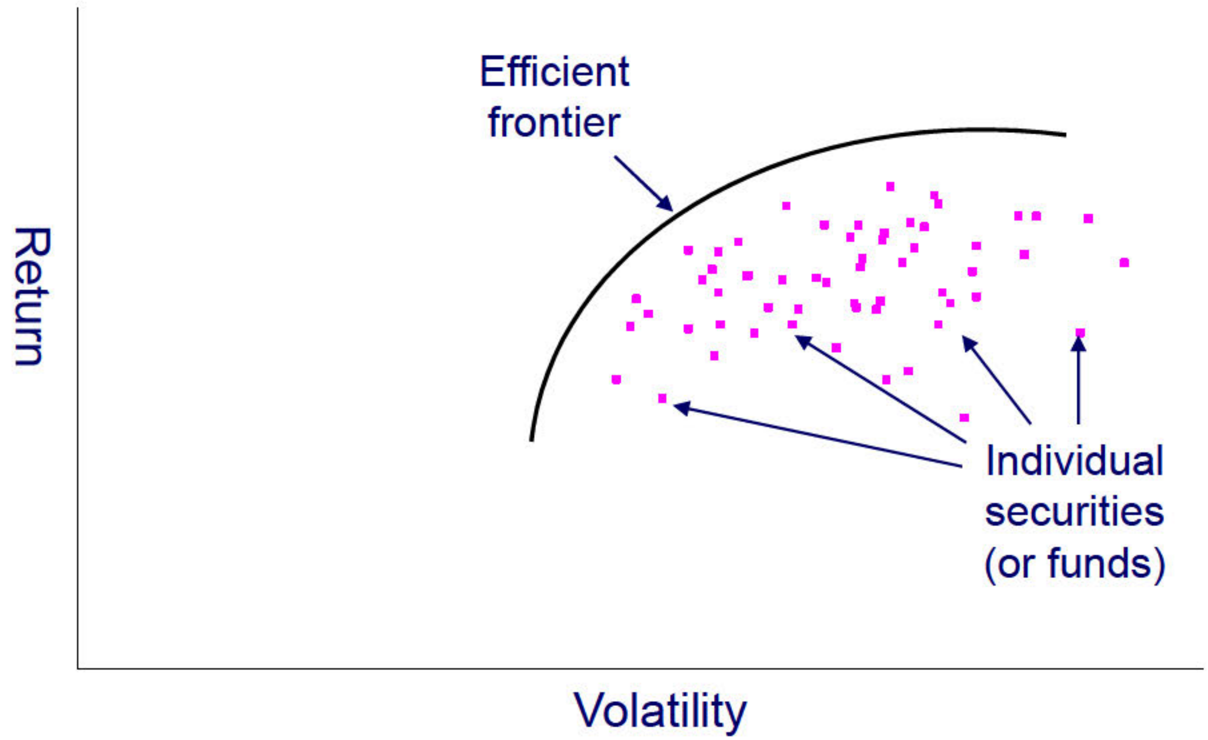
Data*

- Volatility and Returns
  - Computed from daily fund prices
  - Source: Bloomberg, Yahoo Finance and the Thrift Savings Plan website
- Asset Composition
  - Source: MarketWatch and the Thrift Savings Plan website
  - Asset Composition
- Funds in the Sample
  - 1,645 currently active funds defined by Morningstar as Life Cycle Funds
  - Funds asset sizes range from less than $1 mil to $16.8 bil; mean size is $493 mil, median size is $25 mil
  - Fraction of each fund in stocks ranges from 0% to 97% (median 68%) and net fraction in cash ranges from -107% to 38% (median 5%)

*Deloitte FAS assumes that such information and data are reliable. We have observed, however, in a small number of cases differences between these data and data reported by other commonly used sources.

Efficient Frontier

- Optimal allocations should be along the mean-variance frontier, which contains diversified portfolios of risky assets



Mean-Variance Efficient Frontier

Methodology

- Returns are historical annualized daily returns over N years, from day t=1 until day t=T;

$$return = \sqrt[N]{\frac{price(T)}{price(1)}} - 1$$

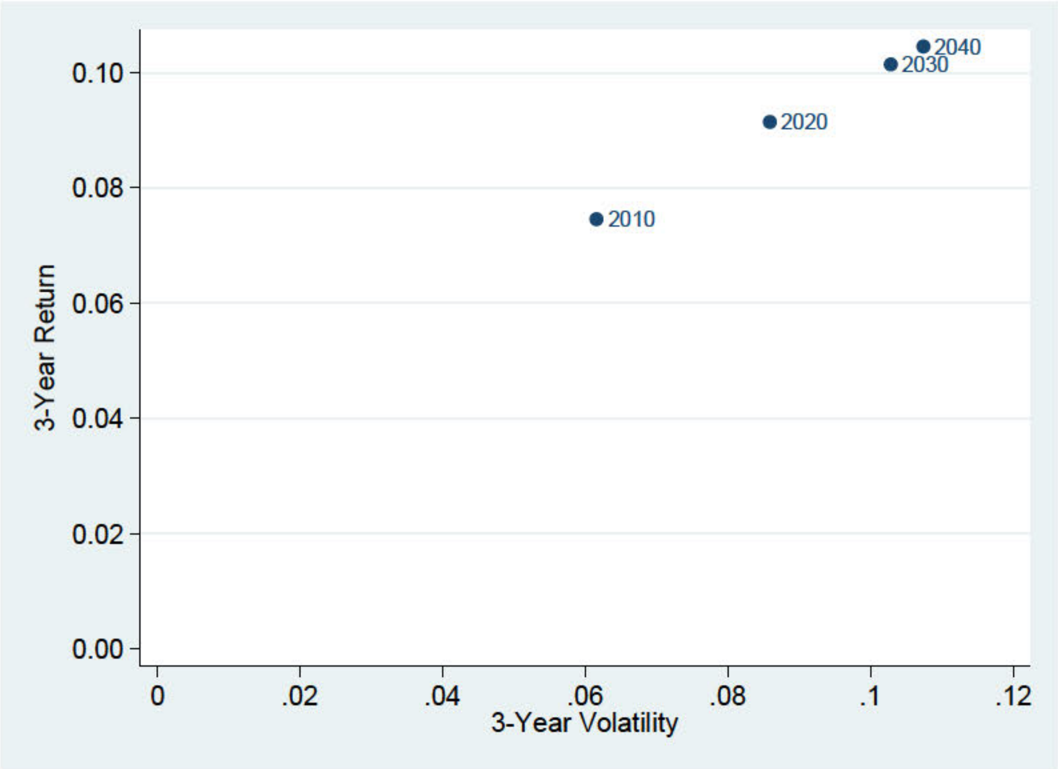
- Volatility is the historical annualized standard deviation in the daily percentage change in returns;

$$volatility = \underset{i=1,\ldots,T}{StdDev}\left[\frac{price(i) - price(i-1)}{price(i-1)}\right] \times \sqrt{T / N}$$

Primary Findings

Volatility/Return within a Family of Funds

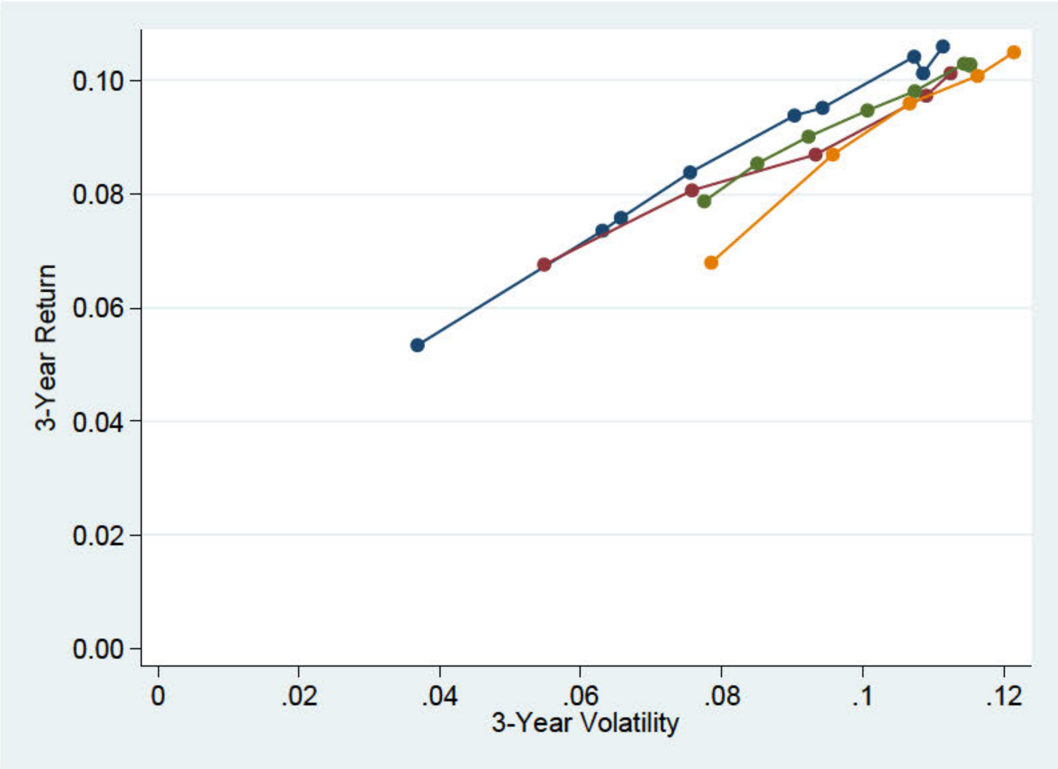
- Before 2008, return and volatility within a family increased with the target date
  - Appear to be along an Efficient Frontier



Volatility and return in 2005-2007 for a single family, single class of funds

Volatility/Return Across Funds

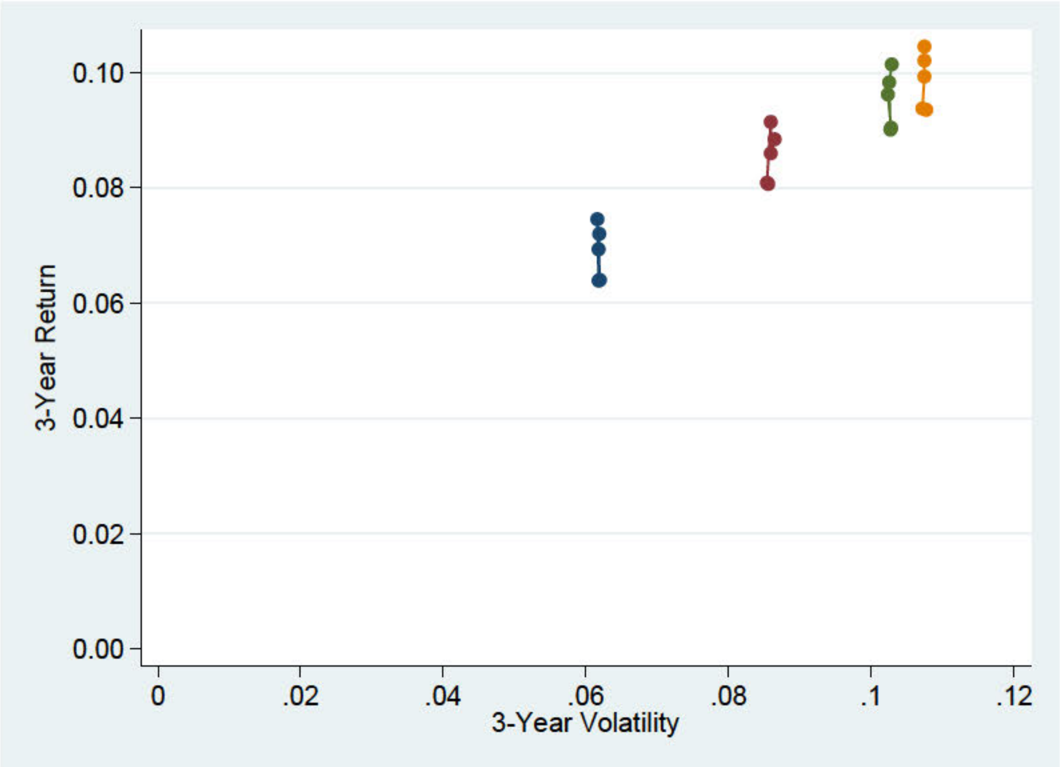
- While fund managers differed in target investments and returns, the patterns were largely similar



Volatility and return in 2005-2007 for various fund families (investor class)

Investor Classes Differ Mostly in Returns

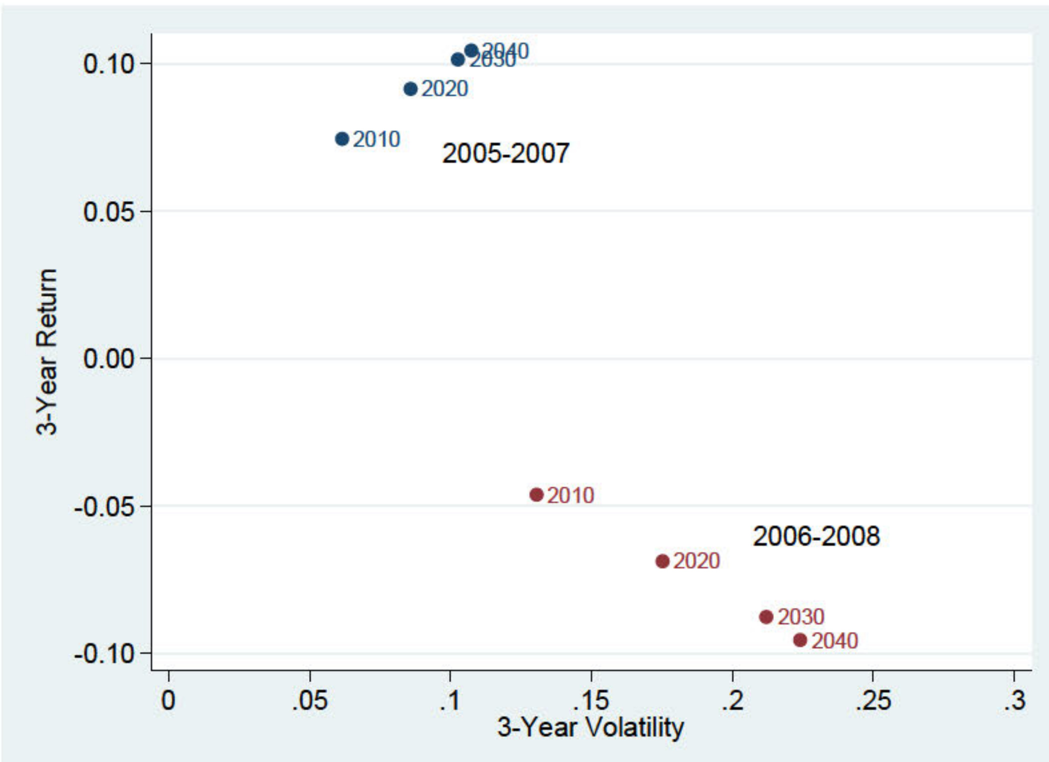
- Within fund families, investor classes vary in fees and thus returns, not in volatility



Volatility and return in 2005-2007 for various investor classes (single fund family)

Crash Reduced Returns, Upped Volatility

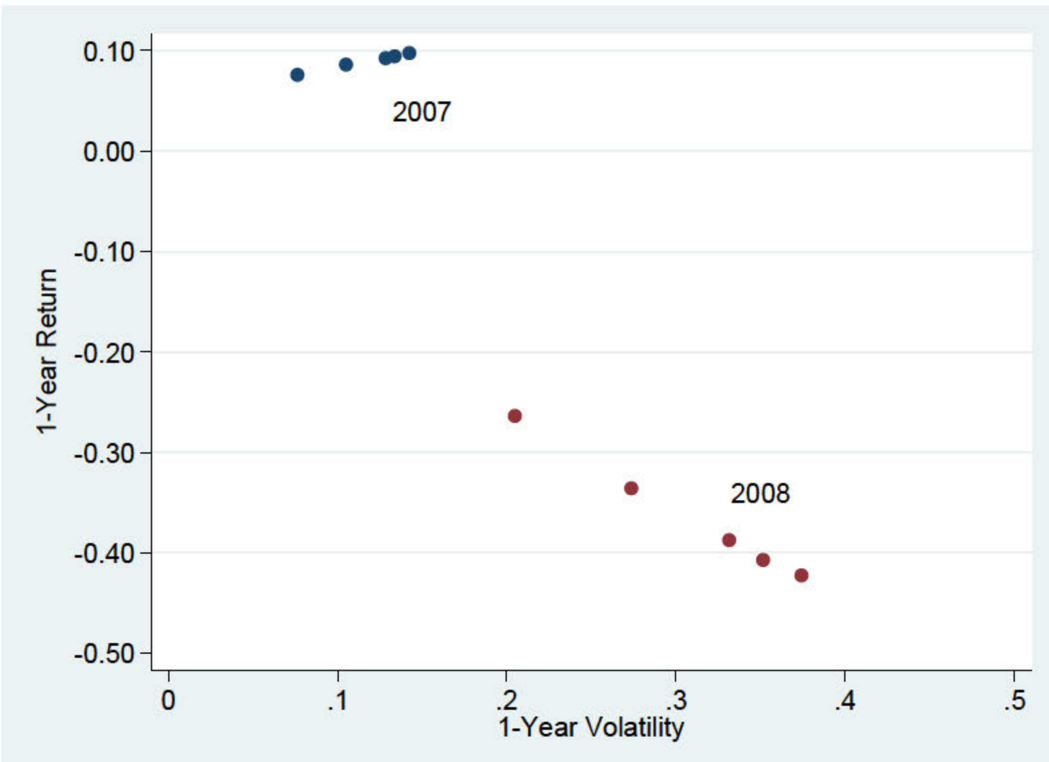
- The market crash that started in 2008 increased volatility and lowered returns



Volatility and return in 2005-07 vs. 2006-08 (single fund family, single investor class)

1-Year Differences Were Even Larger

- 1-year volatility generally higher than 3-year volatility; 1-year returns lower than 3-year returns

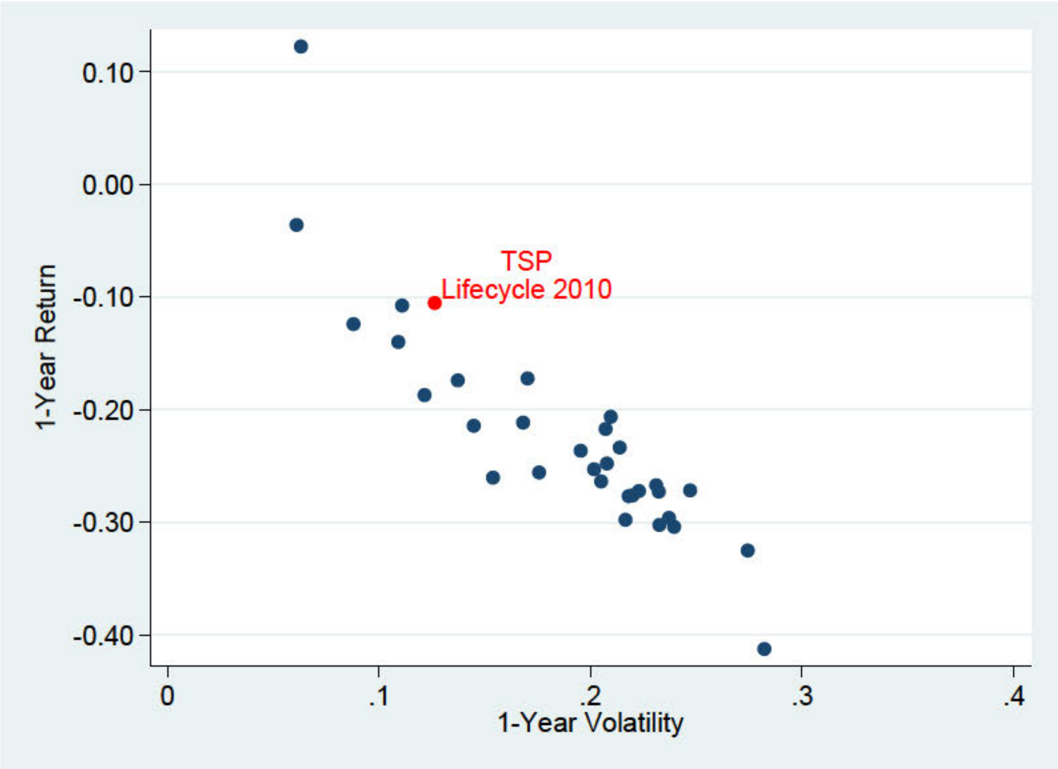


Volatility and return in 2007 vs. 2008 (single fund family, single investor class)

2010 Funds: A First Look

2010 Funds Varied in Volatility and Returns

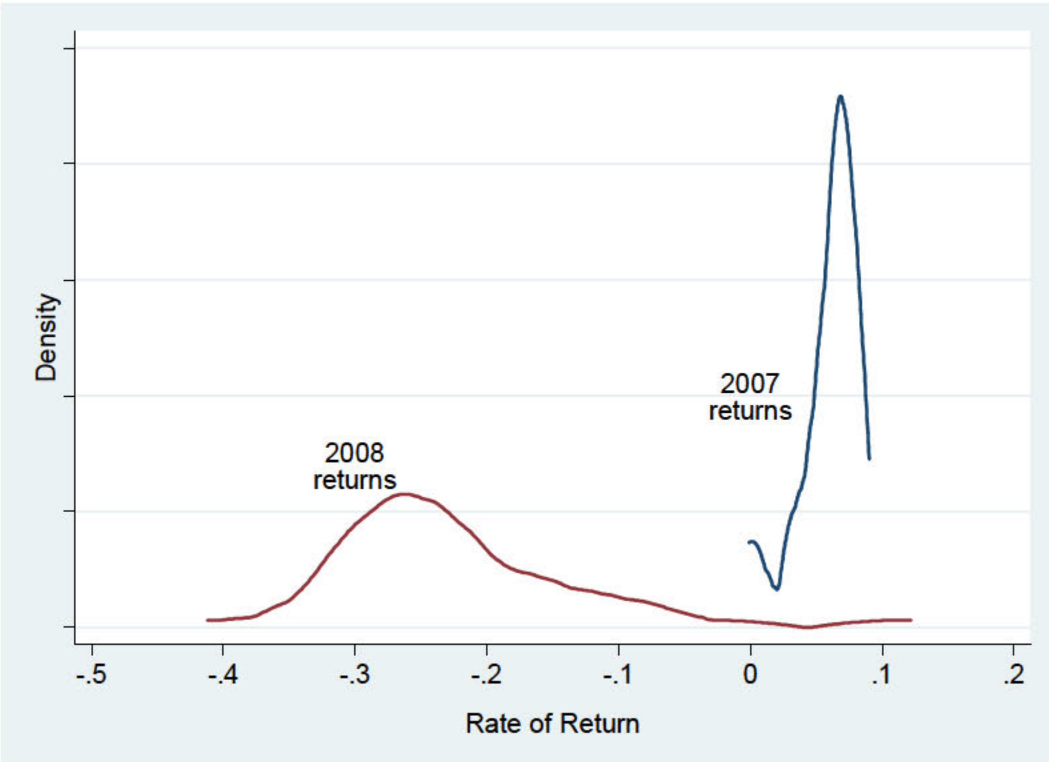
- Target date funds, even with the same target year, are heterogeneous in volatility/return profiles



Volatility and return in 2008 for funds with target date 2010 (many fund families, single investor class)

Returns Dropped, Differences Widened

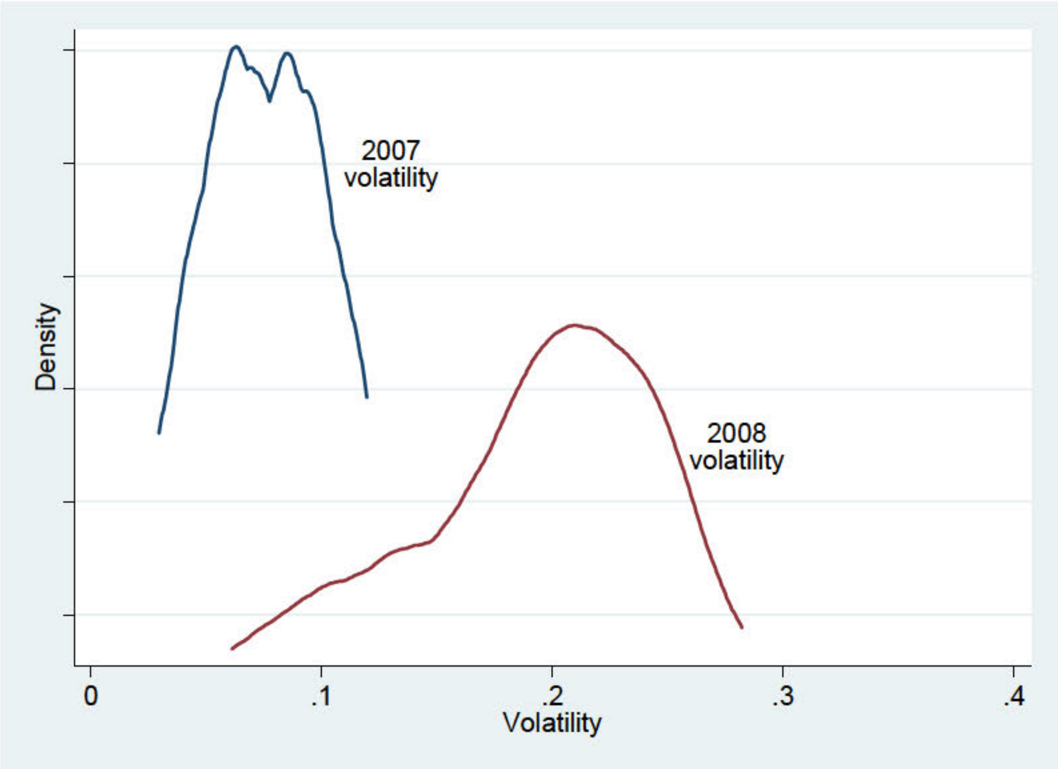
- As may have been expected, funds with target date 2010 had lower average returns in 2008 than in 2007, and fund return differences widened



Distribution of rates of return in 2007 vs 2008 among funds with target date 2010 (many fund families, single class)

Volatility Rose In Many Funds

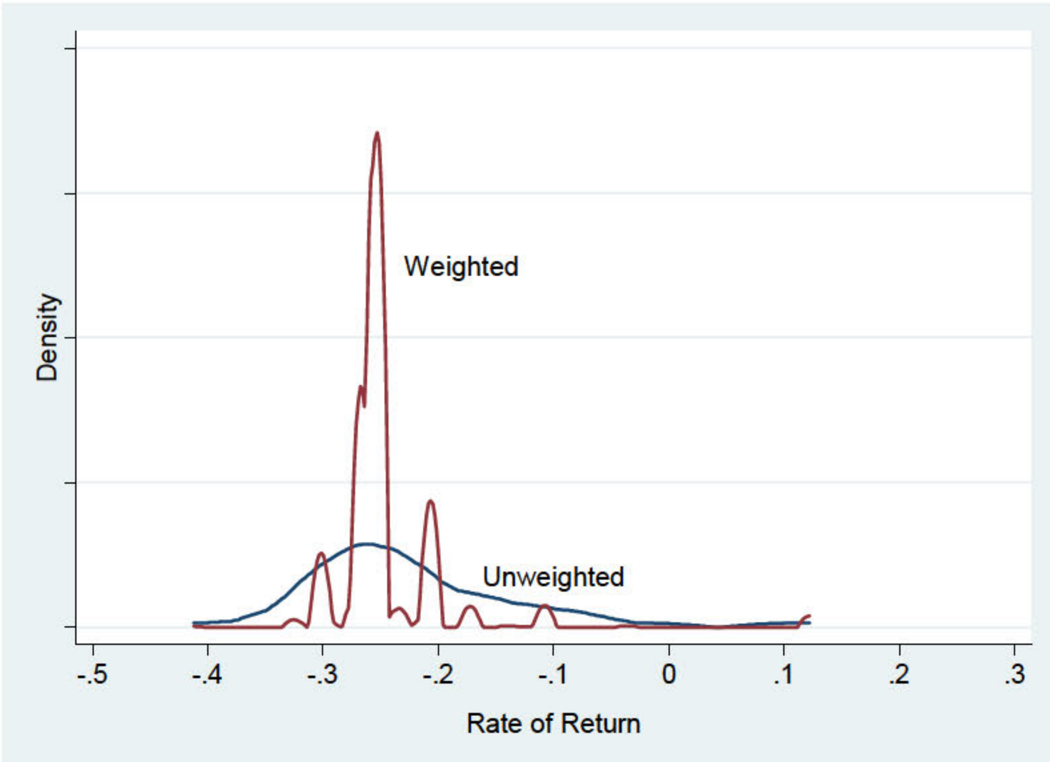
- Funds with target date 2010 varied in 2007 volatility; appeared more volatile in last 12 months



Distribution of volatility in 2007 vs 2008 among funds with target date 2010 (many fund families, single class)

Heterogeneity in Small and Large Funds

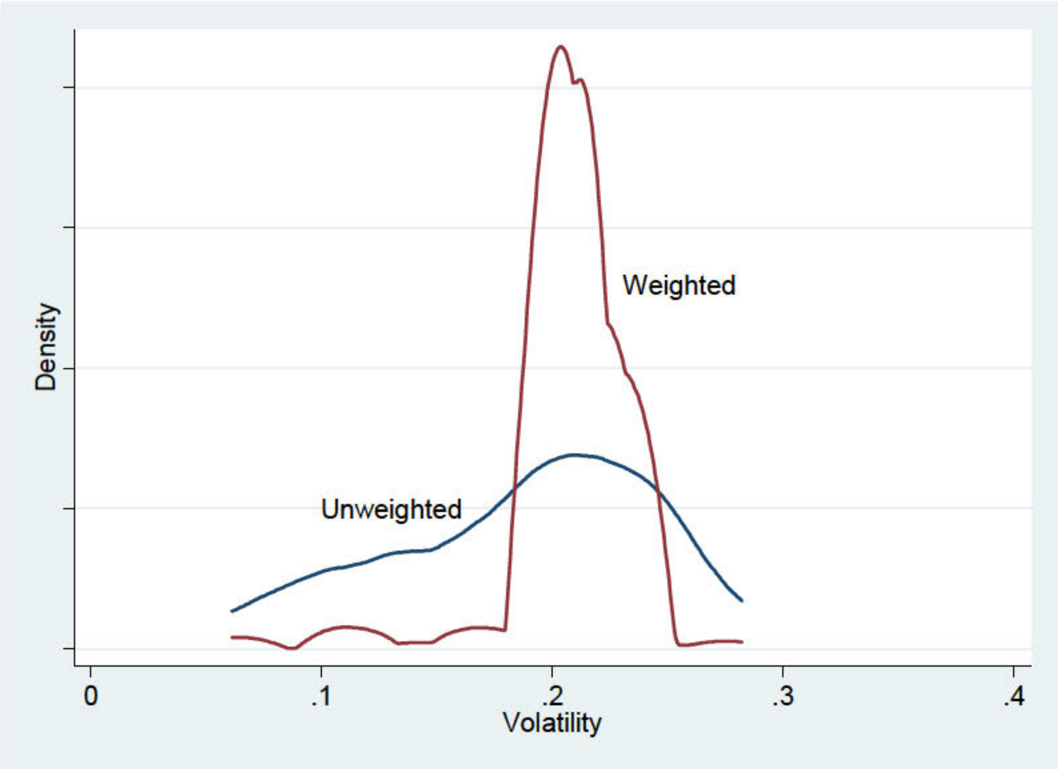
- Small 2010 funds are more heterogeneous in rates of return than large funds



Distribution of rates of return in 2008 among funds with target date 2010, weighted/unweighted by asset size (many fund families, single class)

Heterogeneity in Small and Large Funds

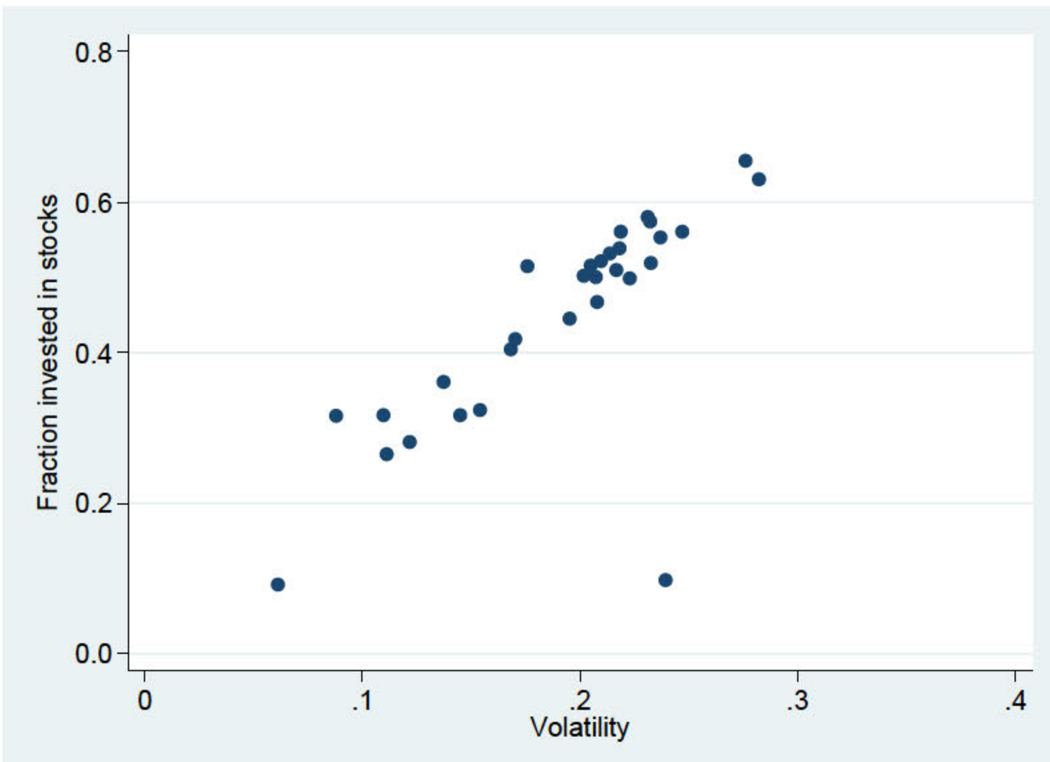
- Small 2010 funds are more heterogeneous in volatility than large funds



Distribution of volatility in 2008 among funds with target date 2010, weighted/unweighted by asset size (many fund families, single class)

Volatility is Related to Equity Exposure

- Volatility among 2010 funds correlates with fraction of funds invested in stocks



Current equity exposure vs volatility in 2008 among funds with target date 2010, (many fund families, single class)

2010 Funds: A Closer Look

Objectives

- Investigate variability in the 2008 performance of 2010 funds
  - Compare ‘08 performance of 2010 fund with other TDFs in the fund family
  - Compare fund families’ performance in ‘08 with that in ‘06, ‘07 and ‘09
- Link between fund performance and fund philosophy
  - Examine the glide paths (asset composition over different target dates) of fund families

Methodology

- Illustrative sample selection
  - A case study of 2010 funds that performed well, intermediately, and poorly in ’08, and other members of their families
  - Within-family investor classes with relatively low expense ratios

- Time-period selection
  - One-year results for ‘06, ’07, ‘08 and partial year ‘09 (through 10/9/09)
  - Funds established during a year are excluded from the results for that year

Funds* in the Case Study

Alliance Bernstein 2010 Retirement Strategy I

Seek the highest total return over time consistent with its asset mix (which emphasizes capital preservation and income for periods nearer to and after retirement).

American Century Target Maturity 2010 Inv**

Seek the highest return consistent with investment in U.S. Treasury securities.

DWS Target 2010***

Provide a guaranteed return of investment to investors who reinvest all dividends and hold their shares to the Maturity Date and to provide long-term growth of capital.

Fidelity Advisor Freedom 2010 I

Seek high total return with a secondary objective of principal preservation.

Oppenheimer Transition 2010 Y

Seek total return until the target retirement date and then seeks income and secondary capital growth.

Vanguard Target Retirement 2010

Seek high total return with a secondary objective of principal preservation as the fund approaches its target date and beyond.

Thrift Savings Plan L 2010 Fund

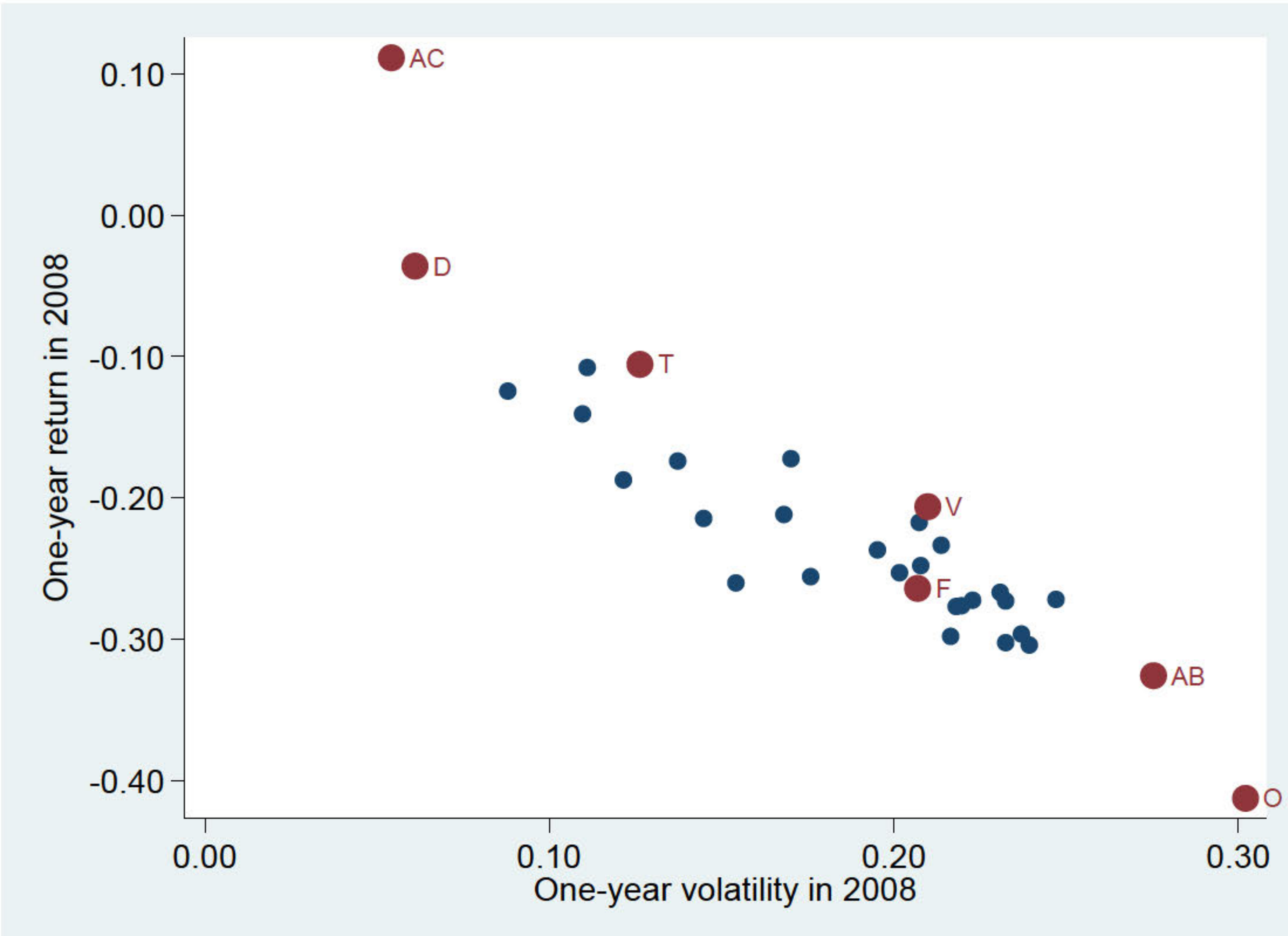
Provide the highest possible rate of return for the amount of risk taken.

*Where applicable the case study includes some or all of 2000 (a.k.a. "Income" or "Retirement"), 2010, 2020, 2030, 2040 & 2050 Target Date Funds. Off-decade funds are excluded. Fund descriptions are based on their prospectuses.

**For this family only a 2010 and 2020 fund are available.

***Other target dates are from the DWS LifeCompass fund family.

Variability in Performance of 2010 Funds in '08



Graph depicts a universe of 32 Target Date Funds

Better in '08: American Century and DWS

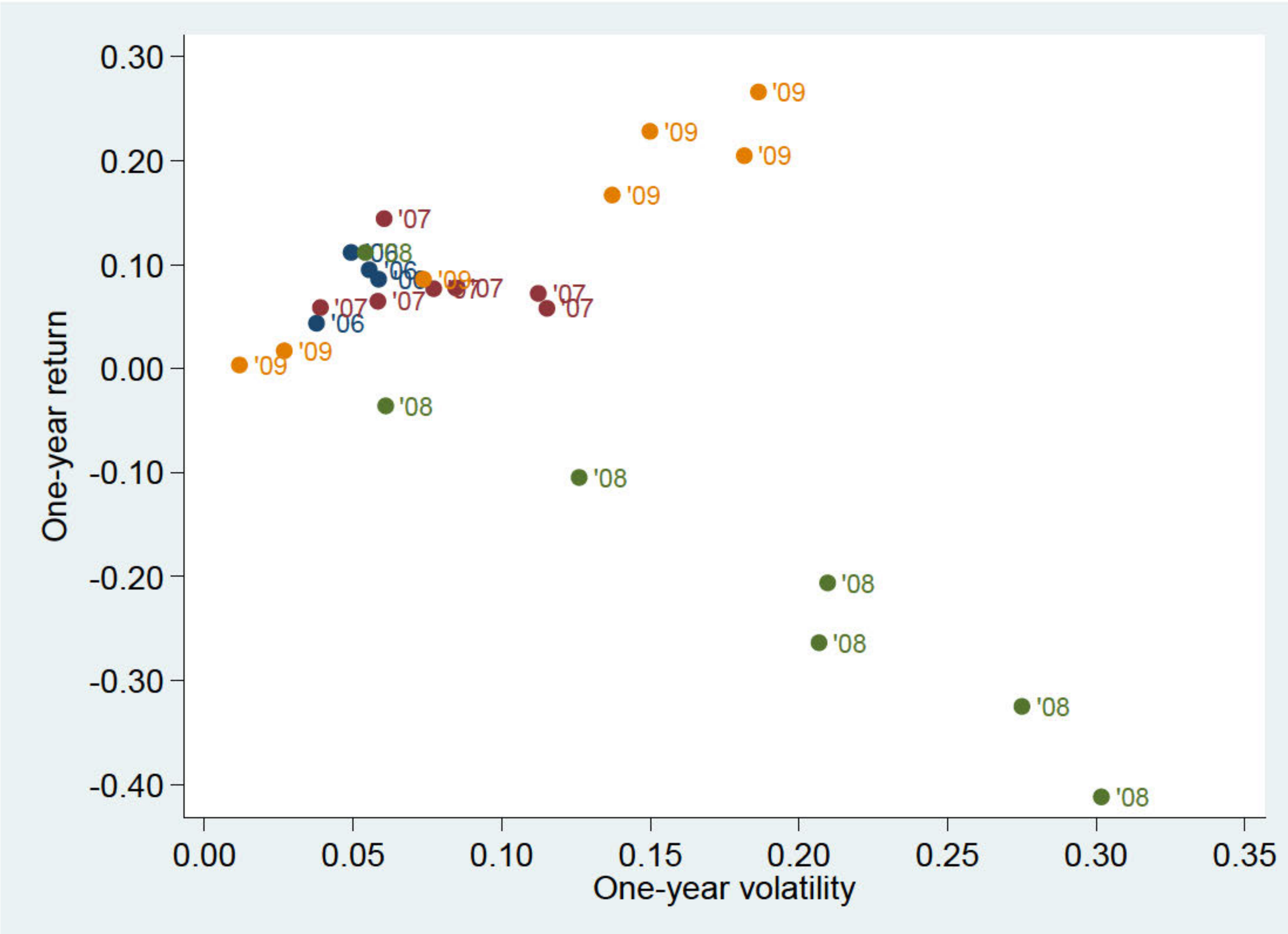
Intermediate in '08: Thrift Savings Plan, Vanguard and Fidelity

Worse in '08: Alliance Bernstein and Oppenheimer

Summary of the Seven Highlighted 2010 TDFs

		Alliance Bernstein 2010 Retirement Str I	American Century Target Mat 2010 Inv	DWS Target 2010	Fidelity Advisor Freedom 2010 I	Oppenheimer Transition 2010 Y	Vanguard Target Retirement 2010	Thrift Savings Plan L 2010 Fund
2009	Return	0.265	0.003	0.017	0.228	0.204	0.166	0.085
	Volatility	0.186	0.012	0.027	0.150	0.182	0.137	0.074
2008	Return	-0.326	0.111	-0.036	-0.264	-0.412	-0.206	-0.105
	Volatility	0.275	0.054	0.061	0.207	0.302	0.210	0.126
2007	Return	0.058	0.144	0.058	0.076	0.072	0.077	0.064
	Volatility	0.115	0.061	0.039	0.077	0.113	0.085	0.059
2006	Return		0.085	0.043	0.095			0.111
	Volatility		0.059	0.038	0.056			0.049
Asset composition (%)								
	Equities	62.43	0.00	9.15	49.23	63.65	53.65	30.00
	Bonds	30.91	100.00	90.84	31.26	39.33	43.74	70.00
	Cash	-0.03	0.00	0.01	14.25	3.34	0.64	0.00
	Other	6.25	0.00	0.00	5.26	-6.24	2.03	0.00

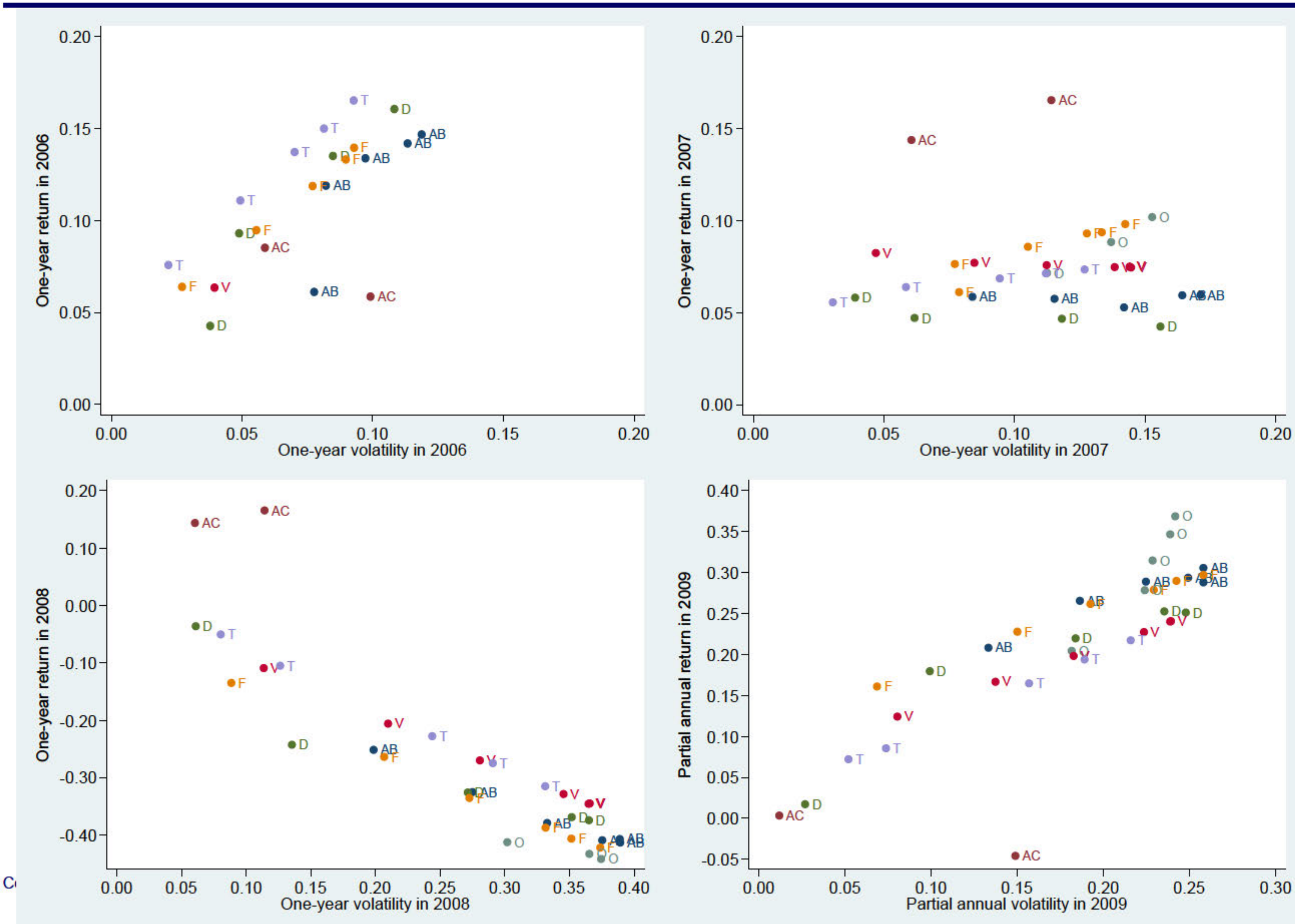
Volatility/Return Profile: 2010 Funds in ‘06, ‘07, ‘08 & ’09



Profiles negatively correlated in ’08 and positively correlated in ’09 (YTD)

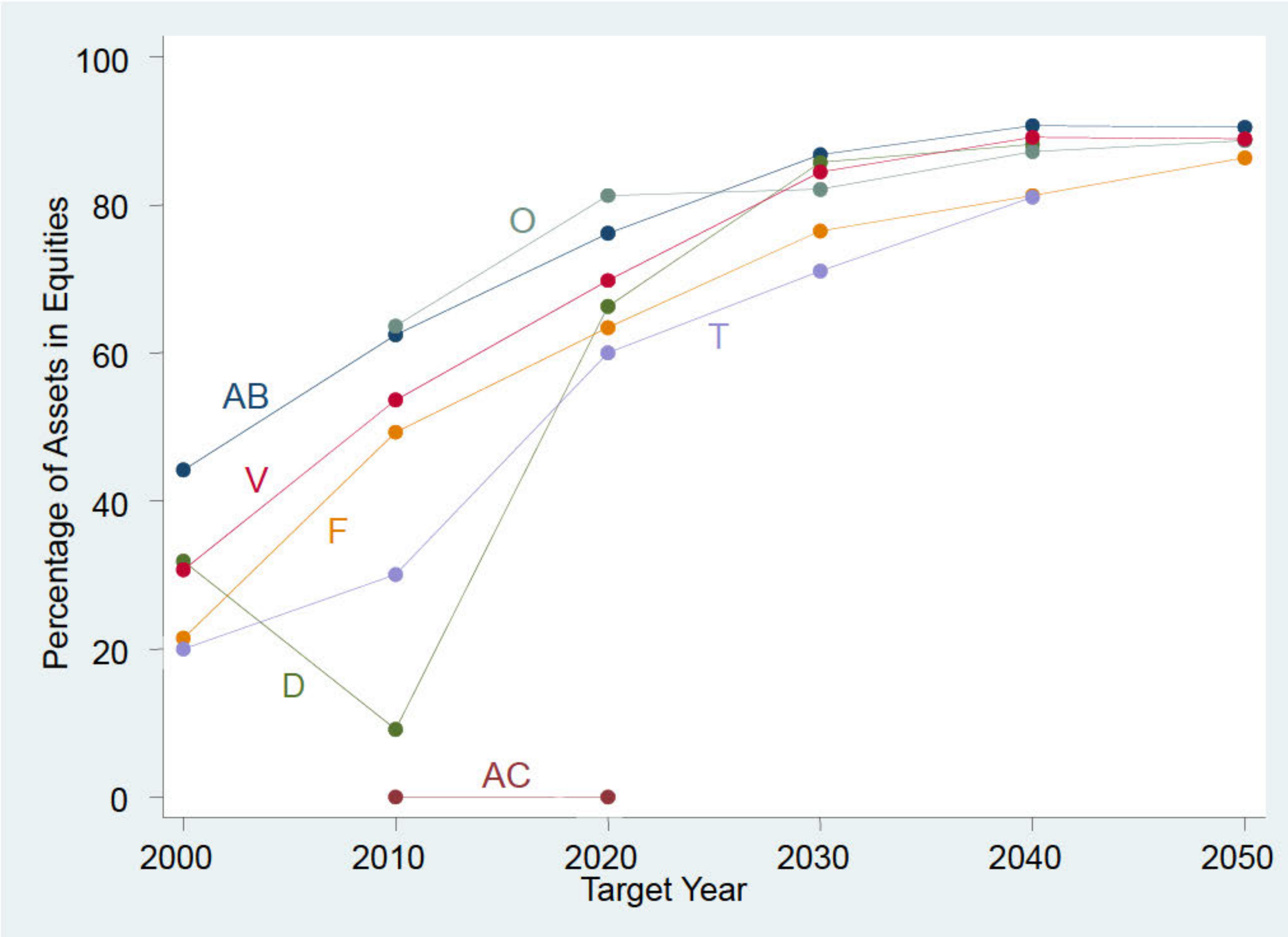
‘06 and ‘07 profiles have modest positive correlations, and much more narrow ranges of volatility and return

Volatility/Return Profiles in 2006, ‘07, ‘08 & ‘09



Equity Exposure

2000-2050 Glide Paths for the Fund Families



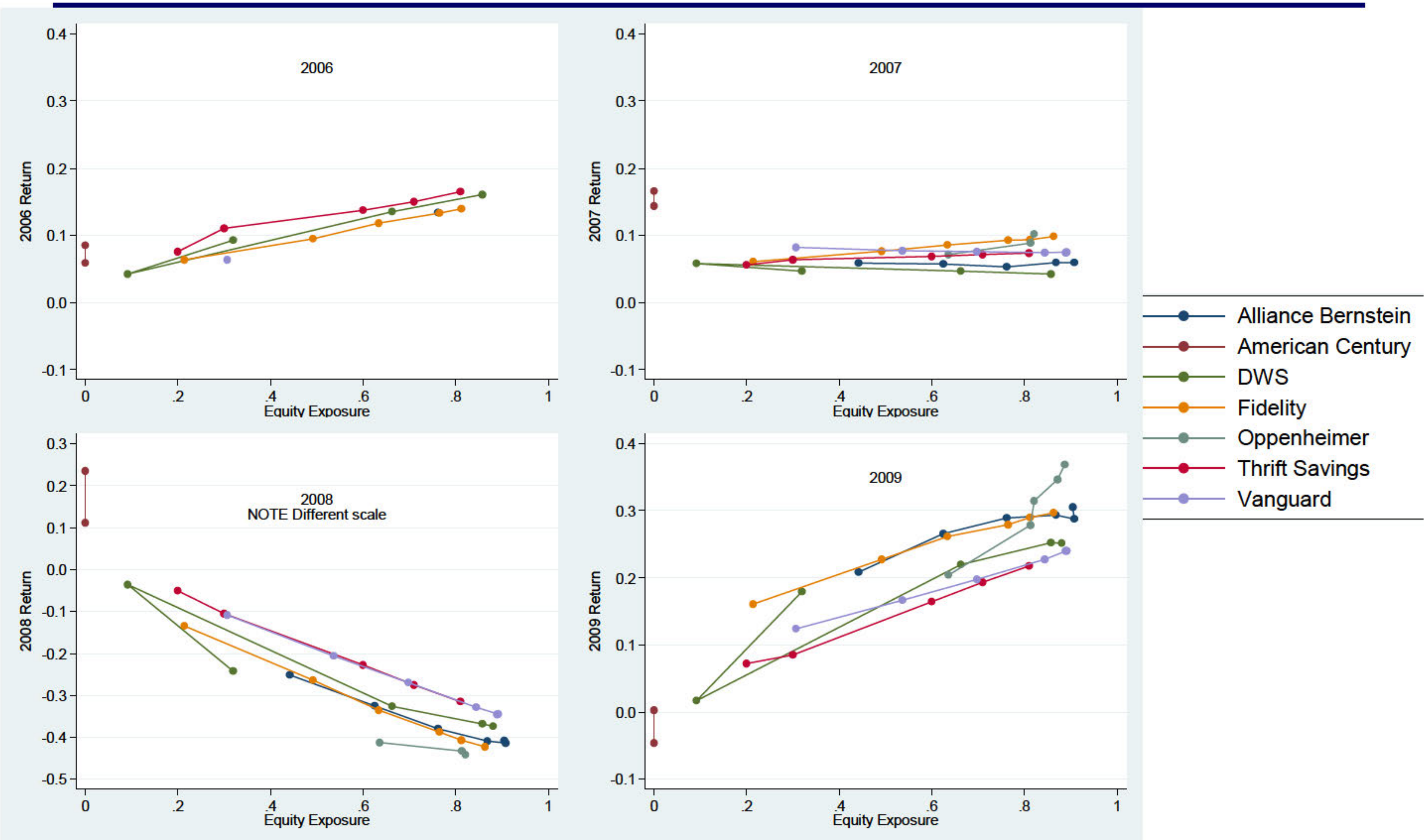
Equity shares in 2010 funds range from 0% to 64%

“Income” or “Retirement” funds listed as 2000 funds

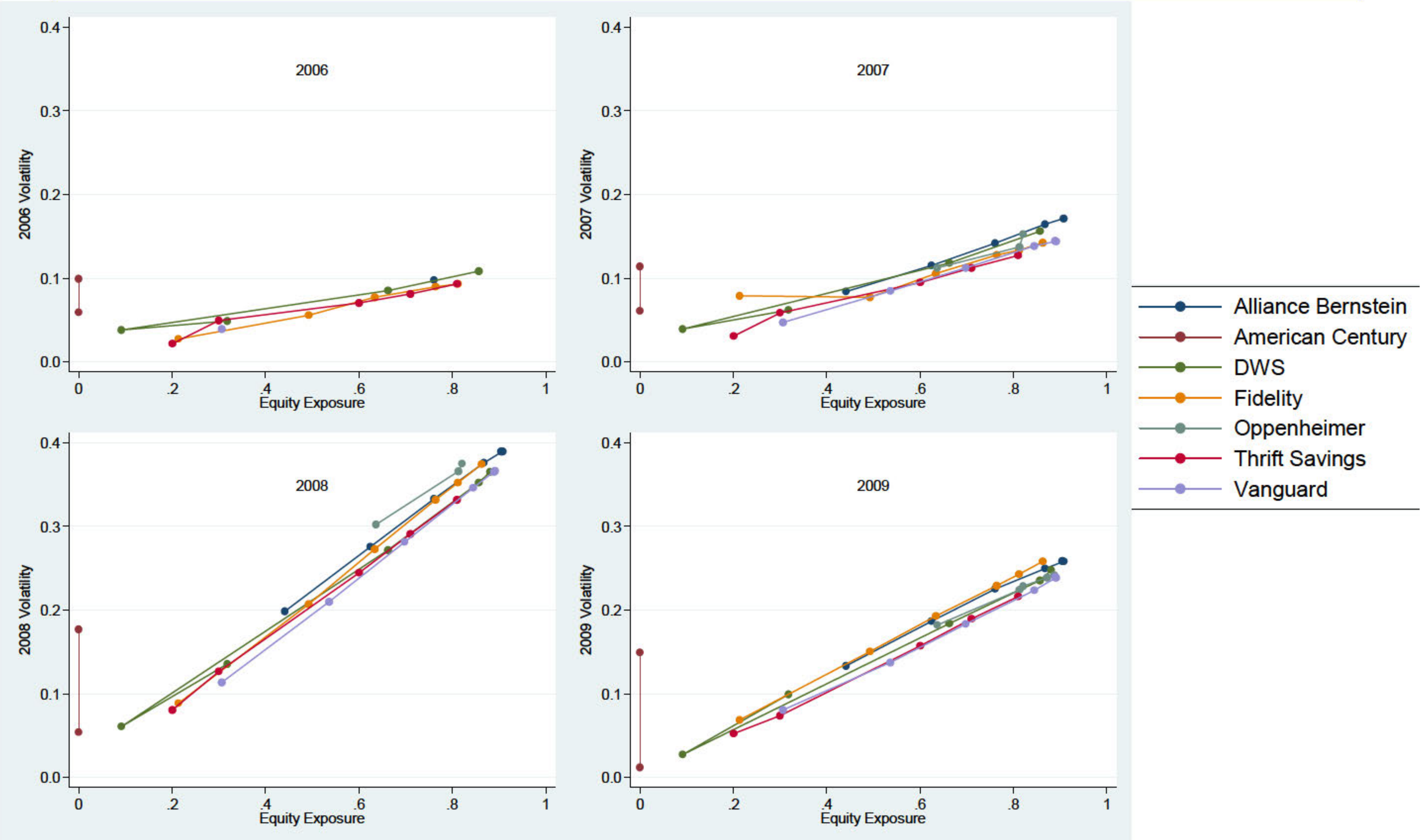
American Century funds fully in U.S. Treasury bonds

DWS Target 2010 fund separate from DWS LifeCompass fund family for other target years

Annual Returns by Equity Exposure



Annual Volatility by Equity Exposure



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Target Date Funds and Retirement Savings

March 2010

A study by Deloitte Financial Advisory Services LLP in conjunction with Advanced Analytical Consulting Group Inc. for the U.S. Department of Labor, Employee Benefits Security Administration.

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Introduction

Target Date Funds ("TDFs", also known as life cycle funds) have become an important component of individual retirement decisions. TDFs are investment vehicles that invest their assets into other mutual funds. A key aspect of TDFs is that the asset allocation changes over time such that the investment risks diminish as the fund's target date approaches. For example, a lifecycle fund with a 2030 target year is generally marketed to Defined Contribution ("DC") plan participants who aim to retire around 2030. Its investment strategy would become more conservative as the target date approaches. The underlying idea is that the risk workers should take on should diminish as their investment horizon shortens.[1] Some of the earliest TDFs were developed in the mid-1990s and many fund managers now offer a series of lifecycle funds. Evidence suggests that 70 percent of U.S. employers now use target-date funds as their default investment (Collins, 2009). The Thrift Savings Plan, a DC plan for federal employees, added life cycle funds to its investment options in 2005.

Typically, DC plan participants have choices over how to invest their retirement assets, in stocks, bonds, money market funds and mutual funds. The purpose of the work described in this report is to gain a better understanding of how TDFs can affect the accumulation of retirement wealth compared to other asset holdings. To that end, the U.S. Department of Labor ("DOL") requested that we use the micro-simulation model PENSIM to examine the distribution of DC benefits accumulated by investors under various asset allocation strategies.

1. Background

As noted above, TDFs were first offered in the 1990s and have grown steadily in popularity. Recent estimates suggest that over $227 billion dollars are invested in these types of funds (Donahue 2009). The Pension Protection Act of 2006 (PPA) designated target-date funds as one of the qualified default investment alternatives (QDIAs). In December 2008, 31 percent of 401(k) participants held TDFs (VanDerhei, et al. 2009).

TDFs have a common feature of a predetermined declining equity exposure as the participant approaches the target retirement date. In practice, there are significant differences in the equity glide paths chosen by different fund families and offered by different plans. Our earlier research for EBSA on actual funds suggested that TDFs generally have over 90 percent equity exposure several decades before the target date, declining to 20 to 60 percent at the target dates.

Several papers have used stochastic simulation models to examine, among other things, the role of TDFs in the accumulation of retirement wealth. One of the key papers on this topic is Holmer (2009a). This paper utilizes the PENSIM software to conduct the analysis. Under different assumptions of assumed risk aversion and different TDF asset

[1] See Viceira (2009) and Kintzel (2007) for a general description of the underlying characteristics of TDFs.

allocation assumptions, Holmer simulates risk-adjusted retirement (OASDI, DB and DC) and pension (DB and DC) benefits at age 70 for a U.S. cohort born in 1990. It is important to note that our work utilizes many of the same methodological, individual and macroeconomic assumptions as presented in this paper. There are a number of important findings in this paper. Holmer finds, for example, that the highest risk-adjusted pension benefit is obtained when following a rule that mimics actual TDFs—equity investment shares of 75 to 80 percent at age twenty declining to 30 to 35 percent at age 65. He also finds that at lower levels of risk aversion, risk-adjusted pension benefits are greater when there is a greater share of equities available in the life cycle fund. Expanding the analysis to include OASDI, he finds that the low risk associated with these benefits suggests that higher overall risk-adjusted benefits can be found by taking on more risk in the other investment components (i.e., a higher equity percentage in the life cycle fund).

Another paper that is similar to our work is Poterba et al. (2005). In this paper the authors consider how different asset allocation strategies impact the retirement wealth and expected utility of wealth for a cohort of individuals in the Health and Retirement Study. Like the analysis we present below, the authors consider a variety of possible asset allocation rules including ones that include only one asset (100 percent inflation-indexed bonds, long-term government bonds, or corporate stock), ones that include a mixture of two assets using a simple allocation rule (i.e., equity percent equals 110 minus age of household head), and ones based on actual TDFs available in the market. Interestingly, their simulated wealth measures suggest that allocating 100 percent in equities leads to the greatest wealth at retirement. They also suggest, however, that their results are sensitive a number of the parameters including the assumed return on equities. TDFs, on the other hand, appear to perform about as well as simpler asset allocations in which the equity exposure over time is equal to the average of that found in a market TDF.

Finally, Pang and Warshawsky (2009) use a stochastic simulation model to consider the risk and return tradeoffs of life cycle funds. An interesting feature of their paper is that they consider five different actual TDFs for analysis. They recognize that not all TDFs are the same even if they have the same target date. The funds are chosen for analysis by specific percentiles of equity share (95th, 75th, 50th, 25th, and 5th percentiles) out of all funds available on a selected date. They focus on the wealth and level of risk at age 65 for individuals who invested in TDFs early in their careers, in the middle of their careers, and at retirement. One of their results suggests that TDFs are not without risk and there is variation in the risk levels across the various funds.

2. The PENSIM Software

<u>Overview of the PENSIM software</u>

As directed by DOL, this project uses the software developed by the Policy Simulation Group ("PSG") for producing estimates of individual benefits under the employer-sponsored pension system in the US.[2] Our analyses mainly use two of the PSG's three computer simulation models. SSASIM provides the "projections of key macrodemographic and macroeconomic assumptions, as in the 2009 OASDI Trustees Report." The second model, PENSIM, uses the SSASIM macro projections to microsimulate the accumulation patterns of a cohort of individuals covered by employer-sponsored pensions. The third model, GEMINI, was used in the simulations only to obtain certain pension related outputs.

The models consist of numerous equations that predict marriage, employment, job changes, pension plan availability, death and other outcomes for each individual. Additionally, the models project annual rates of return on assets chosen by the individual as well as contributions and withdrawals. In its simplest form, each run of the PENSIM model, with macro conditions projected from SSASIM for each year of the simulation, produces paths of employment income, pension wealth from various sources and other financial measures over time for each individual. Many of these quantities can be accessed from the various output tables.

We use the functionality of the PSG models that allows multiple-scenario runs that simulate the outcomes for each individual under "stochastic pension environments." The values of the macrodemographic and macroeconomic variable change across the various scenarios, which may be interpreted as future states of the world. This generates a number of possible paths for each individual. Specifically, fifteen major variables are assumed to be stochastic: total fertility rate, net immigration flow, mortality decline rate, female and male labor force participation rates, unemployment rate, inflation rate, productivity growth rate, wage share growth rate, hours worked growth rate, nominal interest rate on Treasury bonds, disability incidence rate, disability recovery rate, equity return, and the rate spread between Treasury bills and Treasury bonds.[3] Macroeconomic scenarios result in different pension wealth accumulation outcomes because of variation in rates of return on equity and bonds, but also because different economic conditions affect wages and DC plan contributions. Much of our analysis studies the differences in the distributions of pension wealth accumulation across 500 scenarios with different macro conditions.[4]

Our analysis focuses on the effects of TDFs, as compared to other investments, on the accumulation of DC pension benefits. We ignore the wealth accumulated through the Social Security system and wealth from defined benefit ("DB") pension plans.[5] As a

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[2] Description of software is drawn from Holmer (2009b). In particular, we use the the standard version of December 18, 2009. Our use of the PSG models described herein was at the direction of DOL.
[3] See Holmer (2009d), page 11.
[4] These 500 scenarios represent a sample of potential states of the macro economy; they do not represent all potential states of the world. It is conceivable that under certain other scenarios, our findings might be different.
[5] In the PSG models, employers' offerings of DB and DC plans are exogenous to the individual (that is, workers do not sort into jobs that offer particular pension plans). Additionally, retirement decisions are assumed not to depend on accumulated retirement wealth. Under these conditions, we assume that DB and Social Security wealth are exogenous or held constant for the individual and we are comfortable focusing on differences in DC pension accumulations.

result, our analysis is not a complete accounting of the accumulated retirement wealth of individuals.

In general, we make very few changes to the parameter values in the baseline equations in the PSG models. We change the specifications of investor styles, described in detail below, but otherwise run the models with their default parameter values. A sensitivity analysis of the underlying models and verification of parameter choices is beyond the scope of this paper.

Investment options

PENSIM allows for a variety of equity and debt investment options. SSASIM uses historical data to estimate the parameters that determine the cyclical dynamics of four stochastic macroeconomic variables— the inflation rate, the nominal yield on Treasury bonds, the return on equities, and the yield spread between Treasury bills and Treasury bonds— that determine asset returns. Cyclical fluctuations in these four macroeconomic variables are generated using a vector-autoregressive model with a two-year lag structure, a VAR(2) model, the parameters of which are estimated with annual historical data.[6]

Table 1 below summarizes the characteristics of available investment options.

Table 1: Asset Characteristics

Asset Class	Base Return*	Asset Fee	Shock to Return Mean	Shock to Return Std Dev
Equity Index Fund (EIF)	S&P500	0.45%		
Diversified Equity Fund (DEF)	S&P500	1.00%	0	1%
Portfolio of stocks (Stocks)	S&P500	**	0	10%
Government Bond Fund (GBF)	T-Bonds	0.45%		
Money Market Fund (MMF)	T-Bills	0.45%		
Target Date Fund	Depends***	0.75%		

* SSASIM generates fixed-income base returns based on intermediate assumptions of the 2009 OASDI Trustees Report. Equity base returns are assumed to be 2.0 percent above T-Bonds returns, on average.
** The Stocks portfolio is used only as part of TDFs with a 0.75% asset fee.
*** TDF return depends on the age-specific mix of assets held in the fund.

Equities: The equity investments range from a portfolio of relatively few stocks, to a fund that is diversified but not as much as the Standard and Poor's 500 ("S&P500") index, to an equity index fund that mimics the S&P500. The S&P500 returns are generated as described above. The less diversified equity options have returns that are equal to the S&P500 return plus a shock (e) drawn from a distribution that can be specified by the user. Table 1 shows the default distributions used in PENSIM and suggests a wider variance for less diversified holdings.

[6] See Holmer (2009d), page 14. The PENSIM user may change these parameters.

Debt: US Treasury bills and bonds are available. The returns on T-Bonds are generated as described above; T-Bill returns are a fraction of T-Bond returns.

TDFs: TDFs are age-variant portfolios of equities and debt. TDFs can hold T-Bills, T-Bonds, Equity Index Fund, and a portfolio of stocks specific to the TDF, where the weights on each asset can change as the holder ages. The return on a TDF in any year depends on the specific mix of assets in the fund.

Each individual holding a particular asset realizes the same annual return on the asset. No asset beats the market (i.e., S&P500) consistently. In the stochastic runs, 500 macro scenarios are characterized by different values of asset rates of return, inflation and other variables drawn from distributions embedded in the SSASIM module. The macro draws affect the real returns on the asset holdings over the individual's lifetime and, therefore, her accumulated retirement wealth.

3. Descriptions of Scenarios and Investor Styles

<u>Specifications of Macro Scenarios and Investor Styles</u>

Each simulation selects a 0.5% sample of individuals from the 1995 birth cohort, or about 30,000 individuals whose lifecycle and employment outcomes and asset returns are generated by PENSIM. In the stochastic runs, individual outcomes are generated for 500 macro scenarios using a Run Specification File (.rsf) in the standard version of PENSIM.

We investigate the effects of various investment strategies by assigning individuals to investor Styles that we specify. PENSIM allows up to four Styles to be specified in each run and a probability of assignment to each Style.[7] Our strategy is to run different sets of macro scenarios with all individuals assigned to one Style and compare outcomes across runs. This has several advantages. First, we can specify more than four Styles. Second, it is not necessary to specify the fraction of individuals in each Style. Third, we observe the full sample of 30,000 individuals in each Style. One disadvantage of our approach is that we cannot easily combine our sets of investors to represent the population or mimic the aggregate asset allocations of DC plan investors in the US.

<u>Sources of Variation in Pension Outcomes</u>

Across 500 macro scenarios there are two principal types of variation in the individual's accumulation of DC benefits. First, there are different future states of the world (macro environments) as described earlier that affect rates of return. The SSASIM software generates different values for each macro variable for each scenario. Second, across macro scenarios, individuals realize different outcomes for education, income, death date

[7] In the PENSIM module, the Style definitions are found in the *ACCTAA1, ACCTAA2, ACCTAA3,* and *ACCTAA4* tables, which allows the user to specify asset allocation weights at various ages; TDFs are specified in Assets *tdf_aa_id*. The probabilities for assignment into each Style are specified in *AA_PROB* table and can change over calendar years. The individual's Style is fixed over her lifetime, but the Style definition is very flexible and allows for a number of investment strategies to be modeled. PENSIM's baseline Style definitions and their probabilities produce aggregate asset allocations similar to that found in a very large sample of 401 plans (Holmer (2009c), page 226).

and other lifecycle and employment outcomes. This prevents a comparison of individual outcomes across macro scenarios, because important characteristics of the individuals vary across macro scenarios. In other words, each macro scenario in effect represents a different sample of individuals experiencing the specific macro conditions in that scenario. In particular, the plan contributions made by a specific individual differ across macro scenarios. In what follows we compare the outcomes for all samples of individuals across macro scenarios while only focusing on differences generated by the macro variables and ignoring other differences across individuals.[8]

When we change the investor style across runs, the individual's lifecycle and employment outcomes are fixed for each macro scenario. For example, in one comparison below, we assign all individuals to a fund filled only with T-Bonds and run 500 macro scenarios. In another run, we assign all individuals to an equity index fund and run the same 500 macro scenarios. Individual lifecycle and employment outcomes are the same, macro scenario by macro scenario, while the DC benefit accumulation changes according to the asset holdings and the macro influences on the returns for that asset. This allows comparisons at the individual level across the Style assignments in different runs, but as mentioned above not across macro scenarios within the same run.

Investor Styles

The table below defines our investor Styles, which are characterized by the fraction of the individual's DC pension wealth in each asset class at each age.[9]

Table 2: Asset Allocation by Investor Style

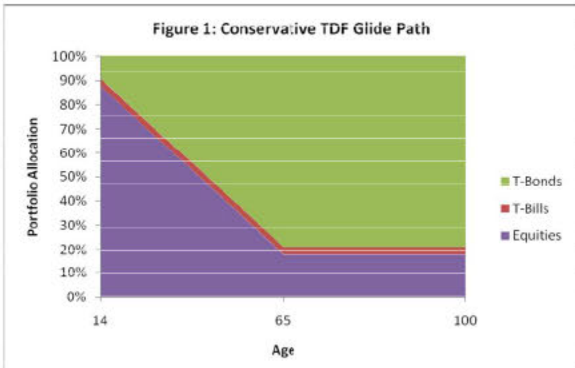
	1: DEF	2: GBF	3: EIF	4: DEF+ GBF	5: MMF +GBF	6: TDF Conservative		7: TDF Aggressive	
Age						14	65	14	65
Equity Index Fund (EIF)			100%						
Diverstified Equity Fund (DEF)	100%			50%					
Money Market Fund (MMF)					50%				
Government Bond Fund (GBF)		100%		50%	50%				
Target Date Fund						100%	100%	100%	100%
GBF						9%	79%	9%	39%
MMF						3%	3%	3%	3%
EIF						44%	9%	44%	29%
Stocks						44%	9%	44%	29%

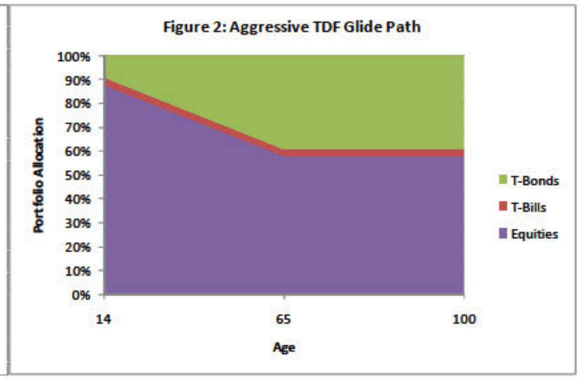
[8] In essence, this means that the sample of individuals changes across macro scenarios. This feature where individual lifecycle and employment outcomes change across macro scenarios may prevent some types of analyses of interest to some researchers.

[9] In PENSIM, the individual is assumed to rebalance her portfolio to achieve the defined mix at each age, rather than change the flow of contributions and withdrawals to achieve the defined mix over time.

Styles 1 through 3 represent single-asset investors who choose the same asset over their investing lifetimes. Styles 4 and 5 are investors who split their assets between a diversified equity fund and either money market funds or government bond funds, with the same weighting between the two assets over their investing lifetime.

We construct two TDF options. The conservative TDF (Style 6) starts out heavily invested in equities (44% in equity index fund and 44% in other stocks) and the equity fraction declines linearly over time until age 65 when the equity fraction is 18%. The aggressive fund (Style 7) starts out with the same allocation as the conservative TDF, but stays more heavily weighted in equities, achieving 58% in equities by age 65. The glide paths for each of the TDF options are shown in Figures 1 and 2.[10]





4. Results of Scenario Analyses

Metrics and Methods

The measure of pension wealth we use in our analysis is the present value at age 65 of DC pension benefits expressed in 2009 dollars; the cohort in our analysis, born in 1995 reaches age 65 in the year 2060. In the PSG models, this is variable *ipvpb* and it represents the present value of the individual's lifetime stream of DC pension benefits as of age 65 (plus her DB cash balance accumulations, which tend to be small and are inseparable from the DC benefits in the PSG models).

In each macro scenario and for each investor Style, some fraction of individuals accumulate no DC pension wealth because their employers do not offer such plans, or investors switch employers and cash out their rollover balance, or, in a very small number of cases, the investor's contributions are small and the returns are poor enough to zero out her balance by age 65. In what follows, we account only for workers with positive DC pension benefits.

Our primary interest is in DC pension benefit differences due to investor styles. We therefore suppress differences across individuals of a cohort by computing a summary statistic (mean, median, 10th percentile, 25th percentile) across individuals and comparing

[10] In PENSIM, investors are assumed to convert their accumulated DC pension benefit into an annuity. This insulates retirees from risk in the equity and bond markets in the years between retirement and death.

only those summary statistics across investor styles. Each summary statistic has a distribution because of variation in macrodemographic and macroeconomic conditions. We derived those distributions by simulating a large number (500) of macro environments for each investor style. Our objective is thus to compare the distributions of, say, median DC pension benefits across investor styles, the 10th percentile of pension benefits across investor styles, et cetera.

Analysis

Table 3 presents summary statistics of the distribution of mean present values of DC pension benefits, for each of the seven investor Styles that we consider. For example, the average mean benefit under the GBF investor style was $286,000. Under adverse macro conditions, the mean was lower; under favorable conditions, it would be higher. The 10th percentile of the distribution of means was $211,000 and the interdecile range (difference between the 90th and the 10th percentiles) was $153,000.

Table 3: Summary Statistics over Macro Scenarios of the Mean DC Pension Benefit ($1,000s)

Investment Style	Mean	P10	P25	Median	Inter Decile Range
GBF	286	211	244	282	153
MMF+GBF	253	198	225	250	111
DEF+GBF	358	228	267	340	285
DEF	463	190	238	401	597
EIF	511	204	256	440	673
Conservative TDF	328	221	260	315	232
Aggressive TDF	390	222	263	363	371

Note: Each investor Style was simulated under 500 macro environments. For each of these macro scenarios, we calculated the mean present value of DC pension benefits. This table summarizes the distributions of mean benefits across macro scenarios. Also see Figure 3.

On average, mean benefits were lower for all-debt styles (GBF and MMF+GBF) than for all-equity styles (DEF and EIF). As expected, mixed debt and equity styles (DEF+GBF, conservative TDF, aggressive TDF) performed in between all-debt and all-equity styles.

While all-equity styles outperformed all-debt styles on average, their risk or volatility was greater, as demonstrated by their wider interdecile ranges. Indeed, all-equity styles do not stochastically dominate all-debt styles at the mean level of benefits. For example, at the 10th percentile, all-equity styles performed worse than the GBF style. The optimal investor style for the mean individual is therefore ambiguous; in most of the states of the world, an all-equity style such as EIF performed best, but individuals with a strong risk aversion may prefer an all-debt style such as GBF. “Heat map” tables below show how often the various investor styles outperform each other.

The appendix contains tables with summary statistics of the distributions of the 10th percentile, the 25th percentile, and the median of the present value of DC pension benefits, similar to Table 3 for the mean benefit.

Cumulative Distributions: The following figures show, for each investor Style, the cumulative distribution of the present value of DC pension benefits across macro scenarios. The first figure, Figure 3, shows the cumulative distribution of the mean benefit amount. For any investor Style the curve shows the fraction of the macro scenarios where the accumulated pension benefit was less than or equal to the value on the horizontal axis. For example, Equity Index Fund (the right-most or purple curve) investors earned mean benefits of around $440,000 or less in 50% of the macro scenarios. Investors in the Conservative TDF (the red curve) earned mean benefits of around $315,000 or less in 50% of the macro scenarios and investors in the MMF+GBF (the orange or left-most curve) earned mean benefits of around $250,000 or less in 50% of the macro scenarios.

The distributions of the mean benefit for TDFs are sandwiched between the all-equity funds and the all-debt funds. The constant-weighted debt and equity portfolio (DEF+GBF) falls between the two TDFs, representing an equity weighting that over the individuals' investing lifetime is less aggressive than the aggressive TDF and more aggressive than the conservative TDF.

Figures 4 to 6 below show the distributions of the 10th percentile, the 25th percentile, and the median of accumulated benefits. (Figure 3 corresponds to Table 3; Figures 4 to 6 correspond to the Appendix tables.) The same general patterns as for the means hold at these points in the distributions. For most macro scenarios, the ordering of the Styles is the same as for the means, with the equity Styles outperforming other asset allocations most of the time. Presumably because of its higher asset management fees (see Table 1), the DEF Style performed worse than the EIF Style. Also see Table 8 below.

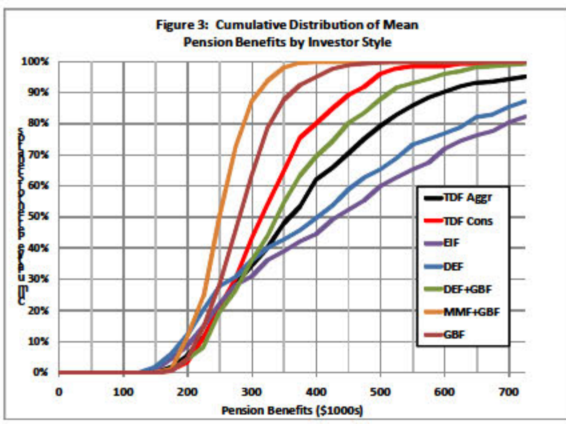


Figure 3: Cumulative Distribution of Mean Pension Benefits by Investor Style

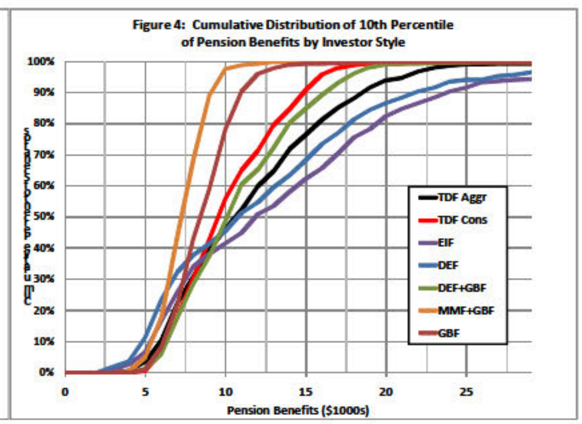


Figure 4: Cumulative Distribution of 10th Percentile of Pension Benefits by Investor Style

Figure 5: Cumulative Distribution of 25th Percentile of Pension Benefits by Investor Style

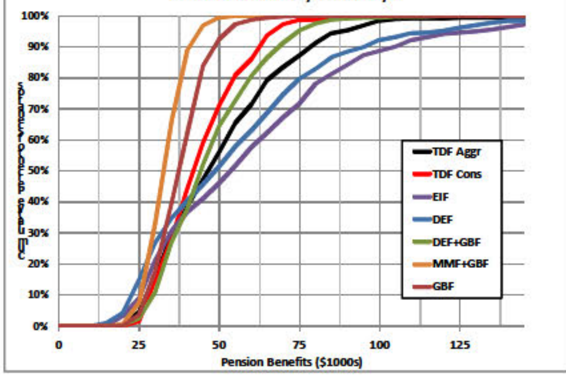
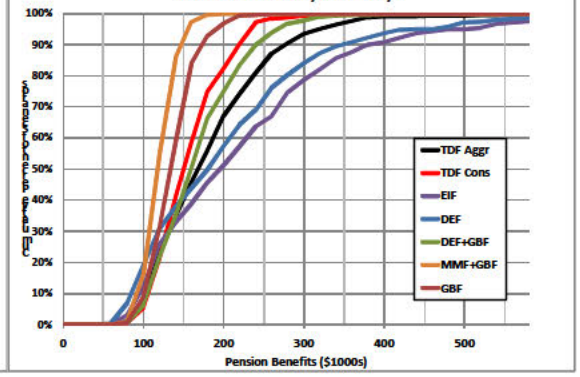


Figure 6: Cumulative Distribution of 50th Percentile of Pension Benefits by Investor Style



Dominating Styles: The final analysis compares pension benefits to determine which styles tended to outperform the others in a pair-wise "horse race." Each row of the "heat map" tables below represent the fraction of macro scenarios where the benefit to the investor Style in the left hand column (Investor Style A) exceeded the benefit to the investor Style in the columns to the right (Investor Style B). The data underlying Tables 4 to 7 are the same as those depicted in Figures 3 to 6; the "heat map" tables summarize how often the various Styles outperform one another, i.e., how often one curve lies to the right of another curve.

Consider Table 4 with a comparison of mean benefits across investment Styles. It reflects the same data as Figure 3 and Table 3. The color coding is such that green cells represent cases where Investor Style A had higher pension benefits in a large share of the macro scenarios compared to Investor Style B. Red cells represent comparisons in which Style A performed poorly relative to Style B, whereas no clear winner emerged in yellow cells. Rows with a predominance of green cells denote relatively high-performing investment styles. The mean GBF investor enjoyed higher benefits than the mean MMF+GBF investor in 97% of the macro scenarios and outperformed the mean DEF+GBF investor in 26% of scenarios. Notably, the TDFs frequently outperformed the debt-only funds, while equity Styles win large fractions across the board.

The next column in Table 4 shows the fraction of the macro scenarios where the mean Style A investor earned pension benefits greater than the mean of all other investors. The mean GBF investor beat all other mean investors in 24% of the macro scenarios, while the mean EIF investor beat all other mean investors in 73% of scenarios. The mean conservative TDF investor beat other mean investors in only 3% of macro scenarios.

The final set of columns in the table compares the benefits earned by the investor Style to an absolute threshold. All Styles earned a mean benefit of at least $100,000 in all macro scenarios and all Styles earned at least $200,000 in around 90% or more of macro scenarios.

Table 4: Comparison of Mean Pension Benefits across Investor Styles													
	Percent of Scenarios Where Investor Style A Has a Larger Mean Pension Benefit than Investor Style B							Percent of Scenarios Where Investor Style A Has the Largest Mean Pension Benefit	Percent of Scenarios for Which Mean Pension Benefit is at least				
	Investor Style B												
Investor Style A	GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr		$25,000	$50,000	$75,000	$100,000	$200,000
GBF		97%	26%	30%	26%	28%	27%	24%	100%	100%	100%	100%	96%
MMF+ GBF	3%		12%	24%	19%	4%	16%	0%	100%	100%	100%	100%	89%
DEF+ GBF	74%	88%		35%	25%	77%	30%	0%	100%	100%	100%	100%	96%
DEF	70%	76%	65%		0%	68%	63%	0%	100%	100%	100%	100%	88%
EIF	74%	81%	75%	100%		75%	76%	73%	100%	100%	100%	100%	91%
TDF Cons	72%	96%	23%	32%	25%		26%	3%	100%	100%	100%	100%	97%
TDF Aggr	73%	84%	70%	37%	24%	74%		0%	100%	100%	100%	100%	95%

Tables 5, 6, and 7 below present "heat maps" for the 10th percentile, 25th percentile, and median investors. They reflect the same underlying data as Figures 4 to 6, respectively. The patterns are largely similar to the mean investor results. Even at the lower end of the distribution, the bond-only funds earned much less than the funds with equities. See Table 6 for the 25th percentile investor: in only 8% of macro scenarios did the 25th percentile of GBF investors' benefit exceed $50,000. Similarly, in only 1% of macro scenarios did the 25th percentile of MMF+GBF investors' benefit exceed $50,000, while between 29% and 54% of the time, other investors earned at least $50,000 at the 25th percentile.

Table 5: Comparison of 10th Percentile of Pension Benefits across Investor Styles													
	Percent of Scenarios Where Investor Style A Has a Larger Pension Benefit han Investor Style B at the 10th Percentile							Scenarios Where Investor Style A Has the Largest Pension Benefit at the 10th Percentile	Percent of Scenarios for Which Pension Benefit at the 10 h Percen ile is at least				
	Investor Style B												
Investor Style A	GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr		$10,000	$25,000	$50,000	$75,000	$100,000
GBF		100%	26%	36%	29%	29%	29%	25%	22%	0%	0%	0%	0%
MMF+ GBF	0%		8%	29%	22%	7%	17%	0%	2%	0%	0%	0%	0%
DEF+ GBF	73%	92%		45%	31%	71%	38%	3%	52%	0%	0%	0%	0%
DEF	64%	70%	55%		0%	60%	51%	0%	55%	6%	0%	0%	0%
EIF	71%	78%	69%	100%		70%	71%	66%	59%	8%	0%	0%	0%
TDF Cons	71%	93%	28%	40%	30%		30%	6%	44%	0%	0%	0%	0%
TDF Aggr	71%	83%	62%	48%	29%	70%		0%	54%	1%	0%	0%	0%

Table 6: Comparison of 25th Percentile of Pension Benefits across Investor Styles													
	Percent of Scenarios Where Investor Style A Has a Larger Pension Benefit han Investor Style B at the 25th Percentile							Percent of Scenarios Where Investor Style A Has the Largest Pension Benefit at the 25th Percentile	Percent of Scenarios for Which Pension Benefit at the 25 h Percen ile is at least				
	Investor Style B												
Investor Style A	GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr		$10,000	$25,000	$50,000	$75,000	$100,000
GBF		99%	27%	35%	28%	29%	29%	24%	100%	96%	8%	0%	0%
MMF+ GBF	1%		10%	29%	22%	5%	17%	0%	100%	92%	1%	0%	0%
DEF+ GBF	73%	90%		43%	30%	71%	36%	2%	100%	98%	36%	5%	1%
DEF	65%	71%	57%		0%	62%	56%	0%	100%	85%	49%	20%	8%
EIF	72%	78%	70%	100%		71%	71%	68%	100%	91%	54%	28%	11%
TDF Cons	71%	94%	29%	38%	29%		29%	6%	100%	99%	29%	1%	0%
TDF Aggr	71%	83%	64%	44%	29%	71%		0%	100%	96%	44%	13%	2%

Table 7: Comparison of 50th Percentile of Pension Benefits across Investor Styles

Investor Style A	Percent of Scenarios Where Investor Style A Has a Larger Pension Benefit han Investor Style B at the 50th Percentile — Investor Style B: GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr	Percent of Scenarios Where Investor Style A Has the Largest Pension Benefit at the 50th Percentile	Percent of Scenarios for Which Pension Benefit at the 50 h Percen ile is at least: $25,000	$50,000	$75,000	$100,000	$200,000
GBF		98%	26%	33%	27%	29%	27%	25%	100%	100%	100%	91%	3%
MMF+ GBF	2%		12%	26%	21%	5%	18%	0%	100%	100%	99%	84%	0%
DEF+ GBF	74%	88%		39%	28%	75%	33%	1%	100%	100%	100%	94%	25%
DEF	67%	74%	61%		0%	65%	59%	0%	100%	100%	97%	81%	43%
EIF	73%	79%	72%	100%		73%	73%	70%	100%	100%	98%	88%	49%
TDF Cons	71%	95%	25%	35%	27%		27%	3%	100%	100%	100%	95%	18%
TDF Aggr	73%	82%	67%	41%	27%	73%		0%	100%	100%	100%	93%	33%

The final "heat map" table, Table 8 shows the fraction of macro scenarios where one investor Style dominated another Style on all four statistics: the mean, the 10^{th} percentile, the 25^{th} percentile and the median. This is suggestive of "stochastic dominance" and indicates the dominant Style generated larger benefits for investors located at many points along the (lower half of the) distribution of outcomes. The pair-wise comparison of Styles in Table 8 is similar to that for the median in Table 7, except that the winning fraction for dominant Styles was generally lower in Table 8 where Style A must beat the competing Style on all four measures. As before, equity styles dominated non-equity styles most of the time. Among the equity styles, EIF dominated DEF because of DEF's higher asset management fees.

Table 8: "Stochastic Dominance" of Investor Styles

Investor Style A	Percent of Scenarios Where Investor Style A Has a Larger Pension Benefit than Investor Style B at the Mean and at the 10th, 25th and 50th Percentiles — Investor Style B: GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr	Percent of Scenarios Where Investor Style A Has the Largest Pension Benefit at the Mean, 10 h, 25 h and 50th Percentiles
GBF		97%	23%	28%	24%	24%	24%	21%
MMF+GBF	0%		7%	22%	18%	2%	12%	0%
DEF+GBF	70%	86%		34%	24%	69%	27%	0%
DEF	62%	68%	53%		0%	59%	51%	0%
EIF	69%	76%	67%	100%		69%	69%	65%
TDF Cons	66%	90%	21%	32%	24%		25%	2%
TDF Aggr	68%	78%	59%	37%	23%	68%		0%

5. Conclusions

This research, like others in this area, has potential implications for public policy and optimal retirement saving behavior. Through the scenario analysis, we examined the impact of various asset allocations on the retirement wealth of individuals, paying particular attention to the role of TDFs. Gaining a better understanding of these issues has important implications for the well-being of retired workers. Our analyses are based on complex simulations of the lifecycle, employment, and financial outcomes for US workers and require many assumptions about decision-making and specification of parameter values. Furthermore, there is no one simple way to summarize the performance of an investment strategy when the outcome of that strategy depends on individuals' circumstances and choices and the forces exerted on them and their portfolios by the macro economy.

Subject to the caveats below, our analyses show the following results.

- The TDFs that we specified generally outperformed the specified debt-only investment Styles. In around 70% of the macro scenarios, the TDFs generated larger pension wealth for investors in the bottom half of the benefit distribution and for the mean investor. Conversely, in about 30% of future states of the world the long-term government bond fund outperformed the TDFs.

- The all-equity investment Styles that we specified outperformed TDFs, usually on the order of 60% to 80% of the macro scenarios, depending on the funds and percentiles examined. The finding that all-equity funds outperform TDFs is consistent with Poterba et al. (2005).[11]

These conclusions are based on projected differences in DC pension benefit accumulations generated under 500 macro scenarios; a different set of macro scenarios could produce different results. Additionally, these results are sensitive to the premium on equity returns over debt built into the model, which is assumed to be 2.0%. Many factors affect scenario results. A different equity premium could imply significantly different results. A lower equity premium—perhaps reflecting recent trends—would narrow the range between outcomes of debt and equity styles. As a result, TDFs would outperform debt-only styles less often and equity-only styles more often. For example, the conservative TDF style based on an equity premium of 1.0 percent would dominate the lower half of the returns distribution of a debt-only (GBF) style in 53 percent of the macro environments, compared with 66 percent at a 2.0 percent equity premium. The analogous figures for the conservative TDF versus an equity-only (EIF) style are 33 percent (at a 1.0 percent equity premium) and 24 percent (at a 2.0 percent equity premium). Such equity premium effects are consistent with those found in other studies.

To further investigate the benefits of TDFs, we explored TDFs' ability to insure against poor market returns just prior to retirement. We calculated the compounded rates of return on T-Bonds and on equities in the five years prior to our cohort's 65th birthday. We then selected scenarios with particularly poor equity returns or particularly large negative differences between equity and T-Bond returns during this time window. For scenarios with very poor equity returns just prior to age 65, the mean benefit for the conservative TDF outperformed most equity investment styles. For scenarios with a few years in which T-Bonds far outperformed equities, the GBF Style outperformed even the conservative TDF, but the conservative TDF did much better than the aggressive one. This suggests that the appeal of TDFs is heightened when poor equity returns occur just prior to retirement. This phenomenon deserves further attention.

Potential extensions to our work include, among others, a closer examination of the insurance properties of TDFs, as sketched above; a more complete assessment of the role of equity premiums; an account for risk preferences similar to the approach used by

[11] See also Schiller (2005) for a discussion of TDFs and equity performance.

Holmer (2009); and the incorporation of such other sources of retirement financing as social security benefits and housing wealth.

Disclaimer

The views, opinions, and/or findings contained in this report are those of the authors and should not be construed as an official Government position, policy or decision, unless so designated by other documentation.

Work for this report was performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants ("AICPA"). Our services were provided under contract DOLJ08327415 from the U.S. Department of Labor.

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It should also be noted that we were requested by the DOL to use the PENSIM micro-simulation software for our research. The analysis performed and described herein relies upon the software and the data contained in and distributed with the software. Neither the software nor the data has been independently verified by Deloitte FAS. All outputs are based on certain assumptions and should not be used to predict future performance. Further:

- DOL was, and at all times is, responsible for the performance of its personnel and agents and for the accuracy and completeness of all data and information provided to Deloitte FAS for purposes of the performance by Deloitte FAS of the Services. Deloitte FAS was entitled to and has relied on all decisions and approvals of the DOL and its personnel.
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APPENDIX

This appendix contains tables with summary statistics of the distributions of the 10^{th} percentiles of the present values of DC pension benefits (Table A.1), their 25^{th} percentiles (Table A.2), and their medians (Table A.3). The tables correspond to text Figures 4, 5, and 6, respectively.

Table A.1: Summary Statistics over Macro Scenarios of the 10^{th} Percentile of DC Pension Benefits ($1,000s)

Investment Style	Mean	P10	P25	Median	Inter Decile Range
GBF	9	6	7	9	5
MMF+GBF	7	6	6	7	4
DEF+GBF	11	6	8	10	10
DEF	12	5	6	11	17
EIF	14	6	7	12	18
Conservative TDF	10	6	8	10	9
Aggressive TDF	12	6	7	11	13

Note: Each investor Style was simulated under 500 macro environments. For each of these macro scenarios, we calculated the 10^{th} percentile of present values of DC pension benefits. This table summarizes the distributions of those 10^{th} percentiles across macro scenarios. Also see text Figure 4.

Table A.2: Summary Statistics over Macro Scenarios of the 25^{th} Percentile of DC Pension Benefits ($1,000s)

Investment Style	Mean	P10	P25	Median	Inter Decile Range
GBF	38	28	32	38	20
MMF+GBF	33	26	29	32	14
DEF+GBF	47	30	34	44	39
DEF	55	23	29	49	72
EIF	60	26	32	54	79
Conservative TDF	44	29	34	42	34
Aggressive TDF	50	28	33	47	50

Note: Each investor Style was simulated under 500 macro environments. For each of these macro scenarios, we calculated the 25^{th} percentile of present values of DC pension benefits. This table summarizes the distributions of those 25^{th} percentiles across macro scenarios. Also see text Figure 5.

Table A3: Summary Statistics over Macro Scenarios of the Median DC Pension Benefit ($1,000s)

Investment Style	Mean	P10	P25	Median	Inter-Decile Range
GBF	136	102	115	133	70
MMF+GBF	119	94	105	118	52
DEF+GBF	168	108	124	160	132
DEF	205	89	110	181	257
EIF	225	96	119	197	285
Conservative TDF	156	105	124	148	115
Aggressive TDF	181	104	123	168	173

Note: Each investor Style was simulated under 500 macro environments. For each of these macro scenarios, we calculated the median present value of DC pension benefits. This table summarizes the distributions of median benefits across macro scenarios. Also see text Figure 6.

Acknowledgements:

We appreciate the comments and suggestions offered by Joseph Piacentini, Anja Decressin, Lynn Johnson, and Keith Bergstresser.

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Investor Bulletin: Target Date Retirement Funds

May 6, 2010

Investing for retirement can be complex. When deciding where to invest, you may need to make a variety of decisions, including how to balance the risk of losing money with the desire to increase your returns, keeping in mind that inflation may reduce the purchasing power of your savings and you or your spouse or partner may live longer in retirement than you expect. Recognizing this, a number of companies offer “target date retirement funds,” sometimes referred to as “target date funds” or “lifecycle funds.”

These funds are designed to make investing for retirement more convenient by automatically changing your investment mix or asset allocation over time. Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash investments. Once you select a target date fund, the managers of the fund make all the decisions about asset allocation.

Target date funds are often available through 401(k) plans. Some 401(k) plans use these funds as the default investment for plan participants who have not selected their investments under the plan. Both before and after investing in a target date fund, consider carefully whether the fund is right for you.

Target Date Retirement Fund Basics

Target date funds, which are often mutual funds, hold a mix of stocks, bonds, and other investments. Over time, the mix gradually shifts according to the fund’s investment strategy. Target date funds are designed to be long-term investments for individuals with particular retirement dates in mind. The name of the fund often refers to its target date. For example, you might see funds with names like "Portfolio 2030," "Retirement Fund 2030," or "Target 2030" that are designed for individuals who intend to retire in or near the year 2030.

However, target date funds, even if they share the same target date, for example 2030, may have very different investment strategies and risks. They do not guarantee that you will have sufficient retirement income at the target date, and you can lose money. Target date funds do not eliminate the need for you to decide, before investing and from time to time thereafter, whether the fund fits your financial situation. Even if you plan to retire in 2030, you may decide, based on your investment objectives, tolerance for risk, and other assets, that a 2020, 2040, or other target date fund is more appropriate for you. Or you may decide that you don’t want to invest in a target date fund.

Most target date funds are designed so that the fund’s mix of investments will automatically change in a way that is intended to become more conservative as you approach the target date. Typically, the funds shift over time from a mix with a lot of stock investments in the beginning to a mix weighted more toward bonds.

Remember that all investments have some level of risk, regardless of whether they are stocks, bonds, or something else. Even with the same type of investment, some stocks have less risk than other stocks, and some bonds have more risk than other bonds.

Although bonds are often considered to be less risky than stocks, some types of bonds may be riskier than stocks.

You should evaluate the investments and decide how much risk you can tolerate. Your risk tolerance will likely change as you get closer to retirement, so it is critical to pay attention to what the target date fund invests in over time. Also, be aware that while a target date fund discloses what it invests in and how the investment mix will shift over time, the fund manager can make changes in the future without your approval – even if those changes will create more risk. Thus, you should monitor your target date fund's investments over time.

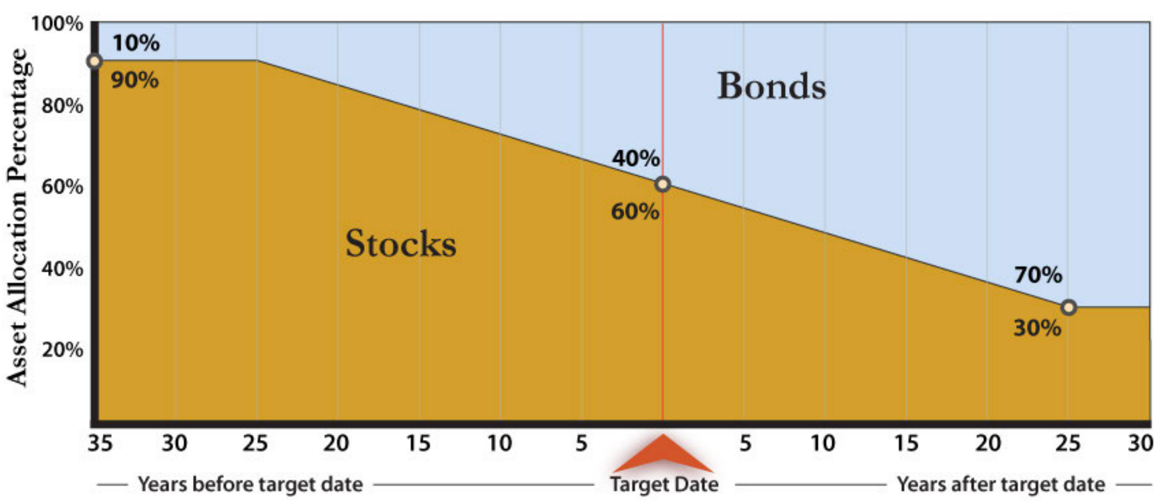
Evaluating a Target Date Retirement Fund

As with any investment, evaluate a target date fund carefully before investing. The target date may be a useful starting point in selecting a fund, but you should not rely solely on the date when choosing a fund or deciding to remain invested in one. You should consider the fund's asset allocation over the whole life of the fund and at its most conservative investment mix, as well as the fund's risk level, performance, and fees. This information is available in the fund's prospectus.

As noted above, funds with the same target date may have different investment strategies and levels of risk. These variations may occur before the target date, and also at the target date and after it. Some target date funds may not reach their most conservative investment mix until 20 or 30 years after the target date, as shown in Example 1 below. Others may reach their most conservative investment mix at the target date or soon after, as shown in Example 2 below.

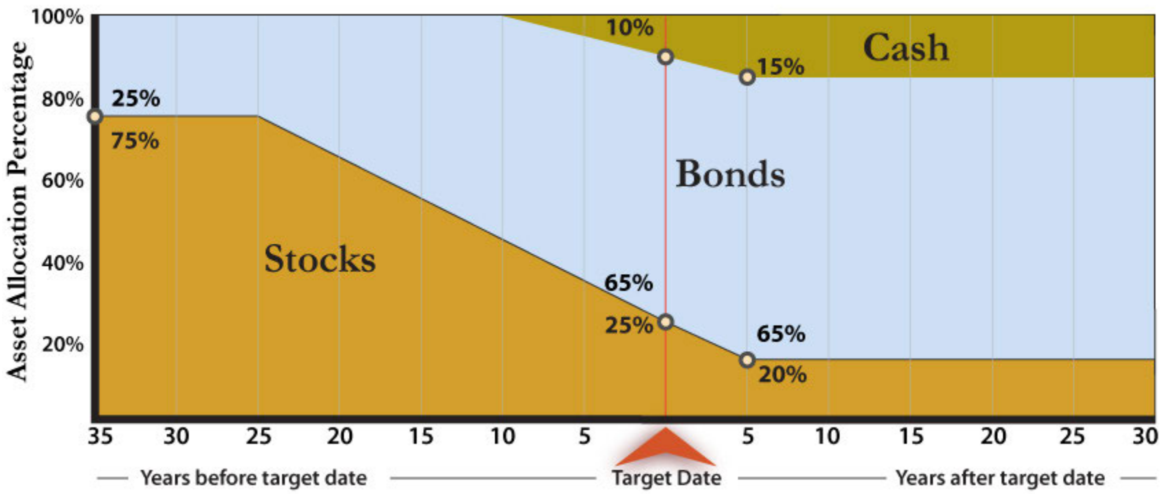
The fund in Example 1 holds 60% of its investments in stocks at the target date and 40% in bonds. The investment in stocks decreases until 25 years after the target date when it reaches an investment mix with 30% in stocks.

Example 1



The fund in Example 2 holds 25% in stocks at the target date, and reaches its final investment mix with 20% in stocks five years later. The fund in Example 2 also holds cash investments (such as money market funds) as part of its mix.

Example 2



Target date funds also may have different investment results and may charge different fees, even with the same target date. Often a target date fund invests in other mutual funds, and fees may be charged by both the target date fund and the other funds. Keep in mind that a fund with high costs must perform better than a low-cost fund to generate the same returns for you. Even small differences in fees can translate into large differences in returns over time.

You should also consider how a target date fund fits in with your other investments. If you have other stock, bond, or mutual fund investments, you should carefully examine your overall asset allocation.

In summary, before investing in a target date fund:

- ***Consider your investment style.*** Do you want to play an active role in managing your investments, or do you prefer the more hands-off approach of a target date fund? Keep in mind, however, that even with a target date fund, it is important to monitor the fund's investments over time.

- ***Look at the fund's prospectus to see where the fund will invest your money.*** Do you understand the strategy and risks of the fund, or of any underlying mutual funds held as investments?

- ***Understand how the investments will change over time.*** Are you comfortable with the fund's investment mix over time? In particular, make sure you understand when the fund will reach its most conservative investment mix and whether that will occur at or after the target date. Does your level of risk tolerance match how aggressive or conservative it is?

- ***Take into account when you will access the money in the fund***. How does the fund's investment mix at the target date and thereafter fit with your plans for the future, whether they are to withdraw your money at retirement, or to continue to invest?

- ***Examine the fund's fees***. Do you understand the costs for both the target date fund and for any mutual funds in which the target date fund invests?

Related Information

From the Department of Labor:

- A Look at 401(k) Plan Fees
- Savings Fitness: A Guide to Your Money and Your Financial Future
- What You Should Know About Your Retirement Plan

From the SEC:

- Beginners' Guide to Asset Allocation, Diversification, and Rebalancing
- Invest Wisely: An Introduction to Mutual Funds
- Mutual Fund Fees and Expenses

From the Financial Industry Regulatory Authority (FINRA):

- Fund Analyzer

From: Nell Hennessy
To: Matthews, Nancy; Beth Dickstein; Barry Barbash; Susan Nash
Cc: T Fowler; Khawar, Ali - EBSA; Brown, Michelle S - EBSA
Subject: FW: Materials for the ABA Target Date Funds Teleconference next week
Date: Monday, July 12, 2010 6:19:05 PM
Attachments: Dickstein Target Date PowerPoint.ppt
Target_Date_Volatility_Return_Profiles.pdf
Deloite Target Date Funds and Retirement Savings.pdf
InvestorBulletin.pdf

I hit the send button on the first e-mail before I finished.

Attached are:

- Beth Dickstein's PowerPoint for the ABA target date teleconference on July 20.
- Two research papers that DOL commissioned Deloitte to do, from the EBSA website.
  - Target Date Funds and Retirement Savings<http://www.dol.gov/ebsa/pdf/deloitte2009-4.pdf>
  - Target Date Frisk Return Profiles <http://www.dol.gov/ebsa/pdf/deloitte2009-2.pdf>
- DOL-SEC Investor Bulletin

Michael, is there anything else you want to post as part of the materials for the teleconference?

Susan, would you send anything you think should be posted in the materials for the teleconference.

Thanks to all of you for agreeing to participate in the teleconference.

Nell

Nell Hennessy
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From: "Matthews, Nancy" [redacted]abanet.org>
Date: Wed, 7 Jul 2010 10:24:48 -0400
To: Barry Barbash [redacted]@willkie.com>, Beth Dickstein [redacted]@sidley.com>, Michael Davis [redacted]@dol.gov>, Nell Hennessy [redacted]@fiduciarycounselors.com>,

[redacted]@SEC.GOV>
Cc: Michelle Brown [redacted]@dol.gov>, [redacted]@willkie.com>
Subject: Planning Call for July 20 Target Date Funds Teleconference

When: Monday, July 12, 2010 3:30 PM-4:30 PM (GMT-05:00) Eastern Time (US & Canada).
Where: Call-in Number: [redacted] Passcode: [redacted]

~~*~*~*~*~*~*~*~*

***Call-in Number*:** [redacted]
***Passcode*:** [redacted]

Thank you for agreeing to speak at our teleconference on July 20th on Target Date Funds. The following information is attached for our short planning call on Monday, July 12 at 3:30pm ET:

- Logistical information for the call
- Speaker Release Form – please sign and return to me by July 21st.

Following is the description for the program:
This program will cover the following topics:

- **Best practices for plan fiduciaries in choosing and monitoring target date funds**
- **Understanding a target date fund's glide path**
- **Evaluating the fees of target date funds**
- **Advice to participants on how target date funds operate**
- **Increased disclosure when a target date fund is the plan's qualified default investment alternative**
- **DOL Guidance**
- SEC proposed regulations relating to advertising of target date funds
- Proposed effective date of SEC rules to marketing and other sales literature relating to target date funds

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<<2010 --SRFTargetDateFunds.pdf>> <<SpeakerInstTarget Funds.pdf>>

------ End of Forwarded Message

From: Hunter-Ceci, Holly L.
To: Khawar, Ali - EBSA
Subject: FW: Meeting request
Date: Tuesday, April 19, 2011 10:26:42 AM

Ali,

March 26 at 4-5 pm will work for us. Thus far, the attendees will be:

Eileen Rominger, Director of Investment Management
Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Diane Blizzard, Senior Advisor to the Director of Investment Management
Sara Crovitz, Branch Chief, Division of Investment Management
Catherine Courtney, Attorney-Adviser, Division of Investment Management

If you could please let me know who will be attending the meeting from the DOL, I would greatly appreciate it. I'll let you know if there are any changes to our attendee list.

Thanks so much,
Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

From: Hunter-Ceci, Holly L.
Sent: Tuesday, April 19, 2011 8:46 AM
To: 'Khawar, Ali - EBSA'
Subject: RE: Meeting request

Thanks Ali – sorry for the delay in my reply; I was unexpectedly out of the office yesterday. I'll get back to you as soon as I can with our availability and a list of attendees. Thanks again for facilitating the meeting.

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Friday, April 15, 2011 3:01 PM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Hi Holly,

Just to follow up on my voice mail from this morning, I wanted to check in and see if either April 26 from 4-5 pm or April 29 from 4-5 pm work for you all to come over to DOL.

Thanks
Ali

From: Wong, Fred - EBSA
Sent: Thursday, April 14, 2011 10:44 AM
To: 'Hunter-Ceci, Holly L.'
Cc: Khawar, Ali - EBSA; Canary, Joe - EBSA
Subject: RE: Meeting request

Holly -

We are very interested in meeting. Ali Khawar (copied), who is a special assistant in our Assistant Secretary's office, will be contacting you about scheduling. Also, I would like to give you a call in the next day or so to talk about some other logistical matters. Thanks.

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Wednesday, April 13, 2011 12:20 PM
To: Wong, Fred - EBSA
Subject: Meeting request

Fred,

I work in the SEC's Division of Investment Management in the Office of Chief Counsel. I'm writing at the request of our Division director, Eileen Rominger, to see if a small group from IM (including Eileen), and from the Division of Trading and Markets, could meet to discuss the DOL's fiduciary proposal with Assistant Secretary Phyllis Borzi and other interested parties. Please let me know if you are not the correct person to contact; I thought of you because you were listed on the release and because we participated in a brief conference call many, many months ago.

My contact info is below if you (or someone else) would like to discuss. As far as timing, we would be most interested in a meeting after EBSA has had a chance to go through the recent comments submitted after the hearing. We would be happy to meet at the DOL or at the SEC, whichever you prefer.

I greatly appreciate any assistance. Many thanks,

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]
[redacted]@sec.gov

From: Hunter-Ceci, Holly L.
To: Khawar, Ali - EBSA
Subject: FW: Meeting request
Date: Thursday, April 28, 2011 11:25:52 AM

Ali, here is our updated list.

Eileen Rominger, Director of Investment Management
Jennifer McHugh, Senior Advisor to the Chairman
Jamie Brigagliano, Deputy Director, Division of Trading and Markets
Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Susan Nash, Associate Director, Division of Investment Management
Dave Grim, Assistant Chief Counsel, Division of Investment Management
Diane Blizzard, Special Assistant to the Director of the Division of Investment Management
Sara Crovitz, Branch Chief, Division of Investment Management
Katy Courtney, Attorney-Adviser, Division of Investment Management

I'll be out of the office tomorrow, so unfortunately I will miss the meeting. If anything comes up tomorrow, please contact Katy Courtney at [redacted]@sec.gov, [redacted]. Katy will also be at the meeting. Thanks again for making time in your busy schedule to meet with us.

Thanks,
Holly.

From: Hunter-Ceci, Holly L.
Sent: Tuesday, April 26, 2011 11:18 AM
To: 'Khawar, Ali - EBSA'
Subject: RE: Meeting request

Hi Ali – sorry for the delay. We can meet 4/29 at 4. I believe that we will have some updates to the attendee list, and I'll circulate these as soon as possible.

Thanks,
Holly.

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 26, 2011 11:12 AM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Hi Holly,

I just wanted to check in and see if you've been able to confirm this time with folks on your end?

Thanks
Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, April 21, 2011 9:14 AM
To: Khawar, Ali - EBSA
Subject: RE: Meeting request

Good morning -

I think we can do Friday, 4/29 at 4 pm. I'm still confirming schedules, and will provide you with an updated attendee list when available. If you could please let me know who will be attending from the DOL, I would greatly appreciate it.

Thanks again for your assistance,
Holly.

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 19, 2011 5:24 PM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Holly,

My sincere apologies, but due to some scheduling changes on our end this time no longer works for us, as one of the key participants can no longer attend. I've included some alternates below - if none of them work, please give me a call and hopefully we can figure something out (I'm at [redacted]).

4/28: 2 pm
4/29: 2:30 pm, 3 pm, or 4 pm

Thanks in advance and sorry once more for the change.

Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Tuesday, April 19, 2011 10:26 AM
To: Khawar, Ali - EBSA
Subject: FW: Meeting request

Ali,

March 26 at 4-5 pm will work for us. Thus far, the attendees will be:

Eileen Rominger, Director of Investment Management
Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Diane Blizzard, Senior Advisor to the Director of Investment Management
Sara Crovitz, Branch Chief, Division of Investment Management
Catherine Courtney, Attorney-Adviser, Division of Investment Management

If you could please let me know who will be attending the meeting from the DOL, I would greatly appreciate it. I'll let you know if there are any changes to our attendee list.

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Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

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Securities and Exchange Commission
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Subject: RE: Meeting request

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Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

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BEIJING BRUSSELS CHICAGO DALLAS FRANKFURT GENEVA HONG KONG LONDON LOS ANGELES NEW YORK SAN FRANCISCO SHANGHAI SINGAPORE SYDNEY TOKYO WASHINGTON, D.C.

Is Your 401(k) Default Fund on Target? New DOL and SEC Guidance on Target Date Funds

Beth J. Dickstein
Sidley Austin LLP

Topics to Cover

- Best practices for plan fiduciaries in choosing and monitoring target date funds
- Understanding a target date fund's glide path
- Evaluating the fees of target date funds
- Advice to participants on how target date funds operate
- Increased disclosure when a target date fund is the plan's qualified default investment alternative
- DOL Guidance
- SEC proposed regulation relating to advertising of target date funds
- Proposed effective date of SEC rules to marketing and other sales literature relating to target date funds

Basics

- Definition: funds that "provide varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy."
- Intended to be an "investment solution."
- Each target date fund generally is intended for participants with a target retirement year within a narrow band of years (such as a five year period).
- Glide Path – the investment strategy for shifting investments to a more conservative portfolio.
- Can be a "fund of funds," which invests in other funds or a "stand alone" product, which invests directly in a diversified portfolio of assets.

Glide Path

- Higher risk investments at early age.
- Eventually reaches a “landing point” at which time the asset allocation becomes static.
- Glide path may flatten at the target retirement date.
- Alternatively, glide path may flatten near end of life expectancy.
- Different views on when equity investments should be significantly reduced.

Allocations Used in Glide Paths of Different Funds

- 2008 returns for 2010 target date funds ranged from -3.6% to -41%.
- Due to wide variation in asset allocations.
- Vanguard - 90% equity at age 40 and younger, declining to 50% at age 65 and 30% by age 72.
- Fidelity – 50% equity at the target date, declining to 20% about 15 years after the target date.
- Bernstein – equity/bond allocation of 60%/40% at age 65.

Fund of Funds Products

- Mutual fund target date funds – exempt from the fiduciary duty and self dealing prohibited transaction restrictions of ERISA.
- Plan asset target date funds (e.g., bank collective investment funds) – subject to the fiduciary duty and prohibited transaction provisions of ERISA.
- Conflicts of interest?
- Layering of fees?

Benchmarks

- Lack of accepted industry benchmarks.
- Benchmarks have been established by Morningstar, Dow Jones, Target Date Analytics, and Standard and Poor’s.
- Benchmarks of Morningstar Dow Jones and Target Date Analytics are based on each entity’s hypothetical optimal glide-path.
- S&P’s benchmarks are based on the average allocations of target date funds.
- Difficult to evaluate performance without accepted benchmark.

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Summary of Developments

- Designation as a Qualified Default Investment Alternative by DOL Regulations (12/07).
- ERISA Advisory Council hearing and report (2008).
- Senate Committee Hearing (2/09).
- Joint Hearing by the DOL and Securities and Exchange Commission (“SEC”) (6/09).
- DOL Guidance
- SEC Proposed Rule Amendments

404(c)(5) Regulations – Target Date Funds as a QDIA

- Effective December 24, 2007.
- Named target date funds as a QDIA.
- Growth in assets invested in target date funds.
- Growth in the number of target date funds available.

2008 ERISA Advisory Council Hearing

- Working group requested testimony on various issues including the following:
  - What retirement and participant assumptions should be used when selecting and monitoring target date funds?
  - How does a plan fiduciary evaluate and monitor target date funds when there is no standardized benchmarking methodology?
  - What investment education and communication is required for participants to enable them to invest in target date funds or to assess whether they should actively manage their own investment?
  - What are the different types of target date funds?

2008 ERISA Advisory Council Hearing
(continued)

- The working group described plan participants' general need for investment education.
- The working group believes that target date funds could provide a solution to participants' general lack of knowledge/interest in plan investing.
- Working Group Recommendations:
  - ➢ The DOL should reinforce ERISA requirements relative to plan investments in target date funds.
  - ➢ The DOL should develop participant education materials and illustrations to enhance awareness of the value and the risks associated with target date funds.

Senate Committee Hearing

- February, 2009 Hearing by U.S. Senate Special Committee on Aging.
  - Concern over retirement security.
  - Focus on target date funds.
  - Senator Herb Kohl, Chairman, sent letters to the Secretary of Labor and the Chairwoman of the SEC urging review of target date funds.

Joint Hearing by the DOL and SEC

- In response to Senator Kohl's letter, the DOL and SEC held a joint hearing in June, 2009.
- DOL and SEC expressed concerns regarding:
  - ➢ Differences in the glide paths;
  - ➢ Variance in investment returns between funds with the same target retirement date;
  - ➢ Participant disclosure and understanding; and
  - ➢ Whether regulatory change or other reform is needed.

Joint Hearing by the DOL and SEC
(continued)

- Testimony focused on certain topics, including:
  - Importance of target date funds as a "simple" alternative.
  - Reasons for differences in glide paths.
  - Need for equity investments after retirement.
  - Whether target date funds should be customized.

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Joint Hearing by the DOL and SEC
(continued)

- Whether participant disclosure is adequate.
- Considerations for plan fiduciaries in selecting target date funds.
- Suggestions for additional regulation.

Should the Glide Path be Regulated?

- The Certified Financial Planner Board argues that acceptable allocation ranges should be established.
  - Help align risks with participants' expectations.
- ICI and Profit Sharing Council of America do not believe that either the SEC or the DOL should regulate the ranges of asset allocations.
  - Regulation generally would be unprecedented - except for investments in employer securities and real property, ERISA does not limit types of acceptable investments.

Joint DOL/SEC Guidance

DOL intends to issue 3 pieces of guidance:

1. Initial joint DOL/SEC guidance titled "Investor Bulletin: Target Date Retirement Funds", issued 5/6/2010;
2. Best practices checklist; and
3. Amendment to the QDIA regulation as it relates to target date funds.

Joint DOL/SEC Guidance
(continued)

Investor Bulletin (Issued May, 2010)

- Discusses basics of target date funds:
  - Target date funds are designed to be long-term investments for individuals with particular retirement dates in mind.
  - No guarantee that participant will have sufficient retirement income at the target date.
  - Fund disclosure describes the types of investments and how the investment mix will shift over the life of the fund.
  - Can change so monitor fund's investments over time.

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Joint DOL/SEC Guidance
(continued)

Investor Bulletin (Issued May, 2010)

- Evaluating a Target Date Fund:
  - Review the fund's asset allocation over the entire life of the fund.
  - Review the fund's asset allocation at its most conservative investment mix.
  - Review the fund's risk level.

Joint DOL/SEC Guidance
(continued)

Investor Bulletin (Issued May, 2010)

- Evaluating a Target Date Fund:
  - Review the fund's performance.
    - Should participants reference a particular benchmark?
  - Review the fund's fees.
    - What should a participant review?

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SEC Proposed Amendments

- Proposed amendments to rule 482 under the Securities Act.
- Proposed amendments to rule 34b-1 under the Investment Company Act.
- Proposed amendments to rule 156 under the Securities Act.

Rule 482

Background

- Rule 482 under the Securities Act permits investment companies to advertise information prior to delivery of a statutory prospectus.
- Such advertisements are "prospectuses" under Section 10(b) of the Securities Act.
- Proposed amendment applies to advertisements and supplemental sales literature that "place a more than insubstantial focus on one or more target date funds."
- Amendments apply whether or not the target date fund is a QDIA.

Rule 34b-1

Background

- Rule 34b-1 under the Investment Company Act sets forth the requirements for supplemental sales literature.
- Under Rule 34b-1, a communication sent after the effective date of a fund's registration statement is not deemed a "prospectus" if a statutory prospectus was sent to a person prior to or at the same time the applicable communication was sent to such person.

Proposed Amendments to Rule 482 and Rule 34b-1

Disclose in print advertising:

- Investor should consider age or retirement date, as well as other factors, including the investor's risk tolerance, personal circumstances, and complete financial situation.
- Investment is not guaranteed and could loss money.
- Circumstances under which allocations can be modified without a shareholder vote.
- If the fund uses a year in its name, describe the intended allocation as of that year and the allocation as of the last quarter and specify that those allocations are as of such times.

Proposed Amendments to Rule 482 and Rule 34b-1
(continued)

Disclose in print advertising for more than one fund:

- A prominent table, chart, or graph that clearly depicts the asset allocations over the entire life of the funds:
  - at identified periodic intervals (no longer than 5 years)
  - at the inception of the funds
  - at the target dates
  - at the “landing points” (date of static asset allocation)
  - at the most recent quarter end

Radio or TV ads must state the landing point, explain that the asset allocation becomes fixed at the landing point, and describe the intended allocations at the landing point.

Rule 156

Background

- Rule 156 under the Securities Act contains guidance on the types of information in investment company sales literature that could be misleading.
- It applies to all sales literature, whether or not delivered with the fund's prospectus.
- Under rule 156, whether a statement is misleading depends on the context in which the statement is made.
- Rule 156 outlines certain situations in which a statement could be misleading.

Proposed Amendments to Rule 156

- Proposing to amend rule 156 to address certain statements suggesting that securities of an investment company are an appropriate investment.
- Will apply to all types of investment companies.
- Such a statement could be misleading because of the emphasis it places on a single factor, such as an investor's age or tax bracket, as the basis for determining that an investment is appropriate.
- Such statement could be misleading because of representations, whether express or implied, that investing in the securities is a simple investment or that it requires little or no monitoring by the investor.

Effective Date of SEC Amendments

- Changes to Rule 482 will apply to target date fund advertisements and supplemental sales literature that are used 90 days or more after the effective date of the amendments.
- Rule 156 changes will be effective immediately upon adoption.

SEC Comments Requested

SEC requests comments on:

- Does the proposed definition of "target date fund" cover the types of funds that should be subject to the proposal?
- Is it appropriate to limit application of the amendments to marketing materials that place a more than insubstantial focus on one or more target date funds?
- Should the SEC prescribe specific asset classes to be used in disclosing the asset allocation or the methodology for calculating the percentage allocations ?
- Are there additional amendments that would effectively address the concerns relating to target date fund names?
- Should the prospectus requirements provide specific disclosure requirements for target date funds?

SEC Comments Requested
(continued)

SEC requests comments on:

- Should specific materials be exempted from the rule?
- Should the SEC prescribe the specific format for the asset allocation disclosure?
- Do investors need other information along with allocation percentages in order to understand the significance of those percentages (such as risks, and volatility of different asset classes)?
- Should there be disclosure whether the glide path extends to the target date or through the life expectancy of the investor?
- Should the prospectus specify a manager's discretion to change the glide path?

SEC Comments Requested
(continued)

SEC requests comments on:

- Will the disclosure of a target date fund's asset allocation be an effective way to reduce investor misunderstanding?
- Will the disclosure cause investors to prioritize investment risk at a particular moment in time over longevity risk, inflation risk, or other risks?
- Should the proposal be modified to address any impact that it may have on investor or manager behavior?
- Are there other means to enhance comparability among target date and current asset allocations?
- Are the proposed effective dates appropriate?

Comments due August 23, 2010

Possible Legislative Actions

- Possible legislation that will require target date fund managers to take on a fiduciary responsibility in order for such funds to be eligible for the designation of QDIA.
- Response to Avatar testimony in Senate hearings and DOL advisory opinion.
- DOL issued advisory opinion to Avatar stating that manager of a target date mutual fund does not become a fiduciary under ERISA merely because the target date fund invests in affiliated funds.

Is More Regulation Needed?

- Wide differences of opinion.
- Those advocating for additional regulation want:
  - More regulation of disclosures and naming conventions;
  - Specified ranges of asset allocations; and
  - Limitation of mutual fund exception from regulation under ERISA.

Is More Regulation Needed?

- Those against more regulation state:
  - Existing disclosure rules are sufficient;
  - Regulation of disclosure would not make participants read the disclosure; and
  - Having the DOL and SEC prescribe acceptable asset allocation ranges would be unprecedented and likely unsuccessful.

Target Date Funds and Retirement Savings

March 2010

A study by Deloitte Financial Advisory Services LLP in conjunction with Advanced Analytical Consulting Group Inc. for the U.S. Department of Labor, Employee Benefits Security Administration.

Michael J. Brien, PhD
Philip J. Cross, PhD
Thomas A. Dunn, PhD
Joice A. Pharris, MBA
Deloitte Financial Advisory Services LLP

Constantijn W.A. Panis, PhD
Advanced Analytical Consulting Group, Inc

Introduction

Target Date Funds ("TDFs", also known as life cycle funds) have become an important component of individual retirement decisions. TDFs are investment vehicles that invest their assets into other mutual funds. A key aspect of TDFs is that the asset allocation changes over time such that the investment risks diminish as the fund's target date approaches. For example, a lifecycle fund with a 2030 target year is generally marketed to Defined Contribution ("DC") plan participants who aim to retire around 2030. Its investment strategy would become more conservative as the target date approaches. The underlying idea is that the risk workers should take on should diminish as their investment horizon shortens.[1] Some of the earliest TDFs were developed in the mid-1990s and many fund managers now offer a series of lifecycle funds. Evidence suggests that 70 percent of U.S. employers now use target-date funds as their default investment (Collins, 2009). The Thrift Savings Plan, a DC plan for federal employees, added life cycle funds to its investment options in 2005.

Typically, DC plan participants have choices over how to invest their retirement assets, in stocks, bonds, money market funds and mutual funds. The purpose of the work described in this report is to gain a better understanding of how TDFs can affect the accumulation of retirement wealth compared to other asset holdings. To that end, the U.S. Department of Labor ("DOL") requested that we use the micro-simulation model PENSIM to examine the distribution of DC benefits accumulated by investors under various asset allocation strategies.

1. Background

As noted above, TDFs were first offered in the 1990s and have grown steadily in popularity. Recent estimates suggest that over $227 billion dollars are invested in these types of funds (Donahue 2009). The Pension Protection Act of 2006 (PPA) designated target-date funds as one of the qualified default investment alternatives (QDIAs). In December 2008, 31 percent of 401(k) participants held TDFs (VanDerhei, et al. 2009).

TDFs have a common feature of a predetermined declining equity exposure as the participant approaches the target retirement date. In practice, there are significant differences in the equity glide paths chosen by different fund families and offered by different plans. Our earlier research for EBSA on actual funds suggested that TDFs generally have over 90 percent equity exposure several decades before the target date, declining to 20 to 60 percent at the target dates.

Several papers have used stochastic simulation models to examine, among other things, the role of TDFs in the accumulation of retirement wealth. One of the key papers on this topic is Holmer (2009a). This paper utilizes the PENSIM software to conduct the analysis. Under different assumptions of assumed risk aversion and different TDF asset

[1] See Viceira (2009) and Kintzel (2007) for a general description of the underlying characteristics of TDFs.

allocation assumptions, Holmer simulates risk-adjusted retirement (OASDI, DB and DC) and pension (DB and DC) benefits at age 70 for a U.S. cohort born in 1990. It is important to note that our work utilizes many of the same methodological, individual and macroeconomic assumptions as presented in this paper. There are a number of important findings in this paper. Holmer finds, for example, that the highest risk-adjusted pension benefit is obtained when following a rule that mimics actual TDFs—equity investment shares of 75 to 80 percent at age twenty declining to 30 to 35 percent at age 65. He also finds that at lower levels of risk aversion, risk-adjusted pension benefits are greater when there is a greater share of equities available in the life cycle fund. Expanding the analysis to include OASDI, he finds that the low risk associated with these benefits suggests that higher overall risk-adjusted benefits can be found by taking on more risk in the other investment components (i.e., a higher equity percentage in the life cycle fund).

Another paper that is similar to our work is Poterba et al. (2005). In this paper the authors consider how different asset allocation strategies impact the retirement wealth and expected utility of wealth for a cohort of individuals in the Health and Retirement Study. Like the analysis we present below, the authors consider a variety of possible asset allocation rules including ones that include only one asset (100 percent inflation-indexed bonds, long-term government bonds, or corporate stock), ones that include a mixture of two assets using a simple allocation rule (i.e., equity percent equals 110 minus age of household head), and ones based on actual TDFs available in the market. Interestingly, their simulated wealth measures suggest that allocating 100 percent in equities leads to the greatest wealth at retirement. They also suggest, however, that their results are sensitive a number of the parameters including the assumed return on equities. TDFs, on the other hand, appear to perform about as well as simpler asset allocations in which the equity exposure over time is equal to the average of that found in a market TDF.

Finally, Pang and Warshawsky (2009) use a stochastic simulation model to consider the risk and return tradeoffs of life cycle funds. An interesting feature of their paper is that they consider five different actual TDFs for analysis. They recognize that not all TDFs are the same even if they have the same target date. The funds are chosen for analysis by specific percentiles of equity share (95^{th}, 75^{th}, 50^{th}, 25^{th}, and 5^{th} percentiles) out of all funds available on a selected date. They focus on the wealth and level of risk at age 65 for individuals who invested in TDFs early in their careers, in the middle of their careers, and at retirement. One of their results suggests that TDFs are not without risk and there is variation in the risk levels across the various funds.

2. The PENSIM Software

Overview of the PENSIM software

As directed by DOL, this project uses the software developed by the Policy Simulation Group ("PSG") for producing estimates of individual benefits under the employer-sponsored pension system in the US.[2] Our analyses mainly use two of the PSG's three computer simulation models. SSASIM provides the "projections of key macrodemographic and macroeconomic assumptions, as in the 2009 OASDI Trustees Report." The second model, PENSIM, uses the SSASIM macro projections to microsimulate the accumulation patterns of a cohort of individuals covered by employer-sponsored pensions. The third model, GEMINI, was used in the simulations only to obtain certain pension related outputs.

The models consist of numerous equations that predict marriage, employment, job changes, pension plan availability, death and other outcomes for each individual. Additionally, the models project annual rates of return on assets chosen by the individual as well as contributions and withdrawals. In its simplest form, each run of the PENSIM model, with macro conditions projected from SSASIM for each year of the simulation, produces paths of employment income, pension wealth from various sources and other financial measures over time for each individual. Many of these quantities can be accessed from the various output tables.

We use the functionality of the PSG models that allows multiple-scenario runs that simulate the outcomes for each individual under "stochastic pension environments." The values of the macrodemographic and macroeconomic variable change across the various scenarios, which may be interpreted as future states of the world. This generates a number of possible paths for each individual. Specifically, fifteen major variables are assumed to be stochastic: total fertility rate, net immigration flow, mortality decline rate, female and male labor force participation rates, unemployment rate, inflation rate, productivity growth rate, wage share growth rate, hours worked growth rate, nominal interest rate on Treasury bonds, disability incidence rate, disability recovery rate, equity return, and the rate spread between Treasury bills and Treasury bonds.[3] Macroeconomic scenarios result in different pension wealth accumulation outcomes because of variation in rates of return on equity and bonds, but also because different economic conditions affect wages and DC plan contributions. Much of our analysis studies the differences in the distributions of pension wealth accumulation across 500 scenarios with different macro conditions.[4]

Our analysis focuses on the effects of TDFs, as compared to other investments, on the accumulation of DC pension benefits. We ignore the wealth accumulated through the Social Security system and wealth from defined benefit ("DB") pension plans.[5] As a

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[2] Description of software is drawn from Holmer (2009b). In particular, we use the the standard version of December 18, 2009. Our use of the PSG models described herein was at the direction of DOL.

[3] See Holmer (2009d), page 11.

[4] These 500 scenarios represent a sample of potential states of the macro economy; they do not represent all potential states of the world. It is conceivable that under certain other scenarios, our findings might be different.

[5] In the PSG models, employers' offerings of DB and DC plans are exogenous to the individual (that is, workers do not sort into jobs that offer particular pension plans). Additionally, retirement decisions are assumed not to depend on accumulated retirement wealth. Under these conditions, we assume that DB and Social Security wealth are exogenous or held constant for the individual and we are comfortable focusing on differences in DC pension accumulations.

result, our analysis is not a complete accounting of the accumulated retirement wealth of individuals.

In general, we make very few changes to the parameter values in the baseline equations in the PSG models. We change the specifications of investor styles, described in detail below, but otherwise run the models with their default parameter values. A sensitivity analysis of the underlying models and verification of parameter choices is beyond the scope of this paper.

Investment options

PENSIM allows for a variety of equity and debt investment options. SSASIM uses historical data to estimate the parameters that determine the cyclical dynamics of four stochastic macroeconomic variables— the inflation rate, the nominal yield on Treasury bonds, the return on equities, and the yield spread between Treasury bills and Treasury bonds— that determine asset returns. Cyclical fluctuations in these four macroeconomic variables are generated using a vector-autoregressive model with a two-year lag structure, a VAR(2) model, the parameters of which are estimated with annual historical data.[6]

Table 1 below summarizes the characteristics of available investment options.

Table 1: Asset Characteristics

	Base	Asset	Shock to Return	
Asset Class	**Return***	**Fee**	**Mean**	**Std Dev**
Equity Index Fund (EIF)	S&P500	0.45%		
Diversified Equity Fund (DEF)	S&P500	1.00%	0	1%
Portfolio of stocks (Stocks)	S&P500	**	0	10%
Government Bond Fund (GBF)	T-Bonds	0.45%		
Money Market Fund (MMF)	T-Bills	0.45%		
Target Date Fund	Depends***	0.75%		

* SSASIM generates fixed-income base returns based on intermediate assumptions of the 2009 OASDI Trustees Report. Equity base returns are assumed to be 2.0 percent above T-Bonds returns, on average.

** The Stocks portfolio is used only as part of TDFs with a 0.75% asset fee.

*** TDF return depends on the age-specific mix of assets held in the fund.

Equities: The equity investments range from a portfolio of relatively few stocks, to a fund that is diversified but not as much as the Standard and Poor's 500 ("S&P500") index, to an equity index fund that mimics the S&P500. The S&P500 returns are generated as described above. The less diversified equity options have returns that are equal to the S&P500 return plus a shock (e) drawn from a distribution that can be specified by the user. Table 1 shows the default distributions used in PENSIM and suggests a wider variance for less diversified holdings.

[6] See Holmer (2009d), page 14. The PENSIM user may change these parameters.

Debt: US Treasury bills and bonds are available. The returns on T-Bonds are generated as described above; T-Bill returns are a fraction of T-Bond returns.

TDFs: TDFs are age-variant portfolios of equities and debt. TDFs can hold T-Bills, T-Bonds, Equity Index Fund, and a portfolio of stocks specific to the TDF, where the weights on each asset can change as the holder ages. The return on a TDF in any year depends on the specific mix of assets in the fund.

Each individual holding a particular asset realizes the same annual return on the asset. No asset beats the market (i.e., S&P500) consistently. In the stochastic runs, 500 macro scenarios are characterized by different values of asset rates of return, inflation and other variables drawn from distributions embedded in the SSASIM module. The macro draws affect the real returns on the asset holdings over the individual's lifetime and, therefore, her accumulated retirement wealth.

3. Descriptions of Scenarios and Investor Styles

Specifications of Macro Scenarios and Investor Styles

Each simulation selects a 0.5% sample of individuals from the 1995 birth cohort, or about 30,000 individuals whose lifecycle and employment outcomes and asset returns are generated by PENSIM. In the stochastic runs, individual outcomes are generated for 500 macro scenarios using a Run Specification File (.rsf) in the standard version of PENSIM.

We investigate the effects of various investment strategies by assigning individuals to investor Styles that we specify. PENSIM allows up to four Styles to be specified in each run and a probability of assignment to each Style.[7] Our strategy is to run different sets of macro scenarios with all individuals assigned to one Style and compare outcomes across runs. This has several advantages. First, we can specify more than four Styles. Second, it is not necessary to specify the fraction of individuals in each Style. Third, we observe the full sample of 30,000 individuals in each Style. One disadvantage of our approach is that we cannot easily combine our sets of investors to represent the population or mimic the aggregate asset allocations of DC plan investors in the US.

Sources of Variation in Pension Outcomes

Across 500 macro scenarios there are two principal types of variation in the individual's accumulation of DC benefits. First, there are different future states of the world (macro environments) as described earlier that affect rates of return. The SSASIM software generates different values for each macro variable for each scenario. Second, across macro scenarios, individuals realize different outcomes for education, income, death date

[7] In the PENSIM module, the Style definitions are found in the *ACCTAA1, ACCTAA2, ACCTAA3,* and *ACCTAA4* tables, which allows the user to specify asset allocation weights at various ages; TDFs are specified in Assets *tdf_aa_id*. The probabilities for assignment into each Style are specified in *AA_PROB* table and can change over calendar years. The individual's Style is fixed over her lifetime, but the Style definition is very flexible and allows for a number of investment strategies to be modeled. PENSIM's baseline Style definitions and their probabilities produce aggregate asset allocations similar to that found in a very large sample of 401 plans (Holmer (2009c), page 226).

and other lifecycle and employment outcomes. This prevents a comparison of individual outcomes across macro scenarios, because important characteristics of the individuals vary across macro scenarios. In other words, each macro scenario in effect represents a different sample of individuals experiencing the specific macro conditions in that scenario. In particular, the plan contributions made by a specific individual differ across macro scenarios. In what follows we compare the outcomes for all samples of individuals across macro scenarios while only focusing on differences generated by the macro variables and ignoring other differences across individuals.[8]

When we change the investor style across runs, the individual's lifecycle and employment outcomes are fixed for each macro scenario. For example, in one comparison below, we assign all individuals to a fund filled only with T-Bonds and run 500 macro scenarios. In another run, we assign all individuals to an equity index fund and run the same 500 macro scenarios. Individual lifecycle and employment outcomes are the same, macro scenario by macro scenario, while the DC benefit accumulation changes according to the asset holdings and the macro influences on the returns for that asset. This allows comparisons at the individual level across the Style assignments in different runs, but as mentioned above not across macro scenarios within the same run.

Investor Styles

The table below defines our investor Styles, which are characterized by the fraction of the individual's DC pension wealth in each asset class at each age.[9]

Table 2: Asset Allocation by Investor Style

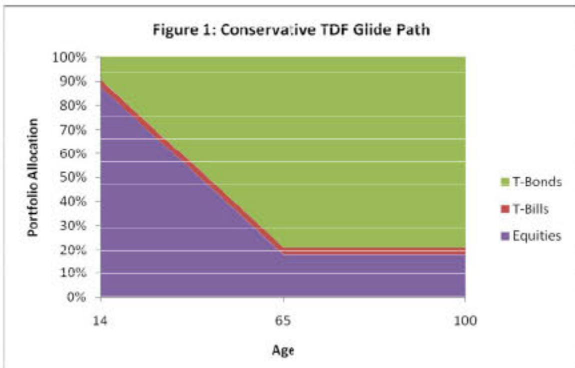
	1: DEF	2: GBF	3: EIF	4: DEF+ GBF	5: MMF +GBF	6: TDF Conservative		7: TDF Aggressive	
Age						14	65	14	65
Equity Index Fund (EIF)			100%						
Diverstified Equity Fund (DEF)	100%			50%					
Money Market Fund (MMF)					50%				
Government Bond Fund (GBF)		100%		50%	50%				
Target Date Fund						100%	100%	100%	100%
GBF						9%	79%	9%	39%
MMF						3%	3%	3%	3%
EIF						44%	9%	44%	29%
Stocks						44%	9%	44%	29%

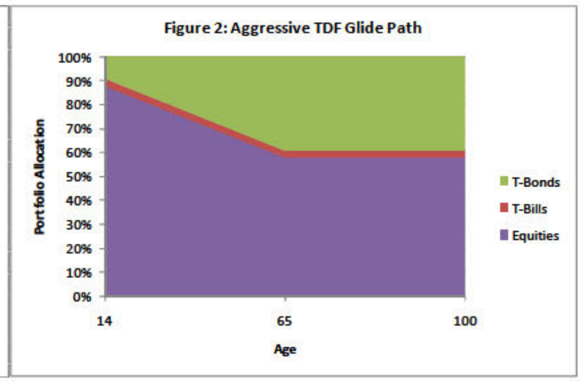
8 In essence, this means that the sample of individuals changes across macro scenarios. This feature where individual lifecycle and employment outcomes change across macro scenarios may prevent some types of analyses of interest to some researchers.

9 In PENSIM, the individual is assumed to rebalance her portfolio to achieve the defined mix at each age, rather than change the flow of contributions and withdrawals to achieve the defined mix over time.

Styles 1 through 3 represent single-asset investors who choose the same asset over their investing lifetimes. Styles 4 and 5 are investors who split their assets between a diversified equity fund and either money market funds or government bond funds, with the same weighting between the two assets over their investing lifetime.

We construct two TDF options. The conservative TDF (Style 6) starts out heavily invested in equities (44% in equity index fund and 44% in other stocks) and the equity fraction declines linearly over time until age 65 when the equity fraction is 18%. The aggressive fund (Style 7) starts out with the same allocation as the conservative TDF, but stays more heavily weighted in equities, achieving 58% in equities by age 65. The glide paths for each of the TDF options are shown in Figures 1 and 2.[10]





4. Results of Scenario Analyses

Metrics and Methods

The measure of pension wealth we use in our analysis is the present value at age 65 of DC pension benefits expressed in 2009 dollars; the cohort in our analysis, born in 1995 reaches age 65 in the year 2060. In the PSG models, this is variable *ipvpb* and it represents the present value of the individual's lifetime stream of DC pension benefits as of age 65 (plus her DB cash balance accumulations, which tend to be small and are inseparable from the DC benefits in the PSG models).

In each macro scenario and for each investor Style, some fraction of individuals accumulate no DC pension wealth because their employers do not offer such plans, or investors switch employers and cash out their rollover balance, or, in a very small number of cases, the investor's contributions are small and the returns are poor enough to zero out her balance by age 65. In what follows, we account only for workers with positive DC pension benefits.

Our primary interest is in DC pension benefit differences due to investor styles. We therefore suppress differences across individuals of a cohort by computing a summary statistic (mean, median, 10th percentile, 25th percentile) across individuals and comparing

[10] In PENSIM, investors are assumed to convert their accumulated DC pension benefit into an annuity. This insulates retirees from risk in the equity and bond markets in the years between retirement and death.

only those summary statistics across investor styles. Each summary statistic has a distribution because of variation in macrodemographic and macroeconomic conditions. We derived those distributions by simulating a large number (500) of macro environments for each investor style. Our objective is thus to compare the distributions of, say, median DC pension benefits across investor styles, the 10th percentile of pension benefits across investor styles, et cetera.

Analysis

Table 3 presents summary statistics of the distribution of mean present values of DC pension benefits, for each of the seven investor Styles that we consider. For example, the average mean benefit under the GBF investor style was $286,000. Under adverse macro conditions, the mean was lower; under favorable conditions, it would be higher. The 10th percentile of the distribution of means was $211,000 and the interdecile range (difference between the 90th and the 10th percentiles) was $153,000.

Table 3: Summary Statistics over Macro Scenarios of the Mean DC Pension Benefit ($1,000s)

Investment Style	Mean	P10	P25	Median	Inter Decile Range
GBF	286	211	244	282	153
MMF+GBF	253	198	225	250	111
DEF+GBF	358	228	267	340	285
DEF	463	190	238	401	597
EIF	511	204	256	440	673
Conservative TDF	328	221	260	315	232
Aggressive TDF	390	222	263	363	371

Note: Each investor Style was simulated under 500 macro environments. For each of these macro scenarios, we calculated the mean present value of DC pension benefits. This table summarizes the distributions of mean benefits across macro scenarios. Also see Figure 3.

On average, mean benefits were lower for all-debt styles (GBF and MMF+GBF) than for all-equity styles (DEF and EIF). As expected, mixed debt and equity styles (DEF+GBF, conservative TDF, aggressive TDF) performed in between all-debt and all-equity styles.

While all-equity styles outperformed all-debt styles on average, their risk or volatility was greater, as demonstrated by their wider interdecile ranges. Indeed, all-equity styles do not stochastically dominate all-debt styles at the mean level of benefits. For example, at the 10th percentile, all-equity styles performed worse than the GBF style. The optimal investor style for the mean individual is therefore ambiguous; in most of the states of the world, an all-equity style such as EIF performed best, but individuals with a strong risk aversion may prefer an all-debt style such as GBF. “Heat map” tables below show how often the various investor styles outperform each other.

The appendix contains tables with summary statistics of the distributions of the 10th percentile, the 25th percentile, and the median of the present value of DC pension benefits, similar to Table 3 for the mean benefit.

Cumulative Distributions: The following figures show, for each investor Style, the cumulative distribution of the present value of DC pension benefits across macro scenarios. The first figure, Figure 3, shows the cumulative distribution of the mean benefit amount. For any investor Style the curve shows the fraction of the macro scenarios where the accumulated pension benefit was less than or equal to the value on the horizontal axis. For example, Equity Index Fund (the right-most or purple curve) investors earned mean benefits of around $440,000 or less in 50% of the macro scenarios. Investors in the Conservative TDF (the red curve) earned mean benefits of around $315,000 or less in 50% of the macro scenarios and investors in the MMF+GBF (the orange or left-most curve) earned mean benefits of around $250,000 or less in 50% of the macro scenarios.

The distributions of the mean benefit for TDFs are sandwiched between the all-equity funds and the all-debt funds. The constant-weighted debt and equity portfolio (DEF+GBF) falls between the two TDFs, representing an equity weighting that over the individuals' investing lifetime is less aggressive than the aggressive TDF and more aggressive than the conservative TDF.

Figures 4 to 6 below show the distributions of the 10^{th} percentile, the 25^{th} percentile, and the median of accumulated benefits. (Figure 3 corresponds to Table 3; Figures 4 to 6 correspond to the Appendix tables.) The same general patterns as for the means hold at these points in the distributions. For most macro scenarios, the ordering of the Styles is the same as for the means, with the equity Styles outperforming other asset allocations most of the time. Presumably because of its higher asset management fees (see Table 1), the DEF Style performed worse than the EIF Style. Also see Table 8 below.

Figure 3: Cumulative Distribution of Mean Pension Benefits by Investor Style

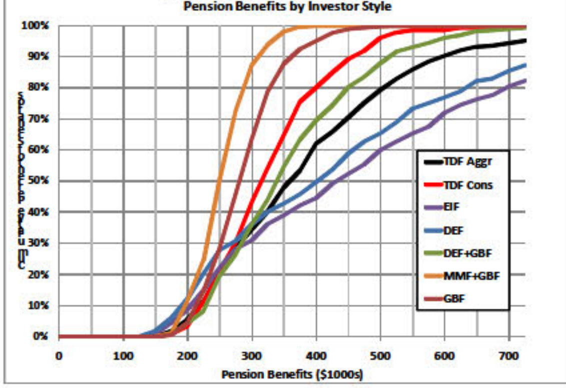


Figure 4: Cumulative Distribution of 10th Percentile of Pension Benefits by Investor Style

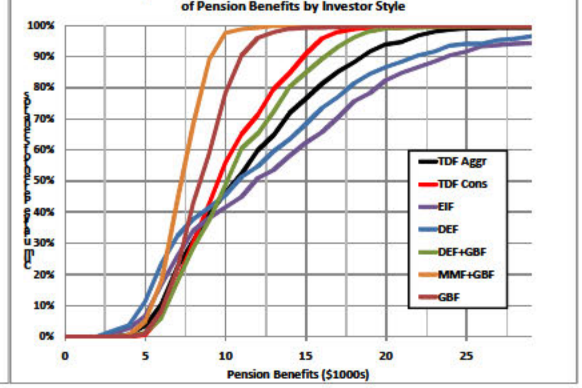


Figure 5: Cumulative Distribution of 25th Percentile of Pension Benefits by Investor Style

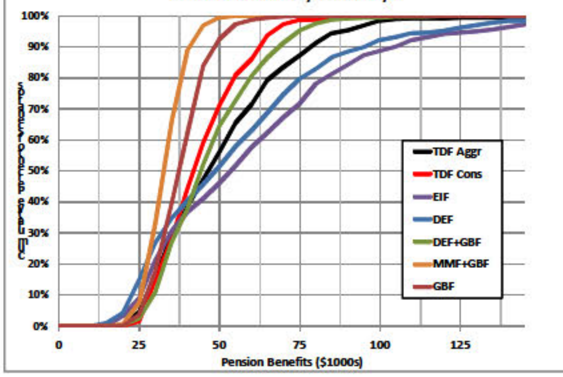
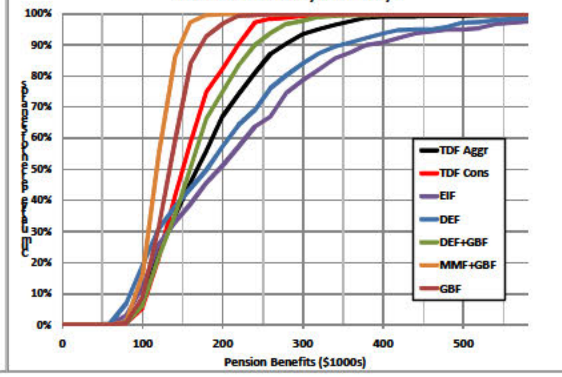


Figure 6: Cumulative Distribution of 50th Percentile of Pension Benefits by Investor Style



Dominating Styles: The final analysis compares pension benefits to determine which styles tended to outperform the others in a pair-wise "horse race." Each row of the "heat map" tables below represent the fraction of macro scenarios where the benefit to the investor Style in the left hand column (Investor Style A) exceeded the benefit to the investor Style in the columns to the right (Investor Style B). The data underlying Tables 4 to 7 are the same as those depicted in Figures 3 to 6; the "heat map" tables summarize how often the various Styles outperform one another, i.e., how often one curve lies to the right of another curve.

Consider Table 4 with a comparison of mean benefits across investment Styles. It reflects the same data as Figure 3 and Table 3. The color coding is such that green cells represent cases where Investor Style A had higher pension benefits in a large share of the macro scenarios compared to Investor Style B. Red cells represent comparisons in which Style A performed poorly relative to Style B, whereas no clear winner emerged in yellow cells. Rows with a predominance of green cells denote relatively high-performing investment styles. The mean GBF investor enjoyed higher benefits than the mean MMF+GBF investor in 97% of the macro scenarios and outperformed the mean DEF+GBF investor in 26% of scenarios. Notably, the TDFs frequently outperformed the debt-only funds, while equity Styles win large fractions across the board.

The next column in Table 4 shows the fraction of the macro scenarios where the mean Style A investor earned pension benefits greater than the mean of all other investors. The mean GBF investor beat all other mean investors in 24% of the macro scenarios, while the mean EIF investor beat all other mean investors in 73% of scenarios. The mean conservative TDF investor beat other mean investors in only 3% of macro scenarios.

The final set of columns in the table compares the benefits earned by the investor Style to an absolute threshold. All Styles earned a mean benefit of at least $100,000 in all macro scenarios and all Styles earned at least $200,000 in around 90% or more of macro scenarios.

Table 4: Comparison of Mean Pension Benefits across Investor Styles

	Percent of Scenarios Where Investor Style A Has a Larger Mean Pension Benefit than Investor Style B							Percent of Scenarios Where Investor Style A Has the Largest Mean Pension Benefit	Percent of Scenarios for Which Mean Pension Benefit is at least				
	Investor Style B												
Investor Style A	GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr		$25,000	$50,000	$75,000	$100,000	$200,000
GBF		97%	26%	30%	26%	28%	27%	24%	100%	100%	100%	100%	96%
MMF+ GBF	3%		12%	24%	19%	4%	16%	0%	100%	100%	100%	100%	89%
DEF+ GBF	74%	88%		35%	25%	77%	30%	0%	100%	100%	100%	100%	96%
DEF	70%	76%	65%		0%	68%	63%	0%	100%	100%	100%	100%	88%
EIF	74%	81%	75%	100%		75%	76%	73%	100%	100%	100%	100%	91%
TDF Cons	72%	96%	23%	32%	25%		26%	3%	100%	100%	100%	100%	97%
TDF Aggr	73%	84%	70%	37%	24%	74%		0%	100%	100%	100%	100%	95%

Tables 5, 6, and 7 below present "heat maps" for the 10th percentile, 25th percentile, and median investors. They reflect the same underlying data as Figures 4 to 6, respectively. The patterns are largely similar to the mean investor results. Even at the lower end of the distribution, the bond-only funds earned much less than the funds with equities. See Table 6 for the 25th percentile investor: in only 8% of macro scenarios did the 25th percentile of GBF investors' benefit exceed $50,000. Similarly, in only 1% of macro scenarios did the 25th percentile of MMF+GBF investors' benefit exceed $50,000, while between 29% and 54% of the time, other investors earned at least $50,000 at the 25th percentile.

Table 5: Comparison of 10th Percentile of Pension Benefits across Investor Styles

	Percent of Scenarios Where Investor Style A Has a Larger Pension Benefit han Investor Style B at the 10th Percentile							Scenarios Where Investor Style A Has the Largest Pension Benefit at the 10th Percentile	Percent of Scenarios for Which Pension Benefit at the 10 h Percen ile is at least				
	Investor Style B												
Investor Style A	GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr		$10,000	$25,000	$50,000	$75,000	$100,000
GBF		100%	26%	36%	29%	29%	29%	25%	22%	0%	0%	0%	0%
MMF+ GBF	0%		8%	29%	22%	7%	17%	0%	2%	0%	0%	0%	0%
DEF+ GBF	73%	92%		45%	31%	71%	38%	3%	52%	0%	0%	0%	0%
DEF	64%	70%	55%		0%	60%	51%	0%	55%	6%	0%	0%	0%
EIF	71%	78%	69%	100%		70%	71%	66%	59%	8%	0%	0%	0%
TDF Cons	71%	93%	28%	40%	30%		30%	6%	44%	0%	0%	0%	0%
TDF Aggr	71%	83%	62%	48%	29%	70%		0%	54%	1%	0%	0%	0%

Table 6: Comparison of 25th Percentile of Pension Benefits across Investor Styles

	Percent of Scenarios Where Investor Style A Has a Larger Pension Benefit han Investor Style B at the 25th Percentile							Percent of Scenarios Where Investor Style A Has the Largest Pension Benefit at the 25th Percentile	Percent of Scenarios for Which Pension Benefit at the 25 h Percen ile is at least				
	Investor Style B												
Investor Style A	GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr		$10,000	$25,000	$50,000	$75,000	$100,000
GBF		99%	27%	35%	28%	29%	29%	24%	100%	96%	8%	0%	0%
MMF+ GBF	1%		10%	29%	22%	5%	17%	0%	100%	92%	1%	0%	0%
DEF+ GBF	73%	90%		43%	30%	71%	36%	2%	100%	98%	36%	5%	1%
DEF	65%	71%	57%		0%	62%	56%	0%	100%	85%	49%	20%	8%
EIF	72%	78%	70%	100%		71%	71%	68%	100%	91%	54%	28%	11%
TDF Cons	71%	94%	29%	38%	29%		29%	6%	100%	99%	29%	1%	0%
TDF Aggr	71%	83%	64%	44%	29%	71%		0%	100%	96%	44%	13%	2%

Table 7: Comparison of 50th Percentile of Pension Benefits across Investor Styles

Investor Style A	Percent of Scenarios Where Investor Style A Has a Larger Pension Benefit han Investor Style B at the 50th Percentile — Investor Style B: GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr	Percent of Scenarios Where Investor Style A Has the Largest Pension Benefit at the 50th Percentile	Percent of Scenarios for Which Pension Benefit at the 50 h Percen ile is at least: $25,000	$50,000	$75,000	$100,000	$200,000
GBF		98%	26%	33%	27%	29%	27%	25%	100%	100%	100%	91%	3%
MMF+ GBF	2%		12%	26%	21%	5%	18%	0%	100%	100%	99%	84%	0%
DEF+ GBF	74%	88%		39%	28%	75%	33%	1%	100%	100%	100%	94%	25%
DEF	67%	74%	61%		0%	65%	59%	0%	100%	100%	97%	81%	43%
EIF	73%	79%	72%	100%		73%	73%	70%	100%	100%	98%	88%	49%
TDF Cons	71%	95%	25%	35%	27%		27%	3%	100%	100%	100%	95%	18%
TDF Aggr	73%	82%	67%	41%	27%	73%		0%	100%	100%	100%	93%	33%

The final "heat map" table, Table 8 shows the fraction of macro scenarios where one investor Style dominated another Style on all four statistics: the mean, the 10^{th} percentile, the 25^{th} percentile and the median. This is suggestive of "stochastic dominance" and indicates the dominant Style generated larger benefits for investors located at many points along the (lower half of the) distribution of outcomes. The pair-wise comparison of Styles in Table 8 is similar to that for the median in Table 7, except that the winning fraction for dominant Styles was generally lower in Table 8 where Style A must beat the competing Style on all four measures. As before, equity styles dominated non-equity styles most of the time. Among the equity styles, EIF dominated DEF because of DEF's higher asset management fees.

Table 8: "Stochastic Dominance" of Investor Styles

Investor Style A	Percent of Scenarios Where Investor Style A Has a Larger Pension Benefit than Investor Style B at the Mean and at the 10th, 25th and 50th Percentiles — Investor Style B: GBF	MMF+ GBF	DEF+ GBF	DEF	EIF	TDF Cons	TDF Aggr	Percent of Scenarios Where Investor Style A Has the Largest Pension Benefit at the Mean, 10 h, 25 h and 50th Percentiles
GBF		97%	23%	28%	24%	24%	24%	21%
MMF+GBF	0%		7%	22%	18%	2%	12%	0%
DEF+GBF	70%	86%		34%	24%	69%	27%	0%
DEF	62%	68%	53%		0%	59%	51%	0%
EIF	69%	76%	67%	100%		69%	69%	65%
TDF Cons	66%	90%	21%	32%	24%		25%	2%
TDF Aggr	68%	78%	59%	37%	23%	68%		0%

5. Conclusions

This research, like others in this area, has potential implications for public policy and optimal retirement saving behavior. Through the scenario analysis, we examined the impact of various asset allocations on the retirement wealth of individuals, paying particular attention to the role of TDFs. Gaining a better understanding of these issues has important implications for the well-being of retired workers. Our analyses are based on complex simulations of the lifecycle, employment, and financial outcomes for US workers and require many assumptions about decision-making and specification of parameter values. Furthermore, there is no one simple way to summarize the performance of an investment strategy when the outcome of that strategy depends on individuals' circumstances and choices and the forces exerted on them and their portfolios by the macro economy.

Subject to the caveats below, our analyses show the following results.

- The TDFs that we specified generally outperformed the specified debt-only investment Styles. In around 70% of the macro scenarios, the TDFs generated larger pension wealth for investors in the bottom half of the benefit distribution and for the mean investor. Conversely, in about 30% of future states of the world the long-term government bond fund outperformed the TDFs.

- The all-equity investment Styles that we specified outperformed TDFs, usually on the order of 60% to 80% of the macro scenarios, depending on the funds and percentiles examined. The finding that all-equity funds outperform TDFs is consistent with Poterba et al. (2005).[11]

These conclusions are based on projected differences in DC pension benefit accumulations generated under 500 macro scenarios; a different set of macro scenarios could produce different results. Additionally, these results are sensitive to the premium on equity returns over debt built into the model, which is assumed to be 2.0%. Many factors affect scenario results. A different equity premium could imply significantly different results. A lower equity premium—perhaps reflecting recent trends—would narrow the range between outcomes of debt and equity styles. As a result, TDFs would outperform debt-only styles less often and equity-only styles more often. For example, the conservative TDF style based on an equity premium of 1.0 percent would dominate the lower half of the returns distribution of a debt-only (GBF) style in 53 percent of the macro environments, compared with 66 percent at a 2.0 percent equity premium. The analogous figures for the conservative TDF versus an equity-only (EIF) style are 33 percent (at a 1.0 percent equity premium) and 24 percent (at a 2.0 percent equity premium). Such equity premium effects are consistent with those found in other studies.

To further investigate the benefits of TDFs, we explored TDFs' ability to insure against poor market returns just prior to retirement. We calculated the compounded rates of return on T-Bonds and on equities in the five years prior to our cohort's 65th birthday. We then selected scenarios with particularly poor equity returns or particularly large negative differences between equity and T-Bond returns during this time window. For scenarios with very poor equity returns just prior to age 65, the mean benefit for the conservative TDF outperformed most equity investment styles. For scenarios with a few years in which T-Bonds far outperformed equities, the GBF Style outperformed even the conservative TDF, but the conservative TDF did much better than the aggressive one. This suggests that the appeal of TDFs is heightened when poor equity returns occur just prior to retirement. This phenomenon deserves further attention.

Potential extensions to our work include, among others, a closer examination of the insurance properties of TDFs, as sketched above; a more complete assessment of the role of equity premiums; an account for risk preferences similar to the approach used by

[11] See also Schiller (2005) for a discussion of TDFs and equity performance.

Holmer (2009); and the incorporation of such other sources of retirement financing as social security benefits and housing wealth.

Disclaimer

The views, opinions, and/or findings contained in this report are those of the authors and should not be construed as an official Government position, policy or decision, unless so designated by other documentation.

Work for this report was performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants ("AICPA"). Our services were provided under contract DOLJ08327415 from the U.S. Department of Labor.

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It should also be noted that we were requested by the DOL to use the PENSIM micro-simulation software for our research. The analysis performed and described herein relies upon the software and the data contained in and distributed with the software. Neither the software nor the data has been independently verified by Deloitte FAS. All outputs are based on certain assumptions and should not be used to predict future performance. Further:

- DOL was, and at all times is, responsible for the performance of its personnel and agents and for the accuracy and completeness of all data and information provided to Deloitte FAS for purposes of the performance by Deloitte FAS of the Services. Deloitte FAS was entitled to and has relied on all decisions and approvals of the DOL and its personnel.
- Deloitte FAS shall neither be responsible for, nor provide any assurance regarding, the accuracy or completeness of any such information or data.
- Deloitte FAS was entitled to assume and did assume, without independent verification, the accuracy and completeness of any and all assumptions provided to Deloitte FAS by or on behalf of the DOL for purposes of the performance by Deloitte FAS of the Services.

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APPENDIX

This appendix contains tables with summary statistics of the distributions of the 10th percentiles of the present values of DC pension benefits (Table A.1), their 25th percentiles (Table A.2), and their medians (Table A.3). The tables correspond to text Figures 4, 5, and 6, respectively.

Table A.1: Summary Statistics over Macro Scenarios of the 10th Percentile of DC Pension Benefits ($1,000s)

Investment Style	Mean	P10	P25	Median	Inter Decile Range
GBF	9	6	7	9	5
MMF+GBF	7	6	6	7	4
DEF+GBF	11	6	8	10	10
DEF	12	5	6	11	17
EIF	14	6	7	12	18
Conservative TDF	10	6	8	10	9
Aggressive TDF	12	6	7	11	13

Note: Each investor Style was simulated under 500 macro environments. For each of these macro scenarios, we calculated the 10th percentile of present values of DC pension benefits. This table summarizes the distributions of those 10th percentiles across macro scenarios. Also see text Figure 4.

Table A.2: Summary Statistics over Macro Scenarios of the 25th Percentile of DC Pension Benefits ($1,000s)

Investment Style	Mean	P10	P25	Median	Inter Decile Range
GBF	38	28	32	38	20
MMF+GBF	33	26	29	32	14
DEF+GBF	47	30	34	44	39
DEF	55	23	29	49	72
EIF	60	26	32	54	79
Conservative TDF	44	29	34	42	34
Aggressive TDF	50	28	33	47	50

Note: Each investor Style was simulated under 500 macro environments. For each of these macro scenarios, we calculated the 25th percentile of present values of DC pension benefits. This table summarizes the distributions of those 25th percentiles across macro scenarios. Also see text Figure 5.

Table A3: Summary Statistics over Macro Scenarios of the Median DC Pension Benefit ($1,000s)

Investment Style	Mean	P10	P25	Median	Inter-Decile Range
GBF	136	102	115	133	70
MMF+GBF	119	94	105	118	52
DEF+GBF	168	108	124	160	132
DEF	205	89	110	181	257
EIF	225	96	119	197	285
Conservative TDF	156	105	124	148	115
Aggressive TDF	181	104	123	168	173

Note: Each investor Style was simulated under 500 macro environments. For each of these macro scenarios, we calculated the median present value of DC pension benefits. This table summarizes the distributions of median benefits across macro scenarios. Also see text Figure 6.

Acknowledgements:

We appreciate the comments and suggestions offered by Joseph Piacentini, Anja Decressin, Lynn Johnson, and Keith Bergstresser.

For more information please contact:

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E-mail: stanpanis@aacg.com

From: Nell Hennessy
To: Matthews, Nancy; Barry Barbash; Beth Dickstein; Davis, Michael. L- EBSA ; [redacted]@SEC.GOV
Cc: Brown, Michelle S - EBSA; [redacted]@willkie.com; Khawar, Ali - EBSA
Subject: Materials for the ABA Target Date Funds Teleconference net week
Date: Monday, July 12, 2010 4:10:12 PM
Attachments: Dickstein Target Date PowerPoint.ppt
deloitte2009-4.pdf

Attached are:

- Beth Dickstein's PowerPoint for the ABA target date teleconference on July 20.
- Two research papers that DOL commissioned Deloitte to do, from the EBSA website.
-

Nell

Nell Hennessy
President & CEO
Fiduciary Counselors Inc.
700 12th St. NW
[redacted]
Washington, DC 20005
[redacted] (direct)
[redacted] (fax)

From: "Matthews, Nancy" [redacted]abanet.org>
Date: Wed, 7 Jul 2010 10:24:48 -0400
To: Barry Barbash [redacted]@willkie.com>, Beth Dickstein [redacted]@sidley.com>, Michael Davis [redacted]@dol.gov>, Nell Hennessy [redacted]@fiduciarycounselors.com>, [redacted]@SEC.GOV>
Cc: Michelle Brown [redacted]@dol.gov>, [redacted]@willkie.com>
Subject: Planning Call for July 20 Target Date Funds Teleconference

When: Monday, July 12, 2010 3:30 PM-4:30 PM (GMT-05:00) Eastern Time (US & Canada).
Where: Call-in Number: [redacted] Passcode: [redacted]

~~*~*~*~*~*~*~*~*

***Call-in Number*:** [redacted]

Passcode: [redacted]

Thank you for agreeing to speak at our teleconference on July 20th on Target Date Funds. The following information is attached for our short planning call on Monday, July 12 at 3:30pm ET:

- Logistical information for the call
- Speaker Release Form – please sign and return to me by July 21st.

Following is the description for the program:

This program will cover the following topics:

- **Best practices for plan fiduciaries in choosing and monitoring target date funds**
- **Understanding a target date fund's glide path**
- **Evaluating the fees of target date funds**
- **Advice to participants on how target date funds operate**
- **Increased disclosure when a target date fund is the plan's qualified default investment alternative**
- **DOL Guidance**
- SEC proposed regulations relating to advertising of target date funds
- Proposed effective date of SEC rules to marketing and other sales literature relating to target date funds

Nancy Matthews
Associate Director, CLE
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[redacted]abanet.org [redacted]
www.abanet.org/jceb <http://www.abanet.org/jceb>

<<2010 --SRFTargetDateFunds.pdf>> <<SpeakerInstTarget Funds.pdf>>

From: Matthews, Nancy
To: Nell Hennessy; Barry Barbash; Beth Dickstein; Davis, Michael. L- EBSA ; [redacted]@SEC.GOV
Cc: Brown, Michelle S - EBSA; [redacted]@willkie.com; Khawar, Ali - EBSA
Subject: RE: Materials for the ABA Target Date Funds Teleconference net week
Date: Monday, July 12, 2010 4:20:43 PM

Thanks Nell

From: Nell Hennessy [redacted]@fiduciarycounselors.com]
Sent: Monday, July 12, 2010 4:08 PM
To: Matthews, Nancy; Barry Barbash; Beth Dickstein; Michael Davis; [redacted]@SEC.GOV
Cc: Michelle Brown; [redacted]@willkie.com; Ali Khawar
Subject: Materials for the ABA Target Date Funds Teleconference net week

Attached are:

- Beth Dickstein's PowerPoint for the ABA target date teleconference on July 20.
- Two research papers that DOL commissioned Deloitte to do, from the EBSA website.
-

Nell

Nell Hennessy
President & CEO
Fiduciary Counselors Inc.
700 12th St. NW
[redacted]
Washington, DC 20005
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From: "Matthews, Nancy" [redacted]abanet.org>
Date: Wed, 7 Jul 2010 10:24:48 -0400
To: Barry Barbash [redacted]@willkie.com>, Beth Dickstein [redacted]@sidley.com>, Michael Davis [redacted]@dol.gov>, Nell Hennessy [redacted]@fiduciarycounselors.com>, [redacted]@SEC.GOV>
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Passcode: [redacted]

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- **Evaluating the fees of target date funds**
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- **DOL Guidance**
- SEC proposed regulations relating to advertising of target date funds
- Proposed effective date of SEC rules to marketing and other sales literature relating to target date funds

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www.abanet.org/jceb <http://www.abanet.org/jceb>

<<2010 --SRFTargetDateFunds.pdf>> <<SpeakerInstTarget Funds.pdf>>

From:	Hunter-Ceci, Holly L.
To:	Khawar, Ali - EBSA
Subject:	RE: Meeting request
Date:	Thursday, April 28, 2011 4:08:38 PM

Ali,

We have one addition (sorry for any inconvenience). We'd like to add Mark Uyeda to the list. Thanks again.

1. Eileen Rominger, Director of Investment Management
2. Jennifer McHugh, Senior Advisor to the Chairman
3. Jamie Brigagliano, Deputy Director, Division of Trading and Markets
4. Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
5. Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
6. Susan Nash, Associate Director, Division of Investment Management
7. Dave Grim, Assistant Chief Counsel, Division of Investment Management
8. Diane Blizzard, Special Assistant to the Director of the Division of Investment Management
9. Mark Uyeda, Assistant Director, Division of Investment Management
10. Sara Crovitz, Branch Chief, Division of Investment Management
11. Katy Courtney, Attorney-Adviser, Division of Investment Management

---

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Thursday, April 28, 2011 11:31 AM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Hi Holly,

Here is our final list (one addition):

1. Phyllis Borzi, Assistant Secretary, Office of the Assistant Secretary, Employee Benefits Security Administration
2. Michael Davis, Deputy Assistant Secretary, Office of the Assistant Secretary, Employee Benefits Security Administration
3. Alan Lebowitz, Deputy Assistant Secretary for Operations, Office of the Assistant Secretary, Employee Benefits Security Administration
4. Ali Khawar, Special Assistant, Office of the Assistant Secretary, Employee Benefits Security Administration
5. Tim Hauser, Associate Solicitor, Plan Benefits Security Division, Office of the Solicitor
6. Bill Taylor, Counsel for Regulations, Plan Benefits Security Division, Office of the Solicitor
7. Joe Canary, Acting Director, Office of Regulations and Interpretations, Employee Benefits Security Administration
8. Jeff Turner, Acting Deputy Director, Office of Regulations and Interpretations, Employee Benefits Security Administration
9. Fred Wong, Senior Employee Benefits Law Specialist, Office of Regulations and Interpretations, Employee Benefits Security Administration
10. Uchenna Evans, Attorney, Plan Benefits Security Division, Office of the Solicitor

Thanks for your help in setting this up, and sorry we won't be able to meet tomorrow.

Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, April 28, 2011 11:25 AM
To: Khawar, Ali - EBSA
Subject: FW: Meeting request

Ali, here is our updated list.

Eileen Rominger, Director of Investment Management
Jennifer McHugh, Senior Advisor to the Chairman
Jamie Brigagliano, Deputy Director, Division of Trading and Markets
Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Susan Nash, Associate Director, Division of Investment Management
Dave Grim, Assistant Chief Counsel, Division of Investment Management
Diane Blizzard, Special Assistant to the Director of the Division of Investment Management
Sara Crovitz, Branch Chief, Division of Investment Management
Katy Courtney, Attorney-Adviser, Division of Investment Management

I'll be out of the office tomorrow, so unfortunately I will miss the meeting. If anything comes up tomorrow, please contact Katy Courtney at [redacted]@sec.gov, [redacted]. Katy will also be at the meeting. Thanks again for making time in your busy schedule to meet with us.

Thanks,
Holly.

From: Hunter-Ceci, Holly L.
Sent: Tuesday, April 26, 2011 11:18 AM
To: 'Khawar, Ali - EBSA'
Subject: RE: Meeting request

Hi Ali – sorry for the delay. We can meet 4/29 at 4. I believe that we will have some updates to the attendee list, and I'll circulate these as soon as possible.

Thanks,
Holly.

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 26, 2011 11:12 AM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Hi Holly,

I just wanted to check in and see if you've been able to confirm this time with folks on your end?

Thanks
Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, April 21, 2011 9:14 AM
To: Khawar, Ali - EBSA
Subject: RE: Meeting request

Good morning -

I think we can do Friday, 4/29 at 4 pm. I'm still confirming schedules, and will provide you with an updated attendee list when available. If you could please let me know who will be attending from the DOL, I would greatly appreciate it.

Thanks again for your assistance,
Holly.

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 19, 2011 5:24 PM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Holly,

My sincere apologies, but due to some scheduling changes on our end this time no longer works for us, as one of the key participants can no longer attend. I've included some alternates below - if none of them work, please give me a call and hopefully we can figure something out (I'm at 202.693.8301).

4/28: 2 pm
4/29: 2:30 pm, 3 pm, or 4 pm

Thanks in advance and sorry once more for the change.

Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Tuesday, April 19, 2011 10:26 AM
To: Khawar, Ali - EBSA
Subject: FW: Meeting request

Ali,

March 26 at 4-5 pm will work for us. Thus far, the attendees will be:

Eileen Rominger, Director of Investment Management
Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Diane Blizzard, Senior Advisor to the Director of Investment Management
Sara Crovitz, Branch Chief, Division of Investment Management

Catherine Courtney, Attorney-Adviser, Division of Investment Management

If you could please let me know who will be attending the meeting from the DOL, I would greatly appreciate it. I'll let you know if there are any changes to our attendee list.

Thanks so much,
Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

From: Hunter-Ceci, Holly L.
Sent: Tuesday, April 19, 2011 8:46 AM
To: 'Khawar, Ali - EBSA'
Subject: RE: Meeting request

Thanks Ali – sorry for the delay in my reply; I was unexpectedly out of the office yesterday. I'll get back to you as soon as I can with our availability and a list of attendees. Thanks again for facilitating the meeting.

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Friday, April 15, 2011 3:01 PM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Hi Holly,

Just to follow up on my voice mail from this morning, I wanted to check in and see if either April 26 from 4-5 pm or April 29 from 4-5 pm work for you all to come over to DOL.

Thanks
Ali

From: Wong, Fred - EBSA
Sent: Thursday, April 14, 2011 10:44 AM
To: 'Hunter-Ceci, Holly L.'
Cc: Khawar, Ali - EBSA; Canary, Joe - EBSA
Subject: RE: Meeting request

Holly -

We are very interested in meeting. Ali Khawar (copied), who is a special assistant in our Assistant Secretary's office, will be contacting you about scheduling. Also, I would like to give you a call in the next day or so to talk about some other logistical matters. Thanks.

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Wednesday, April 13, 2011 12:20 PM
To: Wong, Fred - EBSA
Subject: Meeting request

Fred,

I work in the SEC's Division of Investment Management in the Office of Chief Counsel. I'm writing at the request of our Division director, Eileen Rominger, to see if a small group from IM (including Eileen), and from the Division of Trading and Markets, could meet to discuss the DOL's fiduciary proposal with Assistant Secretary Phyllis Borzi and other interested parties. Please let me know if you are not the correct person to contact; I thought of you because you were listed on the release and because we participated in a brief conference call many, many months ago.

My contact info is below if you (or someone else) would like to discuss. As far as timing, we would be most interested in a meeting after EBSA has had a chance to go through the recent comments submitted after the hearing. We would be happy to meet at the DOL or at the SEC, whichever you prefer.

I greatly appreciate any assistance. Many thanks,

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]
[redacted]@sec.gov

From: Khawar, Ali - EBSA
To: "Hunter-Ceci, Holly L."
Subject: RE: Meeting request
Date: Thursday, April 28, 2011 11:30:57 AM

Hi Holly,

Here is our final list (one addition):

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2. Michael Davis, Deputy Assistant Secretary, Office of the Assistant Secretary, Employee Benefits Security Administration
3. Alan Lebowitz, Deputy Assistant Secretary for Operations, Office of the Assistant Secretary, Employee Benefits Security Administration
4. Ali Khawar, Special Assistant, Office of the Assistant Secretary, Employee Benefits Security Administration
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9. Fred Wong, Senior Employee Benefits Law Specialist, Office of Regulations and Interpretations, Employee Benefits Security Administration
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Thanks for your help in setting this up, and sorry we won't be able to meet tomorrow.

Ali

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To: Khawar, Ali - EBSA
Subject: FW: Meeting request

Ali, here is our updated list.

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From: Hunter-Ceci, Holly L.
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To: 'Khawar, Ali - EBSA'
Subject: RE: Meeting request

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Thanks,
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4/29: 2:30 pm, 3 pm, or 4 pm

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Diane Blizzard, Senior Advisor to the Director of Investment Management
Sara Crovitz, Branch Chief, Division of Investment Management
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Office of Chief Counsel, Division of Investment Management
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Thanks
Ali

From: Wong, Fred - EBSA
Sent: Thursday, April 14, 2011 10:44 AM
To: 'Hunter-Ceci, Holly L.'
Cc: Khawar, Ali - EBSA; Canary, Joe - EBSA
Subject: RE: Meeting request

Holly -

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Sent: Wednesday, April 13, 2011 12:20 PM
To: Wong, Fred - EBSA
Subject: Meeting request

Fred,

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My contact info is below if you (or someone else) would like to discuss. As far as timing, we would be most interested in a meeting after EBSA has had a chance to go through the recent comments submitted after the hearing. We would be happy to meet at the DOL or at the SEC, whichever you prefer.

I greatly appreciate any assistance. Many thanks,

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]
[redacted]@sec.gov

From: Hunter-Ceci, Holly L.
To: Khawar, Ali - EBSA
Subject: RE: Meeting request
Date: Tuesday, April 26, 2011 11:19:09 AM

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Thanks,
Holly.

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 26, 2011 11:12 AM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

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Subject: RE: Meeting request
Date: Tuesday, April 26, 2011 11:11:37 AM

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To: "Hunter-Ceci, Holly L."
Subject: RE: Meeting request
Date: Thursday, April 21, 2011 9:51:19 AM

Hi Holly,

Assuming that 4/29 at 4 works, this is our list of attendees. Thanks for your help on this, and I'll be sure to let you know if there are any changes to our list.

1. Phyllis Borzi, Assistant Secretary, Office of the Assistant Secretary, Employee Benefits Security Administration
2. Michael Davis, Deputy Assistant Secretary, Office of the Assistant Secretary, Employee Benefits Security Administration
3. Alan Lebowitz, Deputy Assistant Secretary for Operations, Office of the Assistant Secretary, Employee Benefits Security Administration
4. Ali Khawar, Special Assistant, Office of the Assistant Secretary, Employee Benefits Security Administration
5. Tim Hauser, Associate Solicitor, Plan Benefits Security Division, Office of the Solicitor
6. Bill Taylor, Counsel for Regulations, Plan Benefits Security Division, Office of the Solicitor
7. Joe Canary, Acting Director, Office of Regulations and Interpretations, Employee Benefits Security Administration
8. Jeff Turner, Acting Deputy Director, Office of Regulations and Interpretations, Employee Benefits Security Administration
9. Fred Wong, Senior Employee Benefits Law Specialist, Office of Regulations and Interpretations, Employee Benefits Security Administration

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Date:	Thursday, April 14, 2011 10:44:08 AM

Holly -

We are very interested in meeting. Ali Khawar (copied), who is a special assistant in our Assistant Secretary's office, will be contacting you about scheduling. Also, I would like to give you a call in the next day or so to talk about some other logistical matters. Thanks.

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Wednesday, April 13, 2011 12:20 PM
To: Wong, Fred - EBSA
Subject: Meeting request

Fred,

I work in the SEC's Division of Investment Management in the Office of Chief Counsel. I'm writing at the request of our Division director, Eileen Rominger, to see if a small group from IM (including Eileen), and from the Division of Trading and Markets, could meet to discuss the DOL's fiduciary proposal with Assistant Secretary Phyllis Borzi and other interested parties. Please let me know if you are not the correct person to contact; I thought of you because you were listed on the release and because we participated in a brief conference call many, many months ago.

My contact info is below if you (or someone else) would like to discuss. As far as timing, we would be most interested in a meeting after EBSA has had a chance to go through the recent comments submitted after the hearing. We would be happy to meet at the DOL or at the SEC, whichever you prefer.

I greatly appreciate any assistance. Many thanks,

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]
[redacted]@sec.gov

From: Khawar, Ali - EBSA
To: "Hunter-Ceci, Holly L."
Subject: RE: Meeting request
Date: Thursday, April 28, 2011 4:09:12 PM

Ok, thanks for letting us know.

Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, April 28, 2011 4:08 PM
To: Khawar, Ali - EBSA
Subject: RE: Meeting request

Ali,

We have one addition (sorry for any inconvenience). We'd like to add Mark Uyeda to the list. Thanks again.

1. Eileen Rominger, Director of Investment Management
2. Jennifer McHugh, Senior Advisor to the Chairman
3. Jamie Brigagliano, Deputy Director, Division of Trading and Markets
4. Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
5. Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
6. Susan Nash, Associate Director, Division of Investment Management
7. Dave Grim, Assistant Chief Counsel, Division of Investment Management
8. Diane Blizzard, Special Assistant to the Director of the Division of Investment Management
9. Mark Uyeda, Assistant Director, Division of Investment Management
10. Sara Crovitz, Branch Chief, Division of Investment Management
11. Katy Courtney, Attorney-Adviser, Division of Investment Management

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From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Thursday, April 28, 2011 11:31 AM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Hi Holly,

Here is our final list (one addition):

1. Phyllis Borzi, Assistant Secretary, Office of the Assistant Secretary, Employee Benefits Security Administration
2. Michael Davis, Deputy Assistant Secretary, Office of the Assistant Secretary, Employee Benefits Security Administration
3. Alan Lebowitz, Deputy Assistant Secretary for Operations, Office of the Assistant Secretary, Employee Benefits Security Administration
4. Ali Khawar, Special Assistant, Office of the Assistant Secretary, Employee Benefits Security Administration
5. Tim Hauser, Associate Solicitor, Plan Benefits Security Division, Office of the Solicitor

6. Bill Taylor, Counsel for Regulations, Plan Benefits Security Division, Office of the Solicitor
7. Joe Canary, Acting Director, Office of Regulations and Interpretations, Employee Benefits Security Administration
8. Jeff Turner, Acting Deputy Director, Office of Regulations and Interpretations, Employee Benefits Security Administration
9. Fred Wong, Senior Employee Benefits Law Specialist, Office of Regulations and Interpretations, Employee Benefits Security Administration
10. Uchenna Evans, Attorney, Plan Benefits Security Division, Office of the Solicitor

Thanks for your help in setting this up, and sorry we won't be able to meet tomorrow.

Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, April 28, 2011 11:25 AM
To: Khawar, Ali - EBSA
Subject: FW: Meeting request

Ali, here is our updated list.

Eileen Rominger, Director of Investment Management
Jennifer McHugh, Senior Advisor to the Chairman
Jamie Brigagliano, Deputy Director, Division of Trading and Markets
Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Susan Nash, Associate Director, Division of Investment Management
Dave Grim, Assistant Chief Counsel, Division of Investment Management
Diane Blizzard, Special Assistant to the Director of the Division of Investment Management
Sara Crovitz, Branch Chief, Division of Investment Management
Katy Courtney, Attorney-Adviser, Division of Investment Management

I'll be out of the office tomorrow, so unfortunately I will miss the meeting. If anything comes up tomorrow, please contact Katy Courtney at [redacted]@sec.gov, [redacted]. Katy will also be at the meeting. Thanks again for making time in your busy schedule to meet with us.

Thanks,
Holly.

From: Hunter-Ceci, Holly L.
Sent: Tuesday, April 26, 2011 11:18 AM
To: 'Khawar, Ali - EBSA'
Subject: RE: Meeting request

Hi Ali – sorry for the delay. We can meet 4/29 at 4. I believe that we will have some updates to the attendee list, and I'll circulate these as soon as possible.

Thanks,
Holly.

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 26, 2011 11:12 AM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Hi Holly,

I just wanted to check in and see if you've been able to confirm this time with folks on your end?

Thanks
Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, April 21, 2011 9:14 AM
To: Khawar, Ali - EBSA
Subject: RE: Meeting request

Good morning -

I think we can do Friday, 4/29 at 4 pm. I'm still confirming schedules, and will provide you with an updated attendee list when available. If you could please let me know who will be attending from the DOL, I would greatly appreciate it.

Thanks again for your assistance,
Holly.

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 19, 2011 5:24 PM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Holly,

My sincere apologies, but due to some scheduling changes on our end this time no longer works for us, as one of the key participants can no longer attend. I've included some alternates below - if none of them work, please give me a call and hopefully we can figure something out (I'm at 202.693.8301).

4/28: 2 pm
4/29: 2:30 pm, 3 pm, or 4 pm

Thanks in advance and sorry once more for the change.

Ali

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Tuesday, April 19, 2011 10:26 AM
To: Khawar, Ali - EBSA
Subject: FW: Meeting request

Ali,

March 26 at 4-5 pm will work for us. Thus far, the attendees will be:

Eileen Rominger, Director of Investment Management
Lourdes Gonzalez, Acting Co-Chief Counsel, Division of Trading and Markets
Doug Scheidt, Associate Director and Chief Counsel, Division of Investment Management
Diane Blizzard, Senior Advisor to the Director of Investment Management
Sara Crovitz, Branch Chief, Division of Investment Management
Catherine Courtney, Attorney-Adviser, Division of Investment Management

If you could please let me know who will be attending the meeting from the DOL, I would greatly appreciate it. I'll let you know if there are any changes to our attendee list.

Thanks so much,
Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

From: Hunter-Ceci, Holly L.
Sent: Tuesday, April 19, 2011 8:46 AM
To: 'Khawar, Ali - EBSA'
Subject: RE: Meeting request

Thanks Ali – sorry for the delay in my reply; I was unexpectedly out of the office yesterday. I'll get back to you as soon as I can with our availability and a list of attendees. Thanks again for facilitating the meeting.

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Friday, April 15, 2011 3:01 PM
To: Hunter-Ceci, Holly L.
Subject: RE: Meeting request

Hi Holly,

Just to follow up on my voice mail from this morning, I wanted to check in and see if either April 26 from 4-5 pm or April 29 from 4-5 pm work for you all to come over to DOL.

Thanks
Ali

From: Wong, Fred - EBSA
Sent: Thursday, April 14, 2011 10:44 AM
To: 'Hunter-Ceci, Holly L.'
Cc: Khawar, Ali - EBSA; Canary, Joe - EBSA
Subject: RE: Meeting request

Holly -

We are very interested in meeting. Ali Khawar (copied), who is a special assistant in our Assistant Secretary's office, will be contacting you about scheduling. Also, I would like to give you a call in the next day or so to talk about some other logistical matters. Thanks.

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Wednesday, April 13, 2011 12:20 PM
To: Wong, Fred - EBSA
Subject: Meeting request

Fred,

I work in the SEC's Division of Investment Management in the Office of Chief Counsel. I'm writing at the request of our Division director, Eileen Rominger, to see if a small group from IM (including Eileen), and from the Division of Trading and Markets, could meet to discuss the DOL's fiduciary proposal with Assistant Secretary Phyllis Borzi and other interested parties. Please let me know if you are not the correct person to contact; I thought of you because you were listed on the release and because we participated in a brief conference call many, many months ago.

My contact info is below if you (or someone else) would like to discuss. As far as timing, we would be most interested in a meeting after EBSA has had a chance to go through the recent comments submitted after the hearing. We would be happy to meet at the DOL or at the SEC, whichever you prefer.

I greatly appreciate any assistance. Many thanks,

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission

[redacted]
[redacted]@sec.gov

From: Gallagher, Kathleen
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC
Date: Tuesday, April 02, 2013 4:52:12 PM

Hi,

Without being too disruptive can we move the mtg. from 3:00pm – to 3:15pm?

Please advise.
Many thanks,
Kate

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Thursday, March 28, 2013 3:40 PM
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC

Hi,

Great. The meeting is about coordination between DOL and SEC of our respective fiduciary regulations.

Thanks
Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Thursday, March 28, 2013 12:40 PM
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC

Hi,

Yes, that works. Specifically, do you know the subject matter of the meeting?
Regards,
Kate

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Thursday, March 28, 2013 11:14 AM
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC

Hi Kate,

Thanks for your quick response. Can we do 3-4 on April 8?

Thanks again
Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Thursday, March 28, 2013 10:29 AM
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC

Hello Ali,

Chairman Walter would be available to meet with Ms. Borzi on some of the possible date(s)/time(s) listed below:

Mon., April 8 3:00pm – 5pm
Fri., April 12 4pm

Regards,
Kate

From: Broadbent, Christian L.
Sent: Thursday, March 28, 2013 12:52 AM
To: [redacted]@dol.gov'
Cc: Gallagher, Kathleen
Subject: Re: Your Voice Message

Hi Ali: I'm copying Kate Gallagher in our office to schedule something with Chairman Walter.

Regards,

Christian

From: Khawar, Ali - EBSA
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC
Date: Tuesday, April 02, 2013 4:52:00 PM

Hi,

That works for us

Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Tuesday, April 02, 2013 4:52 PM
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC

Hi,

Without being too disruptive can we move the mtg. from 3:00pm – to 3:15pm?

Please advise.
Many thanks,
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From: Khawar, Ali - EBSA [redacted]@dol.gov]
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Thanks
Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Thursday, March 28, 2013 12:40 PM
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC

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Yes, that works. Specifically, do you know the subject matter of the meeting?
Regards,
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From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Thursday, March 28, 2013 11:14 AM
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC

Hi Kate,

Thanks for your quick response. Can we do 3-4 on April 8?

Thanks again
Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Thursday, March 28, 2013 10:29 AM
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC

Hello Ali,

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Mon., April 8   3:00pm – 5pm
Fri., April 12   4pm

Regards,
Kate

From: Broadbent, Christian L.
Sent: Thursday, March 28, 2013 12:52 AM
To: [redacted]@dol.gov'
Cc: Gallagher, Kathleen
Subject: Re: Your Voice Message

Hi Ali: I'm copying Kate Gallagher in our office to schedule something with Chairman Walter.

Regards,

Christian

From: Khawar, Ali - EBSA
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC
Date: Thursday, March 28, 2013 3:40:00 PM

Hi,

Great. The meeting is about coordination between DOL and SEC of our respective fiduciary regulations.

Thanks
Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Thursday, March 28, 2013 12:40 PM
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC

Hi,

Yes, that works. Specifically, do you know the subject matter of the meeting?
Regards,
Kate

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Thursday, March 28, 2013 11:14 AM
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC

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Thanks again
Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Thursday, March 28, 2013 10:29 AM
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC

Hello Ali,

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Mon., April 8 3:00pm – 5pm
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Regards,
Kate

From: Broadbent, Christian L.
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To: [redacted]@dol.gov'
Cc: Gallagher, Kathleen
Subject: Re: Your Voice Message

Hi Ali: I'm copying Kate Gallagher in our office to schedule something with Chairman Walter.

Regards,

Christian

From: Gallagher, Kathleen
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC
Date: Thursday, March 28, 2013 12:41:01 PM

Hi,

Yes, that works. Specifically, do you know the subject matter of the meeting?
Regards,
Kate

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Thursday, March 28, 2013 11:14 AM
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC

Hi Kate,

Thanks for your quick response. Can we do 3-4 on April 8?

Thanks again
Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Thursday, March 28, 2013 10:29 AM
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Cc: Gallagher, Kathleen
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Regards,

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From: Khawar, Ali - EBSA
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC
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To: [redacted]@dol.gov'
Cc: Gallagher, Kathleen
Subject: Re: Your Voice Message

Hi Ali: I'm copying Kate Gallagher in our office to schedule something with Chairman Walter.

Regards,

Christian

From: Gallagher, Kathleen
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC
Date: Tuesday, April 02, 2013 4:54:45 PM

Many thanks

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 02, 2013 4:53 PM
To: Gallagher, Kathleen
Subject: RE: Mtg w/Chairman Walter, SEC

Hi,

That works for us

Ali

From: Gallagher, Kathleen [redacted]@SEC.GOV]
Sent: Tuesday, April 02, 2013 4:52 PM
To: Khawar, Ali - EBSA
Subject: RE: Mtg w/Chairman Walter, SEC

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Without being too disruptive can we move the mtg. from 3:00pm – to 3:15pm?

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Thanks
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To: Khawar, Ali - EBSA
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To: [redacted]@dol.gov'
Cc: Gallagher, Kathleen
Subject: Re: Your Voice Message

Hi Ali: I'm copying Kate Gallagher in our office to schedule something with Chairman Walter.

Regards,

Christian

From: Khawar, Ali - EBSA
To: Broadbent, Christian L.
Subject: RE: Your Voice Message
Date: Wednesday, March 27, 2013 9:16:00 PM

Hi Christian,

I suspect that between our schedules we're likely to keep playing phone tag for the foreseeable future. So as you suggested maybe we can work out a time over email? If you could let me know a few options the week of April 8, I'd appreciate it. If you'd like to talk, just let me know when you're available tomorrow and I can try to call (later in the day is usually better on my end).

Thanks
Ali

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 10:20 PM
To: Khawar, Ali - EBSA
Cc: Broadbent, Christian L.
Subject: Re: Your Voice Message

Ali,

A good contact in Chair Walter's Office is her counsel Christian Broadbent. He can be reached at [redacted] and also is copied on this email.

Thanks,

Jennifer

From: McHugh, Jennifer B.
Sent: Tuesday, March 19, 2013 02:31 PM
To: Ali Khawar [redacted]@dol.gov' [redacted]
Subject: Re: Your Voice Message

Thanks, Ali. Let me check again with Chairman Walter's Office.

Jennifer

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 02:28 PM
To: McHugh, Jennifer B.
Subject: RE: Your Voice Message

Hi Jennifer,

I work for Phyllis at EBSA. I just wanted to follow up on this to see if you'd heard anything. If you'd prefer for us to get in touch with Chairman Walter's office directly, please let me know. She and Phyllis actually ran into each other last weekend and talked about how they should meet, so we're eager to get this set up.

Thanks
Ali

From: Hauser, Timothy - SOL
Sent: Friday, March 08, 2013 1:04 PM
To: 'McHugh, Jennifer B.'
Cc: Hauser, Timothy - SOL; Khawar, Ali - EBSA
Subject: RE: Your Voice Message

Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 08, 2013 1:03 PM
To: Hauser, Timothy - SOL
Subject: RE: Your Voice Message

Thanks very much, Tim. I will definitely pass this on to relevant staff in Chairman Walter's Office.

Jennifer B. McHugh
Senior Advisor to the Director
Division of Investment Management
U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, March 08, 2013 12:32 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL
Subject: Your Voice Message

Thanks for the voice mail. I'm glad to hear that you already have the background document.

Phyllis would like to meet with Chairman Walter if that's possible. If you could let me know the contact information for the SEC folks we should contact, I'll pass the information on to my EBSA colleagues so they can set something up.

If you would like to pass the information on to the person responsible for Ch. Walter's schedule, it looks like Phyllis has the following times and dates available in the next few weeks if any of these slots work on your end.

3/25: 10 am-noon, 3-5 pm
3/27: 10am-noon
3/28: 9:30-11:30 am, 2:30-5pm

Thanks again for all your help!

Tim

From: McHugh, Jennifer B.
To: Khawar, Ali - EBSA
Cc: Broadbent, Christian L.
Subject: Re: Your Voice Message
Date: Tuesday, March 19, 2013 10:20:53 PM

Ali,

A good contact in Chair Walter's Office is her counsel Christian Broadbent. He can be reached at [redacted] and also is copied on this email.

Thanks,

Jennifer

From: McHugh, Jennifer B.
Sent: Tuesday, March 19, 2013 02:31 PM
To: [redacted]@dol.gov' [redacted]
Subject: Re: Your Voice Message

Thanks, Ali. Let me check again with Chairman Walter's Office.

Jennifer

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 02:28 PM
To: McHugh, Jennifer B.
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U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, March 08, 2013 12:32 PM
To: McHugh, Jennifer B.
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Thanks again for all your help!

Tim

From:	McHugh, Jennifer B.
To:	Khawar, Ali - EBSA
Subject:	Re: Your Voice Message
Date:	Tuesday, March 19, 2013 2:31:54 PM

Thanks, Ali. Let me check again with Chairman Walter's Office.

Jennifer

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 02:28 PM
To: McHugh, Jennifer B.
Subject: RE: Your Voice Message

Hi Jennifer,

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Division of Investment Management
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[redacted]

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Subject: Your Voice Message

Thanks for the voice mail. I'm glad to hear that you already have the background document.

Phyllis would like to meet with Chairman Walter if that's possible. If you could let me know the contact information for the SEC folks we should contact, I'll pass the information on to my EBSA colleagues so they can set something up.

If you would like to pass the information on to the person responsible for Ch. Walter's schedule, it looks like Phyllis has the following times and dates available in the next few weeks if any of these slots work on your end.

3/25: 10 am-noon, 3-5 pm
3/27: 10am-noon
3/28: 9:30-11:30 am, 2:30-5pm

Thanks again for all your help!

Tim

From: Khawar, Ali - EBSA
To: "McHugh, Jennifer B."
Subject: RE: Your Voice Message
Date: Tuesday, March 19, 2013 2:28:00 PM

Hi Jennifer,

I work for Phyllis at EBSA. I just wanted to follow up on this to see if you'd heard anything. If you'd prefer for us to get in touch with Chairman Walter's office directly, please let me know. She and Phyllis actually ran into each other last weekend and talked about how they should meet, so we're eager to get this set up.

Thanks
Ali

From: Hauser, Timothy - SOL
Sent: Friday, March 08, 2013 1:04 PM
To: 'McHugh, Jennifer B.'
Cc: Hauser, Timothy - SOL; Khawar, Ali - EBSA
Subject: RE: Your Voice Message

Thanks.

From: McHugh, Jennifer B. [mailto:McHughJ@SEC.GOV]
Sent: Friday, March 08, 2013 1:03 PM
To: Hauser, Timothy - SOL
Subject: RE: Your Voice Message

Thanks very much, Tim. I will definitely pass this on to relevant staff in Chairman Walter's Office.

Jennifer B. McHugh
Senior Advisor to the Director
Division of Investment Management
U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, March 08, 2013 12:32 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL
Subject: Your Voice Message

Thanks for the voice mail. I'm glad to hear that you already have the background document.

Phyllis would like to meet with Chairman Walter if that's possible. If you could let me know the contact information for the SEC folks we should contact, I'll pass the information on to my EBSA colleagues so they can set something up.

If you would like to pass the information on to the person responsible for Ch. Walter's schedule, it looks like Phyllis has the following times and dates available in the next few weeks if any of these slots work on your end.

3/25: 10 am-noon, 3-5 pm
3/27: 10am-noon
3/28: 9:30-11:30 am, 2:30-5pm

Thanks again for all your help!

Tim

From:	Hauser, Timothy - SOL
To:	"McHugh, Jennifer B."
Cc:	Hauser, Timothy - SOL; Khawar, Ali - EBSA
Subject:	RE: Your Voice Message
Date:	Friday, March 08, 2013 1:04:08 PM

Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 08, 2013 1:03 PM
To: Hauser, Timothy - SOL
Subject: RE: Your Voice Message

Thanks very much, Tim. I will definitely pass this on to relevant staff in Chairman Walter's Office.

Jennifer B. McHugh
Senior Advisor to the Director
Division of Investment Management
U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, March 08, 2013 12:32 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL
Subject: Your Voice Message

Thanks for the voice mail. I'm glad to hear that you already have the background document.

Phyllis would like to meet with Chairman Walter if that's possible. If you could let me know the contact information for the SEC folks we should contact, I'll pass the information on to my EBSA colleagues so they can set something up.

If you would like to pass the information on to the person responsible for Ch. Walter's schedule, it looks like Phyllis has the following times and dates available in the next few weeks if any of these slots work on your end.

3/25: 10 am-noon, 3-5 pm
3/27: 10am-noon
3/28: 9:30-11:30 am, 2:30-5pm

Thanks again for all your help!

Tim

From: Broadbent, Christian L.
To: Khawar, Ali - EBSA
Cc: Gallagher, Kathleen
Subject: Re: Your Voice Message
Date: Thursday, March 28, 2013 12:52:39 AM

Hi Ali: I'm copying Kate Gallagher in our office to schedule something with Chairman Walter.

Regards,

Christian

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Wednesday, March 27, 2013 09:16 PM
To: Broadbent, Christian L.
Subject: RE: Your Voice Message

Hi Christian,

I suspect that between our schedules we're likely to keep playing phone tag for the foreseeable future. So as you suggested maybe we can work out a time over email? If you could let me know a few options the week of April 8, I'd appreciate it. If you'd like to talk, just let me know when you're available tomorrow and I can try to call (later in the day is usually better on my end).

Thanks
Ali

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 10:20 PM
To: Khawar, Ali - EBSA
Cc: Broadbent, Christian L.
Subject: Re: Your Voice Message

Ali,

A good contact in Chair Walter's Office is her counsel Christian Broadbent. He can be reached at [redacted] and also is copied on this email.

Thanks,

Jennifer

From: McHugh, Jennifer B.
Sent: Tuesday, March 19, 2013 02:31 PM
To: [redacted]@dol.gov' [redacted]
Subject: Re: Your Voice Message

Thanks, Ali. Let me check again with Chairman Walter's Office.

Jennifer

From: Khawar, Ali - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 02:28 PM
To: McHugh, Jennifer B.
Subject: RE: Your Voice Message

Hi Jennifer,

I work for Phyllis at EBSA. I just wanted to follow up on this to see if you'd heard anything. If you'd prefer for us to get in touch with Chairman Walter's office directly, please let me know. She and Phyllis actually ran into each other last weekend and talked about how they should meet, so we're eager to get this set up.

Thanks
Ali

From: Hauser, Timothy - SOL
Sent: Friday, March 08, 2013 1:04 PM
To: 'McHugh, Jennifer B.'
Cc: Hauser, Timothy - SOL; Khawar, Ali - EBSA
Subject: RE: Your Voice Message

Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, March 08, 2013 1:03 PM
To: Hauser, Timothy - SOL
Subject: RE: Your Voice Message

Thanks very much, Tim. I will definitely pass this on to relevant staff in Chairman Walter's Office.

Jennifer B. McHugh
Senior Advisor to the Director
Division of Investment Management
U.S. Securities and Exchange Commission
[redacted]

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Friday, March 08, 2013 12:32 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL
Subject: Your Voice Message

Thanks for the voice mail. I'm glad to hear that you already have the background document.

Phyllis would like to meet with Chairman Walter if that's possible. If you could let me know the contact information for the SEC folks we should contact, I'll pass the information on to my EBSA colleagues so they can set something up.

If you would like to pass the information on to the person responsible for Ch. Walter's schedule, it looks like Phyllis has the following times and dates available in the next few weeks if any of these slots work on your end.

3/25: 10 am-noon, 3-5 pm
3/27: 10am-noon
3/28: 9:30-11:30 am, 2:30-5pm

Thanks again for all your help!

Tim

From:	Lloyd, Karen - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
Start:	Tuesday, October 07, 2014 1:00:00 PM
End:	Tuesday, October 07, 2014 2:30:00 PM
Location:	Chair"s Large Conference Room

From:	Lloyd, Karen - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: FW: Call to Discuss DOL Fiduciary and Exemption Outline
Start:	Tuesday, September 30, 2014 1:00:00 PM
End:	Tuesday, September 30, 2014 2:00:00 PM
Location:	Chair"s Large Conference Room

From:	Lloyd, Karen - EBSA
To:	Stoddard, Troy
Subject:	Accepted: FW: Hold for Meeting with DOL on Fiduciary Duty
Start:	Tuesday, May 28, 2013 1:00:00 PM
End:	Tuesday, May 28, 2013 2:00:00 PM
Location:	Department of Labor Building

From:	Lloyd, Karen - EBSA
To:	Porter, Jennifer R.
Subject:	Accepted: SEC/DOL/Treasury Call - Point of Sale Disclosures
Start:	Friday, September 26, 2014 11:45:00 AM
End:	Friday, September 26, 2014 12:45:00 PM
Location:	Chair"s Large Conference Room; Call-in 888-[redacted], Code [redacted]

From: Lloyd, Karen - EBSA
To: McGowan, Thomas K.
Subject: RE: Extensions of credit
Date: Wednesday, October 01, 2014 3:47:00 PM

Yes, that is great. I will call you then.

-----Original Message-----
From: McGowan, Thomas K. [redacted]@SEC.GOV]
Sent: Wednesday, October 01, 2014 3:45 PM
To: Lloyd, Karen - EBSA
Cc: Attar, Mark
Subject: RE: Extensions of credit

Would 1:30 tomorrow work?

-----Original Message-----
From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Wednesday, October 01, 2014 3:43 PM
To: McGowan, Thomas K.
Subject: Extensions of credit

Hi Tom,

Thanks so much for the phone call. I have to finish something up this afternoon and wondered if I could take you up on your offer to talk tomorrow? I will not be in first thing but can talk any time after 11. It would be great to set up a time.

Thanks again.
Karen

Karen E. Lloyd
Chief, Division of Class Exemptions
Office of Exemption Determinations
Employee Benefits Security Administration
[redacted]

5-28-13

Name	Organization	Number
Tim Hauser	DOL/PBSD/SOL	[redacted]
Douglas Scheidt	SEC/IM	
Dan Kahl	SEC/IM	
Jennifer Marietta-Westberg	SEC/RSFI	
Lourdes Gonzalez	SEC/DTM	
Joe Piacentini	DOL/EBSA	
HOLLY HUNTER-CECI	SEC/IM	
Emily Russell	SEC/TM	
David Blass (on phone)	SEC/TM	
Joe Canary	DOL/EBSA	
Lyssa Hall	DOL/EBSA	
Sara Crovitz	SEC/IM	
FRED WONG	DOL/EBSA	
Brian Shiker	DOL/EBSA	
Uchenna Evans	DOL/PBSD	
Karen Lloyd	DOL/EBSA	
Tom Bloom	DOL/EBSA	
Matthew L. Kozora	SEC/RSFI	
Dan Fisher	SEC/TM	
Bill TAYLOR	DOL/SOL	

From:	Hauser, Timothy - SOL
To:	"Stoddard, Troy"; Gonzalez, Lourdes; McHugh, Jennifer B.; Blass, D.W. (David); Grim, David W.; Scheidt, Douglas J.; Crovitz, Sara P.; Kahl, Daniel; Marietta-Westberg, Jennifer; Russell, Emily; Piacentini, Joseph - EBSA; Canary, Joe - EBSA; Hall, Lyssa - EBSA; Evans, Uchenna - SOL; Lloyd, Karen - EBSA; Taylor, William - SOL
Cc:	Fisher, Daniel
Subject:	RE: Hold for Meeting with DOL on Fiduciary Duty
Date:	Tuesday, May 28, 2013 2:56:02 PM
Attachments:	5-28mtglist.pdf

The attendance list from today's meeting is attached. Thanks for participating.

-----Original Appointment-----
From: Stoddard, Troy [redacted]@SEC.GOV]
Sent: Thursday, May 09, 2013 1:44 PM
To: Stoddard, Troy; Gonzalez, Lourdes; McHugh, Jennifer B.; Blass, D.W. (David); Grim, David W.; Scheidt, Douglas J.; Crovitz, Sara P.; Kahl, Daniel; Marietta-Westberg, Jennifer; Russell, Emily; Hauser, Timothy - SOL; Piacentini, Joseph - EBSA [redacted]@dol.gov); Canary, Joe - EBSA [redacted]@dol.gov); Hall, Lyssa - EBSA [redacted]@dol.gov); Evans, Uchenna - SOL; Lloyd, Karen - EBSA; Taylor, William - SOL [redacted]@dol.gov)
Cc: Fisher, Daniel
Subject: Hold for Meeting with DOL on Fiduciary Duty
When: Tuesday, May 28, 2013 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Department of Labor Building

I apologize for the change but some at DOL had a conflict come up.

From: Block, Sharon I - OSEC
To: Lona Nallengara
Subject: Call
Date: Tuesday, December 16, 2014 12:09:03 PM

Lona -- Are you calling us now? Thanks, Sharon

From: Roybal, Soledad - OSEC
To: [redacted]@sec.gov
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: Call on COI with Secretary Perez
Date: Thursday, October 30, 2014 2:07:00 PM

Hello Sarah:

I hope you have been doing well since we last connected.

Secretary Perez would like to speak to Chair White to touch back on COI. Would she be available on Thursday at 11am?

Please let me know,

Soledad

Soledad Roybal
Scheduler and Special Assistant
[redacted]@dol.gov
Office of the Secretary
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

From: Roybal, Soledad - OSEC
To: [redacted]@sec.gov
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: Call on COI with Secretary Perez
Date: Thursday, October 30, 2014 2:12:13 PM

Hello Robert:

Secretary Perez would like to speak to Chair White to touch back on COI. Would she be available on Thursday at 11am?

Please let me know,

Soledad

Soledad Roybal
Scheduler and Special Assistant
[redacted]@dol.gov
Office of the Secretary
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

From: Block, Sharon I - OSEC
To: [redacted]@SEC.GOV"
Subject: checking in
Date: Tuesday, July 01, 2014 12:28:00 PM

Lona – My colleague in Secretary Perez's office, Matthew Colangelo, gave me your email address so I could reach out. I was hoping we could touch base sometime soon on the on-going work staff from our agencies are doing together on the fiduciary rule. Is there someone in your office my assistant, Ronetta Norris, could work with to schedule a call? Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Nallengara, Lona
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact
Date: Wednesday, July 16, 2014 5:13:33 PM

Tim,

Very nice to speak with you and Sharon today.

I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Colangelo, Matthew - OSEC
Sent: Wednesday, July 23, 2014 1:13 PM
To: Lona Nallengara
Subject: Got your voicemail

Doesn't have to be squeezed in today but thanks for the call. I can give you a call at the end of the day to touch base.

From: Colangelo, Matthew - OSEC
Sent: Friday, April 18, 2014 9:50 AM
To: Nallengara, Lona
Subject: letter
Attachments: 2014-04-11 Obama Fiduciary Letter.pdf

Lona - we just received a copy of the attached letter - passing it along in case you have not seen it. Matthew

Matthew Colangelo
Chief of Staff
U.S. Department of Labor
[redacted]@dol.gov
[redacted]

United States Senate
WASHINGTON, DC 20510

April 11, 2014

President Barack Obama
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

We write to reiterate our concerns about the potential conflict between the efforts of the Securities and Exchange Commission (SEC) to harmonize the standards of care for investment advisors and broker-dealers pursuant to Section 913 of the Dodd-Frank Act and the Department of Labor's efforts to redefine the term "fiduciary" under the Employee Retirement Income Security Act of 1974 (ERISA). We are deeply concerned that these efforts, despite the Agencies' coordination, may fundamentally work at cross purposes in a manner that would limit Main Street investors' access to retirement advice and products, increasing costs and limiting choice.

We believe that Congress provided clear direction to the SEC through Section 913 of Dodd-Frank to provide for the establishment of a uniform fiduciary standard that applies equally to broker-dealers and registered investment advisors for the benefit of investors when personalized investment advice is provided. In Section 913, Congress intended for a single best interest standard to apply to all retail accounts, including retirement accounts, based on specifically enumerated guidelines. These guidelines include the requirement that the standard be "no less stringent" than the fiduciary duty that currently applies to investment advisors and that it preserves the business models currently utilized by both investment advisors and broker-dealers.

We appreciate that the Department of Labor withdrew its 2010 proposal and is pursuing a re-proposal of the redefinition of "fiduciary" under ERISA. However, we caution that proposals which seek to eliminate commission-based advice and revenue sharing like the Department's 2010 proposed rule will likely limit access to meaningful investment advice and products available to millions of IRA investors while increasing costs. Further, such limitations could also lead to the leakage of limited retirement savings out of accounts and limit the ability to small businesses to seek advice on retirement plan formation and maintenance, deterring small business owners from offering such savings vehicles.

The gap between what Americans are saving for retirement and what they will need for a comfortable retirement is in the *trillions* of dollars. Now is not the time to be limiting the ability of Main Street investors to access investment advice. This challenge is even more acute in states like ours where a significant percentage of the workforce is employed by small businesses with limited opportunities to access workplace retirement plans.

We are heartened by recent steps taken by the SEC to prioritize this issue, and by Chair White's direction to staff to evaluate all options available to implement Section 913. We strongly believe that the development of a single best-interest standard is not only in the interest of investor protection but will also best facilitate access to meaningful investment advice and products. But in doing so, we cannot create conflicting standards or arbitrarily limit needed access to retirement advice and products inconsistent with Congressional direction in this matter.

We urge you to closely monitor the progress of these Agencies in this matter to ensure that conflicting regulations are not established and that at a minimum, the Department of Labor does not issue final regulations before the SEC has completed its work in this area so as to not disrupt the SEC's fulfillment of a Congressional directive. We know that you share our goal of improving retirement security for millions of American by ensuring access to investment advice and products and we look forward to working with you in furtherance of this goal.

Sincerely,

Jon Tester
United States Senator

Amy Klobuchar
United States Senator

Ben Cardin
United States Senator

Mark Begich
United States Senator

Kay Hagan
United States Senator

Mark Warner
United States Senator

Claire McCaskill
United States Senator

Mark Pryor
United States Senator

John Walsh
United States Senator

From: Colangelo, Matthew - OSEC
Sent: Tuesday, January 07, 2014 9:11 PM
To: [redacted]@sec.gov'
Subject: meeting tomorrow

Lona - meant to reach out to you today but the day got away from me. The Chair is meeting with Tom tomorrow morning; are you planning on joining her for that meeting? And if you have a minute in the a.m., I'll give you a call before the meeting to fill you in briefly on what Tom is hoping to cover. Thanks - Matthew

Matthew Colangelo
Chief of Staff
U.S. Department of Labor
[redacted]@dol.gov
[redacted]

From: Block, Sharon I - OSEC
To: Lona Nallengara [redacted] @SEC.GOV)
Subject: Perez/White call
Date: Tuesday, December 02, 2014 2:47:00 PM

Lona – I just tried to give you a call to check in on whether there was a particular aspect of the Conflict of Interest rule that Chair White wanted to discuss with Secretary Perez on their call this afternoon or if this was a general check in. If you have a minute to talk before 3:30pm, let me know and I can give you a call. Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Block, Sharon I - OSEC
To: Lona Nallengara [redacted]@SEC.GOV)
Subject: Perez/White meeting
Date: Wednesday, August 20, 2014 8:00:00 AM

Lona – I wanted to check in on the meeting next week. I know Secretary Perez is looking forward to talking with your boss. Do you know who Chair White plans to have in the meeting with her?
Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Subject: Question
Date: Thursday, December 11, 2014 2:24:34 PM

Sharon,

I hope that you are well.

The Secretary is scheduled to tentatively speak with Mary Jo on Tuesday. Mary Jo is happy to chat, but I was wondering if it made more sense for the two to speak a little later,

Please let me know what you think.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]

From: Colangelo, Matthew - OSEC
Sent: Thursday, July 24, 2014 11:16 PM
To: Lona Nallengara
Subject: Re: Got your voicemail

Great, will call you then

From: Nallengara, Lona [redacted]@SEC.GOV>
Sent: Thursday, July 24, 2014 11:14:53 PM
To: Colangelo, Matthew - OSEC
Subject: Re: Got your voicemail

How about 10AM?

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]

----- Original Message -----
From: Colangelo, Matthew - OSEC [redacted]@dol.gov]
Sent: Thursday, July 24, 2014 07:43 PM
To: Nallengara, Lona
Subject: RE: Got your voicemail

sorry to miss this earlier - yes, let's have a quick chat in the morning if you're free. Can I catch you before 9, or sometime between 10 and 11?

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Thursday, July 24, 2014 2:27 PM
To: Colangelo, Matthew - OSEC
Subject: Re: Got your voicemail

Matthew,

I hope that you are well.

Do you think it would helpful for us to talk in advance of the call on Monday?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

----- Original Message -----
From: Colangelo, Matthew - OSEC [redacted]@dol.gov]
Sent: Wednesday, July 23, 2014 01:12 PM
To: Nallengara, Lona
Subject: Got your voicemail

Doesn't have to be squeezed in today but thanks for the call. I can give you a call at the end of the day to touch base.

From: Colangelo, Matthew - OSEC
Sent: Thursday, July 24, 2014 7:43 PM
To: 'Nallengara, Lona'
Subject: RE: Got your voicemail

sorry to miss this earlier - yes, let's have a quick chat in the morning if you're free. Can I catch you before 9, or sometime between 10 and 11?

-----Original Message-----
From: Nallengara, Lona [mailto:[redacted]@SEC.GOV]
Sent: Thursday, July 24, 2014 2:27 PM
To: Colangelo, Matthew - OSEC
Subject: Re: Got your voicemail

Matthew,

I hope that you are well.

Do you think it would helpful for us to talk in advance of the call on Monday?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]

----- Original Message -----
From: Colangelo, Matthew - OSEC [redacted]@dol.gov]
Sent: Wednesday, July 23, 2014 01:12 PM
To: Nallengara, Lona
Subject: Got your voicemail

Doesn't have to be squeezed in today but thanks for the call. I can give you a call at the end of the day to touch base.

From: Nallengara, Lona [redacted]@SEC.GOV>
Sent: Friday, April 18, 2014 9:53 AM
To: Colangelo, Matthew - OSEC
Subject: RE: letter

Thanks for the note, Matthew. I have not seen this. Thank you.

From: Colangelo, Matthew - OSEC [redacted]@dol.gov]
Sent: Friday, April 18, 2014 9:50 AM
To: Nallengara, Lona
Subject: letter

Lona - we just received a copy of the attached letter - passing it along in case you have not seen it. Matthew

Matthew Colangelo
Chief of Staff
U.S. Department of Labor
[redacted]@dol.gov
[redacted]

From: Roybal, Soledad - OSEC
To: Luby, Robert
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: RE: Call on COI with Secretary Perez
Date: Thursday, October 30, 2014 3:02:06 PM

Bob,

Thank you for the response. I was referring to Nov. 6^{th} .

What number should the Secretary call?

Best wishes,

Soledad

From: Luby, Robert [redacted]@SEC.GOV]
Sent: Thursday, October 30, 2014 2:49 PM
To: Roybal, Soledad - OSEC
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: RE: Call on COI with Secretary Perez

Hi Soledad,

Assuming you mean Thursday, November 6 at 11am. If that is the case then yes, she can be available at 11am. Please confirm. Thanks.

Bob Luby
[redacted]

From: Roybal, Soledad - OSEC [redacted]@dol.gov]
Sent: Thursday, October 30, 2014 2:12 PM
To: Luby, Robert
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: Call on COI with Secretary Perez

Hello Robert:

Secretary Perez would like to speak to Chair White to touch back on COI. Would she be available on Thursday at 11am?

Please let me know,

Soledad

Soledad Roybal
Scheduler and Special Assistant
[redacted]

[redacted]@dol.gov
Office of the Secretary
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

From: Luby, Robert
To: Roybal, Soledad - OSEC
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: RE: Call on COI with Secretary Perez
Date: Thursday, October 30, 2014 2:51:12 PM

Hi Soledad,

Assuming you mean Thursday, November 6 at 11am. If that is the case then yes, she can be available at 11am. Please confirm. Thanks.

Bob Luby
[redacted]

From: Roybal, Soledad - OSEC [redacted]@dol.gov]
Sent: Thursday, October 30, 2014 2:12 PM
To: Luby, Robert
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: Call on COI with Secretary Perez

Hello Robert:

Secretary Perez would like to speak to Chair White to touch back on COI. Would she be available on Thursday at 11am?

Please let me know,

Soledad

Soledad Roybal
Scheduler and Special Assistant
[redacted]@dol.gov
Office of the Secretary
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

From:	Luby, Robert
To:	Roybal, Soledad - OSEC
Cc:	Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject:	RE: Call on COI with Secretary Perez
Date:	Thursday, October 30, 2014 3:06:46 PM

Great. He can call my number ([redacted]) and I will connect him with the Chair. Thanks.

Bob Luby
[redacted]

From: Roybal, Soledad - OSEC [redacted]@dol.gov]
Sent: Thursday, October 30, 2014 3:02 PM
To: Luby, Robert
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: RE: Call on COI with Secretary Perez

Bob,

Thank you for the response. I was referring to Nov. 6th .

What number should the Secretary call?

Best wishes,

Soledad

From: Luby, Robert [redacted]@SEC.GOV]
Sent: Thursday, October 30, 2014 2:49 PM
To: Roybal, Soledad - OSEC
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: RE: Call on COI with Secretary Perez

Hi Soledad,

Assuming you mean Thursday, November 6 at 11am. If that is the case then yes, she can be available at 11am. Please confirm. Thanks.

Bob Luby
[redacted]

From: Roybal, Soledad - OSEC [[redacted]@dol.gov]
Sent: Thursday, October 30, 2014 2:12 PM
To: Luby, Robert
Cc: Skinner, Wayne - OSEC; Block, Sharon I - OSEC
Subject: Call on COI with Secretary Perez

Hello Robert:

Secretary Perez would like to speak to Chair White to touch back on COI. Would she be available on Thursday at 11am?

Please let me know,

Soledad

Soledad Roybal
Scheduler and Special Assistant
[redacted]@dol.gov
Office of the Secretary
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Cc: Choi, Sarah
Subject: RE: checking in
Date: Thursday, July 03, 2014 9:25:01 PM

Sharon,

My apologies for not getting back to you sooner. It would be good to touch base on the work our colleagues have been doing together.

I have added Sarah Choi on to this note. Please have Ronetta contact Sarah to schedule a call. I will include a colleague or two from the Chair's office on our call. Early next week would be great for us.

I hope you have a nice Fourth.

Kind regards,

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Tuesday, July 01, 2014 12:29 PM
To: Nallengara, Lona
Subject: checking in

Lona – My colleague in Secretary Perez's office, Matthew Colangelo, gave me your email address so I could reach out. I was hoping we could touch base sometime soon on the on-going work staff from our agencies are doing together on the fiduciary rule. Is there someone in your office my assistant, Ronetta Norris, could work with to schedule a call? Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Block, Sharon I - OSEC
To: "Nallengara, Lona"
Cc: Choi, Sarah
Subject: RE: checking in
Date: Saturday, July 05, 2014 2:57:00 PM

No worries. I will ask Ronetta to reach out to Sarah on Monday morning to set something up. Thanks, Sharon

From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Thursday, July 03, 2014 9:25 PM
To: Block, Sharon I - OSEC
Cc: Choi, Sarah
Subject: RE: checking in

Sharon,

My apologies for not getting back to you sooner. It would be good to touch base on the work our colleagues have been doing together.

I have added Sarah Choi on to this note. Please have Ronetta contact Sarah to schedule a call. I will include a colleague or two from the Chair's office on our call. Early next week would be great for us.

I hope you have a nice Fourth.

Kind regards,

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Tuesday, July 01, 2014 12:29 PM
To: Nallengara, Lona
Subject: checking in

Lona – My colleague in Secretary Perez's office, Matthew Colangelo, gave me your email address so I could reach out. I was hoping we could touch base sometime soon on the on-going work staff from our agencies are doing together on the fiduciary rule. Is there someone in your office my assistant, Ronetta Norris, could work with to schedule a call? Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Choi, Sarah
To: Block, Sharon I - OSEC
Subject: RE: checking in
Date: Monday, July 07, 2014 9:44:53 AM

Ms. Block,

Please feel free to give Ronetta my phone number, available below in my signature.

Regards,
Sarah

Sarah Choi
U.S. Securities and Exchange Commission
Office of the Chair
[redacted]
[redacted]@sec.gov

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Saturday, July 05, 2014 2:57 PM
To: Nallengara, Lona
Cc: Choi, Sarah
Subject: RE: checking in

No worries. I will ask Ronetta to reach out to Sarah on Monday morning to set something up.
Thanks, Sharon

From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Thursday, July 03, 2014 9:25 PM
To: Block, Sharon I - OSEC
Cc: Choi, Sarah
Subject: RE: checking in

Sharon,

My apologies for not getting back to you sooner. It would be good to touch base on the work our colleagues have been doing together.

I have added Sarah Choi on to this note. Please have Ronetta contact Sarah to schedule a call. I will include a colleague or two from the Chair's office on our call. Early next week would be great for us.

I hope you have a nice Fourth.

Kind regards,

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Tuesday, July 01, 2014 12:29 PM
To: Nallengara, Lona
Subject: checking in

Lona – My colleague in Secretary Perez's office, Matthew Colangelo, gave me your email address so I could reach out. I was hoping we could touch base sometime soon on the on-going work staff from our agencies are doing together on the fiduciary rule. Is there someone in your office my assistant, Ronetta Norris, could work with to schedule a call? Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Cc: Block, Sharon I - OSEC; Nallengara, Lona
Subject: RE: Contact
Date: Thursday, July 24, 2014 11:47:37 AM

Tim, my apologies for the delay getting back to you. Do you have time tomorrow afternoon to speak with me about this project? I am free at any time after 2:30.

Many thanks,

Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

-----Original Message-----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 16, 2014 5:19 PM
To: Nallengara, Lona
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC; Hauser, Timothy - EBSA
Subject: RE: Contact

Thank you very much. I'm looking forward to continuing our conversations. In the next day or two, I'll reach out to Ms. Porter in the hope of providing a bit of a status report on our work since we last met on this project.

Tim

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Wednesday, July 16, 2014 5:13 PM
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact

Tim,

Very nice to speak with you and Sharon today.

I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Subject: Re: Contact
Date: Wednesday, July 16, 2014 8:28:32 PM

I am glad we connected. Please do not hesitate to reach for me if I can be of assistance on this matter or others.

My cell number is [redacted].

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

----- Original Message -----
From: Block, Sharon I - OSEC [[redacted]@dol.gov]
Sent: Wednesday, July 16, 2014 06:07 PM
To: Nallengara, Lona
Subject: Re: Contact

Thanks Lona.

From: Nallengara, Lona [redacted]@SEC.GOV>
Sent: Wednesday, July 16, 2014 5:12:44 PM
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact

Tim,

Very nice to speak with you and Sharon today.

I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Block, Sharon I - OSEC
To: Nallengara, Lona
Subject: Re: Contact
Date: Wednesday, July 16, 2014 6:07:07 PM

Thanks Lona.

From: Nallengara, Lona [redacted]@SEC.GOV>
Sent: Wednesday, July 16, 2014 5:12:44 PM
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact

Tim,

Very nice to speak with you and Sharon today.

I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Hauser, Timothy - EBSA
To: Nallengara, Lona
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC; Hauser, Timothy - EBSA
Subject: RE: Contact
Date: Wednesday, July 16, 2014 5:18:55 PM

Thank you very much. I'm looking forward to continuing our conversations. In the next day or two, I'll reach out to Ms. Porter in the hope of providing a bit of a status report on our work since we last met on this project.

Tim

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Wednesday, July 16, 2014 5:13 PM
To: Hauser, Timothy - EBSA
Cc: Porter, Jennifer R.; Block, Sharon I - OSEC
Subject: Contact

Tim,

Very nice to speak with you and Sharon today.

I have copied Jennifer Porter, a senior advisor to the Chair, on this note. Jen will be the primary point of contact in Mary Jo's office. Her direct dial [redacted].

My contact information is below. Please let me know if I can help with anything.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Block, Sharon I - OSEC
To: "Nallengara, Lona"
Subject: RE: Perez/White meeting
Date: Thursday, August 21, 2014 6:21:00 PM

The Secretary was not intending that he speak with Mary Jo alone, unless that was what she wanted. I agree – I think it would be good to have a few staff in the meeting so they can discuss more of the substance. I think he will likely bring Phyllis Borzi, Assistant Secretary for EBSA and Tim Hauser, Phyllis' deputy who has led the team working with your team. Thanks, Sharon

---

From: Nallengara, Lona [[redacted]@SEC.GOV]
Sent: Wednesday, August 20, 2014 8:35 PM
To: Block, Sharon I - OSEC
Subject: RE: Perez/White meeting

Thanks for the note, Sharon. I was thinking about the same thing.

Do you know if the Secretary wants to speak with Mary Jo alone? If so, that would be fine. Alternatively, if he wanted to focus more on details of your work (and our comments), it may be better to have a few of the staff at the meeting too. I am thinking the latter, but we are flexible.

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Wednesday, August 20, 2014 8:00 AM
To: Nallengara, Lona
Subject: Perez/White meeting

Lona – I wanted to check in on the meeting next week. I know Secretary Perez is looking forward to talking with your boss. Do you know who Chair White plans to have in the meeting with her? Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Subject: RE: Perez/White meeting
Date: Wednesday, August 20, 2014 8:35:08 PM

Thanks for the note, Sharon. I was thinking about the same thing.

Do you know if the Secretary wants to speak with Mary Jo alone? If so, that would be fine. Alternatively, if he wanted to focus more on details of your work (and our comments), it may be better to have a few of the staff at the meeting too. I am thinking the latter, but we are flexible.

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Wednesday, August 20, 2014 8:00 AM
To: Nallengara, Lona
Subject: Perez/White meeting

Lona – I wanted to check in on the meeting next week. I know Secretary Perez is looking forward to talking with your boss. Do you know who Chair White plans to have in the meeting with her? Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Subject: Re: Perez/White meeting
Date: Friday, August 22, 2014 11:46:48 AM

Good. We are on the same page.

I think we will have Jennifer Porter from Mary Jo's office at the meeting and some folks from the staff. Let me work on who -- part of it depends on who is here next week.

____

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street N.E. | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Thursday, August 21, 2014 06:21 PM
To: Nallengara, Lona
Subject: RE: Perez/White meeting

The Secretary was not intending that he speak with Mary Jo alone, unless that was what she wanted. I agree – I think it would be good to have a few staff in the meeting so they can discuss more of the substance. I think he will likely bring Phyllis Borzi, Assistant Secretary for EBSA and Tim Hauser, Phyllis' deputy who has led the team working with your team. Thanks, Sharon

---

From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Wednesday, August 20, 2014 8:35 PM
To: Block, Sharon I - OSEC
Subject: RE: Perez/White meeting

Thanks for the note, Sharon. I was thinking about the same thing.

Do you know if the Secretary wants to speak with Mary Jo alone? If so, that would be fine. Alternatively, if he wanted to focus more on details of your work (and our comments), it may be better to have a few of the staff at the meeting too. I am thinking the latter, but we are flexible.

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Wednesday, August 20, 2014 8:00 AM
To: Nallengara, Lona
Subject: Perez/White meeting

Lona – I wanted to check in on the meeting next week. I know Secretary Perez is looking forward to talking with your boss. Do you know who Chair White plans to have in the meeting with her? Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted][@dol.gov]()
[redacted]

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Subject: Re: Question
Date: Thursday, December 11, 2014 8:10:36 PM

Sure.

____
Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

----- Original Message -----
From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Thursday, December 11, 2014 07:57 PM
To: Nallengara, Lona
Subject: RE: Question

Can we check in tomorrow? I'd like to see what happens with the omnibus tonight. Thanks, Sharon

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Thursday, December 11, 2014 2:19 PM
To: Block, Sharon I - OSEC
Subject: Question

Sharon,

I hope that you are well.

The Secretary is scheduled to tentatively speak with Mary Jo on Tuesday. Mary Jo is happy to chat, but I was wondering if it made more sense for the two to speak a little later,

Please let me know what you think.

- Lona

____
Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Block, Sharon I - OSEC
To: "Nallengara, Lona"
Subject: RE: Question
Date: Thursday, December 11, 2014 7:57:00 PM

Can we check in tomorrow? I'd like to see what happens with the omnibus tonight. Thanks, Sharon

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Thursday, December 11, 2014 2:19 PM
To: Block, Sharon I - OSEC
Subject: Question

Sharon,

I hope that you are well.

The Secretary is scheduled to tentatively speak with Mary Jo on Tuesday. Mary Jo is happy to chat, but I was wondering if it made more sense for the two to speak a little later,

Please let me know what you think.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Block, Sharon I - OSEC
To: "Nallengara, Lona"
Subject: RE: Question
Date: Friday, December 12, 2014 3:02:00 PM

Lona -- If it still works for Chair White, we would like to keep the Tuesday meeting. Thanks, Sharon

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Thursday, December 11, 2014 8:09 PM
To: Block, Sharon I - OSEC
Subject: Re: Question

Sure.

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

----- Original Message -----
From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Thursday, December 11, 2014 07:57 PM
To: Nallengara, Lona
Subject: RE: Question

Can we check in tomorrow? I'd like to see what happens with the omnibus tonight. Thanks, Sharon

-----Original Message-----
From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Thursday, December 11, 2014 2:19 PM
To: Block, Sharon I - OSEC
Subject: Question

Sharon,

I hope that you are well.

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- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From:	Hansen, Megan D - SOL on behalf of Porter, Jennifer R.
To:	Hansen, Megan D - SOL; Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Russell, Emily Westerberg; Hall, Lyssa - EBSA; Jenson, Paula R.; Taylor, William - SOL; Gonzalez, Lourdes; Gharanfoli, Siamack - EBSA; Buescher, Sarah A.; Mares, Judith - EBSA; Scheidt, Douglas J.; Khawar, Ali - EBSA; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Lloyd, Karen - EBSA
Subject:	Fw: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2

From: Porter, Jennifer R.
Sent: Wednesday, October 1, 2014 5:06 PM
To: Porter, Jennifer R.; Hansen, Megan D - SOL; Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Russell, Emily Westerberg; Hall, Lyssa - EBSA; Jenson, Paula R ; Taylor, William - SOL; Gonzalez, Lourdes; Gharanfoli, Siamack - EBSA; Buescher, Sarah A.; Mares, Judith - EBSA; Scheidt, Douglas J.; Khawar, Ali - EBSA; Crovitz, Sara P ; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J ; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Lloyd, Karen - EBSA
Subject: FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 7, 2014 1:00 PM-2:30 PM.
Where: Chair's Large Conference Room

-----Original Appointment-----
From: Hauser, Timothy - EBSA On Behalf Of Porter, Jennifer R.
Sent: Thursday, October 02, 2014 11:34 AM
To: Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Hall, Lyssa - EBSA; Taylor, William - SOL; Gharanfoli, Siamack - EBSA; Mares, Judith - EBSA; Khawar, Ali - EBSA
Subject: FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 07, 2014 1:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Please forward to anybody else you'd like to participate for your office. Thanks.

-----Original Appointment-----
From: Porter, Jennifer R. [[redacted]@SEC.GOV]
Sent: Wednesday, October 01, 2014 5:06 PM
To: Porter, Jennifer R.; Russell, Emily Westerberg; Jenson, Paula R ; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J ; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Taylor, William - SOL; Hansen, Megan D - SOL; Lloyd, Karen - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA; Mares, Judith - EBSA
Subject: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 07, 2014 1:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Dial-in: 888-[redacted]
Code: [redacted]

From:	Hansen, Megan D - SOL on behalf of Porter, Jennifer R.
To:	Hansen, Megan D - SOL; Canary, Joe - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Wong, Fred - EBSA; Lloyd, Karen - EBSA; Bergstresser, Keith - EBSA; Cosby, Chris - EBSA; Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA
Subject:	Fw: Call to Discuss DOL Fiduciary and Exemption Outline

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From: Porter, Jennifer R.
Sent: Friday, September 26, 2014 11:56 AM
To: Porter, Jennifer R.; Canary, Joe - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Wong, Fred - EBSA; Lloyd, Karen - EBSA; Bergstresser, Keith - EBSA; Hansen, Megan D - SOL; Cosby, Chris - EBSA; Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA
Subject: FW: Call to Discuss DOL Fiduciary and Exemption Outline
When: Tuesday, September 30, 2014 1:00 PM-2:00 PM.
Where: Chair's Large Conference Room

-----Original Appointment-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Friday, September 26, 2014 8:58 AM
To: Porter, Jennifer R.; Russell, Emily Westerberg; Jenson, Paula R ; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA
Subject: Call to Discuss DOL Fiduciary and Exemption Outline
When: Tuesday, September 30, 2014 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Dial-in: 888[redacted]
Code: [redacted]

From: Hansen, Megan D - SOL on behalf of Porter, Jennifer R.
To: Hansen, Megan D - SOL; Russell, Emily Westerberg; Jenson, Paula R.; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Canary, Joe - EBSA; '[redacted] treasury.gov''; '[redacted] treasury.gov''; '[redacted] treasury.gov''; '[redacted] treasury.gov''; '[redacted] treasury.gov''; '[redacted] treasury.gov''; '[redacted] treasury.gov''; '[redacted] treasury.gov''; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hauser, Timothy - EBSA
Subject: Fw: SEC/DOL/Treasury Call - Point of Sale Disclosures

---

From: Porter, Jennifer R.
Sent: Thursday, September 18, 2014 1:50 PM
To: Porter, Jennifer R.; Russell, Emily Westerberg; Jenson, Paula R ; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Baltz, Brian; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Canary, Joe - EBSA; [redacted] treasury.gov'; [redacted] treasury.gov'; [redacted] treasury.gov'; [redacted] treasury.gov'; [redacted] treasury.gov'; [redacted] treasury.gov'; [redacted] treasury.gov'; [redacted] treasury.gov'; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: SEC/DOL/Treasury Call - Point of Sale Disclosures
When: Friday, September 26, 2014 11:45 AM-12:45 PM.
Where: Chair's Large Conference Room; Call-in 888-[redacted], Code [redacted]

From: [redacted]treasury.gov
To: Canary, Joe - EBSA; [redacted]@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Tuesday, September 16, 2014 6:14:53 PM

Joe – Thanks. Unfortunately, Mark, Bill and I will be in meetings out of town on Friday.

From: Canary, Joe - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 16, 2014 5:42 PM
To: Porter, Jennifer R.
Cc: Buckberg, Elaine; Bostick, George; Crane, Jonah; Iwry, Mark; Kao, Patricia; Hughes, Gerry; Evans, William; Soares, Chris; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Subject: RE: Calls to discuss fiduciary duty exemption
Importance: High

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From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 16, 2014 3:31 PM
To: Hauser, Timothy - EBSA
Subject: Calls to discuss fiduciary duty exemption

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Fri. (9/19) 12-3

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Wed. (9/24) 9-12:30; 4-5
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Thanks,

Jen Porter
Chair's Office
[redacted]

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Cc: Elaine Buckberg [redacted]treasury.gov; George Bostick [redacted]treasury.gov; Jonah Crane [redacted]treasury.gov; Mark Iwry [redacted]treasury.gov; Patricia Kao [redacted]treasury.gov; Gerard Hughes [redacted]treasury.gov; William Evans [redacted]treasury.gov; Christopher Soares [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Thanks,

Jen Porter
Chair's Office
[redacted]

From: George Bostick treasury.gov
To: Canary, Joe - EBSA; Jennifer Porter @SEC.GOV
Cc: Elaine Buckberg treasury.gov; Jonah Crane treasury.gov; Mark Iwry treasury.gov; Patricia Kao treasury.gov; Gerard Hughes treasury.gov; William Evans treasury.gov; Christopher Soares treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Jen Porter
Chair's Office
[redacted]

From: Canary, Joe - EBSA
To: [redacted]treasury.gov; PorterJ@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
Subject: RE: Calls to discuss fiduciary duty exemption
Date: Tuesday, September 16, 2014 7:35:22 PM

Thanks, George. Does this mean you think we should wait to have the call or can others at Treasury cover (if they are available on Friday) even if you three cannot participate?

From: [redacted]treasury.gov [mailto:[redacted]treasury.gov]
Sent: Tuesday, September 16, 2014 6:12 PM
To: Canary, Joe - EBSA; [redacted]@SEC.GOV
Cc: [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; [redacted]treasury.gov; Campagna, Lou - EBSA; Wong, Fred - EBSA; Taylor, William - SOL; Mares, Judith - EBSA; Khawar, Ali - EBSA; Hall, Lyssa - EBSA; Lloyd, Karen - EBSA; Piacentini, Joseph - EBSA; Bergstresser, Keith - EBSA; Herzog, Carol - EBSA; Hansen, Megan D - SOL; Hauser, Timothy - EBSA
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Chair's Office
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Subject: Calls to discuss COI Disclosure
Date: Thursday, September 18, 2014 12:48:15 PM

Jen: Next Friday (9/26) at 11:45am seems to be the best for most from Labor and Treasury that can participate. Do you want to send out a calendar item and include your folks? I know we are thinking about a conference call, but if some want to do it in person, we can set up a conference room here with a conference phone. Your choice. Thanks.

From:	Hauser, Timothy - EBSA on behalf of Porter, Jennifer R.
To:	Canary, Joe - EBSA; Piacentini, Joseph - EBSA; Russell, Emily Westerberg; Hall, Lyssa - EBSA; Jenson, Paula R.; Taylor, William - SOL; Gonzalez, Lourdes; Gharanfoli, Siamack - EBSA; Buescher, Sarah A.; Mares, Judith - EBSA; Scheidt, Douglas J.; Khawar, Ali - EBSA; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J.; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Hansen, Megan D - SOL; Lloyd, Karen - EBSA
Subject:	FW: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2

Please forward to anybody else you'd like to participate for your office. Thanks.

-----Original Appointment-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Wednesday, October 01, 2014 5:06 PM
To: Porter, Jennifer R.; Russell, Emily Westerberg; Jenson, Paula R ; Gonzalez, Lourdes; Buescher, Sarah A.; Scheidt, Douglas J.; Crovitz, Sara P.; Hunter-Ceci, Holly L.; Loko, Rachel; Kahl, Daniel; Bagnall, Robert; Stankard, Nathaniel; Jama, Liban A.; Fahey, John J ; Ryan, Devin; Hauser, Timothy - EBSA; Bergstresser, Keith - EBSA; Taylor, William - SOL; Hansen, Megan D - SOL; Lloyd, Karen - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA; Mares, Judith - EBSA
Subject: Call to Discuss DOL Fiduciary and Exemption Outline - Part 2
When: Tuesday, October 07, 2014 1:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Chair's Large Conference Room

Dial-in: 888-[redacted]
Code: [redacted]

From: Regine, Meredith E - EBSA
To: "Marietta-Westberg, Jennifer"
Subject: RE: Discuss SEC request for comment
Date: Friday, January 27, 2012 1:26:36 PM

Great thank you, I appreciate your response—I don't believe I was on those original emails. Thanks again.

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Friday, January 27, 2012 1:25 PM
To: Regine, Meredith E - EBSA
Subject: RE: Discuss SEC request for comment

The fiduciary rule – likely forwarded to you by Chris Cosby at DOL.

-----Original Appointment-----
From: Regine, Meredith E - EBSA [redacted]@dol.gov]
Sent: Friday, January 27, 2012 1:21 PM
To: Marietta-Westberg, Jennifer
Subject: Tentative: FW: Discuss SEC request for comment
When: Tuesday, January 31, 2012 3:00 PM-4:00 PM (GMT-05:00) Eastern Time (US & Canada).
Where: Conference Room [redacted]

Hi there--is this in regards to Target Date Funds? Or another issue with the SEC? Thank you.

Meredith

From: Campagna, Lou - EBSA
To: [redacted]@SEC.GOV
Cc: Wong, Fred - EBSA
Subject: COI Regulation Comments - Swap Limitation
Date: Tuesday, January 06, 2015 12:33:08 PM

Pursuant to your comments in our conversation on December 18 with you and other SEC staff, we would like to have a follow call with you or relevant staff on Swap Counterparty limitation in the COI regulation. I can be reached by email or on [redacted].

From: Hunter-Ceci, Holly L.
To: Wong, Fred - EBSA
Cc: McHugh, Jennifer B.; Brigagliano, James A.; Gonzalez, Lourdes; Rominger, Eileen; Blizzard, Diane C.; Nash, Susan; Scheidt, Douglas J.; Grim, David W.; Crovitz, Sara P.; Courtney, Catherine A.
Subject: Draft agenda for DOL/SEC meeting Friday at 4:00
Date: Thursday, April 28, 2011 10:38:34 AM
Attachments: DOL-SEC suggested agenda.docx

Fred,

We very much look forward to meeting with you and your colleagues tomorrow at 4:00. As you requested, and to help make the meeting more useful for you, I've attached suggested topics that we thought might be of mutual interest. If there are other topics that you would like to discuss, please let us know.

Thanks,
Holly

Holly Hunter-Ceci
Senior Counsel
Securities and Exchange Commission
[redacted]
[redacted]@sec.gov

Proposed Agenda

- Definition of the term "fiduciary" under the DOL's proposed rule (e.g., application to IRAs)

- The SEC staff's report on the standards of care with respect to investment advisers and broker-dealers, as required by section 913 of Dodd-Frank

- Costs

- Prohibited transactions under ERISA / principal transactions under Investment Advisers Act

- Other items of interest, time permitting:
    - DOL's initiatives with respect to electronic delivery
    - 12b-1 fees and retirement plans

From: Hunter-Ceci, Holly L.
To: Wong, Fred - EBSA
Subject: Meeting request
Date: Wednesday, April 13, 2011 12:20:54 PM

Fred,

I work in the SEC's Division of Investment Management in the Office of Chief Counsel. I'm writing at the request of our Division director, Eileen Rominger, to see if a small group from IM (including Eileen), and from the Division of Trading and Markets, could meet to discuss the DOL's fiduciary proposal with Assistant Secretary Phyllis Borzi and other interested parties. Please let me know if you are not the correct person to contact; I thought of you because you were listed on the release and because we participated in a brief conference call many, many months ago.

My contact info is below if you (or someone else) would like to discuss. As far as timing, we would be most interested in a meeting after EBSA has had a chance to go through the recent comments submitted after the hearing. We would be happy to meet at the DOL or at the SEC, whichever you prefer.

I greatly appreciate any assistance. Many thanks,

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]
[redacted]@sec.gov

From: Porter, Jennifer R.
To: Campagna, Lou - EBSA
Cc: Wong, Fred - EBSA
Subject: RE: COI Regulation Comments - Swap Limitation
Date: Tuesday, January 06, 2015 1:32:20 PM

Lou,

SEC staff will be happy to speak with you. I will identify the appropriate individuals and find a time that works for everyone. What does your schedule look like tomorrow?

Regards,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

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To: Porter, Jennifer R.
Cc: Wong, Fred - EBSA
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From:	Campagna, Lou - EBSA
To:	Porter, Jennifer R.
Cc:	Wong, Fred - EBSA
Subject:	RE: COI Regulation Comments - Swap Limitation
Date:	Wednesday, January 07, 2015 10:31:58 AM

Today at 1 and 3:30 works. Also, tomorrow afternoon. Thanks

-----Original Message-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, January 06, 2015 1:31 PM
To: Campagna, Lou - EBSA
Cc: Wong, Fred - EBSA
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From: Campagna, Lou - EBSA
To: Porter, Jennifer R.
Cc: Wong, Fred - EBSA
Subject: RE: COI Regulation Comments - Swap Limitation
Date: Thursday, January 08, 2015 8:56:55 AM

Ms. Porter - I will be away from the office today. Would you call Fred Wong at 3pm on 2026938517 and he will be able to conference me in. Thanks.

-----Original Message-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
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Cc: Wong, Fred - EBSA
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To:	Campagna, Lou - EBSA
Cc:	Wong, Fred - EBSA
Subject:	RE: COI Regulation Comments - Swap Limitation
Date:	Thursday, January 08, 2015 9:36:38 AM

I will, thank you.

Regards,
Jen

-----Original Message-----
From: Campagna, Lou - EBSA [redacted]@dol.gov]
Sent: Thursday, January 08, 2015 8:57 AM
To: Porter, Jennifer R.
Cc: Wong, Fred - EBSA
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From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, January 06, 2015 1:31 PM
To: Campagna, Lou - EBSA
Cc: Wong, Fred - EBSA
Subject: RE: COI Regulation Comments - Swap Limitation

Lou,

SEC staff will be happy to speak with you. I will identify the appropriate individuals and find a time that works for everyone. What does your schedule look like tomorrow?

Regards,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

-----Original Message-----
From: Campagna, Lou - EBSA [redacted]@dol.gov]
Sent: Tuesday, January 06, 2015 12:33 PM
To: Porter, Jennifer R.
Cc: Wong, Fred - EBSA
Subject: COI Regulation Comments - Swap Limitation

Pursuant to your comments in our conversation on December 18 with you and other SEC staff, we would like to have a follow call with you or relevant staff on Swap Counterparty limitation in the COI regulation. I can be reached by email or on [redacted]

From: Wong, Fred - EBSA
To: "Hunter-Ceci, Holly L."
Subject: RE: Draft agenda for DOL/SEC meeting Friday at 4:00
Date: Thursday, April 28, 2011 3:46:15 PM

Holly -

Can you add target date funds to the set of "time permitting" topics? I believe both agencies have proposed rules that are in the process of being finalized. Thanks.

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Thursday, April 28, 2011 10:38 AM
To: Wong, Fred - EBSA
Cc: McHugh, Jennifer B.; Brigagliano, James A.; Gonzalez, Lourdes; Rominger, Eileen; Blizzard, Diane C.; Nash, Susan; Scheidt, Douglas J.; Grim, David W.; Crovitz, Sara P.; Courtney, Catherine A.
Subject: Draft agenda for DOL/SEC meeting Friday at 4:00

Fred,

We very much look forward to meeting with you and your colleagues tomorrow at 4:00. As you requested, and to help make the meeting more useful for you, I've attached suggested topics that we thought might be of mutual interest. If there are other topics that you would like to discuss, please let us know.

Thanks,
Holly

Holly Hunter-Ceci
Senior Counsel
Securities and Exchange Commission
[redacted]@sec.gov

From: Hunter-Ceci, Holly L.
To: Wong, Fred - EBSA
Cc: Courtney, Catherine A.
Subject: RE: Draft agenda for DOL/SEC meeting Friday at 4:00
Date: Thursday, April 28, 2011 4:17:49 PM
Attachments: DOL-SEC suggested agenda.docx

Thanks, that works for us.

I've attached a revised agenda (kept in draft in case anything else comes up). Unfortunately, I'll miss the meeting tomorrow as I'll be out of the office, but please contact Katy Courtney if you need anything tomorrow. Katy will be attending the meeting tomorrow. Her contact info is [redacted]@sec.gov, [redacted].

Thanks again for making time to meet, and I'm sorry to miss it.

Holly.

From: Wong, Fred - EBSA [redacted]@dol.gov]
Sent: Thursday, April 28, 2011 3:46 PM
To: Hunter-Ceci, Holly L.
Subject: RE: Draft agenda for DOL/SEC meeting Friday at 4:00

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Holly

Holly Hunter-Ceci
Senior Counsel
Securities and Exchange Commission

[redacted]
[redacted]@sec.gov

<u>Proposed Agenda</u>

- Definition of the term "fiduciary" under the DOL's proposed rule (e.g., application to IRAs)

- The SEC staff's report on the standards of care with respect to investment advisers and broker-dealers, as required by section 913 of Dodd-Frank

- Costs

- Prohibited transactions under ERISA / principal transactions under Investment Advisers Act

- Other items of interest, time permitting:
  - DOL's initiatives with respect to electronic delivery
  - 12b-1 fees and retirement plans
  - Target date funds

From: Hunter-Ceci, Holly L.
To: Wong, Fred - EBSA
Subject: RE: Meeting request
Date: Thursday, April 14, 2011 12:04:36 PM

Fred,

Thanks for your message. I really appreciate it. I'm happy to talk with you about your questions – I'm out tomorrow, but otherwise in the office.

Thanks,

Holly.

From: Wong, Fred - EBSA [redacted]@dol.gov]
Sent: Thursday, April 14, 2011 10:44 AM
To: Hunter-Ceci, Holly L.
Cc: Khawar, Ali - EBSA; Canary, Joe - EBSA
Subject: RE: Meeting request

Holly -

We are very interested in meeting. Ali Khawar (copied), who is a special assistant in our Assistant Secretary's office, will be contacting you about scheduling. Also, I would like to give you a call in the next day or so to talk about some other logistical matters. Thanks.

From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Wednesday, April 13, 2011 12:20 PM
To: Wong, Fred - EBSA
Subject: Meeting request

Fred,

I work in the SEC's Division of Investment Management in the Office of Chief Counsel. I'm writing at the request of our Division director, Eileen Rominger, to see if a small group from IM (including Eileen), and from the Division of Trading and Markets, could meet to discuss the DOL's fiduciary proposal with Assistant Secretary Phyllis Borzi and other interested parties. Please let me know if you are not the correct person to contact; I thought of you because you were listed on the release and because we participated in a brief conference call many, many months ago.

My contact info is below if you (or someone else) would like to discuss. As far as timing, we would be most interested in a meeting after EBSA has had a chance to go through the recent comments submitted after the hearing. We would be happy to meet at the DOL or at the SEC, whichever you prefer.

I greatly appreciate any assistance. Many thanks,

Holly.

Holly Hunter-Ceci
Senior Counsel
Office of Chief Counsel, Division of Investment Management
Securities and Exchange Commission
[redacted]@sec.gov

From: Uyeda, Mark T
To: Wong, Fred - EBSA
Subject: RE: Proposed rule
Date: Thursday, January 28, 2010 7:16:41 PM

Fred:

Thanks for the e-mail and your voice mail. We'll take a look at it.

Mark

From: Wong, Fred - EBSA [redacted]@dol.gov]
Sent: Thursday, January 28, 2010 1:31 PM
To: Uyeda, Mark T
Cc: Wong, Fred - EBSA
Subject: Proposed rule

Mark -

Attached is the document I mentioned in my voicemail. It is a proposed amendment to a current DOL regulation that defines the circumstances under which a person will be cosidered a "fiduciary" under ERISA by reason of rendering investment advice to a plan. This draft has not yet completed clearance within the DOL, but it should provide a good idea of our general direction. We expect to brief senior management on this proposal within the next few weeks, so any thoughts that SEC staff might have would be greatly appreciated. Please feel free to call me if you have any questions [redacted]. Thanks.

From: Uyeda, Mark T
To: Wong, Fred - EBSA
Subject: RE: Proposed rule
Date: Tuesday, March 09, 2010 3:18:50 PM

Fred -- thanks for your e-mail. I'm following up with the group at the SEC who was taking a look at the fiduciary release about getting you any thoughts.

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From: Wong, Fred - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 09, 2010 2:48 PM
To: Uyeda, Mark T
Subject: FW: Proposed rule

Mark -

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On an unrelated matter, has there been any initial reaction to the attached draft proposal? We are trying to schedule a meeting for later this week or early next week to brief senior DOL management, so I thought I would check.

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From: Uyeda, Mark T
To: Wong, Fred - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: RE: Proposed rule
Date: Tuesday, March 09, 2010 5:32:43 PM

Fred:

Holly Hunter-Ceci ([redacted]) from our Office of Chief Counsel has taken a look at your release. Please let us know when might be a good chance for you to discuss later this week. Thanks.

Mark

From: Wong, Fred - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 09, 2010 3:24 PM
To: Uyeda, Mark T
Subject: RE: Proposed rule

If it would be helpful, we can schedule a very brief conference call (probably no more than 15 minutes) during which I can provide general background on the proposal.

From: Uyeda, Mark T [redacted]@sec.gov]
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To:	"Uyeda, Mark T"
Cc:	"Hunter-Ceci, Holly L."
Subject:	RE: Proposed rule
Date:	Wednesday, March 10, 2010 9:36:59 AM

We're currently scheduled for a briefing on this proposal for Thursday at 11 am. So if there is any time available before then, I would prefer that. Otherwise, would Thursday at 2 pm work? Thanks.

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Fred:

It looks like our side can do either Thursday or Friday. Do you have a time preference? We are flexible.

Mark

From: Wong, Fred - EBSA [mailto:Wong.Fred@dol.gov]
Sent: Wednesday, March 10, 2010 7:10 AM
To: Uyeda, Mark T
Cc: Hunter-Ceci, Holly L.
Subject: RE: Proposed rule

I am available any time Wednesday afternoon, Thursday except 10:30 am - 12:30 pm, and most of Friday.

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From: Wong, Fred - EBSA
To: "Uyeda, Mark T"
Cc: "Hunter-Ceci, Holly L."
Subject: RE: Proposed rule
Date: Wednesday, March 10, 2010 10:06:29 AM

Sounds good. You can call me at [redacted], or I can make the call if you provide your phone numbers.

From: Uyeda, Mark T [redacted]@sec.gov]
Sent: Wednesday, March 10, 2010 9:53 AM
To: Wong, Fred - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: RE: Proposed rule

Fred: Unfortunately, we cannot do this afternoon. So let's plan for Thursday at 2 pm.

Mark

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From: Uyeda, Mark T
To: Wong, Fred - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: Re: Proposed rule
Date: Thursday, March 11, 2010 8:55:05 AM

Fred - let's do 2:30 pm then to make sure that you have enough time for your prior meeting.

Mark

From: Wong, Fred - EBSA
To: Uyeda, Mark T
Cc: Hunter-Ceci, Holly L.
Sent: Thu Mar 11 07:22:17 2010
Subject: RE: Proposed rule

I've just been scheduled for a meeting here from 1-2pm, which might spill over a little. Can we start our call at 2:15 or 2:30? Thanks.

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From: Wong, Fred - EBSA
To: "Uyeda, Mark T"
Cc: "Hunter-Ceci, Holly L."
Subject: RE: Proposed rule
Date: Monday, March 15, 2010 8:42:12 AM

Thanks again for your input. I think that someone mentioned SEC rules that were invalidated judicially. Do your remember which rules these were? Thanks.

From: Uyeda, Mark T [redacted]@sec.gov]
Sent: Thursday, March 11, 2010 8:55 AM
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Subject: Re: Proposed rule

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To:	"Uyeda, Mark T"
Subject:	RE: Thanks for your Voice Mail
Date:	Wednesday, October 13, 2010 9:53:23 AM

Mark-
To give a better idea of our timing, the participant-disclosure regulation will be published first (possibly this week), followed by the fiduciary-definition regulation. If there is any further interest in the fiduciary-definition regulation, we can share a copy of the document we intend to send to the Federal Register, and/or schedule a call to discuss the regulation. The proposed rule is substantially similar to the version we sent to you earlier this year.

From: Uyeda, Mark T [redacted]@sec.gov]
Sent: Wednesday, October 13, 2010 9:22 AM
To: Wong, Fred - EBSA
Subject: Thanks for your Voice Mail

Fred: Thanks for your voice mail -- glad that you finally completed the OMB review process.

Mark

From: Uyeda, Mark T
To: Wong, Fred - EBSA
Subject: RE: Thanks for your Voice Mail
Date: Wednesday, October 13, 2010 1:00:02 PM

Fred – Thanks for the offer to share a copy of the fiduciary-definition regulation. I have asked the SEC staff members who looked at the release earlier this year to respond to me ASAP if they would like to review a copy that you intend to send to the Federal Register.

Mark

From: Wong, Fred - EBSA [redacted]@dol.gov]
Sent: Wednesday, October 13, 2010 9:53 AM
To: Uyeda, Mark T
Subject: RE: Thanks for your Voice Mail

Mark-
To give a better idea of our timing, the participant-disclosure regulation will be published first (possibly this week), followed by the fiduciary-definition regulation. If there is any further interest in the fiduciary-definition regulation, we can share a copy of the document we intend to send to the Federal Register, and/or schedule a call to discuss the regulation. The proposed rule is substantially similar to the version we sent to you earlier this year.

From: Uyeda, Mark T [redacted]@sec.gov]
Sent: Wednesday, October 13, 2010 9:22 AM
To: Wong, Fred - EBSA
Subject: Thanks for your Voice Mail

Fred: Thanks for your voice mail -- glad that you finally completed the OMB review process.

Mark

From: Uyeda, Mark T
To: Wong, Fred - EBSA
Subject: RE: Thanks for your Voice Mail
Date: Thursday, October 14, 2010 11:00:09 AM

Fred: Thanks again for offering the advance draft of the fiduciary-definition regulation. I have checked with the other SEC staff members who looked at the release earlier and they indicated that they did not need to see an advance copy or schedule a call to discuss. We look forward to reading the release when it is published.

Best regards,

Mark

From: Wong, Fred - EBSA [redacted]@dol.gov]
Sent: Wednesday, October 13, 2010 9:53 AM
To: Uyeda, Mark T
Subject: RE: Thanks for your Voice Mail

Mark-

To give a better idea of our timing, the participant-disclosure regulation will be published first (possibly this week), followed by the fiduciary-definition regulation. If there is any further interest in the fiduciary-definition regulation, we can share a copy of the document we intend to send to the Federal Register, and/or schedule a call to discuss the regulation. The proposed rule is substantially similar to the version we sent to you earlier this year.

From: Uyeda, Mark T [redacted]@sec.gov]
Sent: Wednesday, October 13, 2010 9:22 AM
To: Wong, Fred - EBSA
Subject: Thanks for your Voice Mail

Fred: Thanks for your voice mail -- glad that you finally completed the OMB review process.

Mark

From: Uyeda, Mark T
To: Wong, Fred - EBSA
Subject: Thanks for your Voice Mail
Date: Wednesday, October 13, 2010 9:22:14 AM

Fred: Thanks for your voice mail -- glad that you finally completed the OMB review process.

Mark

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: List of SEC Enforcement cases
Date: Tuesday, July 26, 2011 9:47:00 AM
Attachments: List of Cases for DOL 20110726.pdf

Tim,

Attached is a sample list of SEC enforcement cases per your request. Please let me know if we can be of further help.

Best regards,

Lourdes

Lourdes Gonzalez
Assistant Chief Counsel Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

List of cases

Sample cases involving recommendations/sales driven by compensation, not in best interest of customer:

Wells Fargo Securities LLC (f/k/a Wachovia Capital Markets LLC), Securities Act Release No. 9200, Exchange Act Release No. 64182 (April 5, 2011) (The Commission alleged that Wachovia charged undisclosed excessive markups in the sale of CDOs. More specifically, the Commission alleged that Wachovia marked down $5.5 million of equity to 52.7 cents on the dollar after the deal closed and it was unable to find a buyer. Months later, the investors paid 90 and 95 cents on the dollar. Unbeknownst to them, these prices were over 70 percent higher than the price at which the equity had been marked for accounting purposes. The Commission further alleged that Wachovia Capital Markets misrepresented to investors in a CDO that it acquired assets from affiliates "on an arm's-length basis" and "at fair market prices" when, in fact, 40 residential mortgage-backed securities were transferred from an affiliate at above-market prices.)

J.P. Morgan Securities Inc., Securities Act Release No. 9078, Exchange Act Release No. 60928 (Nov. 11, 2009) (The Commission alleged that J.P. Morgan Securities and two former managing directors made more than $8 million in undisclosed payments to close friends of certain Jefferson County commissioners. The friends owned or worked at local broker-dealer firms that performed no known services on the transactions. In connection with the payments, the county commissioners voted to select J.P. Morgan as managing underwriter of the bond offerings and its affiliated bank as swap provider for the transactions. The Commission further alleged that J.P. Morgan did not disclose any of the payments or conflicts of interest in the swap confirmation agreements or bond offering documents, yet passed on the cost of the unlawful payments by charging the county higher interest rates on the swap transactions.)

Auction Rate Securities Global Settlement (http://www.sec.gov/news/press/2009/2009-127.htm). (The Commission alleged as part of a global settlement, that several broker-dealers misrepresented to certain customers that auction rate securities ("ARS") were safe, highly liquid investments that were comparable to money markets. In late 2007 and early 2008, the firms knew that the ARS market was deteriorating, causing the firms to purchase additional inventory to prevent failed auctions. At the same time, however, the firms knew that their ability to support auctions by purchasing more ARS had been reduced, as the credit crisis stressed the firms' balance sheets. The Commission further alleged that the broker-dealers failed to make their customers aware of these risks and in mid-February 2008, these firms decided to stop supporting the ARS market, leaving their customers holding billions in illiquid ARS.)

Sample cases involving churning:

Donald A. Roche, Exchange Act Release No. 38742 (June 17, 1997) (The Commission found that a registered representative of a broker-dealer ("RR") churned the accounts of his customers. The frequent turnover in the accounts conflicted with the customers' expressed investment objectives, which was illustrated by the fact that the transaction costs associated with the level of trading in the accounts made it extremely unlikely that any of the customers would be able to break even, much less earn any profit. The Commission found that the RR had abused his control over the trading in the accounts of his customers to make numerous trades that placed his compensation ahead of the customers' best interests.).

J.W. Barclay & Co., Inc. et. al., Initial Decision No 239, 2003 SEC LEXIS 2529 (Oct 23, 2003) (The Commission found that a BD, acting through RR, executed over thirty trades in the customer's account. These trades generated $ 55,441 in commissions, half of which went to RR. The annualized portfolio turnover rate was 86 and the annualized break-even rate was 611%. Positions in the customer's account were typically closed out after only fifteen days. By each of these measures, trading in the customer's account was excessive in light of the customer's objective. The customer was sustaining large losses while the RR was generating substantial commission income for himself. Commissions also exceeded average monthly account equity by a significant amount.) *See also* In re Edgar B. Alacan, Exchange Act Rel. No. 49970 (July 6, 2004).

Sample cases involving principal transactions that were driven by benefit to the broker-dealer and were not in best interest of customer:

Leslie Arouh, Exchange Act Release No 62898 (Dec. 20, 2004); In the Matter of Leslie A. Arouh, 34 Act Release Nos. 51254 (Feb. 25, 2005) (Order denying motion for Reconsideration) and 50889 (Dec. 20, 2004); In the Matter of Leslie Arouh, Initial Decision No. 238 (Oct. 21, 2003) and 34 Act Release No. 46450 (Sept. 3, 2002) (The Commission found that Arouh arranged for his employer, First Union, to enter into a series of pre-arranged transactions with his largest client, an investment adviser. These trades allowed the investment adviser to improve the performance of certain advised accounts at the expense of other accounts. As a result of these trades, Arouh's sales group was given a $800,000 sales credit and Arouh was paid $415,000 in commissions.)

Sample cases involving excessive markups:

Andrew Gonchar et. al., Exchange Act Release No. 60506 (Aug. 14, 2009) (The Commission found that registered representatives of a broker-dealer interpositioned a 3rd party between CIBC and customers and charged customers undisclosed and fraudulently excessive markups).

SEC v. First Jersey Sec., Inc., 101 F.3d 1450, 1479 (2d Cir. 1996), *cert. denied*, 522 U.S. 812, 118 S. Ct. 57, 139 L. Ed. 2d 21 (1997) (The court found that the evidence overwhelmingly established that the defendants wilfully and deliberately violated established law forbidding excessive markups.)

Sample cases involving revenue aharing

Edward D. Jones & Co., Securities Act Release No. 8520, Exchange Act Release No. 50910 (Dec. 22, 2004) (The Commission found that Edward Jones failed to disclose that it received tens of millions of dollars from certain Preferred Families of mutual funds each year, on top of commissions and other fees, for selling their mutual funds. Edward Jones also failed to disclose that such payments were a material factor, among others, in becoming and remaining an Edward Jones Preferred Family. Edward Jones provided the Preferred Families with certain benefits not otherwise available to non-preferred families including, among other things, exclusive shelf space for the sale and marketing of their funds and exclusive access to Edward Jones' investment representatives and customer base.)

Morgan Stanley DW Inc., Securities Act Release No. 8339, Exchange Act Release No. 48789 (Nov. 17, 2003) (The Commisison found that Morgan Stanley failed to disclose that it paid increased compensation to RRs who sold funds that substantial fees marketing to the firm. Further, the Commission found that Morgan Stanley also failed to adequately disclose at the point of sale the higher fees associated with large ($100,000 or greater) purchases of Class B shares of certain of its proprietary mutual funds. The Commission also found that , in connection with its recommendation to customers to purchase certain Class B shares, Morgan Stanley did not adequately inform customers at the point of sale that large purchases of such shares were subject to higher fees.)

Sample cases involving mutual fund share classes:

Raghavan Sathianathan, Exchange Act Release No. 54722 (Nov. 8, 2006) (The Commission found that RR recommended that customers purchase higher-priced class B shares when customers could have instead purchased class A shares with no front-end load).

In re IFG Network Securities, Inc., Exchange Act Release No. 54127 (July 11, 2006) and Initial Decisions Release No. 273, 2005 SEC LEXIS 335 (Feb. 10, 2005) (The Commission found that RR violated Exchange Act Section 10(b) and Rule 10b-5 thereunder and Securities Act Rule 17(a) by recommending that his customers invest in Class B, rather than Class A, shares of mutual funds while failing to disclose (a) the differences in expense structure of investments in these different share classes; (b) that Class A shares would outperform Class B shares for investments of at least $ 250,000 (because of a breakpoint discount); and (c) that he received a larger commission from the investors' purchase of Class B shares than he would have received had the customers invested in Class A shares.)

Sample cases involving mutual fund and variable annuity switching:

Scott Epstein, Exchange Act Release No. 59328 (Jan. 30, 2009) (The Commission found that recommendations by broker-dealer registered representative ("RR") that customers switch mutual funds generated substantial production credits for RR, but did not serve the interests of his customers).

Raymond A. Parkins, Jr., Securities Act Release No. 7896, Exchange Act Release No. 43336, Advisors Act Release No. 1898 (Sep. 25, 2000) (The Commission found that RR "induced his investment advisory clients to switch variable annuities by providing them with unfounded, false, and misleading justifications for the switches and by misrepresenting or omitting to inform them of the sales charges associated with the switches. As a result of [RR's] fraudulent conduct, his clients incurred unnecessary sales charges […] and, in some cases, lost a portion of their investment principal. [RR], on the other hand, received commissions”).

Charles E. Marland & Co., Inc., 45 S.E.C. 632 (1974) (The Commission upheld the NASD's finding that RR violated Article III, Sections 1 and 2 of the NASD Rules of Fair Practice in that they improperly recommended to many customers the liquidation of various investment company shares and the reinvestment of the proceeds in other investment companies having similar investment objectives, thereby generating additional commissions for their own benefit.)

Russell L. Irish, 42 S.E.C. 735 (1965), *aff'd*, Irish v. SEC, 367 F.2d 637 (9th Cir. 1966), *cert. denied*, 386 U.S. 911 (1967) (The Commission found that, contrary to the customers' best interests and for his own gain, a RR induced purchases and redemptions of mutual fund shares in the accounts of customers which were excessive in size and frequency in the light of the character of such accounts. More specifically, registrant followed a policy of recommending to customers that they redeem the shares of one mutual fund and use the proceeds to buy those of another fund, or shift from one series to another series of the same mutual fund, which transactions required the payment of a new sales commission.)

Gregory P. Waldon, Exchange Act Release No. 48419 (Aug. 29, 2003) (The Commission found that RR "solicited customers to switch out of investments they already had in variable annuities and use the funds to purchase new variable annuities, incurring costs and expenses in the process," and "profited from the sales while the customers incurred increased costs or risks from the transactions, without offsetting benefits").

Sample cases involving investment adviser dumping:

SEC v. ICP Asset Management, LLC, ICP Securities, LLC, Institutional Credit Partners, LLC, and Thomas C. Priore, Litigation Release Nos. 22024 (July 1, 2011) and 21563 (June 22, 2010) (The Commission's civil suit alleged that an investment adviser (ICP, which managed several investment vehicles, including four collateralized debt obligations whose assets primarily consisted of mortgage-backed bonds) and other Defendants repeatedly caused the CDOs to overpay for bonds — often in order to protect another ICP client from realizing losses or to make money for ICP. ICP also defrauded the CDOs by structuring trades in ways that disadvantaged the CDOs and allowed ICP and its affiliates to reap massive, risk-free, and undisclosed profits at the CDOs' expense. The Defendants' abuses of their fiduciary responsibilities to clients included numerous other improper practices, such as entering into prohibited investments, failing to obtain required approvals for trades, misrepresenting the value of holdings, and deceiving clients, investors, and other parties about the CDOs' investments.)

SEC v. Nathan Chapman, Jr., Litigation Release No. 18203 (June 26, 2003) (The Commission's complaint alleges that, in an effort to rescue a failing IPO, Chapman, Bravo, Baldwin and Brown engaged in fraudulent conduct, including …. placing close to one-third of the IPO shares into the account of an advisory client).

List of cases

Sample cases involving investment adviser undisclosed principal transactions:

In the Matter of Legg Mason Wood Walker, Inc., Advisers Act Release No. 1781 (Jan. 11, 1999) (The Commission found that Legg Mason arranged to indirectly transact as a principal in transactions with its advisory clients, without the required disclosure and consent of the client. On such occasions, an order to buy stock for the account of an advisory client was entered with the Legg Mason trading desk. A Legg Mason trader transmitted the order to another market maker for execution, purportedly on an agency basis. Without disclosure to, and consent of, the client, however, Legg Mason simultaneously arranged to sell an identical amount of the stock to the second market maker. The second market maker in turn sold the same amount of stock to Legg Mason, in order to fill the order of the Legg Mason advisory client. This arrangement gave Legg Mason the potential to make a trading profit from the orders of advisory clients, or to dispose of an unwanted inventory position.)

SEC v. Rauscher Pierce Refsnes, Inc., and James R. Feltham, Litigation Release No. 15613 (Jan. 8, 1998); SEC v. Rauscher Pierce Refsnes, Inc. et al., 17 F. Supp. 2d 985 (D. Ariz. 1998); and In the Matter of Rauscher Pierce Refsnes, Inc., Dain Rauscher Inc., and James R. Feltham, Advisers Act Release No. 1863 (Apr. 6, 2000) (The Commission alleged that Rauscher and Feltham defrauded their financial advisory client, the State of Arizona Department of Administration ("DOA"), in connection with DOA's issuance of $129,640,000 of Series 1992B Refunding Certificates of Participation (the "1992B COPs") by selling certain US Treasury securities (the "escrow securities") to the State at above-market prices. Inflating the escrow securities' prices reduced the yields on those securities and enabled Rauscher to make illegal profits at the expense of the federal government while purporting to comply with the federal tax laws governing the 1992B COPs offering, a practice commonly referred to as "yield burning." Rauscher allegedly took an undisclosed $707,037 profit on its sales to DOA.)

From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	FINRA"s Customer Account Statements Proposal
Date:	Wednesday, September 14, 2011 12:15:04 PM
Attachments:	tiaa-cref comment letter.pdf sifma comment letter.pdf

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Hi Tim.

I hope you are doing well. I was hoping that you and your colleagues could help us with a new issue.

We wanted to flag for you a comment letter that we received from TIAA-CREF regarding a FINRA proposal concerning customer account statements. By way of background, in May 2009, we noticed FINRA's rule proposal governing customer account statements, under which statements would have been required to be delivered on a monthly basis, instead of the current quarterly requirement. In response to comments to that proposal, FINRA recently filed an amendment which carved out a number of specific circumstances from the monthly statement requirement.

The notice of the amendment is available at: http://www.sec.gov/rules/sro/finra/2011/34-64969.pdf <http://www.sec.gov/rules/sro/finra/2011/34-64969.pdf>

TIAA-CREF, in its comment letter, argues that transactions effected in employer-sponsored retirement plans should be generally excluded from the monthly requirement. It suggests that FINRA's attempt to exclude certain retirement plan transactions effectively provides no relief. SIFMA made similar arguments, and their letter is attached for reference.

We would be grateful for your thoughts on the concerns raised and potential implications. We believe FINRA would be more than happy to benefit from your expertise as well. We are obligated to act on the proposal by the end of October, and FINRA is anticipating providing a draft response to us in the next few weeks. If you are available, perhaps we could find a time to have a call with FINRA early next week?

Kind regards,

Lourdes
[redacted]

Adym Rygmyr
Managing Director & Broker-Dealer General Counsel
Tel: 303-626-4229
Fax:303-626-4050

August 22, 2011

VIA ELECTRONIC DELIVERY

Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: SR-FINRA-2009-028; Amendment No. 1 to Proposed Rule Change to Adopt FINRA Rule 2231 (Customer Account Statements) in the Consolidated FINRA Rulebook

Dear Ms. Murphy:

TIAA-CREF Individual & Institutional Services, LLC ("TC Services")[1] writes in further support of its prior requests that FINRA wholly exclude all transactions within employer sponsored retirement plans ("retirement plans") from the monthly customer account statement requirement within proposed FINRA Rule 2231 ("Proposed Rule").[2] Our earlier comments[3] demonstrate how monthly statements are not necessary in this limited context to satisfy FINRA's stated goals of providing retail investors with the opportunity to review their accounts in a timely manner for errors or possible identity theft.

There exist today other already required client statements and other access points that provide more timely notice to participants of account activity in both a more efficient and less expensive manner. Moreover, we have established that the incremental benefit, if indeed any, associated with monthly statements within retirement plans is far outweighed by the

[1] TC Services is registered with the Securities and Exchange Commission ("SEC") as a broker-dealer and is a member of FINRA. TC Services is wholly owned by Teachers Insurance and Annuity Association of America ("TIAA"), and both TC Services and TIAA are members of the TIAA-CREF group of companies, which comprise one of the world's largest private retirement plan systems. For over 90 years, TIAA-CREF has helped people in the academic, research, medical and cultural fields plan for and live through retirement.

[2] Notice of Filing of Proposed Rule Change and Amendment No. 1 to Adopt FINRA Rule 2231 (Customer Account Statements) in the Consolidated FINRA Rulebook, Exch. Act Rel. No. 34-64969 (July 26, 2011), 76 Fed. Reg. 46,340 (August 2., 2011) (the "Amended Proposed Rule Notice").

[3] The Commission sought and received comments on a prior version of proposed FINRA Rule 2231 in May 2009 (*See* Exch. Act. Rel. No. 59,921 (May 14, 2009), 74 Fed. Reg. 23912 (May 21, 2009) ("Prior Proposed Rule Notice"). TC Services submitted comment letters on the Prior Proposed Rule Notice dated June 11, 2009 and July 13, 2009.

proposal's costs. Were FINRA to decline to further modify the proposal in a manner that wholly excludes transactions within retirement plans from the monthly statement requirement, the proposal will not meet the standards for rulemaking applicable to FINRA[4], would not meet the type of fulsome cost and benefits analysis suggested by a recent judicial decision[5] and would run afoul of recent executive orders.[6]

In responding to our earlier comments, FINRA re-proposed the Rule to exclude certain retirement plan transactions—namely, recurring transactions consistent with the requirements of Rule 10b-10 or related no-action, interpretive or exemptive relief issued by the SEC. We are cognizant of the challenge FINRA faces in rulemaking—crafting meaningful exemptions from a proposal that are not so unnecessarily broad as to eviscerate the intent of the proposal. In this matter, we believe after reviewing FINRA's analysis in re-proposing the rule that FINRA did grasp the justification in exempting retirement plan transactions, tried to accommodate this stance in the re-proposal, but inadvertently did so in a manner that effectively provides no relief whatsoever for retirement plans.

The re-proposal would still require monthly statements within employer sponsored retirement plans for non-recurring transactions such as occasional participant re-allocations. This will result in retirement plan participants receiving more statements than they currently do. Under the proposal they will now receive three—an immediate confirmation statement and monthly statement for non recurring transactions, and the quarterly statement reflecting transactions made under a periodic or investment company plan. As TIAA set forth in an earlier comment letter, and independently supported by other peer firms[7], requiring monthly statements within retirement plans is a fix costing in the millions of dollars for firms.

We are nonetheless hopeful we have found a mutually agreeable resolution. And after recapping why the monthly statement portion of the proposal is not justifiable for retirement plan transactions—recurring or not—we provide sample language FINRA can adopt to amend the proposal to exempt retirement plans.

A. FINRA's Discussion of the Benefits and the Corresponding Burdens on Competition is Cursory and Does Not Meet its Regulatory Requirements.

Exchange Act Rules 15A(b)(6) and (9) require FINRA rulemaking initiatives be designed to prevent fraudulent and manipulative acts and not impose any burden on competition not necessary or appropriate. Similarly, the instructions to Form 19b-4 require FINRA explain in detail why the proposed rule change does not unduly burden competition or efficiency. Form 19b-4 further cautions that "a mere assertion that the proposed rule change is consistent with those requirements is not sufficient."

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[4] As noted in TC Services' prior comment letter of July 13, 2009, we believe the Proposed Rule is inconsistent with the requirements of Section 15A of the Exchange Act and thus should not be approved by the Commission pursuant to Section 19 of the Exchange Act.

[5] *See* Business Roundtable v. S.E.C., 2011 WL 2936808 (C.A.D.C.,2011).

[6] *See* Executive Order 13563, Improving Regulation and Regulatory Review, 76 Fed. Reg. 3821 (Jan. 21, 2011) ("Order 13563") and Executive Order 13579, Regulation and Independent Regulatory Agencies, 76 Fed. Reg. 41,587 (July 14, 2011) ("Order 13579").

[7] *See* Amended Proposed Rule Notice at 46,342.

This required level of analysis and detail is noticeably absent from the proposal when viewed in the context of employer sponsored retirement plans. By way of example, and perhaps most glaringly, FINRA's entire justification of the burden on competition consists of the following: "FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act."[8]

As to providing detail as to the need for monthly statements within retirement plans, FINRA goes no further than to conclude, "[we] believe that the proposed rule change will provide customers with critical information regarding their accounts and will allow them to review their statements in a timely manner…"[9] FINRA cites no studies, empirical data, or specific instances of past harm in support thereof. Moreover, this allegation ignores that customer statements currently provided to customers already serve the same purpose of customer protection—specifically immediate confirmation statements and quarterly account statements. This allegation also ignores that were FINRA to find those two existing customer reports somehow insufficient—to which they have offered no evidence—less expensive and more timely alternatives exist. Customers can obtain account information almost immediately through web access or by phoning national call centers to speak with a financial associate or access automated self-help phone systems.

T-C Services estimates the costs of developing the capability to provide monthly statements for just non recurring transactions will exceed one million dollars. Given that many TIAA-CREF investment products are managed on an at cost basis, additional expense flows through to participants. Besides hard costs, the proposal's toll on environmental resources is significant. We estimate providing monthly statements for the nonrecurring transactions will require millions of additional pages of paper annually. While FINRA did acknowledge our earlier environmental estimates with regards to requiring monthly statements for all transactions, it seemingly dismissed them without meaningful consideration.

Given the scant record provided by FINRA, we believe the SEC cannot conclude that the proposal should be approved as consistent with applicable statutory requirements with specific regards to requiring monthly statements for any transactions within retirement plans. TC Services and other commenters have simply provided too much evidence that FINRA's goals are either already met through existing client statements or that there are more effective and less expensive alternatives.

B. In Reviewing this FINRA Proposal, the SEC Should Consider by Way of Analogy What Courts Find as Adequate Consideration of the Costs and Burdens of Regulatory Rulemaking.

We believe the failure to adequately address the economic burdens particularly damaging in light of a recent Court of Appeals decision involving Exchange Act Rule 14a-11, the Business Roundtable case.[10] While this case involved the review of the

[8] *See* Amended Proposed Rule Notice Section No. 4, Self-Regulatory Organization's Statement on Burden on Competition at 46,343.

[9] *Id.*

[10] *See* Supra Note 5.

Commission's rulemaking under a somewhat different regulatory standard, we nonetheless find instructive the Court's views on what constitutes a fulsome consideration of the costs and burdens of a regulatory rule proposal.

By way of example, the Court will scrutinize a proposal that opportunistically frames the benefits of a proposal or fails to respond to substantial problems raised by commenters.[11] The Court will discount support in the form of intangible or less readily quantifiable benefits.[12] The Court warns that regulators should be hesitant to rely upon insufficient empirical data when concluding the worth of a proposal's benefit.[13] Regulatory statements should address the probability the rule will be of no net benefit.[14] Contrast this required analysis with comments FINRA acknowledges receiving:

- "Several commenter expressed concern that customer account statements are less effective at helping customers spot errors, identify theft or other potential problems than …more timely alternatives."[15] FINRA's response was a simple "we disagree" without supporting detail.[16]

- "The commenters state that [requiring monthly statements for retirement plans] would add confusion and place broker-dealers at a competitive disadvantage with few if any benefits."[17] FINRA did not address this directly.

- "Commenters state that the practical benefits received by investors from monthly statements versus quarterly statements are substantially disproportionate to the inherent cost under a cost benefit analysis."[18] FINRA responded in cursory fashion with the cost benefits conclusion noted above in Section A.

C. Extending the Proposal's Coverage to Retirement Plan Transactions is at Odds with President Obama's Executive Orders 13563 and 13579.

The application of the monthly statement requirement against retirement plans would also run afoul of President Barack Obama's recent series of executive orders asking federal agencies, including independent agencies, to find ways to improve and streamline their regulations.[19] And while perhaps not directly governing the rulemaking of FINRA, we nonetheless find the Order's guidelines instructive. These Orders collectively ask independent federal agencies review regulations with the following goals in mind.

[11] Business Roundtable v. S.E.C., 2011 WL 2936808, at 5.

[12] *Id.*, at 6.

[13] *Id.*

[14] *Id.*, at 11.

[15] *See* Amended Proposed Rule Notice at 46,342.

[16] *Id.*

[17] *Id.* at 46,343.

[18] *Id.* at 46,342.

[19] *See* supra note 6.

- "identify and use the best, most innovative, and least burdensome tools for achieving regulatory ends. [Our regulatory system] must take into account benefits and costs…"

- "propose or adopt a regulation only upon a reasoned determination that is benefits justify its costs…"

- "tailor its regulations to impose the least burden on society…"

- "select in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental [benefits]…" [emphasis added][20]

Allowing retirement plans to continue to rely upon the current construct of immediate confirmation statements for non-recurring transactions and quarterly statements for both non and recurring transactions is consistent with the Orders. The requested exemptive carve out would address FINRA's stated goals in a manner that is less burdensome, more cost effective and levies a lesser toll on the environment.

D. Proposed Language For an Employer Sponsored Retirement Plan Carve-Out.

To best address the above concerns, we propose that a new carve-out be added to Section (c)(2) of proposed FINRA Rule 2231. This could be accomplished by adding a new paragraph (f) which specifically excludes "transactions made within employer-sponsored retirement plans." Furthermore, we suggest that additional Supplementary Materials be added to the Proposed Rule to clarify what is meant by an "employer-sponsored retirement plan" and to specifically exclude brokerage window accounts. We suggest the following:

> The term "employer-sponsored retirement plan" means employee pension plans covered by the Employee Retirement Income Securities Act of 1974, as amended, plans described in Internal Revenue Code ("IRC") sections 401(a), 401(k), 403(b), 408(k), 408(p), 415(m) or 457(b), government and church plans defined in IRC section 414, deferred compensation plans of state and local governments and tax-exempt organizations under IRC section 457(f) and nonqualified deferred compensation arrangements established or maintained by employers or plan sponsors, as well as any investment alternatives designated by such plans into which participant and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts (but excludes "brokerage windows," "self-directed brokerage accounts," or similar plan arrangements that enable participants and beneficiaries to select investments beyond those designated by the plan).[21]

[20] Order 13563, 76 Fed. Reg. at 3821.

[21] We have largely modeled this provision using the concept of a designated investment alternative that is set forth in the recent Department of Labor ("DOL") regulation governing participant disclosures. Under this regulation, a "designated investment alternative" is defined as "any investment alternative designated by the plan into which participants and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts. The term 'designated investment alternative' shall not include 'brokerage windows,' 'self directed brokerage accounts,' or similar plan arrangements that enable participants and beneficiaries to select investments beyond those designated by the plan. (*See* DOL Regulation § 2550.404-a-5(h)(4)). This concept is equally

We acknowledge that, in some cases, a Plan may make a brokerage window (or self-directed brokerage account) available as an investment option to its Plan participants. The brokerage window allows the Plan participant to invest in a wide variety of investments that are not typically pre-screened on behalf of the Plan. For this reason, we believe that brokerage window accounts should be subject to the monthly statement requirement unless one of the Proposed Carve-Outs otherwise apply and should not fall under the more general employer-sponsored retirement plan carve out that we request.

*   *   *

We would welcome the opportunity to discuss this matter further. If you have any questions regarding this comment letter, please contact me at 303.626.4229.

Very truly yours,

Adym W. Rygmyr
Managing Director & Broker-Dealer General Counsel
TIAA-CREF Individual & Institutional Services, LLC

cc: Chairman Mary L. Schapiro
Commissioner Kathleen L. Casey
Commissioner Elisse B. Walter
Commissioner Luis A. Aguilar
Commissioner Troy A. Paredes
Robert Cook, Director, Division of Trading and Markets
Mark Cohn, General Counsel, Office of the General Counsel
Katherine England, Assistant Director, Division of Trading and Markets
Marc Menchel, Executive Vice President and General Counsel for Regulation

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applicable to Plans not subject to ERISA and, therefore, we have tailored our proposed Supplementary Material definition of "employer sponsored retirement plan" accordingly.

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August 24, 2011

VIA ELECTRONIC MAIL (rule-comments@sec.gov)

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Release No. 34-64969; File No. SR-FINRA-2009-28; Filing of Amendment No. 1 to Proposed Rule Change to Adopt FINRA Rule 2231 (Customer Account Statements) in the Consolidated FINRA Rulebook

Dear Ms. Murphy:

The Securities Industry and Financial Markets Association ("SIFMA")[1] appreciates the opportunity to comment on the referenced proposal, in which FINRA seeks the Securities and Exchange Commission's ("SEC") approval to adopt NASD Rule 2340 as FINRA Rule 2231, with a number of material substantive changes. Through the filing of Amendment No. 1, FINRA proposes to exclude certain account activities from the proposed monthly account statement delivery requirement, clarify when written consent is required to send account statements and other account communications to third parties, and require that members continue to send statements and other account communications to customers, even when directed by the customer in writing to send such account information to a third party.[2]

[1] The Securities Industry and Financial Markets Association ("SIFMA") brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association ("GFMA"). For more information, visit www.sifma.org.

[2] *See* Securities Exchange Act Release No. 64969 (July 26, 2011), 76 *Federal Register* 46340 (August 2, 2011) (hereinafter, the "Proposal").

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SIFMA very much appreciates a number of specific changes that FINRA made from the original rule proposal,[3] which were responsive to the comments of SIFMA and others. In particular, we note that FINRA has:

- acknowledged through proposed Rule 2231(c)(2) that certain types of routine activity that do not involve the active participation of the customer ("passive activity") should not trigger a monthly account statement delivery obligation;

- revised the rule text to clarify that members are not required to obtain the written consent of the customer before sending statements or other account communications for employee-related accounts pursuant to NASD Rule 3050 and Incorporated NYSE Rule 407; and

- confirmed in the response to comments section of the Proposal that members are not required to send account statements to other broker-dealers.

While substantial improvements have been made, SIFMA remains concerned about various provisions in proposed FINRA Rule 2231. Respectfully, as described in detail below, we believe that certain of the changes required by the proposed Rule would impose significant additional costs on FINRA member firms that could outweigh the regulatory benefits of such changes, which have not been clearly articulated by FINRA in the Proposal. As always, SIFMA welcomes the opportunity to discuss with FINRA or the SEC staff any of our comments to the proposed rule changes. Our specific comments are as follows.

I. Exclusions for Passive Activity

A. General Comments

Although SIFMA fully supports and appreciates the intent of FINRA's proposed exclusions from the monthly reporting obligation for certain passive activities found in proposed Rule 2231(c)(2) and notes that these changes would help bring the Rule into better alignment with industry practices, we believe the passive activity exclusions need to be further refined. In our First Comment Letter, we identified five types of passive activity that, in our view, should not trigger a monthly account statement delivery obligation. The last category of passive activity was for "pre-authorized and regularly

[3] Securities Exchange Act Release No. 59921 (May 19, 2009), 75 Federal Register 23912 (May 21, 2009) (hereinafter, the "Original Rule Filing"). SIFMA submitted comments on FINRA's Original Rule Filing in the Spring of 2009. *See* letter from Sean C. Davy, Managing Director, Corporate Credit Markets Division, SIFMA, dated June 11, 2009 (hereinafter "First Comment Letter"), *available at* http://www.sifma.org/issues/item.aspx?id=903.

scheduled investments in and redemptions from registered investment companies and related distributions from the account (*e.g.*, required minimum distributions from certain tax qualified accounts)." FINRA did not include this type of activity in the list of exclusions in paragraph (c)(2)(B) and offered no explanation for choosing not to. Given that these passive transactions are comparable to the other four activities proposed to be excluded from the monthly statement delivery obligation, we fail to understand why FINRA would not include them. If FINRA is concerned that fund redemptions and related distributions represent withdrawals from the account, thus presenting a greater fraud risk, SIFMA emphasizes again that these concerns should be mitigated by the fact that such transactions are pre-authorized, regularly-scheduled and systemic in nature. SIFMA, therefore, respectfully renews its request in this regard and urges FINRA to exclude the above-described activity from the monthly account statement delivery requirement.

SIFMA also is concerned that proposed Rule 2231(c)(3), which provides that members may rely on an exclusion in paragraph (c) "only if customers are provided access to current account information on their accounts via the Internet *and* by telephone," will substantially reduce the availability of the passive activity exclusions. We understand that, as a policy matter, FINRA wants customers to have ready access to their account information in order for member firms to be permitted to suppress the monthly statement and SIFMA fully supports the need for investor transparency. However, we respectfully submit that providing customers with access to such information *either* via the Internet *or* by telephone should suffice for these purposes, and would better accommodate the variety of size, structure and technology platforms among FINRA member firms.

In addition, we assume that what FINRA intends with this provision is to require that members *make available as an option* to customers online access to current account information, rather than requiring that customers actually "activate" or "enroll" online access for their accounts. If that was not FINRA's intention with this provision, the costs associated with this provision would be enormous.[4]

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[4] We note that, for FINRA member firms with certain business models, "adoption rates" for online account access and electronic delivery of statements is relatively low. By way of example, one firm notes that only 11% of the approximately 5 million customer accounts it custodies have opted to receive statements electronically and only 40% of such customers have opted to view accounts online. If FINRA intended to condition the availability of the exemptions in the Rule on online account enrollment or activation, the Rule would result in 60% more account statements being printed and mailed monthly, instead of quarterly. For just the one firm in this example, this would equate to the mailing of an additional 925,000 statements per month, resulting in 7.4 million additional statements per year, at an additional annual cost of $5.7 million.

Accordingly, we respectfully submit that proposed Rule 2231(c)(3) be revised to read as follows:

> "A member may rely on an exclusion. . . .only if the member makes available to its customers the option to access current account information via the Internet or by telephone."

SIFMA also seeks confirmation that, for purposes of proposed Rule 2231(c), a clearing firm is permitted to rely on its introducing firm "clients" to satisfy the conditions to the exclusions from monthly delivery of account statements, including but not limited to: disclosing the fees and charges contemplated under (c)(2)(D); making available current account information via the Internet or telephone under (c)(3); and receiving written instructions for sending account statements and other account communications to other persons or entities under Supplementary Material .02. This would be consistent with the well established roles and responsibilities of introducing firms and clearing firms in the securities industry. We further request that FINRA specifically state in Rule 2231(c) or Supplementary Material that nothing in this Rule is intended to alter the allocation of responsibilities between a clearing firm and introducing broker-dealers as agreed to in fully-disclosed clearing agreements, amendments, related documents, or under course of conduct.

B. Bank Sweep Activity

Proposed FINRA Rule 2231(c)(2)(C) would exclude from the monthly account statement delivery requirement the following account activity: "the transfer of uninvested customer credit balances into or out of money market mutual funds or bank deposits pursuant to a 'sweep program' pursuant to consent of the customer and implemented consistent with applicable regulatory guidance, *except where the customer's balance in the bank deposit "sweep program" during the period exceeds the amount insured by the FDIC coverage.*" (Emphasis added). Although SIFMA greatly appreciates FINRA acknowledging that routine sweep account activity is not the type of account activity that should trigger a monthly statement, we believe the proposed limitation, for those instances in which the customer's bank sweep program balance exceeds applicable FDIC insurance limitations, should be deleted from the Rule.

SIFMA understands from its member firms that tying the generation or suppression of customer account statements to cash balances held in a customer's specific bank sweep account would be complex and would require significant and costly technology development enhancements to firms' systems. We understand that typical firm statement systems today are unable to generate or suppress statements based on the balances held in bank sweep deposit accounts, but rather would need to receive a file of accounts to include or exclude based on the balances and then apply "logic" to generate/suppress statements. The logic required to do this does not exist currently and would need to be developed and tested. We also understand that firms would need to create the necessary files to feed the statement systems once the logic is built, although creating the file is a simpler task. We understand from one firm that the development work required to build the logic and create the file would take six months to implement and test – and this would only permit generation/suppression of statements by reviewing balances at the account level.

Even if firms were to make the necessary systems changes to trigger statements based on the balance a particular account has in a bank deposit account under a sweep program, however, SIFMA believes this approach could be potentially misleading to customers because the calculation in many cases simply could not take account of the complicated aggregation rules of FDIC insurance. Under the FDIC insurance regime, all of a person's deposits held in each ownership category must be aggregated for purposes of applying the coverage limitation. As such, if a client has multiple sweep accounts held in the same right and capacity, the deposit account balances must be counted together for FDIC insurance purposes. In addition, trust accounts are treated separately and the FDIC coverage varies depending on the type of trust and the number of beneficiaries, and in some cases, their proportionate interest. Beyond sweep deposits, to determine FDIC coverage, a firm also would need to review CDs and other deposits the client holds with the same bank. If the sweep bank is one that permits clients to open deposit accounts directly, such accounts also would affect the determination of a client's FDIC coverage and the broker-dealer in many cases will not have access to this information. Although registered representatives may help a client analyze the FDIC coverage applicable to all the accounts a client and the other members of the client's household maintain, systematically tracking this information in a way that would permit firms to generate or suppress account statements is simply not possible in many cases.

The Rule as proposed would require firms to expend significant amounts of time and money to implement systems that monitor and calculate bank deposits and provide notice, in the form of an account statement, to customers that *may have* exceeded FDIC coverage limits when such requirements are not imposed by any regulations governing the activities of the banks that are in receipt of the deposits. In fact, although the FDIC provides tools to assist depositors in determining whether or not they have exceeded the limits, it does not require that such calculations be performed, or notices be sent that the limits have been exceeded, by the banks which it insures. Such calculations are recognized as the responsibility of each depositor. Moreover, a monthly account statement, being nothing more than a report of the condition of an account at a specific point in time that, by necessity, is not received at least until several days after that point in time has passed, is not the best or most effective means of communicating the information that coverage limits may have been exceeded.[5] For example, as bank sweeps occur whenever there is a free credit balance in the brokerage account, the receipt of funds in the account, including the receipt of interest and dividends, at the end of one statement period (which pursuant to

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[5] We discuss below that FINRA should consider a broad investor education initiative on this point. *See* Section VII, "Opportunity for Investor Education," *infra*.

the proposed rule is an activity that by itself would not require delivery of a monthly statement), would require a statement to be delivered if the swept cash might cause an excessive amount to be on deposit at the bank, even if the funds that had been received are invested on the first day of the following statement period. Rather than the statement providing helpful information to the customer, it is more likely to generate confusion.

For the above reasons, we believe that the Rule requires much of broker-dealers in order to provide something that would be of very limited utility for customers. We believe that prominent disclosure on customer account statements and applicable website pages that uninvested cash amounts in excess of applicable FDIC insurance coverage limits are uninsured, along with compliance with the existing regulatory guidance on the use of bank sweep programs,[6] should be sufficient for customers to make an informed decision about whether to reduce the cash balance of their bank sweep accounts. Furthermore, we note that members may rely on this exclusion to provide statements quarterly instead of monthly only when customers are provided current information on customer accounts via the Internet and by telephone.[7] Accordingly, customers of firms relying on this exception already would have immediate access to this cash balance information.

II. <u>Exclusion for Rule 10b-10 Activity</u>

Proposed FINRA Rule 2231(c)(1) would permit quarterly account statements to be sent to customers instead of monthly account statements if "[t]he member relies on an appropriate rule, regulation, release, interpretation, 'no-action' position or exemption issued by the SEC or its staff that (A) specifically applies to the fact situation of the activity; (B) provides relief from the immediate transaction confirmation delivery requirements of SEC Rule 10b-10; and (C) permits quarterly delivery of customer account statements." SIFMA fully supports proposed Rule 2231(c)(1). However, proposed 2231(c)(3) provides that a member may rely on the exclusions in "this paragraph (c)" only if customers are provided access to current information on their accounts via the Internet and by telephone.[8]

SIFMA does not believe this condition should apply to the exclusion in paragraph (c)(1) for quarterly statements furnished by members pursuant to SEC guidance. Without exception, the SEC guidance upon which the member would be relying already would impose whatever conditions the SEC or its staff felt appropriate; indeed, FINRA

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[6] *See* NYSE Information Memo 05-11 (February 15, 2005). *See also* Securities Exchange Act Release No. 55431, 72 Federal Register 12862 (March 19, 2007) (proposing SEC Rule 15c3-3(j)).

[7] As noted above, SIFMA believes this condition should be revised to permit reliance on this and the other passive activity exclusions when customers are provided the option to access current information on their accounts *either* via the Internet *or* by telephone.

[8] *Id*.

specifically states in proposed Supplementary Material .01 that members remain subject to any conditions imposed by such guidance and that "FINRA Rule 2231 is not intended to alter any such conditions or requirements."

SIFMA, therefore, respectfully requests that the rule text be amended to make clear that the condition in proposed paragraph (c)(3) apply only to the "passive activity" exclusions in paragraph (c)(2) and not the exclusion for quarterly statements under existing SEC dispensations in paragraph (1).

III. Transmission of Statements to Other Persons or Entities

Proposed Supplementary Material .02, Transmission of Customer Account Statements to Other Persons or Entities, provides that "[e]xcept as required to comply with NASD Rule 3050 and Incorporated NYSE Rule 407, a member may not address and/or send account statements or other communications relating to a customer's account to other persons or entities, unless (a) the customer has provided written instructions to the member to send such statements or communications to such person or entity; and (b) the member continues to send such statements or communications, monthly or quarterly as applicable in accordance with this Rule, directly to the customer either in paper format or electronically as provided in Supplementary Material .03 below."

Although SIFMA appreciates that FINRA has clarified that members are not required to obtain the written consent of the customer before sending duplicate statements and other communications pursuant to NASD Rule 3050 and NYSE Rule 407, SIFMA believes this exception should be broadened under the same logic to permit members to send duplicates to an employer that is a Registered Investment Company or Registered Investment Adviser, both of which are also required to obtain this information about their associated persons' personal securities dealings pursuant to Rule 17j-1 under the Investment Company Act of 1940 and the provisions of an investment adviser's code of ethics as required by Rule 204A-1 under the Investment Advisers Act of 1940, respectively.

SIFMA also is very concerned about the impact of the new requirement in proposed Supplementary Material .02 (b) that requires members to continue to send account statements or other account communications to the customer directly, even when the customer has provided written instructions to send such account documentation to a third party. We believe that the approach of Incorporated NYSE Rule 409(b) has served both the investing public and the industry quite well and SIFMA is unaware of any problems in this area that would justify such a substantial and costly expansion of account statement delivery obligations. The cost burdens associated with this new requirement would be particularly severe for member firms where customers have not elected to receive electronic account communications.[9]

Moreover, we believe that imposing an obligation to send sensitive customer information to the customer's address in all cases may in fact increase the risk of breaches of customer confidentiality and worse yet potential fraudulent account activity. For example, an elderly customer living in a nursing home may wish to send account statements and information directly to his or her attorney, as opposed to the nursing home or other permanent residence. Permitting the customer in this example to suppress delivery of statements to his or her address of record would enhance security of the account by greatly reducing the possibility that the account information would be intercepted by an unknown third party.

Accordingly, SIFMA respectfully requests that FINRA delete Supplementary Material .02 (b) from the proposed rule.

Alternatively, FINRA could model proposed Supplementary Material .02 after the requirements of Incorporated NYSE Rule 409(b) for accounts over which the customer has provided a power of attorney,[10] and set out the requirements of .02(a) and (b) disjunctively, thus providing firms with greater flexibility to comply with Rule.

If FINRA were to choose this route, Supplementary Material .02 could be revised to read:

> "Except as required to comply with NASD Rule 3050, Incorporated NYSE Rule 407, Rule 17j-1 under the Investment Company Act of 1940, and the provisions of an investment adviser's code of ethics as required by Rule 204A-1 under the Investment Advisers Act of 1940, a member may not address or send account statements or other communications relating to a customer's account to other persons or entities, unless (a) the customer has provided written instructions to the member to send such statements or communications to such person or entity; or (b) the member continues to send such statements or communications, monthly or

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[9] We note that one firm estimates that 500,000 of 5 million (or 10%) of customer statements are sent to an address other than the legal address of record for the account. Following the example in footnote 4 above, if only 11% of customers have consented to electronic delivery of statements, this could increase statement mailings by 89% for this 10% subset of accounts for both the monthly and quarterly statements cycle. This would translate to increased overall annual statement delivery costs of 8.9% (10% *.89). The firm with 5 million customer accounts sends an average of 34 million statements annually. Therefore, this would add an estimated additional 3 million statements per year, at a cost of $2.3 million.

[10] Incorporated NYSE Rule 409(b)(1) permits member first to send confirmations, statements or other communications in care of a person holding power of attorney over the account if: (A) the customer has instructed the member organization in writing to send confirmations, statements or other communications in care of such person; *or* (B) duplicate copies are sent to the customer at some other address designated in writing by him. (Emphasis added).

> quarterly as applicable in accordance with this Rule, directly to the customer either in paper format or electronically as provided in Supplementary Material .03 below.

This simple change would permit member firms to continue to honor the requests of their customers to direct account communications to a trusted adviser or attorney-in-fact and avoid the additional costs and potential account security concerns associated with sending account communications to the customer's address of record, even when the customer has designated a third party to receive them.[11]

However, if FINRA seeks approval for Supplementary Material .02 in any form, SIFMA strongly urges FINRA to make clear that the Rule only has prospective application and does not apply retroactively, thereby permitting firms to continue to rely on oral instructions provided by customers under the current regulatory regime prior to the Rule's effective date. This would avoid the burdensome exercise of reviewing and "remediating" existing accounts for which written instructions to address account statements and other account communications to a third party may not have been received, or for which duplicate statements are not sent to customers who have provided written instructions that their statements be sent to third parties in their place, both in reliance upon and in accordance with Incorporated NYSE Rule 409(b). SIFMA firmly believes that imposing such a regulatory cost on member firms is not warranted in this case where no evidence has been presented that the current regulatory regime has been anything less than effective.

Finally, SIFMA asks that FINRA bring to the attention of introducing firm members the impact of the proposed rule change on their obligations. In particular, introducing firms are in the best position to know the customer and, as long recognized through contract and in practice, and as permitted under FINRA Rule 4311, introducing firms are typically allocated the responsibility for opening accounts as well as maintaining and updating customer addresses, which of course ultimately drive the delivery of account statements.

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[11] We note that proposed FINRA Rule 3150 has the potential to intersect with this aspect of the Proposal insofar as member firms regularly receive requests from clients to send statements to third parties that are trusted agents for receipt of mail purposes. For example, this often happens in jurisdictions where mail delivery is not secure and poses security concerns for the customer and where the customer will appoint a local agent to receive his or her mail. Though cited as an acceptable reason for a "hold mail" request in Proposed Rule 3150, the arrangements described above are not by definition "hold mail" arrangements as the mail is actually delivered to the customer's agent as requested, for further delivery to the client. We note that, while such parties represent trusted "locations" for receipt of mail (as evidenced by the client instruction), such parties do not generally hold a power of attorney ("POA") over the account. We maintain that such arrangements should be permitted with written customer instruction as it would pose substantial issues in terms of managing customer expectations, as well as posing substantial implementation challenges if such arrangements could only be established under a formal POA arrangement. If a customer instruction to hold mail for an acceptable reason is enough to suppress the delivery of statements entirely, a similar instruction by a customer to deliver mail directly to a third-party for legitimate and acceptable reasons should also be sufficient. Under such circumstances as described in the example, requiring that duplicates be sent to the account holder would, in most instances, frustrate the purposes underlying the customer's instruction.

FINRA may wish to confirm the obligations of the introducing firm community in this regard in the Regulatory Notice announcing the final rule's adoption and effective date.

IV. Employee Retirement Plans

As SIFMA described in its First Comment Letter, unlike in some other brokerage contexts, monthly reporting would be a significant change from the quarterly reporting standard commonly used today for some employer-sponsored retirement plans. While many transactions effected by general securities members for retirement plans and plan participants are recurring in nature and qualify as 10b-10(b) exempt activity, such as transactions resulting from the regular, periodic contributions the participant makes to his retirement plan account, not all transactions fall into this category. Non-exempt broker-dealer activity that is not accepted as passive activity, such as participant allocation changes, or rebalancing among the plan investment options, would continue to require monthly reporting.

As a result, under the proposed rule change, plan participants would receive quarterly statements with respect to recurring transactions qualifying as 10b-10 exempt activity, while receiving both immediate confirmations and monthly statements for non-exempt activity and non-passive activity. This would create an awkward, bifurcated approach to statement reporting that will surely confuse plan participants. Additionally, it would require systems changes for general securities members to recognize the various transaction trigger points for statements (monthly vs. quarterly), which would be time-consuming and expensive.[12] Moreover, there are important characteristics that distinguish an employer-sponsored retirement plan account from a retail brokerage account and thus make quarterly statements a more sensible alternative. Unlike a retail brokerage account, through which customers generally have the ability to invest in an expansive array of investments, plan participants typically must choose from a limited pre-set menu of investment options selected by the plan sponsor. The investment options commonly consist of mutual funds and/or variable annuities. Additionally, plan rules and the Internal Revenue Code generally restrict withdrawals outside of limited instances such as demonstrated hardship withdrawals or upon retirement.

Accordingly, SIFMA respectfully urges FINRA to adopt a general exclusion to be incorporated in paragraph (c) as follows:

> "The activity is a transaction effected for an employer-sponsored retirement plan with respect to which participants and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts in such plan, other than

[12] One member firm estimates the costs of developing the capability to provide monthly statements just for certain isolated transactions will exceed one million dollars.

> transactions in "brokerage windows," "self-directed brokerage accounts," or similar plan arrangements that enable participants and beneficiaries to select investments beyond those designated by the plan sponsor."

FINRA could then define in supplementary material:

> The term "employer-sponsored retirement plan" means employee pension plans covered by the Employee Retirement Income Securities Act of 1974, as amended, plans described in Internal Revenue Code ("IRC") sections 401(a), 401(k), 403(b), 408(k), 408(p)), 415(m) or 457(b), government and church plans defined in IRC section 414, deferred compensation plans of state and local governments and tax-exempt organizations under IRC section 457(f) (and similar workplace savings plans authorized under the IRC) and nonqualified deferred compensation arrangements established or maintained by employers or plan sponsors, as well as any investment alternatives designated by such plans into which participants and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts (but excludes "brokerage windows," "self-directed brokerage accounts," or similar plan arrangements that enable participants and beneficiaries to select investments beyond those designated by the plan).[13]

So-called "brokerage windows," "self directed brokerage accounts," and similar arrangements that enable participants and beneficiaries to select investments beyond those designated by the plan have not been excluded from the monthly account statement delivery requirement. Such accounts allow the participant to invest in a wide variety of investments that are not typically pre-screened by the plan. Participant assets invested in a brokerage window option are held in a brokerage account individually titled in the name of the plan for the specific benefit of the participant. We recognize therefore that, as a policy matter, there is no reason to distinguish these types of arrangements from standard retail brokerage accounts for purposes of the frequency of account statement delivery.

V. <u>DVP/RVP Accounts</u>

Proposed FINRA Rule 2231(b) provides that account statements need not be sent to a customer pursuant to proposed FINRA Rule 2231(a) if, among other conditions, the

[13] This definition is modeled after the concept of a designated investment alternative that is set forth in the recent Department of Labor ("DOL") regulation governing participant disclosures. Under this regulation, a "designated investment alternative" is defined as "any investment alternative designated by the plan into which participants and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts. The term 'designated investment alternative' shall not include 'brokerage windows,' 'self directed brokerage accounts,' or similar plan arrangements that enable participants and beneficiaries to select investments beyond those designated by the plan. (*See* DOL Regulation § 2550.404-a-5(h)(4)). This concept is equally applicable to employer sponsored retirement plans not subject to ERISA and, therefore, we have tailored our proposed Supplementary Material definition of "employer sponsored retirement plan" accordingly.

"customer" consents to the suspension of such statements in writing. SIFMA wishes to confirm that members may treat an institutional customer trading pursuant to discretionary authority in the DVP/RVP account or the authorized person or institution that opened the account as the "customer" for these purposes and collect and maintain the consents from such institutions, instead of the underlying customers.

VI. Address Unknown Accounts

SIFMA also requests that FINRA include a new exception from the general requirements of Rule 2231(a) for those accounts that a member firm has identified as "address unknown" or "undeliverable mail" accounts as described below. When a member firm determines that mail is undeliverable, it is a common industry practice to take measures aimed at protecting client privacy and guarding against identity theft and to comply with the abandoned property laws of all U.S. states and territories, including suspending delivery of statements and other communications. In addition, the SEC has proposed amendments to Exchange Act Rule 17Ad-17, among others, to require brokers and dealers to conduct searches for lost securityholders, who are defined to include persons to whom account statements are returned in two consecutive periods.[14] Statement delivery to the incorrect address of lost securityholders serves no useful purpose and poses the risk that account information will be intercepted by an unknown third party or become lost in the mail, and that member firms may lose track of such information in view of the volumes of returned mail involved. SIFMA, therefore, requests that FINRA clarify that firms are not required to deliver statements to lost securityholders when a statement is returned for two consecutive periods, provided that firms follow the procedures otherwise applicable under abandoned property laws and any applicable requirements of Rule 17Ad-17.

VII. Implementation

We note that FINRA has set an implementation date that will be "no later than 365 days following Commission approval" of the proposed rules. If FINRA Rule 2231 is adopted as proposed it will require significant changes to systems and operational procedures that

[14] The amendment implements Section 929W of the Dodd-Frank Act which directs the SEC to revise Rule 17ad-17 ("Transfer Agents' Obligation to Search for Lost Securityholders"). A lost securityholder is defined in Rule 17Ad-17(b)(2) to mean "a securityholder: (i) to whom an item of correspondence that was sent to the securityholder at the address contained in the transfer agent's master securityholder file has been returned as undeliverable; provided, however, that if such item is re-sent within one month to the lost securityholder, the transfer agent may deem the securityholder to be a lost securityholder as of the day the resent item is returned as undeliverable; and (ii) for whom the transfer agent has not received information regarding the securityholder's new address." In SIFMA's comment letter regarding the SEC's amendments to the lost securityholder Rule 17Ad-17, dated May 9, 2011, SIFMA proposed to limit the type of correspondence which triggers the "lost securityholder" designation to returned annual tax forms (*e.g.*, Forms 1099), returned checks, or account statements returned in two consecutive periods.

will require extensive efforts to comply with the new Rule.[15] Furthermore, the SEC has proposed revisions to Exchange Act Rule 17a-5 that will require clearing members to file a new Custody Form report asserting compliance with various reporting rules including those related to delivery of account statements.[16] These compliance reports will be subject to review by external auditors. In view of the substantial compliance efforts expected to be required in connection with adoption of the new rule and increased regulatory significance of these obligations arising under independent rulemaking, we urge FINRA to provide members with the benefit of at least a full one-year period.

VIII. Opportunity for Investor Education

Finally, as discussed throughout this letter, SIFMA believes that investor transparency is important and that online or telephonic access to account information can provide investors with information on account activities and balances that is, in fact, much more timely than that included on periodic account statements. Although member firms have sought to encourage customers to take advantage of such access and to increase the adoption rate for electronic communications, such adoption rates remain relatively low for certain business models. SIFMA believes that this rulemaking proceeding presents an opportunity for FINRA to educate investors more broadly (through the FINRA website, for example) about alternatives for accessing timely information regarding their accounts.

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[15] *See e.g.*, notes 4, 9, and 12, *supra*.

[16] *See* Securities Exchange Act Release No. 64676, Broker-Dealer Reports, 76 *Federal Register* 37,572, at 37,590 (June 2, 2011).

SIFMA appreciates the opportunity to provide comments on the Proposal. We would be pleased to discuss the Proposal and our comments in greater detail with the SEC and its staff. If you have any comments or questions, please do not hesitate to contact me at (202) 962-7386 or jmchale@sifma.org.

Sincerely,

James T. McHale

James T. McHale
Managing Director and Associate General Counsel

cc:

Ms. Lourdes Gonzalez, SEC
Mr. Marc Menchel, FINRA
Ms. Patrice Gliniecki, FINRA
Ms. Kosha Dalal, FINRA

From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: meeting with SEC
Date: Wednesday, April 17, 2013 6:34:50 PM
Attachments: Disclosure Limitations.docx

Here are cites to some of the literature with abstracts. I hope it's helpful. We also have a much larger bibliography on the advice issues generally, but we are still working on it and I'd prefer to hold off passing it along for the moment if that's ok.

Hope you're doing well.

Tim

From: Gonzalez, Lourdes [[redacted]@SEC.GOV]
Sent: Wednesday, April 17, 2013 5:50 PM
To: Hauser, Timothy - SOL
Subject: Re: meeting with SEC

No worries Tim. I can only guess your "to do" list.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 11:43 AM Eastern Standard Time
To: Gonzalez, Lourdes
Subject: RE: meeting with SEC

I dropped the ball on that – let me check with the economists' office.

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Wednesday, April 17, 2013 10:45 AM
To: Hauser, Timothy - SOL
Subject: RE: meeting with SEC

Also Tim, if you can remember to let me know those moral licensing studies some time, I'd appreciate it. My boss mentioned it to me recently and I told him i was following up. Definitely no hurry. Thanks. Lourdes

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From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, April 17, 2013 9:31 AM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL
Subject: RE: meeting with SEC

Everybody could attend, except the head of EBSA's regulations division – he really should be there. Is there another date that might work?

These scheduling things are always a nightmare. Sorry to inflict it on you!

Tim

From: Gonzalez, Lourdes [[redacted]@SEC.GOV]
Sent: Monday, April 15, 2013 5:26 PM
To: Hauser, Timothy - SOL
Cc: Stoddard, Troy
Subject: meeting with SEC

Tim,

How about 4/29 at 12:30-1:30 p.m.? We've been having difficulty finding a good meeting time that is about two weeks away.

If this doesn't work, we'll keep looking.

Best,

Lourdes

__Papers of Possible Interest Concerning the Limitations of Disclosure__

Beshears, John, James Choi, David Laibson and Brigitte Madrian. (2009). "How does simplified disclosure affect individuals' mutual fund choices?" Working Paper No. 14859. Cambridge, MA: National Bureau of Economic Research.

Abstract: We use an experiment to estimate the effect of the SEC's Summary Prospectus, which simplifies mutual fund disclosure. Our subjects chose an equity portfolio and a bond portfolio. Subjects received either statutory prospectuses or Summary Prospectuses. We find no evidence that the Summary Prospectus affects portfolio choices. Our experiment sheds new light on the scope of investor confusion about sales loads. Even with a one-month investment horizon, subjects do not avoid loads. Subjects are either confused about loads, overlook them, or believe their chosen portfolio has an annualized log return that is 24 percentage points higher than the load-minimizing portfolio.

Cain, Daylian, George Loewenstein and Don Moore. (2011) "When Sunlight Fails to Disinfect: Understanding the Perverse Effects of Disclosing Conflicts of Interest," ***Journal of Consumer Research*****, Vol. 37.**

Abstract: Disclosure is often proposed as a remedy for conflicts of interest, but it can backfire, hurting those whom it is intended to protect. Building on our prior research, we introduce a conceptual model of disclosure's effects on advisors and advice recipients that helps to explain when and why it backfires. Studies 1 and 2 examine psychological mechanisms (strategic exaggeration, moral licensing) by which disclosure can lead advisors to give more-biased advice. Study 3 shows that disclosure backfires when advice recipients who receive disclosure fail to sufficiently discount and thus fail to mitigate the adverse effects of disclosure on advisor bias. Study 4 identifies one remedy for inadequate discounting of biased advice: explicitly and simultaneously contrasting biased advice with unbiased advice.

Choi, James David Laibson, and Brigitte Madrian. (2010). "***Why does the law of one price fail? An experiment on index mutual funds*****,"** ***Review of Financial Studies,*** **23 (4): 1405-1432.**

Abstract: We evaluate why individuals invest in high-fee index funds. In our experiments, subjects each allocate $10,000 across four S&P 500 index funds and are rewarded for their portfolio's subsequent return. Subjects overwhelmingly fail to minimize fees. We reject the hypothesis that subjects buy high-fee index funds because of bundled non-portfolio services. Search costs for fees matter, but even when we eliminate these costs, fees are not minimized. Instead, subjects place high weight on annualized returns since inception. Fees paid decrease with financial literacy. Interestingly, subjects who choose high-fee funds sense they are making a mistake.

Church, Bryan and Xi Kuang. (2009) "Conflicts of Interest, Disclosure and (Costly) Sanctions: Experimental Evidence," ***Journal of Legal Studies*****.**

Abstract: Conflicts of interest may compromise individuals' independence in providing advisory services. Full disclosure is a commonly recommended remedy for the adverse effect of conflicts of interest. Yet prior study shows that disclosure may not have the intended effect because it provides individuals with moral license to engage in self-interested behavior, thereby exacerbating biases. We follow up on this research and seek to determine whether other institutional factors may negate the potentially harmful effects of disclosure. We conduct a laboratory experiment, focusing on behavior in an investor/financial adviser dyad, including important representative features in this setting. Our results suggest that disclosure is not necessarily detrimental. We find that investors are better off when conflicts of interest are disclosed and sanctions are available, even though initiating sanctions is costly to investors. Under such conditions, advisers' bias is dampened markedly.

Dominitz, J. A. Hung, et al. (2007). "How Do Mutual Fund Fees Affect Investor Choices?" RAND Corporation.

Over the past few decades, risks associated with providing for financial security in retirement have increasingly shifted from employers to employees as employer-provided pensions have shifted from defined-benefit to defined-contribution (DC) plans. Recent work in behavioral finance suggests that investors do not make optimal investment decisions in their DC plans. We designed and administered a pair of mutual fund choice experiments to over 1000 survey respondents who participate in the RAND American Life Panel. Our analysis sheds light on the question of how mutual fund investors respond to variation in fees in a hypothetical scenario in which fees should be obvious to the investor. The results show that some aspects of individual behavior are consistent with rational wealth-maximization and the majority of the respondents are able to provide estimates of fees that lie within a benchmark range. However, we find that respondents tend not to minimize expected fees and are more averse to backend load fees than to front-end loads. The trade-off between expense ratios and loads is found to be somewhat sensitive to the expected holding period in a manner consistent with expected-wealth maximization, but investors may tend to be too averse to loads. Differences in measured financial literacy predict differences in behavior, with lower rates of literacy among women accounting for differences in choice behavior by gender. We also find that financial literacy mediates individual responses to the presentation of information intended to enhance decision making.

Dopuch, N., R. R. King, et al. (2003). "Independence in Appearance and in Fact: An Experimental Investigation," *Contemporary Accounting Research* 20(1): 79-114.

In this study, we use experimental markets to assess the effect of the SEC's new Independence Rule on investors' perceptions of independence, market prices, and investors' payoff distributions. The new rule requires client firms to disclose in their annual proxy statements the amount of non-audit fees paid to their auditors. The new disclosure is intended to inform investors of auditors' incentives to compromise their independence. Our experimental design is a 2x3 between-subject design, where we control the presence (unbiased reports) or absence of auditor independence in fact (biased reports). While independence in fact was not immediately observable to investors, we controlled for independence in appearance by varying the public disclosure of the extent of non-audit services provided by the auditor to the client. In one market setting, investors were not given any information about whether the auditor provided such non-audit services; in a second setting, investors were explicitly informed that the auditor did not provide any non-audit services, and in a third setting, investors were told that the auditor provided non-audit services that could be perceived to have an adverse effect on independence in fact. We found that disclosures of non-audit services reduced the accuracy of investors' beliefs of auditors' independence in fact when independence in appearance was inconsistent with independence in fact. This then caused prices of assets to deviate more from their economic predictions (lower market efficiency) in the inconsistent settings relative to the no-disclosure and consistent settings. Thus, disclosures of fees for non-audit services could reduce the efficiency of capital markets if such disclosures result in investors forming inaccurate beliefs of auditor independence in fact – that is, auditors appear independent but they are not independent in fact, or vice versa. The latter is the maintained position of the AICPA, which argued against the new rule. Further research is needed to assess the degree of correspondence between independence in fact and indiependence in appearance.

Fung, Archon, Graham, Mary, Weil, David and Fagotto, Elena. (2004). "The Political Economy of Transparency: What Makes Disclosure Policies Effective?" *KSG Working Paper No. RWP03-039*, Institute for Government Innovation, John F. Kennedy School of Government, Harvard University OPS-02-03. Available at SSRN: http://ssrn.com/abstract=766287 or http://dx.doi.org/10.2139/ssrn.766287

Abstract: Regulatory transparency - mandatory disclosure of information by private or public institutions with a regulatory intent - has become an important frontier of government innovation. This paper assesses the effectiveness of such transparency systems by examining the design and impact of financial disclosure, nutritional labeling, workplace hazard communication, and five other diverse systems in the United States. We argue that transparency policies are effective only when the information they produce becomes "embedded" in the everyday decision-making routines of information users and information disclosers. This double-sided embeddedness is the most important condition for transparency systems' effectiveness. Based on detailed case analyses, we evaluate the user and discloser embeddedness of the eight major transparency policies. We then draw on a comprehensive inventory of prior studies of regulatory effectiveness to assess whether predictions about effectiveness based on characteristics of embeddedness are consistent with those evaluations.

Gabaix, Xavier and David Laibson. (2006). "Shrouded Attributes, Consumer Myopia, and Information Suppression in Competititve Markets," *The Quarterly Journal of Economics*. May 2006.

Abstract: Following Becker (1957) we ask whether competition eliminates the effects of behavioral biases. We study products with add-ons. In competitive markets with costless communication, Bayesian consumers infer that hidden prices are likely to be high prices. Hence, firms choose not to shroud information. However, information shrouding may occur in an economy with some myopic consumers. Such shrouding creates an inefficiency. Sometimes firms have an incentive to eliminate this inefficiency by educating their competitors' myopic consumers. However, if add-ons have close substitutes, a "curse of debiasing" arises, and firms will not be able to profitably debias consumers by unshrouding add-ons. In equilibrium, two kinds of exploitation coexist. Optimizing firms exploit myopic consumers through marketing schemes that shroud high-priced add-ons. In turn, sophisticated consumers exploit these marketing schemes. It is not profitable to lure either myopes or sophisticates to non-exploitative firms. We show that informational shrouding flourishes even in highly competitive markets, even in markets with costless advertising, and even when the shrouding generates allocational inefficiencies.

Koch, Christopher and Carsten Schmidt. (2010). "Disclosing Conflicts of Interest-Do Experience and Reputation Matter," *Accounting, Organizations and Society* Vol. 35.

Abstract: In a controlled laboratory experiment, we investigate the effects of disclosing conflicts of interest on the reporting behaviour of information providers. First, we replicate the findings of Cain, Loewenstein, and Moore (Cain, D.M., Loewenstein, G., & Moore, D.A. (2005). The dirt on coming clean: Perverse effects of disclosing conflicts of interest. Journal of Legal Studies 34, 1–25) that such disclosure can trigger more biased reporting, since it removes moral concerns. Second, we show that this effect diminishes or even reverts with experience and reputation. Third, we observe that non-disclosure can have the positive effect of facilitating the formation of reputation.

Loewenstein, George, Daylian M. Cain, and Sunita Sah. (2011). "The Limits of Transparency: Pitfalls and Potential of Disclosing Conflicts of Interest," ***American Economic Review: Papers and Proceedings*****, 101(3): 423-28.**

Abstract: We review evidence from our published and ongoing research that disclosing conflicts of interest has unintended consequences, helping conflicted advisors and harming their advisees: With disclosure, advisors feel comfortable giving more biased advice, but advisees do not properly adjust for this and generally fail to sufficiently discount biased advice. Disclosure also increases pressure on advisees to comply with advice; following disclosure, advisees feel more uncomfortable in turning down advice (e.g., it signals distrust of the advisor's motives). Finally, we examine the effectiveness of policy interventions aimed at reducing these unintended consequences and discuss how to realize potential benefits of disclosure.

Nash, J. (2009). "2 of 3 participants don't read info," ***Pensions & Investments*****, 37(21): 2-42.**

Just because participants in 401(k) plans have investment information doesn't mean they'll read it, a J.P. Morgan Retirement Plan Services survey showed. Two-thirds of 401(k) participants don't read investment information provided by their plan executives, according to the survey a surprising finding given the calls by some legislators for defined contribution plan executives and money managers to provide participants with more fee disclosure and financial information, said Diane Gallagher, vice president and head of participant communications and education at Kansas City, Mo.-based J.P. Morgan.

Robertson, Christopher T. (2011). "Biased Advice," ***Emory Law Journal*****, Vol. 60, p. 653, 2011; Arizona Legal Studies Discussion Paper No. 11-07. Available at SSRN: http://ssrn.com/abstract=1762266**

Abstract: The modern capitalist society, characterized by decentralized decision making and increasingly sophisticated products and services, turns on relationships of epistemic reliance, where laypersons depend upon advisors to guide their most important decisions. Yet many of those advisors lack real expertise and may be biased by conflicting interests. In such situations, laypersons are likely to make suboptimal decisions that sometimes aggregate into systematic failures, from soaring health care costs to market crashes. Regulators can attempt to manage the symptoms and worst abuses, but the fundamental problem of biased advice will remain. There are many potential policy solutions, from outright bans on conflicting interests to disclosure mandates, yet their comparative effectiveness is poorly understood. By constructing a decision task for human subjects and providing advice in various scenarios, this Article reports new field experiments testing alternative policy mechanisms. Prior research has shown that disclosure mandates can be deleterious if they make advisors more biased, but this paper contextualizes those findings. It turns out that disclosures may be valuable in settings where relative expertise is low, but deleterious where relative expertise is high. By also disaggregating the data, one finds that disclosures of conflicting interests may hurt laypersons in the majority of situations where the conflicted advice is not actually biased. Thus, the evidence suggests that, if they are to be at all effective, disclosure mandates should be narrowly tailored. Most importantly, the evidence shows that a disclosure mandate improves layperson performance when unbiased advisors are also available. Yet laypersons appear to be poor judges of their need for unbiased advice, so market mechanisms may be ineffective for provisioning unbiased advice. In the end, the presence of an unbiased advisor is the strongest determinant of layperson performance, and thus policymakers must develop ways of aligning the interests of advisors and laypersons. Pay-for-performance, blinding of experts, and mandatory or subsidized second-opinion policies are likely to be helpful in aligning these interests.

Weil, David, Archon Fung, Mary Graham, Elena Fagotto. (2006). "The Effectiveness of Regulatory Disclosure," *Journal of Policy Analysis and Management*, Vol. 26, No. 1: 155-181.

Regulatory transparency—mandatory disclosure of information by private or public institutions with a regulatory intent—has become an important frontier of government innovation. This paper assesses the effectiveness of such transparency systems by examining the design and impact of financial disclosure, nutritional labeling, workplace hazard communication, and five other diverse systems in the United States. We argue that transparency policies are effective only when the information they produce becomes "embedded" in the everyday decision-making routines of information users and information disclosers. This double-sided embeddedness is the most important condition for transparency systems' effectiveness. Based on detailed case analyses, we evaluate the user and discloser embeddedness of the eight major transparency policies. We then draw on a comprehensive inventory of prior studies of regulatory effectiveness to assess whether predictions about effectiveness based on characteristics of embeddedness are consistent with those evaluations.

From: Hauser, Timothy - EBSA
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Follow-up from 9/26 call with SEC/DOL/Treasury
Date: Tuesday, September 30, 2014 12:41:18 PM

Thanks. That's terrific. I'll pass your email along to everybody on the meeting list.

Tim

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 30, 2014 10:55 AM
To: Hauser, Timothy - EBSA
Subject: Follow-up from 9/26 call with SEC/DOL/Treasury

Tim,

On the call with DOL and Treasury staff on Friday, we said that we would send links to information about investor testing and to examples of broker-dealer's firm brochures. That information is below. Please let me know if it would help for me to send this to all of the individuals included on the meeting invitation on Friday, or if I should send it to a smaller subset of individuals.

Investor Testing links:

Staff pulled selected documents relating to the point of sale rulemaking and Section 917 Study that we think would be most useful based on our conversations (but this should not be viewed as the entire universe of materials).

Study Regarding Financial Literacy Among Investors As Required by Section 917 of the
Dodd-Frank Wall Street Reform and Consumer Protection Act
http://www.sec.gov/news/studies/2012/917-financial-literacy-study-part1.pdf

Results of Investor Interviews to Test Oral Point of Sale Disclosure; Supplemental Report to the Securities and Exchange Commission (June 1, 2005)
http://www.sec.gov/rules/proposed/s70604/supprpt060105.pdf

Results of Investor Interviews to Test and Refine Point of Sale
Disclosure Forms Report to the Securities and Exchange Commission May 31, 2005
http://www.sec.gov/rules/proposed/s70604/siegel053105.pdf

Results of In-Depth Investor Interviews Regarding Proposed Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms
(Note: This report serves as a supplement to the existing Results of In- Depth Investor Interviews Regarding Proposed Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms, dated November 4, 2004. Supplemental Report to the Securities and Exchange Commission November 29, 2004)
http://www.sec.gov/rules/proposed/s70604/sup-rep010705.pdf

Results of In-Depth Investor Interviews Regarding Proposed
Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms Report to the Securities and Exchange Commission November 4, 2004
http://www.sec.gov/rules/proposed/s70604/rep110404.pdf

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Links to certain firms' compensation-related disclosures and, for some firms, their separate revenue sharing disclosures:

Staff pulled a random sampling of brochures that we thought may be of interest based on Friday's conversation. That being said, firms generally have a variety of brochures addressing a number of different areas on their websites (with more or less detail). If you are interested in something different than is captured below, we would suggest referring to each firm's website to see if there is something more on point.

Morgan Stanley

- http://www2.morganstanley.com/wealth/relationshipwithms/commissionsandfees.asp
- https://www2.morganstanley.com/wealth/disclosures/pdfs/revenue_sharing.pdf

Merrill Lynch

- https://olui2.fs.ml.com/Publish/Content/application/pdf/GWMOL/MutualFundDisclosureDocument.pdf

UBS

- http://financialservicesinc.ubs.com/staticfiles/pws/adobe/guide_to_fees_final_pdf.pdf
- http://www.ubs.com/us/en/wealth/investing/trad_investments/revenuesharing.html

Edward Jones

- https://www.edwardjones.com/groups/ejw_content/@ejw/@us/documents/web_content/web236329.pdf

- https://www.edwardjones.com/groups/ejw_content/@ejw/documents/web_content/dweb244757.pdf

Thrivent

- https://www.thrivent.com/disclosures/files/pccg.pdf
- https://www.thrivent.com/annuities/files/Disclosure.pdf

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From:	TradingAndMarkets
To:	Beckmann, Allan - EBSA
Cc:	Butikofer, James - EBSA
Subject:	RE: Broker-dealer numbers
Date:	Monday, February 24, 2014 1:46:21 PM
Attachments:	RE Broker-dealer numbers.msg

Mr. Beckmann,

As you can see from the below back and forth with Daniel, he asked for different broker-dealer statistics at different times.
I'm not sure what the release you are working on is about.

Are you only looking for the number of broker-dealers registered with the Commission as of 12/31/2013?

On the revenue numbers, broker-dealers' FOCUS reports and the data contained therein is confidential.

If you are looking for information to address the Regulatory Flexibility Act requirements, Dan and I spoke of this last March. At that time, I suggested that he look at and possibly cite to one of the Commission's releases (see attachment). Since that time the Commission has published other releases that contain more up-to-date information. For instance, you could review this one - http://www.sec.gov/rules/final/2013/34-70073.pdf.

Bonnie.

From: Beckmann, Allan - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 11:31 AM
To: TradingAndMarkets
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

You communicated with my colleague Dan Puskin last year regarding some broker-dealer registration statistics. Dan has left the office, and I've taken over some of his responsibilities. Do you have updated data for 2013 (or more recent) of the number of broker-dealers registered with the SEC? Additionally, do you have data on the broker-dealer revenue? Would it be possible to determine the number of broker-dealers with less than $7 million in annual revenue?

Thanks,
Allan Beckmann

Allan Beckmann
US Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, NW, [redacted]

Washington, DC 20210
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.

I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010…."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw

from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: "Puskin, Dan - EBSA"
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Attachments: 18452 Def of Small Entity Final 19820128.pdf

Hi Dan!

Here is a rule release with a good discussion of the small business issue: http://www.sec.gov/rules/proposed/2007/34-55431fr.pdf.
I had to go back a couple of years because since Dodd-Frank the rulemakings seem to be more about security-based swap dealers rather than broker-dealers.
Attached also is a release regarding our rule wherein we define the term "small entity" with respect to broker-dealers (at bottom of third column).

I hope these are helpful.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 26, 2013 3:02 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Sorry to bombard you with questions. Is there any way to know the distribution of the size of the registered BD firms (i.e. assets under management, employees per firm)? In our regulatory analyses, we need to analyze how our rules may impact small businesses.

All the best,
Dan

SECURITIES AND EXCHANGE COMMISSION

17 CFR Part 211

[Release No. 34-18451; AS-305]

Statement of Management on Internal Accounting Control

AGENCY: Securities and Exchange Commission.

ACTION: Interpretive release.

SUMMARY: The Commission announces that it is no longer considering further action to require disclosure of a statement of management on internal accounting control in annual reports to security holders or filings with the Commission. In reaching this conclusion the Commission has considered the significant private-sector initiatives in this area, including the increased number of management reports included in annual reports to security holders of large companies.

EFFECTIVE DATE: January 28, 1982.

FOR FURTHER INFORMATION CONTACT: David F. Martin or Edmund Coulson (202-272-2130), Office of the Chief Accountant, Securities and Exchange Commission, 500 North Capitol Street NW., Washington, D.C. 20549.

SUPPLEMENTARY INFORMATION:

I. Background

On June 6, 1980, the Commission issued ASR 278* that announced the withdrawal of rule proposals which, if adopted, would have required inclusion of a statement of management on internal accounting control in annual reports on Form 10-K filed with the Commission under the Securities Exchange Act of 1934 and in annual reports to security holders furnished pursuant to the proxy rules. The rule proposals would also have required that the management statement be examined and reported on by an independent accountant.

The Commission's decision to withdraw the rule proposals was based, in part, on a determination that the private-sector initiatives for public reporting on internal accounting control had been significant and should be allowed to continue. The Commission stated its belief that this action would encourage further voluntary initiatives and permit public companies a maximum of flexibility in experimenting with various approaches to public reporting on internal accounting control. The Commission urged similar experimentation concerning auditor association with such statements.

In conjunction with the withdrawal of the rule proposals, the Commission announced its intention to monitor registrants' voluntary disclosure of management statements on internal accounting control and reports of independent accountants on such statements and implementation of the broader recommendations of the Commission on Auditors' Responsibilities (Cohen Commission) concerning comprehensive management reports.

II. Activities After ASR 278

Since ASR 278 was issued, the Commission's staff has reviewed a sample of annual reports to security holders. The results of the review indicate a significant increase, particularly in larger companies, in the number of annual reports which include a management report. Several surveys conducted by private-sector organizations indicate similar results.

In addition to comments about the system of internal accounting control, many reports have included comments on topics recommended by the Cohen Commission, the Financial Executives Institute (FEI) and the Special Advisory Committee on Reports by Management of the American Institute of Certified Public Accountants (AICPA). The variety of reports demonstrates the willingness of public companies to experiment with a new form of reporting and to avoid boiler-plate reporting.

Certain private-sector groups have taken actions which indicate that the private sector continues to be generally supportive of the development of the concept of management reports and is seeking to improve internal accounting control systems. As noted in ASR 278, the AICPA and FEI have encouraged the development of management statements. In August 1981, the American Bar Association Section of Corporation, Banking and Business Law approved a Discussion Paper which encourages the use of company reports. In addition, the FEI has sponsored extensive research in the area of internal controls. This research resulted in the publication in 1980 of a research study and report titled "Internal Control in U.S. Corporations: The State of the Art" and, just recently, a report on "Criteria for Management Systems." The current research project is exploring criteria for management use and control of data processing systems. The Commission is encouraged by this kind of private sector research effort which should lead to continued improvements in corporate internal control systems.

The experimentation with public reporting by independent accountants on internal accounting control systems has not yet had time to develop. In July 1980, the AICPA's Auditing Standards Board issued Statement on Auditing Standards No. 30 (SAS 30), "Reporting on Internal Accounting Control," which sets forth guidance for auditors on how to review and report on a system of internal accounting control. As companies and their auditors become more familiar with the provisions of SAS 30 they may be able to integrate SAS 30 review procedures into annual audit procedures. Such integration may facilitate the conduct of these reviews and could result in increased reporting pursuant to SAS 30.

III. Conclusion

Although the importance to companies of effective systems of internal accounting control has not diminished, the Commission now believes that there is no need for a regulatory requirement for disclosures about such systems. In the light of developments since the issuance of ASR 278, the Commission now believes that the private sector should determine the need for and nature of such disclosure. In reaching this conclusion the Commission has considered the significant private-sector initiatives in this area, including the increased number of management reports to security holders of large companies.

By the Commission.

George F. Fitzsimmons,

Secretary.

January 28, 1982.

[FR Doc. 82-2903 Filed 2-3-82; 8:45 am]

BILLING CODE 8010-01-M

*Accounting Series Release 278, "Statement of Management on Internal Accounting Control." Securities Exchange Act Release No. 16877, June 6, 1980 (45 FR 40134).

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17 CFR Parts 230, 240, 250, 260, 270, and 275

[Release Nos. 33-6380, 34-18452, 35-22371, 39-693, IC-12194, and IA-791; File No. S7-879]

Final Definitions of "Small Business" and "Small Organization" for Purposes of the Regulatory Flexibility Act

AGENCY: Securities and Exchange Commission.

ACTION: Final rulemaking.

SUMMARY: The Securities and Exchange Commission is adopting final definitions of the terms "small business" and "small organization" as those terms will be

used in connection with future Commission rulemaking proceedings under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Trust Indenture Act of 1939, the Investment Company Act of 1940 and the Investment Advisers Act of 1940 regarding disclosure, reporting and regulatory requirements applicable to business concerns and other organizations which are subject to these statutes. The definitions are being adopted specifically for purposes of the Regulatory Flexibility Act, which requires the Commission to consider the impact of its regulations on small entities.

EFFECTIVE DATE: March 8, 1982.

FOR FURTHER INFORMATION CONTACT:

General

Ann Stansbury, Esquire, Special Counsel, Office of General Counsel, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549, (202-272-2427).

Offices With Particular Responsibilities

Daniel Abdun-Nabi, Esquire, Division of Corporation Finance (Definitions applicable to the Securities Act of 1933, the reporting and disclosure provisions of the Securities Exchange Act of 1934, and the Trust Indenture Act of 1939) (202)-272-2644)

Jonathan Kallman, Esquire, Division of Market Regulation (Definitions applicable to brokers, dealers, clearing agencies, exchanges, bank municipal securities dealers, securities information processors, and transfer agents) (202-272-2843)

James E. Lurie, Special Counsel, Division of Corporate Regulation (Definitions applicable to public utility holding company systems) (202-523-5683)

Elizabeth T. Tsai, Esquire, Division of Investment Management (Definitions applicable to investment companies and investment advisers) (202-272-2032)

SUPPLEMENTARY INFORMATION: On March 20, 1981, in Release 33-6302 (46 FR 19251) the Commission proposed rules to define the terms "small business" and "small organization," for the purposes of Chapter Six of the Administrative Procedure Act, 5 U.S.C. 601 et seq., (the Regulatory Flexibility Act, Pub. L. No. 96-354, 94 Stat. 1164 (September 19, 1980)), as those terms may apply to organizations and entities that are issuers of securities or otherwise engaged in securities or other business activities subject to disclosure and reporting requirements or regulation by the Commission pursuant to the Securities Act of 1933, 15 U.S.C. 77a et seq., (the "Securities Act"), the Securities Exchange Act of 1934, 15 U.S.C. 78a et seq., (the "Securities Exchange Act"), the Public Utility Holding Company Act of 1935, 15 U.S.C. 79a et seq., (the "Holding Company Act"), the Trust Indenture Act of 1939, 15 U.S.C. 77aaa et seq., (the "Trust Indenture Act"), the Investment Company Act of 1940, 15 U.S.C. 80a et seq., (the "Investment Company Act"), or the Investment Advisers Act of 1940, 15 U.S.C. 80b-1 et seq., (the "Advisers Act"). The Regulatory Flexibility Act (the "RFA") requires that the Commission, among other things, consider the economic impact of Commission rulemaking action on entities that qualify as "small" under applicable standards as set forth in the RFA, the Small Business Act [1] or the regulations promulgated by the Small Business Administration ("SBA").[2] In view of the apparent absence of appropriate standards in those statutes and regulations for defining small entities subject to its regulation, the Commission proposed for public comment pursuant to the RFA definitions that it considered appropriate to the regulation of issuers and other entities in the securities industry or otherwise subject to regulation under statutes administered by the Commission.[3] After consultation with the Office of Advocacy of the SBA and considering the comments received from the public on the proposed definitions, the Commission is now adopting final definitions, which are discussed in more detail below. Although the definitions will be generally applicable in Commission rulemaking, the rules also provide, as permitted by the RFA, that the Commission may, in particular instances, if the circumstances so warrant, define a particular entity in a manner different from that set forth in the rules. In any such case, appropriate notice will be provided that the Commission intends to use or is using a different definition.

[1] 15 U.S.C. 631 et seq.

[2] 13 CFR Part 121.

[3] The RFA provides that an agency, after consultation with the Office of Advocacy of the SBA and an opportunity for public comment, may establish one or more definitions of "small entity" that are applicable to the activities of the agency. *See* Securities Act Release No. 6302 (March 20, 1981), 22 SEC Doc. 546 (April 7, 1981), for a discussion of the reasons why the Commission considered the SBA definitions inappropriate.

Description of the Final Definitions

Securities Act—Issuers Engaged in Small Business Financing; The Securities Exchange Act—Reporting Requirements, Tender Offers, Issuer Repurchases, Proxy Rules, and Short Swing Profits.

In the release proposing the definitions of "small business" and "small organization" for purposes of the Regulatory Flexibility Act (the "RFA") [4] the Commission proposed to amend its rules under the Securities Act of 1933 [5] (the "Securities Act") by adding new Rule 157 [6] which would define those terms to mean any issuer, other than an investment company, that is engaged in small business financing and whose total assets on the last day of its most recent fiscal year were $2.5 million or less. Smalll business financing is defined to mean any issuer that is engaged or proposed to engage in the offer and sale of its securities that does not exceed the dollar limitation prescribed by Section 3(b) of the Securities Act.

Similarly, for purposes of the RFA, the Commission proposed a definition of "small business" and "small organization" which, when used in reference to entities that are subject to the reporting provisions of the Securities Exchange Act of 1934,[7] ("the Securities Exchange Act"), pursuant to Sections 12, 13, 14, 15(d) and 16 of that Act, would mean an issuer that on the last day of its most recent fiscal year had assets of $2.5 million or less.

The asset tests proposed in the definitions under both the Securities Act and the Securities Exchange Act were intended to reflect an inflationary adjustment to the $1 million asset test, established for reporting purposes in the 1964 Amendments.[8]

The proposed Securities Act definition included a size of the offering standard in addition to an asset test primarily because the Securities Act is transaction oriented; *i.e.*, the registration of securities under the Securities Act is required only when certain transactions are proposed or occur.[9] Moreover there

[4] Release No. 33-6302, 34-17645 (March 20, 1981) (46 FR 19251).

[5] 15 U.S.C. 77a-77aa, as amended.

[6] 17 CFR 230.157.

[7] 15 U.S.C. 78a-78jj, as amended.

[8] 78 Stat. 565 (U.S. Code Cong & Ad. News 2798 (1964)). In the proposing release the Commission noted that an inflationary adjustment to the $1 million asset test established in Section 12(g) of the Securities Exchange Act would result in a $2,470,000 asset threshold in 1979.

[9] Congress has consistently recognized that a Securities Act exemption based on the size of the

Continued

exists substantial factual data indicating a significant direct relationship between the size of the offering and the size of the issuer.[10] It was anticipated that this standard would assure that any evaluation of the impact of compliance regarding proposed or adopted rules under the Securities Act would include only an analysis of those issuers for which fixed costs become disproportionately expensive.

The Commission received eleven comments regarding the proposed standards. Several of these commentators urged that the total asset criterion should be raised, with the recommendations ranging from $4 million to $15 million. In several cases no justification was presented for the standards recommended.

The SBA, in its comments on the proposed standards, supported increasing the total asset threshold to $15 million on the ground that while the total number of shareholders affected by such a standard would be relatively small, the number of issuers which would fall within the definition of "small business" would significantly increase. This, the SBA argues, would bestow substantial regulatory cost savings upon issuers without significantly diluting investor protection for large numbers of shareholders. In making this recommendation, however, the SBA does not maintain that any direct or indirect correlation exists between the ability of an issuer to bear the costs of regulation and the total number of shareholders which would be affected by a specified size standard. Since the basic concept underlying the RFA is that uniform regulations often have a disproportionately greater economic impact upon small businesses, and thus upon their competitive position,[11] the Commission is of the view that definitional standards should be established at levels below which there would exist a disproportionate economic impact in the uniform application of its regulations.

In reaching the $3 million total asset figure, the Commission examined, among other factors, the Congressional rationale for including a $1 million asset test in Section 12(g) of the Securities Exchange Act when it amended that Act in 1964.[12] The legislative history of the 1964 amendments reveals that although the amount of assets would seem to be no more than a secondary criterion, "it may ultimately have relevance in defining a limit where burdens may be disproportionate to needs."[13] Thus, it seems appropriate that an inflationary adjustment to the $1 million asset test is relevant in defining the extent to which the compliance burdens could be met by issuers involved. Additionally, the Commission believes that with the definitional standards established at such levels, the regulatory flexibility analyses required by the RFPA would have maximum utility and greatest significance. One commentator, the Texas Independent Producers & Royalty Owners Association, suggested that a figure of $4 million would more accurately reflect the inflation adjustment desired. As indicated earlier, the Commission noted in the proposing release that an inflationary adjustment to the Section 12(g) $1 million total asset standard would result in a $2,470,000 asset threshold in 1979. An update of this analysis through 1981 suggest that a more appropriate standard would be one which approximates $3 million.

Several commentators suggested that the definitions under both the Securities Act and the Securities Exchange Act should include a revenue test in addition to the asset test proposed. The recommendations ranged from $10 million to $15 million in revenues. As noted above, the legislative history of the 1964 amendments to the Securities Exchange Act established an asset threshold as relevant and appropriate in defining the extent to which compliance burdens could be met by the issuers involved. Additionally, several commentators responding to the Commission's release regarding the advisability of classifying issuers for purposes of the Securities Exchange Act[14] expressed the view that an asset test represents a simple and functional criterion for measuring an issuer's size in relation to the cost of complying with reporting obligations.[15] Moreover, the Commission does not anticipate that a revenue criterion would bestow any significant benefits upon small businesses in the context of the RFA, although additional criteria or modified asset standards which take into account the number of shareholders affected may have significance in the context of the Commission's proposed classification system.[16] In light of the foregoing, the Commission does not believe it is either necessary or desirable to adopt a revenue standard in the final definitions.

Accordingly, the Commission is adopting new Rule 157 under the Securities Act, which defines the terms "small business" and "small organization" for purposes of the RFA as any issuer, other than an investment company, whose total assets on the last day of its most recent fiscal year were $3 million or less and that is engaged in small business financing; *i.e.*, any issuer that engages or proposes to engage in the offer and sale of its securities in an amount that does not exceed the dollar limitation prescribed by Section 3(b) of the Securities Act.

Additionally, the Commission is adopting new Rule 0–10 under the Securities Exchange Act,[17] which defines "small business" and small organization for purposes of the RFA to mean any "issuer" or any "person" whose total assets on the last day of its most recent fiscal year were $3 million or less. The Commission may consider the advisability of similar adjustments in the future, if appropriate.

As indicated in the proposing release, the Commission has for some time been taking steps to facilitate the integration of the disclosure systems of both the Securities Act and the Securities Exchange Act so that investors and the marketplace are provided meaningful, nonduplicative information, while the costs of compliance are decreased.[18] The integration effort is based on the idea that, generally, there is no distinction between information that is material for

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transaction, rather than solely on the size of the issuer, is appropriate. As an example, Section 3(b) of the Securities Act authorizes the Commission to exempt transactions from registration if it finds that registration is not necessary in the public interest because of the small dollar amount involved or the limited character of the public offering. The dollar ceiling under Section 3(b) has been raised on several occasions, most recently, from $2 million to $5 million pursuant to Section 301 of the Small Business Investment Incentive Act of 1980 (the "Incentive Act") [Pub. L. No. 96–477 (October 21, 1980)]. This Congressional action was intended to provide the Commission with increased flexibility in developing exemptions targeted to smaller issuers. Additionally, Congress adopted the transaction size approach when it enacted, in the Incentive Act, new Section 4(6) of the Securities Act.

[10] Rule 242: A Monitoring Report on the First Six Months of Its Use (December, 1980); Form S–18: A Monitoring Report on Its Use in 1979 (March, 1980).

[11] Senate Report No. 96–878, Senate Committee on the Judiciary, 96th Congress, 2d Sess., July 30, 1980.

[12] 78 Stat. 565 (U.S. Code Cong. & Ad. News 2798 (1964)).

[13] Report of the Special Study of Securities Markets of the Securities and Exchange Commission, House Document No. 95, Pt. 3, House Committee on Interstate and Foreign Commerce, 88th Cong., 1st Sess. (1963) at 18.

[14] Release No. 34–16866 (June 2, 1980) (45 40145).

[15] Summary of Comments relating to Classification of Exchange Act Reporting Companies, File No. S7–837.

[16] Securities Exchange Act Release No. 18189 (October 20, 1981) (46 FR 52382). In this release the Commission proposed for comment a new rule and rule amendments which would exempt a class of smaller issuers from the registration and reporting provisions under the Securities Exchange Act. Where appropriate the Commission will consider the views of the commentators in establishing a Securities Exchange Act classification system.

[17] 17 CFR 240.0–10.

[18] Release Nos. 33–6331 to 33–6338 (August 6 1981) (46 FR 41902).

the distribution of securities in transactions covered by the Securities Act on the one hand, and for periodic reporting under the Securities Exchange Act on the other hand, by companies whose securities are traded in the markets.

As a result of this effort, there will be instances in which amendments to rules, forms and schedules under the Securities Exchange Act that are a part of the integrated disclosure system will also affect disclosures under the Securities Act. The Commission does not intend to imply, however, that an issuer that is subject to the reporting requirements of the Securities Exchange Act may furnish less disclosure in a limited size offering than would normally be furnished to the marketplace under the Securities Exchange Act. Therefore, any impact analysis of rules under the Securities Exchange Act that are a part of the integrated disclosure system will normally be expected to satisfy the similar analysis under the Securities Act.

Trust Indenture Act—Issuers Engaged in Small Business Financing

In its consideration of the proposed definition of "small business" and "small organization" for purposes of the RFA to be applicable to rulemaking under the Trust Indenture Act of 1939, the Commission noted that the Trust Indenture Act definitions, exemptions, requirements, and procedures for qualification of indentures and trustees are closely related to the Securities Act. Consequently, the Commission believed that the considerations affecting small entities under the Trust Indenture Act should be determined in tandem with those under the Securities Act. The Commission therefore proposed to adopt, under the Trust Indenture Act, a rule defining "small business" and "small organization" in a manner which was identical to proposed Rule 157.

The commentators raised no objection to a Trust Indenture Act definition which corresponds to the Securities Act definition and in fact several commentators specifically endorsed the concept. However, the comments raised with respect to the asset test in proposed Rule 157 were made specifically applicable to the proposed definition under the Trust Indenture Act.

The Commission, based on the need for consistency between the Securities Act and Trust Indenture Act definitions, and for the reasons specified above, has determined to amend 17 CFR Part 260 by adopting § 260.0–7 which, for the purposes of the Trust Indenture Act, defines "small business" and "small organization" to mean an issuer whose total assets on the last day of its most recent fiscal year were $3 million or less and that is engaged or proposing to engage in small business financing. An issuer is considered to be engaged or proposing to be engaged in small business financing under this section if it is conducting or proposing to conduct an offering of securities which does not exceed the dollar limitation prescribd by § 260.4a–2.[19]

The Securities Exchange Act—Brokers, Dealers and Other Regulated Entities

As noted above, the Commission is also adopting definitions of the terms "small business" and "small organization" for purposes of the RFA with respect to certain entities in the securities industry whose activities are regulated by the Commission pursuant to the Securities Exchange Act. Those entities include brokers, dealers, clearing agencies, exchanges, bank municipal securities dealers, securities information processors and transfer agents. The definitions with respect to brokers and dealers have been revised in response to the views expressed by the commentators. The Commission did not receive any adverse comments on the other definitions[20] and is adopting the definitions as proposed.[21]

The definitions in Rule 0–10 as adopted incorporate the concept of affiliation and provide that a broker-dealer, clearing agency, exchange, bank municipal securities dealer, securities information processor or transfer agent is not a small business or small organization if that entity is affiliated with any person (other than a natural person) that is not a small business or small organization as defined in Rule 0–10. A person is said to be "affiliated" with another if that person controls, is controlled by, or is under common control with such other person. "Control" is defined as, among other things, the right to vote 25 percent or more of the voting securities of an entity and the right to receive 25 percent or more of the net profits of such entity.

As indicated in the proposal release, the Commission believes that it is appropriate to take into account the structure of business organizations in the securities industry when defining the terms "small business" and "small organization." The Commission believes that an ownership or profit-sharing interest of 25 percent or more is an appropriate threshold for determining when the financial resources of affiliates of a securities firm or a securities service firm should be considered in determining the size of that firm for purposes of the RFA and Commission rulemaking. The Standard Oil Company of California objected to the 25 percent threshold because of its belief that equating "control" with a 25 percent interest in an entity would create an unnecessary and undesirable exception to generally accepted terminology.[22] The Commission notes, however, that the threshold as established in Rule 0–10 applies exclusively to the securities industry for limited purposes in the course of Commission rulemaking proceedings affecting only members of that industry and their affiliates.

As indicated above, the Commission is adopting revised definitions of "small business" and "small organization" with respect to brokers and dealers. Proposed Rule 0–10, as published for public comment, would have defined as small those brokers or dealers that are permitted to maintain a certain specified minimum level of net capital, had fewer than five employees at the end of the preceding calendar year, and are not associated with any entities that are not small businesses or small organizations under Rule 0–10. The commentators, however, generally opposed this definition and the use of net capital and number of employees as size standards, and contended that the threshold levels were set too low.[23]

In light of the comments received, the Commission has substantially revised the definitions for broker-dealers and has determined to adopt those definitions as revised. As adopted,

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[19] 17 CFR 260–4a–2 provides:

"The provisions of the Trust Indenture Act of 1939 shall not apply to any security which has been or is to be issued under an indenture which limits the aggregate principal amount of securities at any time outstanding thereunder to $5,000,000 or less, but this exemption shall not be applied within a period of thirty-six consecutive months to more than $5,000,000 aggregate amount of securities of the same issuer."

[20] The only comment that the Commission received on these proposed definitions was from the Small Business Administration, which noted that the proposed definitions for regulated entities under the Securities Exchange Act appeared to be adequate to meet the requirements of the RFA.

[21] *See* paragraphs (d) through (h) of Rule 0–10, *infra.*

[22] That commentator suggested, among other things, that the threshold might be lowered to 20 percent.

[23] The Securities Industry Association proposed that the Commission measure firm size by reference to total capital (defined as net worth plus subordinated liabilities). The Small Business Administration suggested that the Commission choose a size standard from among the possible measures after consultation with the National Association of Securities Dealers, Inc. One broker-dealer suggested a size standard of 19 or fewer employees; another suggested a size standard of $2 million in equity capital and fewer than 30 employees.

paragraph (c) of Rule 0-10 would define as a small business or a small organization, for purposes of Commission rulemaking, a broker or dealer that had total capital of less than $500,000 on the date in the prior fiscal year as of which its audited financial statements were prepared pursuant to 17 CFR 240.17a-5(d) or, if not required to file such statements, a broker or dealer that had total capital of less than $500,000 on the last business day of the preceding fiscal year (or in the time it has been in business, if shorter); and (2) is not affiliated with any person (other than a natural person) this is not a small business or small organization as defined in the Rule. "Total capital" for purposes of the rule consists of net worth plus subordinated liabilities, including those subordinated liabilities that do not qualify for purposes of determining a firm's net capital under Rule 15c3-1 (17 CFR 240.15c3-1).

Determination of the size of a firm under Rule 0-10, for most broker-dealers, would be based on the total capital that firm reported to the Commission on its annual audited financial statements as of a particular date in the prior fiscal year. Most broker-dealers are required to file audited financial statements with the Commission pursuant to Rule 17a-5(d) under the Securities Exchange Act (17 CFR 240.17a-5(d)). For those firms that are not required to file annual audited financial statements,[24] or that have been in existence for less than one year, size would be determined on the basis of the level of the firm's total capital on the last business day of the preceding fiscal year or, if shorter, during the life of firm.

The Commission believes that $500,000 in total capital is an appropriate benchmark for determining whether a firm is small for purposes of the RFA.[25] All firms are generally aware of their total capital and information concerning the distribution of brokers and dealers according to specified levels of total capital is readily available to the Commission. Total capital appears to be preferable to other possible size standards, such as gross revenues or net capital, because it appears to be less volatile in the face of short-term shifts in factors affecting economic profitability. Data compiled by the Commission's Directorate of Economic Policy Analysis from the reports filed pursuant to Rule 17a-5 by broker-dealers for 1979[26] indicates that approximately 4100 broker-dealers had total capital of less than $500,000.[27] A substantial majority of broker-dealers that are registered with the Commission may qualify as "small" under Rule 0-10, including some firms that engage in underwriting and general brokerage.[28] The Commission does not believe that the RFA mandates establishing a definition of "small" within an industry by reference to the very largest firms in that industry. While there has been in recent years some concentration of firms, the securities industry has usually characterized itself as a competitive industry with a substantial number of national and regional firms competing with one another in various lines of business. The Commission also believes that the definition adopted with regard to broker-dealers is appropriate, since it may serve as a basis for the possible "tiering" of regulations applicable to those entities.[29]

Although the Commission is adopting definitions with regard to the above mentioned entities, the Commission welcomes future comment from interested persons and the public concerning the operation and appropriateness of those definitions. The Commission, in consultation with the Small Business Administration, will consider any changes to such definitions as experience dictates.[30]

Public Utility Holding Companies

The Commission has concluded that it is desirable to adopt a special definition of the terms "small business" and "small organization" for purposes of the RFA to apply to rulemaking under the Public Utility Holding Company Act. In this connection, the Commission does not believe that the Small Business Act and regulations promulgated by the SBA provide size standards that are appropriate for public utility holding companies.[31] Moreover, the Commission believes that the size standards currently in use in connection with federal programs to assist small manufacturing or service enterprises are not appropriate for measuring the impact of rules on small entities that are in "holding company" systems under the Holding Company Act.

Under the Holding Company Act, the Commission exercises comprehensive authority over the issuance of securities or the acquisition of securities or utility assets by registered holding companies and their subsidiaries, intrasystem transactions, and accounting requirements, among other things. A "holding company" is defined under the Holding Company Act as any company which owns 10 percent or more of the voting securities of a public utility company, which is defined as an electric or gas utility company.[32] While the Holding Company Act also provides

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[24] Rule 17a-5(d)(iii), for instance, specifically excludes certain brokers that are members of a national securities exchange from those provisions of the rule that require the filing of audited financial statements with the Commission. *See* 17 CFR 240.17a-(d)(iii).

[25] Rule 0-10 as proposed for public comment would have primarily focused, through a particular provision of the Commission's regulation regarding broker-dealer minimum net capital requirements, on the business activities of broker-dealers. The commentators expressed concern that such a focus would have excluded, for instance, broker-dealers that carried customer accounts or cleared their own transactions and, under any other measure of size, would be considered "small" entities. In light of the Commission's determination to expand the scope of the definition to include such broker-dealers, the Commission, as discussed in text, *infra*, believes that total capital is a better economic proxy than net capital for measuring firm size outside of the context of a particular segment of the brokerage community.

[26] *See generally*, Securities and Exchange Commission, staff Report on the Securities Industry in 1979 (1980).

[27] As proposed for comment, Rule 0-10 would have restricted the class of broker-dealers potentially qualifying as small to certain broker-dealers that are permitted to maintain a certain level of minimum net capital pursuant to Rule 15c3-1(a)(2) or -1(a)(3), 17 CFR 240.15c3-1 (a)(2)-(a)(3). The Commission estimates that approximately 1,850 broker-dealers maintain minimum net capital pursuant to those provisions.

[28] The approximately 925 firms that would appear not to qualify as "small" accounted for approximately 91 percent of the underwriting profits and 96 percent of the securities commissions earned by broker-dealers in 1979 as reported on the Rule 17a-5 reports for that year.

[29] The SIA recommended that the Commission define as small those broker-dealers having total capital of less than $5 million, thereby defining as small all but approximately 140 SIA members or 200 registered broker-dealers. While that standard might in a few instances be appropriate, the Commission believes that the definition adopted today will generally provide a better basis for tiering regulations. The "tiering" of regulations will, of course, be considered in the context of each rulemaking proceeding subject to the RFA, at which time the Commission may consider whether alternative definitions of a "small' broker-dealer are appropriate.

[30] The Small Business Administration suggested that the Commission periodically evaluate the definitions being adopted today.

[31] The SBA's small business size standards, contained in 13 CFR Part 121 (1980), do not include a standard which is appropriate or practicable to apply in the context of rulemaking under the Holding Company Act. Only one subsection thereof, 13 CFR 121.33-10(d)(11), deals expressly with electric or gas utility companies. That subsection classifies as "small," for purposes of SBA loans, a conceren primarily engaged in the generation, transmission and/or distribution of electric energy for sale whose total output (including that of its affiliates) for the preceding fiscal year did not exceed 4 million megawatt hours. The SBA has proposed for comment amendments to its size standard regulations. Small Business Size Standards; Revision to Method of Establishing Size Standards and Definitions of Small Business, 45 FR 15442 (March 10, 1980). The proposed standards are all stated in terms of number of employees. *Id.* at 15443. Although electric and gas services are listed in the heading of Major Group 49 therein, there are no proposed size standards for electric or gas utilities. *Id.* at 15449.

[32] Sections 2(a)(7)(A) and 2(a)(5).

definitions of "electric utility company" and "gas utility company," the basic regulated unit for purposes of the Holding Company Act is the "holding company system," which is defined to include the holding company and each subsidiary company which is a member of that system,[33] whether it is a utility subsidiary or a non-utility subsidiary.

The Commission further believes that it is appropriate to assess the burdens of regulation under the Holding Company Act for purposes of the RFA by reference to the size of the holding company system as a whole, rather than by reference to its member companies, for three reasons. First, the holding company system is a single control group. Under the standards of the Holding Company Act, subsidiaries of the registered holding companies are wholly-owned or are specialized joint ventures with co-owners of comparable size and character. They would not, within the meaning of Section 3 of the Small Business Act, be considered "independently owned." Second, while most holding companies own more than one public utility subsidiary, the Holding Company Act requires that all such subsidiaries constitute but a single integrated public utility system.[34] And third, the regulatory provisions of the Holding Company Act generally apply to the holding company and to each of its subsidiaries; that is, to the entire holding company system. Accordingly, the rule establishes a definition of the terms "small business" and "small organization" for purposes of the RFA with respect to "holding company systems."

Rule 110, 17 CFR 250.110, defines the terms "small business" or "small organization" as a holding company system whose consolidated revenues from electric or gas utility operations did not exceed $1,000,000 in its last fiscal year. The Commission believes that it is appropriate to measure the size of a holding company system by reference to its consolidated gross utility revenues, a standard familiar to the industry and for which data are currently available. In establishing this size standard, the Commission has considered, among other things, the number of firms in the industry and the purposes of the Holding Company Act that form the predicate for regulation by the Commission. Holding companies, as such, do not constitute a relevant industry group. The relevant industry is the electric and gas utility industry. Upon the basis of available data, as of 1979, the latest available year, the Commission estimates that there are approximately 130 investor-owned electric utility systems and 500 investor-owned gas utility systems, of which it is believed approximately 14 and 180, respectively, have utility revenues below $1,000,000.[35]

There are currently nine registered electric utility holding company systems and three registered gas utility holding company systems that include 53 wholly or partly owned electric utility subsidiaries and 19 gas distribution and transmission subsidiaries. Under the size standard adopted, none of the currently registered holding company systems is a small entity.

There were no substantive coments received regarding the proposed definitions as initially published.

Investment Companies and Investment Advisers

In view of the comments recieved and the reasons given below, the Commission has revised the definitions of "small business" and "small organization" that were proposed with respect to investment companies and investment advisers and is adopting the revised definitions as Rule 0–10, 17 CFR 270.0–10, and Rule 0–7, 17 CFR 275.0–7.

Rule 0–10, 17 CFR 270.0–10, classifies as small any investment company with net assets of $50 million or less as of the end of its most recent fiscal year. The Commission received two letters commenting specifically on this size standard. One urged that $50 million was an appropriate cut-off point.[36] The SBA, being of the impression that only 14 percent, rather than 62.4 percent, of the investment companies in the Commission's statistical sample have assets of $50 million or less, suggested raising the figure to $100 million so that a greater proportion of investment companies might be classified as small.[37] Both commentators suggested that any investment company that primarily invests in small businesses be deemed small even though its net assets exceed the cut-off point that may be adopted.

The Commission believes that had the SBA realized that 62.4 percent of the investment companies would be deemed small under the Commission's size standard it might not have suggested raising the cut-off point to $100 million. Moreover, the Commission continues to believe that, since investment companies with high expense ratios would generally be more adversely affected by regulatory costs than those with lower expense ratios, they are the appropriate subject of relief for purposes of the RFA. Since its statistical study shows that investment companies with net assets from $6 million to $47.2 million had expense ratios exceeding the mean (average) adjusted expense ratio plus one standard deviation (and all the companies with net assets of over $47.2 million had expense ratios falling below this boundary), the Commission is adopting $50 million as the cut-off point.

Having thus identified the small entities in the investment company industry, the Commission is not persuaded that it must, in addition, provide special treatment for investment companies which, although not small, invest in small businesses on the assumption that the benefit of reduced regulatory cost on such investment companies would filter down to its portfolio companies. These portfolio companies are a step removed from the purpose of the Commission's size standard which is to distinguish those investment companies that, due to their size, bear a disproportionate burden of the costs of complying with regulations.

Paragraph (a)(1) of Rule 0–7, 17 CFR 275.0–7(a)(1), classifies as small any investment adviser that manages assets with a total value of $50 million or less, in discretionary or non-discretionary accounts, as of the end of its most recent fiscal year and does not render other advisory services. The Commission received three letters commenting specifically on this size standard. One recommended $50 million as a realistic cut-off point, if indexed for inflation by tying it to the GNP deflator. The Commission believes that this is not necessary because $50 million is only an estimate and it can be changed in the future if necessary.

The SBA suggested that the Commission raise the cut-off point to $100 million to increase the number of investment advisers that will be eligible for regulatory relief. Another commentator also suggested raising the cut-off point to $100 million, but would add, as alternatives, "maintains 25 or less accounts or employs 5 or less persons."[38] The Commission has no information about the specific number of employees of investment advisers or how many investment advisers employ 5

[33] Section 2(a)(9).

[34] Section 11(b)(1).

[35] Source: "Electric Utility Statistics," Public Power, Jan–Feb. 1981, p. D–3, Federal Energy Regulatory Commission Form 1's for Class C and D electric utility companies (1979); Brown's Directory of American and International Gas Companies (93d ed. 1979); Statistics supplied by the American Gas Association.

[36] National Association of Small Business Investment Companies, letter dated May 19, 1981 ("NASBIC").

[37] Small Business Administration letter dated May 27, 1981 ("SBA").

[38] Myerson, Den Berg and Co., letter dated May 5, 1981.

or less persons. Aside from the difficulty of defining "employee" (whether to include half-time, full-time, temporary, permanent, partners, etc.), an attempt to solicit this information from investment advisers would impose unnecessary burdens on them to provide information, contrary to the spirit of the Paperwork Reduction Act.[39] Although it is possible to gather from Form ADV the number of accounts of investment advisers,[40] the number of accounts will not necessarily identify the small investment advisers that only manage assets because of the varying size of the accounts. Thus, an investment adviser with just one account—a $1 billion money market fund—would not be small compared to an investment adviser with fifty $1 million accounts. Therefore, the Commission is not adopting these alternatives size standards.

As to raising the cut-off point for investment advisers that only manage assets, the Commission notes that it proposed $50 million as the cut-off point because of the similarities, with respect to the management of assets, between the investment company and the investment advisory businesses. Therefore, having adopted $50 million as the cut-off point for investment companies, the Commission also adopts it for investment advisers that only manage assets. The Commission is not persuaded that the cut-off point should be raised simply to increase the number of investment advisers that will be eligible for relief. To adopt such an approach would be to depart from the purpose of adopting a size standard, which is to identify the small entities among a particular type of entities so that the Commission may determine whether a particular rulemaking has "a significant economic impact on a substantial number of small entities."[41]

Paragraph (a)(2) of Rule 0-7, 17 CFR 275.0-7(a)(2), classifies as small any investment adviser that solely, or in addition to managing assets of $50 million or less, renders other advisory services and the assets related to its advisory business do not exceed in value $50,000 as of the end of its most recent fiscal year. As originally proposed, the size standard for this type of adviser was that its business-related assets, as shown in the balance sheet most recently filed with the Commission, did not exceed in value 50 percent of the average business-related assets for this type of adviser. As stated in the proposal, the Commission expected to determine such average assets from the balance sheets in its files and to express the size standard in dollars in the final rule. This size standard encountered several objections. One commentator suggested that "$50 million or less" be changed to "$100 million or less, 25 or less accounts or employs 5 or less persons." For the reasons stated in the preceding two paragraphs, the Commission has not adopted this suggestion.

Another commentator suggested that the Commission use the 500-employee size standard proposed by the SBA for miscellaneous publishers.[42] The Commission does not adopt this suggestion because some investment advisers in this category are not publishers at all[43] and, to the extent that some of them issue publications on a subscription basis, the standard would probably embrace all of them for it is unlikely that any of them has more than 500 employees. The standard, therefore, would not identify those that are small among this type of advisers. For this reason, the standard would not serve the purposes of the RFA. This reasoning also supports the Commission's not following suggestions that there should be a separate standard classifying as small all investment advisers who solely or mainly publish newsletters.[44]

Finally, one commentator pointed out potential problems with using the "average" business-related assets as a point of reference for the size standard in the absence of data showing the distribution of this type of investment advisers.[45] This comment is well-taken. The size standard in paragraph (a)(2) of Rule 0-7, 17 CFR 275.0-7(a)(2), uses the median business-related assets, not the average business-related assets, as the point of reference. In a random sample of 100 investment advisers out of about 2,300 investment advisers that solely, or in addition to managing assets of $50 million or less, render other advisory services[46] the Commission found that the median value of their business-related assets was approximately $50,000. The information about the business-related assets of those advisers in the sample was taken from such advisers' latest balance sheets in the Commission's files.[47] Using the median assets of investment advisers in the sample ($50,000), instead of 50 percent of such median assets ($25,000), as the cut-off point would classify as small 55 percent of investment advisers in the sample—a segment which compares with 62.4 percent of investment companies in the Commission's earlier sample that are classified as small under the size standard for investment companies.

Text of Amendments

PART 230—GENERAL RULES AND REGULATIONS, SECURITIES ACT OF 1933

Part 230 of Chapter II of Title 17 of the Code of Federal Regulations is amended by adding § 230.157 to read as follows:

§ 230.157 Small entities for purposes of the Regulatory Flexibility Act.

For purposes of Commission rulemaking in accordance with the provisions of Chapter Six of the Administrative Procedure Act (5 U.S.C. 601 et seq.), and unless otherwise

[39] Under the Paperwork Reduction Act of 1980, effective on April 1, 1981, the Commission must obtain approval from the Office of Management and Budget ("OMB") for every questionnaire calling for answers to identical questions posed to ten or more persons.

[40] Items 15(ii)(a) and 16(ii)(a), Part I, Form ADV, require an investment adviser to state the total number of accounts under discretionary management and of accounts under management or supervision, respectively, as of the end of the adviser's last fiscal year.

[41] Increasing the number of entities within the class deemed small might even be counterproductive in applying this statutory standard in that the bigger the class, the greater the number of entities within it that must be adversely affected by a particular rulemaking before it can be said that the rulemaking affects a "substantial" number of the class.

[42] At the time of the proposal the Commission rejected a size standard based on the number of subscribers because it had no information about the number of these subscribers. The Commission still does not have this information, but it is proposing to amend item 17 of Part I of Form ADV to require an applicant that issues periodic publications relating to securities on a subscription basis to state the number of subscribers thereto as of the end of the applicant's last fiscal year. If this proposed amendment is adopted, the Commission, with available information about the number of subscribers, might reconsider amending the size standard applicable to publishers of market letters.

[43] This category includes not only those advisers that issue periodic publications relating to securities on a subscription basis, but also those that furnish investment advice through consultations (without furnishing investment supervisory services or otherwise managing investment advisory accounts), prepare or issue special reports or analyses relating to securities, or prepare or issue any charts, graphs, formulas, or other devices which clients may use to evaluate securities.

[44] SBA; Newsletter Association of America, letter dated May 13, 1981.

[45] NAIC Investor Advisory Service, letter dated May 14, 1981.

[46] As used in this proposed definition, "other advisory services" means services referred to in item 1(c), (d), (e), (f), and (h), Part II, of Form ADV, 17 CFR 279.0-1.

[47] The Commission is proposing to delete the unaudited balance sheet requirement in item 17, Part I, Form ADV. This deletion, if adopted, should not affect the Commission's application of the size standard in view of the data already available or the monitoring of its continued propriety in view of the balance sheet data that the Commission obtains in its routine adviser inspections.

defined for purposes of a particular rulemaking proceeding, the term "small business" or "small organization" shall—

(a) When used with reference to an issuer, other than an investment company, for purposes of the Securities Act of 1933, mean an issuer whose total assets on the last day of its most recent fiscal year were $3,000,000 or less and that is engaged or proposing to engage in small business financing. An issuer is considered to be engaged or proposing to engage in small business financing under this section if it is conducting or proposes to conduct an offering of securities which does not exceed the dollar limitation prescribed by section 3(b) of the Securities Act.

(b) When used with reference to an investment company that is an issuer for purposes of the Securities Act of 1933, mean an investment company with net assets of $50 million or less as of the end of its most recent fiscal year.

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

Part 240 of Chapter II of Title 17 of the Code of Federal Regulations is amended by adding § 240.0-10 to read as follows:

§ 240.0-10 Small entities for purposes of the Regulatory Flexibility Act.

For purposes of Commission rulemaking in accordance with the provisions of Chapter Six of the Administrative Procedure Act (5 U.S.C. 601 et seq.), and unless otherwise defined for purposes of a particular rulemaking proceeding, the term "small business" or "small organization" shall—

(a) When used with reference to an "issuer" or a "person," other than an investment company, under sections 12, 13, 14, 15(d) or 16(b) of the Securities Exchange Act of 1934, mean an "issuer" or "person" that, on the last day of its most recent fiscal year, had total assets of $3,000,000 or less;

(b) When used with reference to an "issuer" or "person" that is an investment company, mean an investment company with net assets of $50 million or less as of the end of its most recent fiscal year;

(c) When used with reference to a broker or dealer, mean a broker or dealer that:

(1) Had total capital (net worth plus subordinated liabilities) of less than $500,000 on the date in the prior fiscal year as of which its audited financial statements were prepared pursuant to § 240.17a-5(d) or, if not required to file such statements, a broker or dealer that had total capital (net worth plus subordinated liabilities) of less than $500,000 on the last business day of the preceding fiscal year (or in the time that it has been in business, if shorter); and

(2) Is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in this section;

(d) When used with reference to a clearing agency, mean a clearing agency that:

(1) Compared, cleared and settled less than $500 million in securities transactions during the preceding fiscal year (or in the time that it has been in business, if shorter);

(2) Had less than $200 million of funds and securities in its custody or control at all times during the preceding fiscal year (or in the time that it has been in business, if shorter); and

(3) Is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in this section;

(e) When used with reference to an exchange, mean any exchange that has been exempted from the reporting requirements of § 240.11Aa3-1;

(f) When used with reference to a municipal securities dealer that is a bank (including any separately identifiable department or division of a bank), mean any such municipal securities dealer that:

(1) Had, or is a department of a bank that had, total assets of less than $10 million at all times during the preceding fiscal year (or in the time that it has been in business, if shorter);

(2) Had an average monthly volume of municipal securities transactions in the preceding fiscal year (or in the time it has been registered, if shorter) of less than $100,000; and

(3) Is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in this section;

(g) When used with reference to a securities information processor, mean a securities information processor that:

(1) Had gross revenues of less than $10 million during the preceding fiscal year (or in the time it has been in business, if shorter);

(2) Serviced less than 100 interrogation devices or moving tickers as those terms are defined in § 240.11Aa-3-1 at all times during the preceding fiscal year (or in the time that it has been in business, if shorter); and

(3) Is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in this section; and

(h) When used with reference to a transfer agent, mean a transfer agent that:

(1) Received less than 500 items for transfer and less than 500 items for processing during the preceding six months (or in the time that it has been in business, if shorter);

(2) Maintained master shareholder files that in the aggregate contained less than 1,000 shareholder accounts or was the named transfer agent for less than 1,000 shareholder accounts at all times during the preceding fiscal year (or in the time that it has been in business, if shorter); and

(3) Is not affiliated with any person (other than a natural person) that is not a small business or small organization under this section.

(i) For purposes of paragraphs (c) through (h) of this section, a person is affiliated with another person if that person controls, is controlled by, or is under common control with such other person; a person shall be deemed to control another person if that person has the right to vote 25% or more of the voting securities of such other person or is entitled to receive 25% or more of the net profits of such other person or is otherwise able to direct or cause the direction of the management or policies of such other person.

PART 250—GENERAL RULES AND REGULATIONS, PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

Part 250 of Chapter II of Title 17 of the Code of Federal Regulations is amended by adding § 250.110 to read as follows:

§ 250.110 Small entities for purposes of the Regulatory Flexibility Act.

For purposes of Commission rulemaking in accordance with the provisions of Chapter Six of the Administrative Procedure Act (5 U.S.C. 601 et seq.), and unless otherwise defined for purposes of a particular rulemaking proceeding, the terms "small business" and "small organization," for purposes of the Public Utility Holding Company Act of 1935, shall mean a holding company system whose gross consolidated revenues from sales of electric energy or of natural or manufactured gas distributed at retail for its previous fiscal year did not exceed $1,000,000. There may be excluded from such gross revenues:

(a) Sales or electric energy or natural or manufactured gas to tenants or employees of any operating subsidiary company of such holding company for their own use and not for resale; and

(b) Sales of gas to industrial consumers or in enclosed portable containers.

PART 260—GENERAL RULES AND REGULATIONS, TRUST INDENTURE ACT OF 1939

Part 260 of Chapter II of Title 17 of the Code of Federal Regulations is amended by adding § 260.0-7 to read as follows:

§ 260.0-7 Small entities for purposes of the Regulatory Flexibility Act.

For purposes of Commission rulemaking in accordance with the provisions of Chapter Six of the Administrative Procedure Act (5 U.S.C. 601 et seq.), and unless otherwise defined for purposes of a particular rulemaking proceeding, the term "small business" or "small organization," for purposes of the Trust Indenture Act of 1939 shall mean an issuer whose total assets on the last day of its most recent fiscal year were $3 million or less that is engaged or proposing to engage in small business financing. An issuer is considered to be engaged or proposing to be engaged in small business financing under this section if it is conducting or proposing to conduct an offering of securities which does not exceed the dollar limitation prescribed by § 260.4a-2.

PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

Part 270 of Chapter II of Title 17 of the Code of Federal Regulations is amended by adding § 270.0-10 to read as follows:

§ 270.0-10 Small entities for purposes of the Regulatory Flexibility Act.

For purposes of Commission rulemaking in accordance with the provisions of Chapter Six of the Administrative Procedure Act (5 U.S.C. 601 et seq.), and unless otherwise defined for purposes of a particular rulemaking proceeding, the term "small business" or "small organization," for purposes of the Investment Company Act of 1940 shall mean an investment company with net assets of $50 million or less as of the end of its most recent fiscal year.

PART 275—RULES AND REGULATIONS, INVESTMENT ADVISERS ACT OF 1940

Part 275 of Chapter II of Title 17 of the Code of Federal Regulations is amended by adding § 275.0-7 to read as follows:

§ 275.0-7 Small entities for purposes of the Regulatory Flexibility Act.

(a) For purposes of Commission rulemaking in accordance with the provisions of Chapter Six of the Administrative Procedure Act (5 U.S.C. 601 et seq.), and unless otherwise defined for purposes of a particular rulemaking proceeding, the term "small business" or "small organization" for purposes of the Investment Advisers Act of 1940 shall mean an investment adviser that:

(1) Manages assets with a total value of $50 million or less, in discretionary or non-discretionary accounts, as of the end of its most recent fiscal year and does not render other advisory services; or

(2) Solely, or in addition to managing assets of $50 million or less, renders other advisory services, and the assets related to its advisory business do not exceed in value $50,000 as of the end of its most recent fiscal year.

(b) As used in this rule, the term "other advisory services" means the services referred to in Form ADV, Part II, items 1(c) through (f) and (h). (17 CFR 279.0-1).

Statutory Authority

The Commission hereby adopts Rules 157, 0-10, 110, 9-7, 0-9 and 0-7, 17 CFR 230.157, 240.0-10, 250.110, 260.0-7, 270.0-10 and 275.0-7 respectively, pursuant to chapter 6 of title 5 of the United States Code (and particularly section 601 thereof (5 U.S.C. 601)) and pursuant to the Securities Act of 1933 (15 U.S.C. 77a et seq. and particularly section 19 thereof (15 U.S.C. 77s)), the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq. and particularly section 23 thereof (15 U.S.C. 78w)), the Public Utility Holding Company Act of 1935 (15 U.S.C. 79a et seq. and particularly section 20 thereof (15 U.S.C. 79t)), the Trust Indenture Act of 1939 (15 U.S.C. 77aaa et seq. and particularly section 319 thereof (15 U.S.C. 77sss)), the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq. and particularly section 38 thereof (15 U.S.C. 80a-37)), and the Investment Advisers Act of 1940 (15 U.S.C. 80b-1 et seq. and particularly section 211 thereof (15 U.S.C. 80b-11)).

By the Commission.

George A. Fitzsimmons,

Secretary.

January 28, 1982.

[FR Doc. 82-2905 Filed 2-3-82; 8:45 am]

BILLING CODE 8010-01-M

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17 CFR Part 250

[Release No. 35-22369]

Technical Amendments to Rules 70, 72 and 100

AGENCY: Securities and Exchange Commission.

ACTION: Technical amendments to rules.

SUMMARY: The Commission announces the adoption of technical amendments to Rules 70, 72 and 100 promulgated under the Public Utility Holding Company Act of 1935 ("1935 Act"). These amendments identify the correct forms for filing reports pursuant to section 17(a) of the 1935 Act and eliminate certain duplicate text and an obsolete reference.

DATE: February 4, 1982.

FOR FURTHER INFORMATION CONTACT: James E. Lurie, Special Counsel, Division of Corporate Regulation, Securities and Exchange Commission, Washington, D.C. 20549 (202) 523-5683.

SUPPLEMENTARY INFORMATION: Sections 17(a) and (b) of the 1935 Act concern the filing of statements of beneficial ownership and the liability for short-swing profits by certain insiders involving any security of a registered holding company or subsidiary thereof. These provisions parallel the reporting and liability provisions of sections 16(a) and (b) of the Securities Exchange Act of 1934 ("Exchange Act"). On January 8, 1981, the Commission amended Rule 72(b) under the 1935 Act so that it applied the rules, including exemptive rules, promulgated under sections 16(a) and (b) of the Exchange Act to transactions involving any security of a registered holding company or subsidiary thereof under sections 17(a) and (b) of the 1935 Act.[1] Duplication of filing requirements had previously been avoided by specifying Forms 3 and 4 prescribed under section 16(a) of the Exchange Act as filings also under the 1935 Act.[2] On March 20, 1981, these forms were deleted from the list of 1935 Act forms (previously at 17 CFR 259.271(a) and (b)), since the amendment to rule 72(b) made the dual designation superfluous.[3] The fact that other rules still referred to them was overlooked, a technical oversight corrected here.

The technical amendment revises Rule 72(a) to make clear that only the Exchange Act filing is contemplated. Parallel revisions to reflect this change are made to footnote 5, a note to the subheading preceding rule 70, and to the text of rule 70(b)(4), each of which refers to the filing requirements under section 17(a) of the 1935 Act.

The Commission is also deleting as obsolete footnote 6 to the 1935 Act rules. The footnote, a note accompanying rule 70(c)(5), refers to temporary provisions concerning exemptions in rule 201(b).

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[1] HCAR No. 21863 (December 31, 1980), 46 FR 2036 (January 8, 1981).

[2] HCAR No. 14383 (March 9, 1961), 26 FR 2465 (March 23, 1961).

[3] HCAR No. 21960 (March 12, 1981), 46 FR 17756 (March 20, 1981).

From:	Beckmann, Allan - EBSA
To:	TradingAndMarkets
Cc:	Butikofer, James - EBSA
Subject:	RE: Broker-dealer numbers
Date:	Monday, February 24, 2014 2:14:00 PM

I am looking for the number of broker-dealers registered with the Commission as of 12/31/2013 (the comparable to the 4,612 that were registered as of 12/31/2012).

For the revenue numbers, it was for Regulatory Flexibility Act requirements, so the suggested releases from the Commission should be helpful.

Thanks for your help,
Allan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, February 24, 2014 1:46 PM
To: Beckmann, Allan - EBSA
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Mr. Beckmann,

As you can see from the below back and forth with Daniel, he asked for different broker-dealer statistics at different times.
I'm not sure what the release you are working on is about.

Are you only looking for the number of broker-dealers registered with the Commission as of 12/31/2013?

On the revenue numbers, broker-dealers' FOCUS reports and the data contained therein is confidential.

If you are looking for information to address the Regulatory Flexibility Act requirements, Dan and I spoke of this last March. At that time, I suggested that he look at and possibly cite to one of the Commission's releases (see attachment). Since that time the Commission has published other releases that contain more up-to-date information. For instance, you could review this one - http://www.sec.gov/rules/final/2013/34-70073.pdf.

Bonnie.

From: Beckmann, Allan - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 11:31 AM
To: TradingAndMarkets
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

You communicated with my colleague Dan Puskin last year regarding some broker-dealer registration statistics. Dan has left the office, and I've taken over some of his responsibilities. Do you have updated data for 2013 (or more recent) of the number of broker-dealers registered with the SEC? Additionally, do you have data on the broker-dealer revenue? Would it be possible to determine the number of broker-dealers with less than $7 million in annual revenue?

Thanks,
Allan Beckmann

Allan Beckmann
US Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, NW, [redacted]
Washington, DC 20210
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."

The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010...."

I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch

Attorney

[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]

email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Beckmann, Allan - EBSA
To: TradingAndMarkets
Cc: Butikofer, James - EBSA ([redacted]@dol.gov)
Subject: RE: Broker-dealer numbers
Date: Monday, February 24, 2014 11:30:00 AM

Hi Bonnie,

You communicated with my colleague Dan Puskin last year regarding some broker-dealer registration statistics. Dan has left the office, and I've taken over some of his responsibilities. Do you have updated data for 2013 (or more recent) of the number of broker-dealers registered with the SEC? Additionally, do you have data on the broker-dealer revenue? Would it be possible to determine the number of broker-dealers with less than $7 million in annual revenue?

Thanks,
Allan Beckmann

Allan Beckmann
US Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, NW, [redacted]
Washington, DC 20210
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
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Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
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Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
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Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
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Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
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Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010…."
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In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

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To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
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To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

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Please let us know if we can help with anything else!

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From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

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www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
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Subject: RE: Broker-dealer numbers

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Bonnie is out this week, and I'm filling in for her.

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Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
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Subject: RE: Broker-dealer numbers

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Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

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Forms BDW filed in the calendar year ending 12/31/2011 – 378
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In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney

[redacted]

From:	Bergstresser, Keith - EBSA
To:	Kozora, Matthew ([redacted]@SEC.GOV)
Subject:	FW: Reminder: Financial Literacy Seminar, 10/24
Date:	Tuesday, October 22, 2013 10:28:00 AM

Hi Matt,

I wasn't sure if you've heard about this seminar series at GW. Some of the papers are relevant to the projects we've been working on. I will attend this Thursday.

Keith

From: GFLEC/GWSB & FRB [mailto:GFLECGWSB__FRB@mail.vresp.com]
Sent: Tuesday, October 22, 2013 10:02 AM
To: Bergstresser, Keith - EBSA
Subject: Reminder: Financial Literacy Seminar, 10/24

Financial Literacy Seminar Series

Please join us for a Financial Literacy Seminar Series (FLSS) session on **Thursday, October 24** presented by **Julie Agnew** of the College of William and Mary. She will discuss her upcoming paper, **"Judging the Quality of Financial Advice: The Good, the Bad, and the Adviser."** You can read the abstract by clicking here.

The FLSS will be hosted at the George Washington School of Business, Duquès Hall, Room 651, from **3:00 to 4:30pm**. A reception will follow from 4:30 to 5:30pm in the Dean's Reception Area on the 6th floor.

Please note the seminar will now begin at 3pm.

PLEASE CLICK HERE TO RSVP.

SAVE THE DATES for our upcoming seminars:

- November 7, James Choi, Yale University
- November 21, William Skimmyhorn, United States Military Academy
- December 5, Richard Burkhauser, Cornell University

The FLSS is a joint initiative of the Federal Reserve Board (FRB) and the Global Financial Literacy Excellence Center (GFLEC) at the George Washington School of Business (GWSB). In the fall term, the seminars convene every other Thursday at GWSB. Additional information about the seminar series and directions to GWSB are provided on our website at http://business.gwu.edu/flss/. Please contact us at gflec@gwu.edu if you have questions about the FLSS.

We look forward to seeing you on Thursday, October 24.

The Steering Committee,
Annamaria Lusardi, GWSB
John Sabelhaus, FRB
Kristen Burnell, GWSB
Laura Feiveson, FRB
Joanne Hsu, FRB
Ellen Merry, FRB
Max Schmeiser, FRB
Kamila Sommer, FRB

FLSS P1080814-001

Global Financial Literacy Excellence Center - George Washington School of Business
Duquès Hall, Suite 450
2201 G Street, NW
Washington, DC 20052
US

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew [redacted]@SEC.GOV)
Subject: question for you
Date: Tuesday, June 10, 2014 1:49:00 PM

Hey Matt,

I have a question for you about data on single issue bond trading. Is there a good time this afternoon for me to call you?

Thanks,
Keith

Keith D. Bergstresser, Ph.D.
Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
Phone: [redacted]
Fax: [redacted]
Telework Phone: [redacted]
[redacted]@dol.gov

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Subject: RE:
Date: Friday, September 30, 2011 3:20:00 PM

Good. Let's meet outside your building in the same place as last time. See you on Monday.

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, September 30, 2011 1:24 PM
To: Bergstresser, Keith - EBSA
Subject: RE:

Sounds good (we can get lunch and call it a busy meeting as well!)

Matt

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Friday, September 30, 2011 11:10 AM
To: Kozora, Matthew
Subject: RE:

Yeah, I was gonna ask you the same thing. Now we can go get coffee and call it a business meeting. How about Monday, 8:30?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, September 30, 2011 11:07 AM
To: Bergstresser, Keith - EBSA
Subject:

You were just on a conference call with the SEC?

Matt

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE:
Date: Tuesday, November 08, 2011 9:34:13 AM

Aaaaah man!

From: Bergstresser, Keith - EBSA [Keith Bergstresser [redacted]@dol.gov]
Sent: Tuesday, November 08, 2011 9:21 AM
To: Kozora, Matthew
Subject: RE:

Nope, still not important enough.

From: Kozora, Matthew Matthew Kozora [redacted]@SEC.GOV]
Sent: Tuesday, November 08, 2011 8:53 AM
To: Bergstresser, Keith - EBSA
Subject:

You coming over today?

Matt

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE:
Date: Friday, September 30, 2011 3:23:35 PM

Perfect

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Friday, September 30, 2011 3:20 PM
To: Kozora, Matthew
Subject: RE:

Good. Let's meet outside your building in the same place as last time. See you on Monday.

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, September 30, 2011 1:24 PM
To: Bergstresser, Keith - EBSA
Subject: RE:

Sounds good (we can get lunch and call it a busy meeting as well!)

Matt

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Friday, September 30, 2011 11:10 AM
To: Kozora, Matthew
Subject: RE:

Yeah, I was gonna ask you the same thing. Now we can go get coffee and call it a business meeting. How about Monday, 8:30?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, September 30, 2011 11:07 AM
To: Bergstresser, Keith - EBSA
Subject:

You were just on a conference call with the SEC?

Matt

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE:
Date: Friday, September 30, 2011 1:24:09 PM

Sounds good (we can get lunch and call it a busy meeting as well!)

Matt

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Friday, September 30, 2011 11:10 AM
To: Kozora, Matthew
Subject: RE:

Yeah, I was gonna ask you the same thing. Now we can go get coffee and call it a business meeting. How about Monday, 8:30?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, September 30, 2011 11:07 AM
To: Bergstresser, Keith - EBSA
Subject:

You were just on a conference call with the SEC?

Matt

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Subject: RE:
Date: Tuesday, November 08, 2011 9:21:00 AM

Nope, still not important enough.

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Tuesday, November 08, 2011 8:53 AM
To: Bergstresser, Keith - EBSA
Subject:

You coming over today?

Matt

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: Barber and Odean
Date: Thursday, March 06, 2014 1:49:42 PM

Do you have info on % of IRAs serviced by BDs vs IAs?

Thanks!

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Thursday, March 06, 2014 10:46 AM
To: Kozora, Matthew
Subject: Barber and Odean

Hey Matt,

You mentioned Barber and Odean at the meeting last Friday. Is this (attached) the paper you were thinking of?

Thanks,
Keith

Keith D. Bergstresser, Ph.D.
Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
Phone: [redacted]
Fax: [redacted]
Telework Phone: [redacted]
[redacted]@dol.gov

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: Barber and Odean
Date: Thursday, March 06, 2014 1:48:32 PM
Attachments: Barber and Odean 2002.pdf

This is more of what I was thinking…there are a series of papers written by these two individuals (plus sometimes with an additional co-author)

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Thursday, March 06, 2014 10:46 AM
To: Kozora, Matthew
Subject: Barber and Odean

Hey Matt,

You mentioned Barber and Odean at the meeting last Friday. Is this (attached) the paper you were thinking of?

Thanks,
Keith

Keith D. Bergstresser, Ph.D.
Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
Phone: [redacted]
Fax: [redacted]
Telework Phone: [redacted]
[redacted]@dol.gov

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Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors

BRAD M. BARBER and TERRANCE ODEAN*

ABSTRACT

Individual investors who hold common stocks directly pay a tremendous performance penalty for active trading. Of 66,465 households with accounts at a large discount broker during 1991 to 1996, those that trade most earn an annual return of 11.4 percent, while the market returns 17.9 percent. The average household earns an annual return of 16.4 percent, tilts its common stock investment toward high-beta, small, value stocks, and turns over 75 percent of its portfolio annually. Overconfidence can explain high trading levels and the resulting poor performance of individual investors. Our central message is that trading is hazardous to your wealth.

The investor's chief problem—and even his worst enemy—is likely to be himself.
Benjamin Graham

In 1996, approximately 47 percent of equity investments in the United States were held directly by households, 23 percent by pension funds, and 14 percent by mutual funds (*Securities Industry Fact Book*, 1997). Financial economists have extensively analyzed the return performance of equities managed by mutual funds. There is also a fair amount of research on the performance of equities managed by pension funds. Unfortunately, there is little research on the return performance of equities held directly by households, despite their large ownership of equities.

* Graduate School of Management, University of California, Davis. We are grateful to the discount brokerage firm that provided us with the data for this study. We appreciate the comments of Christopher Barry, George Bittlingmayer, Eugene Fama, Ken French, Laurie Krigman, Bing Liang, John Nofsinger, Srinivasan Rangan, Mark Rubinstein, René Stulz (the editor), Avanidhar Subrahmanyam, Kent Womack, Jason Zweig, two anonymous reviewers, seminar participants at the American Finance Association Meetings (New York, 1999), the 9th Annual Conference on Financial Economics and Accountancy at New York University, Notre Dame University, the University of Illinois, and participants in the Compuserve Investor Forum. All errors are our own.

In this paper, we attempt to shed light on the investment performance of common stocks held directly by households. To do so, we analyze a unique data set that consists of position statements and trading activity for 78,000 households at a large discount brokerage firm over a six-year period ending in January 1997.

Our analyses also allow us to test two competing theories of trading activity. Using a rational expectation framework, Grossman and Stiglitz (1980) argue that investors will trade when the marginal benefit of doing so is equal to or exceeds the marginal cost of the trade. In contrast Odean(1998b), Gervais and Odean (1998), and Caballé and Sákovics (1998) develop theoretical models of financial markets where investors suffer from overconfidence. These overconfidence models predict that investors will trade to their detriment.[1]

Our most dramatic empirical evidence supports the view that overconfidence leads to excessive trading (see Figure 1). On one hand, there is very little difference in the gross performance of households that trade frequently (with monthly turnover in excess of 8.8 percent) and those that trade infrequently. In contrast, households that trade frequently earn a net annualized geometric mean return of 11.4 percent, and those that trade infrequently earn 18.5 percent. These results are consistent with models where trading emanates from investor overconfidence, but are inconsistent with models where trading results from rational expectations. Though liquidity, risk-based rebalancing, and taxes can explain some trading activity, we argue that it belies common sense that these motivations for trade, even in combination, can explain average annual turnover of more than 250 percent for those households that trade most.

We also document that, overall, the households we analyze significantly underperform relevant benchmarks, after a reasonable accounting for transaction costs. These households earn gross returns (before accounting for transaction costs) that are close to those earned by an investment in a value-weighted index of NYSE/AMEX/Nasdaq stocks. During our sample period, an investment in a value-weighted market index earns an annualized geometric mean return of 17.9 percent, the average household earns a gross return of 18.7 percent, and in aggregate households earn a gross return of 18.2 percent. In contrast, the net performance (after accounting for the bid-ask spread and commissions) of these households is below par, with the average household earning 16.4 percent and in aggregate households earning 16.7 percent. The empirical tests supporting these conclusions come from abnormal return calculations that allow each household to self-select its own

[1] In an exception to this finding, Kyle and Wang (1997) argue that when traders compete for duopoly profits, overconfident traders may reap greater profits. This prediction is based on several assumptions that do not apply to individuals trading common stocks. Benos (1998) has a similar result. Daniel, Hirshleifer, and Subrahmanyam (1998) consider the asset price implications of overconfidence but do not directly address investor welfare.

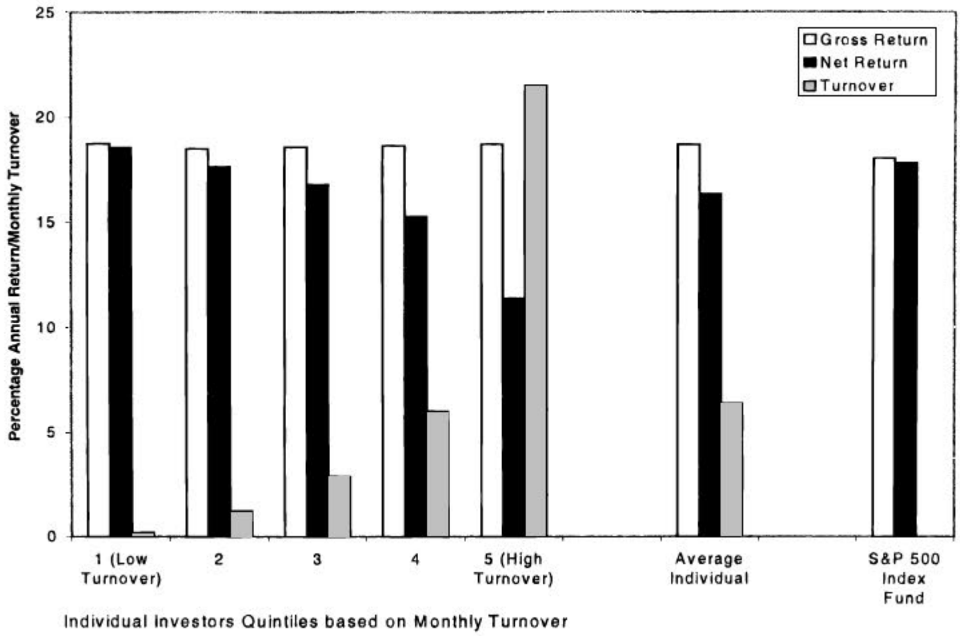

Figure 1. Monthly turnover and annual performance of individual investors. The white bar (black bar) represents the gross (net) annualized geometric mean return for February 1991 through January 1997 for individual investor quintiles based on monthly turnover, the average individual investor, and the S&P 500. The net return on the S&P 500 Index Fund is that earned by the Vanguard Index 500. The gray bar represents the monthly turnover.

investment style and from time-series regressions that employ either the Capital Asset Pricing Model (CAPM) or the three-factor model developed by Fama and French (1993) as our benchmark.

Our descriptive analysis provides several additional conclusions that are noteworthy:

1. Households[2] trade common stocks frequently. The average household turns over more than 75 percent of its common stock portfolio annually.
2. Trading costs are high. The average round-trip trade in excess of $1,000 costs three percent in commissions and one percent in bid-ask spread.
3. Households tilt their investments toward small, high-beta stocks. There is a less obvious tilt toward value (high book-to-market) stocks.

[2] Throughout this paper, "households" and "individual investors" refer to households and investors with discount brokerage accounts. Though we believe that our findings generalize to customers at other discount brokerages, we suspect that the trading practices of retail customers differ. Some of our sample households may have both retail and discount accounts. In these cases, our observations are limited to their discount accounts.

It is the cost of trading and the frequency of trading, not portfolio selections, that explain the poor investment performance of households during our sample period. In fact, the tilt of households toward small stocks and, to a lesser extent, value stocks helps their performance during our sample period (during which small stocks outperform large stocks by 15 basis points per month and value outperforms growth by 20 basis points per month).[3]

The remainder of this paper is organized as follows. We discuss related research in Section I and our data and empirical methods in Section II. Our main descriptive results are presented in Section III. We test the models of investor overconfidence in Section IV. We discuss the impact of price momentum on individual investor performance in Section V and liquidity, risk, and taxes as motivations for trading in Section VI. Concluding remarks are made in Section VII.

I. Related Research

To our knowledge, the current investigation is the first comprehensive study of the aggregate common stock performance of individual investors who manage their own equity investments without the advice of a full-service broker. Schlarbaum, Lewellen, and Lease (1978a) analyze the aggregate common stock performance of investors at a full-service brokerage firm. Odean (1999) and Schlarbaum, Lewellen, and Lease (1978b) analyze the profitability of common stock trades (as distinct from positions held) by individual investors.

Schlarbaum et al. (1978a) calculate monthly gross and net portfolio returns for 2,500 accounts at a retail brokerage firm over a seven-year period ending in December 1970. In a separate paper, Schlarbaum et al. (1978b) analyze the gross and net returns of round-trip trades made by the same 2,500 accounts over the same period. Though they emphasize that their results are conjectural, they conclude that their results "portray an overall picture of quite respectable individual investor security selection acumen." In contrast, we document that individual investors at a discount brokerage firm during the six-year period ending January 1997 perform poorly.

There are at least three reasons why our results might differ from those in Schlarbaum et al. (1978a, 1978b). First, we analyze households that hold their investments at a discount brokerage firm rather than at a retail brokerage firm. A wide variety of investment advice is available to both retail and discount investors from sources such as newsletters, *Value Line*, and the financial press. Retail brokerage firms also provide stock selection advice to their clients. If this advice is valuable and if investors attend to it, it is

[3] These figures are based on the mean return from February 1991 through January 1997 for the size and book-to-market factors constructed by Fama and French (1993). In the remainder of this paper, when we refer to a size or value premium, our inference is based on the returns of these zero-investment portfolios.

plausible that individual investors at these firms earn both better gross returns and net returns. We would welcome the opportunity to test this hypothesis directly by obtaining a data set similar to that employed in our study from a retail brokerage firm. Barber et al. (1998) and Womack (1996) present evidence that the recommendations of brokerage-house analysts have investment value.

Second, the analysis in Schlarbaum et al. (1978b) focuses on the returns from round-trip trades. There is now evidence that investors have a tendency to sell winning investments and hold on to losing investments (Odean (1998a)). Thus, by analyzing trades rather than position statements (as we do in the current study), Schlarbaum et al. may upwardly bias their return estimates. Schlarbaum et al. (1978a) do attempt to reconstruct monthly positions from trading records and partial end-of-period positions. However, as they point out, stocks purchased before 1964 and sold after 1970 may not appear in their study.

Third, although Schlarbaum et al. (1978a, 1978b) evaluate performance using a variety of market indexes, they do not consider the tendency for individual investors to tilt toward small stocks (though of course firm size did not have the same celebrity status in 1978 that it enjoys today). They do not explicitly address whether such a tilt exists among the individual investors they analyze, but we suspect that it does. This small-stock tilt is likely to be extremely important because small stocks outperform large stocks by 67 basis points *per month* during their sample period.

As do Schlarbaum et al. (1978b), Odean (1999) focuses on the trades of individual investors. He analyzes the timing of trades made by individual investors at a large discount brokerage firm during the seven years ending in December 1993, a sample period that overlaps with ours. (The data sets employed in Odean (1999) and this study are different.) He documents that the stocks individuals sell subsequently outperform the stocks they buy. Thus, the implications of his study and the current investigation are similar: Individual investors trade too much. However, Odean does not analyze the aggregate performance of all stocks held by individuals. Consequently, he is unable to conclude whether individual investors perform well in aggregate, which is the focus of our investigation.

II. Data and Methods

A. Household Account Data

The primary data set for this research is information from a large discount brokerage firm on the investments of 78,000 households from January 1991 through December 1996.[4] Of the sampled households, 42 percent are in

[4] The month-end position statements for this period allow us to calculate returns for February 1991 through January 1997. Data on trades are from January 1991 through November 1996.

the western part of the United States, 19 percent in the East, 24 percent in the South, and 15 percent in the Midwest. The data set includes all accounts opened by each household at this discount brokerage firm. The sample selection was performed at the household level and was stratified based on whether the discount brokerage firm labeled the household as a general (60,000 households), affluent (12,000 households), or active trader household (6,000 households). The firm labels households that make more than 48 trades in any year as active traders, households with more than $100,000 in equity at any point in time as affluent, and all other households as general. If a household qualifies as either active trader or affluent, it is assigned the active trader label. In 1997, approximately 61 percent of all retail accounts at this brokerage firm were classified as general, 28 percent as affluent, and 11 percent as active. Sampled households were required to have an open account with the discount brokerage firm during 1991. Roughly half of the accounts in our analysis were opened prior to 1987 and half were opened between 1987 and 1991.

In this research, we focus on the common stock investments of households. We exclude from the current analysis investments in mutual funds (both open-end and closed-end), American Depositary Receipts (ADRs), warrants, and options. Of the 78,000 sampled households, 66,465 have positions in common stocks during at least one month; the remaining accounts hold either cash or investments in other than individual common stocks. Households have, on average, two accounts: 48 percent have a single account, 27 percent have two, 14 percent have three, and the remaining 11 percent have more than three. The most common reason for two accounts is the tax-preferred status of retirement accounts (e.g., IRAs and Keoghs). Some households also have different accounts for different household members (e.g., custodial accounts for children). Roughly 60 percent of the market value in the accounts is held in common stocks. In these households, more than 3 million trades are made in all securities during the sample period, with common stocks accounting for slightly more than 60 percent of all trades. On average during our sample period, the mean household holds 4.3 stocks worth $47,334, though each of these figures is positively skewed. The median household holds 2.61 stocks worth $16,210. In December 1996, these households held more than $4.5 billion in common stock.

In Table I, we present descriptive information on the trading activity for our sample. Panels A and B show there are slightly more purchases (1,082,107) than sales (887,594) during our sample period, though the average value of stocks sold ($13,707) is slightly higher than the value of stocks purchased ($11,205). As a result, the aggregate value of purchases and sales is roughly equal ($12.1 and $12.2 billion, respectively). The average trade is transacted at a price of $31 per share. The value of trades and the transaction price of trades are positively skewed; the medians for both purchases and sales are substantially less than the mean values.

Table I

Descriptive Statistics on Trade Size, Trade Price, Transaction Costs, and Turnover

The sample is account records for 66,465 households at a large discount brokerage firm from January 1991 to December 1996. Spread is calculated as the transaction price divided by the closing price on the day of the transaction minus one (and then multiplied by minus one for purchases). Commission is calculated as the commission paid divided by the value of the trade. Monthly turnover is the beginning-of-month market value of shares purchased in month $t-1$ (or sold in month t) divided by the total beginning-of-month market value of shares held in month t. Trade-weighted spread and commission are averages weighted by trade size. Aggregate turnover is the aggregate value of sales (or purchases) divided by the aggregate value of positions held during our sample period.

	Mean	25th Percentile	Median	75th Percentile	Standard Deviation	No. of Obs.
			Panel A: Purchases			
Trade size ($)	11,205	2,513	4,988	10,500	32,179	1,082,107
Price/share	31.06	11.00	23.00	40.00	117.82	1,082,107
Monthly turnover (%)	6.49	0.54	2.67	7.08	11.89	66,465
Commission (%)*	1.58	0.78	1.29	2.10	1.45	966,492
Spread(%)	0.31					1,028,087
			Panel B: Sales			
Trade size ($)	13,707	2,688	5,738	13,000	38,275	887,594
Price/share	31.22	12.00	24.00	41.00	113.03	887,594
Monthly turnover (%)	6.23	0.39	2.58	6.95	11.36	66,465
Commission (%)*	1.45	0.70	1.16	1.91	1.06	785,206
Spread (%)	0.69					845,644
			Panel C: Trade-Weighted and Aggregate Purchases			
Aggregate monthly turnover (%)	6.05					
Trade-weighted commission (%)	0.77			Not Applicable		
Trade-weighted spread (%)	0.27					
			Panel D: Trade-Weighted Sales			
Aggregate monthly turnover (%)	6.06					
Trade-weighted commission (%)	0.66			Not applicable		
Trade-weighted spread (%)	0.61					

*Commissions are calculated based on trades in excess of $1,000. Including smaller trades results in a mean buy (sale) commission of 2.09 (3.07) percent.

For each trade, we estimate the bid-ask spread component of transaction costs for purchases (spr_{d_b}) and sales (spr_{d_s}) as

$$spr_{d_s} = \left(\frac{P_{d_s}^{cl}}{P_{d_s}^{s}} - 1 \right) \quad \text{and} \quad spr_{d_b} = -\left(\frac{P_{d_b}^{cl}}{P_{d_b}^{b}} - 1 \right), \tag{1}$$

where $P_{d_s}^{cl}$ and $P_{d_b}^{cl}$ are the reported closing prices from the Center for Research in Security Prices (CRSP) daily stock return files on the day of a sale and purchase, respectively, and $P_{d_s}^{s}$ and $P_{d_b}^{b}$ are the actual sale price and purchase price from our account database.[5] Our estimate of the bid-ask spread component of transaction costs includes any market impact that might result from a trade. It also includes an intraday return on the day of the trade. (In Appendix A, we provide a detailed reconciliation of our return calculations.) The commission component of transaction costs is estimated as the dollar value of the commission paid scaled by the total principal value of the transaction, both of which are reported in our account data.

The average purchase costs an investor 0.31 percent, and the average sale costs an investor 0.69 percent in bid-ask spread. Our estimate of the bid-ask spread is very close to the trading cost of 0.21 percent for purchases and 0.63 percent for sales paid by open-end mutual funds from 1966 to 1993 (Carhart (1997)).[6] The average purchase in excess of $1,000 costs 1.58 percent in commissions, and the average sale in excess of $1,000 costs 1.45 percent.[7]

In Panels C and D of Table I, we calculate the trade-weighted (weighted by trade size) spreads and commissions. These figures can be thought of as the total cost of conducting the $24 billion in common stock trades ($12 billion each in purchases and sales). Trade size has little effect on spread costs (0.27 percent for purchases and 0.69 percent for sales) but substantially reduces the commission costs (0.77 percent for purchases and 0.66 percent for sales).

In sum, the average trade incurs a round-trip transaction cost of about one percent for the bid-ask spread and about three percent in commissions. In aggregate, round-trip trades cost about one percent for the bid-ask spread and about 1.4 percent in commissions.

[5] Kraus and Stoll (1972), Holthausen, Leftwich, and Mayers (1987), Laplante and Muscarella (1997), and Beebower and Priest (1980) use closing prices either before or following a transaction to estimate effective spreads and market impact. See Keim and Madhavan (1998) for a review of different approaches to calculating transactions costs.

[6] Odean (1999) finds that individual investors are more likely to both buy and sell particular stocks when the prices of those stocks are rising. This tendency can partially explain the asymmetry in buy and sell spreads. Any intraday price rises following transactions subtract from our estimate of the spread for buys and add to our estimate of the spread for sells.

[7] To provide more representative descriptive statistics on percentage commissions, we exclude trades of less than $1,000. The inclusion of these trades results in a round-trip commission cost of five percent on average (2.1 percent for purchases and 3.1 percent for sales).

Finally, we calculate the monthly portfolio turnover for each household. In each month during our sample period, we identify the common stocks held by each household at the beginning of month t from their position statements. To calculate monthly sales turnover, we match these positions to sales during month t. The monthly sales turnover is calculated as the shares sold times the beginning-of-month price per share divided by the total beginning-of-month market value of the household's portfolio. To calculate monthly purchase turnover, we match these positions to purchases during month $t - 1$. The monthly purchase turnover is calculated as the shares purchased times the beginning-of-month price per share divided by the total beginning-of-month market value of the portfolio.[8] In Panels A and B of Table I we report that, on average, households purchase 6.49 percent and sell 6.23 percent of their stock portfolio each month, though the median household trades much less frequently (buying 2.67 percent of their stock portfolio and selling 2.58 percent). In Panels C and D, we calculate aggregate purchase (sales) turnover by summing all purchases (sales) and dividing by the sum of all positions during our sample period. The aggregate purchase turnover is 6.05 percent and the aggregate sales turnover is 6.06 percent.

In sum, these investors trade their common stocks quite frequently. The average household turns over more than 75 percent of its common stock portfolio each year. This result is uncannily close to the average turnover of 77 percent reported by U.S. common stock mutual funds for the period 1966 to 1993 (Carhart (1997)). In aggregate, these investors turn over more than 70 percent of their invested wealth each year.

B. Measuring Return Performance

The focus of our analysis is the return performance of investments in common stocks by households. We analyze both the gross performance and net performance (after a reasonable accounting for commissions, the bid-ask spread, and the market impact of trades).

We estimate the gross monthly return on each common stock investment using the beginning-of-month position statements from our household data and the CRSP monthly returns file. In so doing, we make two simplifying assumptions. First, we assume that all securities are bought or sold on the last day of the month. Thus, we ignore the returns earned on stocks purchased from the purchase date to the end of the month and include the returns earned on stocks sold from the sale date to the end of the month.

[8] If more shares are sold than were held at the beginning of the month (e.g., because an investor purchases additional shares after the beginning of the month), we assume the entire beginning-of-month position in that security is sold. Similarly, if more shares were purchased in the preceding month than are held in the position statement, we assume the entire position is purchased in the preceding month. Thus, turnover, as we have calculated it, cannot exceed 100 percent in a month.

Second, we ignore intramonth trading (e.g., a purchase on March 6 and a sale of the same security on March 20), though we do include in our analysis short-term trades that yield a position at the end of a calendar month.

In Appendix A, we document that accounting for the exact timing of trades would reduce the performance of individual investors by about two basis points per month. In Appendix B, we document that accounting for intramonth trades would improve the performance of individual investors reported in our main results by less than one basis point per month. More important, a careful accounting for both the exact timing of trades and the profitability of intramonth trades indicates that the results we report in the main text are slightly high for our full sample and for every sample partition that we analyze.

Consider the common stock portfolio for a particular household. The gross monthly return on the household's portfolio (R_{ht}^{gr}) is calculated as

$$R_{ht}^{\mathrm{gr}} = \sum_{i=1}^{s_{ht}} p_{it} R_{it}^{\mathrm{gr}}, \tag{2}$$

where p_{it} is the beginning-of-month market value for the holding of stock i by household h in month t divided by the beginning-of-month market value of all stocks held by household h, R_{it}^{gr} is the gross monthly return for stock i, and s_{ht} is the number of stocks held by household h in month t.

For security i in month t, we calculate a monthly return net of transaction costs (R_{it}^{net}) *as*

$$(1 + R_{it}^{\mathrm{net}}) = (1 + R_{it}^{\mathrm{gr}}) \frac{(1 - c_{it}^{s})}{(1 + c_{i,t-1}^{b})}, \tag{3}$$

where c_{it}^{s} is the cost of sales scaled by the sales price in month t and $c_{i,t-1}^{b}$ is the cost of purchases scaled by the purchase price in month $t-1$. The costs of purchases and sales include the commissions and bid-ask spread components, which are estimated individually for each trade as previously described. Thus, for a security purchased in month $t-1$ and sold in month t, both c_{it}^{s} and $c_{i,t-1}^{b}$ are positive; for a security neither purchased in month $t-1$ nor sold in month t, both c_{it}^{s} and $c_{i,t-1}^{b}$ are zero. Because the timing and cost of purchases and sales vary across households, the net return for security i in month t varies across households. The net monthly portfolio return for each household is

$$R_{ht}^{\mathrm{net}} = \sum_{i=1}^{s_{ht}} p_{it} R_{it}^{\mathrm{net}}. \tag{4}$$

If only a portion of the beginning-of-month position in stock i is purchased or sold, the transaction cost is applied only to that portion. We estimate the aggregate gross and net monthly return earned by individual investors as

$$RAG_t^{\text{gr}} = \sum_{h=1}^{n_{ht}} x_{ht} R_{ht}^{\text{gr}} \quad \text{and} \quad RAG_t^{\text{net}} = \sum_{h=1}^{n_{ht}} x_{ht} R_{ht}^{\text{net}}, \tag{5}$$

where n_{ht} is the number of households with common stock investment in month t and x_{ht} is the beginning-of-month market value of common stocks held by household h divided by the beginning-of-month market value of common stock held by all households. We estimate the gross and net monthly return earned by the average household as

$$RH_t^{\text{gr}} = \frac{1}{n_{ht}} \sum_{h=1}^{n_{ht}} R_{ht}^{\text{gr}} \quad \text{and} \quad RH_t^{\text{net}} = \frac{1}{n_{ht}} \sum_{h=1}^{n_{ht}} R_{ht}^{\text{net}}. \tag{6}$$

C. Risk-Adjusted Return Performance

We calculate four measures of risk-adjusted performance.[9] First, we calculate an own-benchmark abnormal return for individual investors, which is similar in spirit to that proposed by Grinblatt and Titman (1993) and Lakonishok, Shleifer, and Vishny (1992). In this abnormal return calculation, the benchmark for household h is the month t return of the beginning-of-year portfolio held by household h.[10] It represents the return that the household would have earned had it merely held its beginning-of-year portfolio for the entire year. The own-benchmark abnormal return is the return earned by household h less the own-benchmark return; if the household did not trade during the year, the own-benchmark return is zero for all 12 months during the year. In each month, the abnormal returns across households are averaged, yielding a 72-month time-series of mean monthly own-benchmark abnormal returns. Statistical significance is calculated using t-statistics based on this time-series. The advantage of the own-benchmark abnormal return

[9] A fifth alternative measure of risk-adjusted returns is the Sharpe ratio, the mean excess return divided by its standard deviation. The average Sharpe ratio for the gross (net) return of the average household in our sample is 0.179 (0.134). The Sharpe ratio for the market during our sample period is 0.366 = (1.0578/2.8880). We do not report Sharpe ratios for most partitions of the data because we do not observe the entire portfolios of these households. Unobserved assets such as equities at other brokerage firms and mutual fund holdings are unlikely to greatly change average observed portfolio returns, but they are likely to reduce average observed volatility. Thus we tend to underestimate the total portfolio Sharpe ratios of investors with significant unobserved assets.

[10] When calculating this benchmark, we begin the year on February 1. We do so because our first monthly position statements are from the month end of January 1991. If the stocks held by a household at the beginning of the year are missing CRSP returns data during the year, we assume that stock is invested in the remainder of the household's portfolio.

measure is that it does not adjust returns according to a particular risk model. No model of risk is universally accepted; furthermore, it may be inappropriate to adjust investors' returns for stock characteristics that they do not associate with risk. The own-benchmark measure allows each household to self-select the investment style and risk profile of its benchmark (i.e., the portfolio it held at the beginning of the year), thus emphasizing the effect trading has on performance.

Second, we calculate the mean monthly market-adjusted abnormal return for individual investors by subtracting the return on a value-weighted index of NYSE/AMEX/Nasdaq stocks from the return earned by individual investors.

Third, we employ the theoretical framework of the capital asset pricing model and estimate Jensen's alpha by regressing the monthly excess return earned by individual investors on the market excess return. For example, to evaluate the gross monthly return earned by individual investors in aggregate, we estimate the following monthly time-series regression:

$$(RAG_t^{\mathrm{gr}} - R_{ft}) = \alpha_i + \beta_i(R_{mt} - R_{ft}) + \epsilon_{it}, \tag{7}$$

where R_{ft} = the monthly return on T-bills,[11] R_{mt} = the monthly return on a value-weighted market index, α_i = the CAPM intercept (Jensen's alpha), β_i = the market beta, and ϵ_{it} = the regression error term. The subscript i denotes parameter estimates and error terms from regression i, where we estimate four regressions: one each for the gross and net performance of individual investors in aggregate, and one each for the gross and net performance of the average household.

Fourth, we employ an intercept test using the three-factor model developed by Fama and French (1993). For example, to evaluate the performance of individuals in aggregate, we estimate the following monthly time-series regression:

$$(RAG_t^{\mathrm{gr}} - R_{ft}) = \alpha_j + \beta_j(R_{mt} - R_{ft}) + s_j SMB_t + h_j HML_t + \epsilon_{jt}, \tag{8}$$

where SMB_t is the return on a value-weighted portfolio of small stocks minus the return on a value-weighted portfolio of large stocks and HML_t is the return on a value-weighted portfolio of high book-to-market stocks minus the return on a value-weighted portfolio of low book-to-market stocks.[12] The regression yields parameter estimates of α_j, β_j, s_j, and h_j. The error term in the regression is denoted by ϵ_{jt}. The subscript j denotes parameter estimates and error terms from regression j, where we again estimate four regres-

[11] The return on Treasury bills is from *Stocks, Bonds, Bills, and Inflation, 1997 Yearbook*, Ibbotson Associates, Chicago, Ill.

[12] The construction of these portfolios is discussed in detail in Fama and French (1993). We thank Kenneth French for providing us with these data.

sions. We place particular emphasis on the Fama–French intercept tests, since individual investors tilt their portfolios toward small stocks. The three-factor model provides a reasonable adjustment for this small stock tilt.[13]

Fama and French (1993) argue that the risk of common stock investments can be parsimoniously summarized as risk related to the market, firm size, and a firm's book-to-market ratio. We measure these three risk exposures using the coefficient estimates on the market excess return ($R_{mt} - R_{ft}$), the size zero investment portfolio (SMB_t), and the book-to-market zero-investment portfolio (HML_t) from the three-factor regressions. Portfolios with above-average market risk have betas greater than one, $\beta_j > 1$. Portfolios with a tilt toward small (value) stocks relative to a value-weighted market index have size (book-to-market) coefficients greater than zero, $s_j > 0$ ($h_j > 0$).

We suspect there is little quibble with interpreting the coefficient on the market excess return (β_j) as a risk factor. Interpreting the coefficient estimates on the size and the book-to-market zero-investment portfolios is more controversial. For the purposes of this investigation, we are interested in measuring risk as perceived by individual investors. As such, it is our casual observation that investors view common stock investment in small firms as riskier than that in large firms. Thus, we would willingly accept a stronger tilt toward small stocks as evidence that a particular group of investors is pursuing a strategy that it perceives as riskier. It is less clear to us whether a tilt toward high book-to-market stocks (which tend to be ugly, financially distressed, firms) or toward low book-to-market stocks (which tend to be high-growth firms) is *perceived* as riskier by investors. As such, we interpret the coefficient estimates on the book-to-market zero-investment portfolio with a bit more trepidation.[14]

III. Results

A. Full Sample Results

Our main findings for the full sample can be summarized simply. The gross return earned by individual investors in aggregate (RAG_t^{gr}) and the gross return earned by the average household (RH_t^{gr}) are remarkably close to that earned by an investment in a value-weighted index of NYSE/AMEX/Nasdaq stocks.[15] The annualized geometric mean return earned by individ-

[13] Lyon, Barber, and Tsai (1999) document that intercept tests using the three-factor model are well specified in random samples and samples of large or small firms. Thus, the Fama–French intercept tests employed here account well for the small stock tilt of individual investors.

[14] Some authors have also identified price momentum effects in stock returns. We discuss momentum in Section V.

[15] We use the NYSE/AMEX/Nasdaq value-weighted market index constructed by Fama and French (1993). Firms comprising the index must have data for firm size and book-to-market ratio. The correlation between this market index and the NYSE/AMEX/Nasdaq value-weighted index from CRSP is 99.9 percent.

ual investors in aggregate, the average household, and the value-weighted market index are 18.2, 18.7, and 17.9 percent, respectively. In contrast, the net returns earned by individual investors in aggregate (RAG_t^{net}) and the net return earned by the average household (RH_t^{net}) underperform the value-weighted index by more than 100 basis points annually. The net annualized geometric mean return earned by individual investors in aggregate and by the average household are 16.7 and 16.4 percent, respectively.

The results of this analysis are presented in Table II. Panel A presents results for the gross performance of individual investors in aggregate, Panel B presents results for the average household. Three of the four performance measures indicate that the gross performance of individual investors is unremarkable; neither the market-adjusted return, Jensen's alpha, nor the intercept test from the Fama–French three-factor model is reliably different from zero. The fourth performance measure, the own-benchmark abnormal return, is reliably negative. This result indicates that the investors would have earned higher returns from following a buy-and-hold strategy; they hurt their *gross* performance by trading.

Also noteworthy in these results are the coefficient estimates on the market, size, and book-to-market factors. Individual investors tilt toward small stocks with high market risk. The market beta for stocks held by individual investors is reliably greater than one and the coefficient estimate on SMB_t is reliably positive. Though in aggregate individual investors have no tilt toward value or growth, the average household has a slight tilt toward value stocks (those with high book-to-market ratios) and a more pronounced tilt toward small stocks.[16] These tilts serve individual investors well during our period of analysis; the mean monthly returns on SMB_t and HML_t during our 72-month sample period are 0.15 and 0.20 percent, respectively. This observation can account for the fact that the market-adjusted return performance of individual investors is positive (albeit unreliably so), while Jensen's alpha (CAPM intercept) and the intercept test from the Fama–French three-factor model are negative.

The style preferences of individual investors complement those of institutions. Institutional investors have a clear preference for large stocks. Gompers and Metrick (1998) document this preference for large institutions; Carhart (1997) and Falkenstein (1996) document a similar bias for mutual funds. As is the case for individual investors, the growth or value preference of institutions is less obvious. Gompers and Metrick (1998) document that large institutions prefer value stocks, but Carhart (1997, Table III) documents that mutual fund holdings tilt toward growth stocks.[17]

[16] Aggregate measures weight each household by the value of that household's common stocks. Average household measures weight each household equally.

[17] Kang and Stulz (1997) document that foreign investors in Japanese equity markets prefer large growth stocks. It is likely that these foreign investors are predominantly institutions.

Table II

Summary of the Percentage Monthly Abnormal Return Measures for the Average Household and Aggregate Household

Returns are based on month-end position statements for 66,465 households at a large discount brokerage firm from January 1991 to December 1996. Panel A (Panel C) presents results for the gross (net) return on a portfolio that mimics the aggregate investment of all households. Panel B (Panel D) presents results for the gross (net) return on a portfolio that mimics the investment of the average household. Own-benchmark abnormal return is the return on the household portfolio minus the return on the portfolio the household held at the end of the previous January. Market-adjusted return is the return on the household portfolio less the return on a value-weighted NYSE/AMEX/Nasdaq index. CAPM is the results from a time-series regression of the household excess return on the market excess return ($R_{mt} - R_{ft}$). Fama–French three-factor is the results from time-series regression of household excess return on the market excess return, a zero-investment book-to-market portfolio (HML_t), and a zero-investment size portfolio (SMB_t). *p*-values are presented in parentheses.

	Excess Return	Coefficient Estimate on:			Adjusted R^2
		$(R_{mt} - R_{ft})$	HML_t	SMB_t	
Panel A: Gross Percentage Monthly Returns in Aggregate					
Own-benchmark abnormal return	−0.049**				
	(0.013)				
Market-adjusted return	0.038				
	(0.723)				
CAPM	−0.067	1.100***			92.9
	(0.543)	(0.007)			
Fama–French three-factor	−0.076	1.082***	−0.035	0.231***	96.3
	(0.357)	(0.005)	(0.324)	(0.000)	
Panel B: Gross Percentage Monthly Returns for the Average Household					
Own-benchmark abnormal return	−0.048**				
	(0.010)				
Market-adjusted return	0.078				
	(0.672)				
CAPM	−0.014	1.087			80.3
	(0.944)	(0.177)			
Fama–French three-factor	−0.154	1.120***	0.140***	0.516***	93.0
	(0.205)	(0.005)	(0.008)	(0.000)	
Panel C: Net Percentage Monthly Returns in Aggregate					
Own-benchmark abnormal return	−0.155***				
	(0.000)				
Market-adjusted return	−0.073				
	(0.496)				
CAPM	−0.175	1.096***			93.0
	(0.113)	(0.009)			
Fama–French three-factor	−0.180**	1.077***	−0.040	0.225***	96.3
	(0.031)	(0.009)	(0.251)	(0.000)	
Panel D: Net Percentage Monthly Returns for the Average Household					
Own-benchmark abnormal return	−0.194***				
	(0.000)				
Market-adjusted return	−0.090				
	(0.621)				
CAPM	−0.177	1.082			80.7
	(0.360)	(0.194)			
Fama–French three-factor	−0.311**	1.113***	0.131**	0.506***	93.0
	(0.011)	(0.008)	(0.012)	(0.000)	

***, **, and * indicate significance at the 1, 5, and 10 percent levels, respectively (two-tailed). The null hypothesis for beta (the coefficient estimate on the market excess return) is H_o: $\beta = 1$.

Table III

Descriptive Statistics, Gross Returns, and Net Returns for Household Quintiles formed on Beginning Position Value

The sample is account records for 66,465 households at a large discount brokerage firm from January 1991 to December 1996. Households are sorted into quintiles based on the market value of common stocks in the first month that a household appears during our sample period. Quintile 1 contains households with the smallest market value of common stock holdings, quintile 5 contains households with the largest value. Beginning position value is the market value of common stocks held in the first month that the household appears during our sample period. Mean monthly turnover is the average of sales and purchase turnover. Coefficient estimates are those from a time-series regression of the gross average household excess return on the market excess return ($R_{mt} - R_{ft}$), a zero-investment book-to-market portfolio (HML_t), and a zero-investment size portfolio (SMB_t). Raw return is the average monthly return for the average household. Own-benchmark abnormal return is the return on the household portfolio minus the return on the portfolio the household held at the end of the previous January. Market-adjusted return is the return on the household portfolio less the return on a value-weighted NYSE/AMEX/Nasdaq index. CAPM intercept is the estimated intercept from a time-series regression of the household excess return on the market excess return ($R_{mt} - R_{ft}$). Fama–French intercept is the estimated intercept from time-series regressions of household excess return on the market excess return, a zero-investment book-to-market portfolio (HML_t), and a zero-investment size portfolio (SMB_t). p-values are presented in parentheses.

	Quintile					
	1 (Small)	2	3	4	5 (Large)	Difference: Lrg − Sml
Panel A: Descriptive Statistics						
Mean beginning position value	1,581	4,653	8,599	16,725	149,710	N.A.
Mean monthly turnover (%)	6.68	6.35	6.31	6.13	6.33	−0.35***
						(0.000)
Coefficient estimate on:						
($R_{mt} - R_{ft}$)	1.21***	1.13***	1.11***	1.11***	1.06**	−0.15***
	(0.004)	(0.005)	(0.009)	(0.005)	(0.035)	(0.006)
HML_t	0.36***	0.12**	0.09*	0.09*	0.06*	−0.30***
	(0.000)	(0.022)	(0.067)	(0.053)	(0.079)	(0.000)
SMB_t	0.97***	0.56***	0.45***	0.39***	0.27***	−0.70***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Adjusted R^2	86.1	92.8	93.2	94.3	95.8	68.4
Panel B: Gross Average Household Percentage Monthly Return						
Raw return	1.722	1.511	1.473	1.424	1.400	−0.322
Own-benchmark abnormal return	−0.071	−0.051**	−0.038*	−0.038*	−0.037*	0.034
	(0.101)	(0.022)	(0.070)	(0.061)	(0.077)	(0.487)
Market-adjusted return	0.302	0.091	0.053	0.004	−0.020	−0.322
	(0.370)	(0.648)	(0.755)	(0.980)	(0.857)	(0.185)
CAPM intercept	0.182	−0.015	−0.043	−0.089	−0.072	−0.253
	(0.612)	(0.942)	(0.811)	(0.570)	(0.541)	(0.328)
Fama–French intercept	−0.137	−0.152	−0.149	−0.186*	−0.140	0.003
	(0.510)	(0.227)	(0.206)	(0.082)	(0.101)	(0.983)
Panel C: Net Average Household Percentage Monthly Return						
Raw return	1.478	1.328	1.313	1.280	1.279	−0.199
Own-benchmark abnormal return	−0.270***	−0.206***	−0.178***	−0.169***	−0.150***	0.120**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.023)
Market-adjusted return	0.059	−0.092	−0.107	−0.140	−0.141	−0.199
	(0.860)	(0.635)	(0.521)	(0.339)	(0.200)	(0.404)
CAPM intercept	−0.056	−0.193	−0.198	−0.229	−0.189	−0.133
	(0.875)	(0.350)	(0.264)	(0.140)	(0.105)	(0.602)
Fama–French intercept	−0.366*	−0.323**	−0.298**	−0.319***	−0.254***	0.112
	(0.079)	(0.011)	(0.013)	(0.003)	(0.004)	(0.450)

***, **, and * indicate significance at the 1, 5, and 10 percent levels, respectively (two-tailed). The null hypothesis for beta (the coefficient estimate on the market excess return) is H_o: $\beta = 1$ except in the difference column, where the null hypothesis is H_o: $\beta = 0$.

The more interesting findings of our analysis are contained in Panels C and D of Table II. Net of transaction costs, individual investors perform poorly. Both the market-adjusted return and the CAPM intercepts are negative, though unreliably so. The own-benchmark abnormal return and the Fama–French intercept provide the most compelling evidence of underperformance. These performance measures indicate significant underperformance of 15 to 31 basis points per month (1.8 percent to 3.7 percent per year, with t-statistics ranging from -2.20 to -10.21). These two performance measures are most appropriate in our setting because they control for the style preference of individual investors: small stocks with above-average market risk. In particular, the own-benchmark abnormal returns indicate individual investors would have increased their annual return by about two percent had they merely held their beginning-of-year portfolio. In combination, these results indicate that the net return performance of individual investors is reliably negative.

One might wonder whether our results are driven by a short sample period coinciding with an unusual stock market. Though the market returned about 18 percent per year during our sample period, the market return was negative in 20 of the 72 months. When we compare the performance of individual investors during the 20 months when the market was down to the 52 months in which the market was up, the performance measures presented in Table II are virtually identical.

B. Sorting on Portfolio Size

We test the robustness of our results across different position sizes by partitioning the households into quintiles on the basis of portfolio size. We define portfolio size as the market value of common stocks held in the first month for which there is a position statement.[18] Each quintile represents the common stock investments of more than 12,000 households.

Descriptive statistics on the partition by portfolio size are presented in Table III, Panel A. The largest portfolios have a mean beginning position market value of $149,750, the smallest portfolios average $1,581. Small portfolios have slightly higher monthly turnover (6.68 percent) than large portfolios (6.33 percent). As before, we estimate the parameters of the Fama–French three-factor model, where the dependent variable is the monthly mean gross household excess return for each quintile.[19] The coefficient estimates on the market, size, and book-to-market factors reveal that small portfolios tilt more heavily toward high-beta, small, value stocks than do large portfolios.

[18] If the first position statement appears after January 1991, we do not discount the market value of the common stocks to January 1991 in our rankings. Our results are virtually identical if we discount the market value of these common stocks using the return on the value-weighted market index.

[19] In the interest of parsimony, here and in the remainder of the paper we do not report results for the aggregate performance of each partition. We note when conclusions are different using the aggregate performance.

The gross and net returns for each quintile are presented in Table III, Panels B and C. Focusing first on the gross performance (Panel B), we find that small portfolios (quintile 1) earn higher average returns than large portfolios (quintile 5), though the difference is not reliably different from zero. This difference is likely attributable to the fact that small portfolios tilt more heavily toward small value stocks, which performed well during our sample period. The net performance results are presented in Panel C. The market-adjusted return and Jensen's alpha are similar to those reported for the full sample for each quintile. Though the point estimates are consistently negative, they are not reliably so. Of course, these risk-adjustments ignore the fact that investors are tilting toward small value stocks. In contrast, the own-benchmark abnormal returns and the intercept tests from the Fama–French three-factor model indicate significant underperformance, ranging from 15 to 37 basis points per month, in each of the quintiles. In sum, after a reasonable accounting for the size and value tilts of small investors, we document that both small and large portfolios underperform.

C. Cross-Sectional Variation in Performance

We should emphasize that the aggregate performance and average household performance, though germane and interesting, mask considerable cross-sectional variation in the performance across households. For each household, we calculate the mean monthly market-adjusted abnormal return. We present the distribution of these means in Table IV.[20] Consistent with the results presented in Table II, the median household earns a gross monthly market-adjusted return of −0.01 percent and a net return of −0.14 percent. Though 49.3 percent of households outperform a value-weighted market index before transaction costs, only 43.4 percent outperform the index after costs. Nonetheless, many households perform very well: 25 percent of all households beat the market, after accounting for transaction costs, by more than 0.50 percent per month (more than six percent annually). Conversely, many households perform very poorly: 25 percent of all households underperform the market, after accounting for transaction costs, by more than 0.73 percent per month (more than eight percent annually).

IV. Overconfidence and Performance

It is well documented that people tend to be overconfident (e.g., Alpert and Raiffa (1982), Griffin and Tversky (1992); see Odean (1998b) for a more detailed review). Odean (1998b), Gervais and Odean (1998), and Caballé and Sákovics (1998) develop theoretical models of financial markets where in-

[20] We omit from this analysis accounts that held common stocks for fewer than 12 months during our 72-month sample period.

Table IV

Cross-Sectional Distribution of Percentage Monthly Gross and Net Market-Adjusted Household Returns

The sample is account records for 66,465 households at a large discount brokerage firm from January 1991 to December 1996. Households with position statements in 12 or fewer months are omitted from this analysis. Though the median values are virtually identical when these households are included, more extreme values are observed.

	Gross Monthly Market-Adjusted Return (%)	Net Monthly Market-Adjusted Return (%)
Minimum	−19.46	−20.85
1st percentile	−4.32	−4.86
5th percentile	−2.12	−2.45
10th percentile	−1.34	−1.60
25th percentile	−0.57	−0.73
Median	−0.01	−0.14
75th percentile	0.66	0.50
90th percentile	1.62	1.40
95th percentile	2.41	2.15
99th percentile	4.86	4.44
Maximum	48.53	48.35
Total households	62,439	62,439
Percentage > 0	49.3%***	43.4%***
Binomial Z-statistic	−3.38	−33.13

*** indicates significant difference from 50 percent at the 1% level.

vestors suffering from overconfidence trade too much (i.e., trading, at the margin, reduces their expected utility). In contrast, in a rational expectation framework, Grossman and Stiglitz (1980) argue that investors will trade when the marginal benefit of doing so is equal to or exceeds the marginal cost of the trade (including the cost of acquiring information). Odean (1998b) analyzes a variation of Grossman and Stiglitz's model in which investors are overconfident. The two models yield different predictions about the gains of trading. The rational expectations model predicts that investors who trade more (i.e., those whose expected trading is greater) will have the same expected utility as those who trade less. The overconfidence model predicts that investors who trade more will have lower expected utility.

Consider the implications of these two models in our empirical setting. The overconfidence model predicts that the net return performance of households with high turnover will be lower than that of households with low turnover, while making no prediction about the differences in gross returns. In Grossman–Stiglitz, active and passive investors have equivalent expected utilities. Active traders must earn higher expected gross returns in order to offset their greater trading costs.[21] The Grossman–Stiglitz model therefore predicts that the gross risk-adjusted return performance of households with high turnover will be higher than that of households with low turnover, but there will be little difference in the net risk-adjusted returns.

To test these competing models, we partition our sample of households into quintiles on the basis of mean monthly turnover (defined as the average of purchase and sale turnover). Each quintile represents the common stock investments of more than 12,000 households. Descriptive statistics for each of the quintiles are presented in Table V, Panel A. The households with low turnover average 0.19 percent turnover per month, those with high turnover average 21.49 percent. To qualify as a high turnover portfolio, a household would need to turn over at least 8.7 percent of its portfolio in an average month. Households with low turnover also tend to have larger accounts.

As before, we estimate the parameters of the Fama–French three-factor model, where the dependent variable is the monthly mean gross household excess return for each turnover quintile. The coefficient estimates on the market, size, and book-to-market factors reveal that the high turnover households tilt more heavily toward high-beta, small, growth stocks than do the low turnover households.

The gross and net returns for each turnover quintile are presented in Table V, Panels B and C. Focusing first on the gross performance (Panel B), we find that high turnover households (quintile 5) do not significantly outperform low turnover households (quintile 1). In fact, the intercept test based on the Fama–French three-factor model, which accounts for the tendency of the high turnover portfolio to tilt more heavily toward high-beta, small, growth stocks, indicates that the two high turnover quintiles (quintiles 4 and 5) underperform by 24 and 36 basis points per month. Though marginally statistically significant (p-values of 0.143 and 0.104, respectively), we believe these figures to be economically large (approximately three to four percent annually). Regardless of whether one accepts these results as statistically significant, the prediction of the Grossman and Stiglitz model is not supported; those who trade most do not earn higher gross returns.

The analysis of net returns (Panel C) is quite interesting. Regardless of the method used to measure performance, the high turnover households (quintile 5) underperform the low turnover households (quintile 1). The underperformance ranges from 46 basis points per month (5.5 percent per year, $t = -1.56$) using market-adjusted returns to an astoundingly high 80 basis points per month (9.6 percent per year, $t = -4.59$) based on the Fama–French intercept. The own-benchmark abnormal returns indicate that the

[21] Rather than increasing their gross returns, active traders could alternatively achieve the same expected utility as less active traders by lowering their volatility through trading. We find no evidence of this however. For example, the average (net) Sharpe ratio of the quintile that trades most actively (0.092) is one-half that of the quintile that trades least actively (0.180). Though these Sharpe ratios do not consider investors' total portfolios of assets (see footnote 9), they indicate that active traders do not have higher volatility adjusted returns within the observed equity portfolios.

Table V

Descriptive Statistics, Gross Returns, and Net Returns for Household Quintiles Formed on Mean Turnover

The sample is account records for 66,465 households at a large discount brokerage firm from January 1991 to December 1996. Households are sorted into quintiles based on monthly turnover (the average of sales and purchase turnover) during our sample period. Quintile 1 contains households with the lowest turnover, quintile 5 contains households with the highest. Beginning position value is the market value of common stocks held in the first month that the household appears during our sample period. Mean monthly turnover is the average of sales and purchase turnover. Coefficient estimates are those from a time-series regression of the gross average household excess return on the market excess return ($R_{mt} - R_{ft}$), (HML_t), and a zero-investment size portfolio (SMB_t). Raw return is the average monthly return for the average household. Own-benchmark abnormal return is the return on the household portfolio minus the return on the portfolio the household held at the end of the previous January. Market-adjusted return is the return on the household portfolio less the return on a value-weighted NYSE/AMEX/Nasdaq index. CAPM intercept is the estimated intercept from a time-series regression of the household excess return on the market excess return ($R_{mt} - R_{ft}$). Fama–French intercept is the estimated intercept from time-series regressions of household excess return on the market excess return, a zero-investment book-to-market portfolio (HML_t), and a zero-investment size portfolio (SMB_t). p-values are presented in parentheses.

	Quintile					
	1 (Low)	2	3	4	5 (High)	Difference: High − Low
Panel A: Descriptive Statistics						
Mean monthly turnover (%)	0.19	1.24	2.89	5.98	21.49	N.A.
Mean beginning position value	34,169	26,046	22,945	19,102	21,560	−12,609***
						(0.000)
Coefficient estimate on						
($R_{mt} - R_{ft}$)	1.03	1.06*	1.11**	1.18***	1.29***	0.26***
	(0.199)	(0.090)	(0.015)	(0.002)	(0.000)	(0.000)
HML_t	0.20***	0.10***	0.13**	0.13*	0.12	−0.08
	(0.000)	(0.012)	(0.020)	(0.065)	(0.195)	(0.333)
SMB_t	0.24***	0.29***	0.51***	0.72***	1.02***	0.78***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Adjusted R^2	96.1	94.7	92.2	90.4	87.6	71.8
Panel B: Gross Average Household Percentage Monthly Return						
Raw return	1.483	1.472	1.489	1.511	1.548	0.065
Own-benchmark	−0.009	−0.026*	−0.052**	−0.079***	−0.096*	−0.087
abnormal return	(0.156)	(0.064)	(0.014)	(0.007)	(0.093)	(0.116)
Market-adjusted return	0.063	0.052	0.069	0.091	0.128	0.065
	(0.534)	(0.660)	(0.710)	(0.726)	(0.728)	(0.832)
CAPM intercept	0.090	0.022	−0.015	−0.078	−0.167	−0.257
	(0.409)	(0.865)	(0.936)	(0.774)	(0.663)	(0.407)
Fama–French intercept	−0.048	−0.072	−0.149	−0.237	−0.359	−0.311*
	(0.526)	(0.448)	(0.242)	(0.143)	(0.104)	(0.086)
Panel C: Net Average Household Percentage Monthly Return						
Raw return	1.470	1.411	1.361	1.267	1.009	−0.460
Own-benchmark	−0.021***	−0.079***	−0.167***	−0.300***	−0.587***	−0.566***
abnormal return	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Market-adjusted return	0.050	−0.009	−0.059	−0.153	−0.411	−0.460
	(0.625)	(0.937)	(0.749)	(0.547)	(0.253)	(0.124)
CAPM intercept	0.077	−0.038	−0.140	−0.314	−0.692*	−0.768**
	(0.480)	(0.764)	(0.474)	(0.242)	(0.066)	(0.012)
Fama–French intercept	−0.061	−0.130	−0.269**	−0.464***	−0.864***	−0.803***
	(0.422)	(0.172)	(0.037)	(0.005)	(0.000)	(0.000)

***, **, and * indicate significance at the 1, 5, and 10 percent levels, respectively (two-tailed). The null hypothesis for beta (the coefficient estimate on the market excess return) is H_o: $\beta = 1$ except in the difference column, where the null hypothesis is H_o: $\beta = 0$.

trading of high turnover households costs them 57 basis points per month (6.8 percent per year) relative to the returns earned by low turnover households. Again, these differences are not consistent with the Grossman and Stiglitz model, but are consistent with the predictions of the overconfidence models.

In sum, differences in gross returns across the turnover quintiles are small. An investment mimicking that of the average household in each quintile would have earned a gross annualized mean geometric return that ranged from 18.5 percent (for quintile 2) to 18.7 percent (for quintile 1). However, there are dramatic differences in the net returns across the turnover quintiles. An investment mimicking the average household of the high turnover quintile would have earned a net annualized mean geometric return of 11.4 percent, while an investment that mimicked the low turnover quintile would have earned 18.5 percent. These returns are graphed in Figure 1.

V. Price Momentum

Some authors have identified price momentum effects in stock returns—that is, stocks that have performed well recently tend to earn higher returns than those that have not (Jegadeesh and Titman (1993)). It is unlikely, however, that individual investors view momentum as a risk factor. Thus, we do not include momentum when calculating risk-adjusted returns.

Nonetheless, it is interesting to consider how momentum affects the performance of individual investors. In general, the sampled investors are antimomentum investors; that is, on average they tend to hold stocks that have recently underperformed the market. This is consistent with the evidence that individual investors tend to hold their losers and sell their winning investments (Odean (1998a)).

To investigate the effect of price momentum on the performance of individual investors, we add a zero-investment price-momentum portfolio to the Fama–French three-factor regressions described in Section II.C.[22] This portfolio is long stocks that have performed well recently and short those that have performed poorly. We then estimate time-series regressions for each of the sample partitions described in the main text. In all sample partitions, the estimated coefficient estimate on the zero-investment price-momentum portfolio is negative; individuals tend to tilt their investments toward stocks that have performed poorly recently.

The net performance of individual investors in aggregate (on average) is −0.053 (−0.041) percent per month when price momentum is included as an additional characteristic. Though still negative, these intercepts are smaller in magnitude than those from the Fama–French three-factor regressions and are not statistically significant.

[22] The construction of the zero-investment price-momentum portfolio is described in Carhart (1997). We thank Mark Carhart for providing us with the returns data.

Our principal finding—that those investors who trade most actively realize, on average, the lowest net returns—is unaffected by the inclusion of a momentum characteristic in the regressions. These time-series regressions result in an intercept of −0.398 percent per month for those who trade most actively (quintile 5) and 0.070 percent per month for those who trade least (quintile 1). Thus, when one controls for their tendency to hold poorly performing stocks, those investors who trade least actively achieve reasonable performance. More important, however, is the finding that active investors continue to underperform less active investors. The differences in the intercepts remains large and statistically significant: −0.468 percent per month.

VI. Liquidity, Rebalancing, and Tax-Motivated Trading

To this point, we have focused on information-motivated versus overconfidence-motivated trading. The empirical evidence we have presented solidly favors overconfidence as the major motivation for trading, since trading unambiguously hurts investor performance; however, there are other motivations for trading, which we consider in this section.

A. Liquidity

Investors who face liquidity shocks over time will trade as a rational response to those shocks. Thus, liquidity shocks can explain some trading activity. But, they seem implausible as an explanation of the 75 percent annual turnover that we document for the average individual investor and belie common sense as an explanation of the more than 250 percent annual turnover of the households who trade most. Investors facing rapidly fluctuating liquidity needs can, in most cases, find less expensive means to finance these than rapid trading in and out of stocks.

Moreover, the trading that results from liquidity shocks can be accomplished at a much lower cost by investing in mutual funds than by investing in individual common stocks. To illustrate this point, we analyze the returns on the Vanguard Index 500 mutual fund, a large passive mutual fund that claims to match the performance of the Standard and Poor's 500. Investors can move in and out of this fund at no cost. In contrast to the performance of the average or aggregate household, this index fund does not underperform when compared to any of the standard performance benchmarks. During our sample period, this fund earned an annualized geometric mean return of 17.8 percent while the value-weighted market index earned 17.9 percent. The market-adjusted return, the CAPM intercept, and the Fama–French intercept for the Vanguard Index 500 were −0.002, −0.004, and 0.009 percent, respectively. A passively managed mutual fund clearly provides a lower cost means of managing liquidity shocks than does investment in individual common stocks.

B. Rebalancing

Investors who desire a portfolio with certain risk characteristics will rationally rebalance their portfolio to maintain this risk profile. With an average holding of four common stocks, we believe that risk-based rebalancing is not a significant motivation for trading in the households that we study. Risk-based rebalancing as an explanation of the 75 percent annual turnover that we document for the average household belies common sense. Investors can manage the risk composition of their portfolio at much lower cost by carefully selecting a portfolio of mutual funds.

C. Taxes

The single most compelling reason for investors to hold individual common stocks in lieu of mutual funds is taxes. Investors who hold stocks that have lost value since their purchase can realize those losses. These losses can be used to shelter gains and thereby reduce the investor's tax liability.[23]

Tax-loss selling cannot completely explain the results that we document here for three reasons. First, it is implausible that tax-motivated trading would yield an annual turnover rate of 75 percent. A simple example illustrates this point: Consider an investor who buys the value-weighted market index on January 1 of each year 1991 to 1996. In December of the average year, this investor would be able to sell 24 percent of her portfolio for a loss. Of course, this example assumes a holding period of 12 months. The turnover resulting from tax-loss selling will decline as this holding period increases.

Second, we find high turnover and significant underperformance in both taxable and tax-deferred accounts. If tax-loss selling is the major motivation for trading we would expect to find little trading in tax-deferred accounts. On the other hand, if overconfidence is the major motivation for trading, we would expect to find, as we do, active trading and significant underperformance in both taxable and tax-deferred accounts. We partition the accounts in our sample into taxable and tax-deferred accounts (i.e., Individual Retirement Accounts and Keogh Accounts). In Table VI, Panel A, we present descriptive statistics for the taxable and tax-deferred accounts. Turnover in tax-deferred accounts is high: 67.6 percent annually (monthly turnover of 5.63 percent times 12), though not as high as in taxable accounts: 89.4 percent annually (monthly turnover of 7.45 percent times 12). The difference in turnover may result from tax-motivated trading or it may be that investors associate their retirement accounts with future safety and therefore trade less speculatively in these accounts.

In Table VI, Panels B and C, we present the gross and net return performances of taxable and tax-deferred accounts. The gross returns earned by taxable and tax-deferred accounts are quite similar (see Panel B). The net

[23] Though losses on mutual funds can also be used to reduce an investor's tax liability, the probability of having a loss on a mutual fund is less than the probability of observing at least one losing investment in a well-diversified portfolio of common stocks.

Table VI

Descriptive Statistics, Gross Return, and Net Return for Taxable and Tax-Deferred Accounts

The sample is account records for 66,465 households at a large discount brokerage firm from January 1991 to December 1996. Accounts are partitioned as either taxable or tax deferred (IRA, Keogh, SEP-IRA). Beginning position value is the market value of common stocks held in the first month that the household appears during our sample period. Mean monthly turnover is the average of sales and purchase turnover. Coefficient estimates are those from a time-series regression of the gross average household excess return on the market excess return ($R_{mt} - R_{ft}$), a zero-investment book-to-market portfolio (HML_t), and a zero-investment size portfolio (SMB_t). Raw return is the average monthly return for the average household. Own-benchmark abnormal return is the return on the household portfolio minus the return on the portfolio the household held at the end of the previous January. Market-adjusted return is the return on the household portfolio less the return on a value-weighted NYSE/AMEX/Nasdaq index. CAPM intercept is the estimated intercept from a time-series regression of the household excess return on the market excess return ($R_{mt} - R_{ft}$). Fama–French intercept is the estimated intercept from time-series regressions of household excess return on the market excess return, a zero-investment book-to-market portfolio (HML_t), and a zero-investment size portfolio (SMB_t). p-values are presented in parentheses.

	Taxable	Tax Deferred	Difference
Panel A: Descriptive Statistics			
Number of households	54,434	30,554	N/A.
Mean beginning position value	26,303	14,042	12,261***
			(0.000)
Mean monthly turnover (%)	7.45	5.63	1.82***
			(0.000)
Coefficient estimate on:			
($R_{mt} - R_{ft}$)	1.13***	1.12***	0.01
	(0.004)	(0.007)	(0.346)
HML_t	0.14***	0.18***	−0.04***
	(0.010)	(0.001)	(0.000)
SMB_t	0.56***	0.52***	0.04***
	(0.000)	(0.000)	(0.000)
Adjusted R^2	92.6	92.2	46.7
Panel B: Gross Average Household Percentage Monthly Return			
Raw return	1.496	1.532	−0.036
Own-benchmark abnormal return	−0.048***	−0.037*	−0.010
	(0.009)	(0.055)	(0.107)
Market-adjusted return	0.076	0.112	−0.036
	(0.702)	(0.555)	(0.185)
CAPM intercept	−0.027	0.031	−0.058**
	(0.899)	(0.156)	(0.039)
Fama–French intercept	−0.174	−0.133	−0.041*
	(0.174)	(0.298)	(0.059)
Panel C: Net Average Household Percentage Monthly Return			
Raw return	1.313	1.379	−0.066**
Own-benchmark abnormal return	−0.203***	−0.166***	−0.036***
	(0.000)	(0.000)	(0.000)
Market-adjusted return	−0.107	−0.042	−0.066**
	(0.583)	(0.823)	(0.012)
CAPM intercept	−0.204	−0.119	−0.085***
	(0.326)	(0.547)	(0.002)
Fama–French intercept	−0.344***	−0.278**	−0.066***
	(0.008)	(0.030)	(0.002)

***, **, and * indicate significance at the 1, 5, and 10 percent levels, respectively (two-tailed). The null hypothesis for beta (the coefficient estimate on the market excess return) is H_o: $\beta = 1$ except in the difference column, where the null hypothesis is H_o: $\beta = 0$.

returns earned by taxable and tax-deferred accounts are both poor, after a reasonable accounting for the small stock tilt of these individuals (see Panel C). The tax-deferred accounts outperform the taxable accounts by about six basis points per month. In short, the general tenor of our results is similar for the taxable and tax-deferred accounts.

Third, Odean (1998a, 1999) documents that most investor trading activity is inconsistent with tax-motivated trading. He observes that investors at a discount brokerage sell profitable investments twice as often as unprofitable investments (during the period 1987 to 1993) and that, relative to their opportunities to do so, these investors are about one and one-half times more likely to realize any gain than any loss. They do engage in tax-loss selling late in the year, but December is the only month in which they realize losses at as fast a rate as they do gains.

Finally, we should emphasize that trading not associated with tax-loss selling will further hurt the after-tax returns of individual investors. Not only does this trading incur trading costs, when done in a taxable account it also accelerates the payment of capital gain taxes that could be otherwise deferred.

D. Gambling

To what extent may a desire to gamble account for the excessive trading we observe? Many people appear to enjoy gambling. Some buy lottery tickets. Others gamble at casinos. We consider two distinct aspects of gambling: risk-seeking and entertainment. Risk-seeking is when one demonstrates a preference for outcomes with greater variance but equal or lower expected return. In equity markets the simplest way to increase variance without increasing expected return is to underdiversify. Excessive trading has a related, but decidedly different, effect; it decreases expected returns without decreasing variance. Thus risk-seeking may account for underdiversification (though underdiversification could also result from simple ignorance of its benefits), but it does not explain excessive trading.

A second aspect of gambling is the entertainment derived from placing and realizing bets. When coupled with the overconfident belief that these bets are expected-wealth enhancing, it is easy to see that the entertainment utility of gambling will fuel greater trading. There is also the possibility that people may trade for entertainment while fully realizing that each trade is more likely than not to reduce their personal future wealth. (Note that this is different from realizing that the trades of others are wealth reducing.) We favor the hypothesis that most investors trade excessively because they are overconfident, or because they are overconfident and they enjoy trading, over the hypothesis that they trade purely for entertainment and expect thereby to lower their wealth. Many studies have established that people are overconfident. We know of no study demonstrating that ordinary investors expect to lower their wealth through trading.

It is possible that some investors set aside a small portion of their wealth with which they trade for entertainment, while investing the majority more prudently. If "entertainment accounts" are driving our findings, we would expect turnover and underperformance to decline as the common stocks in the accounts we observe represent a larger proportion of a household's total wealth. We are able to test this hypothesis directly and find no support for it. For approximately one-third of our sample, the households reported their net worth at the time they opened their accounts. We calculate the proportion of net worth invested at the discount broker as the beginning value of a household's common stock investments scaled by its self-reported net worth.[24] We then analyze the turnover and investment performance of 2,333 households with at least 50 percent of their net worth in common stock investments at this discount broker. These households have similar turnover (6.25 percent per month, 75 percent annually) to our full sample (see Table I). Furthermore, these households earn gross and net returns that are very similar to the full sample. The monthly net return, own-benchmark abnormal return, market-adjusted return, CAPM intercept, and Fama–French intercept for these households are 1.285, −0.173, −0.135, −0.221, and −0.285 percent, respectively.

Finally, it is worth noting that the negative relation between turnover and net returns that we document for individual investors also exists in mutual funds (Carhart (1997)). It is unlikely that mutual fund managers buy and sell stocks for the pure joys of trading despite the fact that this trading lowers the expected returns of their shareholders.[25]

VII. Conclusion

We analyze the returns earned on common stock investments by 66,465 households at a large discount brokerage firm for the six years ending in January 1997. We document that the gross returns (before accounting for transaction costs) earned by these households are quite ordinary, on average. Unfortunately, the net returns (after accounting for the bid-ask spread and commissions paid by these investors) earned by these households are poor. The average household underperforms a value-weighted market index by about 9 basis points per month (or 1.1 percent annually). After accounting for the fact that the average household tilts its common stock investments toward small value stocks with high market risk, the underperformance averages 31 basis points per month (or 3.7 percent annually). The average household turns over approximately 75 percent of its common stock portfolio annually. The poor performance of the average household can be traced to the costs associated with this high level of trading.

[24] This estimate is upwardly biased because the account opening date generally precedes our first portfolio position observation and net worth is likely to have increased in the interim.

[25] Lakonishok et al. (1992) report a positive relation between turnover and performance for 769 all-equity pension funds, though this finding puzzles the authors.

Our most dramatic empirical evidence is provided by the 20 percent of households that trade most often. With average monthly turnover of in excess of 20 percent, these households turn their common stock portfolios over more than twice annually. The gross returns earned by these high-turnover households are unremarkable, and their net returns are anemic. The net returns lag a value-weighted market index by 46 basis points per month (or 5.5 percent annually). After a reasonable accounting for the fact that the average high-turnover household tilts its common stock investments toward small value stocks with high market risk, the underperformance averages 86 basis points per month (or 10.3 percent annually).

The investment experience of individual investors is remarkably similar to the investment experience of mutual funds. As do individual investors, the average mutual fund underperforms a simple market index (Jensen (1969) and Malkiel (1995)). Mutual funds trade often and their trading hurts performance (Carhart (1997)). But trading by individual investors is even more deleterious to performance because individuals execute small trades and face higher proportional commission costs than mutual funds.

Our main point is simple: Trading is hazardous to your wealth. Why then do investors trade so often? The aggregate turnover of the individual investor portfolios we analyze is about 70 percent; the average turnover is about 75 percent. The New York Stock Exchange reports that the annual turnover of stocks listed on the exchange hovered around 50 percent during our sample period. Mutual funds average an annual turnover of 77 percent (Carhart (1997)). We believe that these high levels of trading can be at least partly explained by a simple behavioral bias: People are overconfident, and overconfidence leads to too much trading.

Based on rational agents free from such behavioral biases, the efficient markets hypothesis has been central to both the theory and practice of investment management. The efficiency research posits that private information is rare. Thus, active investment strategies will not outperform passive investment strategies. Both the theoretical and empirical work on efficiency supporting this view have led to a rise of passive investment strategies that simply buy and hold diversified portfolios (Fama (1991)).

Behavioral finance models that incorporate investor overconfidence (e.g., Odean (1998b)) provide an even stronger prediction: Active investment strategies will underperform passive investment strategies. Overconfident investors will overestimate the value of their private information, causing them to trade too actively and, consequently, to earn below-average returns. Consistent with these behavioral models of investor overconfidence, we provide empirical evidence that households, which hold about half of U.S. equities, trade too much, on average. Those who trade the most are hurt the most.

Appendix A. The Analysis of Trade Timing

In this appendix, we analyze the timing of purchases and sales within a month. The timing of trades within a month is ignored in our main analysis where we assume all purchases and sales are made at month end.

Table AI

The Gross Abnormal Returns for Stocks Bought and Sold from the Trade Date to the End of the Month

The sample is account records for 66,465 households at a large discount brokerage firm from January 1991 to December 1996. Purchase turnover is the average value of stocks purchased divided by the average value of stocks held in each month. The purchase abnormal return is calculated by compounding the daily returns on the purchased security from the day following the purchase to the end of the month less the compound return on the value-weighted NYSE/AMEX/Nasdaq market index. Sales turnover and sales abnormal return are analogously calculated. The estimated effect on the monthly abnormal return is the purchase turnover times the purchase abnormal return minus the sale turnover times the sale abnormal return.

Sample	Monthly Purchase Turnover (%)	Purchase Abnormal Return (%)	Monthly Sale Turnover (%)	Sale Abnormal Return (%)	Estimated Effect on Monthly Abnormal Return (%)
Panel A: Aggregate					
All households	4.92	−0.472	4.93	0.021	−0.0242
Panel B: Households Partitioned by Beginning Position Value					
1 (Small)	6.85	−0.650	6.06	−0.116	−0.0375
2	5.83	−0.381	5.16	−0.019	−0.0213
3	5.82	−0.386	5.25	0.437	−0.0454
4	5.55	−0.445	5.25	0.030	−0.0263
5 (Large)	4.41	−0.486	4.23	−0.035	−0.0199
Panel C: Households Partitioned by Turnover					
1 (Low)	0.26	−0.184	0.23	0.068	−0.0006
2	1.37	−0.176	1.14	−0.089	−0.0014
3	3.07	−0.126	2.57	0.041	−0.0049
4	6.46	−0.234	6.13	0.102	−0.0214
5 (High)	21.81	−0.674	20.75	−0.003	−0.1464

Consistent with the results reported in Odean (1999), we document that the stocks investors buy subsequently underperform the stocks they sell. In aggregate, we estimate that an exact accounting for the timing of purchases and sales would reduce the performance of individual investors by more than two basis points per month (or approximately 0.29 percent annually).

For each account with a beginning-of-month position statement in month t, we identify all purchases in month $t-1$ and sales in month t. For both purchases and sales, we calculate the compound return on the stock from the day following the trade to the last day of the month. For purchases this return is excluded from our main results; for sales this return is included. Note that in our main results, we account for the intraday return on the trade day in our estimate of the bid-ask spread.

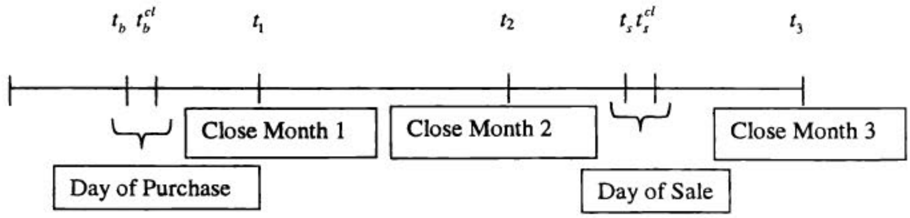

Figure A1. Time line of returns calculations. The time of purchase (sale) is t_b (t_s). The close on the purchase (sale) day is t_b^{cl} (t_s^{cl}). The close on the last day of the purchase (sale) month is t_1 (t_3).

The results of our analysis are presented in Table AI. The second (fourth) columns of this table present aggregate purchase (sale) turnover calculated as the aggregate dollar value of purchases (sales) divided by the aggregate dollar value of positions held. (This turnover measure is slightly different from that used in the main text, where turnover is calculated based on market values contained in position statements and is thus capped at 100 percent per month for each household.) Abnormal returns are calculated for purchases and sales by subtracting the compound return on the CRSP NYSE/AMEX/Nasdaq value-weighted index. The trade-weighted mean abnormal returns are presented in columns 3 (for purchases) and 5 (for sales) of Table AI. In aggregate (Panel A), from the day following the trade to the end of the month, the stocks that investors buy underperform the value-weighted market index by 47 basis points, and those they sell outperform the index by two basis points. Based on these abnormal returns and our estimates of aggregate turnover, we calculate that the results we present in the main text overestimate the performance of individual investors by 2.42 basis points per month.

We also analyze the timing of trades by partitioning households on the basis of account size (Panel B) and turnover (Panel C). In each of the sample partitions, the timing of their trades hurts investors. In short, the results in the main text overestimate the performance of individual investors by ignoring the exact timing of purchases and sales.

Consider how the accounting for the exact timing of trades relates to the return calculations contained in the main text. In Figure A1, we present an example of a security that is purchased in month 1 and sold in month 3. A time line for these transactions is depicted in Figure A1.

In the main text, we calculate the return for this security from t_1 to t_3. In this appendix, we calculate the return from timing as the return from t_b^{cl} to t_1 minus the return from t_s^{cl} to t_s. Our estimate of the bid-ask spread is the return from t_s to t_s^{cl} minus the return from t_b to t_b^{cl}. When the return from timing is added to the main calculation and the spread is subtracted, one gets the (approximate) return from t_b to t_s, the period in which the investor held the stock.

Appendix B. The Analysis of Intramonth Trades

In this appendix, we analyze the performance of stocks that are bought and then sold within a calendar month (e.g., purchased on January 3 and sold on January 10). These intramonth trades are excluded from our main analyses, since those analyses are based on monthly position statements. In aggregate, we estimate that intramonth trades would improve the performance of individual investors by less than one basis point per month (or approximately 0.06 percent annually). Though profitable, the aggregate value of intramonth trades accounts for less than one percent of the aggregate value of positions held.

For each account, we identify all purchases followed by a sale within the same month. In accounting for multiple purchases and sales, we assume that the first securities purchased are the first sold. Over our 72-month sample period, we identify 87,095 round-trip intramonth trades worth approximately $27 million per month, on average. In contrast, the average beginning-of-month value of positions held, which we analyze in the main text, is over $2.7 billion.

We calculate the gross returns on these round-trip transactions using the CRSP daily return files assuming the security is purchased and sold at the close of trading on the purchase and sale dates, respectively. We calculate the net returns on these round-trip transactions by subtracting estimates of the bid-ask spread and commissions as is done in the main text for the case of monthly returns. The average round-trip trade involves a purchase of $22,275, is held for 6.16 days, and costs 2.08 percent in commissions and 0.30 percent for the bid-ask spread. (In aggregate, these round-trip trades cost 0.87 percent in commissions and 0.27 percent for the bid-ask spread.) Note that the bid-ask spread is lower than that documented for trades that we analyze in the main text, which have an average round-trip bid-ask spread of one percent (see Table I). This lower spread is likely a result of the intraday return earned by investors from the transaction price through the end of the trading day (which is included in our estimate of the spread) rather than a smaller bid-ask spread for these intramonth trades.

In Table BI, we summarize our analysis of the gross and net returns earned on intramonth trades. In this table, we calculate market-adjusted abnormal returns by subtracting the daily value-weighted NYSE/AMEX/Nasdaq CRSP market index from the return earned on each intramonth trade. Both the gross and net abnormal returns in this table are weighted by the size of each trade, so that we can estimate the aggregate impact of these intramonth trades on the performance of individual investors.

Panel A presents results for all households. In aggregate, the intramonth trades earn impressive gross abnormal returns of 1.64 percent. The net abnormal returns are 0.50 percent. Since these intramonth trades average 0.99 percent of the average value of positions held, we estimate that these intramonth trades would improve the performance of individual investors by 0.49 basis points per month (0.0050 times 0.0099) in aggregate. This small improvement in performance does not affect any of the conclusions that we present in the main text.

Table BI

The Gross and Net Abnormal Returns earned on Intramonth Trades

The sample is account records for 66,465 households at a large discount brokerage firm from January 1991 to December 1996. The gross abnormal return on intramonth trades is calculated as the compound return from the day following the purchase to the day of the sale less the compound return on a value-weighted NYSE/AMEX/Nasdaq index. The net abnormal return is the gross abnormal return adjusted for the return earned on the day of the purchase or sale, the bid-ask spread, and the commission cost. The intramonth trades as a percentage of total position value are the average monthly value of intramonth purchases divided by the average monthly value of all stocks held. The estimated effect on monthly abnormal return is the net abnormal return times the intramonth trades as a percentage of total position value.

Sample	Mean Trade Size	Gross Abnormal Return (%)	Net Abnormal Return (%)	Intramonth Trades as a Percentage of Total Position Value	Estimated Change in Monthly Abnormal Return (%)
Panel A: Aggregate					
All households	$22,275	1.636	0.496	0.99	0.0049
Panel B: Households Partitioned by Beginning Position Value					
1 (Small)	17,459	2.376	0.904	1.42	0.0128
2	12,579	2.082	0.248	0.92	0.0023
3	17,173	1.757	0.486	1.17	0.0057
4	20,255	1.363	0.351	1.33	0.0046
5 (Large)	28,387	1.563	0.526	0.86	0.0045
Panel C: Households Partitioned by Turnover					
1 (Low)	10,638	−0.003	−0.026	0.00	0.0000
2	12,876	3.006	0.200	0.02	0.0000
3	11,886	1.843	0.220	0.08	0.0002
4	13,838	2.925	1.378	0.36	0.0050
5 (High)	23,702	1.545	0.451	6.92	0.0312

We also analyze the profitability of intramonth trades by partitioning households on the basis of account size (Panel B) and turnover (Panel C). In short, none of these results are so dramatic that they would lead us to qualify any of the results that we present in our main text. Those who benefit most from intramonth trades are those who trade most. Their intramonth trades improve their performance by 3.12 basis points per month (last row and last column of Panel C). Yet, we estimate that these investors underperform by a whopping 86 basis points per month (last row, Table V).

In conclusion, we emphasize that the positive net returns earned on intramonth trades do not necessarily imply that individual investors have superior short-term trading ability. If investors have a disposition to sell winning investments and ride losing investments (as proposed by Shefrin and Statman (1985)), we would expect to observe positive abnormal returns on short-term round-trip trades.

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From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Subject: RE: Barber and Odean
Date: Thursday, March 06, 2014 2:44:00 PM

Thanks.

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, March 06, 2014 1:48 PM
To: Bergstresser, Keith - EBSA
Subject: RE: Barber and Odean

This is more of what I was thinking…there are a series of papers written by these two individuals (plus sometimes with an additional co-author)

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Thursday, March 06, 2014 10:46 AM
To: Kozora, Matthew
Subject: Barber and Odean

Hey Matt,

You mentioned Barber and Odean at the meeting last Friday. Is this (attached) the paper you were thinking of?

Thanks,
Keith

Keith D. Bergstresser, Ph.D.
Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
Phone: [redacted]
Fax: [redacted]
Telework Phone: [redacted]
[redacted]@dol.gov

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Butikofer, James - EBSA
Subject: RE: index information and future call
Date: Friday, June 14, 2013 11:25:00 AM

Hi Matt,

We are available for the Thursday time slot (June 20th, 9-10am). I'll send out an Outlook invite. Who else should be on it on your side?

On our last phone call, you had mentioned that you would compile some written comments based on your and Jennifer's reactions to our draft. Would you be able to send those before the phone call?

Please send our thanks to Lourdes for the examples of referring to indexes.

Thanks,
Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, June 13, 2013 11:02 AM
To: Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Bergstresser, Keith - EBSA; Butikofer, James - EBSA
Subject: FW: index information and future call

Dear DOL,

Are you available from 9 to 10 on either Wednesday or Thursday of next week for a phone call?

Thanks

Matthew

From: Kozora, Matthew
Sent: Thursday, June 13, 2013 9:19 AM
To: [redacted]@dol.gov; Cosby, Chris - EBSA [redacted]@dol.gov); Bergstresser, Keith - EBSA [redacted]@dol.gov); Butikofer, James - EBSA [redacted]@dol.gov)
Cc: Marietta-Westberg, Jennifer; Gonzalez, Lourdes
Subject: index information and future call

Dear DOL,

As a follow up to our call a few weeks ago, we have some references for you regarding specifying indices in rulemaking (all thanks should go to Lourdes). The references are below my email signature.

We also would like to set up a call with you regarding the records BDs maintain. Are there times next week or the week after that you are available?

Thanks

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

In the product definitions adopting release regarding swaps (see attached), the Commission discussed the nature of security indexes in general (see pp. 48285-6). However, we did not address whether specific indexes are broad or narrow-based, under the definitions of swap and security-based swap jointly adopted by the Commission and the CFTC.

Please check Sections 3 and 6 of Chapter XIV in the following link that should lead you to NASDAQ's index options standards:

http://nasdaq.cchwallstreet.com/NASDAQTools/PlatformViewer.asp?selectednode=chp%5F1%5F1%5F14&manual=%2Fnasdaq%2Fmain%2Fnasdaq%2Doptionsrules%2F

I've cut and pasted these Sections below as well. You'll notice that the criteria may differ, depending on the specific underlying index (MSCI) named in the rule:

Sec. 3 Designation of a Broad-Based Index

(a) The component securities of an index underlying a broad-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a broad-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) NOM may trade options on a broad-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Section 2(j) of this Chapter;

(2) Options on the index are designated as A.M.-settled;

(3) The index is capitalization-weighted, modified capitalization weighted, price-weighted, or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least $75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least $100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Section 3 of Chapter IV applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by OPRA, CTA/CQ, NIDS or one or more major market data vendors during the time options on the index are traded on NOM;

(12) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

(1) The requirements set forth in subparagraphs (b)(1) - (b)(3) and (b)(9) - (b)(15) must continue to be satisfied. The requirements set forth in subparagraphs (b)(5) - (b)(8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b) (2) of the Exchange Act.

(d) MSCI EM Index

(i) NOM may trade options on the MSCI EM Index if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EM Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty-two and a half percent (22.5%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of

trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d).

(1) The conditions set forth in subparagraphs (d)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (d)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(e) MSCI EAFE Index

(i) NOM may trade options on the MSCI EAFE Index if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EAFE Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (e).

(1) The conditions set forth in subparagraphs (e)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (e)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

* * * * *

Sec. 6 Designation of Narrow-Base and Micro-Narrow-Based Index Options

(a) The component securities of an index underlying a narrow-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a narrow-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) *Narrow-Based Index*. NOM may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted, and consists of ten or more component securities;

(3) Each component security has a market capitalization of at least $75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least $50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index;

(7) Component securities that account for at least 90% of the weight of the index and at least 80% of the total number of component securities in the index satisfy the requirements of Chapter IV, Section 3 applicable to individual underlying securities;

(8) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Securities Exchange Act of 1934.

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;

(10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter; and

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

(c) *Maintenance Criteria.* The following maintenance listing standards shall apply to each class of index options originally listed pursuant to subsection (b) above:

(1) The requirements stated in subsections (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(4) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(d) Notwithstanding paragraph (a) above, NOM may trade options on a Micro Narrow-Based security index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following condition is satisfied:

(1) The Index is a security index:

(i) that has 9 or fewer component securities; or

(ii) in which a component security comprises more than 30 percent of the index's weighting; or

(iii) in which the 5 highest weighted component securities in the aggregate comprise more than 60 percent of the index's weighting; or

(iv) in which the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading volume of less than $50,000,000 (or in the case of an index with 15 or more component securities, $30,000,000) except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security;

(2) The index is capitalization-weighted, modified capitalization-weighted, price-weighted, share weighted, equal dollarweighted, approximate equal-dollar weighted, or modified equal-dollar weighted;

(i) For the purposes of this paragraph (d), an approximate equal-dollar weighted index is composed of one or more securities in which each component security will be weighted equally based on its market price on the index's selection date and the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion.

(ii) For the purposes of this paragraph (d), a modified equal-dollar weighted index is an index in which each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index. A modified equal-dollar weighted index will be balanced quarterly.

(iii) For the purposes of this paragraph (d), a share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components. A share-weighted Micro Narrow-Based index will not be rebalanced. If a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under Subsection (e) of this rule, NOM will restrict trading in existing option series to closing transactions and will not issue additional series for that index.

(iv) NOM may rebalance any Micro Narrow-Based index on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the options contract on the index, outstanding contracts are unaffected by rebalancings.

(3) Each component security in the index has a minimum market capitalization of at least $75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only $50 million;

(4) The average daily trading volume in each of the preceding six months for each component security in the index is at least 45,500 shares, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares for each of the last six months;

(5) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months; or (2) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months;

(6) Subject to subparagraphs (4) and (5) above, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements applicable to individual underlying securities;

(7)

(i) Each component security in the index is a "reported security" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(ii) Foreign securities or ADRs that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(8) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(9) An equal dollar-weighted index will be rebalanced at least once every quarter;

(10) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act; and

(12) Cash settled index options are designated as A.M.-settled options.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The index meets the criteria of paragraph (d)(1) of this Rule;

(2) Subject to subparagraphs (9) and (10) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements of Section 3 of Chapter IV.

(3) Each component security in the index has a market capitalization of at least $75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only $50 million;

(4) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(6) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(7) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(8) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing;

(9) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(10) In a capitalization-weighted index and a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act;

(12) In an approximate equal-dollar weighted index, the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume

of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion;

(13) In a modified equal-dollar weighted index NOM will rebalance the index quarterly;

(14) In a share-weighted index, if a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under paragraph (e) of this Section NOM will not re-balance the index, will restrict trading in existing option series to closing transactions, and will not issue additional series for that index; and

(15) In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the 1934 Act.

From:	Kozora, Matthew
To:	Bergstresser, Keith - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Butikofer, James - EBSA
Cc:	Gonzalez, Lourdes; McGovern, Suzanne
Subject:	RE: index information and future call
Date:	Friday, June 14, 2013 12:45:28 PM

Dear Keith,

Please invite Lourdes, Suzanne McGovern, and myself. I am not sure whether we will have written comments by then.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Friday, June 14, 2013 11:25 AM
To: Kozora, Matthew; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Butikofer, James - EBSA
Subject: RE: index information and future call

Hi Matt,

We are available for the Thursday time slot (June 20th, 9-10am). I'll send out an Outlook invite. Who else should be on it on your side?

On our last phone call, you had mentioned that you would compile some written comments based on your and Jennifer's reactions to our draft. Would you be able to send those before the phone call?

Please send our thanks to Lourdes for the examples of referring to indexes.

Thanks,
Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, June 13, 2013 11:02 AM
To: Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Bergstresser, Keith - EBSA; Butikofer, James - EBSA
Subject: FW: index information and future call

Dear DOL,

Are you available from 9 to 10 on either Wednesday or Thursday of next week for a phone call?

Thanks

Matthew

From: Kozora, Matthew
Sent: Thursday, June 13, 2013 9:19 AM
To: [redacted]@dol.gov; Cosby, Chris - EBSA [redacted]@dol.gov); Bergstresser, Keith - EBSA [redacted]@dol.gov); Butikofer, James - EBSA [redacted]@dol.gov)
Cc: Marietta-Westberg, Jennifer; Gonzalez, Lourdes
Subject: index information and future call

Dear DOL,

As a follow up to our call a few weeks ago, we have some references for you regarding specifying indices in rulemaking (all thanks should go to Lourdes). The references are below my email signature.

We also would like to set up a call with you regarding the records BDs maintain. Are there times next week or the week after that you are available?

Thanks

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

In the product definitions adopting release regarding swaps (see attached), the Commission discussed the nature of security indexes in general (see pp. 48285-6). However, we did not address whether specific indexes are broad or narrow-based, under the definitions of swap and security-based swap jointly adopted by the Commission and the CFTC.

Please check Sections 3 and 6 of Chapter XIV in the following link that should lead you to NASDAQ's index options standards:

http://nasdaq.cchwallstreet.com/NASDAQTools/PlatformViewer.asp?selectednode=chp%5F1%5F1%5F14&manual=%2Fnasdaq%2Fmain%2Fnasdaq%2Doptionsrules%2F

I've cut and pasted these Sections below as well. You'll notice that the criteria may differ, depending on the specific underlying index (MSCI) named in the rule:

Sec. 3 Designation of a Broad-Based Index

(a) The component securities of an index underlying a broad-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a broad-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) NOM may trade options on a broad-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Section 2(j) of this Chapter;

(2) Options on the index are designated as A.M.-settled;

(3) The index is capitalization-weighted, modified capitalization weighted, price-weighted, or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least $75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least $100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Section 3 of Chapter IV applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by OPRA, CTA/CQ, NIDS or one or more major market data vendors during the time options on the index are traded on NOM;

(12) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

(1) The requirements set forth in subparagraphs (b)(1) - (b)(3) and (b)(9) - (b)(15) must continue to be satisfied. The requirements set forth in subparagraphs (b)(5) - (b)(8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b) (2) of the Exchange Act.

(d) MSCI EM Index

(i) NOM may trade options on the MSCI EM Index if each of the following conditions is

satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EM Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty-two and a half percent (22.5%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d).

(1) The conditions set forth in subparagraphs (d)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (d)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(e) MSCI EAFE Index

(i) NOM may trade options on the MSCI EAFE Index if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EAFE Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of

options on the index, based on a calculation of the NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (e).

(1) The conditions set forth in subparagraphs (e)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (e)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

* * * * *

Sec. 6 Designation of Narrow-Base and Micro-Narrow-Based Index Options

(a) The component securities of an index underlying a narrow-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a narrow-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) *Narrow-Based Index*. NOM may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted, and consists of ten or more component securities;

(3) Each component security has a market capitalization of at least $75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least $50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index;

(7) Component securities that account for at least 90% of the weight of the index and at least

80% of the total number of component securities in the index satisfy the requirements of Chapter IV, Section 3 applicable to individual underlying securities;

(8) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Securities Exchange Act of 1934.

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;

(10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter; and

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

(c) *Maintenance Criteria.* The following maintenance listing standards shall apply to each class of index options originally listed pursuant to subsection (b) above:

(1) The requirements stated in subsections (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(4) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(d) Notwithstanding paragraph (a) above, NOM may trade options on a Micro Narrow-Based security index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following condition is satisfied:

(1) The Index is a security index:

(i) that has 9 or fewer component securities; or

(ii) in which a component security comprises more than 30 percent of the index's weighting; or

(iii) in which the 5 highest weighted component securities in the aggregate comprise more

than 60 percent of the index's weighting; or

(iv) in which the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading volume of less than $50,000,000 (or in the case of an index with 15 or more component securities, $30,000,000) except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security;

(2) The index is capitalization-weighted, modified capitalization-weighted, price-weighted, share weighted, equal dollarweighted, approximate equal-dollar weighted, or modified equal-dollar weighted;

(i) For the purposes of this paragraph (d), an approximate equal-dollar weighted index is composed of one or more securities in which each component security will be weighted equally based on its market price on the index's selection date and the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion.

(ii) For the purposes of this paragraph (d), a modified equal-dollar weighted index is an index in which each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index. A modified equal-dollar weighted index will be balanced quarterly.

(iii) For the purposes of this paragraph (d), a share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components. A share-weighted Micro Narrow-Based index will not be rebalanced. If a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under Subsection (e) of this rule, NOM will restrict trading in existing option series to closing transactions and will not issue additional series for that index.

(iv) NOM may rebalance any Micro Narrow-Based index on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the options contract on the index, outstanding contracts are unaffected by rebalancings.

(3) Each component security in the index has a minimum market capitalization of at least $75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only $50 million;

(4) The average daily trading volume in each of the preceding six months for each component security in the index is at least 45,500 shares, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares for each

of the last six months;

(5) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months; or (2) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months;

(6) Subject to subparagraphs (4) and (5) above, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements applicable to individual underlying securities;

(7)

(i) Each component security in the index is a "reported security" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(ii) Foreign securities or ADRs that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(8) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(9) An equal dollar-weighted index will be rebalanced at least once every quarter;

(10) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act; and

(12) Cash settled index options are designated as A.M.-settled options.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The index meets the criteria of paragraph (d)(1) of this Rule;

(2) Subject to subparagraphs (9) and (10) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements of Section 3 of Chapter IV.

(3) Each component security in the index has a market capitalization of at least $75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only $50 million;

(4) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(6) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(7) If the underlying index is maintained by a broker-dealer, the index is calculated by a third

party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(8) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing;

(9) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(10) In a capitalization-weighted index and a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act;

(12) In an approximate equal-dollar weighted index, the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion;

(13) In a modified equal-dollar weighted index NOM will rebalance the index quarterly;

(14) In a share-weighted index, if a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under paragraph (e) of this Section NOM will not re-balance the index, will restrict trading in existing option series to closing transactions, and will not issue additional series for that index; and

(15) In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the 1934 Act.

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Subject: RE: recent research
Date: Thursday, September 26, 2013 9:21:00 AM

Great! Today works for me. Do you have a place in mind or do you want to meet outside of DOL?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, September 25, 2013 4:44 PM
To: Bergstresser, Keith - EBSA
Subject: RE: recent research

Sure.   Tomorrow may be the best bet for lunch over the next week.

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Wednesday, September 25, 2013 4:40 PM
To: Kozora, Matthew
Subject: RE: recent research

Hi Matt,

We'd like to have you over to DOL to present your paper. If you're interested, perhaps we can get together for lunch and talk about details.

Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Monday, September 16, 2013 8:20 AM
To: Bergstresser, Keith - EBSA
Cc: Piacentini, Joseph - EBSA; Cosby, Chris - EBSA
Subject: recent research

Dear Keith,

Please see the following link to research that I posted last week. The research shows a possible relationship between standards of conduct under which advice is given to retail investors and the sale of investment grade municipal bonds.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2323519

I want to make clear that the research is my own, and does not reflect the views of the Commission or of my colleagues, including those in Division of Trading and Markets and Division of Investment Management.

Matthew Kozora, PhD
Financial Economist

Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Subject: RE: recent research
Date: Thursday, September 26, 2013 9:49:00 AM

See you then.

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, September 26, 2013 9:47 AM
To: Bergstresser, Keith - EBSA
Subject: RE: recent research

12

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Thursday, September 26, 2013 9:47 AM
To: Kozora, Matthew
Subject: RE: recent research

Yeah, that's fine. What time is good for you to meet?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, September 26, 2013 9:23 AM
To: Bergstresser, Keith - EBSA
Subject: RE: recent research

Outside DOL. If at all possible, can we keep it on the short side?

Thanks!

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Thursday, September 26, 2013 9:22 AM
To: Kozora, Matthew
Subject: RE: recent research

Great! Today works for me. Do you have a place in mind or do you want to meet outside of DOL?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, September 25, 2013 4:44 PM
To: Bergstresser, Keith - EBSA
Subject: RE: recent research

Sure. Tomorrow may be the best bet for lunch over the next week.

m|k

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Subject: RE: recent research

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Sent: Monday, September 16, 2013 8:20 AM
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Subject: recent research

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http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2323519

I want to make clear that the research is my own, and does not reflect the views of the Commission or of my colleagues, including those in Division of Trading and Markets and Division of Investment Management.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew
Subject: RE: recent research
Date: Thursday, September 26, 2013 9:47:00 AM

Yeah, that's fine. What time is good for you to meet?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, September 26, 2013 9:23 AM
To: Bergstresser, Keith - EBSA
Subject: RE: recent research

Outside DOL. If at all possible, can we keep it on the short side?

Thanks!

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Thursday, September 26, 2013 9:22 AM
To: Kozora, Matthew
Subject: RE: recent research

Great! Today works for me. Do you have a place in mind or do you want to meet outside of DOL?

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, September 25, 2013 4:44 PM
To: Bergstresser, Keith - EBSA
Subject: RE: recent research

Sure. Tomorrow may be the best bet for lunch over the next week.

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Wednesday, September 25, 2013 4:40 PM
To: Kozora, Matthew
Subject: RE: recent research

Hi Matt,

We'd like to have you over to DOL to present your paper. If you're interested, perhaps we can get together for lunch and talk about details.

Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Monday, September 16, 2013 8:20 AM
To: Bergstresser, Keith - EBSA
Cc: Piacentini, Joseph - EBSA; Cosby, Chris - EBSA

Subject: recent research

Dear Keith,

Please see the following link to research that I posted last week. The research shows a possible relationship between standards of conduct under which advice is given to retail investors and the sale of investment grade municipal bonds.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2323519

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Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
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U.S. Securities & Exchange Commission
Phone: [redacted]

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: recent research
Date: Thursday, September 26, 2013 9:48:15 AM

12

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
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Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

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To: Bergstresser, Keith - EBSA
Subject: RE: recent research
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Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: recent research
Date: Wednesday, September 25, 2013 4:43:18 PM

Sure. Tomorrow may be the best bet for lunch over the next week.

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Wednesday, September 25, 2013 4:40 PM
To: Kozora, Matthew
Subject: RE: recent research

Hi Matt,

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Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

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Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: Reminder: Financial Literacy Seminar, 10/24
Date: Tuesday, October 22, 2013 3:13:55 PM

Thanks for the notice! I have to keep my schedule open for rule that I am currently working on.

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Tuesday, October 22, 2013 10:29 AM
To: Kozora, Matthew
Subject: FW: Reminder: Financial Literacy Seminar, 10/24

Hi Matt,

I wasn't sure if you've heard about this seminar series at GW. Some of the papers are relevant to the projects we've been working on. I will attend this Thursday.

Keith

From: GFLEC/GWSB & FRB [redacted]@mail.vresp.com]
Sent: Tuesday, October 22, 2013 10:02 AM
To: Bergstresser, Keith - EBSA
Subject: Reminder: Financial Literacy Seminar, 10/24

Financial Literacy Seminar Series

Please join us for a Financial Literacy Seminar Series (FLSS) session on **Thursday, October 24** presented by **Julie Agnew** of the College of William and Mary. She will discuss her upcoming paper, **"Judging the Quality of Financial Advice: The Good, the Bad, and the Adviser."** You can read the abstract by clicking here.

The FLSS will be hosted at the George Washington School of Business, Duquès Hall, Room 651, from **3:00 to 4:30pm**. A reception will follow from 4:30 to 5:30pm in the Dean's Reception Area on the 6th floor.

Please note the seminar will now begin at 3pm.

PLEASE CLICK HERE TO RSVP.

SAVE THE DATES for our upcoming seminars:

- November 7, James Choi, Yale University
- November 21, William Skimmyhorn, United States Military Academy
- December 5, Richard Burkhauser, Cornell University

The FLSS is a joint initiative of the Federal Reserve Board (FRB) and the Global Financial Literacy Excellence Center (GFLEC) at the George Washington School of Business (GWSB). In the fall term, the seminars convene every other Thursday at GWSB. Additional information about the seminar series and directions to GWSB are provided on our website at http://business.gwu.edu/flss/. Please contact us at [redacted]@gwu.edu if you have questions about the FLSS.

We look forward to seeing you on Thursday, October 24.

The Steering Committee,
Annamaria Lusardi, GWSB
John Sabelhaus, FRB
Kristen Burnell, GWSB
Laura Feiveson, FRB
Joanne Hsu, FRB
Ellen Merry, FRB
Max Schmeiser, FRB
Kamila Sommer, FRB

FLSS P1080814-001

Global Financial Literacy Excellence Center - George Washington School of Business
Duquès Hall, Suite 450
2201 G Street, NW
Washington, DC 20052
US

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Cc: Gonzalez, Lourdes; Piacentini, Joseph - EBSA; Marietta-Westberg, Jennifer
Subject: SIFMA Survey
Date: Tuesday, August 26, 2014 12:44:26 PM

Dear Keith,

We do not have the survey that SIFMA used to obtain information for their comment letter in response to our request for information. We have an obligation to post all materials that we receive. Kevin Zambrowicz (zam-bro-vich, [redacted]) is someone at SIFMA that can get you in touch with the right people.

Best,

Matthew Kozora, PhD
Financial Economist
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From:	Butikofer, James - EBSA
To:	[redacted]@SEC.GOV
Subject:	Conflicted Advice
Date:	Wednesday, April 16, 2014 11:09:00 AM

Hi Matt,

In their response to the SEC's 2013 RFI on the Fiduciary Standard, SIFMA suggested possible costs for complying with a Uniform Fiduciary Standard. The numbers where only based on a survey of 18 large SIFMA members. I am being asked how those costs could apply to small firms. Do you have any information on the distribution of compliance costs across firm size? The comparison does not necessarily need to be between BD firms, but could be other firm types.

Thanks,

James

James Butikofer, Ph.D.
Economist
Office of Policy and Research
Employee Benefits Security Administration, DOL
phone:[redacted]
fax:[redacted]
[redacted]@dol.gov

From:	Butikofer, James - EBSA
To:	TradingAndMarkets
Subject:	RE: Broker-dealer numbers
Date:	Friday, April 25, 2014 11:20:00 AM

Hi Bonnie,

I have a follow-up question. Below you sent me a link to a commission release. On page 212 of the release is a table of the number of broker-dealers by the amount of capital from the FOCUS Report. I wanted to make sure I was correct in my interpretation of the data. Are independent broker-dealers included in the count, or are they just counted as part of the affiliated firm, for example of the independent dealers that work with LPL are the counted under LPL for a total of 1 or are they each counted individually.

Thanks,
James

James Butikofer, Ph.D.
Economist
Office of Policy and Research
Employee Benefits Security Administration, DOL
phone: [redacted]
fax: [redacted]
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, February 25, 2014 7:49 AM
To: Beckmann, Allan - EBSA
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Mr. Beckmann,

The number of broker-dealers registered with the Commission as of 12/31/2013 was 4,410.

Yours,

Bonnie

From: Beckmann, Allan - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 2:14 PM

To: TradingAndMarkets
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

I am looking for the number of broker-dealers registered with the Commission as of 12/31/2013 (the comparable to the 4,612 that were registered as of 12/31/2012).

For the revenue numbers, it was for Regulatory Flexibility Act requirements, so the suggested releases from the Commission should be helpful.

Thanks for your help,
Allan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, February 24, 2014 1:46 PM
To: Beckmann, Allan - EBSA
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Mr. Beckmann,

As you can see from the below back and forth with Daniel, he asked for different broker-dealer statistics at different times.
I'm not sure what the release you are working on is about.

Are you only looking for the number of broker-dealers registered with the Commission as of 12/31/2013?

On the revenue numbers, broker-dealers' FOCUS reports and the data contained therein is confidential.

If you are looking for information to address the Regulatory Flexibility Act requirements, Dan and I spoke of this last March. At that time, I suggested that he look at and possibly cite to one of the Commission's releases (see attachment). Since that time the Commission has published other releases that contain more up-to-date information. For instance, you could review this one - http://www.sec.gov/rules/final/2013/34-70073.pdf.

Bonnie.

From: Beckmann, Allan - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 11:31 AM
To: TradingAndMarkets
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

You communicated with my colleague Dan Puskin last year regarding some broker-dealer registration statistics. Dan has left the office, and I've taken over some of his responsibilities. Do you have updated data for 2013 (or more recent) of the number of broker-dealers registered with the SEC? Additionally, do you have data on the broker-dealer revenue? Would it be possible to determine the number of broker-dealers with less than $7 million in annual revenue?

Thanks,
Allan Beckmann

Allan Beckmann
US Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, NW, [redacted]
Washington, DC 20210
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010…."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Butikofer, James - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Friday, June 06, 2014 1:49:00 PM

FR 78 August 21, 2013

Thanks

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, June 06, 2014 1:21 PM
To: Butikofer, James - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi James!

It would make it much easier for me if you could, in addition to providing the Federal Register page number, you also provide either the Federal Register Volume number or date.

Thanks!

Bonnie

From: Butikofer, James - EBSA [redacted]@dol.gov]
Sent: Friday, June 06, 2014 9:01 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi,

I appreciate the help you have given me in the past. In the previous email you referenced a table on page 51869 of the Federal Register which showed the number of broker-dealer firms by categories of capital. I have two quests 1) are you aware of similar table using revenue or assets under management instead of capital? 2) Could you direct me to someone or a document that has similar information for Registered Investment Advisors?

Thanks,

James

James Butikofer, Ph.D.
Economist
Office of Policy and Research
Employee Benefits Security Administration, DOL
phone:[redacted]
fax: [redacted]

[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, February 24, 2014 1:46 PM
To: Beckmann, Allan - EBSA
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Mr. Beckmann,

As you can see from the below back and forth with Daniel, he asked for different broker-dealer statistics at different times.
I'm not sure what the release you are working on is about.

Are you only looking for the number of broker-dealers registered with the Commission as of 12/31/2013?

On the revenue numbers, broker-dealers' FOCUS reports and the data contained therein is confidential.

If you are looking for information to address the Regulatory Flexibility Act requirements, Dan and I spoke of this last March. At that time, I suggested that he look at and possibly cite to one of the Commission's releases (see attachment). Since that time the Commission has published other releases that contain more up-to-date information. For instance, you could review this one - http://www.sec.gov/rules/final/2013/34-70073.pdf.

Bonnie.

From: Beckmann, Allan - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 11:31 AM
To: TradingAndMarkets
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

You communicated with my colleague Dan Puskin last year regarding some broker-dealer registration statistics. Dan has left the office, and I've taken over some of his responsibilities. Do you have updated data for 2013 (or more recent) of the number of broker-dealers registered with the SEC? Additionally, do you have data on the broker-dealer revenue? Would it be possible to determine the number of broker-dealers with less than $7 million in annual revenue?

Thanks,
Allan Beckmann

Allan Beckmann
US Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, NW, [redacted]
Washington, DC 20210
[redacted]@dol.gov

From: TradingAndMarkets[redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected “Y” for “IAD” – or Item “S” in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010...."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You’re welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you’re definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn’t read Bonnie’s message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I’m not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.

These numbers are as follows:

Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378

These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.

As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Butikofer, James - EBSA
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, June 06, 2014 9:01:00 AM

Hi,

I appreciate the help you have given me in the past. In the previous email you referenced a table on page 51869 of the Federal Register which showed the number of broker-dealer firms by categories of capital. I have two quests 1) are you aware of similar table using revenue or assets under management instead of capital? 2) Could you direct me to someone or a document that has similar information for Registered Investment Advisors?

Thanks,

James

James Butikofer, Ph.D.
Economist
Office of Policy and Research
Employee Benefits Security Administration, DOL
phone:[redacted]
fax: [redacted]
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, February 24, 2014 1:46 PM
To: Beckmann, Allan - EBSA
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Mr. Beckmann,

As you can see from the below back and forth with Daniel, he asked for different broker-dealer statistics at different times.
I'm not sure what the release you are working on is about.

Are you only looking for the number of broker-dealers registered with the Commission as of 12/31/2013?

On the revenue numbers, broker-dealers' FOCUS reports and the data contained therein is confidential.

If you are looking for information to address the Regulatory Flexibility Act requirements, Dan and I spoke of this last March. At that time, I suggested that he look at and possibly cite to one of the Commission's releases (see attachment). Since that time the Commission has published other releases that contain more up-to-date information. For instance, you could review this one - http://www.sec.gov/rules/final/2013/34-70073.pdf.

Bonnie.

From: Beckmann, Allan - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 11:31 AM
To: TradingAndMarkets
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

You communicated with my colleague Dan Puskin last year regarding some broker-dealer registration statistics. Dan has left the office, and I've taken over some of his responsibilities. Do you have updated data for 2013 (or more recent) of the number of broker-dealers registered with the SEC? Additionally, do you have data on the broker-dealer revenue? Would it be possible to determine the number of broker-dealers with less than $7 million in annual revenue?

Thanks,
Allan Beckmann

Allan Beckmann
US Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, NW, [redacted]
Washington, DC 20210
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM

To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected “Y” for “IAD” – or Item “S” in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
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Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010…."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA

Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional

accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
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Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061

and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Butikofer, James - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Wednesday, June 11, 2014 11:18:31 AM

James,

I've been informed that the best place to find investment adviser data is the FOIA adviser spreadsheets at http://www.sec.gov/foia/docs/invafoia.htm. These spreadsheets are updated every month and the regulatory assets under management of each adviser are on the spreadsheet (Item 5.F.(20(C) or column CV on the current spreadsheet). I understand the most recent spreadsheets likely have the information you are looking for.

I'm pretty sure that we do not have a similar table assets and revenue of broker-dealers as in the table you highlighted, however I have not received a definitive answer from the staff on that piece. One thing I'd like to point out is that broker-dealers generally do not have or provide any data on "assets under management." That is an investment adviser concept.

Bonnie

From: Butikofer, James - EBSA [redacted]@dol.gov]
Sent: Friday, June 06, 2014 9:01 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi,

I appreciate the help you have given me in the past. In the previous email you referenced a table on page 51869 of the Federal Register which showed the number of broker-dealer firms by categories of capital. I have two quests 1) are you aware of similar table using revenue or assets under management instead of capital? 2) Could you direct me to someone or a document that has similar information for Registered Investment Advisors?

Thanks,

James

James Butikofer, Ph.D.
Economist
Office of Policy and Research
Employee Benefits Security Administration, DOL
phone:[redacted]
fax: [redacted]
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, February 24, 2014 1:46 PM
To: Beckmann, Allan - EBSA
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Mr. Beckmann,

As you can see from the below back and forth with Daniel, he asked for different broker-dealer statistics at different times.
I'm not sure what the release you are working on is about.

Are you only looking for the number of broker-dealers registered with the Commission as of 12/31/2013?

On the revenue numbers, broker-dealers' FOCUS reports and the data contained therein is confidential.

If you are looking for information to address the Regulatory Flexibility Act requirements, Dan and I spoke of this last March. At that time, I suggested that he look at and possibly cite to one of the Commission's releases (see attachment). Since that time the Commission has published other releases that contain more up-to-date information. For instance, you could review this one - http://www.sec.gov/rules/final/2013/34-70073.pdf.

Bonnie.

From: Beckmann, Allan - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 11:31 AM
To: TradingAndMarkets
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

You communicated with my colleague Dan Puskin last year regarding some broker-dealer registration statistics. Dan has left the office, and I've taken over some of his responsibilities. Do you have updated data for 2013 (or more recent) of the number of broker-dealers registered with the SEC? Additionally, do you have data on the broker-dealer revenue? Would it be possible to determine the number of broker-dealers with less than $7 million in annual revenue?

Thanks,
Allan Beckmann

Allan Beckmann

US Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, NW, [redacted]
Washington, DC 20210
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.

First, what is the definition of “discount broker?” A lot of people use that term, but I don’t believe there is one definition. Also, I don’t believe it is a question the Commission asks on any of its forms. I also don’t believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010...."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
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Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Butikofer, James - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, June 20, 2014 9:41:21 AM

James,

I was able to confirm that we do not have a similar table for assets and/or revenue of broker-dealers.

Bonnie

From: TradingAndMarkets
Sent: Wednesday, June 11, 2014 11:18 AM
To: Butikofer, James - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

James,

I've been informed that the best place to find investment adviser data is the FOIA adviser spreadsheets at http://www.sec.gov/foia/docs/invafoia.htm. These spreadsheets are updated every month and the regulatory assets under management of each adviser are on the spreadsheet (Item 5.F.(20(C) or column CV on the current spreadsheet). I understand the most recent spreadsheets likely have the information you are looking for.

I'm pretty sure that we do not have a similar table assets and revenue of broker-dealers as in the table you highlighted, however I have not received a definitive answer from the staff on that piece. One thing I'd like to point out is that broker-dealers generally do not have or provide any data on "assets under management." That is an investment adviser concept.

Bonnie

From: Butikofer, James - EBSA [redacted]@dol.gov]
Sent: Friday, June 06, 2014 9:01 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi,

I appreciate the help you have given me in the past. In the previous email you referenced a table on page 51869 of the Federal Register which showed the number of broker-dealer firms by categories of capital. I have two quests 1) are you aware of similar table using revenue or assets under management instead of capital? 2) Could you direct me to someone or a document that has similar information for Registered Investment Advisors?

Thanks,

James

James Butikofer, Ph.D.
Economist
Office of Policy and Research
Employee Benefits Security Administration, DOL
phone:[redacted]
fax: [redacted]
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, February 24, 2014 1:46 PM
To: Beckmann, Allan - EBSA
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Mr. Beckmann,

As you can see from the below back and forth with Daniel, he asked for different broker-dealer statistics at different times.
I'm not sure what the release you are working on is about.

Are you only looking for the number of broker-dealers registered with the Commission as of 12/31/2013?

On the revenue numbers, broker-dealers' FOCUS reports and the data contained therein is confidential.

If you are looking for information to address the Regulatory Flexibility Act requirements, Dan and I spoke of this last March. At that time, I suggested that he look at and possibly cite to one of the Commission's releases (see attachment). Since that time the Commission has published other releases that contain more up-to-date information. For instance, you could review this one - http://www.sec.gov/rules/final/2013/34-70073.pdf.

Bonnie.

From: Beckmann, Allan - EBSA [redacted]@dol.gov]
Sent: Monday, February 24, 2014 11:31 AM
To: TradingAndMarkets
Cc: Butikofer, James - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

You communicated with my colleague Dan Puskin last year regarding some broker-dealer registration statistics. Dan has left the office, and I've taken over some of his responsibilities. Do you have updated data for 2013 (or more recent) of the number of broker-dealers registered with the SEC? Additionally, do you have data on the broker-dealer revenue? Would it be possible to determine the number of broker-dealers with less than $7 million in annual revenue?

Thanks,
Allan Beckmann

Allan Beckmann
US Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, NW, [redacted]
Washington, DC 20210
[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."

The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010...."

I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch

Attorney

[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research

ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Kozora, Matthew
To: Butikofer, James - EBSA
Subject: RE: Conflicted Advice
Date: Thursday, April 17, 2014 2:41:43 PM

Dear James,

Let me look into that.. for whatever reason information like that sounds relatively familiar.

Best,

m|k

-----Original Message-----
From: Butikofer, James - EBSA [redacted]@dol.gov]
Sent: Wednesday, April 16, 2014 11:10 AM
To: Kozora, Matthew
Subject: Conflicted Advice

Hi Matt,
In their response to the SEC's 2013 RFI on the Fiduciary Standard, SIFMA suggested possible costs for complying with a Uniform Fiduciary Standard. The numbers where only based on a survey of 18 large SIFMA members. I am being asked how those costs could apply to small firms. Do you have any information on the distribution of compliance costs across firm size? The comparison does not necessarily need to be between BD firms, but could be other firm types.
Thanks,
James

James Butikofer, Ph.D.
Economist
Office of Policy and Research
Employee Benefits Security Administration, DOL
phone:[redacted]
fax: [redacted]
[redacted]@dol.gov

From: Kozora, Matthew
To: Butikofer, James - EBSA
Subject: RE: Conflicted Advice
Date: Tuesday, April 22, 2014 1:00:23 PM

Dear James,

See the following comment letter from Charles Schwab that we received last year due to our Request for Information...they present some costs based on firm size.

http://www.sec.gov/comments/4-606/4606-3137.pdf

I am asking around if anyone else has other thoughts...

m|k

-----Original Message-----
From: Butikofer, James - EBSA [redacted]@dol.gov]
Sent: Wednesday, April 16, 2014 11:10 AM
To: Kozora, Matthew
Subject: Conflicted Advice

Hi Matt,
In their response to the SEC's 2013 RFI on the Fiduciary Standard, SIFMA suggested possible costs for complying with a Uniform Fiduciary Standard. The numbers where only based on a survey of 18 large SIFMA members. I am being asked how those costs could apply to small firms. Do you have any information on the distribution of compliance costs across firm size? The comparison does not necessarily need to be between BD firms, but could be other firm types.
Thanks,
James

James Butikofer, Ph.D.
Economist
Office of Policy and Research
Employee Benefits Security Administration, DOL
phone: [redacted]
fax: [redacted]
[redacted]@dol.gov

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: 401k providers
Date: Thursday, March 20, 2014 8:58:05 AM

Dear Chris,

Were you able to check on whether or not the DOL has data on the assets under management at the 401k service provider level?

Thanks!

Matt

From:	Marietta-Westberg, Jennifer
To:	Cosby, Chris - EBSA
Cc:	Kozora, Matthew
Subject:	call tomorrow
Date:	Tuesday, May 15, 2012 3:58:24 PM

Hi, Chris. I received your phone message. I can discuss your disclosure option on a call tomorrow to at 1:30, but not at 1:00. Will that work? If so, would you put together a dial-in #? I would be phoning from home, but Matt would need to phone from the office.

Thanks,

Jennifer

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: [redacted]@dol.gov"; [redacted] - EBSA; [redacted] - OSEC; [redacted] - OSEC
Subject: FW: "Thanks but No Thanks on 401(k) Advice"
Date: Tuesday, November 08, 2011 12:09:00 PM

Thanks, Jennifer!

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Tuesday, November 08, 2011 12:04 PM
To: Cosby, Chris - EBSA
Subject: FW: "Thanks but No Thanks on 401(k) Advice"

Chris,

FYI.

Jennifer

From: McHugh, Jennifer B.
Sent: Tuesday, November 08, 2011 11:46 AM
To: [redacted]@dol.gov; [redacted]@dol.gov
Cc: [redacted]@dol.gov; Marietta-Westberg, Jennifer; Kozora, Matthew; Blass, D.W. (David); Russell, Emily
Subject: "Thanks but No Thanks on 401(k) Advice"

Lou and Fred,

Here is the story I mentioned about the 401(k) advice study.

Thanks,

Jennifer

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

THE WALL STREET JOURNAL.
WSJ.com

NOVEMBER 7, 2011

RETIREMENT SAVINGS

Thanks but No Thanks on 401(k) Advice

An increasing number of plans offer outside help, typically for a fee. So far, most participants aren't buying in.

By KAREN BLUMENTHAL

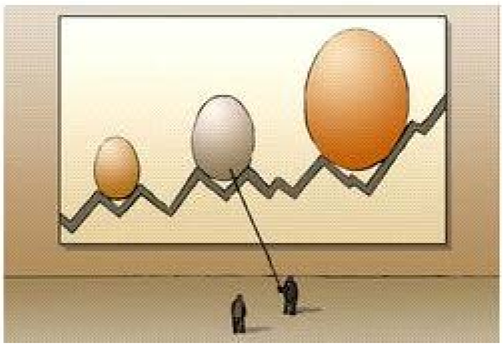
Amid volatile markets and concerns about how workers are investing their retirement savings, more 401(k) plans are offering participants specific investment advice and even automatic account management to make investing decisions easier.

More employers are offering 401(k) investors access to outside portfolio advice. We look at **whether these services are catching on** and whether they are worth it.

That should be a good thing: Survey after survey shows that formal advice leads investors to increase their savings, diversify their holdings and continue holding stocks even when the market takes a plunge.

But here's the catch: Only about a quarter of the people who have access to advice through their retirement plans actually take advantage of it, according to retirement-plan providers and firms that provide advice services. And most of those who do use advisory services neglect to provide the personal details that would make the advice more valuable.

For many years, 401(k) and similar plans offered mostly education and "guidance," such as brochures, seminars and worksheets that gave employees generic suggestions about how to manage their accounts. Providing advice goes much further, offering specific recommendations about how much to invest in specific funds in your plan.



Janusz Kapusta

It also carries a fiduciary respons bility, or a requirement to put investors' interests first. Because of that, most advice services are offered by a company other than the investment firm that provides the 401(k) plan's fund offerings.

A recent survey of 820 profit-sharing and 401(k) plans by the nonprofit Plan Sponsor Council of America found that 58% offered investment advice in 2010, most commonly online services, one-on-one counseling and telephone hot lines. That was up from 47% of firms surveyed in 2005. Just over a third of the plans offered professional account management, up from 24% in 2005.

Among large companies, 74% now offer advice or managed accounts to plan participants, up from 50% in 2009, says benefits consultant Aon Hewitt.

Consultants and advice providers say more retirement plans are offering such services in part because recent market volatility has left many people unsure of what to do. "When times are tough, there's a bigger demand for advice," says Chris Lyon, partner at Rocaton Investment Advisors LLC, a Norwa k, Conn., investment-consulting firm.

In addition, as companies continue to shift to 401(k) plans from pension plans, it has become more apparent that many employees are ill-equipped to manage their own money. They may make costly decisions, such as moving out of stocks only after the market has tanked. Many older investors are too heavily invested in stocks or worse, their own company's stock, while some young workers avoid stocks altogether.

Poor investment decisions aren't tied to specific jobs or salaries, says Sue Walton, senior investment consultant for Towers Watson, a consulting firm. She says she's seen manufacturing companies where "some of the folks on the line make more savvy decisions than those in the executive suite."

If you are comfortable studying the various funds in your company plan, assessing the funds' expenses, building a diversified mix of choices and tweaking your choices once a year or so, you probably don't need advice. But for those who are less sure, here's a rundown of what's available:

Managed accounts. In most managed accounts, a professional money manager creates and monitors a customized investment portfolio for clients, usually wealthy investors, often for a fee of 1% or more of the assets under management. A managed account for a 401(k), by contrast, is limited to the investment options offered in the plan.

Using 401(k) Help

Averages based on 425,000 people in eight 401(k) plans that offer both managed accounts and online advice

◆ **Managed accounts**
Age: 48.2 years
Account balance: $66,202
Salary: $55,457
Contributions: 6.9% of pay

◆ **Online advice**
Age: 40.9 years
Account balance: $106,293
Salary: $80,289
Contributions: 8.4% of pay

◆ **Don't use help**
Age: 45.4 years
Account balance: $64,525
Salary: $53,406
Contributions: 6.3% of pay

Source: "Help in Defined Contribution Plans: 2006 through 2010" by Financial Engines and Aon Hewitt

Typically, a sophisticated computer program considers your age and pay, expected retirement date, the size of your 401(k) and your contr butions and then selects an appropriate allocation. The account is regularly rebalanced and adjusted as you age or when plan choices or market conditions change.

While a few plans pick up the cost of managed accounts, most people will pay fees of 0.2% to 0.6% of assets a year, or $20 to $60 for each $10,000 invested, depending on how much is invested and what the company has negotiated. It's basically the equivalent of a personal trainer or a medically monitored diet for your retirement plan.

Financial Engines Inc., which provides advice to participants of 445 mostly large plans, says that about a half-million plan participants with almost $44 billion in assets use its managed accounts, often those nearing retirement. Morningstar Inc.'s Investment Management division, which offers advice to about 150,000 plans, many of them small, manages the accounts of about 746,000 people with about $19 billion in assets.

The service is most effective when it is truly customized. To get that, participants are asked to provide data about their investments outside the plan, such as other savings, old 401(k) plans or IRAs, and a spouse's earnings and retirement accounts. The problem is, most people don't provide all of that detail. And without it, "you're not going to get what you pay for," says Ms. Walton.

One-on-one help. If you want to manage your own account, you still may have the option of sitting down with an adviser or talking with someone on the phone who will consider your individual situation and help you create a plan. It will be up to you, however, to actually make the changes to your account and monitor it in the future.

TIAA-CREF, which provides plans to 15,000 institutions with 3.7 million participants, offers such counseling at no charge. It has 400 people based in local offices, an additional 200 who visit institutions where it offers plans and about 100 phone reps to provide such guidance.

People who take advantage of that one-on-one help are more likely to make positive changes in their savings or portfolios. Still, says James Nichols, a vice president who oversees TIAA-CREF's advice and planning, "one of the challenges is getting people to stay on track," especially as they age and their situations change.

Internet services. The widely available and free do-it-yourself service, where you plug your information into an online program offered by your plan and get recommendations back, is also the least used, according to a recent study by Financial Engines and Aon Hewitt, which looked at how participants in eight plans fared between 2006 and 2010. More than twice as many participants in the plans used managed accounts as used online services.

The investors most likely to go online and put in the effort to get recommendations typically had higher earnings, saved a higher percentage of their pay and had larger balances than those who used managed accounts. They also tended to be a bit younger than the managed-account users.

The general lack of interest in taking advantage of easily access ble online services underscores how hard it is to get participants to think about and put some effort into their 401(k) investments.

"A large portion of participants are reluctant investors," says Christopher Jones, chief investment officer at Financial Engines. Retirement investing "is down on the priority list—people don't have the time for it, or the inclination."

Ms. Blumenthal is The Wall Street Journal's Getting Going columnist. Email her at karen.blumenthal@wsj.com.

From:	Marietta-Westberg, Jennifer
To:	Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Decressin, Anja - EBSA
Cc:	Kozora, Matthew
Subject:	meeting with the SEC
Date:	Wednesday, November 02, 2011 2:28:12 PM

Hi, everyone. I would like to coordinate a meeting for you to meet with our fiduciary working group here at the SEC. Together we can discuss some of the industry comments you've received about potential changes to a BD business model. We have a normal working group meeting at 10:00 on Tuesdays. If this time and day works for you, could you suggest two future dates that would accommodate your schedules? I will then check schedules here and confirm with you.

Thanks,

Jennifer

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Marietta-Westberg, Jennifer
To: Piacentini, Joseph - EBSA; Cosby, Chris - EBSA
Subject: phone call
Date: Thursday, February 23, 2012 9:17:13 AM

Joe,

I got your phone call. No worries there – I had already told the members of our working group who will be on the call that we want to hear as much as possible from the academics. We defer to your lead on the questions, and won't be overly talkative.

Thanks again for letting us participate!

Jennifer

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Cosby, Chris - EBSA
To: Kozora, Matthew
Subject: RE: 401k providers
Date: Thursday, March 20, 2014 10:15:00 AM

Hi Matt:

I think we can get you something on this. I might not have it when we come over, but we are working on it.

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, March 20, 2014 8:57 AM
To: Cosby, Chris - EBSA
Subject: 401k providers

Dear Chris,

Were you able to check on whether or not the DOL has data on the assets under management at the 401k service provider level?

Thanks!

Matt

From: Cosby, Chris - EBSA
To: Kozora, Matthew
Subject: RE: 401k providers
Date: Friday, March 21, 2014 11:05:00 AM

Hi Matt:

It is going to take a little longer than I thought to get you these data. We originally thought it could be pulled directly from our Form 5500 Annual Report, but it turns out that it can't, so we are exploring alternatives. I will get in touch with you next week regarding this matter.

Thanks and have a great weekend!

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, March 20, 2014 10:42 AM
To: Cosby, Chris - EBSA
Subject: RE: 401k providers

Thanks!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, March 20, 2014 10:15 AM
To: Kozora, Matthew
Subject: RE: 401k providers

Hi Matt:

I think we can get you something on this. I might not have it when we come over, but we are working on it.

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, March 20, 2014 8:57 AM
To: Cosby, Chris - EBSA
Subject: 401k providers

Dear Chris,

Were you able to check on whether or not the DOL has data on the assets under management at the 401k service provider level?

Thanks!

Matt

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: RE: 401k providers
Date: Thursday, March 20, 2014 10:42:20 AM

Thanks!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Thursday, March 20, 2014 10:15 AM
To: Kozora, Matthew
Subject: RE: 401k providers

Hi Matt:

I think we can get you something on this. I might not have it when we come over, but we are working on it.

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, March 20, 2014 8:57 AM
To: Cosby, Chris - EBSA
Subject: 401k providers

Dear Chris,

Were you able to check on whether or not the DOL has data on the assets under management at the 401k service provider level?

Thanks!

Matt

From: Kozora, Matthew
To: Puskin, Dan - EBSA; Cosby, Chris - EBSA
Cc: Piacentini, Joseph - EBSA
Subject: RE: Data Request
Date: Monday, May 13, 2013 8:15:24 AM

Dear Dan,

Thank you for the wonderful information. I appreciate it.

Best,

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Risk, Strategy, and Financial Innovation
U.S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, May 08, 2013 6:30 PM
To: Cosby, Chris - EBSA; Kozora, Matthew
Cc: Puskin, Dan - EBSA; Piacentini, Joseph - EBSA
Subject: RE: Data Request

Hi Matt,

We have spoken with approximately 20 academics.

From the phone calls you were on:
Andreas Hackethal, Anna Lusardi, Richard Evans, Eric Zitzewitz, George Loewenstein, Miles Livingston, Ohad Kadan, Javier Gil-Bazo, Antoinette Schoar, Mercer Bullard, Jonathan Reuter, Marco Ottaviani, Allan Ferrell and Brad Barber

Also have spoken with:
Matthew Morey, Daylain Cain, Alicia Munnell, Peter Tufano, Geoffrey Friesen and Roman Inderst

This is just a sampling of those who would have thoughts on the fiduciary topic. For example, coauthors of the listed authors would also be willing to discuss it. People have been very open to speaking with us--providing a range of useful insights and opinions on our work. Additionally, you might want to look at the itineraries of the Wharton Conference from 2012 (http://www.pensionresearchcouncil.org/conferences/conf-2012.php), the Rand Behavioral Finance Conference from last year and at this year’s agenda as well as the NBER Behavioral Finance Working group, which met most recently last month in Chicago.

Best,

Dan

From: Cosby, Chris - EBSA
Sent: Monday, May 06, 2013 11:28 PM
To: Kozora, Matthew
Cc: Puskin, Dan - EBSA [redacted]@dol.gov); [redacted]@dol.gov'
Subject: RE: Data Request

Hi Matt:

By copying of this message, I am asking Dan Puskin to provide the names to you.

Best,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Monday, May 06, 2013 4:19 PM
To: Cosby, Chris - EBSA
Subject: FW: Data Request

Dear Chris,

Do you have a list of academics who may be interested in the fiduciary topic? We are building a list to reach out to regarding our request for information.

Thanks!

Matthew

From: Marietta-Westberg, Jennifer
Sent: Saturday, April 13, 2013 9:52 AM
To: 'Cosby, Chris - EBSA'
Subject: RE: Data Request

We have not done that yet, Chris, but that is a great idea. If you would like to forward the list to some of your contacts that would be fine with me. The more eyes on the document, the better chance we will actually receive data and/or analysis.

Have a great weekend,

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, April 12, 2013 4:59 PM
To: Marietta-Westberg, Jennifer
Subject: Data Request

Hi Jennifer:

Hope all is well! Joe thought it would be good to reach out to some of our academic contacts to encourage them to send comments on your data request. Have you already reached out to academics?

Best,

Chris

From: [Puskin, Dan - EBSA](#)
To: [Cosby, Chris - EBSA](#); ["Kozora, Matthew"](#)
Cc: [Puskin, Dan - EBSA](#); [Piacentini, Joseph - EBSA](#)
Subject: RE: Data Request
Date: Wednesday, May 08, 2013 6:30:10 PM

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Best,
Dan

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To: Kozora, Matthew
Cc: Puskin, Dan - EBSA [redacted]@dol.gov); Joseph Piacentini [redacted]@dol.gov'
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Chris

From: Cosby, Chris - EBSA
To: Kozora, Matthew
Cc: Puskin, Dan - EBSA [redacted]@dol.gov); Joseph Piacentini [redacted]@dol.gov"
Subject: RE: Data Request
Date: Monday, May 06, 2013 11:27:00 PM

Hi Matt:

By copying of this message, I am asking Dan Puskin to provide the names to you.

Best,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Monday, May 06, 2013 4:19 PM
To: Cosby, Chris - EBSA
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Matthew

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To: 'Cosby, Chris - EBSA'
Subject: RE: Data Request

We have not done that yet, Chris, but that is a great idea. If you would like to forward the list to some of your contacts that would be fine with me. The more eyes on the document, the better chance we will actually receive data and/or analysis.

Have a great weekend,

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, April 12, 2013 4:59 PM
To: Marietta-Westberg, Jennifer
Subject: Data Request

Hi Jennifer:

Hope all is well! Joe thought it would be good to reach out to some of our academic contacts to encourage them to send comments on your data request. Have you already reached out to academics?

Best,

Chris

From:	Cosby, Chris - EBSA
To:	[redacted]@SEC.GOV"
Cc:	Piacentini, Joseph - EBSA
Subject:	Re: Data Request
Date:	Saturday, April 13, 2013 3:58:43 PM

Will do. Thanks, Jennifer and enjoy this beautiful day!

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Saturday, April 13, 2013 09:51 AM
To: Cosby, Chris - EBSA
Subject: RE: Data Request

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From: Bergstresser, Keith - EBSA
To: Kozora, Matthew; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Butikofer, James - EBSA
Subject: RE: index information and future call
Date: Friday, June 14, 2013 11:25:08 AM

Hi Matt,

We are available for the Thursday time slot (June 20th, 9-10am). I'll send out an Outlook invite. Who else should be on it on your side?

On our last phone call, you had mentioned that you would compile some written comments based on your and Jennifer's reactions to our draft. Would you be able to send those before the phone call?

Please send our thanks to Lourdes for the examples of referring to indexes.

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Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, June 13, 2013 11:02 AM
To: Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Bergstresser, Keith - EBSA; Butikofer, James - EBSA
Subject: FW: index information and future call

Dear DOL,

Are you available from 9 to 10 on either Wednesday or Thursday of next week for a phone call?

Thanks

Matthew

From: Kozora, Matthew
Sent: Thursday, June 13, 2013 9:19 AM
To: [redacted]@dol.gov; Cosby, Chris - EBSA [redacted]@dol.gov); Bergstresser, Keith - EBSA [redacted]@dol.gov); Butikofer, James - EBSA [redacted]@dol.gov)
Cc: Marietta-Westberg, Jennifer; Gonzalez, Lourdes
Subject: index information and future call

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We also would like to set up a call with you regarding the records BDs maintain. Are there times next week or the week after that you are available?

Thanks

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

In the product definitions adopting release regarding swaps (see attached), the Commission discussed the nature of security indexes in general (see pp. 48285-6). However, we did not address whether specific indexes are broad or narrow-based, under the definitions of swap and security-based swap jointly adopted by the Commission and the CFTC.

Please check Sections 3 and 6 of Chapter XIV in the following link that should lead you to NASDAQ's index options standards:

http://nasdaq.cchwallstreet.com/NASDAQTools/PlatformViewer.asp?selectednode=chp%5F1%5F1%5F14&manual=%2Fnasdaq%2Fmain%2Fnasdaq%2Doptionsrules%2F

I've cut and pasted these Sections below as well. You'll notice that the criteria may differ, depending on the specific underlying index (MSCI) named in the rule:

Sec. 3 Designation of a Broad-Based Index

(a) The component securities of an index underlying a broad-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a broad-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) NOM may trade options on a broad-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Section 2(j) of this Chapter;

(2) Options on the index are designated as A.M.-settled;

(3) The index is capitalization-weighted, modified capitalization weighted, price-weighted, or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least $75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least $100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Section 3 of Chapter IV applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by OPRA, CTA/CQ, NIDS or one or more major market data vendors during the time options on the index are traded on NOM;

(12) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

(1) The requirements set forth in subparagraphs (b)(1) - (b)(3) and (b)(9) - (b)(15) must continue to be satisfied. The requirements set forth in subparagraphs (b)(5) - (b)(8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b) (2) of the Exchange Act.

(d) MSCI EM Index

(i) NOM may trade options on the MSCI EM Index if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EM Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty-two and a half percent (22.5%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of

trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d).

(1) The conditions set forth in subparagraphs (d)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (d)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(e) MSCI EAFE Index

(i) NOM may trade options on the MSCI EAFE Index if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EAFE Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (e).

(1) The conditions set forth in subparagraphs (e)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (e)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

* * * * *

Sec. 6 Designation of Narrow-Base and Micro-Narrow-Based Index Options

(a) The component securities of an index underlying a narrow-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a narrow-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) *Narrow-Based Index*. NOM may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted, and consists of ten or more component securities;

(3) Each component security has a market capitalization of at least $75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least $50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index;

(7) Component securities that account for at least 90% of the weight of the index and at least 80% of the total number of component securities in the index satisfy the requirements of Chapter IV, Section 3 applicable to individual underlying securities;

(8) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Securities Exchange Act of 1934.

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;

(10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter; and

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

(c) *Maintenance Criteria.* The following maintenance listing standards shall apply to each class of index options originally listed pursuant to subsection (b) above:

(1) The requirements stated in subsections (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(4) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(d) Notwithstanding paragraph (a) above, NOM may trade options on a Micro Narrow-Based security index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following condition is satisfied:

(1) The Index is a security index:

(i) that has 9 or fewer component securities; or

(ii) in which a component security comprises more than 30 percent of the index's weighting; or

(iii) in which the 5 highest weighted component securities in the aggregate comprise more than 60 percent of the index's weighting; or

(iv) in which the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading volume of less than $50,000,000 (or in the case of an index with 15 or more component securities, $30,000,000) except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security;

(2) The index is capitalization-weighted, modified capitalization-weighted, price-weighted, share weighted, equal dollarweighted, approximate equal-dollar weighted, or modified equal-dollar weighted;

(i) For the purposes of this paragraph (d), an approximate equal-dollar weighted index is composed of one or more securities in which each component security will be weighted equally based on its market price on the index's selection date and the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion.

(ii) For the purposes of this paragraph (d), a modified equal-dollar weighted index is an index in which each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index. A modified equal-dollar weighted index will be balanced quarterly.

(iii) For the purposes of this paragraph (d), a share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components. A share-weighted Micro Narrow-Based index will not be rebalanced. If a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under Subsection (e) of this rule, NOM will restrict trading in existing option series to closing transactions and will not issue additional series for that index.

(iv) NOM may rebalance any Micro Narrow-Based index on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the options contract on the index, outstanding contracts are unaffected by rebalancings.

(3) Each component security in the index has a minimum market capitalization of at least $75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only $50 million;

(4) The average daily trading volume in each of the preceding six months for each component security in the index is at least 45,500 shares, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares for each of the last six months;

(5) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months; or (2) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months;

(6) Subject to subparagraphs (4) and (5) above, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements applicable to individual underlying securities;

(7)

(i) Each component security in the index is a "reported security" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(ii) Foreign securities or ADRs that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(8) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(9) An equal dollar-weighted index will be rebalanced at least once every quarter;

(10) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act; and

(12) Cash settled index options are designated as A.M.-settled options.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The index meets the criteria of paragraph (d)(1) of this Rule;

(2) Subject to subparagraphs (9) and (10) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements of Section 3 of Chapter IV.

(3) Each component security in the index has a market capitalization of at least $75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only $50 million;

(4) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(6) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(7) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(8) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing;

(9) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(10) In a capitalization-weighted index and a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act;

(12) In an approximate equal-dollar weighted index, the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume

of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion;

(13) In a modified equal-dollar weighted index NOM will rebalance the index quarterly;

(14) In a share-weighted index, if a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under paragraph (e) of this Section NOM will not re-balance the index, will restrict trading in existing option series to closing transactions, and will not issue additional series for that index; and

(15) In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the 1934 Act.

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Butikofer, James - EBSA
Cc: Gonzalez, Lourdes; McGovern, Suzanne
Subject: RE: index information and future call
Date: Friday, June 14, 2013 12:45:28 PM

Dear Keith,

Please invite Lourdes, Suzanne McGovern, and myself. I am not sure whether we will have written comments by then.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

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Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

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(b) NOM may trade options on a broad-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Section 2(j) of this Chapter;

(2) Options on the index are designated as A.M.-settled;

(3) The index is capitalization-weighted, modified capitalization weighted, price-weighted, or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least $75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least $100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Section 3 of Chapter IV applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by OPRA, CTA/CQ, NIDS or one or more major market data vendors during the time options on the index are traded on NOM;

(12) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

(1) The requirements set forth in subparagraphs (b)(1) - (b)(3) and (b)(9) - (b)(15) must continue to be satisfied. The requirements set forth in subparagraphs (b)(5) - (b)(8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b) (2) of the Exchange Act.

(d) MSCI EM Index

(i) NOM may trade options on the MSCI EM Index if each of the following conditions is

satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EM Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty-two and a half percent (22.5%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d).

(1) The conditions set forth in subparagraphs (d)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (d)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(e) MSCI EAFE Index

(i) NOM may trade options on the MSCI EAFE Index if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EAFE Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of

options on the index, based on a calculation of the NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (e).

(1) The conditions set forth in subparagraphs (e)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (e)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

* * * * *

Sec. 6 Designation of Narrow-Base and Micro-Narrow-Based Index Options

(a) The component securities of an index underlying a narrow-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a narrow-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) *Narrow-Based Index*. NOM may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted, and consists of ten or more component securities;

(3) Each component security has a market capitalization of at least $75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least $50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index;

(7) Component securities that account for at least 90% of the weight of the index and at least

80% of the total number of component securities in the index satisfy the requirements of Chapter IV, Section 3 applicable to individual underlying securities;

(8) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Securities Exchange Act of 1934.

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;

(10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter; and

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

(c) *Maintenance Criteria.* The following maintenance listing standards shall apply to each class of index options originally listed pursuant to subsection (b) above:

(1) The requirements stated in subsections (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(4) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(d) Notwithstanding paragraph (a) above, NOM may trade options on a Micro Narrow-Based security index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following condition is satisfied:

(1) The Index is a security index:

(i) that has 9 or fewer component securities; or

(ii) in which a component security comprises more than 30 percent of the index's weighting; or

(iii) in which the 5 highest weighted component securities in the aggregate comprise more

than 60 percent of the index's weighting; or

(iv) in which the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading volume of less than $50,000,000 (or in the case of an index with 15 or more component securities, $30,000,000) except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security;

(2) The index is capitalization-weighted, modified capitalization-weighted, price-weighted, share weighted, equal dollarweighted, approximate equal-dollar weighted, or modified equal-dollar weighted;

(i) For the purposes of this paragraph (d), an approximate equal-dollar weighted index is composed of one or more securities in which each component security will be weighted equally based on its market price on the index's selection date and the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion.

(ii) For the purposes of this paragraph (d), a modified equal-dollar weighted index is an index in which each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index. A modified equal-dollar weighted index will be balanced quarterly.

(iii) For the purposes of this paragraph (d), a share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components. A share-weighted Micro Narrow-Based index will not be rebalanced. If a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under Subsection (e) of this rule, NOM will restrict trading in existing option series to closing transactions and will not issue additional series for that index.

(iv) NOM may rebalance any Micro Narrow-Based index on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the options contract on the index, outstanding contracts are unaffected by rebalancings.

(3) Each component security in the index has a minimum market capitalization of at least $75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only $50 million;

(4) The average daily trading volume in each of the preceding six months for each component security in the index is at least 45,500 shares, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares for each

of the last six months;

(5) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months; or (2) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months;

(6) Subject to subparagraphs (4) and (5) above, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements applicable to individual underlying securities;

(7)

(i) Each component security in the index is a "reported security" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(ii) Foreign securities or ADRs that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(8) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(9) An equal dollar-weighted index will be rebalanced at least once every quarter;

(10) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act; and

(12) Cash settled index options are designated as A.M.-settled options.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The index meets the criteria of paragraph (d)(1) of this Rule;

(2) Subject to subparagraphs (9) and (10) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements of Section 3 of Chapter IV.

(3) Each component security in the index has a market capitalization of at least $75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only $50 million;

(4) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(6) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(7) If the underlying index is maintained by a broker-dealer, the index is calculated by a third

party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(8) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing;

(9) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(10) In a capitalization-weighted index and a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act;

(12) In an approximate equal-dollar weighted index, the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion;

(13) In a modified equal-dollar weighted index NOM will rebalance the index quarterly;

(14) In a share-weighted index, if a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under paragraph (e) of this Section NOM will not re-balance the index, will restrict trading in existing option series to closing transactions, and will not issue additional series for that index; and

(15) In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the 1934 Act.

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer; Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: RE: meeting with the SEC
Date: Wednesday, November 02, 2011 3:58:00 PM

Hi Jennifer:

Thanks for your message and invitation. We would like to meet with the group on November 8 (preferably) or 15. We look forward to meeting with the group.

Best,

Chris

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Wednesday, November 02, 2011 2:27 PM
To: Epstein, Zachary A. - OSEC; Kugler, Adriana D - OSEC; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Decressin, Anja - EBSA
Cc: Kozora, Matthew
Subject: meeting with the SEC

Hi, everyone. I would like to coordinate a meeting for you to meet with our fiduciary working group here at the SEC. Together we can discuss some of the industry comments you've received about potential changes to a BD business model. We have a normal working group meeting at 10:00 on Tuesdays. If this time and day works for you, could you suggest two future dates that would accommodate your schedules? I will then check schedules here and confirm with you.

Thanks,

Jennifer

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]@sec.gov

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: RE: meeting
Date: Friday, March 14, 2014 4:58:52 PM

Dear Chris,

Tentatively we will be having myself, Lourdes Gonzalez, Emily Russell, and Rachel Loko.

Thanks!

Matthew

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 4:24 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

We were hoping to discuss the comments you and Jennifer made at February 28 meeting in more detail with a smaller group and to hear any additional comments you may have.

The attendees from EBSA will be:

Joe Piacentini
Keith Bergstresser
James Butikofer
Allan Beckmann
Chris Cosby

Please let me know who will be attending from SEC.

Thanks!

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 3:50 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting

Dear Chris,

Do you mind sending me a list of specific issues that you want to discuss?

Thanks!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 12:45 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

Looks like we are on for next Thursday, March 20 @ 11. We will come over there. Do I need to send you a list of attendees?

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, March 12, 2014 1:06 PM
To: Cosby, Chris - EBSA
Subject: meeting

Dear Chris,

I received your message…is there a phone number that I can call you at?

Thanks!

Matt

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: RE: meeting
Date: Friday, March 14, 2014 3:50:32 PM

Dear Chris,

Do you mind sending me a list of specific issues that you want to discuss?

Thanks!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 12:45 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

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Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, March 12, 2014 1:06 PM
To: Cosby, Chris - EBSA
Subject: meeting

Dear Chris,

I received your message…is there a phone number that I can call you at?

Thanks!

Matt

From: Cosby, Chris - EBSA
To: Kozora, Matthew
Subject: RE: meeting
Date: Friday, March 14, 2014 5:41:00 PM

Thanks, Matt. We know Lourdes, and I believe Emily is a contact on you data request – is she an economist? I believe Rachel is a lawyer, right?

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 4:58 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting

Dear Chris,

Tentatively we will be having myself, Lourdes Gonzalez, Emily Russell, and Rachel Loko.

Thanks!

Matthew

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 4:24 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

We were hoping to discuss the comments you and Jennifer made at February 28 meeting in more detail with a smaller group and to hear any additional comments you may have.

The attendees from EBSA will be:

Joe Piacentini
Keith Bergstresser
James Butikofer
Allan Beckmann
Chris Cosby

Please let me know who will be attending from SEC.

Thanks!

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 3:50 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting

Dear Chris,

Do you mind sending me a list of specific issues that you want to discuss?

Thanks!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 12:45 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

Looks like we are on for next Thursday, March 20 @ 11. We will come over there. Do I need to send you a list of attendees?

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, March 12, 2014 1:06 PM
To: Cosby, Chris - EBSA
Subject: meeting

Dear Chris,

I received your message…is there a phone number that I can call you at?

Thanks!

Matt

From: Cosby, Chris - EBSA
To: Kozora, Matthew
Subject: RE: meeting
Date: Friday, March 14, 2014 4:23:00 PM

Hi Matt:

We were hoping to discuss the comments you and Jennifer made at February 28 meeting in more detail with a smaller group and to hear any additional comments you may have.

The attendees from EBSA will be:

Joe Piacentini
Keith Bergstresser
James Butikofer
Allan Beckmann
Chris Cosby

Please let me know who will be attending from SEC.

Thanks!

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 3:50 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting

Dear Chris,

Do you mind sending me a list of specific issues that you want to discuss?

Thanks!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 12:45 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

Looks like we are on for next Thursday, March 20 @ 11. We will come over there. Do I need to send you a list of attendees?

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, March 12, 2014 1:06 PM
To: Cosby, Chris - EBSA
Subject: meeting

Dear Chris,

I received your message…is there a phone number that I can call you at?

Thanks!

Matt

From: Kozora, Matthew
To: Cosby, Chris - EBSA
Subject: RE: meeting
Date: Wednesday, March 19, 2014 12:01:47 PM

Dear Chris,

Emily is a lawyer in Lourdes's group. Both Rachel Loko and Sarah Buescher, lawyers in IM, will also be in attendance. Jennifer Marietta-Westberg and Jennifer McHugh may also be in attendance.

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 5:41 PM
To: Kozora, Matthew
Subject: RE: meeting

Thanks, Matt. We know Lourdes, and I believe Emily is a contact on you data request – is she an economist? I believe Rachel is a lawyer, right?

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 4:58 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting

Dear Chris,

Tentatively we will be having myself, Lourdes Gonzalez, Emily Russell, and Rachel Loko.

Thanks!

Matthew

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 4:24 PM
To: Kozora, Matthew
Subject: RE: meeting

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The attendees from EBSA will be:

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Keith Bergstresser
James Butikofer
Allan Beckmann
Chris Cosby

Please let me know who will be attending from SEC.

Thanks!

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, March 14, 2014 3:50 PM
To: Cosby, Chris - EBSA
Subject: RE: meeting

Dear Chris,

Do you mind sending me a list of specific issues that you want to discuss?

Thanks!

Matt

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, March 14, 2014 12:45 PM
To: Kozora, Matthew
Subject: RE: meeting

Hi Matt:

Looks like we are on for next Thursday, March 20 @ 11. We will come over there. Do I need to send you a list of attendees?

Thanks,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Wednesday, March 12, 2014 1:06 PM
To: Cosby, Chris - EBSA
Subject: meeting

Dear Chris,

I received your message…is there a phone number that I can call you at?

Thanks!

Matt

From: Cosby, Chris - EBSA
To: Marietta-Westberg, Jennifer
Subject: RE: SEC Contact
Date: Monday, March 18, 2013 4:55:00 PM

Thanks, Jennifer!

From: Marietta-Westberg, Jennifer [redacted]@SEC.GOV]
Sent: Monday, March 18, 2013 4:41 PM
To: Cosby, Chris - EBSA
Cc: Piacentini, Joseph - EBSA
Subject: RE: SEC Contact

Sure, send him to me. Thanks, Chris.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Monday, March 18, 2013 4:01 PM
To: Marietta-Westberg, Jennifer
Cc: Joseph Piacentini [redacted]@dol.gov
Subject: FW: SEC Contact

Hi Jennifer:

Please see the message below from our former colleague, Jerry Lindrew, who is now at Pew Charitable Trusts. Jerry did great work at over DOL for over 30 years (he retired in January 2013), and was Joe's Deputy Director. Is it okay for me to forward Jerry directly to you or are there other contacts at SEC that I could forward him to?

Thanks,

Chris

From: Gerald Lindrew [redacted]@pewtrusts.org]
Sent: Monday, March 18, 2013 8:47 AM
To: Cosby, Chris - EBSA
Subject: SEC Contact

Hi Chris:

Could you tell me what the SEC contact for policy/research related issues. There is an emerging issues group that has asked me to find out so they can talk with them.

Thanks,
Jerry

Gerald Lindrew
Senior Officer, States' Public Sector Retirement Systems
Pew Center on the States | The Pew Charitable Trusts
901 E Street, North West, Washington, DC 20004
p: [redacted] | *e:* [redacted]@pewtrusts.org

From: Buescher, Sarah A.
To: Cosby, Chris - EBSA
Subject: RE: Use of Credit Ratings
Date: Tuesday, August 14, 2012 8:30:36 AM

Thanks Chris. I appreciate you getting back to me while on vacation.

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Tuesday, August 14, 2012 7:30 AM
To: Buescher, Sarah A.
Cc: Lloyd, Karen - EBSA
Subject: Re: Use of Credit Ratings

Hi Sarah:

It was nice seeing you at Arthur's presentation. Our exemptions office is working on the credit ratings project. Karen Lloyd is the contact on that. I am on vacation now, but I think her email is [redacted]@dol.gov. I am copying Karen on this message -- she is great to work with.

Best,

Chris

From: Buescher, Sarah A. [redacted]@SEC.GOV]
Sent: Monday, August 13, 2012 05:56 PM
To: Cosby, Chris - EBSA
Subject: Use of Credit Ratings

Chris,

I attended Arthur Laby's presentation recently at your offices and I work in the SEC's Division of Investment Management. I am working on a project involving the use of credit ratings and I know that certain prohibited transaction exemptions include credit ratings as a condition. I understand that the PTEs are not considered federal regulations for purposes of the Dodd-Frank Act's requirement to remove credit ratings, but I believe DOL has been looking at the use of credit ratings in PTEs. Do you know of someone at DOL that I could talk to about this issue?

Thanks,

Sarah Buescher

Sarah A. Buescher

U.S. Securities and Exchange Commission

100 F Street NE

Washington, DC 20549

[redacted]

From:	Matarazzi, Magali - EBSA
To:	Decressin, Anja - EBSA; Reese, James R.
Cc:	Criswell, Donald - EBSA; Bond, Dennis - EBSA; Bergstresser, Keith - EBSA
Subject:	RE: Targeting off the ADV
Date:	Monday, January 12, 2015 8:54:30 AM

Yes, we can reschedule for Friday. Let's circle back about times later today or tomorrow

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From: Decressin, Anja - EBSA
Sent: Monday, January 12, 2015 7:52 AM
To: Reese, James R.; Matarazzi, Magali - EBSA
Cc: Criswell, Donald - EBSA; Bond, Dennis - EBSA; Bergstresser, Keith - EBSA
Subject: Re: Targeting off the ADV

No problem for me. OE?
Anja Decressin, Ph.D.
Deputy Director, Office of Policy and Research,
EBSA, Dept. Of Labor

From: Reese, James R. [redacted]@sec.gov>
Sent: Monday, January 12, 2015 7:30:12 AM
To: Matarazzi, Magali - EBSA
Cc: Decressin, Anja - EBSA; Criswell, Donald - EBSA; Bond, Dennis - EBSA
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Good Morning - Given the weather and delays, would it be possible to move today's meeting to Friday of this week?

Sent from Blackberry

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To: Reese, James R.
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Subject: RE: Targeting off the ADV

The answer is yes to your suggestions and others will come from our analysts and IT people. We are available for more than the hour, if you have time.

From: Reese, James R. [redacted]@sec.gov]
Sent: Wednesday, January 07, 2015 5:59 PM
To: Matarazzi, Magali - EBSA
Cc: Criswell, Donald - EBSA; Bond, Dennis - EBSA
Subject: RE: Targeting off the ADV

Yes, we will be continuing the review of the methodology. If there's else you'd like me to get into like how we track exam outcomes, how we deal with tips and complaints, etc., just let me know

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We can meet you at the guest entrance (on 3rd street) a little before then.

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Thanks again,
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Magali Matarazzi
Senior ERISA Enforcement Advisor
U.S. Department of Labor
Employee Benefits Security Administration
200 Constitution Avenue, N.W., [redacted]
Washington, DC 20210
[redacted]

From: Reese, James R.[redacted]@sec.gov]
Sent: Tuesday, December 30, 2014 11:30 AM
To: Matarazzi, Magali - EBSA
Cc: Criswell, Donald - EBSA
Subject: RE: Targeting off the ADV

Thanks Magali.

Have a Happy New Year!

From: Matarazzi, Magali - EBSA [redacted]@dol.gov]
Sent: Tuesday, December 30, 2014 8:38 AM
To: Reese, James R.
Cc: Criswell, Donald - EBSA
Subject: Re: Targeting off the ADV

Hi Jim,

Thanks and hope your holidays were nice too. We will follow up with our DOL group on the dates suggested and confirm with you shortly. We know you are busy, so thanks for making time for us.

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From: Reese, James R. [redacted]@sec.gov>
Sent: Monday, December 29, 2014 10:50 AM
To: Matarazzi, Magali - EBSA
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To: Reese, James R.
Cc: Criswell, Donald - EBSA; Decressin, Anja - EBSA; Bergstresser, Keith - EBSA; Dunlap, Roderick - EBSA; Horton, Michael - EBSA; Mansur, Leyla - EBSA; Flickinger, Jonathan - EBSA
Subject: RE: Targeting off the ADV

Hi Jim,

We are looking forward to continuing our discussion about the SEC's use of the ADV for targeting. Are you available the week of January 5th?

Depending on how you would like to continue, EBSA would like to include our IT group to the conversation. Would you be willing to come to our offices?

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Subject:	RE: Targeting off the ADV
Date:	Monday, January 12, 2015 10:00:52 AM

Great, thank you. I'm wide open this Friday so whatever time slot works for your team.

From: Matarazzi, Magali - EBSA [redacted]@dol.gov]
Sent: Monday, January 12, 2015 8:54 AM
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Subject: Re: Targeting off the ADV
Date: Monday, January 12, 2015 7:51:43 AM

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Subject: Re: Targeting off the ADV

Hi Jim,

Thanks and hope your holidays were nice too. We will follow up with our DOL group on the dates suggested and confirm with you shortly. We know you are busy, so thanks for making time for us.

Magali

From: Reese, James R. [redacted]@sec.gov>
Sent: Monday, December 29, 2014 10:50 AM
To: Matarazzi, Magali - EBSA
Cc: Criswell, Donald - EBSA
Subject: RE: Targeting off the ADV

Good Morning – I hope you both had a nice Holiday last week. How does Friday, January 9 or Monday, January 12 look? I'm more than happy to come to your Offices.

From: Matarazzi, Magali - EBSA [redacted]@dol.gov]
Sent: Friday, December 19, 2014 4:29 PM
To: Reese, James R.
Cc: Criswell, Donald - EBSA
Subject: RE: Targeting off the ADV

Hi Jim,

I will be out of the office for the remainder of the year, but please feel free to contact Don Criswell to schedule a follow up meeting.

If scheduling a follow up meeting at some point in the week of January 5 isn't possible, please let us know if another date would be better.

Thanks,
Magali

Magali Matarazzi
Senior ERISA Enforcement Advisor
U.S. Department of Labor
Employee Benefits Security Administration
200 Constitution Avenue, N.W., [redacted]
Washington, DC 20210
[redacted]

From: Matarazzi, Magali - EBSA
Sent: Monday, December 15, 2014 12:01 PM
To: Reese, James R.
Cc: Criswell, Donald - EBSA; Decressin, Anja - EBSA; Bergstresser, Keith - EBSA; Dunlap, Roderick - EBSA; Horton, Michael - EBSA; Mansur, Leyla - EBSA; Flickinger, Jonathan - EBSA
Subject: RE: Targeting off the ADV

Hi Jim,

We are looking forward to continuing our discussion about the SEC's use of the ADV for targeting. Are you available the week of January 5th?

Depending on how you would like to continue, EBSA would like to include our IT group to the conversation. Would you be willing to come to our offices?

Thanks,
Magali

Magali Matarazzi
Senior ERISA Enforcement Advisor
U.S. Department of Labor
Employee Benefits Security Administration
200 Constitution Avenue, N.W., [redacted]
Washington, DC 20210
[redacted]

Confidentiality Notice: This e-mail message, including any attachments, from the U.S. Securities and Exchange Commission is for the exclusive use of the intended recipient(s) and may contain confidential and privileged information. If you are not the intended recipient, please do not read, distribute, or take action in reliance upon the message. If you have received this message in error, please notify the sender immediately by return e-mail and promptly delete this message and its attachments from your computer system. Be advised that no privileges are waived by the transmission of this message.

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From: Hunter-Ceci, Holly L.
To: Halliday, Susan - EBSA
Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC
Date: Wednesday, June 06, 2012 4:58:34 PM

Thanks, Susan. I apologize if you've sent this already, but would it be possible for you to send me the list of the DOL participants? Our list is the same. Thanks so much.

-----Original Message-----
From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 06, 2012 3:21 PM
To: Courtney, Catherine A.
Cc: Hunter-Ceci, Holly L.
Subject: Meeting with SEC

<<2012-05-09 Fid Def exemption condition recommendations.docx>> Good afternoon, In preparation for Monday's meeting, on an inter-agency confidential basis, please find attached a background document for our discussion.
The conference room telephone number at EBSA is [redacted]
Thanks,
Susan

From: Halliday, Susan - EBSA
To: "Hunter-Ceci, Holly L."
Cc: "Courtney, Catherine A."
Subject: RE: Meeting with SEC
Date: Wednesday, June 06, 2012 5:12:00 PM

Holly,
I have not yet sent the list. Given the meeting is telephonic, there are additions to my original invitation list here, but will be sending you the names of the essential players--probably tomorrow.
Susan

-----Original Message-----
From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Wednesday, June 06, 2012 4:58 PM
To: Halliday, Susan - EBSA
Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC

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The conference room telephone number at EBSA is [redacted].
Thanks,
Susan

From:	Hunter-Ceci, Holly L.
To:	Halliday, Susan - EBSA
Cc:	Courtney, Catherine A.
Subject:	RE: Meeting with SEC
Date:	Friday, June 08, 2012 9:48:18 AM

Hi Susan, just checking in to see if you have a list of the essential players yet.

Thanks,
Holly.

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 06, 2012 5:12 PM
To: Hunter-Ceci, Holly L.
Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC

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The conference room telephone number at EBSA is [redacted].
Thanks,
Susan

From: Halliday, Susan - EBSA
To: "Hunter-Ceci, Holly L."
Cc: "Courtney, Catherine A."
Subject: RE: Meeting with SEC
Date: Friday, June 08, 2012 11:29:00 AM

Hi Holly,
I anticipate attendance at the Monday meeting by the following persons with Joe Piacentini and Lyssa Hall primarily handling the discussion:

Joe Piacentini, Director, Office of Policy and Research and Chief Economist, EBSA, assisted by other economists on his staff, particularly Keith Bergstresser, and lawyers, particularly Chris Cosby, Regulatory Policy and Analysis.

Lyssa Hall, Acting Director, Office of Exemption Determinations, EBSA, assisted by other lawyers on her staff, particularly Karen Lloyd, Class Exemptions.

Joe Canary, Director, Office of Regulations and Interpretations, EBSA, assisted, Jeffrey Turner, Deputy Director, and other lawyers on his staff, including Lou Campagna and myself, Fiduciary Interpretations.

William Taylor, Plan Benefits Security Division, Solicitor of Labor.

Thanks,
Susan

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Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC

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The conference room telephone number at EBSA is [redacted].
Thanks,
Susan

From: Hunter-Ceci, Holly L.
To: Halliday, Susan - EBSA
Subject: RE: Meeting with SEC
Date: Friday, June 08, 2012 11:40:10 AM

Great, we're all set! Thanks for your assistance.

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Friday, June 08, 2012 11:29 AM
To: Hunter-Ceci, Holly L.
Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC

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Susan

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Cc: Courtney, Catherine A.
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Thanks,
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To: Hunter-Ceci, Holly L.
Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC

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Susan

-----Original Message-----
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Sent: Wednesday, June 06, 2012 4:58 PM
To: Halliday, Susan - EBSA
Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC

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To: Courtney, Catherine A.
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Subject: Meeting with SEC

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Thanks,
Susan

From: Halliday, Susan - EBSA
To: "Hunter-Ceci, Holly L."
Subject: RE: Meeting with SEC
Date: Monday, June 11, 2012 1:07:00 PM
Importance: High

Holly,
We are in the conference room waiting for your colleagues to call in.
Susan

-----Original Message-----
From: Hunter-Ceci, Holly L. [redacted]@sec.gov]
Sent: Friday, June 08, 2012 11:40 AM
To: Halliday, Susan - EBSA
Subject: RE: Meeting with SEC

Great, we're all set! Thanks for your assistance.

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Friday, June 08, 2012 11:29 AM
To: Hunter-Ceci, Holly L.
Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC

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William Taylor, Plan Benefits Security Division, Solicitor of Labor.

Thanks,
Susan

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Cc: Courtney, Catherine A.
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Cc: Courtney, Catherine A.
Subject: RE: Meeting with SEC

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Thanks,
Susan

From: Halliday, Susan - EBSA
To: "Courtney, Catherine A."
Subject: RE: SEC meeting
Date: Thursday, May 24, 2012 11:16:00 AM

Good morning Katy,

Thanks for getting back to me so quickly with dates. I will check calendars here against June 4/5 and be back to you as soon as I can. I think an hour should be enough for your colleagues to be briefed on the conditions in the proposed exemption and to provide preliminary feedback on whether they see advertising and/or other issues that need to be explored. As we discussed, a representative from EBSA's Office of Exemption Determinations, Office of Policy and Research, Office of Regulations and Interpretations and the Solicitor's Office will be attending. I suggest that at this point we keep the meeting smaller and on a more staff level technical basis.

Susan

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Thursday, May 24, 2012 10:11 AM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: SEC meeting

Hello Susan,

I'm working on gathering the list of attendees. It looks like Monday June 4 from 1-3 is free for everyone so far. Also Tuesday, June 5 from 10 to 11am. If that works please let me know as I hope to block that time for everyone so they keep it open. Would you anticipate the meeting to run for an hour, should we plan for more?

There are several 12pms and 4-5pms available for everyone as well. Do you have alternative dates/times that I could send around?

Thanks,

Katy

Catherine A. Courtney
U.S. Securities & Exchange Commission | IM- OCC
100 F. Street, N.E.| Washington, DC 20549-5030
[redacted] (Phone)
[redacted]@sec.gov

From: Courtney, Catherine A.
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting
Date: Thursday, May 24, 2012 12:27:59 PM

Susan,

Below is a list of the attendees:

Chairman's Office:
Jennifer McHugh, Senior Advisor

Division of Trading and Markets:
David Blass, Chief Counsel
Lourdes Gonzalez, Assistant Chief Counsel

Division of Investment Management:
Doug Scheidt, Chief Counsel
Sarah Buescher, Branch Chief

Division of Risk, Strategy and Innovation
Jennifer Marietta-Westberg, Assistant Director

I'm copying Holly Hunter-Ceci on these e-mails. Holly is a colleague in IM-OCC who may need to sub for me if the meeting is not able to occur the first week in June. I'll be on vacation after June 8, so I want to make sure Holly is in the loop.

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Thursday, May 24, 2012 11:16 AM
To: Courtney, Catherine A.
Subject: RE: SEC meeting

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Susan

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Thursday, May 24, 2012 10:11 AM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: SEC meeting

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Katy

Catherine A. Courtney
U.S. Securities & Exchange Commission | IM- OCC
100 F. Street, N.E.| Washington, DC 20549-5030
[redacted] (Phone)
[redacted]@sec.gov

From: Halliday, Susan - EBSA
To: "Courtney, Catherine A."
Cc: "Hunter-Ceci, Holly L."
Subject: RE: SEC meeting
Date: Thursday, May 24, 2012 1:35:00 PM

Katy,
Thank you and I will cc Holly going forward.
Susan

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Thursday, May 24, 2012 12:28 PM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Susan,

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Catherine A. Courtney
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100 F. Street, N.E.| Washington, DC 20549-5030
[redacted] (Phone)
[redacted]@sec.gov

From: Halliday, Susan - EBSA
To: "Courtney, Catherine A."
Cc: "Hunter-Ceci, Holly L."
Subject: RE: SEC meeting
Date: Friday, May 25, 2012 11:05:00 AM

Morning Katy and Holly,
Please release the dates/times during the week of June 4, and recheck calendars for the week beginning June 11 as one of EBSA's essential attendees is not available the prior week.
Thank-you.
Susan

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Thursday, May 24, 2012 12:28 PM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
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Catherine A. Courtney
U.S. Securities & Exchange Commission | IM- OCC
100 F. Street, N.E.| Washington, DC 20549-5030
[redacted] (Phone)
[redacted]@sec.gov

From:	Courtney, Catherine A.
To:	Halliday, Susan - EBSA
Cc:	Hunter-Ceci, Holly L.
Subject:	RE: SEC meeting
Date:	Friday, May 25, 2012 11:30:43 AM

Jennifer Marietta-Westberg won't be available until Tuesday, June 26. You mentioned her name specifically as one of the persons that should be in the meeting. Should we shoot for June 26 forward, or do you need the meeting before then.

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Friday, May 25, 2012 11:06 AM
To: Courtney, Catherine A.
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Morning Katy and Holly,
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To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: SEC meeting

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Catherine A. Courtney
U.S. Securities & Exchange Commission | IM- OCC
100 F. Street, N.E.| Washington, DC 20549-5030
[redacted] (Phone)
[redacted]@sec.gov

From: Halliday, Susan - EBSA
To: "Courtney, Catherine A."
Cc: "Hunter-Ceci, Holly L."
Subject: RE: SEC meeting
Date: Friday, May 25, 2012 11:34:00 AM

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From: Courtney, Catherine A.
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Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting
Date: Wednesday, June 06, 2012 1:45:07 PM

Hello Susan,

We're all set for Monday at 1pm. Holly will coordinate the call. What number should we call?

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Subject: RE: SEC meeting

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Thanks for getting back to me so quickly with dates. I will check calendars here against June 4/5 and be back to you as soon as I can. I think an hour should be enough for your colleagues to be briefed on the conditions in the proposed exemption and to provide preliminary feedback on whether they see advertising and/or other issues that need to be explored. As we discussed, a representative from EBSA's Office of Exemption Determinations, Office of Policy and Research, Office of Regulations and Interpretations and the Solicitor's Office will be attending. I suggest that at this point we keep the meeting smaller and on a more staff level technical basis.
Susan

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Thursday, May 24, 2012 10:11 AM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: SEC meeting

Hello Susan,

I'm working on gathering the list of attendees. It looks like Monday June 4 from 1-3 is free for everyone so far. Also Tuesday, June 5 from 10 to 11am. If that works please let me know as I hope to block that time for everyone so they keep it open. Would you anticipate the meeting to run for an hour, should we plan for more?

There are several 12pms and 4-5pms available for everyone as well. Do you have alternative dates/times that I could send around?

Thanks,

Katy

Catherine A. Courtney
U.S. Securities & Exchange Commission | IM- OCC
100 F. Street, N.E.| Washington, DC 20549-5030
[redacted] (Phone)
[redacted]@sec.gov

From: Halliday, Susan - EBSA
To: "Courtney, Catherine A."
Cc: "Hunter-Ceci, Holly L."
Subject: RE: SEC meeting
Date: Wednesday, June 06, 2012 3:09:00 PM

Great. Started an email this morning, but was called in to a meeting and then had a farewell luncheon so never completed it.
Will be sending shortly.

From: Courtney, Catherine A.[redacted]@SEC.GOV]
Sent: Wednesday, June 06, 2012 1:45 PM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Hello Susan,

We're all set for Monday at 1pm. Holly will coordinate the call. What number should we call?

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Wednesday, May 30, 2012 4:02 PM
To: Courtney, Catherine A.
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Katy and Holly,
The meeting is set for Monday June 11 at 1-2pm. Please release the other dates/times and thank-you for your help.
I will be back in touch with conference room information.
Susan

From: Halliday, Susan - EBSA
Sent: Tuesday, May 29, 2012 11:11 AM
To: 'Courtney, Catherine A.'
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Thanks, will now recheck on my end. And yes, 3-day weekend are wonderful!

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Tuesday, May 29, 2012 10:08 AM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Hello,

Hope you had a nice holiday. Matt Kozora and the other particpants are available on the following dates/times:

Mon, June 11: 1-2pm
Tues, June 12: 10am-4pm*
Thurs, June 14: 1-4pm*
Friday, June 15: 10-1am and 2-4pm

* Jennifer McHugh, of the Charman's Office, won't be available on these dates, but she said we did not need to schedule around her.   Jennifer heads the IA-BD fiduciary study group.

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 29, 2012 8:52 AM
To: Courtney, Catherine A.
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Morning,
Please recheck calendars for the week beginning June 11, and include Matt Kozora [redacted]@SEC.GOV), a financial economist who works with Jennifer Marietta-Westberg.
Appreciate your help with this meeting.
Susan

From: Halliday, Susan - EBSA
Sent: Friday, May 25, 2012 11:34 AM
To: 'Courtney, Catherine A.'
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Will check with our Chief Economist on this and get back to you.

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Friday, May 25, 2012 11:30 AM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Jennifer Marietta-Westberg won't be available until Tuesday, June 26. You mentioned her name specifically as one of the persons that should be in the meeting. Should we shoot for June 26 forward, or do you need the meeting before then.

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Friday, May 25, 2012 11:06 AM
To: Courtney, Catherine A.
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Morning Katy and Holly,
Please release the dates/times during the week of June 4, and recheck calendars for the week beginning June 11 as one of EBSA's essential attendees is not available the prior week.
Thank-you.
Susan

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Thursday, May 24, 2012 12:28 PM
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: RE: SEC meeting

Susan,

Below is a list of the attendees:

Chairman's Office:
Jennifer McHugh, Senior Advisor

Division of Trading and Markets:
David Blass, Chief Counsel
Lourdes Gonzalez, Assistant Chief Counsel

Division of Investment Management:
Doug Scheidt, Chief Counsel
Sarah Buescher, Branch Chief

Division of Risk, Strategy and Innovation
Jennifer Marietta-Westberg, Assistant Director

I'm copying Holly Hunter-Ceci on these e-mails. Holly is a colleague in IM-OCC who may need to sub for me if the meeting is not able to occur the first week in June. I'll be on vacation after June 8, so I want to make sure Holly is in the loop.

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Thursday, May 24, 2012 11:16 AM
To: Courtney, Catherine A.
Subject: RE: SEC meeting

Good morning Katy,
Thanks for getting back to me so quickly with dates. I will check calendars here against June 4/5 and be back to you as soon as I can. I think an hour should be enough for your colleagues to be briefed on the conditions in the proposed exemption and to provide preliminary feedback on whether they see advertising and/or other issues that need to be explored. As we discussed, a representative from EBSA's Office of Exemption Determinations, Office of Policy and Research, Office of Regulations and Interpretations and the Solicitor's Office will be attending. I suggest that at this point we keep the meeting smaller and on a more staff level technical basis.
Susan

From: Courtney, Catherine A. [redacted]@SEC.GOV]
Sent: Thursday, May 24, 2012 10:11 AM

To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: SEC meeting

Hello Susan,

I'm working on gathering the list of attendees. It looks like Monday June 4 from 1-3 is free for everyone so far. Also Tuesday, June 5 from 10 to 11am. If that works please let me know as I hope to block that time for everyone so they keep it open. Would you anticipate the meeting to run for an hour, should we plan for more?

There are several 12pms and 4-5pms available for everyone as well. Do you have alternative dates/times that I could send around?

Thanks,

Katy

Catherine A. Courtney
U.S. Securities & Exchange Commission | IM- OCC
100 F. Street, N.E.| Washington, DC 20549-5030
[redacted] (Phone)
[redacted]@sec.gov

From: Courtney, Catherine A.
To: Halliday, Susan - EBSA
Cc: Hunter-Ceci, Holly L.
Subject: SEC meeting
Date: Thursday, May 24, 2012 10:11:10 AM

Hello Susan,

I'm working on gathering the list of attendees. It looks like Monday June 4 from 1-3 is free for everyone so far. Also Tuesday, June 5 from 10 to 11am. If that works please let me know as I hope to block that time for everyone so they keep it open. Would you anticipate the meeting to run for an hour, should we plan for more?

There are several 12pms and 4-5pms available for everyone as well. Do you have alternative dates/times that I could send around?

Thanks,

Katy

Catherine A. Courtney
U.S. Securities & Exchange Commission | IM- OCC
100 F. Street, N.E.| Washington, DC 20549-5030
[redacted] (Phone)
[redacted]@sec.gov

From:	Porter, Jennifer R.
To:	Hauser, Timothy - EBSA
Subject:	Disclosure and Audit Cites
Date:	Thursday, September 04, 2014 3:56:49 PM

Tim,

Below is a list of provisions and rules under the federal securities laws that we discussed on our call on Tuesday. Please note that this list reflects those rules that the staff believes to be most relevant, based on the staff's understanding of DOL staff's current approach with respect to the General Exemption, including the types of assets that would be covered. Additional provisions or rules may be relevant, should the DOL staff change its approach.

Generally

See the SEC Staff Section 913 Study ("Study") for an overview of disclosure, supervision and other broker-dealer and investment adviser obligations, available at: http://www.sec.gov/news/studies/2011/913studyfinal.pdf. Note that some of the FINRA/NASD rules cited in the study have been amended or replaced with FINRA rules since publication, including the rules relating to supervision/audit. Where relevant, the new rules are cited below. The FINRA/NASD rules cited in the Study, and links to new rules, are available through FINRA's manual at: http://finra.complinet.com.

Disclosure and Data Retention Provisions and Rules

Form ADV, part 2A (particularly items 4-6, 8, 10-12, 14, 16, 17), available at: http://www.sec.gov/about/forms/formadv-part2.pdf
Form N-1A (registration form used by registered open-end investment companies, including mutual funds), available at: http://www.sec.gov/about/forms/formn-1a.pdf
Advisers Act Rule 204-2 (books and records rule)
Securities Act Rule 421 (regarding the use of plain English)
Exchange Act Rule 10b-5
Exchange Act Rule 10b-10
Exchange Act Rule 10b-16
Exchange Act Rules 15c1-5 and 15c1-6
Exchange Act Rules 15g-1 through 15g-6, 15g-9
Exchange Act Rule 17a-3(a)(1)-(3), (5)
Exchange Act Rule 17a-4
FINRA Rule 2124
FINRA Rule 2232
FINRA Rule 2262
FINRA Rule 2269
FINRA Rule 2310
FINRA Rule 2360(b)(12)
FINRA Rule 4524
FINRA Rule 5110(c)(2)
FINRA Rule 5121
FINRA Rule 5122
NASD Rule 2340
NASD Rule 2830
Form SSOI, available at:

http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/industry/p125702.pdf
MSRB Rule G-15
MSRB Rule G-22

Audit (Supervision) Provisions and Rules

Advisers Act Sec. 203(e)(6)
Exchange Act Section 15(b)(4)(E) and 15(b)(6)
Exchange Act Section 17(b)
Exchange Act Rule 17a-4 (in particular paragraph (e)(7))
FINRA Rule 1250
FINRA Rule 3110 (generally, and in particular paragraphs (a), (b)(6), (c)(1), (c)(2), and (c)(3)(A))
FINRA Rule 3120
FINRA Rule 3130
FINRA Rule 4511
FINRA Rule 8210
FINRA Regulatory Notice 14-10 (discussing FINRA's new consolidated supervision Rules 3110, 3120, 3150 and 3170), available at:
http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p465940.pdf

Please let me know if you have any questions or need anything else on this.

Regards,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From:	Porter, Jennifer R.
To:	Hauser, Timothy - EBSA
Subject:	Follow-up from 9/26 call with SEC/DOL/Treasury
Date:	Tuesday, September 30, 2014 10:55:38 AM

Tim,

On the call with DOL and Treasury staff on Friday, we said that we would send links to information about investor testing and to examples of broker-dealer's firm brochures. That information is below. Please let me know if it would help for me to send this to all of the individuals included on the meeting invitation on Friday, or if I should send it to a smaller subset of individuals.

Investor Testing links:

Staff pulled selected documents relating to the point of sale rulemaking and Section 917 Study that we think would be most useful based on our conversations (but this should not be viewed as the entire universe of materials).

Study Regarding Financial Literacy Among Investors As Required by Section 917 of the
Dodd-Frank Wall Street Reform and Consumer Protection Act
http://www.sec.gov/news/studies/2012/917-financial-literacy-study-part1.pdf

Results of Investor Interviews to Test Oral Point of Sale Disclosure; Supplemental Report to the Securities and Exchange Commission (June 1, 2005)
http://www.sec.gov/rules/proposed/s70604/supprpt060105.pdf

Results of Investor Interviews to Test and Refine Point of Sale
Disclosure Forms Report to the Securities and Exchange Commission May 31, 2005
http://www.sec.gov/rules/proposed/s70604/siegel053105.pdf

Results of In-Depth Investor Interviews Regarding Proposed Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms
(Note: This report serves as a supplement to the existing Results of In- Depth Investor Interviews Regarding Proposed Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms, dated November 4, 2004. Supplemental Report to the Securities and Exchange Commission November 29, 2004)
http://www.sec.gov/rules/proposed/s70604/sup-rep010705.pdf

Results of In-Depth Investor Interviews Regarding Proposed
Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms Report to the Securities and Exchange Commission November 4, 2004
http://www.sec.gov/rules/proposed/s70604/rep110404.pdf

-

Links to certain firms' compensation-related disclosures and, for some firms, their separate revenue sharing disclosures:

Staff pulled a random sampling of brochures that we thought may be of interest based on Friday's conversation. That being said, firms generally have a variety of brochures addressing a number of different areas on their websites (with more or less detail). If you are interested in something different than is captured below, we would suggest referring to each firm's website to see if there is something more on point.

Morgan Stanley

- http://www2.morganstanley.com/wealth/relationshipwithms/commissionsandfees.asp
- https://www2.morganstanley.com/wealth/disclosures/pdfs/revenue_sharing.pdf

Merrill Lynch

- https://olui2.fs.ml.com/Publish/Content/application/pdf/GWMOL/MutualFundDisclosureDocument.pdf

UBS

- http://financialservicesinc.ubs.com/staticfiles/pws/adobe/guide_to_fees_final_pdf.pdf
- http://www.ubs.com/us/en/wealth/investing/trad_investments/revenuesharing.html

Edward Jones

- https://www.edwardjones.com/groups/ejw_content/@ejw/@us/documents/web_content/web236329.pdf

- https://www.edwardjones.com/groups/ejw_content/@ejw/documents/web_content/dweb244757.pdf

Thrivent

- https://www.thrivent.com/disclosures/files/pccg.pdf
- https://www.thrivent.com/annuities/files/Disclosure.pdf

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - EBSA
To: Porter, Jennifer R. [redacted] @SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: FSR Paper
Date: Thursday, February 19, 2015 7:07:28 PM

Just thought I'd pass along this FSR document (prepared by Debevoise) that's making the rounds in the unlikely event that you haven't already seen it: http://fsroundtable.org/debevoise-memo-fsr-dol-fiduciary-duty/.

I hope you're doing well.

Tim

From: Blass, D.W. (David)
To: Hauser, Timothy - EBSA
Subject: Re: Briefcase
Date: Thursday, April 03, 2014 3:31:30 PM

Oh, no way. I will swing by at 5 or so. Thanks so much for collecting it for me. As an aside, I told Jennifer that I was heartened by our discussion today. I am looking forward to our drafting session.

David

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

----- Original Message -----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, April 03, 2014 03:28 PM
To: Blass, D.W. (David)
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: RE: Briefcase

I left you a voice message. I think we have your briefcase (not to mention a purse that somebody from DOL left behind!) If you want to pick it up here, just call me when you get here [redacted] and I'll have somebody walk it down. Alternatively, I could drop it by the SEC at the end of the day if you'd like.

Thanks.

-----Original Message-----
From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Thursday, April 03, 2014 1:48 PM
To: Hauser, Timothy - EBSA
Subject: Re: Briefcase

Much appreciated. Maybe you can use it as leverage for negotiations for one of the conditions.

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

----- Original Message -----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, April 03, 2014 01:37 PM
To: Blass, D.W. (David)
Subject: Re: Briefcase

Oh no. Let me make sure it's still there.

From: Blass, D.W. (David) [redacted]@SEC.GOV>
Sent: Thursday, April 3, 2014 12:42:15 PM
To: Hauser, Timothy - EBSA
Subject: Briefcase

In the rush to get out, I left my briefcase behind. Is there anyway to have someone leave it at security so I can pick it up later today?
David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Blass, D.W. (David)
To: Hauser, Timothy - EBSA
Subject: Re: Briefcase
Date: Thursday, April 03, 2014 1:48:28 PM

Much appreciated. Maybe you can use it as leverage for negotiations for one of the conditions.

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

----- Original Message -----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, April 03, 2014 01:37 PM
To: Blass, D.W. (David)
Subject: Re: Briefcase

Oh no. Let me make sure it's still there.

From: Blass, D.W. (David) [redacted]@SEC.GOV>
Sent: Thursday, April 3, 2014 12:42:15 PM
To: Hauser, Timothy - EBSA
Subject: Briefcase

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David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From:	Hauser, Timothy - EBSA
To:	Blass, D.W. (David)
Cc:	Hauser, Timothy - EBSA
Subject:	RE: Briefcase
Date:	Thursday, April 03, 2014 3:28:40 PM

I left you a voice message. I think we have your briefcase (not to mention a purse that somebody from DOL left behind!) If you want to pick it up here, just call me when you get here [redacted] and I'll have somebody walk it down. Alternatively, I could drop it by the SEC at the end of the day if you'd like.

Thanks.

-----Original Message-----
From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Thursday, April 03, 2014 1:48 PM
To: Hauser, Timothy - EBSA
Subject: Re: Briefcase

Much appreciated. Maybe you can use it as leverage for negotiations for one of the conditions.

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

----- Original Message -----
From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, April 03, 2014 01:37 PM
To: Blass, D.W. (David)
Subject: Re: Briefcase

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From: Blass, D.W. (David) [redacted]@SEC.GOV>
Sent: Thursday, April 3, 2014 12:42:15 PM
To: Hauser, Timothy - EBSA
Subject: Briefcase

In the rush to get out, I left my briefcase behind. Is there anyway to have someone leave it at security so I can pick it up later today?
David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA
To: Jenson, Paula R.
Cc: Hauser, Timothy - EBSA
Subject: Re: Customer Account Agreements -- Provision of Investment Advice
Date: Monday, August 18, 2014 7:00:15 PM

Thank you. This is very helpful.

From: Jenson, Paula R. [redacted]@SEC.GOV>
Sent: Monday, August 18, 2014 10:11:30 AM
To: Hauser, Timothy - EBSA
Subject: FW: Customer Account Agreements -- Provision of Investment Advice

Tim – here is a random assortment of disclosures. Hope this helps. Please let me know if we can help with anything else.

Paula

TD Ameritrade

3a. "Self-Directed Account. I understand that Accounts opened with you are self-directed. I am responsible for all purchase and sell orders, decisions to continue with an investment strategy or to hold an investment, and instructions placed in my Account. Unless you provide advice to me that is clearly identified by you as an individualized recommendation for me, any investment decision that I make or investment strategy that I utilize, including the decision to hold any and all of the securities or derivatives in the Account, is based on my own investment decisions or those of my agent and is at my own risk. All investments involve risk, and unless you provide individualized recommendations to me, I or my agent are responsible for determining the suitability of any trade, investment, investment strategy, and risk associated with my investments. TD Ameritrade Content or Third-Party Content I access through you does not constitute a recommendation to invest in any security or derivative, or to utilize any investment strategy."

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b. When I act as a self-directed investor, I am responsible for determining the suitability of any particular investment strategy, transaction, or security. You have no responsibility for any such determination unless you otherwise agree in writing, or you or your representative gives advice directly to me that is identified clearly as recommendation by you to enter into a particular transaction or to buy or sell a particular security or securities.

c. From time to time, in connection with my Account, you may provide investment-related guidance and recommendations to me. I agree that when you make a recommendation to me, you determine its suitability for me at the time of the recommendation. If the recommendation transaction is not effected contemporaneously with your recommendation, I agree you will have no liability if I choose to effect such transaction in the future. Furthermore, when you are acting as broker/dealer for my Account, I agree that you have no ongoing duty to ensure a recommendation continues to be suitable for me. Rather, I have an affirmative duty to monitor profits and losses in my Account, along with my investment goals and risk tolerance and to modify my trading decisions accordingly.

d. Unless otherwise agreed to in writing, you do not have discretionary authority over my Account or an obligation to review or to make recommendations for the investment of securities or cash in my Account.

e. Any research, analysis, news, or other information made available by you does not constitute an individualized recommendation by your to buy or sell a particular security.

f. You do not provide legal, tax, or estate planning advice."

https://www.tdameritrade.com/retail-en_us/resources/pdf/AMTD182.pdf

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https://www.edwardjones.com/groups/ejw_content/@ejw/documents/web_content/web227570.pdf

UBS

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As a full-service broker-dealer, our services are not limited to taking customer orders and executing securities transactions. In this capacity, we provide a variety of services relating to investments in securities, including providing investment research, executing trades and providing custody services. In a brokerage account, you pay us commissions and applicable fees each time we execute a transaction in your account. We also make recommendations to our brokerage clients about whether to buy, sell or hold securities. We consider this to be part of our brokerage services and do not charge a separate fee for this advice. Our recommendations must be suitable for you, in light of your particular financial circumstances, goals and tolerance for risk.
When we work with you in our capacity as broker-dealer, we do not make investment decisions for you or manage your accounts on a discretionary basis. We will only buy or sell securities for brokerage clients based on specific directions from you.

Our Responsibilities to You as a Broker-Dealer
When we act as your broker, we are subject to the Securities Exchange Act of 1934, the Securities Act of 1933, the rules of self-regulatory organizations such as the Financial Industry Regulatory Authority (FINRA), the rules of the New York Stock Exchange and applicable state laws.
The standards for broker-dealers include the following:

• As your broker-dealer, we have a duty to deal fairly with you. Consistent with our duty of fairness, we are obligated to make sure that the prices you receive when we execute transactions for you are reasonable and fair in light of prevailing market conditions and that the commissions and other fees we charge you are not excessive.
• We must have a reasonable basis for believing that any securities recommendations we make to you are suitable and appropriate for you, given your individual financial circumstances, needs and goals.
• We are permitted to trade with you for our own account ("principal trading") or for an affiliate or another client and may earn a profit on those trades. When we engage in these trades, we disclose the capacity in which we acted on your confirmation, though we are not required to communicate this or obtain your consent in advance or to inform you of the profit earned on the trades.
• **When we act as your broker-dealer, we do not enter into a fiduciary relationship with you. Absent special circumstances, we are not held to the same legal standards that apply when providing investment advisory services.** Our legal obligations to disclose detailed information to you about the nature and scope of our business, personnel, fees, conflicts between our interests and your interests and other matters are more limited than when we are providing investment advisory services to you.

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You understand that UBS or its affiliates may execute securities transactions in your Account acting as principal, as permitted by law, and you direct us to do so where we would execute such a trade as principal in the ordinary course of our business. Likewise, we may expressly direct our clearing affiliates to enter into a principal transaction when we would ordinarily execute a transaction as principal. Unless otherwise agreed to in writing, you agree that:

• Neither we nor our employees or agents agree that the guidance and information we provide may be used as a primary basis for investment or asset allocation decisions you make regarding your IRAs and QP assets. Therefore, none of these persons intends to provide "investment advice" as defined under applicable ERISA regulations or to act now or in the future as a "fiduciary" as defined in ERISA or the Internal Revenue Code or similar state or local laws, and;
• You will make your own independent decisions regarding investments in your Account."
http://www.ubs.com/content/dam/static/wmamericas/agreements_and_disclosures.pdf

Raymond James

- No disclosures re: investment advice found.

https://www.arvest.com/pdfs/investments/disclosure_rj.pdf and http://www.raymondjames.com/billofrights/rights_and_responsibilities.pdf

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https://www08.wellsfargomedia.com/assets/pdf/personal/online-brokerage/retail_margappandagree.pdf

Morgan Stanley

- No disclosures about investment advice found.

http://www.morganstanleyfa.com/public/facilityfiles/mssb866205/5eff15b3-ccb4-4ec2-bd4f-51e155116b06.pdf

From: Hauser, Timothy - SOL
To: "McHugh, Jennifer B."
Cc: Hauser, Timothy - SOL
Subject: RE: DOL Meeting - UPDATED - (1) Date & Time Change; (2) Room #
Date: Friday, June 08, 2012 1:32:30 PM

Thanks. It was nice seeing you too. I hope we didn't wear out our welcome. Let me know when we might meet again on the fiduciary reg, rollovers, etc.

Tim

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: McHugh, Jennifer B. [[redacted]@SEC.GOV]
Sent: Friday, June 08, 2012 11:35 AM
To: Hauser, Timothy - SOL
Subject: FW: DOL Meeting - UPDATED - (1) Date & Time Change; (2) Room #

FYI: Even more coordination going on than I realized/remembered.

It was really good to see you on Wednesday.

Jennifer

Jennifer B. McHugh
Senior Advisor to the Chairman
U.S. Securities and Exchange Commission
[redacted]

From: Hunter-Ceci, Holly L.
Sent: Friday, June 08, 2012 11:32 AM
To: Courtney, Catherine A.; Scheidt, Douglas J.; McHugh, Jennifer B.; Gonzalez, Lourdes; Marietta-Westberg, Jennifer; Blass, D.W. (David); Buescher, Sarah A.; Kahl, Daniel; Kozora, Matthew
Subject: RE: DOL Meeting - UPDATED - (1) Date & Time Change; (2) Room #

I've attached the DOL's background document (submitted on an inter-agency confidential basis) for Monday's confirmed meeting in Room [redacted] from 1-2.

We will be calling the DOL at: [redacted].

Attendees will be:

Joe Piacentini, Director, Office of Policy and Research and Chief Economist, EBSA, assisted by other economists on his staff, particularly Keith Bergstresser, and lawyers, particularly Chris Cosby, Regulatory Policy and Analysis.

Lyssa Hall, Acting Director, Office of Exemption Determinations, EBSA, assisted by other lawyers on her staff, particularly Karen Lloyd, Class Exemptions.

Joe Canary, Director, Office of Regulations and Interpretations, EBSA, assisted, Jeffrey Turner, Deputy Director, and other lawyers on his staff, including Lou Campagna and myself, Fiduciary Interpretations.

William Taylor, Plan Benefits Security Division, Solicitor of Labor.

Thanks,
Holly.

-----Original Appointment-----
From: Courtney, Catherine A.
Sent: Thursday, May 24, 2012 10:20 AM
To: Courtney, Catherine A.; Scheidt, Douglas J.; McHugh, Jennifer B.; Gonzalez, Lourdes; Marietta-Westberg, Jennifer; Hunter-Ceci, Holly L.; Blass, D.W. (David); Buescher, Sarah A.; Kahl, Daniel; Kozora, Matthew
Subject: DOL Meeting - UPDATED - (1) Date & Time Change; (2) Room #
When: Monday, June 11, 2012 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Conf Room [redacted]

Please hold this time for a meeting with the DOL.

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Follow-up from 9/26 call with SEC/DOL/Treasury
Date: Wednesday, October 08, 2014 10:35:17 AM

Tim,

Here are some additional links to certain NASD/FINRA materials we have mentioned during our recent calls. We thought these might be helpful in case you have not seen some of these items.

- Certain FINRA rules pertaining to arbitration and class actions, as well as a related FINRA decision:
  - FINRA Rule 12200 (Arbitration Under an Arbitration Agreement or the Rules of FINRA)
  - FINRA Rule 12204 (Class Action Claims)
  - FINRA Rule 2268(f) (Requirements When Using Pre-dispute Arbitration Agreements for Customer Accounts)
  - FINRA's Board of Governors' decision from April 24, 2014 concerning FINRA's rules related to class actions: FINRA's Board of Governors' Decision
- Certain materials discussing, among other things, the interplay between FINRA's suitability rule and FINRA's exemption for certain categories of educational material:
  - FINRA Rule 2111, Supplementary Material .03
  - NASD Notice to Members 01-23
  - FINRA Regulatory Notices:
    - 12-55 Guidance on FINRA's Suitability Rule
    - 12-25 Additional Guidance on FINRA's New Suitability Rule; Implementation Date: July 9, 2012
    - 11-25 New Implementation Date for and Additional Guidance on the Consolidated FINRA Rules Governing Know-Your-Customer and Suitability Obligations; Implementation Date: July 9, 2012
    - 11-02 SEC Approves Consolidated FINRA Rules Governing Know-Your-Customer and Suitability Obligations; Effective Date: October 7, 2011

Again, please let us know how we can provide further assistance to you.

Regards,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, September 30, 2014 12:41 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: RE: Follow-up from 9/26 call with SEC/DOL/Treasury

Thanks. That's terrific. I'll pass your email along to everybody on the meeting list.

Tim

From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Tuesday, September 30, 2014 10:55 AM
To: Hauser, Timothy - EBSA
Subject: Follow-up from 9/26 call with SEC/DOL/Treasury

Tim,

On the call with DOL and Treasury staff on Friday, we said that we would send links to information about investor testing and to examples of broker-dealer's firm brochures. That information is below. Please let me know if it would help for me to send this to all of the individuals included on the meeting invitation on Friday, or if I should send it to a smaller subset of individuals.

Investor Testing links:

Staff pulled selected documents relating to the point of sale rulemaking and Section 917 Study that we think would be most useful based on our conversations (but this should not be viewed as the entire universe of materials).

Study Regarding Financial Literacy Among Investors As Required by Section 917 of the
Dodd-Frank Wall Street Reform and Consumer Protection Act
http://www.sec.gov/news/studies/2012/917-financial-literacy-study-part1.pdf

Results of Investor Interviews to Test Oral Point of Sale Disclosure; Supplemental Report to the Securities and Exchange Commission (June 1, 2005)
http://www.sec.gov/rules/proposed/s70604/supprpt060105.pdf

Results of Investor Interviews to Test and Refine Point of Sale
Disclosure Forms Report to the Securities and Exchange Commission May 31, 2005
http://www.sec.gov/rules/proposed/s70604/siegel053105.pdf

Results of In-Depth Investor Interviews Regarding Proposed Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms
(Note: This report serves as a supplement to the existing Results of In- Depth Investor Interviews Regarding Proposed Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms, dated November 4, 2004. Supplemental Report to the Securities and Exchange Commission November 29, 2004)
http://www.sec.gov/rules/proposed/s70604/sup-rep010705.pdf

Results of In-Depth Investor Interviews Regarding Proposed
Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms Report to the Securities and Exchange Commission November 4, 2004
http://www.sec.gov/rules/proposed/s70604/rep110404.pdf

-
Links to certain firms' compensation-related disclosures and, for some firms, their separate revenue sharing disclosures:

Staff pulled a random sampling of brochures that we thought may be of interest based on Friday's conversation. That being said, firms generally have a variety of brochures addressing a number of different areas on their websites (with more or less detail). If you are interested in something different than is captured below, we would suggest referring to each firm's website to see if there is something more on point.

Morgan Stanley

- http://www2.morganstanley.com/wealth/relationshipwithms/commissionsandfees.asp
- https://www2.morganstanley.com/wealth/disclosures/pdfs/revenue_sharing.pdf

Merrill Lynch

- https://olui2.fs.ml.com/Publish/Content/application/pdf/GWMOL/MutualFundDisclosureDocument.pdf

UBS

- http://financialservicesinc.ubs.com/staticfiles/pws/adobe/guide_to_fees_final_pdf.pdf
- http://www.ubs.com/us/en/wealth/investing/trad_investments/revenuesharing.html

Edward Jones

- https://www.edwardjones.com/groups/ejw_content/@ejw/@us/documents/web_content/web236329.pdf

- https://www.edwardjones.com/groups/ejw_content/@ejw/documents/web_content/dweb244757.pdf

Thrivent

- https://www.thrivent.com/disclosures/files/pccg.pdf
- https://www.thrivent.com/annuities/files/Disclosure.pdf

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone [redacted]
[redacted]@sec.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: FSR Paper
Date: Friday, February 20, 2015 10:55:33 AM

Tim,

Thank you for the link to the FSR document. We did see it already, but I appreciate your email to make sure.

I hope all is well with you too, and that you enjoy the weekend!

Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, February 19, 2015 7:07 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: FSR Paper

Just thought I'd pass along this FSR document (prepared by Debevoise) that's making the rounds in the unlikely event that you haven't already seen it: http://fsroundtable.org/debevoise-memo-fsr-dol-fiduciary-duty/.

I hope you're doing well.

Tim

From: Hauser, Timothy - EBSA
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: Re: Global Exemption Disclosure Chart
Date: Thursday, August 14, 2014 1:27:10 PM

Of course. Just let me know what works.

Tim

From: Porter, Jennifer R. [redacted]@SEC.GOV>
Sent: Thursday, August 14, 2014 1:09:16 PM
To: Hauser, Timothy - EBSA
Cc: Jama, Liban A.; Stankard, Nathaniel
Subject: RE: Global Exemption Disclosure Chart

Tim, I just learned one of the key staff members on our team is not available tomorrow. Since I am out of the office next week, can we look at a time to talk the following week (August 25-29)? If that works for you, I will talk to our team about specific dates and times that work.

Thanks,
Jen

From: Porter, Jennifer R.
Sent: Wednesday, August 13, 2014 4:24 PM
To: 'Hauser, Timothy - EBSA'
Cc: Jama, Liban A.; Stankard, Nathaniel
Subject: RE: Global Exemption Disclosure Chart

Tim, our staff have finished reviewing the charts that you sent. Are you available on Friday to discuss our comments? It looks like the following times could work for us: 10:30-11:30, 12:30-1:30 or 3:30 to 5.

I am out of the office next week. If none of these times work for you, we can schedule something the week of August 25. Please let me know your preference.

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 30, 2014 4:24 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: FW: Global Exemption Disclosure Chart

Our lawyers have cleaned up the disclosure chart a bit. The revised version is attached.

Tim

From: Hansen, Megan D - SOL
Sent: Wednesday, July 30, 2014 4:22 PM
To: Hauser, Timothy - EBSA
Cc: Taylor, William - SOL
Subject: Global Exemption Disclosure Chart

Tim,

As we discussed yesterday, I've reviewed and cleaned up the Disclosure Chart (attached for reference) we prepared in connection with the Global Exemption. Please let me know if you would like me to send it to Jennifer Porter or if you would prefer to pass it along.

Thanks,
Megan

Megan Hansen
U.S. Department of Labor, Office of the Solicitor
Plan Benefits Security Division, Attorney for Regulations
Phone: [redacted]
E-mail: [redacted]@dol.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Cc: Jama, Liban A.; Stankard, Nathaniel
Subject: RE: Global Exemption Disclosure Chart
Date: Wednesday, August 13, 2014 4:24:39 PM

Tim, our staff have finished reviewing the charts that you sent. Are you available on Friday to discuss our comments? It looks like the following times could work for us: 10:30-11:30, 12:30-1:30 or 3:30 to 5.

I am out of the office next week. If none of these times work for you, we can schedule something the week of August 25. Please let me know your preference.

Thanks,
Jen

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Senior Advisor to the Chair
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100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 30, 2014 4:24 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: FW: Global Exemption Disclosure Chart

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Cc: Taylor, William - SOL
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Thanks,
Megan

Megan Hansen
U.S. Department of Labor, Office of the Solicitor
Plan Benefits Security Division, Attorney for Regulations
Phone: [redacted]
E-mail: [redacted]@dol.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Subject: RE: Global Exemption Disclosure Chart
Date: Thursday, July 31, 2014 10:47:49 AM

Thanks, I sent this one to the team.

Regards,
Jen

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 30, 2014 4:24 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
Subject: FW: Global Exemption Disclosure Chart

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Megan Hansen
U.S. Department of Labor, Office of the Solicitor
Plan Benefits Security Division, Attorney for Regulations
Phone: [redacted]
E-mail: [redacted]@dol.gov

From: Porter, Jennifer R.
To: Hauser, Timothy - EBSA
Cc: Jama, Liban A.; Stankard, Nathaniel
Subject: RE: Global Exemption Disclosure Chart
Date: Thursday, August 14, 2014 1:10:15 PM

Tim, I just learned one of the key staff members on our team is not available tomorrow. Since I am out of the office next week, can we look at a time to talk the following week (August 25-29)? If that works for you, I will talk to our team about specific dates and times that work.

Thanks,
Jen

From: Porter, Jennifer R.
Sent: Wednesday, August 13, 2014 4:24 PM
To: 'Hauser, Timothy - EBSA'
Cc: Jama, Liban A.; Stankard, Nathaniel
Subject: RE: Global Exemption Disclosure Chart

Tim, our staff have finished reviewing the charts that you sent. Are you available on Friday to discuss our comments? It looks like the following times could work for us: 10:30-11:30, 12:30-1:30 or 3:30 to 5.

I am out of the office next week. If none of these times work for you, we can schedule something the week of August 25. Please let me know your preference.

Thanks,
Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 30, 2014 4:24 PM
To: Porter, Jennifer R.
Cc: Hauser, Timothy - EBSA
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To: Hauser, Timothy - EBSA
Cc: Taylor, William - SOL
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Thanks,
Megan

Megan Hansen
U.S. Department of Labor, Office of the Solicitor
Plan Benefits Security Division, Attorney for Regulations
Phone: [redacted]
E-mail: [redacted]@dol.gov

From:	Piacentini, Joseph - EBSA
To:	[redacted]@sec.gov
Cc:	Cosby, Chris - EBSA; Decressin, Anja - EBSA; Langan, Andrew - OSEC; Hauser, Timothy - SOL
Subject:	Bibliography
Date:	Monday, October 03, 2011 9:57:22 AM
Attachments:	Bibliography_FiduciaryRegulation.doc

Jennifer,

I enjoyed talking with you, Craig and the others Friday morning. Here is our working bibliography of papers that might be relevant to assessing the impact of our NPRM redefining what is fiduciary investment advice under ERISA and related tax code provisions. The first few pages list the papers, and the following pages provide the abstracts. I look forward to future consultations on our respective work in this area.

Best,

Joe P.

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To obtain more funds from the institutional investors, private equity fund managers may report inflated valuations of private investee companies that are not yet sold. However, such overvaluations may result in a reputational cost when those investments are realized. Using evidence from 39 countries, we show that there are significant systematic biases in managers' reporting of fund performance. We find that these biases depend on the accounting and legal environment in a country, and on proxies for the degree of information asymmetry between institutional investors and private equity fund managers.

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Abstracts

Experiments and general studies about conflicts of interest
Conflicts of Interest in Financial Services
Theoretical Pieces on financial markets
Asymmetries in the Market, Disclosure, Investor Decision Making
General Background, Background on Industry Structure
Comparing 401k and IRA returns. Comparing Returns within different distribution Channels.
What Brokers Provide and load versus no-load

AARP, "AARP Bulletin on Retirement Savings: Executive Summary", April 2009
Summary: The AARP Bulletin commissioned a nationwide survey in February 2009 to find out if and how Americans are changing their general savings and retirement savings behaviors. It also explored whether people plan to save or spend the 2009 stimulus payout. This executive summary reports that:

- Most adults have started to cut back on spending or save more money in the past 12 months.
- The most popular reason for cutting back on spending or saving more is to have more money available in case of an emergency.
- Of those who have started cutting back on spending or saving more, 73 percent are doing so in order to save more money for retirement.
- Approximately half (51%) indicate that they (or their spouse or partner) are saving for retirement.
- The most common types of accounts utilized for retirement savings remain the 401(k) and IRA.
- Of those currently saving for retirement, recent savings changes include putting less money into retirement accounts and moving savings into less risky investments.
- Almost two-thirds of respondents (63%) plan to spend at least some of the 2009 stimulus benefit.

Association of British Insurers "Increasing Consumer Access to Advice" May 2010.
The ABI commissioned research to look at the cost of full advice and how consumers prefer to access investment products. The research found that as full advice costs £670 in total, it is beyond the reach of about two-thirds of the UK adult population. The ABI has therefore developed proposals for a new financial advice process which is automated and driven by IT. This is designed to serve consumers who cannot afford, or do not require, the level of service offered by full advice.

Babcock, Linda, Xianghong Wang, and George Loewenstein. "Choosing the Wrong Pond: Social Comparisons in Negotiations that Reflect a Self-Serving Bias," *The Quarterly Journal of Economics*. February 1996.
Abstract: We explore the role that choice of comparison groups plays in explaining impasse in teacher contract negotiations. We hypothesize that the negotiators select "comparable" districts in a biased fashion such that teachers' salaries in districts that unions view as comparable are higher than teachers' salaries in districts that school boards view as comparable. We also predict that strike activity is positively related to the difference in the salary levels of the unions' and boards' lists of comparables. We test these predictions using a unique combination of subjective survey and field data on the teacher contract negotiations in Pennsylvania. Both hypotheses are supported by the data.

Bahar, Rashid and Luc Thevenoz. "Conflicts of Interest: Disclosure, Incentives, and the Market" *CORPORATE GOVERNANCE & FINANCIAL MARKETS*, Luc Thévenoz and Rashid Bahar eds., Kluwer Law International and Schulthess, 2007
Abstract: *Conflicts of interest* presents the results of a two-year-long research project bringing together academics and practitioners in both law and finance from Europe and the U.S. under the auspices of the Centre for Banking and Financial law of the University of Geneva. This book discusses the following issues: the duty of loyalty, remedies, such as disclosure, incentives. Organizational measures, regulation and enforcement and market considerations.

Baker, Laurence. "Acquisition Of MRI Equipment By Doctors Drives Up Imaging Use And Spending" *Health Affairs*, 29, no.12 (2010):2252-2259

Some orthopedists and neurologists acquired their own magnetic resonance imaging (MRI) equipment during the early 2000s. This paper examines changes in imaging use and in overall spending by patients of orthopedists and neurologists who began billing for MRI scans between 1999 and 2005. Results show that physicians ordered substantially more scans once they began billing for MRI. For example, after orthopedists began billing for MRI, the number of MRI procedures used within thirty days of a first visit increased by about 38 percent. Not only did MRI spending increase for their patients, but spending for other aspects of care rose as well. Attention should be paid to ensuring that advanced medical equipment acquired in physician practices is used appropriately.

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Abstract: We argue that the purchase decisions of mutual fund investors are influenced by salient, attention-grabbing information. Investors are more sensitive to salient in-your-face fees, like front-end loads and commissions, than operating expenses; they are likely to buy funds that attract their attention through exceptional performance, marketing, or advertising. Our empirical analysis of mutual fund flows over the last 30 years yields strong support for our contention. We find consistently negative relations between fund flows and front-end load fees. We also document a negative relation between fund flows and commissions charged by brokerage firms. In contrast, we find no relation (or a perverse positive relation) between operating expenses and fund flows. Additional analyses indicate that mutual fund marketing and advertising, the costs of which are often embedded in a fund's operating expenses, account for this surprising result.

Barber, Brad, Reuven Lehavy and Brett Trueman. "Comparing the Stock Recommendation Performance of Investment Banks and Independent Research Firms," *Journal of Financial Economics*, Vol. 85, 2007.

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Barber, Brad M. and Odean, Terrance, The Behavior of Individual Investors (June 24, 2011). Available at SSRN: http://ssrn.com/abstract=1872211Abstract: We review research on the behavior of individual investors with a focus on investments in and the trading of individual stocks.

Barnard, Jayne. "Deception, Decisions and Investor Education" 2008. Barnard, Jayne W., "Deception, Decisions, and Investor Education". *17 Elder Law Journal.* Paper 4, 2009.

Abstract: Tens of millions of dollars each year are spent on investor education. Because older adults (those aged sixty and older) are disproportionately victims of investment fraud schemes, many educational programs are targeted at them. In this Article, Professor Barnard questions the effectiveness of these programs. Drawing on recent studies from marketing scholars, neurobiologists, social psychologists, and behavioral economists examining the ways in which older adults process information and make decisions, she offers a model of fraud victimization (the "deception/decision cycle") that explains why older adults are often vulnerable to investment fraud schemes. She then suggests that many of the factors that contribute to fraud victimization are unlikely to be influenced by fraud prevention education. She also recommends alternative uses for the money now spent on fraud prevention education that would better achieve the goal of protecting older investors.

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Abstract: The presumption is that a broker executing a stock trade for a retail investor will get the investor the best possible price execution for the transaction. In fact, the broker often sells the retail investor’s trade to an intermediary for cash payment. The broker’s motivation to generate dealer profits seems to overcome the broker’s fiduciary responsibility to obtain the best execution price for the customer, raising ethical questions. Purchasers and internalizers of order flow in the market may cause prices quoted on the NYSE to deteriorate, making all investors worse off.

Bazerman, Max and George Loewenstein. “Take the Bias out of Bean Counting,” *Harvard Business Review*, January 2001.
Abstract: The article comments on a proposal by the U.S. Securities and Exchange Commission that would put formal restrictions on specific consulting services that accounting firms can provide. The firms have protested any change because they insist that the integrity and professionalism of their personnel will prevent them from violating the existing rules. However, the author's opinion is that the proposed regulations could reduce conflict of interest and bias in the accounting profession and also ensure impartiality among auditors.

Bazerman, Max, George Loewenstein and Don Moore. “Why Good Accountants Do Bad Audits” *Harvard Business School Review*. Nov. 2002.
Abstract: On July 30, President Bush signed into law the Sarbanes-Oxley Act addressing corporate accountability. A response to recent financial scandals, the law tightened federal controls over the accounting industry and imposed tough new criminal penalties for fraud. The president proclaimed, "The era of low standards and false profits is over." If only it were that easy. The authors don't think corruption is the main cause of bad audits. Rather, they claim, the problem is unconscious bias. Without knowing it, we all tend to discount facts that contradict the conclusions we want to reach, and we uncritically embrace evidence that supports our positions. Accountants might seem immune to such distortions because they work with seemingly hard numbers and clear-cut standards. But the corporate-auditing arena is particularly fertile ground for self-serving biases. Because of the often subjective nature of accounting and the close relationships between accounting firms and their corporate clients, even the most honest and meticulous of auditors can unintentionally massage the numbers in ways that mask a company's true financial status, thereby misleading investors, regulators, and even management. Solving this problem will require far more aggressive action than the U.S. government has taken thus far. What's needed are practices and regulations that recognize the existence of bias and moderate its effects. True auditor independence will entail fundamental changes to the way the accounting industry operates, including full divestiture of consulting and tax services, rotation of auditing firms, and fixed-term contracts that prohibit client companies from firing their auditors. Less tangibly, auditors must come to appreciate the profound impact of self-serving biases on their judgment. INSET: Ambiguity in Accounting and Auditing.

Bergstresser, Daniel, John Chalmers, and Peter Trufano. “Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry,” *The Review of Financial Studies*, 2009.
Abstract: Many investors purchase mutual funds through intermediated channels, paying brokers or financial advisors for fund selection and advice. This article attempts to quantify the benefits that investors enjoy in exchange for the costs of these services. We study broker-sold and direct-sold funds from 1996 to 2004, and fail to find that brokers deliver substantial tangible benefits. Relative to direct-sold funds, broker-sold funds deliver lower risk-adjusted returns, even before subtracting distribution costs. These results hold across fund objectives, with the exception of foreign equity funds. Further, broker-sold funds exhibit no more skill at aggregate-level asset allocation than do funds sold through the direct channel. Our results are

consistent with two hypotheses: that brokers deliver substantial intangible benefits that we do not observe and that there are material conflicts of interest between brokers and their clients.

Bergstresser, Daniel B. and Poterba, James M., Do After-Tax Returns Affect Mutual Fund Inflows? (February 2000). AFA 2001 New Orleans. Available at SSRN: http://ssrn.com/abstract=253914 or doi:10.2139/ssrn.253914
This paper explores the relationship between the after-tax returns that taxable investors earn on equity mutual funds and the subsequent cash inflows to these funds. Previous studies have documented that funds with high pretax returns attract greater inflows. This paper investigates the relative predictive power of pre-tax and after-tax returns for explaining annual fund inflows. The empirical results, based on a large sample of equity mutual funds over the period 1993-1998, suggest that after-tax returns have more explanatory power than pretax returns in explaining inflows. In addition, funds with large "overhangs" of unrealized capital gains experience smaller inflows, all else equal, than funds without such unrealized gains. By disaggregating net fund inflows into gross inflows and gross redemptions, the paper also provides some insight on how after-tax returns and prospective capital gain realizations affect investor behavior.

Berk, Jonathan and Richard Green. "Mutual Fund Flows and Performance in Rational Markets" *The Journal of Political Economy*, Vol 112, no. 6, 2004.
Abstract: We derive a parsimonious rational model of active portfolio management that reproduces many regularities widely regarded as anomalous Fund flows rationally respond to past performance in the model even though performance is not persistent and investments with active managers do not outperform passive benchmarks on average. The lack of persistence in returns does not imply that differential ability across managers is nonexistent or unrewarded or that gathering information about performance is socially wasteful. The model can quantitatively reproduce many salient features in the data. The flow-performance relationship is consistent with high average levels of skills and considerable heterogeneity across managers.

Bernicke, Ty A. "The Real Cost of Owning a Mutual Fund" April 4, 2011. Forbes.com
http://www.forbes.com/2011/04/04/real-cost-mutual-fund-taxes-fees-retirement-bernicke.html

In over 25 years of business, our firm has never had an initial meeting with an investor who completely understood the total costs of the mutual funds they owned. The following article seeks to simplify the many complexities of mutual fund expenses so investors are able to discover the true costs associated with mutual fund ownership. To simplify this topic, six different costs will be evaluated: expense ratio, transaction costs (brokerage commissions, market impact cost, and spread cost), tax costs, cash drag, soft dollar cost and advisory fees.

Bertrand, Marianne and Adair Morse. "Information Disclosure, Cognitive Biases and Payday Borrowing" University of Chicago Working Paper. October 2009.
Abstract: If people face cognitive limitations or biases that lead to financial mistakes, what are possible ways lawmakers can help? One approach is to remove the option of the bad decision; another approach is to increase financial education such that individuals can reason through choices when they arise. A third, less discussed, approach is to mandate disclosure of information in a form that enables people to overcome limitations or biases at the point of the decision. This third approach is the topic of this paper. We study whether and what information can be disclosed to payday loan borrowers to lower their use of high-cost debt via a field experiment at a national chain of payday lenders. We find that information that helps people think less narrowly (overtime) about the cost of payday borrowing, and in particular information that reinforces the adding-up effect over pay cycles of the dollar fees incurred on a payday loan, reduces the take-up of payday loans by about 10 percent in a 4 month-window following exposure to the new information. Overall, our results suggest that consumer information regulations based on a deeper understanding of cognitive biases might be an effective policy tool when it comes to regulating payday borrowing, and possibly other financial and non-financial products.

Beshears, John, James Choi, David Laibson and Brigitte Madrian. "How does simplified disclosure affect individuals' mutual fund choices?" Working Paper No. 14859. Cambridge, MA: National Bureau of Economic Research.

Abstract: We use an experiment to estimate the effect of the SEC's Summary Prospectus, which simplifies mutual fund disclosure. Our subjects chose an equity portfolio and a bond portfolio. Subjects received either statutory prospectuses or Summary Prospectuses. We find no evidence that the Summary Prospectus affects portfolio choices. Our experiment sheds new light on the scope of investor confusion about sales loads. Even with a one-month investment horizon, subjects do not avoid loads. Subjects are either confused about loads, overlook them, or believe their chosen portfolio has an annualized log return that is 24 percentage points higher than the load-minimizing portfolio

Bharath, Sreedhar, Sandeep Dahiya, Anthony Saunders and Anand Arinivasan. "So What Do I Get? The Bank's View of Lending Relationships," *Journal of Financial Economics*, Vol 85, 2007.
Abstract: While many empirical studies document borrower benefits of lending relationships, less is known about lender benefits. A relationship lender's informational advantage over a non-relationship lender may generate a higher probability of selling information-sensitive products to its borrowers. Our results show that the probability of a relationship lender providing a future loan is 42%, while for a non-relationship lender, this probability is 3%. Consistent with theory, we find that borrowers with greater information asymmetries are significantly likely to obtain future loans from their relationship lenders. Relationship lenders are likely to be chosen to provide debt/equity underwriting services, but this effect is economically small.

Bluethgen, Ralphm Andreas Gintschel, Andreas Hackethal, and Armin Muller. "Financial Advice and Individual Investors' Portfolios,"
Abstract: This paper is an early response to Campbell's (2006) call to analyze the role of financial intermediaries in household finance. We first sketch a basic theory of financial advice that proceeds from cognitive errors and costly information acquisition. We then derive hypotheses about honest and deceptive financial advice and test them on a unique administrative dataset from a large German retail bank. We find that the clients advised are older, wealthier, more risk averse and more likely to be female. Financial advice enhances portfolio diversification, makes investor portfolios more congruent with predefined model portfolios, and increases investors' fee expenses. Our empirical evidence is broadly in line with honest financial advice. A general implication of the paper is that financial advisory service has a significant impact on household investment behavior and that it deserves more attention in future research on household finance.

Bluethgen, Ralph, Steffen Meyer, and Andreas Hackethal. "High Quality Financial Advice Wanted", Available at http://tofeeornottofee.com/Charateristics%20of%20a%20good%20Financial%20Planner.pdf
Abstract: Many private investors rely on the recommendations of professional financial advisors when making investment decisions. However, financial advice is a credence good and its quality is notoriously difficult to assess even ex-post. This paper aims to shed light on financial advisor characteristics that might serve as quality indicators. We surveyed 260 German independent financial advisors (IFA) and obtain three main findings. Firstly, there is a high degree of heterogeneity in quality among financial advisors. Secondly, the extent to which advisors receive compensation in the form of fixed fees instead of sales commissions as well as the extent to which advisors exhibit a high degree of rationality in decision making are predictive of high-quality financial advice. Taking the compensation scheme and rationality into account when selecting a financial advisor might therefore improve the investment decisions of households.

Bolton, Patrick, Xavier Freixas and Joel Shapiro. "Conflicts of Interest, information provision, and competition in the financial services industry" Journal of Financial Economics. 85 2007.
Abstract: In some markets sellers have better information than buyers over which products best serve a buyer's needs. Depending on the market structure, this may lead to conflicts of interest in the provision of information by sellers. This paper studies this issue in the market for financial services. The analysis presents a new model of competition between banks, where price competition influences the ensuing incentives for truthful information revelation. We also compare conflicts of interest in two different firm structures, specialized banking and one-stop banking.

Borzi, Phyllis and Martha Patterson. "Regulating Markets for Retirement Payouts: Solvency, Supervision and Credibility," Prepared for presentation at the Pension Research Council Symposium, April 2007.

Abstract: Soon the largest cohort of workers in U.S. history will be eligible to retire. Most will have only their personal saving and a lump-sum benefit from a 401(k) plan to supplement Social Security benefits during retirement. The proceeds of these 401(k) and IRA benefits represent the largest amount of money these individuals have ever managed, and the challenges and hazards they face are enormous. This chapter evaluates the regulatory and enforcement structures in place to protect individuals from financial loss through the insolvency, fiscal mismanagement, and/or malfeasance of those who help them manage and invest their retirement distributions.

Bradley, Daniel and Jack G. Wolf. Analyst Behavior Surrounding Tender Offer Announcements" *Journal of Financial Research*, 2007, vol. 30, issue 1, pages 1-19

We examine the usefulness and credibility of analyst recommendations by focusing on their behavior surrounding tender offer announcements. For our 1998-2001 sample, we find analysts did not identify takeover targets through their recommendations nor did they distinguish between wealth-increasing and wealth-decreasing tender offers. We find some evidence of conflicts of interest in analyst recommendations, but it is confined to the 1999-2000 dot-com period. However, the long-run performance following recommendations suggests that these conflicts have little ultimate cost to investors. 2007 The Southern Finance Association and the Southwestern Finance Association

Brandon, Emily. "Rethinking 401(k) Rollovers" *U.S. News and World Report*, July 28, 2009.
http://money.usnews.com
Abstract: Conventional retirement wisdom tells us that when you leave a job, you should roll over your 401(k) to an IRA. Rollovers allow you to continue delaying taxes on your nest egg as it accumulates and avoid an early-withdrawal penalty. But if you have an especially good 401(k) with your old company, it may be better to leave your retirement money there or roll it over into your new company's 401(k).

Bricker, Jesse, Bucks, Brian, Kennickell, Arthur B., Mach, Traci and Moore, Kevin B., Drowning or Weathering the Storm? Changes in Family Finances from 2007 to 2009 (April 2011). NBER Working Paper Series, Vol. w16985, pp. -, 2011. Available at SSRN: http://ssrn.com/abstract=1825767
In 2009, the Federal Reserve Board implemented a survey of families that participated in the 2007 Survey of Consumer Finances (SCF) to gain detailed information on the effects of the recent recession on all types of households. Using data from the 2007–09 SCF panel, we highlight the variation in households' financial experiences by examining the distribution of changes in families' balance sheets. Further, we use information on changes in families' saving, investing, and spending behavior to consider the potential longer-term consequences of the current recession on households' finances and decisions.Most families experienced a decline in wealth between 2007 and 2009, but many families saw only small changes on net, and others saw substantial increases in their wealth. This pattern of gains and losses typically holds within demographic groups. Changes in families' wealth over the period appear to reflect changes in asset values (particularly the value of homes, stocks, and businesses) rather than changes in the level of ownership of assets and debts or in the amount of debt held. On the whole, families appear more cautious in 2009 than in 2007, as most families reported greater desired buffer savings, and many expressed concern over future income and employment.

Brown, Stewart L., Are Mutual Fund Investment Advisory Fees Determined Competitively? (May 07, 2011). Available at SSRN: http://ssrn.com/abstract=1834783

Investment advisors hold mutual funds captive, despite creating and managing them, giving rise to a conflict of interest. Prior research demonstrated that open end mutual funds overcharge customers by about 25 basis points annually for standard services as compared to similar services provided to public pension funds with no conflicts of interest. This overcharging yields about $27.5 billion in excess fees annually.

The Investment Company Institute sponsored research that argued that investment advisory fees are determined competitively due to relatively free entry and large numbers of buyers and sellers of mutual funds. That research argued that competitively determined fees cannot be excessive.

A hallmark of competitive industries is that they earn normal profits and normal rates of return for their shareholders. Using the Fama-French methodology, this paper demonstrates that fund sponsors have earned very high and statistically significant excess returns for their shareholders over the last 25 years and subsequent shorter periods. In 1985, a $100 investment in a capitalization weighted index of fund sponsors would have been worth in excess of $21,000 by the end of 2009, while a similar investment in S&P 500 stocks would have been worth only about $1,200 over the same time period. The paper concludes that fund sponsors have systematically violated fiduciary standards.

Bullard, Mercer, Friesen, Geoffrey C. and Sapp, Travis. "Investor Timing and Fund Distribution Channels" SSRN Working Paper, June 2008. Available at SSRN: http://ssrn.com/abstract=1070545
Abstract: This study examines the investment timing performance of equity mutual fund investors and its relationship to the distribution arrangement of the fund. We find that investors who transact through investment professionals using conventional distribution arrangements experience substantially poorer timing performance than investors who purchase pure no-load funds. Investors in all three principal load-carrying retail share classes (A, B, and C) significantly underperform a buy-and-hold strategy. Among all load funds, Class B investors suffer from the poorest cash flow timing, underperforming a buy-and-hold strategy by 2.28% annually, compared with annual underperformance of 0.78% for investors in pure no-load funds. No-load index funds are the only funds found to show no evidence of poor investor timing. We discuss several potential explanations for the poorer timing performance of investors in load funds, such as broker incentives, fund advertising, and investor return-chasing behavior.

Bureau of Labor Statistics National Occupational Employment and Wage Estimates

Cain, Daylian, George Loewenstein and Don Moore "Coming Clean, but Playing Dirtier: The shortcomings of disclosure as a solution to conflicts of interest" *Conflicts of Interest: Challenges and Solutions in Business, Law, Medicine, and Public Policy* edited by Don A. Moore, Daylian M. Cain, George Loewenstein, Max H. Bazerman.
Abstract: Although disclosure is ubiquitous as a response to conflicts of interest, we suggest that it can have perverse effects. We show that disclosure can fail both because (1) although it may encourage the audience to discount advice, disclosed as problematic such discounting tends to be insufficient, and (2) it can lead advisors to give even more biased advice that they otherwise would. As a result, when an advisor's conflict of interest is disclosed, recipients of advice may be left worse off and providers of advice better off. We review existing psychological evidence that hints at the possibility that disclosure could be ineffective or even backfire, and then describe our own research which actually documents such perverse effects. We conclude that successful responses to conflicts of interest require more robust interventions than merely disclosing the conflicts.

Cain, Daylian, George Loewenstein and Don Moore. "The Dirt on Coming Clean: Perverse Effects of Disclosing Conflicts of Interest" *Journal of Legal Studies*, vol. 34, January 2005.
Abstract: Conflicts of interest can lead experts to give biased and corrupt advice. Although disclosure is often proposed as a potential solution to these problems, we show that it can have perverse effects. First, people generally do not discount advice from biased advisors as much as they should, even when advisors' conflicts of interest are disclosed. Second, disclosure can increase the bias in advice because it leads advisors to feel morally licensed and strategically encouraged to exaggerate their advice even further. As a result, disclosure may fail to solve the problems created by conflicts of interest and may sometimes even make matters worse.

Cain, Daylian, George Loewenstein and Don Moore. "When Sunlight Fails to Disinfect: Understanding the Perverse Effects of Disclosing Conflicts of Interest" *Journal of Consumer Research*, Vol. 37, February 2011
Abstract: Disclosure is often proposed as a remedy for conflicts of interest, but it can backfire, hurting those whom it is intended to protect. Building on our prior research, we introduce a conceptual model of disclosure's effects on advisors and advice recipients that helps to explain when and why it backfires. Studies 1 and 2 examine psychological mechanisms (strategic exaggeration, moral licensing) by

which disclosure can lead advisors to give more-biased advice. Study 3 shows that disclosure backfires when advice recipients who receive disclosure fail to sufficiently discount and thus fail to mitigate the adverse effects of disclosure on advisor bias. Study 4 identifies one remedy for inadequate discounting of biased advice: explicitly and simultaneously contrasting biased advice with unbiased advice.

Calcagano, Riccardo and Chiara Monticone. "Financial Literacy and the Demand for Financial Advice", July 2011. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1884813
Abstract: The low level of financial literacy in many countries suggests that households are at risk of sub-optimal financial decisions. In this paper we assess to what extent financial advisors can substitute for the households' lack of financial knowledge, by analyzing the effect of investors' financial literacy on their decision about how much to rely on financial advisors. We model the strategic interaction between poorly informed investors and better informed advisors facing conflict of interests. We find that advisors reveal information only to the more knowledgeable investors, who anticipating that are more likely to consult advisors. Investors with lower financial literacy either invest by themselves (without any professional advice) or delegate their portfolio choice completely, suffering the agency costs of such decision. These results are confirmed empirically, where we investigate the effect of financial literacy on the demand for financial advice using the 2007 Unicredit Customers' Survey. Overall, our results suggest that non-independent advisors are not sufficient to alleviate the problem of low financial literacy.

Carow, Kenneth, Steven Cox and Dianne Rhoden. "The Role of Insider Influence in Mutual-to-Stock Conversions" Journal of Money, Credit and Banking Volume 39, Issue 6, pages 1285–1304, September 2007
Abstract: Using a sample of 347 demutualizing thrifts from 1991 to 2004, we show that the level of inside participation is not a traditional signal of firm performance. We conclude that unanticipated inside participation reflects the incentives of insiders to reduce the size of the offer to influence the level of expected initial public offer (IPO) returns. We find unanticipated inside participation is related to lower offer size and higher initial returns, but we do not find a relationship between inside participation and post-IPO performance. Copyright 2007 The Ohio State University.

Cashman, George, Daniel Deli, Federico Nardari and Sriram Villupuram. "Investor Behavior in the Mutual Fund Industry: Evidence from Gross Flows," February 2007. Available at http://ssrn.com/abstract =966360
Abstract: Using a large sample of monthly gross flows from 1997 to 2003, we uncover several previously undocumented regularities in investor behavior. First investor purchases and sales produce fund-level gross flows that are highly persistent. Persistence in fund flows dominates performance as a predictor of future fund flows. Also, failing to account for flow persistence leads to incorrect inferences with respect to the relation between performance and flows. Second, we document that investors react differently to performance depending on the type of fund, and that investor trading activity produces meaningful differences in the persistence of fund flows across mutual fund types. Third, at least some investors appear to evaluate and respond to mutual fund performance over much shorter time spans than previously assessed. Additionally, we document differences in the speed and magnitude of investors' purchase and sales responses to performance.

Cavezzali, Elisa and Ugo Rigoni. "Investor Profile and Asset Allocation Advice," October 2007. Available at SSRN: http://ssrn.com/abstract=966178
Abstract: An asset allocation recommendation depends on the market forecasts and the individual characteristics of the investor. The existing scientific literature is focused on market forecasts, while the investor profile is shortly depicted, usually resorting to a hypothetical one, for instance identified by adjectives such as conservative, moderate, aggressive. On the contrary, we take a richer picture of the investor profile, because we think that only a tailor made advice can really add value for the clients.

Our dataset is composed by 420 advice, issued by 135 money managers and professionals during a 5 years period, from 1998 to 2003, in the most important Italian financial newspaper (Il Sole 24 Ore) for the benefit of individual investors who had written the newspaper's editorial office giving a rich description of their personal profile. About 30% of theadvisors are not Italian ones working for international securities brokers and investment banks.

Our study contributes to understand how advisors transfer the investor's characteristics into the investment process. Even though we found some results contradicting the well known normative models, such as the CAPM, we think that many properties of the asset allocation proposals are consistent with the purpose to issue tailor made advice which are not too far from optimizing targets. Some drawbacks come out as well: for instance the importance of the investor's borrowing is overlooked. Moreover the relationship between home bias, that is the overweight of the domestic stocks, and the investor's profile looks inconsistent with the principle of acting as professionals who try to reconcile the normative rules, optimizing from a theoretical point of view, but unacceptable and not well understood by the client, with the behavior of individual investors.

Chakravarty, Sugato and Asani Sarker. "Can Competition Between Brokers Mitigate Agency Conflicts with Their Customers?" Federal Reserve Bank of New York Working Paper, No. 9705, February 1997.
Abstract: We study competitive, but strategic, brokers executing trades for an informed trader in multi-period setting. The brokers can choose to (a) execute the order, as agents, first, and trade for themselves as dealers, afterwards; or (b) trade for themselves first and execute the order later. We show that the equilibrium outcome depends on the number of brokers. When the number of brokers exceeds a critical number (greater than one), the informed trader distributes his order (equally) among the available brokers. The brokers, in turn, execute the informed trader's order first and trade personal quantities, as dealers, afterwards. When the number of brokers is below this critical value, the informed trader gives his order to a single broker, who, in turn, trades personal quantities as a dealer first and executes the informed trader's order second. Since the informed trader is hurt in the latter case, he prefers markets with many brokers. Thus, regulators can mitigate trading abuses arising from a conflict of interest between brokers as an alternative to banning such practices. We empirically show that the critical number of brokers for the favorable competitive equilibrium appears to be satisfied for the futures contracts in our sample.

Chalmers, John and Jonathan Reuter. "What is the Impact of Financial Advisors on Retirement Portfolio Choices and Outcomes," Available at http://ssrn.com/abstract=1785833.
Abstract: We study choices and outcomes in the Oregon University System's Optional Retirement Plan (ORP). ORP participants can choose to invest through a firm that uses brokers to provide personal face-to-face financial services, or through three lower-service firms. We find that younger, less highly educated, and less highly paid employees are more likely to invest through a broker, which suggests that demand for broker services is higher among those with lower levels of financial literacy. We also find significant differences in portfolio choice and outcomes. Broker clients allocate their retirement contributions across a larger number of investments, are less likely to remain fully invested in the default investment option, and less likely to change their equity allocation during the recent financial crisis. However, the portfolios of broker clients are significantly riskier, and underperform by approximately 2 percent per year on a risk-adjusted basis. Although we cannot conclude that those investing through a broker would have been better off investing on their own, our findings suggest that brokers are a costly and imperfect substitute for financial literacy

Chetty, Raj, Adam Looney, and Kory Krogt "Salience and Taxation: Theory and Evidence" *American Economic Review*, 99:4, 2009
Abstract: Using two strategies, we show that consumers underreact to taxes that are not salient. First, using a field experiment in a grocery store, we find that posting tax-inclusive price tags reduces demand by 8 percent. Second, increases in taxes included in posted prices reduce alcohol consumption more than increases in taxes applied at the register. We develop a theoretical framework for applied welfare analysis that accommodates salience effects and other optimization failures. The simple formulas we derive imply that the economic incidence of a tax depends on its statutory incidence, and that even policies that induce no change in behavior can create efficiency losses.

Chevalier, Judith and Glenn Ellison. "Risk Taking by Mutual Funds as a Response to Incentives" *Journal of Political Economy*, vol. 105 no. 6, 1997.
Abstract: This paper examines a potential agency conflict between mutual fund investors and mutual fund companies. Investors would like the fund company to use its judgment to maximize risk-adjusted fund returns, the fund company has an incentive to increase the inflow of investments. The authors estimate the

shape of the flow-performance relationship for a sample of growth and growth and income funds observed over the 1982-92 period. The shape creates incentives for fund managers to alter the riskiness of their portfolios. Examining portfolio holdings, the authors find that risk levels are changed toward the end of the year in a manner consistent with these incentives.

Choi, James, David Laibson, Brigitte Madrian and Andrew Metrick. "Reinforcement Learning and Investor Behavior" *Journal of Finance*. Vol 64, No. 6, December 2009.
Abstract: What affects individual investors' willingness to invest in an asset? This paper presents evidence that — when there is no salient reference purchase price — investors tend to be return chasers and variance avoiders with respect to their idiosyncratic history with the asset. Using administrative panel data on 25,000 401(k) accounts at five firms, we find that an investor's 401(k) contribution rate increases more if she has recently experienced a higher 401(k) portfolio return and/or a lower 401(k) return variance. We find no evidence that this behavior is welfare-improving. These results are explained by a naïve reinforcement learning heuristic: investors expect that investments in which they experienced past success will be successful in the future, whether or not such a belief is logically justified. Consistent with reinforcement learning's Power Law of Practice, return chasing and variance avoidance diminish with age.

Choi, James David Laibson, and Brigitte Madrian, "*Why does the law of one price fail? An experiment on index mutual funds*," forthcoming, *Review of Financial Studies.*
Abstract: We evaluate why individuals invest in high-fee index funds. In our experiments, subjects each allocate $10,000 across four S&P 500 index funds and are rewarded for their portfolio's subsequent return. Subjects overwhelmingly fail to minimize fees. We reject the hypothesis that subjects buy high-fee index funds because of bundled non-portfolio services. Search costs for fees matter, but even when we eliminate these costs, fees are not minimized. Instead, subjects place high weight on annualized returns since inception. Fees paid decrease with financial literacy. Interestingly, subjects who choose high-fee funds sense they are making a mistake.

Choi, James, David Laibson and Brigette Madrian. "Are Empowerment and Education Enough? Underdiversification in 401(k) Plans" *Brookings Papers on Economic Activity* 2005, pp. 151-198.
Abstract: Current and former employees of the energy trading company Enron Corporation held $2.1 billion in the firm's 401(k) retirement savings plan. Sixty-two percent of that money was invested in Enron stock, then trading at $83 a share. In October 2001 Enron's finances began to unravel as its accounting improprieties came to light. Enron stock plummeted over the next several weeks, and on December 2, 2001, the company declared bankruptcy, rendering its shares worthless. Thousands of Enron employees lost their jobs and a large fraction of their retirement wealth simultaneously.

Christofferson, Susan, Richard Evans and David Musto. "What Do Consumers' Fund Flows Maximize? Evidence from Their Brokers' Incentives" February 2010.
Abstract: Regulators have worried since the early days of mutual funds that the advice of mutual-fund brokers is distorted by their incentives. We test for this distortion by relating the incentives arising from brokers' affiliation and compensation to the flows passing through them. We find that flows through unaffiliated brokers bias toward the funds giving them more of the load, and also that these flows realize lower returns. We also find that affiliated brokers bring fund families both the benefits of recapturing outflows and the cost of cannibalizing inflows.

Church, Bryan and Xi Kuang. "Conflicts of Interest, Disclosure and (Costly) Sanctions: Experimental Evidence," Journal of Legal Studies, 2009.
Conflicts of interest may compromise individuals' independence in providing advisory services. Full disclosure is a commonly recommended remedy for the adverse effect of conflicts of interest. Yet prior study shows that disclosure may not have the intended effect because it provides individuals with moral license to engage in self-interested behavior, thereby exacerbating biases. We follow up on this research and seek to determine whether other institutional factors may negate the potentially harmful effects of disclosure. We conduct a laboratory experiment, focusing on behavior in an investor/financial adviser dyad, including important representative features in this setting. Our results suggest that disclosure is not necessarily detrimental. We find that investors are better off when conflicts of interest are disclosed and

sanctions are available, even though initiating sanctions is costly to investors. Under such conditions, advisers' bias is dampened markedly.

Cici, Gjergji and Michael Boldin. "The Index Fund Rationality Paradox" *Journal of Banking & Finance*. Jan 2010.
Abstract: Mutual funds that track the S&P 500 are popular because they have significantly lower costs than the average, actively managed equity fund. However, a measurable number of investors select index funds with excessive fees and uncompetitive returns. We call this observation the Index Fund Rationality Paradox because it conflicts with the belief that index fund investors are making a rational, low-cost choice in their 'type of fund' decision. In our analysis of this paradox, we find that both retail and institutional index investors tended to make better choices in recent years, but the cost of poor choices among both groups continues to be significant. In fact, we are able to identify an arguably naive group of retail investors that seem to be unduly influenced by brokers and financial advisors. These investors are largely responsible for the remaining paradox.

Comments submitted for DOL. Proposed Rule on the Definition of a Fiduciary under ERISA, Available at http://www.dol.gov/ebsa/pdf/1210-AB32-PH056.pdf (CIEBA comment to DOL, DC Investment Group, SIFMA, Fischel and Kendall, Competitive Enterprise, Groom Group)

Copeland, Craig. 2008. EBRI Notes May 2008, Vol. 29, No. 5.
Executive Summary: *Ownership of Individual Retirement Accounts (IRAs) and 401(k)-Type Plans*
• *Most recent data—This article uses the most recent SIPP data from the U.S. Census Bureau to examine the prevalence of IRAs and 401(k)-type plans among workers ages 21−64.*
• *Number of 401(k) plans and participants slows, IRA assets grow sharply—The number of 401(k)-type plans and the number of participants in those plans, which had grown sharply through the 1990s, have subsequently grown at a slower pace. Ownership of both 401(k)-type plans and IRAs has risen significantly, as have assets in 401(k)-type plans and IRAs.*
• *IRA growth from rollovers—While IRAs have become the largest single vehicle of retirement assets in the United States, the growth continues to be due to rollovers from other tax-qualified retirement plans, and not from new contributions.*
• *Roth IRAs get most growth, traditional IRAs have most assets—Most new IRA contributions are going to the tax-free-on-withdrawal (nondeductible) Roth IRAs, not traditional (taxable-onwithdrawal) IRAs. But traditional IRAs hold the bulk of IRA assets.*
• *Maximum IRA contribution—In 2005, about 27 percent of IRA owners contributed the maximum amount allowed by law, less than half the rate in 1996, when the contribution limit was half as much as it was in 2005. The data show that contributions to individual account retirement plans are strongly influenced by demographic factors—chiefly income, education, and race.*

Cummins, David and Neil Doherty. "The Economics of Insurance Intermediaries," *The Journal of Risk and Insurance*, Vol. 73, No. 3, 2006
Abstract: This article analyzes the economic functions of independent insurance intermediaries (brokers and independent agents), focusing on the commercial propertycasualty insurance market. The article investigates the functions performed by intermediaries, the competitiveness of the market, the compensation arrangements for intermediaries, and the process by which policies are placed with insurers. Insurance intermediaries are essentially market makers who match the insurance needs of policyholders with insurers who have the capability of meeting those needs. Intermediary compensation comprises premium-based commissions, expressed as a percentage of the premium paid, and contingent commissions based on the profitability, persistency, and/or volume of the business placed with the insurer. Empirical evidence is provided that premium-based and contingent commissions are passed on to policyholders in the premium. However, contingent commissions can enhance competitive bidding by aligning the insurer's and the intermediary's interests. This alignment of interests gives insurers more confidence in the selection of risks and thus helps to break the "winner's curse" and encourages insurers to bid more aggressively. Independent intermediaries also help markets operate more efficiently by reducing the information asymmetries between insurers and buyers that can cause adverse selection.

Cupach, William, James M. Carson."The Influence of Compensation on Product Recommendations Made by Insurance Agents" *Journal of Business Ethics,* Oct. 2002
Abstract: Lawsuits alleging illegal and unethical insurance sales practices have received widespread publicity in recent years. Although many observers have argued that one source of ethical conflicts for insurance agents is the industry's reliance on straight commission compensation, there remains a paucity of empirical data to support the claim. Therefore, whether different forms of compensation influence insurance agent recommendations of products was tested. Survey responses were obtained from 336 insurance agents. Respondents were presented with a composite sketch of a hypothetical client. Following this description, they were asked to identify which 1 of 8 specified life insurance products they would recommend to the client. A between-groups design was employed to manipulate differences in compensation associated with the 8 products. Results indicated that neither amount of coverage nor type of coverage (term life versus cash value) recommended was associated with compensation. However, an unanticipated finding was that amount of coverage recommended was significantly higher when the insured was male than when the insured was female.

Cuthbertson, Keith, Dirk Nitzsche and Niall O'Sullivan. "Mutual Fund Performance" December 2006. Available at http://ssrn.com/abstract=955807.
Abstract: We evaluate the academic research on mutual fund performance in the US and UK concentrating particularly on the literature published over the last 20 years where innovation and data advances have been most marked. The evidence suggests that ex-post, there are around 2-5% of top performing UK and US equity mutual funds which genuinely outperform their benchmarks whereas around 20-40% of funds have genuinely poor. Key drivers of relative performance are, load fees, expenses and turnover. There is little evidence of successful market timing. Evidence on picking winners suggests past winner funds persist, particularly when rebalancing is frequent (i.e., less than one year) - but transactions costs and fund fees imply that economic gains to investors from actively switching into winner funds may be marginal. However, recent research using more sophisticated sorting rules (e.g., Bayesian approaches) indicates possible large gains from picking winners, when rebalancing monthly. The evidence also clearly supports the view that past loser funds remain losers. Broadly speaking results for bond mutual funds are similar to those for equity mutual funds but hedge funds show better ex-post and ex-ante risk adjusted performance than do mutual funds. Sensible advice for most investors would be to hold low cost index funds and avoid holding past "active" loser funds. Only very sophisticated investors should pursue an active investment strategy of trying to pick winners - and then with much caution.

Damato, Karen. Take a Load Off: Do-It-Yourself Investors Get More Fund Choices *Wall Street Journal*, Feb. 28, 2010, Available at: http://www.marketwatch.com/story/take-a-load-off-2010-02-28-193800

Das, Sanjiv Ranjan. Fee Speech: Signaling, Risk-Sharing, and the Impact of Fee Structures on Investor Welfare" *The Review of Financial Studies*, Winter 2002.
Abstract: The fee structure used to compensate investment advisers is central to the study of fund design, and affects investor welfare in at least three ways: (i) by influencing the portfolio-selection incentives of the adviser, (ii) by affecting risk-sharing between advisers and investor, and (iii) through its use as a signal of quality by superior investment advisers. In this paper, we describe a model in all of these features are present, and use it to compare two popular and contrasting forms of fee contracts, the "fulcrum" and the "incentive" types, from the standpoint of investor welfare. While the former has some undeniably attractive features (that have, in particular, been used by regulators to justify its mandatory use in mutual fund context), we find surprisingly that it is the latter that is often more attractive from the standpoint of investor welfare. Our model is a flexible one; our conclusions are shown to be robust to many extensions of interest. The results are also extended to consider unrestricted fee structures and competitive markets for fund managers.

Dean, Lukas and Michael Finke. "Compensation and Client Wealth Among U.S. Investment Advisors," April, 2011. Available at SSRN: http://ssrn.com /abstract=1802628
Abstract: This study uses disclosure data from 7,043 Registered Investment Advisors (RIAs) in the United States to examine differences in client wealth by type of compensation. We find that firms charging commissions and hourly fees have a higher proportion of low net worth clients. Wealthier clients are more likely to be charged performance-based fees and fees based on assets under management. RIA firms that

charge commissions are more likely to provide financial planning services and to have a larger number of employees and lower assets under management. Investment advisors who cater to lower net worth clients are more likely to rely on commission compensation, suggesting that policy restricting compensation may impact the provision of advising services to average investors.

Del Guercio, Jonathan Reuter, and Paula A. Tkac. "Broker Incentives and Mutual Fund Market Segmentation", *NBER Working Paper Series*, No. 16312, August 2010.
Abstract: We study the impact of investor heterogeneity on mutual fund market segmentation. To motivate our empirical analysis, we make two assumptions. First, some investors inherently value broker services. Second, because brokers are only compensated when they sell mutual funds, they have little incentive to recommend funds available at lower cost elsewhere. The need for mutual fund families to internalize broker incentives leads us to predict that the market for mutual funds will be highly segmented, with families targeting either do-it-yourself investors or investors who value broker services, but not both. Using novel distribution channel data, we find strong empirical support for this prediction; only 3.3% of families serve both market segments. We also predict and find strong evidence that mutual funds targeting performance-sensitive, do-it-yourself investors will invest more in portfolio management. Our findings have important implications for the expected relation between mutual fund fees and returns, tests of fund manager ability, and the puzzle of active management. Furthermore, they suggest that changing the way investors compensate brokers will change the nature of competition in the mutual fund industry.

Dulleck, Uwe, Rudolf Kerschbamer "On Doctors, Mechanics, and Computer Specialists: The Economics of Credence Goods" *Journal of Economic Literature*, Volume 44, Number 1, March 2006 , pp. 5-42(38)

Dulleck, Uwe, Rudold Kerschbamer and Matthias Sutter "The Economics of Credence Goods: An Experiment on the Role of Liability, Verifiability, Reputation, and Competition " *The American Economic Review*, Volume 101, Number 2, April 2011 , pp. 526-555(30)

Demski, Joel. "Corporate Conflicts of Interest" *The Journal of Economic Perspectives* Spring 2003.
Abstract: This paper surveys conflicts of interest in the corporate governance arena, with emphasis on auditors, boards of directors, analysts and investment bankers, regulators, management, attorneys and investors. Enron provides a host of examples as well. I stress the multifaceted nature of these conflicts, and the fact most research looks at some conflicts, such as auditor independence, absent the larger setting and potential interactions among various players. I further speculate herding behavior is an important explanatory device in understanding periodic failures.

Dichev, Ilia. "What are Stock Investors' Actual Historic Returns? Evidence from Dollar-Weighted Returns" *The American Economic Review*, Vol. 97, No. 1, March 2007.
Abstract: The existing literature typically does not differentiate between security returns and the returns of investors in these securities; usually implicitly, these two concepts are assumed to be the same. However, the returns of stock investors depend not only on the returns of the securities they hold but also on the timing of their capital flows into and out of these securities. This paper suggests a new and more accurate measure of stock investors' historical returns, which involves dollar-weighting of the returns and properly reflects the effect of investors' timing. Theoretically, the essence of dollar-weighted returns is that they value-weight both the cross-section and the time-series of returns. In practical terms, dollar-weighted returns are computed as internal rate of returns (IRRs) from investment projects in which initial market values and contributions from investors (e.g., stock issues) enter with negative signs, and distributions to investors (e.g., dividends, stock repurchases) and final market values enter with positive signs. The empirical results indicate that aggregate dollar-weighted returns are systematically lower than buy-and hold returns. The annual difference is 1.3 percent for the NYSE/AMEX market over 1926-2002, 5.3 percent for Nasdaq over 1973-2002, and averages 1.5 percent for 19 major stock markets around the world over 1973-2004. Thus, this study provides comprehensive evidence that stock investors' actual returns are considerably lower than those from passive holdings and from those documented in the existing literature

on historical stock returns. These results have implications for the debate on the equity premium, for the literature on long-run returns following capital flows, for building successful investment strategies, and others.

Douthit, Jeremy, Kearney, Linwood and Stevens, Douglas E., Can Cheap Talk Be as Effective at Mitigating Agency Problems as Reputation Building? An Experimental Test in the Presence of a Noisy Performance Measure (June 21, 2011). Available at SSRN: http://ssrn.com/abstract=1868986
Abstract: Given traditional agency theory assumptions and unobservable effort in a single-period setting, the agent is expected to receive low pay from the principal in exchange for low effort. Traditional solutions to this agency problem involve paying the agent a financial incentive tied to some noisy measure of performance, but these incentive solutions are costly and become increasingly costly with increases in the noisiness of the performance measure. In many single-period agency settings in the firm, however, the agent can communicate an intended level of effort to the principal prior to contracting. We document that this pre-contract communication, which is non-enforceable and therefore considered "cheap talk" by traditional economic theory, can be highly effective in mitigating agency problems. In a repeating single-period experimental setting where production is a very noisy indicator of effort, communication of intended effort results in higher pay for the agent, higher effort, and higher profit for the principal than both the control group and a group where the principal and agent interact over multiple periods. Thus, we document a setting where cheap talk can be more effective at mitigating agency problems in the firm than reputation building.

Easterbrook, Frank and Daniel Fischel. "Contract and Fiduciary Duty" *Journal of Law & Economics*, 1993
For centuries courts have required trustees to serve the interests of beneficiaries loyally-with the same devotion that the trustees dedicate to their own interests. The duty of loyalty, coupled with restitution of any gain the trustee obtains by favoring his own interest, defines a special relation.

Economist, "Money for Old Hope" *The Economist* February 28, 2008.
In this article, the authors cite a Boston Consulting group survey of fund managers finding that profit margins are 42 percent in the industry.

Ernst & Young. "RaDar: Life and Pensions Outlook for 2011", January 2011.
Available at: http://www.ey.com/Publication/vwLUAssets/RaDaR_life_and_pensions_outlook_-_2011/$FILE/EY_RaDaR_Life_and_Pensions_Outlook_2011.pdf
Conclusion: Despite Treasury Select Committee meetings and high profile challenges from segments of the IFA market, we believe the RDR will be implemented by the FSA as currently drafted. Higher qualifications will have to be achieved and indemnity commission on investment products will be eradicated. Platform regulations, as published in the Consultative Paper in June, will fundamentally remain as they stand, but a great deal of uncertainty will remain as to how much consumers will be willing to pay for advice by the end of 2012. Available at:

Evans, Allison L., Portfolio Manager Ownership and Mutual Fund Performance (January 15, 2006). Available at SSRN: http://ssrn.com/abstract=893802
This paper examines the association between a mutual fund manager's personal fund investment and mutual fund performance. My database of newly-released managerial ownership disclosures reveals that fund ownership levels vary across mutual fund managers and, in many instances, are quite large. I find that mutual fund returns are increasing in the level of managerial fund investment, consistent with personal ownership realigning decision-maker and shareholder interests. Also consistent with the reduction of agency costs of the type set forth in Dow and Gorton (1997), I find that managerial ownership is inversely related to fund turnover.

Fecht, Falko, Hackethal, Andreas and Karabulut, Yigitcan, Is Proprietary Trading Detrimental to Retail Investors? (November 12, 2010). Available at SSRN: http://ssrn.com/abstract=1783679
We study the conflict of interests that might arise at universal banks between their proprietary trading and their retail banking. Using a unique data set that covers the stock investments of each German bank and of its respective retail customers on a security-by-security basis we study the return characteristics of those stocks that flow from a bank's proprietary portfolio into its

respective customers' portfolio. Our results show that those stocks that are removed from banks' proprietary portfolio into the portfolio of their respective customers are lower performing than the average stock held in both banks and customers portfolios. This suggests that banks abuse their role in advising retail investors in order to dump low performing stocks.

Ferrell, Allen. “The Law and Finance of Broker-Dealer Mark-Ups” The Harvard John M. Olin Discussion Paper Series, April 2011. Available at: http://www.law.harvard.edu/programs/olin_center
Abstract: The prices charged retail customers by broker-dealers for less-liquid, lower-priced securities have been of long-standing regulatory concern. In particular, the National Association of Securities Dealers (succeeded now by the Financial Industry Regulatory Authority) has long had regulations prohibiting broker-dealers from charging excessive “mark-ups” and “mark-downs.” This paper, using a unique dataset generously provided by the National Association of Securities Dealers tracking some 161,635 equity transactions involving fourteen broker-dealers and retail customers in largely less liquid, lower-priced securities over the course of the 2003-2005 period, provides the first comprehensive analysis of the determinants of the mark-ups and mark-downs charged by broker-dealers. In particular, the effect of broker-dealer solicitation, broker-dealer participation in the trade as a principal, stock price volatility, stock price level, trade volume and the bid-ask spread are examined on the size of mark-ups and mark-downs charged. This analysis is placed in the context of the law on mark-ups and mark-downs.

Ferri, Fabrizio and Tatiana Sandino. “The Impact of Shareholder Activism on Financial Reporting Compensation: The Case of Employee Stock Options Expensing” The Accounting Review. March 2009.
We examine the economic consequences of more than 150 shareholder proposals to expense employee stock options (ESO) submitted during the proxy seasons of 2003 and 2004, the first case in which the SEC allowed a shareholder vote on an accounting matter. Our results indicate that these proposals affected accounting and compensation choices. Specifically, (i) targeted firms were more likely to adopt ESO expensing relative to a control sample of S&P 500 firms, (ii) among targeted firms, the likelihood of adoption increased in the degree of voting support for the proposal, and (iii) non-targeted firms were more likely to adopt ESO expensing when a peer firm was targeted. Additionally, (i) CEO pay decreased in firms in which the proposal was approved relative to a control sample of S&P 500 firms, and (ii) among targeted firms, approval of the proposal was associated with decreases in CEO compensation and the use of ESO in CEO pay. Our findings reveal an increasing influence of shareholder proposals on governance practices.

Financial Engines and Hewitt. “Help in Defined Contribution Plans: Is It Working and for Whom?” January, 2010. Available at Financial Engines: http://corp.financialengines.com/mwg-internal/de5fs23hu73ds/progress?id=6vG2NS09VQ
Executive Summary:Professional help provided to participants in employer-sponsored 401(k) plans has been growing steadily for the last decade. In the landmark report “Help in Defined Contribution Plans: Is It Working and for Whom?,” Hewitt Associates and Financial Engines examine the topic of employer-sponsored professional help in 401(k) plans and answer the questions: Are participants using professional 401(k) help better off? Which participants use professional help, and what kind of help do they use?

Finkelstein, Amy. “E-Z Tax: Tax Salience and Tax Rates” National Bureau of Economic Research, Working Paper No. 12924, January 2007.
This paper tests the hypothesis that the salience of a tax system affects equilibrium tax rates. To do this, I analyze how toll rates change after toll facilities adopt electronic toll collection. Unlike manual toll collection, in which the driver must hand over cash at the toll collection plaza, electronic toll collection automatically debits the toll amount as the car drives through the toll plaza, thereby plausibly decreasing the salience of the toll. I find robust evidence that toll rates increase following the adoption of electronic toll collection. My estimates suggest that, in steady state, toll rates are 20 to 40 percent higher than they would have been without electronic toll collection. Consistent with the hypothesis that decreased tax salience is responsible for the increase in toll rates, I also find evidence that the short run elasticity of driving with respect to the actual toll declines (in absolute value) following the adoption of electronic toll collection. I consider a variety of alternative explanations for these results and conclude that these are unlikely to be able to explain the findings.

FINRA. http://www.finra.org/Investors/protectyourself/InvestorAlerts/MutualFunds/p006022

First Research "Industry Profile: Financial Planners and Investment Advisors", Oct. 26, 2009.

Fischel, Daniel and Todd Kendall. "Comment to the Department of Labor on a Proposed Rule Regarding Fiduciary Status Under ERISA", April 12, 2011. Available at: http://www.dol.gov/ebsa/pdf/1210-AB32-PH056.pdf
Conclusion: In summary, economic theory and available evidence indicate that factors in the current market environment likely serve to substantially constrain the ability of IRA investment brokers to act on potential conflicts of interest. Therefore, we see no basis to conclude that the Proposed Rule would generate benefits large enough to outweigh the costs.

Fischel, Daniel and John Langbein. "ERISA's Fundamental Contradiction: The Exclusive Benefit Rule", UChi. L. Rev. 55: 1105-60.
The comprehensive federal scheme for regulating pension and other employee benefit plans, ERISA, is approaching its fifteenth anniversary. ERISA has attracted a large administrative gloss and a burgeoning case law. Experience has begun to show the effects of the statute.

Fischer, Rene and Ralf Gerhardt. "Investment Mistakes of Individual Investors and the Impact of Financial Advice," SSRN Working Papers, August 2007. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1009196
Abstract: Extensive research has demonstrated and analyzed deviations in individual investors' investment decisions from recommendations of financial theory. As there is still no structured framework for evaluating investment mistakes, we introduce a generic investment process for individual investors as guiding structure. Going along this investment process we compare findings from existing research, contrasting normative recommendations with empirical evidence about actual behavior of individual investors. We show that these deviations lead to considerable welfare losses. Therefore we present financial advice as (potentially) correcting factor in this process and construct a simple model to capture its very impact on individual investors' investment success, measured in risk-adjusted return and wealth.

Foster, Patricia. "Mutual Fund Multi-Class Offerings: Addressing Conflicts of Interest Through Meaningful Disclosure and Robust Sales Practice Protocols" *The Investment Lawyer*, Vol. 16, No. 6. June 2009.
Abstract: The conflicts of interest attendant to mutual fund multi-class offerings have been the subject of considerable regulatory interest since the multi-class structure made its debut in 1988. Recent amendments to Form N-1A, the registration form used by mutual funds, are intended to enhance disclosures provided to mutual fund investors. 1 The enhanced disclosure will assist investors in comparing the dazzling array of mutual fund choices and alert investors to the potential conflicts of interest that result from payments made by a fund and/or its affiliates to financial intermediaries.

Freeman, John P. and Brown, Stewart L., Mutual Fund Advisory Fees: New Evidence and a Fair Fiduciary Duty Test (August 20, 2008). Oklahoma Law Review, Vol. 61, p. 83, 2008. Available at SSRN: http://ssrn.com/abstract=1242642

A recent article in the Economist called attention to the mutual fund industry's flagrantly noncompetitive fee structure, noting that fund managers earn a "staggering" profit margin of 42% on average, largely because "most fund managers do not compete on price." Despite this reality, in a recent law review article based on research financed in part by the Investment Company Institute (a lobbying organization for fund sponsors), Professors John Coates and Glenn Hubbard purport to show that mutual fund managers compete vigorously on price and that fund shareholders are not suffering from price gouging over fund fees. The authors of the present article, "Mutual Fund Advisory Fees: New Evidence and a Fair Fiduciary Duty Test," beg to differ. Fund portfolio managers tend to charge their own shareholders double what they charge for essentially identical advisory services rendered to institutional investors in the free market. This reality raises severe fiduciary duty problems that the courts and the Securities Exchange Commission have so far proven unable or unwilling to solve. This new article proposes a better way of analyzing fund managers' fee contracts, relying on free market prices as a test for fairness, rather than comparisons based on conflicted, inflated fund market pricing. A Forbes writer noted some time ago that fund managers' "worst nightmare" would result if they were required to charge their funds' shareholders (to whom fiduciary duties are indisputably owed) prices based on the much lower portfolio management fees the fund managers charge when selling basically the same portfolio advisory services to third-party institutional clients in arm's-length transactions. The authors contend that a nightmarish outcome is exactly what price-gouging fund managers deserve.

Friesen, Geoffrey C. and Sapp, Travis. "Mutual Fund Flows and Investor Returns: An Empirical Examiniation of Fund Investor Timing Ability", 2007. Available at: http://www.tfscapital.com/research /files/mf_flows _and_rets.pdf

Abstract: We examine the timing ability of mutual fund investors using cash flow data at the individual fund level. Over 1991-2004 equity fund investor timing decisions reduce fund investor average returns by 1.56% annually. Underperformance due to poor timing is greater in load funds and funds with relatively large risk-adjusted returns. In particular, the magnitude of investor underperformance due to poor timing largely offsets the risk-adjusted alpha gains offered by good-performing funds. Investors in equity index funds also exhibit poor investment timing. We demonstrate that our empirical results are consistent with investor return-chasing behavior. Investor underperformance due to timing is economically small among bond funds and non-existent among money market funds.

Fung, Archon, Graham, Mary, Weil, David and Fagotto, Elena, The Political Economy of Transparency: What Makes Disclosure Policies Sustainable? (December 2004). KSG Working Paper No. RWP03-039; Institute for Government Innovation, John F. Kennedy School of Government, Harvard University OPS-02-03. Available at SSRN: http://ssrn.com/abstract=384922 or doi:10.2139/ssrn.384922

Abstract: This paper explores the dynamics of transparency. It asks why some government-created systems of disclosure improve over time while others stagnate or degenerate into costly paperwork exercises. Transparency policies inevitably begin as unlikely compromises. Though transparency is universally admired in principle, its particular applications frequently conflict with other societal values or powerful political interests. Disclosing information can clash with efforts to protect proprietary information, guard personal privacy, or limit regulatory burdens. It can also clash with central economic and political objectives of target organizations that may view it as a threat to reputation, markets or political influence. At the same time, the benefits of disclosure are often diffuse. Beneficiaries may be consumers, investors, employees, and community residents. Such users are rarely organized to sustain support and oversight of transparency systems.

Gabaix, Xavier and David Laibson. "Shrouded Attributes, Consumer Myopia, and Information Suppression in Compétititve Markets," *The Quarterly Journal of Economics*, May 2006.

Abstract: Following Becker (1957) we ask whether competition eliminates the effects of behavioral biases. We study products with add-ons. In competitive markets with costless communication, Bayesian consumers infer that hidden prices are likely to be high prices. Hence, firms choose not to shroud information. However, information shrouding may occur in an economy with some myopic consumers. Such shrouding creates an inefficiency. Sometimes firms have an incentive to eliminate this inefficiency by educating their competitors' myopic consumers. However, if add-ons have close substitutes, a "curse of debiasing" arises, and firms will not be able to profitably debias consumers by unshrouding add-ons. In equilibrium, two kinds of exploitation coexist. Optimizing firms exploit myopic consumers through marketing schemes that shroud high-priced add-ons. In turn, sophisticated consumers exploit these marketing schemes. It is not profitable to lure either myopes or sophisticates to non-exploitative firms. We show that informational shrouding flourishes even in highly competitive markets, even in markets with costless advertising, and even when the shrouding generates allocational inefficiencies.

Gabieux, Xavier. 2010 AEA in response to Sendhil Mulianathan presentation

Gallaher, Steven, Kaniel, Ron and Starks, Laura T., Madison Avenue Meets Wall Street: Mutual Fund Families, Competition and Advertising (January 2006). Available at SSRN: http://ssrn.com/abstract=879775

Abstract: We examine the effects of mutual fund families' strategic decisions, particularly the advertising decision, on investor flows into the families. We find evidence that beyond performance a family's strategic decisions such as advertising, distribution channels, fund offerings and expense ratios, have significant effects on investor flows. Consistent with evidence at the individual fund level, investor flows have an increasing and convex relation to a family's past performance for high performing families. We also find a similar association between a family's flows and its relative levels of advertising expenditures with a significant positive effect for high relative advertisers only.

GAO. "401(k) Plans: Improved Regulation Could Better Protect Participants from Conflicts of Interest" Report to the Ranking Member, Committee on Education and the Workforce, House of Representatives," GAO-11-119. January, 2011. Available at: *http://www.gao.gov/new.items/d11119.pdf*

GAO. "Defined Benefit Pensions, Conflicts of Interest Involving High Risk or Terminated Plans Pose Enforcement Challenges" *GAO-07-703* June 2007. *http://www.gao.gov/new.items/d07703.pdf*

GAO. "Mutual Funds: Information on Trends in Fees and Their Related Disclosure" March 12, 2003. Available at: *http://www.gao.gov/new.items/d03551t.pdf*

GAO. "Retirement Savings: Better Information and Sponsor Guidance Could Improve Oversight and Reduce Fees for Participants" *GAO-09-641 Report to the Chairman, Committee on Ways and Means.* September 2009. *http://www.gao.gov/new.items/d09641.pdf*

GAO. "Private Pensions: Increased Reliance on 401(k) Plans Calls for Better Information on Fees" Testimony before the Committee on Education and Labor by Barbara Bovbjerg, GAO-07-530T, March 6, 2007. Available at: *http://www.gao.gov/new.items/d07530t.pdf*

GAO. "Private Pensions: Conflicts of Interest Can Affect Defined Benefit and Defined Contribution Plans" Testimony before the House Subcommittee on Health, Employment, Labor and Pensions, Education and Labor Committee by Charles Jeszeck, GAO-09-503T, March 24, 2009. Available at: *http://www.gao.gov/new.items/d09503t.pdf*

Gerken, , William and Stephen Dimmock. Predicting Fraud by Investment Managers. May 2011. Available at SSRN: http://ssrn.com/abstract=1832770.
Abstract: We test the predictability of investment fraud using a panel of mandatory disclosures filed with the U.S. Securities and Exchange Commission (SEC). We show that past regulatory and legal violations, conflicts of interest, and monitoring have significant power to predict fraud. Avoiding the 5% of firms with the highest ex ante predicted fraud risk would allow an investor to avoid 29% of fraud cases and over 40% of the total dollar losses from fraud. We examine the ability of investors to implement fraud prediction models based on the disclosure filings, and suggest changes in SEC data access policies that could benefit investors.

Gil-Bazo and Pablo Ruiz-Verdu. "The Relation between Price and Performance in the Mutual Fund Industry". 2009 Available at:
http://earchivo.uc3m.es:8080/bitstream/10016/7474/1/The%20relation%20between%20price%20and%20performance%20in%20the%20mutual%20fund%20industry.pdf
Abstract: Gruber (1996) drew attention to the puzzle that investors buy actively managed equity mutual funds, even though on average such funds underperform index funds. We uncover another puzzling fact about the market for equity mutual funds: Funds with worse before-fee performance charge higher fees. This negative relation between fees and performance is robust and can be explained as the outcome of strategic fee-setting by mutual funds in the presence of investors with different degrees of sensitivity to performance. We also find some evidence that better fund governance may bring fees more in line with performance.

Gil-Bazo, Javier and Ruiz-Verdú, Pablo. When Cheaper is Better: Fee Determination in the Market for Equity Mutual Funds (May 17, 2005). Available at SSRN: http://ssrn.com/abstract=724862 or doi:10.2139/ssrn.724862

In this paper, we develop a model of the market for equity mutual funds that captures three key characteristics of this market. First, there is competition among funds. Second, fund managers' ability is not observed by investors before making their investment decisions. And third, some investors do not make optimal use of all available information. The main results of the paper are that 1) price competition is compatible with positive mark-ups in equilibrium; and 2) worse-performing funds set fees that are greater or equal than those set by better-performing funds. These predictions are supported by available empirical evidence.

Guiso, Luigi, Paopla Sapienza and Luigi Zingales. "Trusting the Stock Market" *The Journal of Finance*. December 2008.
We study the effect that a general lack of trust can have on stock market participation. In deciding whether to buy stocks, investors factor in the risk of being cheated. The perception of this risk is a function not only of the objective characteristics of the stocks, but also of the subjective characteristics of the investor. Less trusting individuals are less likely to buy stock and, conditional on buying stock, they will buy less. We find evidence consistent with these propositions in Dutch and Italian micro data, as well as in cross country data. All the evidence suggests that lack of trust could be an important factor in explaining the limited participation puzzle, especially among more wealthy investors.

Hackethal, Andreas, Haliassos, Michael and Jappelli, Tullio, Financial Advisors: A Case of Babysitters? (June 8, 2011). Available at SSRN: http://ssrn.com/abstract=1360440.

Hall, John. "Are Brokers' Buy, Hold and Sell Recommendations of Value to Individual Investors," Available at SSRN: http://ssrn.com/abstract=304201 or doi:10.2139/ssrn.304201
Abstract: Investors who invest on the Johannesburg Securities Exchange (JSE) base their investment decisions on information obtained from the financial press, radio and television or from a broker or investment consultant. The purpose of the study is to test the hypothesis that an individual using information obtained from sharebroking companies can earn a return in excess of the market return on the JSE. To test this hypothesis, a buy, a hold and a sell portfolio were created using the average recommendations received from the brokers. The results of this study indicate that investors can earn a return greater than that of the market return based on brokers' recommendations to buy and to hold, if no risk-adjustments are made to the returns. If the returns are adjusted for risk, the brokers' recommendations were able to render a return superior or equal to the market and they are able to limit investors' losses in relation to the movement in the market.

Hall, Robert and Marc Lieberman, *Economics: Principles and Applications*, 4th ed.

Haslem, John. "Why Do Mutual Fund Investors Employ Financial Advisors," Available at SSRN: http://ssrn.com/abstract=1115886
Abstract: The actual returns on mutual funds earned by investors are much lower than the rational behavior paradigm of financial economics would suggest. Certainly this is evidenced in the performance of funds distributed through the advisor channel. From the evidence here and elsewhere, much (if not most) of how and where investors go about investing in funds has behavioral biases as well as other behavioral and knowledge overtones. It is difficult to clearly differentiate these biases from the other behavioral and knowledge influences.

Haslem, John A., Assessing Mutual Fund Expenses and Transaction Costs. Journal of Investing, Vol. 15, No. 3, pp. 52-56, Fall 2006. Available at SSRN: http://ssrn.com/abstract=1144168
This is a first-step mutual funds study that provides analysis and disclosure of the elements of a newly defined total expense ratio, which includes the regulatory expense ratio, brokerage commissions, and implicit trading costs. Three structures are provided that identify whether a particular fund's total expense ratio is relatively reasonable or excessive relative to each of two benchmark funds. The concepts of expense effectiveness and breakeven rate of return are employed in this process. Mutual fund brokerage commissions and implicit trading costs vary significantly among various types and styles of domestic equity funds, and when summed they are not infrequently larger than a fund□s regulatory expense ratio.

This is true in the current study for Vanguard 500 Index Fund. The continuing bad news is that disclosure of brokerage commissions and implicit trading costs remains effectively hidden and completely hidden, respectively, from fund shareholders. This must change and this study provides an approach for doing so.

Hackethal, Andreas, Haliassos, Michael and Jappelli, Tullio, Financial Advisors: A Case of Babysitters? (June 8, 2011). Available at SSRN: http://ssrn.com/abstract=1360440.
Abstract: We use two data sets, one from a large brokerage and another from a major bank, to ask: (i) whether financial advisors are more likely to be matched with poorer, uninformed investors or with richer and experienced investors; (ii) how advised accounts actually perform relative to self-managed accounts; (iii) whether the contribution of independent and bank advisors is similar. We find that advised accounts offer on average lower net returns and inferior risk-return tradeoffs (Sharpe ratios). Trading costs contribute to outcomes, as advised accounts feature higher turnover, consistent with commissions being the main source of advisor income. Results are robust to controlling for investor and local area characteristics. The results apply with stronger force to bank advisors than to independent financial advisors, consistent with greater limitations on bank advisory services.

Heugens, Pursi, Niki A. den Nieuwenboer, Muel Kaptein. "White Collars, Dirty Hands: A Grounded Neo-Institutional Theory of Misconduct in Professional Service Firms", Sept. 2007. Available at http://ssrn.com/abstract=1031066.
Abstract: We develop a grounded neo-institutional theory explaining the occurrence of misconduct in professional service firms. The theory harbors two novel insights. First, parallel governance structures, which are presently the norm in many professional fields, aggravate rather than dampen misconduct. Second, decoupling and institutional disruption are both necessary and jointly sufficient conditions for the emergence of misconduct. The empirical evidence supporting our theory derives from in-depth interviews with 65 professionals working for Dutch auditing, law, and consultancy firms and corroboratory data sources.

Holden, Sarah and Jack VanDerhei. 2004. "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2003" *EBRI Issue Brief* No. 272 (see this and other EBRI yearly reports for asset allocation statistics)

Holden, Sarah, John Sabelhaus and Steven Bass. "The IRA Investor Profile" Investment Company Institute. 2010. Available at: http://www.ici.org/pdf/rpt_10_ira_rollovers.pdf

Holden, Sarah. "ICI Testimony for ERISA Advisory Council Working Group on Approaches for Retirement Security in the United States," September 17, 2009.
Section I of this testimony describes the role of IRAs in U.S. households' retirement savings and summarizes research on the distribution decisions retirement plan participants make when leaving an employer or retiring. Research finds that older participants with larger account balances are more likely to preserve assets at job change or retirement (either by leaving them in the plan or rolling into IRAs or another employer's plan). Many retiring defined contribution (DC) plan participants seek advice with these decisions. In addition, in any given year, few households that own traditional IRAs take distributions and the majority of those taking distributions indicate they are retired. Section II explores the asset composition of IRAs and the mutual fund expenses for IRA investors' mutual fund holdings. Forty-five percent of IRA assets were invested in mutual funds at year-end 2008, and IRA mutual fund assets were concentrated in lower-cost funds. Section III highlights the services shareholders receive when they seek financial advice.

Section IV of this testimony reviews the requirements imposed on plans to provide information to participants to assist them in making distribution decisions and the applicable law and rules governing IRA providers, including the disclosures they are required to make to IRA investors. It also describes certain obligations under the federal securities laws and ERISA on financial planners, advisers, and brokers in advising individuals about IRAs. Our analysis finds that plan participants receive information explaining the consequences of taking a distribution from a plan and rolling it into an IRA and that all IRA investors receive information on fees and other features associated with their IRA and periodic reports on the status of their accounts. While plan participants are well-served by these disclosures, Section V suggests that the

Department could consider certain steps to encourage employers to provide education and information to participants making distribution decisions.

Hortaçsu, Ali and Chad Syverson; "Product Differentiation, Search Costs, and Competition in the Mutual Fund Industry: A Case Study of S&P 500 Index Funds." *Quarterly Journal of Economics*, 2004, *119*(2), pp. 403.
Abstract: We investigate the role that nonportfolio fund differentiation and information/search frictions play in creating two salient features of the mutual fund industry: the large number of funds and the sizable dispersion in fund fees. In a case study, we find that despite the financial homogeneity of S&P 500 index funds, this sector exhibits the fund proliferation and fee dispersion observed in the broader industry. We show how extra-portfolio mechanisms explain these features. These mechanisms also suggest an explanation for the puzzling late-1990s shift in sector assets to more expensive (and often newly entered) funds: an influx of high-information-cost novice investors.

Houge, Todd and Jay Wellman. Journal of Business Ethics, "The Use and Abuse of Mutual Funds", Vol. 70 No. 1, January 2007
Prior research shows that mutual fund investors are often aware of up-front charges like sales loads, but they are less mindful of annual operating expenses, even though both types of fees lower overall performance. This study documents the historical trend and recent abuse of annual mutual fund expenses. As the industry becomes more adept at segmenting customers by level of investment sophistication, we claim that load mutual fund companies take advantage of this ability and charge higher expenses to their target customer: the less-knowledgeable investor. No-load fund companies, who tend to attract the more sophisticated investor, offer lower expenses. For example, over 2000-2004 the average annual expense ratio of load equity funds was 50 basis points higher than no-load equity funds. We show evidence of this widening cost disparity since the early 1990s among new and existing equity, bond, and index funds. We also document a growing abuse of sales distribution or 12b-1 fees among funds that are closed to new investors, almost all of which are load funds. Thus, load fund investors are more susceptible to paying higher expenses and receiving lower returns over time.

Huang, Jennifer, Clemens Sialm and Hanjian Zhang. "Risk Shifting and Mutual Fund Performance" *The Review of Funancial Studies* forthcoming 2011.
Abstract: Mutual funds change their risk levels significantly over time. This paper investigates the performance consequences of risk shifting, as well as the economic motivations and the mechanisms of risk shifting. Using a holdings-based measure of risk shifting, we find that funds that increase risk perform worse than funds that keep stable risk levels over time. In addition, funds that expect higher benefits from risk shifting are more likely to increase risk and perform particularly poorly after increasing risk. Our results are consistent with the notion that agency problems, rather than the ability to take advantage of changing investment opportunities, are the likely motivation behind risk shifting behavior.

Hung, Angela, Noreen Clancy, Jeff Dominitz, Eric Talley, Claude Berrebi, Farruk Suvankulov. "Investor and Industry Perspectives on Investment Advisers and Broker Dealers" RAND Corporation Technical Report prepared for the SEC, 2008.
Conclusion: Overall, we found that the industry is very heterogeneous, with the thousands of firms taking many different forms and offering many different combinations of services and products. Partly because of this diversity of business models and services, investors typically fail to distinguish broker-dealers and investment advisers along the lines defined by federal regulations. Despite their apparent confusion about titles, duties, and fees, investors expressed high levels of satisfaction with the services they receive from their own financial service providers. Today's investment adviser and broker-dealer industries are complex, heterogeneous industries. Regulating these industries presents many challenges. We hope that the information provided in this report will contribute to this important effort.

Inderst, Roman and Marco Ottaviani. "Misselling through Agents" American Economic Review, Vol 99, no. 3, 2009.
Abstract: This paper analyzes the implications of the inherent conflict between two tasks performed by direct marketing agents: prospecting for customers and advising on the product's "suitability" for the

specific needs of customers. When structuring salesforce compensation, firms trade off the expected losses from "misselling" unsuitable products with the agency costs of providing marketing incentives. We characterize how the equilibrium amount of misselling (and thus the scope of policy intervention) depends on features of the agency problem including: the internal organization of a firm's sales process, the transparency of its commission structure, and the steepness of its agents' sales incentives.

Investment Company Institute. "The U.S. Retirement Market, 2009" *Research Fundamentals*. May, 2010.

Investment Company Institute. "The Role of IRAs in U.S. Households' Saving for Retirement" January 2010.
IRAs Play an Increasingly Important Role in Saving for Retirement.

Jennings, Marianne M., Ethics and Investment Management: True Reform. Financial Analysts Journal, Vol. 61, No. 3, pp. 45-58, May/June 2005. Available at SSRN: http://ssrn.com/abstract=746564
What happened to ethical behavior in the era of the dot-com, the bubble, Enron, and WorldCom? We were not involved in close ethical calls in these cases. The lapses were great, the conflicts many, and the cost, in terms of investor trust, nearly unspeakable. Each time scandals occur, market reforms result, but the pattern is that, despite their extensive nature, the reforms do not bring us an insurance policy against misconduct. True reform lies not in statutory or codified detail. Rather, true reform comes from a strong moral compass that is applied by leaders who demonstrate ethical courage. True reform requires a focus on doing more than the law requires and less than the law allows.

Kacperczyk, Marcin T., Sialm, Clemens and Zheng, Lu, Unobserved Actions of Mutual Funds. Review of Financial Studies, Forthcoming; 2005, Available at SSRN: http://ssrn.com/abstract=676103
Despite extensive disclosure requirements, mutual fund investors do not observe all actions of fund managers. We estimate the impact of unobserved actions on fund returns using the return gap - the difference between the reported fund return and the return on a portfolio that invests in the previously disclosed fund holdings. We document that unobserved actions of some funds persistently create value, while such actions of other funds destroy value. Our main result shows that the return gap predicts fund performance.

Kelly, Sara." Older Workers Dissatisfied with Traditional Financial Advice Model" *Plan Sponsor*. Discussion of Hearts and Wallets Study. May 2011.
http://www.plansponsor.com/Older_Investors_Dissatisfied_with_Traditional_Financial_Advice_Model.asp
Introduction: Older investors are unhappy with the traditional advice and guidance model, in which one pays for advice on investment selection, but receives plannin**g advice as a "free" bonus.** Research from Hearts and Wallets found that some investors would prefer to pay for personalized planning advice. The study, "Addressing the Elephant in Financial Services: Insights into How Older Investors Really Want to Receive, and Pay for, Investment and Personal Financial Advice," found investors need help and want a reliable source to trust with their concerns.

Klein, Benjamin and Keith Leffler. "The Role of Market Forces in Assuring Contractual Performance", *Journal of Political Economy*, 1981
Abstract: The conditions under which transactors can use the market (repeat-purchase) mechanism of contract enforcement are exam-ined. Increased price is shown to be a means of assuring contractual performance. A necessary and sufficient condition for performance is the existence of price sufficiently above salvageable production costs so that the nonperforming firm loses a discounted stream of rents on future sales which is greater than the wealth increase from nonperformance. This will generally imply a market price greater than the perfectly competitive price and rationalize investments in firm-specific assets. Advertising investments thereby become a positive indicator of likely performance.

Koch, Christopher and Carsten Schmidt. "Disclosing Conflicts of Interest-Do Experience and Reputation Matter" *Accounting, Organizations and Society* Vol. 35, 2010. (REPLICATES Cain, Loewenstein and Moore)

Abstract: In a controlled laboratory experiment, we investigate the effects of disclosing conflicts of interest on the reporting behaviour of information providers. First, we replicate the findings of Cain, Loewenstein, and Moore (Cain, D.M., Loewenstein, G., & Moore, D.A. (2005). The dirt on coming clean: Perverse effects of disclosing conflicts of interest. Journal of Legal Studies 34, 1–25) that such disclosure can trigger more biased reporting, since it removes moral concerns. Second, we show that this effect diminishes or even reverts with experience and reputation. Third, we observe that non-disclosure can have the positive effect of facilitating the formation of reputation.

Kramer, Marc. "Investment Advice and Individual Investor Portfolio Performance," January 2009. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1341945
Abstract: We aim at answering the question whether financial advisors add value to individual investor portfolio decision making. We do so by comparing portfolio performance of advised and selfdirected (execution-only) investors using a large dataset of Dutch investors. Although the portfolios of advised and self directed investors differ remarkably, we do not find any evidence of significant outperformance or underperformance of advised investors.

Krausz, Miriam, Jacab Paroush. "Financial Advising in the Presence of Conflict of Interests" *Journal of Economics and Business*. 2002.
Abstract: In this paper we study the conflict faced by a financial advisor in allocating an investor's wealth between a risky asset and the riskless asset. The investor is dependent on the financial advisor's information for making an allocation decision while the financial advisor can give deceptive information according to her interests in these assets. The results show how the level of deception is affected by the investor's characteristics, represented by wealth and attitude towards risk, by the characteristics of assets, represented by riskiness and by the market structure represented by level of competition.

Kuhle, James and Ralph Pope. "A Comprehensive Long-Term Performance Analysis of Load vs. No-Load Mutual Fund" *Journal of Financial and Strategic Decisions*. Volume 13, No. 2, Summer 2000.
Abstract: The debate between no-load and load funds has continued and has become more complicated because of the innovative packaging by mutual fund managers. The purpose of this research is to analyze whether load funds earn a consistently higher rate of return on a long-term basis when compared to no-load funds. This research evaluates the returns of equity load and no-load funds by analyzing the descriptive statistics of a large sample (8,100) of load and no-load funds. Results, summary statistics, and conclusions are drawn from the samples analyzed.

Kuhle, James and Ralph Pope. A Comprehensive Long-Term Performance Analysis of Load vs. No-Load Mutual Funds. *Journal of Financial and Strategic Decisions*. Volume 13, Number 2, Summer 2000.
Abstract: The debate between no-load and load funds has continued and has become more complicated because of the innovative packaging by mutual fund managers. The purpose of this research is to analyze whether load funds earn a consistently higher rate of return on a long-term basis when compared to no-load funds. This research evaluates the returns of equity load and no-load funds by analyzing the descriptive statistics of a large sample (8,100) of load and no-load funds. Results, summary statistics, and conclusions are drawn from the samples analyzed.

Lin, Hisiou-Wei and Maureen McNichols. Underwriting relationship, analysts' earnings forecasts and investment recommendations. *Journal of Accounting and Economics*, Vol. 25, 1998.
Abstract: We examine the effect of underwriting relationships on analysts' earnings forecasts and recommendations. Lead and co-underwriter analysts' growth forecasts and recommendations are significantly more favorable than those made by unaffiliated analysts, although their earnings forecasts are not generally greater. Investors respond similarly to lead underwriter and unaffiliated 'Strong buy' and 'Buy' recommendations, but three-day returns to lead underwriter 'Hold' recommendations are significantly more negative than those to unaffiliated 'Hold' recommendations. The findings suggest investors expect lead analysts are more likely to recommend 'Hold' when 'Sell' is warranted. The post-announcement returns following affiliated and unaffiliated analysts' recommendations are not significantly different.

Ljungqvist, Alexander, Felicia Marston, Laura Starks, Kelsey Wei and Hong Yan. “Conflicts of interest in sell-side research and the moderating role of institutional investors” *Journal of Financial Economics* 2007 Vol. 85.
Abstract: Because sell-side analysts are dependent on institutional investors for performance ratings and trading commissions, we argue that analysts are less likely to succumb to investment banking or brokerage pressure in stocks highly visible to institutional investors. Examining a comprehensive sample of analyst recommendations over the 1994–2000 period, we find that analysts’ recommendations relative to consensus are positively associated with investment banking relationships and brokerage pressure but negatively associated with the presence of institutional investor owners. The presence of institutional investors is also associated with more accurate earnings forecasts and more timely re-ratings following severe share price falls.

Loewenstein, George, Daylian Cain, and Sunita Sah. “Pitfalls and Potential of Disclosing Conflicts of Interest,” *American Economic Review*, May 2011.
Abstract: We review evidence from our published and ongoing research that disclosing conflicts of interest has unintended consequences, helping conflicted advisors and harming their advisees: With disclosure, advisors feel comfortable giving more biased advice, but advisees do not properly adjust for this and generally fail to sufficiently discount biased advice. Disclosure also increases pressure on advisees to comply with advice; following disclosure, advisees feel more uncomfortable in turning down advice (e.g., it signals distrust of the advisor's motives). Finally, we examine the effectiveness of policy interventions aimed at reducing these unintended consequences and discuss how to realize potential benefits of disclosure.

MacLeod, Bentley . “Reputations, Relationships, and Contract Enforcement. *Journal of Economic Literature*, Vol XLV, September 2007.
Abstract: When the quality of a good is at the discretion of the seller, how can buyers assure that the seller provides the mutually efficient level of quality? Contracts that provide a bonus to the seller if the quality is acceptable or impose a penalty on the seller if quality is unacceptable can, in theory, provide efficient incentives. But how are such contracts enforced? While the courts can be used, doing so involves high real costs. Informal enforcement, involving a loss of reputation and future access to the market for any party that defaults on a contract, may often be a better alternative. This paper explores the use of both formal and informal enforcement mechanisms, provides a rationale for a variety of observed market mechanisms, and then generates a number of testable hypotheses.

Madrian, Brigitte and Dennis Shea. “Preaching to the Converted and Converting Those Taught: Financial Education in the Workplace.” University of Chicago Working Paper 2001. (no longer available)

Mahoney, Paul. “The Development of Securities Law in the United States,” *Journal of Accounting Research*, Vol. 47, No. 2, May 2009.
Abstract: Given the existence of contract, property, fraud, and company law, what is the purpose of securities laws? Broadly speaking, they can serve either of two functions, or some mix of both. The first is to facilitate contracting among entrepreneurs, managers, shareholders, and financial intermediaries by providing a standardized set of rights and obligations (La Porta et al. 2005). Such laws are motivated by the desire to reduce transaction costs where contracting parties are widely dispersed and both writing complete contracts ex ante and renegotiating ex post are difficult. A second possible function is to restrict contracting by limiting the set of legally available terms. Such laws reflect the view that securities markets are beset by market failures stemming from externalities or investor irrationality (Coffee 1984; Fox 1999; Langevoort 2002). For the sake of simplicity, we can call the first a “contracting” paradigm and the second a “regulatory” paradigm.

Malcolm, Kyla, Tim Wilsdon and Charles Xie. “Cost of Providing Financial Advice” “Association of British Insurers Report from Charles River Associates.” *ABI Research Paper No. 22*, 2010.
Charles River Associates (CRA) was commissioned by the ABI to conduct research into the cost of providing financial advice. The aim of the research is to identify the key components of a "full advice" service and to quantify the time and costs associated with each individual component.

Malmendier, Ulrike and Devin Shantikumar. "Are Small Investors Naïve about Incentives" *Journal of Financial Economics* 2007.
Abstract: Security analysts tend to bias stock recommendations upward, particularly if they are affiliated with the underwriter. We analyze how investors account for such distortions. Using the NYSE Trades and Quotations database, we find that large traders adjust their trading response downward. That is, they exert positive abnormal trade reaction to strong buy recommendations, but no reaction to buy and selling pressure for hold recommendations. Small traders, instead, follow recommendations literally. They exert positive pressure for both buy and strong buy recommendations and zero pressure for hold recommendations. Moreover, in the subsample of initiations, large traders discount recommendations more when the analyst is affiliated. We present suggestive evidence on the returns of these strategies and discuss possible explanations for the differences in trading response, including informational costs and investor naiveté.

Massa, Massimo. "How do Family Strategies Affect Fund Performance? When Performance-Maximization Is Not the Only Game in Town." *Journal of Financial Economics*, 2003.
Abstract: This is a first attempt to study how the structure of the industry affects mutual fund behavior. I show that industry structure matters; the mutual fund families employ strategies that rely on the heterogeneity of the investors in terms of investment horizon by offering the possibility to switch across different funds belonging to the same family at no cost. I argue that this option acts as an externality for all the funds belonging to the same family, affecting the target level of performance the family wants to reach and the number of funds it wants to set up. By using the universe of the U.S. mutual fund industry, I empirically confirm this intuition. I find evidence of family driven heterogeneity among funds and show that families actively exploit it. I argue that the more families are able to differentiate themselves in terms of nonperformance-related characteristics, the less they need to compete in terms of performance. Product differentiation—i.e., the dispersion in the ''services'' (fees, performance) that the competing funds offer—affects performance and fund proliferation. In particular, I show that the degree of product differentiation negatively affects performance and positively affects fund proliferation.

Massa, Massimo, Pedro Matos and Jose Miguel Gaspar. "Favoritism in Mutual Fund Families? Evidence on Strategic Cross-Fund Subsidization" *Journal of Finance*. 2004.
Abstract: We investigate whether mutual fund families strategically transfer performance across member funds to favor those more likely to increase overall family profits. We find that"high family value" funds (i.e., high fees or high past performers) overperform at the expense of "low value" funds. Such a performance gap is above the one existing between similar funds not affiliated with the same family. Better allocations of underpriced IPO deals and opposite trades across member funds partly explain why high value funds overperform. Our findings highlight how the family organization prevalent in the mutual fund industry generates distortions in delegated asset management.

Massa, Massimo and Rajdeep Patgiri. "Incentives and Mututal Fund Performance: Higher Performance or Just Higher Risk Taking?" *The Review of Fiancial Studies* Volume 22, no. 5, 2009.
Abstract: We study the impact of contractual incentives on the performance of mutual funds. We find that high-incentive contracts induce managers to take more risk and reduce the funds' probability of survival. Yet, funds with high-incentive contracts deliver higher risk-adjusted return, and the superior performance remains persistent. The top incentive quintile of funds outperforms the bottom quintile by 2.70% per year. Moreover, high-incentive winner funds from one year have a positive alpha of 0.41% per month in the following year. Focusing on funds' holdings, we show that active portfolio rebalancing is the main channel through which incentives increase performance.

McBride, Kathleen. "8 Surprising Findings in the fi360-Advisorone Fiduciary Survey" January 19, 2011. Available at http://www.advisorone.com/2011/01/19/8-surprising-findings-in-the-fi360advisorone-fiduc
Author cites survey that a large majority of brokers and advisors believe that disclosure is inadequate.

McKinsey & Company, "Restoring Americans Retirement Security: A Shared Responsibility", 2009.
Conclusion: We are at a turning point for American retirement security. The recent financial crisis has brought to the forefront of public debate and consumers' minds the lack of retirement preparedness among American households. Although the road will be challenging, government, plan sponsors and financial

institutions can help to dramatically improve the situation by collectively working to: (1) provide universal access to retirement plans, (2) ensure sufficient contribution and participation rates through auto-enrollment, adequate default rates and tailored incentives to stimulate voluntary contributions, (3) help Americans manage in-retirement risks, and (4) enable Americans to work longer by removing disincentives. Lastly, government and the private sector must launch a massive education effort to ensure that all Americans understand the need to begin saving early and sufficiently for retirement, as well as to help them navigate complex products to address the risks they face.

Mehran, Hamid and Rene Stulz. "The Economics of Conflicts of Interest in Financial Institutions", *Journal of Financial Economics*, Vol. 85, 2007.
Abstract: A conflict of interest exists when a party to a transaction can gain by taking actions that are detrimental to its counterparty. This paper examines the growing empirical literature on the economics of conflicts of interest in financial institutions. Economic analysis shows that, although conflicts of interest are omnipresent when contracting is costly and parties are imperfectly informed, there are important factors that mitigate their impact and, strikingly, it is possible for customers of financial institutions to benefit from the existence of such conflicts. The empirical literature reaches conclusions that differ across types of conflicts of interest but are overall more ambivalent and certainly more benign than the conclusions drawn by journalists and politicians from mostly anecdotal evidence.

Michaely, Roni and Kent Womack. "Conflict of Interest and the Credibility of Underwriter Analyst Recommendations." *Review of Economic Studies*. 1999.
Abstract: Brokerage analysts frequently comment on and sometimes recommend companies that their firms have recently taken public. We show that stocks that underwriter analysts recommend perform more poorly than "buy" recommendations by unaffiliated brokers prior to, at the time of, and subsequent to the recommendation date. We conclude that the recommendations by underwriter analysts show significant evidence of bias. We show also that the market does not recognize the full extent of this bias. The results suggest a potential conflict of interest inherent in the different functions that investment bankers perform.

Mitchell, Olivia and Kent Smetters. *The Pension Challenge: Risk Transfers and Retirement Income Security*. Oxford University Press. 2003.
Summary from PRC site: This book shows how pension systems can help protect against risks in light of current uncertain economic and financial global stresses. Several challenges confronting employees, retirees, companies, and governments are explored. Experts analyze whether and how financial products and systems can be better designed to meet and manage retirement risks.

Moore, Don, Lloyd Tanlu, and Max Bazerman. "Conflict of Interest and the Intrusion of Bias", Judgement and Decision Making, Vol. 5, No. 1, February 2010.
Abstract: This paper explores the psychology of conflict of interest by investigating how conflicting interests affect both public statements and private judgments. The results suggest that judgments are easily influenced by affiliation with interested partisans, and that this influence extends to judgments made with clear incentives for objectivity. The consistency we observe between public and private judgments indicates that participants believed their biased assessments. Our results suggest that the psychology of conflict of interest is at odds with the way economists and policy makers routinely think about the problem. We conclude by exploring implications of this finding for professional conduct and public policy.

Morey, Matthew. "Should You Carry the Load? A Comprehensive Analysis of Load and No-Load Mutual Fund Out-of-Sample Performance" *Journal of Banking & Finance* 27, 2003.
Abstract: This paper compares the out-of-sample performance of no-load and load mutual funds. Unlike previous studies, this paper provides a more comprehensive analysis as it uses methodologies to incorporate loads directly into the returns. We find two important results. First, after adjusting for loads in the returns data, no-load funds are found to perform much better than load funds, with the differences found to be significant at the 1% level across many different performance metrics. Second, we find that within load funds themselves there is little significant difference in out-of-sample performance between high-load funds and low-load funds even after adjusting for loads.

Mulliniathan, Sendhil, Markus Noth and Antoinette Schoar. “The Market for Financial Advice: An Audit Study”
A growing literature shows that households are prone to behavioral biases in choosing portfolios. Yet a large market for advice exists which can potentially insulate households from these biases. Advisers may efficiently mitigate these biases, especially given the competition between them. But advisers’ self interest – and individuals’ insufficiently correcting for it – may also lead to them giving faulty advice. We use an audit study methodology with four treatments to document the quality of the advice in the retail market. The results suggest that the advice market, if anything, likely exaggerates existing biases. Advisers encourage chasing returns, push for actively managed funds, and even actively push them on auditors who begin with a well-diversified low fee portfolio.

Munnell, Alicia, Mauricio Soto, Jerilyn Libby and John Prinzivalli. “Investment Returns: Defined Benefit vs. 401(k) Plans.” Center for Retirement Research at Boston College. September, 2006 Number 52.
Conclusion: Three main conclusions emerge from this review. First, defined benefit plans outperformed 401(k) plans over the period 1988-2004. This conclusion is most evident using the weighted median. A higher equity allocation most likely led to higher 401(k) returns during the 1990s, while fees inevitably reduced returns. These two effects may well have balanced each other out, leaving a one percentage point shortfall due to poor timing and other investment mistakes.

Nanda, Vikram, M.P. Narayanan and Vincent Warther.”Iiquidity, Investment Ability, and Mutual Fund Structure,”*Journal of Financial Economics*, Vol. 57, 2000.
Abstract: We develop a model of the mutual fund industry in which the management fees and loads charged by actively managed open-end funds and average fund returns are determined endogenously in a competitive market setting. It is shown that heterogeneity in managerial skills at investing and minimizing costs, and the existence of investor clienteles with differing liquidity and marketing needs, gives rise to a variety of open-end fund structures that differ in the average return delivered to investors. Managers choose a fund's structure to maximize the rents they capture from their ability, taking into account the effect on investor flows. In equilibrium, funds that constrain liquidity withdrawals may have to charge lower fees and share some profits in the form of higher investor returns, when there is relative scarcity of investors with low liquidity needs.

Newton, Michael. “Fiduciary Duties of Broker-Dealers” April, 2011. Available at SSRN: http://ssrn.com/abstract=1822670
Abstract: The Dodd-Frank Act of 2010 called for the SEC to determine whether broker-dealers should have the same fiduciary duties as investment advisers. This paper examines whether broker-dealers should be held to this same standard, and provides a possible solution for addressing Congress' concerns.

Oliver Wyman. “Standard of Care Harmonization: Impact Assessment for SEC” attachment to SIFMA comment to DOL. October 2010.
Summary: Oliver Wyman collected data from a broad selection of retail brokerage firms to assess the impact of significant changes to the existing standard of care for broker-dealers and investment advisors. A total of 17 firms provided data; These institutions serve 38.2MM households and manage $6.8TN in client assets; The survey captures approximately 33% of households and 25% of retail financial assets in the US; The primary issue at stake in the SEC ‘standard of care’ study is how to better protect the investor while preserving choice of relationship, product access, and affordability of advisory services. The key insight from the survey is that broker-dealers play a critical role in the financial services industry that cannot be easily replicated with alternative services models. Wholesale adoption of the Investment Advisers Act of 1940 for all brokerage activity is likely to have a negative impact on consumers (particularly smaller investors) across each of the following dimensions—choice, product access and affordability of advisory services

Oliver Wyman. “Assessment of the Impact of the Deparment of Labor’s Proposed `Fiduciary’ Definition Rule on IRA Conumers”, April 12, 2011. Available at: http://www.fsround.org/fsr/dodd_frank/pdfs/fiduciary-duty/20110412-OliverWymanIRAStudyReport.pdf
Conclusion: The Department of Labor’s proposed rule change is motivated by a laudable objective: to ensure a high standard of care for retirement plan participants and account holders with

regard to the receipt of services and investment guidance, amid an increasingly complex financial marketplace. However, we find that the proposed Department of Labor "fiduciary" definition rule is likely to have serious negative and unintended effects on the very individuals the change is supposed to help. Based on the unprecedented collection of data on IRA account holders assembled to support our analysis, we conclude that the proposed rule will disproportionately negatively affect small balance IRA investors – those individuals most in need of support in reaching their retirement goals. The proposed rule is likely to change an important avenue through which retail investors save for retirement, denying millions of current and future IRA investors access to professional investment help and investment services, limiting choice of how they receive and pay for investment services, and increasing overall costs for such support when available.

O'Neal, Edward. "Mutual Fund Share Classes and Broker Incentives" *Financial Analysts Journal*, Vol. 55, No. 5, Sep.-Oct., 1999.
Abstract: U.S. SEC Rule 18f-3 allows mutual funds to offer multiple share classes that represent claims on the same underlying assets. Share classes differ with respect to distribution arrangements, which are modified by varying the timing and magnitude of load charges and annual distribution fees. For investors, the choice of share classes depends primarily on the expected holding period. Rule 18f-3 has also given rise to broker compensation arrangements that differ among share classes and, consequently, create for brokers as take in the class of shares clients purchase. In most circumstances and for most share class structures, brokers have monetary incentives to sell the class of shares that is least advantageous to investors. This conflict of interest is especially troubling because of the probable lack of financial sophistication of investors who pay for investment advice about mutual funds. The adverse incentives are potentially damaging to the mutual fund industry and should provoke are consideration of multiple share classes and the accompanying broker compensation arrangements.

Palaveev, Philip. "Be Careful What You Wish For", *Financial Planning*, June 2008.

Palazzo, Guido. "Conflicts of Interest in Financial Intermediation", *Journal of Business Ethics*, Vol 81, 2008
Abstract: The last years have seen a surge of scandals in financial intermediation. This article argues that the agency structure inherent to most forms of financial intermediation gives rise to conflicts of interest. Though this does not excuse scandalous behavior it points out market imperfections. There are four types of conflicts of interest: personal-individual, personal-organizational, impersonal-individual, and finally, impersonal-organizational conflicts. Analyzing recent scandals we find that all four types of conflicts of interest prevail in financial intermediation.

Patron, Hilde and Kenneth Roskelley, "The Effect of Reputation and Competition on the Advice of Real Estate Agents", *Journal of Real Estate Financial Economics*
Abstract: We study a two-period bargaining game where buyers and sellers employ real estate agents to help them determine the sales price of a house. We find that agents are less likely to provide aggressive bargaining advice to their client when they receive percentage commissions and when they work for the buyer. In addition, we find that agents are less likely to suggest aggressive bargaining strategies when there is little market competition, the gains to trade are large, in markets where housing values appreciate slowly, and when dual agency is permitted. More importantly, we show that an agent is more likely to bargain aggressively and capture a portion of the gains to trade for a client when the house's sales price is closely related to the agent's reputation and future business (referrals).

Perun, Pamela. *EBRI Notes* May 2008, Vol. 29
This article uses the most recent SIPP data from the U.S. Census Bureau to examine the prevalence of IRAs and 401(k)-type plans among workers ages 21–64.

Pessin, Jaime. "Be Skeptical of the Hard Sell, Even if It's in the Workplace," *The Wall Street Journal*, Feb. 4, 2008.

Peterson, Jonathan. "Nest Egg to goose egg in no time" Los Angeles Timess, Dec. 17, 2006.

This article cites examples where individuals are pushed to invest in high expense variable annuity products and retire prematurely.

Prentice, Robert. "Ethical Decision Making: More Needed than Good Intentions," *Financial Analysts Journal*, Vol. 63, No. 6. Nov./Dec. 2007.

Reid, Brian and John Rea. "Mutual Fund Distribution Channels and Distribution Costs" *Investment Company Institute Perspective.* July 2003.
Conclusion: The changes in the distribution of mutual funds during the past two decades have allowed investors to choose from a wider range of services and has provided greater access to mutual funds than was available in 1980. Companies sponsoring mutual funds are able to tailor funds and share classes to provide packages of services and means of paying for those services that better meet investor needs. The wider availability of mutual funds through new distribution channels, investors' increased reliance on no-load mutual fund share classes, and competition between load and no-load fund sponsors has sharply reduced the distribution costs paid by mutual fund shareholders.

Robertson, Christopher. "Biased Advice,"Arizona Legal Studies Discussion Paper, No 11-07, Feb 2011.
Abstract: The modern capitalist society, characterized by decentralized decision making and increasingly sophisticated products and services, turns on relationships of epistemic reliance, where laypersons depend upon advisors to guide their most important decisions. Yet many of those advisors lack real expertise and may be biased by conflicting interests. In such situations, laypersons are likely to make suboptimal decisions that sometimes aggregate into systematic failures, from soaring health care costs to market crashes. Regulators can attempt to manage the symptoms and worst abuses, but the fundamental problem of biased advice will remain. There are many potential policy solutions, from outright bans on conflicting interests to disclosure mandates, yet their comparative effectiveness is poorly understood. By constructing a decision task for human subjects and providing advice in various scenarios, this Article reports new field experiments testing alternative policy mechanisms. Prior research has shown that disclosure mandates can be deleterious if they make advisors more biased, but this paper contextualizes those findings. It turns out that disclosures may be valuable in settings where relative expertise is low, but deleterious where relative expertise is high. By also disaggregating the data, one finds that disclosures of conflicting interests may hurt laypersons in the majority of situations where the conflicted advice is not actually biased. Thus, the evidence suggests that, if they are to be at all effective, disclosure mandates should be narrowly tailored. Most importantly, the evidence shows that a disclosure mandate improves layperson performance when unbiased advisors are also available. Yet laypersons appear to be poor judges of their need for unbiased advice, so market mechanisms may be ineffective for provisioning unbiased advice. In the end, the presence of an unbiased advisor is the strongest determinant of layperson performance, and thus policymakers must develop ways of aligning the interests of advisors and laypersons. Pay-for-performance, blinding of experts, and mandatory or subsidized second-opinion policies are likely to be helpful in aligning these interests.

Rogerson, William. The Bell Journal of Economics, Vol. 14 1983.

Sah, Sunita, George Loewenstein, and Daylian Cain. "The Burden of Disclosure" 2010.
Abstract: Although disclosure is often advanced as a potential solution to conflicts of interest, research on disclosure has found both positive and negative effects. We present five experiments that reveal a previously unrecognized perverse effect of disclosure: Disclosure of an advisor's conflict of interest can decrease advisees' trust in the advice while simultaneously increasing pressure to comply with that advice. This compliance pressure comes from two mechanisms: (1) recipients fear signaling distrust of the advisor, and (2) recipients feel an increased pressure to help their advisor when the advisor's personal interests have been disclosed. Hence, disclosure can place a burden on those it was supposed to protect. We also show that the increased pressure to comply effect is reduced if the disclosure is provided by an external source rather than directly from the advisor, is not common knowledge between the advisor and advisee, and if cooling off periods are introduced or the advisee can make a decision in private.

Sah, Sunita, Moore, Don A. and MacCoun, Robert, "Cheap Talk and Credibility: The Consequences of Confidence and Accuracy on Advisor Credibility and Persuasiveness", June 2011. Available at SSRN: http://ssrn.com/abstract=1861475
Abstract: Is it possible to increase one's influence simply by behaving more confidently? Prior research presents two competing hypotheses: (1) the confidence heuristic holds that more confidence increases credibility and (2) the calibration hypothesis asserts that overconfidence will backfire when others find out. Study 1 reveals, consistent with the calibration hypothesis, that while accurate advisors benefit from displaying confidence, confident but inaccurate advisors received the lowest ratings of credibility. Furthermore, when an advisor's inaccuracy is revealed, it is difficult for these advisors to recover from their lost credibility. But Study 2 shows that when feedback on advisor accuracy is unavailable or costly, confident advisors hold sway regardless of accuracy. In other words, the confidence heuristic prevails when accuracy is difficult to determine. However, people also made less effort to determine the accuracy of confident advisors; interest in buying advisor performance data decreased as the advisor's confidence went up.

Santacruz, Lujer and Peter Phillips. "Optimality of Financial Planning Clients' Strategic Asset Allocations," Presented at 20th Annual Finance and Banking Conference, 2007, Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1009436
Abstract: In this paper, the optimality of Australian financial planning clients' asset allocations are analysed using the mean-variance formulation of the Modern Portfolio Theory. The asset allocations recommended by financial planning groups are examined. The mean-variance characteristics of the various asset classes are derived from historical indices, using last 21 years data and last 5 years data. The return-risk values of the recommended portfolios are determined and a simple method of iso-risk maximum return calculation using the Excel Solver command is utilised to determine the corresponding optimal portfolios. The recommended portfolios were found to have expected returns that are around 8% and 32% below optimal returns based on last 21 years data and last 5 years data, respectively.

Eugene Scalia comment Letter to DOL, http://www.dol.gov/ebsa/pdf/1210-AB32-PH063.pdf

Schneider, Henry. "Agency Problems and Reputation in Expert Services: Evidence from Auto Repair" Johnson School Research Paper Series, No. 15-07. 2009. Available at SSRN: http://ssrn.com/abstract=1022204
Abstract: The efficient functioning of expert service markets is threatened by asymmetric information between experts and buyers about which services are needed and actually provided. Reputation has been identified as a possible market solution. The current study provides field evidence from undercover visits to garages to characterize the nature of agency problems in auto repair and to test whether reputation reduces these problems. I find that overtreatment and undertreatment are pervasive and find no evidence that reputation limits these problems.

Securities and Exchange Commission, Office of Compliance Inspections and Examinations. "Protecting Senior Investors: Report of Examinations of Securities Firms Providing `Free Lunch' Sales Seminars," September 2007.
Conclusion: The results of these examinations lead regulators to conclude that financial services firms should take steps to supervise sales seminars more closely, and specifically take steps to review and approve all advertisements and sales materials for accuracy and to ensure that they do not contain exaggerated or misleading claims. In addition, firms should redouble efforts to ensure that the investment recommendations they make to seniors are suitable in light of the particular customer's investment objectives. With the growing senior demographic, firms might consider specific training for their registered representatives and investment advisers regarding sales to senior investors.

Shields, Timothy W. and Sheremeta, Roman M., Do Investors Trust or Simply Gamble? (January 14, 2011). Available at SSRN: http://ssrn.com/abstract=1754168
Abstract: We design an experiment to study individual behavior in a strategic information setting where the sender has economic incentives to deceive and the receiver has economic incentives to avoid deception. To ascertain whether subjects in the role of receiver glean information content from the sender's message, we elicit choices from risky gambles constructed to be mathematically equivalent to the information setting if

the sender's message lacks information content. In the experiment subjects act simultaneously as a sender and receiver in a one-shot interaction. The findings of our experiment indicate that (i) subjects tend to act deceptively as senders but trusting as receivers, (ii) as receivers, subjects glean excessive information content from the senders' messages, and (iii) risk preferences are consistent across tasks. Thus, we find investors (receivers) trust.

Siedle, Edward. "Secrets of the 401K Industry"
http://www.benchmarkalert.com/Secrets%20of%20the%20401k%20Industry.pdf

Spindler, James C., Conflict or Credibility: Analyst Conflicts of Interest and the Market for Underwriting Business. Journal of Legal Studies, Vol. 35, June 2006; USC CLEO Research Paper No. C06-3; USC Law Legal Studies Paper No. 06-6; U Chicago Law & Economics, Olin Working Paper No. 215. Available at SSRN: http://ssrn.com/abstract=895550 or doi:10.2139/ssrn.564381
This paper argues that, contrary to conventional wisdom, conflicts of interest among equities research analysts (i.e., where investment banks would offer positive analyst research in quid pro quos for underwriting business) were beneficial to the capital markets. First, conflicted analyst research credibly signaled positive inside information that is otherwise too costly to communicate under Securities Act liability, correcting informational asymmetries. Second, conflicted analyst research mitigated agency costs between issuer and underwriter by allowing the underwriter to credibly commit to exerting more effort than the underwriter would prefer. Third, analyst research quid pro quos took the form of a competitive bidding market among underwriters, and may have improved competition in the underwriting industry. In light of these conclusions, recent reforms prohibiting analyst conflicts of interest are counterproductive. Preferable modes of regulation include liberalizing Securities Act liability, increasing mandatory disclosure of conflicts, and increasing fraud penalties.

Stoughton, Neal, Youchang Wu and Josef Zechner. "Intermediated Investment Management" *The Journal of Finance*. Forthcoming. Earlier version available at SSRN: http://ssrn.com/abstract=966255.
Abstract: Intermediaries such as financial advisers serve as an interface portfolio managers and investors. A large fraction of their compensation is often provided through kickbacks from the portfolio manager. We provide an explanation for the widespread use of intermediaries and kickbacks. Depending on the degree of investor sophistication, kickbacks are used either for the price discrimination or aggressive marketing. We explore the effects of these arrangements of fund size, flows, performance and investor welfare. Kickbacks allow higher management fees to be charged, thereby lowering net returns. Competition among active portfolio managers reduces kickbacks and increases the independence of advisory services.

U.S. Department of Labor, Employee Benefits Security Administration, "Private Pension Plan Bulletin Historical Tables and Graphs," December 2010, Table E21 on p. 28. Located at http://www.dol.gov/ebsa/pdf/1975-2007historicaltables.pdf

U.S. Securities and Exchange Commission, Office of Compliance Inspections and Examinations. "Staff Report Concerning Examinations of Select Pension Consultants" May 16, 2005. Available at: http://www.sec.gov/news/studies/pensionexamstudy.pdf

Varnavides, Gary. "The Flawed State of Broker-Dealer Regulation and the Case for an Authentic Federal Fiduciary Standard for Broker-Dealers", *Fordham Journal of Corporate and Financial Law*. Vol. XVI, 2011.
Introduction: This Note addresses a critical section of the IPA: its proposal that broker-dealers be held to a new, higher standard of conduct towards customers modeled on the Investment Advisers Act of 1940 (the ""40 Act"). Currently, broker-dealers are regulated under the Securities Exchange Act of 1934 (the ""34 Act") and sometimes held to a fiduciary standard of conduct towards customers, whereas investment advisers are regulated under the "40 Act and always held to a fiduciary standard. This bifurcated regulatory scheme - the product of another era when broker-dealers and investment advisers were distinct entities - results in two different regulatory standards and enforcement.

Vincent, Scott, Is Portfolio Theory Harming Your Portfolio? (April 29, 2011). Available at SSRN: http://ssrn.com/abstract=1840734

Abstract: Modern Portfolio Theory (MPT) teaches us that active equity managers who use judgment to make investment decisions won't be able to match the returns (after fees and expenses) of blindly-invested, passively-managed index funds. Data on returns supports the theory, so it's no surprise that investors are leaving actively managed funds in droves for the better average returns of super-diversified index strategies. Yet the reality is much murkier than we've been led to believe. It turns out that the portfolio theories which inspired the creation and popularity of index funds and top-down, quantitatively-driven index-like strategies, are both flawed and impractical. There's compelling evidence, moreover, that a subset of active managers do persistently outperform indexes. However, this important fact has been lost because we allow MPT to define the debate in its own misleading terms, tilting the field in its favor and hiding the reality about active manager performance in a complex game of circular arguments.

Weinberg, Neil and Daniel Kruger. "Death by a Thousand Trades", *Forbes*, 12/11/2000
http://www.forbes.com/forbes/2000/1211/6615262a_2 html
Excerpt: Payment for order flow is, alas, but one of several ways Wall Street profits from the unwary. In a practice known as "internalization," a broker executes your trade entirely in-house rather than sending it out onto the open market where it might attract better prices. This lets him pocket the spread between the lower price a seller is willing to accept and the higher price you are willing to pay.

Weiss, Gary "Wall Street Versus America"
Excerpt from New York Times review: This anecdote serves to introduce the book's larger premise: that Wall Street's rules have been made to protect Wall Street from you, not the other way around. That those who preside over institutions like the New York Stock Exchange and the Securities and Exchange Commission have perfected the art of sounding indignant but doing nothing. (Mr. Weiss amends "Take On the Street," the title of a book by the former S.E.C. chairman Arthur Levitt, to read: "Take On the Street — I Sure as Hell Didn't.") And that the ways in which Wall Street regulates itself are fundamentally corrupt. Mr. Weiss says that only a more vigilant public can fix what's broken.

Welch, Ivo. "Herding Among Security Analysts" *Journal of Financial Economics, Vol. 58, No. 3, December 2000*
The paper shows that the buy or sell recommendations of security analysts have a significant positive influence on the recommendations of the next two analysts. This influence can be traced to short-lived information in the most recent revisions. In contrast, the influence of the prevailing consensus is not stronger if the consensus accurately forecasts subsequent stock price movements. This indicates consensus herding consistent with models in which analysts herd based on little information. The consensus also has a stronger influence when market conditions are favorable. The resulting poorer information aggregation could cause bull markets to be intrinsically more "fragile" (e.g., Bikhchandani et al., J. Political Economy 100(5) (1992) 992-1026).

Wermers, Russ R., Is Money Really 'Smart'? New Evidence on the Relation Between Mutual Fund Flows, Manager Behavior, and Performance Persistence (May 2003). Available at SSRN: http://ssrn.com/abstract=414420 or doi:10.2139/ssrn.414420
Abstract: Mutual fund returns strongly persist over multi-year periods - that is the central finding of this paper. Further, consumer and fund manager behavior both play a large role in explaining these long-term continuation patterns - consumers invest heavily in last-year's winning funds, and managers of these winners invest these inflows in momentum stocks to continue to outperform other funds for at least two years following the ranking year. By contrast, managers of losing funds appear reluctant to sell their losing stocks to finance the purchase of new momentum stocks, perhaps due to a disposition effect. Thus, momentum continues to separate winning from losing managers for a much longer period than indicated by prior studies.

Even more surprising is that persistence in winning fund returns is not entirely explained by momentum - we find strong evidence that flow-related buying, especially among growth-oriented funds, pushes up stock prices. Specifically, stocks that winning funds purchase in response to persistent flows have returns that beat their size, book-to-market, and momentum benchmarks by two to three percent per year over a four-year period. Cross-sectional regressions indicate that these abnormal returns are strongly related to fund inflows, but not to the past performance of the funds - thus, casting some doubt on prior findings of persistent manager talent in picking stocks. Finally, at the style-adjusted net returns level, we find no persistence, consistent with the results of prior studies. On balance, we confirm that money is smart in chasing winning managers, but that a "copycat" strategy of mimicking winning fund stock trades to take advantage of flow-related returns appears to be the smartest strategy.

West, Richard. "Conflicts of Interest: Substance or Subterfuge?" Financial Analysts Journal, Vol. 27, No. 6, Nov.-Dec. 1971.
From Introduction: This is not to say, of course, that conflicts of interest cannot be a problem; rather, it is to say that they need not be so regarded in the types of settings described above. The basic point is that in these and similar settings, there exist sufficient actual and potential competitors to make conflict of interest problems highly unlikely. Accordingly, suggestions that various financial intermediaries should be prohibited from engaging in certain activities on conflict of interest grounds would seem to be ill-founded.. Indeed, to the extent that these suggestions discourage the entrance of new competition into some lines of commerce. they imply economic consequences more onerous than those their sponsors presumably seek to prevent. The paper begins with a discussion of the conflict of interest problems related to combining brokerage and money management activities. It then reviews the conflict problems alleged to result from permitting commercial banks to underwrite revenue bonds. Finally, drawing on the analysis of these two cases, it concludes by considering under what circumstances it is truly in the public interest to prohibit a combination of various financial activities on conflict of interest grounds.

Woolf, Edward. "Pensions in the 2000s: The Lost Decade" NBER Working Paper 16991. April 2011.
Abstract: One of the most dramatic changes in the retirement income system over the last three decades has been a decline in traditional defined benefit (DB) pension plans and a corresponding rise in defined contribution (DC) pensions. Have workers benefited from this change? Using data from the Survey of Consumer Finances, I find that after robust gains in the 1980s and 1990s, pension wealth experienced a marked slowdown in growth from 2001 to 2007. Projections to 2009 indicate no increase in pension wealth from 2001 to 2009. Retirement wealth is also found to offset the inequality in standard household net worth. However, I find that pensions had a weaker offsetting effect on wealth inequality in 2007 than in 1989. As a result, whereas standard net worth inequality showed little change from 1989 to 2007, the inequality of private augmented wealth (the sum of pension wealth and net worth) did increase over this period. These results hold up even when Social Security wealth and employer contributions to DC plans are included in the measure of wealth and when adjustments are made for future tax liabilities on retirement wealth.

Yoong, Joanne and Angela Hung, "Self-Dealing and Compensation for Financial Advisor" *RAND Working Paper,* Sept. 2009.
Abstract: Recent legislative and regulatory activity related to investment advice in 401(k) plans has focused on the issue of self-dealing. In this paper, the authors develop a framework that addresses questions of self-dealing based on the direct-marketing model introduced by Inderst and Ottaviani (2009). They specically adapt the model to the setting of 401(k) plan advice, extend the theoretical framework to consider the implications of financial literacy and discuss various key aspects of existing and proposed 401(k) advice legislation in the context of the model's predictions.

Zhao, Xinge. "The Role of Brokers and Financial Advisors Behind Investments into Load Funds," December 2005. Available at: http://www.ceibs.edu/knowledge/papers/images/20060317/2845.pdf
Abstract: This paper finds that load funds with higher loads tend to receive higher flows, showing evidence that there exists conflict of interests between load fund investors and brokers and financial advisors: brokers and financial advisors apparently serve their own interests by guiding investors into funds with higher loads, which generate higher income to the brokers and financial advisors but increase the expenses of investors. As a result, fund families have been steadily increasing fund loads since the mid 1990s. However, when their interests are not compromised, brokers and financial advisors might exhibit similar behaviors as no-load fund investors in chasing past performance and investing in fund families with more options. Furthermore, they are more likely to direct load fund investors into smaller funds, which might experience better performance, while no-load fund investors flock into larger funds with more visibility.

Zitzewitz, Eric. "Retail Securities Regulation in the Aftermath of the Bubble" *Economic Regulation and Its Reform: What Have We Learned?* Ed. Nancy Rose, NBER, 2007.

Abstract: This paper discusses recent issues in the regulation of the retail securities and investments industry, written for and from the perspective of an industrial organization economist. It reviews the sources of market failure that create an economic rationale for regulation and provides a brief overview of the laws and institutions that comprise modern securities regulation. It then turns to three recent issues with parallels in other industries: the regulation of pricing, antitrust policy, and the regulatory implications of firm boundaries.

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Contact info
Date: Wednesday, February 22, 2012 9:17:35 PM

Hi Tim.

I hope all is well. I have a nonsubstantive question for once! I was wondering if you could forward to me Michael Davies' contact info. Someone in our RiskFin Group needs to contact him.

Kind regards,

Lourdes
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From:	Kans, Joshua S.
To:	Hauser, Timothy - SOL
Cc:	Grant, Richard; Gabbert, Richard; Fajfar, Mark; Burns, Jeffrey P.
Subject:	Discussion with SEC and CFTC staff regarding Title VII major participant definitions
Date:	Tuesday, October 18, 2011 4:36:16 PM

Tim,

Thank you for speaking with me earlier today. As we discussed, SEC and CFTC staff would like to have the chance to speak with DOL staff regarding the ERISA exclusion found in the definitions of "major swap participant" and "major security-based swap participant" set forth by Title VII of the Dodd-Frank Act. Relevant background information is below.

Regards,

Josh Kans
[redacted]

Statutory provisions – Under both the CEA and Exchange Act, one prong of the major participant definition captures entities that maintain a "substantial position" in swaps or security-based swaps, with an exclusion for:

> positions maintained by any employee benefit plan (or any contract held by such a plan) as defined in paragraphs (3) and (32) of section 3 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1002) for the primary purpose of hedging or mitigating any risk directly associated with the operation of the plan;

December proposing release – The joint CFTC/SEC proposing release from December 2010 is at the following link: http://www.sec.gov/rules/proposed/2010/34-63452fr.pdf. The ERISA exclusion is addressed on page 80201.

Comment letters – The following commenters addressed the ERISA exclusion (as well as the general application of the definitions to pension plans):

BlackRock (pages 9-10) http://www.sec.gov/comments/s7-39-10/s73910-63.pdf

ERISA Industry Committee http://www.sec.gov/comments/s7-39-10/s73910-44.pdf

American Benefits Council/Committee on Investment of Employee Benefits http://www.sec.gov/comments/s7-39-10/s73910-66.pdf

CalSTRS http://www.sec.gov/comments/s7-39-10/s73910-127.pdf

Russell Investments http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=27757&SearchText=Russell

AFSCME (pages 3-4) http://www.sec.gov/comments/s7-39-10/s73910-59.pdf

Church Alliance http://www.sec.gov/comments/s7-39-10/s73910-79.pdf

APG Algemene Pensionen Groep (pages 5-7) http://www.sec.gov/comments/s7-39-10/s73910-28.pdf

From: Hauser, Timothy - SOL
To: Lourdes Gonzalez
Cc: Hauser, Timothy - SOL
Subject: FW: ABA Response to DOL Information Request
Date: Monday, February 27, 2012 4:58:11 PM

I think the e-mail below will complete your set.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Piacentini, Joseph - EBSA
Sent: Monday, February 27, 2012 1:40 PM
To: Davis, Michael. L- EBSA ; Hauser, Timothy - SOL
Cc: Cosby, Chris - EBSA; Decressin, Anja - EBSA; Lindrew, Gerald - EBSA; Kugler, Adriana D - OSEC; Epstein, Zachary A. - OSEC
Subject: FW: ABA Response to DOL Information Request

Please see below.

From: Timothy Keehan [redacted]@aba.com]
Sent: Monday, February 27, 2012 10:38 AM
To: Piacentini, Joseph - EBSA
Subject: FW: ABA Response to DOL Information Request

Joe –

I sent you two e-mails this morning. The first one was a draft I was editing. Please disregard that one and refer to the second one sent to you (below). Thanks.

TIM

From: Timothy Keehan
Sent: Monday, February 27, 2012 10:36 AM
To: Joseph Piacentini [redacted]@dol.gov'
Subject: ABA Response to DOL Information Request

Joe –

Thanks for your letter of February 10, 2012, requesting a broad range of amount of data (up to 10 years) that is intended to assist the Department of Labor to evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. As we've stated in our January 24th meeting with you and other trade groups, such data is not maintained or collected by ABA. While our members want to be helpful to DOL, communications thus far received from them indicate that individual account data is not readily available in a format requested by DOL and that such collection (assuming this data is available at all) will likely require considerable and sustained commitments of time and human resources, both of which – due to the impact of Dodd-Frank, among other things – are in precious short supply. Some members are also not clear how the requested data, assuming it can be retrieved, analyzed, extracted, and meaningfully aggregated, will reveal the conflicts of interest that the re-proposed fiduciary regulation is intended to address.

I think it would help our members if you can provide illustrations of how the requested data could be used to indicate a conflict of interest and how that can be usefully compared to situations involving no conflict (particularly in situations where documentation doesn't necessarily reflect customer conversations or subsequent investment performance), so that they can properly consider whether useful data may be readily available.

Thanks.

TIM

Timothy E. Keehan
Vice President & Senior Counsel
Center for Securities, Trust and Investments
American Bankers Association
Building Success. Together.

1120 Connecticut Avenue, NW, Washington, DC 20036
Tele : [redacted] Fax: [redacted] Email: [redacted]@aba.com

From:	Goldin, Alicia
To:	Hauser, Timothy - SOL
Cc:	Gonzalez, Lourdes
Subject:	FW: FINRA"s Customer Account Statements Proposal
Date:	Monday, September 26, 2011 8:57:39 AM

Hi Tim,

I'm working with Lourdes on FINRA's Customer Account Statements Proposal. We were wondering if you might be available to touch base with us and FINRA on Wednesday afternoon. I believe that we all have availability between 3-4pm. If that time does not work for you, please let me know if you have any time on Friday.

Many thanks,
Alicia

From: Gonzalez, Lourdes
Sent: Wednesday, September 14, 2011 6:09 PM
To: Goldin, Alicia
Subject: Fw: FINRA's Customer Account Statements Proposal

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

Thanks, Lourdes. We'll take a look and get back to you. I hope you're doing well. I'm afraid next week is tough for me from a scheduling standpoint, but hopefully we can work something out once we have looked at it.

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, September 14, 2011 12:14 PM
To: Hauser, Timothy - SOL
Subject: FINRA's Customer Account Statements Proposal

Hi Tim.

I hope you are doing well. I was hoping that you and your colleagues could help us with a new issue.

We wanted to flag for you a comment letter that we received from TIAA-CREF regarding a

FINRA proposal concerning customer account statements. By way of background, in May 2009, we noticed FINRA's rule proposal governing customer account statements, under which statements would have been required to be delivered on a monthly basis, instead of the current quarterly requirement. In response to comments to that proposal, FINRA recently filed an amendment which carved out a number of specific circumstances from the monthly statement requirement.

The notice of the amendment is available at: http://www.sec.gov/rules/sro/finra/2011/34-64969.pdf <http://www.sec.gov/rules/sro/finra/2011/34-64969.pdf>

TIAA-CREF, in its comment letter, argues that transactions effected in employer-sponsored retirement plans should be generally excluded from the monthly requirement. It suggests that FINRA's attempt to exclude certain retirement plan transactions effectively provides no relief. SIFMA made similar arguments, and their letter is attached for reference.

We would be grateful for your thoughts on the concerns raised and potential implications. We believe FINRA would be more than happy to benefit from your expertise as well. We are obligated to act on the proposal by the end of October, and FINRA is anticipating providing a draft response to us in the next few weeks. If you are available, perhaps we could find a time to have a call with FINRA early next week?

Kind regards,

Lourdes
[redacted]

From:	Hauser, Timothy - SOL
To:	Lourdes Gonzalez
Cc:	Hauser, Timothy - SOL
Subject:	Letter on Wyman Study
Date:	Friday, January 06, 2012 5:34:02 PM
Attachments:	20111216154025724.pdf

fyi

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

Kent A. Mason, Esq.
Davis and Harman LLP
The Willard
1455 Pennsylvania Avenue
Suite 1200
Washington, DC 20004

December 16, 2011

Dear Mr. Mason:

As you are aware, on October 22, 2010, the Department of Labor's Employee Benefits Security Administration (EBSA) issued a proposed rule that would amend a 1975 regulation defining when a person providing investment advice becomes a fiduciary under section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974 (ERISA). On September 19, 2011, EBSA announced its intention to re-propose the rule.

EBSA is now developing an expanded regulatory impact analysis (RIA) that will assess the impact of the re-proposal on both ERISA plans and Individual Retirement Accounts. The expanded RIA will take into account input from stakeholders and consultations with other federal agencies.

On April 12, 2011, you submitted to EBSA a study prepared by Oliver Wyman that assessed the impact of the proposed rule on IRA consumers. In order to help inform EBSA's expanded RIA, we request your voluntary assistance. In particular we ask that you provide the dataset(s) underlying the statistics and analysis presented (with identifying information removed as necessary). We also would like you to explain the following: (1) how the particular entities included in the dataset were selected; and (2) how their structures (for example, presence of affiliated product manufacturers), business models and practices, and product and service offerings compare with those of entities not included. We also would like you to provide answers to the questions presented in the attached document.

In order that we may use the information in drafting our re-proposal, a prompt response is needed. Please provide the information requested within 30 days of the date of this letter to:

The Office of Policy and Research
Employee Benefits Security Administration
Room N-5718
U.S. Department of Labor
200 Constitution Ave

Washington, DC 20210
Attention: Definition of Fiduciary – Data Request

If you prefer, you may email the information to me at [redacted]@dol.gov.

We expect that any information you provide will be made part of the public record of this rulemaking. The Department appreciates your assistance in this matter. If you have any questions regarding this data request or need additional information, please contact me at [redacted].

Sincerely,

Joseph S. Piacentini
Director
Office of Policy and Research

cc: Phyllis C. Borzi
Michael L. Davis
Alan D. Lebowitz
Representative Bill Huizenga
Representative David Schweikert
Representative Francisco "Quico" Canseco
Representative Albio Sires
Representative Blaine Luetkemeyer
Representative Carolyn McCarthy
Representative Cedric Richmond
Representative Cynthia M. Lummis
Representative Dave Camp
Representative Dennis Cardoza
Representative Denny Rehberg
Representative Jim Renacci
Representative Jo Ann Emerson
Representative John Kline
Representative Michael Grimm
Representative Robert Dold
Representative Robert Hurt
Representative Ron Paul
Representative Stephen Fincher
Representative Steve Stivers
Representative Todd Rokita
Representative William "Lacy" Clay, Jr.
Representative Jim Moran
Representative Phil Roe
Senator Orrin Hatch
Senator Richard Shelby
Senator Roy Blunt
Senator Richard Burr
Senator Johnny Isakson

Follow-up questions on Oliver Wyman Report dated April 12, 2011

Page 10-11. See figures 6 and 7. Is this really a distribution of account holders by asset level, or is it a distribution of accounts? That is, if a single account holder has multiple accounts (with one or multiple vendors) are those accounts aggregated or counted separately here? (Presumably some account holders have additional accounts with vendors not included in the sample?)

Page 12. See figure 9, last line, number of trades per account. Can you provide additional information characterizing the account holdings and activity? For example, are most accounts holding a few positions consisting of internally diversified funds representing different asset classes? How many are holding individual securities? Is the activity mostly in the nature of periodic rebalancing? With respect to number of trades and turnover, are most accounts near the average, or is the distribution more bi-modal, with some accounts trading heavily and others little if any? Can you provide data on the size of these trades?

Do you have data linking some or all of the following: account positions and trades, advice interactions (including whether a trade was solicited), adviser (broker) compensation arrangements, investor fees (including loads/commissions and expense ratios) and performance? If so, can you perform additional analysis on such data, or make such data available for analysis by others?

Page 21-22, figure 15. The comparison pertains to "direct costs." Can you provide similar information for indirect costs? Including those referenced in figure 15 footnote 1? Why were these excluded from the comparison? What is the basis for the conclusion that if these costs were considered "brokerage would continue to be less expensive"? Do the brokerage figures reported here include both full service and discount brokerage?

"Firms vary in whether they receive such [indirect] fees and how they account for them." Can you quantify that variation? What is the incidence and amount of these types of compensation, both by source (such as product manufacturer) and recipient (such as the broker)? What explains the variation? What is being compensated?

Various pages. Can you separate statistics for discount v. full service brokerage?

Page 23 figure 16, and elsewhere. Did Wyman attempt to determine whether net returns differ depending on distribution channel and/or broker conflicts? Did Wyman review academic literature or other evidence on this question?

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

December 15, 2011

Timothy E. Keehan
Vice President and Senior Counsel
Center for Securities, Trust and Investments
American Bankers Association
1120 Connecticut Avenue, NW
Washington, DC 20036

Dear Mr. Keehan:

As you are aware, on October 22, 2010, the Department of Labor's Employee Benefits Security Administration (EBSA) issued a proposed rule that would amend a 1975 regulation defining when a person providing investment advice becomes a fiduciary under section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974 (ERISA) and 4975(e)(3) of the Internal Revenue Code. EBSA's goal in issuing the proposal was to ensure that potential conflicts of interest among investment advisers are not allowed to compromise the quality of investment advice that millions of American workers rely on to ensure their retirement income security.

On September 19, 2011, EBSA announced its intention to re-propose the rule. Consistent with the principals set forth in Executive Order 13563 issued by President Obama on January 11, 2011, the re-proposal will provide the public with additional opportunity to participate in the rulemaking process through an open exchange of information and perspectives.

EBSA is now developing an expanded regulatory impact analysis (RIA) that will assess the impact of the re-proposal on both ERISA plans and Individual Retirement Accounts. The expanded RIA will take into account input from stakeholders and consultations with other federal agencies.

The purpose of this letter is to solicit your organization's voluntary assistance in obtaining data that will help inform EBSA's expanded RIA. EBSA is particularly interested in data that will help to more rigorously and definitively determine what impact, if any, conflicts of interest faced by brokers or other who advise IRAs have on IRA investors. The attachment to this letter describes data that we believe would helpful for this purpose.

In order that we may use the data in drafting our re-proposal, a prompt response would be most appreciated. Please provide such data within 30 days of the date of this letter to:

The Office of Policy and Research

Employee Benefits Security Administration
Room N-5718
U.S. Department of Labor
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may submit the requested information by email to [redacted]@dol.gov. The subject line of electronic responses should contain the following: Definition of Fiduciary RIA Data Request."

We expect that any information provided will be made part of the public record of this rulemaking. EBSA appreciates your assistance in this matter. If you have any questions regarding this data request or need additional information, please contact G. Christopher Cosby of the Office of Policy and Research at [redacted].

Sincerely,

Joseph S. Piacentini
Director
Office of Policy and Research

cc: Phyllis C. Borzi
Michael L. Davis
Alan D. Lebowitz

Attachment: Data to assess the impact of conflicts on IRAs

Data at the level of the individual account

1. To construct dependent variable(s) (primarily, investor/account net rate of return):
    a. For each investment held and for the account overall, personal rate of return (dollar weighted and net of fees/loads), ideally for each of a large number of consecutive periods (such as 40 quarters, or ten years) ending with a very recent period (such as Dec. 31 2010 or June 30 2011). Alternatively, data points necessary to construct this, namely amounts and timing of dividend payments and realized gains (and indication whether these are immediately reinvested) along with share prices.
    b. Identification, share class, time-weighted performance, investment strategy, measure of risk, and fee table of each fund/security.
    c. Gross flows by security/fund transacted, date. Ideally, full content of each transaction notice. Price, commissions/loads. Mark-ups/downs in principal transactions, and the references against which the mark-up/downs were measured. Indication whether transaction was initiated by investor or advisor.
2. To construct independent variables of interest:
    a. Type of account: IRA (traditional retail, or SEP/SIMPLE), taxable retail, DC/401(k)
    b. Distribution channel (advisory, discount brokerage, full service brokerage, direct).
    c. Identity of advisor. Attributes of adviser (if any). Broker dealer, RIA, other?
    d. Compensation arrangements (both at registered representative and institution level). Ideally, including any separate/variable compensation attributable to each transaction and fund/security held.
    e. Advice rendered, including specific recommendations and whether such recommendations were solicited. (Connect with 1c to construct whether advice was followed.)
    f. Adviser service level and type. Is the adviser providing ERISA/IRC fiduciary advice (under existing 3(21) rule)?
3. Account-specific control variables:
    a. Account holder demographic and economic attributes.
    b. Account holder financial literacy measures.
    c. Account holder risk appetite measures.
    d. Account holder investment strategy preferences or instructions.
    e. Length of time with financial firm.
    f. Length of time with advisor.

External/more aggregate level variables (must be matched to account level data):

1. To construct dependent variable(s):

   a. Information necessary for risk adjustment of returns from 1a (e.g., to express returns as "alpha").
   b. May be able to import from external source: 1b performance and fees and 2b.
2. To construct independent variables of interest:
   a. Compensation arrangements of specific advisors with respect to specific products, including changes to such arrangements over time.
3. Controls:
   a. Market/benchmark performance for various asset/fund classes.
   b. General market conditions.

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: ABA Response to DOL Information Request
Date: Monday, February 27, 2012 4:59:12 PM

Thanks a lot Tim. I really appreciate it.

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Timothy Hauser [redacted]@dol.gov>
Date: Mon, 27 Feb 2012 16:58:11 -0500
To: SEC [redacted]@sec.gov>
Cc: Timothy Hauser [redacted]@dol.gov>
Subject: FW: ABA Response to DOL Information Request

I think the e-mail below will completeyour set.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail inerror, please notify the sender immediately.

From: Piacentini,Joseph - EBSA
Sent: Monday, February 27, 2012 1:40 PM
To: Davis, Michael. L- EBSA ; Hauser, Timothy - SOL
Cc: Cosby, Chris - EBSA; Decressin, Anja - EBSA; Lindrew, Gerald - EBSA; Kugler, Adriana D - OSEC; Epstein, Zachary A. - OSEC
Subject: FW: ABA Response to DOL Information Request

Please see below.

From: Timothy Keehan [redacted]@aba.com]
Sent: Monday, February 27, 2012 10:38 AM
To: Piacentini, Joseph - EBSA
Subject: FW: ABA Response to DOL Information Request

Joe –

I sent you two e-mails this morning. The first one was a draft I was editing. Please disregard that one and refer to the second one sent to you (below). Thanks.

TIM

From: Timothy Keehan
Sent: Monday, February 27, 2012 10:36 AM
To: [redacted]@dol.gov'

Subject: ABA Response to DOL Information Request

Joe –

Thanks for your letter of February 10, 2012, requesting a broad range of amount of data (up to 10 years) that is intended to assist the Department of Labor to evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. As we've stated in our January 24th meeting with you and other trade groups, such data is not maintained or collected by ABA. While our members want to be helpful to DOL, communications thus far received from them indicate that individual account data is not readily available in a format requested by DOL and that such collection (assuming this data is available at all) will likely require considerable and sustained commitments of time andhuman resources, both of which – due to the impact of Dodd-Frank, among other things – are in precious short supply. Some members are also not clear how the requested data, assuming it can be retrieved, analyzed, extracted, and meaningfully aggregated, will reveal the conflicts of interest that the re-proposed fiduciary regulation is intended to address.

I think it would help our members if you can provide illustrations of how the requested data could be used to indicate a conflict of interest and how that can be usefully compared to situations involving no conflict (particularly in situations where documentation doesn't necessarily reflect customer conversations or subsequent investment performance), so that they can properly consider whether useful data may bereadily available.

Thanks.

TIM

Timothy E. Keehan
Vice President & Senior Counsel
Center for Securities, Trust and Investments
American Bankers Association
Building Success. Together.

1120 Connecticut Avenue, NW, Washington, DC 20036
Tele : [redacted] Fax: [redacted] Email: [redacted]@aba.com

****

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: ABA Response to DOL Information Request
Date: Monday, February 27, 2012 5:08:01 PM

:-)

You should be getting a call from my colleague in Investment Management, Hunter Jones, on 12b-1 fees.

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Timothy Hauser [redacted]@dol.gov>
Date: Mon, 27 Feb 2012 16:58:11 -0500
To: SEC Lourdes Gonzales [redacted]@sec.gov>
Cc: Timothy Hauser [redacted]@dol.gov>
Subject: FW: ABA Response to DOL Information Request

I think the e-mail below will completeyour set.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail inerror, please notify the sender immediately.

From: Piacentini,Joseph - EBSA
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To: Davis, Michael. L- EBSA ; Hauser, Timothy - SOL
Cc: Cosby, Chris - EBSA; Decressin, Anja - EBSA; Lindrew, Gerald - EBSA; Kugler, Adriana D - OSEC; Epstein, Zachary A. - OSEC
Subject: FW: ABA Response to DOL Information Request

Please see below.

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Subject: FW: ABA Response to DOL Information Request

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From: Timothy Keehan
Sent: Monday, February 27, 2012 10:36 AM
To: Joseph Piacentini [redacted]@dol.gov'
Subject: ABA Response to DOL Information Request

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Thanks.

TIM

Timothy E. Keehan
Vice President & Senior Counsel
Center for Securities, Trust and Investments
American Bankers Association
Building Success. Together.

1120 Connecticut Avenue, NW, Washington, DC 20036
Tele : [redacted] Fax: [redacted] Email: [redacted]@aba.com

American Bankers Association 1120 Conn. Ave NW Wash DC 20036

****

From: Hauser, Timothy - SOL
To: [redacted]@SEC.GOV"
Cc: Hauser, Timothy - SOL
Subject: Re: Contact info
Date: Wednesday, February 22, 2012 9:22:39 PM

Hi, Lourdes. I hope you're doing well too. Michael's e-mail address is [redacted]@dol.gov. His number is [redacted].

Tim

----- Original Message -----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Wednesday, February 22, 2012 09:17 PM
To: Hauser, Timothy - SOL
Subject: Contact info

Hi Tim.

I hope all is well. I have a nonsubstantive question for once! I was wondering if you could forward to me Michael Davies' contact info. Someone in our RiskFin Group needs to contact him.

Kind regards,

Lourdes
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Contact info
Date: Wednesday, February 22, 2012 9:38:32 PM

Thanks Tim!
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

----- Original Message -----
From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, February 22, 2012 09:22 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL <[redacted]@dol.gov>
Subject: Re: Contact info

Hi, Lourdes. I hope you're doing well too. Michael's e-mail address is [redacted]@dol.gov. His number is [redacted].

Tim

----- Original Message -----
From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Wednesday, February 22, 2012 09:17 PM
To: Hauser, Timothy - SOL
Subject: Contact info

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Kind regards,

Lourdes
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL
To: "Kans, Joshua S."
Cc: Hauser, Timothy - SOL
Subject: RE: Discussion with SEC and CFTC staff regarding Title VII major participant definitions
Date: Tuesday, October 18, 2011 4:55:34 PM

Thanks. Let me see when people are available and I'll get back to you.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Kans, Joshua S. [redacted]@SEC.GOV]
Sent: Tuesday, October 18, 2011 4:36 PM
To: Hauser, Timothy - SOL
Cc: Grant, Richard; Gabbert, Richard; Fajfar, Mark; Burns, Jeffrey P.
Subject: Discussion with SEC and CFTC staff regarding Title VII major participant definitions

Tim,

Thank you for speaking with me earlier today. As we discussed, SEC and CFTC staff would like to have the chance to speak with DOL staff regarding the ERISA exclusion found in the definitions of "major swap participant" and "major security-based swap participant" set forth by Title VII of the Dodd-Frank Act. Relevant background information is below.

Regards,

Josh Kans
[redacted]

Statutory provisions – Under both the CEA and Exchange Act, one prong of the major participant definition captures entities that maintain a "substantial position" in swaps or security-based swaps, with an exclusion for:

> positions maintained by any employee benefit plan (or any contract held by such a plan) as defined in paragraphs (3) and (32) of section 3 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1002) for the primary purpose of hedging or mitigating any risk directly associated with the operation of the plan;

December proposing release – The joint CFTC/SEC proposing release from December 2010 is at the following link: http://www.sec.gov/rules/proposed/2010/34-63452fr.pdf. The ERISA exclusion is addressed on page 80201.

Comment letters – The following commenters addressed the ERISA exclusion (as well as the general application of the definitions to pension plans):

BlackRock (pages 9-10) http://www.sec.gov/comments/s7-39-10/s73910-63.pdf

ERISA Industry Committee http://www.sec.gov/comments/s7-39-10/s73910-44.pdf

American Benefits Council/Committee on Investment of Employee Benefits http://www.sec.gov/comments/s7-39-10/s73910-66.pdf

CalSTRS http://www.sec.gov/comments/s7-39-10/s73910-127.pdf

Russell Investments http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=27757&SearchText=Russell

AFSCME (pages 3-4) http://www.sec.gov/comments/s7-39-10/s73910-59.pdf

Church Alliance http://www.sec.gov/comments/s7-39-10/s73910-79.pdf

APG Algemene Pensionen Groep (pages 5-7) http://www.sec.gov/comments/s7-39-10/s73910-28.pdf

From:	McHugh, Jennifer B.
To:	Hauser, Timothy - SOL
Subject:	Re: Fiduciary Regulation
Date:	Tuesday, March 13, 2012 6:21:22 PM

Thanks, Tim. Let me gather people on our end. Thanks.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Tuesday, March 13, 2012 06:19 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: Fiduciary Regulation

Hi, Jennifer

I just wanted to confirm that we would like to start discussions about our draft text for the ERISA fiduciary advice regulation. On our end, I would expect to draw participants from the EBSA offices responsible for regulations, exemptions, and economic analysis, as well as from my office. We'd be happy to meet here or come to the SEC. If you have a few good dates and times in the next few weeks and could gather a similar group of participants, I think the discussion could be very useful. Please let me know what works for you.

Tim Hauser
[redacted]

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: FINRA"s Customer Account Statements Proposal
Date: Thursday, September 15, 2011 12:40:37 PM

Thanks a lot Tim. I owe you. Lourdes.
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

Thanks, Lourdes. We'll take a look and get back to you. I hope you're doing well. I'm afraid next week is tough for me from a scheduling standpoint, but hopefully we can work something out once we have looked at it.

From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, September 14, 2011 12:14 PM
To: Hauser, Timothy - SOL
Subject: FINRA's Customer Account Statements Proposal

Hi Tim.

I hope you are doing well. I was hoping that you and your colleagues could help us with a new issue.

We wanted to flag for you a comment letter that we received from TIAA-CREF regarding a FINRA proposal concerning customer account statements. By way of background, in May 2009, we noticed FINRA's rule proposal governing customer account statements, under which statements would have been required to be delivered on a monthly basis, instead of the current quarterly requirement. In response to comments to that proposal, FINRA recently filed an amendment which carved out a number of specific circumstances from the monthly statement requirement.

The notice of the amendment is available at: http://www.sec.gov/rules/sro/finra/2011/34-64969.pdf <http://www.sec.gov/rules/sro/finra/2011/34-64969.pdf>

TIAA-CREF, in its comment letter, argues that transactions effected in employer-sponsored retirement plans should be generally excluded from the monthly requirement. It suggests that FINRA's attempt to exclude certain retirement plan transactions effectively provides no relief. SIFMA made similar arguments, and their letter is attached for reference.

We would be grateful for your thoughts on the concerns raised and potential implications. We believe FINRA would be more than happy to benefit from your expertise as well. We are obligated to act on the proposal by the end of October, and FINRA is anticipating providing a draft response to us in the next few weeks. If you are available, perhaps we could find a time to have a call with FINRA early next week?

Kind regards,

Lourdes
[redacted]

From:	Goldin, Alicia
To:	Hauser, Timothy - SOL
Cc:	Gonzalez, Lourdes
Subject:	RE: FINRA"s Customer Account Statements Proposal
Date:	Wednesday, September 28, 2011 1:17:40 PM

Hi Tim,

I gather that Monday or later would be better for you. Does 3pm on Monday work?

Thanks,
Alicia

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 8:43 AM
To: Goldin, Alicia
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Great. Thanks.

From: Goldin, Alicia [redacted]@sec.gov]
Sent: Wednesday, September 28, 2011 8:42 AM
To: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Hi Tim,

Yes – apologies for the delayed confirmation. The dial-in is below.

Phone Number(s):

External: [redacted]
Toll-Free:

Meeting ID: [redacted]

Many thanks,
Alicia

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 8:39 AM
To: Goldin, Alicia
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Hi Alicia,

Are we on for 3:15 today? Do you have a number we should call?

Tim

From: Hauser, Timothy - SOL
Sent: Monday, September 26, 2011 5:24 PM
To: 'Goldin, Alicia'
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Could we make it 3:15 Wednesday? Sorry about the delay in responding to you – it took a while to round up the relevant people.

From: Goldin, Alicia [redacted]@sec.gov]
Sent: Monday, September 26, 2011 8:58 AM
To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes
Subject: FW: FINRA's Customer Account Statements Proposal

Hi Tim,

I'm working with Lourdes on FINRA's Customer Account Statements Proposal. We were wondering if you might be available to touch base with us and FINRA on Wednesday afternoon. I believe that we all have availability between 3-4pm. If that time does not work for you, please let me know if you have any time on Friday.

Many thanks,
Alicia

From: Gonzalez, Lourdes
Sent: Wednesday, September 14, 2011 6:09 PM
To: Goldin, Alicia
Subject: Fw: FINRA's Customer Account Statements Proposal

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
To: Gonzalez, Lourdes

Cc: Hauser, Timothy - SOL <[redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

Thanks, Lourdes. We'll take a look and get back to you. I hope you're doing well. I'm afraid next week is tough for me from a scheduling standpoint, but hopefully we can work something out once we have looked at it.

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From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, September 14, 2011 12:14 PM
To: Hauser, Timothy - SOL
Subject: FINRA's Customer Account Statements Proposal

Hi Tim.

I hope you are doing well. I was hoping that you and your colleagues could help us with a new issue.

We wanted to flag for you a comment letter that we received from TIAA-CREF regarding a FINRA proposal concerning customer account statements. By way of background, in May 2009, we noticed FINRA's rule proposal governing customer account statements, under which statements would have been required to be delivered on a monthly basis, instead of the current quarterly requirement. In response to comments to that proposal, FINRA recently filed an amendment which carved out a number of specific circumstances from the monthly statement requirement.

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Kind regards,

Lourdes
[redacted]

From:	Goldin, Alicia
To:	Hauser, Timothy - SOL
Subject:	RE: FINRA"s Customer Account Statements Proposal
Date:	Wednesday, September 28, 2011 8:41:43 AM

Hi Tim,

Yes – apologies for the delayed confirmation. The dial-in is below.

Phone Number(s):

External: [redacted]
Toll-Free:

Meeting ID: [redacted]

Many thanks,
Alicia

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 8:39 AM
To: Goldin, Alicia
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Hi Alicia,

Are we on for 3:15 today? Do you have a number we should call?

Tim

From: Hauser, Timothy - SOL
Sent: Monday, September 26, 2011 5:24 PM
To: 'Goldin, Alicia'
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

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From: Goldin, Alicia [redacted]@sec.gov]
Sent: Monday, September 26, 2011 8:58 AM
To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes
Subject: FW: FINRA's Customer Account Statements Proposal

Hi Tim,

I'm working with Lourdes on FINRA's Customer Account Statements Proposal. We were wondering if you might be available to touch base with us and FINRA on Wednesday afternoon. I believe that we all have availability between 3-4pm. If that time does not work for you, please let me know if you have any time on Friday.

Many thanks,
Alicia

From: Gonzalez, Lourdes
Sent: Wednesday, September 14, 2011 6:09 PM
To: Goldin, Alicia
Subject: Fw: FINRA's Customer Account Statements Proposal

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

Thanks, Lourdes. We'll take a look and get back to you. I hope you're doing well. I'm afraid next week is tough for me from a scheduling standpoint, but hopefully we can work something out once we have looked at it.

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From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, September 14, 2011 12:14 PM
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Subject: FINRA's Customer Account Statements Proposal

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Kind regards,

Lourdes
[redacted]

From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA"s Customer Account Statements Proposal
Date: Thursday, September 15, 2011 12:44:47 PM

I don't know about that -- but, don't worry, I have lots of questions to pass on to you in the near future!

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From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, September 15, 2011 12:39 PM
To: Hauser, Timothy - SOL
Subject: Re: FINRA's Customer Account Statements Proposal

Thanks a lot Tim. I owe you. Lourdes.
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

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Kind regards,

Lourdes
[redacted]

From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA"s Customer Account Statements Proposal
Date: Wednesday, September 14, 2011 5:58:16 PM

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Kind regards,

Lourdes
[redacted]

From: Goldin, Alicia
To: Hauser, Timothy - SOL
Subject: RE: FINRA"s Customer Account Statements Proposal
Date: Wednesday, September 28, 2011 1:50:19 PM

I'm afraid the morning is out – our only window on Monday is between 2:30-4. I would have to check with FINRA as well, but how is Tuesday at 1pm or 4pm?

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 1:22 PM
To: Goldin, Alicia
Subject: RE: FINRA's Customer Account Statements Proposal

I'm sorry to be difficult, but 3 now looks bad. Could we have the meeting in the morning?

From: Goldin, Alicia [redacted]@sec.gov]
Sent: Wednesday, September 28, 2011 1:18 PM
To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes
Subject: RE: FINRA's Customer Account Statements Proposal

Hi Tim,

I gather that Monday or later would be better for you. Does 3pm on Monday work?

Thanks,
Alicia

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 8:43 AM
To: Goldin, Alicia
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Great. Thanks.

From: Goldin, Alicia [redacted]@sec.gov]
Sent: Wednesday, September 28, 2011 8:42 AM
To: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Hi Tim,

Yes – apologies for the delayed confirmation. The dial-in is below.

Phone Number(s):

External: [redacted]
Toll-Free:

Meeting ID: [redacted]

Many thanks,
Alicia

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 8:39 AM
To: Goldin, Alicia
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Cc: Hauser, Timothy - SOL
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To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes
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Many thanks,
Alicia

From: Gonzalez, Lourdes
Sent: Wednesday, September 14, 2011 6:09 PM
To: Goldin, Alicia
Subject: Fw: FINRA's Customer Account Statements Proposal

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
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Subject: RE: FINRA's Customer Account Statements Proposal

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Kind regards,

Lourdes
[redacted]

From: Hauser, Timothy - SOL
To: "Goldin, Alicia"
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA"s Customer Account Statements Proposal
Date: Wednesday, September 28, 2011 8:42:48 AM

Great. Thanks.

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Many thanks,
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To: Goldin, Alicia
Subject: Fw: FINRA's Customer Account Statements Proposal

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
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From: Hauser, Timothy - SOL [redacted]@dol.gov]
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From:	Hauser, Timothy - SOL
To:	"Goldin, Alicia"
Cc:	Hauser, Timothy - SOL
Subject:	RE: FINRA"s Customer Account Statements Proposal
Date:	Wednesday, September 28, 2011 8:39:05 AM

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From: Hauser, Timothy - SOL
To: "Goldin, Alicia"
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Subject: RE: FINRA"s Customer Account Statements Proposal
Date: Monday, September 26, 2011 5:23:42 PM

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Lourdes
[redacted]

From: Hauser, Timothy - SOL
To: "Goldin, Alicia"
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA"s Customer Account Statements Proposal
Date: Monday, September 26, 2011 9:03:35 AM

I think that time works for me. Let me check with some of my EBSA colleagues to make sure the time works for them.

Tim

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We wanted to flag for you a comment letter that we received from TIAA-CREF regarding a FINRA proposal concerning customer account statements. By way of background, in May 2009, we noticed FINRA's rule proposal governing customer account statements, under which statements would have been required to be delivered on a monthly basis, instead of the current quarterly requirement. In response to comments to that proposal, FINRA recently filed an amendment which carved out a number of specific circumstances from the monthly statement requirement.

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TIAA-CREF, in its comment letter, argues that transactions effected in employer-sponsored retirement plans should be generally excluded from the monthly requirement. It suggests that FINRA's attempt to exclude certain retirement plan transactions effectively provides no relief. SIFMA made similar arguments, and their letter is attached for reference.

We would be grateful for your thoughts on the concerns raised and potential implications. We believe FINRA would be more than happy to benefit from your expertise as well. We are obligated to act on the proposal by the end of October, and FINRA is anticipating providing a draft response to us in the next few weeks. If you are available, perhaps we could find a time to have a call with FINRA early next week?

Kind regards,

Lourdes
[redacted]

From: Hauser, Timothy - SOL
To: "Goldin, Alicia"
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA"s Customer Account Statements Proposal
Date: Monday, September 26, 2011 5:23:42 PM

Could we make it 3:15 Wednesday? Sorry about the delay in responding to you – it took a while to round up the relevant people.

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Goldin, Alicia [redacted]@sec.gov]
Sent: Monday, September 26, 2011 8:58 AM
To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes
Subject: FW: FINRA's Customer Account Statements Proposal

Hi Tim,

I'm working with Lourdes on FINRA's Customer Account Statements Proposal. We were wondering if you might be available to touch base with us and FINRA on Wednesday afternoon. I believe that we all have availability between 3-4pm. If that time does not work for you, please let me know if you have any time on Friday.

Many thanks,
Alicia

From: Gonzalez, Lourdes
Sent: Wednesday, September 14, 2011 6:09 PM
To: Goldin, Alicia
Subject: Fw: FINRA's Customer Account Statements Proposal

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

Thanks, Lourdes. We'll take a look and get back to you. I hope you're doing well. I'm afraid next week is tough for me from a scheduling standpoint, but hopefully we can work something out once we have looked at it.

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From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, September 14, 2011 12:14 PM
To: Hauser, Timothy - SOL
Subject: FINRA's Customer Account Statements Proposal

Hi Tim.

I hope you are doing well. I was hoping that you and your colleagues could help us with a new issue.

We wanted to flag for you a comment letter that we received from TIAA-CREF regarding a FINRA proposal concerning customer account statements. By way of background, in May 2009, we noticed FINRA's rule proposal governing customer account statements, under which statements would have been required to be delivered on a monthly basis, instead of the current quarterly requirement. In response to comments to that proposal, FINRA recently filed an amendment which carved out a number of specific circumstances from the monthly statement requirement.

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TIAA-CREF, in its comment letter, argues that transactions effected in employer-sponsored retirement plans should be generally excluded from the monthly requirement. It suggests that FINRA's attempt to exclude certain retirement plan transactions effectively provides no relief. SIFMA made similar arguments, and their letter is attached for reference.

We would be grateful for your thoughts on the concerns raised and potential implications. We believe FINRA would be more than happy to benefit from your expertise as well. We are obligated to act on the proposal by the end of October, and FINRA is anticipating providing a draft response to us in the next few weeks. If you are available, perhaps we could find a time to have a call with FINRA early next week?

Kind regards,

Lourdes
[redacted]

From: Goldin, Alicia
To: Hauser, Timothy - SOL
Subject: RE: FINRA"s Customer Account Statements Proposal
Date: Wednesday, September 28, 2011 2:00:29 PM

Ok – let's do Tuesday at 4. I will probably have to get a new number – so, I'll circulate it once I have it.

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 1:57 PM
To: Goldin, Alicia
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

4 Tuesday works for everybody here. Should we use the same number?

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From: Goldin, Alicia [redacted]@sec.gov]
Sent: Wednesday, September 28, 2011 1:50 PM
To: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

I'm afraid the morning is out – our only window on Monday is between 2:30-4. I would have to check with FINRA as well, but how is Tuesday at 1pm or 4pm?

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 1:22 PM
To: Goldin, Alicia
Subject: RE: FINRA's Customer Account Statements Proposal

I'm sorry to be difficult, but 3 now looks bad. Could we have the meeting in the morning?

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From: Goldin, Alicia [redacted]@sec.gov]
Sent: Wednesday, September 28, 2011 1:18 PM
To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes
Subject: RE: FINRA's Customer Account Statements Proposal

Hi Tim,

I gather that Monday or later would be better for you. Does 3pm on Monday work?

Thanks,
Alicia

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 8:43 AM
To: Goldin, Alicia
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Great. Thanks.

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From: Goldin, Alicia [redacted]@sec.gov]
Sent: Wednesday, September 28, 2011 8:42 AM
To: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Hi Tim,

Yes – apologies for the delayed confirmation. The dial-in is below.

Phone Number(s):

External: [redacted]
Toll-Free:

Meeting ID: [redacted]

Many thanks,
Alicia

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 28, 2011 8:39 AM
To: Goldin, Alicia
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Hi Alicia,

Are we on for 3:15 today? Do you have a number we should call?

Tim

This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Office of the Solicitor. If you think you received this e-mail in error, please notify the sender immediately.

From: Hauser, Timothy - SOL
Sent: Monday, September 26, 2011 5:24 PM
To: 'Goldin, Alicia'
Cc: Hauser, Timothy - SOL
Subject: RE: FINRA's Customer Account Statements Proposal

Could we make it 3:15 Wednesday? Sorry about the delay in responding to you – it took a while to round up the relevant people.

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To: Hauser, Timothy - SOL
Cc: Gonzalez, Lourdes
Subject: FW: FINRA's Customer Account Statements Proposal

Hi Tim,

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Many thanks,
Alicia

From: Gonzalez, Lourdes
Sent: Wednesday, September 14, 2011 6:09 PM
To: Goldin, Alicia
Subject: Fw: FINRA's Customer Account Statements Proposal

Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

Thanks, Lourdes. We'll take a look and get back to you. I hope you're doing well. I'm afraid next week is tough for me from a scheduling standpoint, but hopefully we can work something out once we have looked at it.

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From: Gonzalez, Lourdes [redacted]@sec.gov]
Sent: Wednesday, September 14, 2011 12:14 PM
To: Hauser, Timothy - SOL
Subject: FINRA's Customer Account Statements Proposal

Hi Tim.

I hope you are doing well. I was hoping that you and your colleagues could help us with a new issue.

We wanted to flag for you a comment letter that we received from TIAA-CREF regarding a FINRA proposal concerning customer account statements. By way of background, in May 2009, we noticed FINRA's rule proposal governing customer account statements, under which statements would have been required to be delivered on a monthly basis, instead of the current quarterly requirement. In response to comments to that proposal, FINRA recently filed an amendment which carved out a number of specific circumstances from the monthly statement requirement.

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Kind regards,

Lourdes
[redacted]

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: FINRA"s Customer Account Statements Proposal
Date: Sunday, September 18, 2011 10:40:18 AM

We are happy to help Tim.

Lourdes
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Thursday, September 15, 2011 12:44 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

I don't know about that -- but, don't worry, I have lots of questions to pass on to you in the near future!

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From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Thursday, September 15, 2011 12:39 PM
To: Hauser, Timothy - SOL
Subject: Re: FINRA's Customer Account Statements Proposal

Thanks a lot Tim. I owe you. Lourdes.
Lourdes Gonzalez
Assistant Chief Counsel - Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: Hauser, Timothy - SOL [redacted]@dol.gov]
Sent: Wednesday, September 14, 2011 05:58 PM
To: Gonzalez, Lourdes
Cc: Hauser, Timothy - SOL [redacted]@dol.gov>
Subject: RE: FINRA's Customer Account Statements Proposal

Thanks, Lourdes. We'll take a look and get back to you. I hope you're doing well. I'm afraid next week is tough for me from a scheduling standpoint, but hopefully we can work something out once we have looked at it.

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To: Hauser, Timothy - SOL

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Kind regards,

Lourdes
[redacted]

From: Hauser, Timothy - SOL
To: "Lourdes Gonzalez"
Cc: Hauser, Timothy - SOL
Subject: RE: Letter on Wyman Study
Date: Friday, January 06, 2012 5:36:16 PM
Attachments: 20111215151429713.pdf

And here's a separate letter that was sent to a number of representatives of the financial services industry.

From: Hauser, Timothy - SOL
Sent: Friday, January 06, 2012 5:34 PM
To: Lourdes Gonzalez
Cc: Hauser, Timothy - SOL
Subject: Letter on Wyman Study

fyi

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From: Hauser, Timothy - SOL
To: "Gonzalez, Lourdes"
Cc: Hauser, Timothy - SOL
Subject: RE: Letter on Wyman Study
Date: Friday, January 06, 2012 5:38:57 PM

You're welcome. Have a great weekend.

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From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Friday, January 06, 2012 5:35 PM
To: Hauser, Timothy - SOL
Subject: Re: Letter on Wyman Study

Thanks Tim.

From: Timothy Hauser [redacted]@dol.gov>
Date: Fri, 6 Jan 2012 17:34:01 -0500
To: SEC[redacted]@sec.gov>
Cc: Timothy Hauser [redacted]@dol.gov>
Subject: Letter on Wyman Study

fyi

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From:	Gonzalez, Lourdes
To:	Hauser, Timothy - SOL
Subject:	Re: Letter on Wyman Study
Date:	Friday, January 06, 2012 5:35:43 PM

Thanks Tim.

From: Timothy Hauser [redacted]@dol.gov>
Date: Fri, 6 Jan 2012 17:34:01 -0500
To: SEC Lourdes Gonzalez [redacted]@sec.gov>
Cc: Timothy Hauser [redacted]@dol.gov>
Subject: Letter on Wyman Study

fyi

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From:	Decressin, Anja - EBSA
To:	Edozie, Melinda U - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Hauser, Timothy - SOL; Wong, Fred - EBSA; Kugler, Adriana D - OSEC; Epstein, Zachary A. - OSEC; Bergstresser, Keith - EBSA; Campagna, Lou - EBSA; Grillo-Chope, Luisa - EBSA; Lindrew, Gerald - EBSA
Cc:	"Kozora, Matthew"; "Marietta-Westberg, Jennifer"; Buyniski, Brian - EBSA; Puskin, Dan - EBSA
Subject:	RE: Meeting on Fiduciary data Request
Date:	Tuesday, January 24, 2012 6:36:07 PM
Attachments:	Fiduciary Data Call Meeting 2012-01-24.pdf

Here is the attendance list that was circulated. I have the original if someone is interested in it.

Anja Decressin

Employee Benefits Security Administration

phone: [redacted]

[redacted]@dol.gov

-----Original Appointment-----
From: Edozie, Melinda U - EBSA
Sent: Wednesday, January 18, 2012 9:56 AM
To: Edozie, Melinda U - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Decressin, Anja - EBSA; Hauser, Timothy - SOL; Canary, Joe - EBSA; Wong, Fred - EBSA; Kugler, Adriana D - OSEC; [redacted]@sifma.org'; [redacted]@NAIFA.org'; [redacted]@financialservices.org'; [redacted]@aba.com'; Brian Tate [redacted]@fsround.org); [redacted]@acli.com; [redacted]@ici.org'; Epstein, Zachary A. - OSEC
Cc: 'Kozora, Matthew'; 'Marietta-Westberg, Jennifer'; Buyniski, Brian - EBSA; Puskin, Dan - EBSA
Subject: Meeting on Fiduciary data Request
When: Tuesday, January 24, 2012 3:00 PM-4:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: FPB Rm. 3 C5515

<< Message: Meeting on fiduciary data request >>

Please arrive 10 minutes before the meeting to be checked through security. I will give security a list of names as well. The address here is 200 Constitution Ave. NW Washington D.C. 20210. For those that cannot attend in person please feel free to use the dial in number and passcode below. This is the final date and time for this meeting it will not be changed.

Passcodes/Pin codes:

Participant passcode: [redacted]

For security reasons, the passcode will be required to join the call.

Dial in numbers:

Country

Toll Numbers

Freephone/
Toll Free Number

USA

[redacted]

Thanks,

Melinda Edozie

[redacted]

1/24/2012

Name	Organization	Phone / e-mail
Tim Hauser	DOL/SOL/PBSD	[redacted]
Jerry Lindrow	DOL/EBSA/OPR	[redacted]
Chris Cosby	DOL/EBSA/OPR	[redacted]
Jim Szostak	American Council of Life Insurers	[redacted]
Felicia Smith	The Financial Services Roundtable	[redacted]
Lillian Vogl	Nat'l Assoc. of Insurance + Financial Advisors	[redacted]
Sarah Holden	Investment Company Institute	[redacted]
Mary Podesta	Investment Company Institute	[redacted]
Sean Collins	Investment Company Institute	[redacted]
Brian Tate	brian@fsround.org	[redacted]
John Little	Insured Retirement Institute	[redacted]
Tim Keehan	American Bankers Association	[redacted]
Lisa Bleier	SIFMA	[redacted]
Ira Hammerman	SIFMA	[redacted]
Walter Welsh	American Council of Life Insurers	[redacted]
Matthew Kozora	SEC	[redacted]
Jennifer Marietta	SEC	[redacted]
Daniel Puskin	DOL/EBSA/OPR	[redacted]
Brian Buyniski	DOL/EBSA/OPR	[redacted]
Keith Bergstresser	DOL/EBSA/OPR	[redacted]
Anja Decressin	DOL/EBSA/OPR	[redacted]
Joe Piacentini	"	[redacted]
Adriana Kugler		
Fred Wong		
Lou Campagna		
Luisa Grillo-Chope		
Meredith Regine		

From:	Decressin, Anja - EBSA
To:	Edozie, Melinda U - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Hauser, Timothy - SOL; Wong, Fred - EBSA; Kugler, Adriana D - OSEC; Epstein, Zachary A. - OSEC; Bergstresser, Keith - EBSA; Campagna, Lou - EBSA; Grillo-Chope, Luisa - EBSA; Lindrew, Gerald - EBSA
Cc:	"Kozora, Matthew"; "Marietta-Westberg, Jennifer"; Buyniski, Brian - EBSA; Puskin, Dan - EBSA; Decressin, Anja - EBSA
Subject:	RE: Meeting on Fiduciary data Request
Date:	Monday, January 30, 2012 10:33:52 AM
Attachments:	Fiduciary Data Call Meeting 2012-01-27.pdf Fiduciary Data Call Meeting 2012-01-24.pdf

Attached the attendance lists for both meetings.

Anja Decressin

Employee Benefits Security Administration

phone: [redacted]

[redacted]@dol.gov

From: Decressin, Anja - EBSA
Sent: Tuesday, January 24, 2012 6:36 PM
To: Edozie, Melinda U - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Hauser, Timothy - SOL; Wong, Fred - EBSA; Kugler, Adriana D - OSEC; Epstein, Zachary A. - OSEC; Bergstresser, Keith - EBSA [redacted]@dol.gov); Campagna, Lou - EBSA; Grillo-Chope, Luisa - EBSA; Lindrew, Gerald - EBSA
Cc: 'Kozora, Matthew'; 'Marietta-Westberg, Jennifer'; Buyniski, Brian - EBSA; Puskin, Dan - EBSA
Subject: RE: Meeting on Fiduciary data Request

Here is the attendance list that was circulated. I have the original if someone is interested in it.

<< File: Fiduciary Data Call Meeting 2012-01-24.pdf >>

Anja Decressin

Employee Benefits Security Administration

phone: [redacted]

[redacted]@dol.gov

-----Original Appointment-----
From: Edozie, Melinda U - EBSA
Sent: Wednesday, January 18, 2012 9:56 AM
To: Edozie, Melinda U - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Decressin, Anja - EBSA;

Hauser, Timothy - SOL; Canary, Joe - EBSA; Wong, Fred - EBSA; Kugler, Adriana D - OSEC; [redacted]@sifma.org'; [redacted]@NAIFA.org'; [redacted]@financialservices.org'; [redacted]@aba.com'; Brian Tate [redacted]@fsround.org); [redacted]@acli.com; [redacted]@ici.org'; Epstein, Zachary A. - OSEC
Cc: 'Kozora, Matthew'; 'Marietta-Westberg, Jennifer'; Buyniski, Brian - EBSA; Puskin, Dan - EBSA
Subject: Meeting on Fiduciary data Request
When: Tuesday, January 24, 2012 3:00 PM-4:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: FPB Rm. 3 C5515

<< Message: Meeting on fiduciary data request >>

Please arrive 10 minutes before the meeting to be checked through security. I will give security a list of names as well. The address here is 200 Constitution Ave. NW Washington D.C. 20210. For those that cannot attend in person please feel free to use the dial in number and passcode below. This is the final date and time for this meeting it will not be changed.

Passcodes/Pin codes:

Participant passcode: [redacted]

For security reasons, the passcode will be required to join the call.

Dial in numbers:

Country

Toll Numbers

**Freephone/
Toll Free Number**

USA

[redacted]

Thanks,

Melinda Edozie

[redacted]

1/27/2012

Name	Organization	Phone / e-mail
Anja Decressin	DOL/EBSA	[redacted]
Tim Hauser	DOL/SOL/PBSD	
Daniel Puskin	DOL/EBSA/OPR	
Chris Cosby	DOL/EBSA/OPR	
Mark Smith	Sutherland	
Vanessa Scott	Sutherland	
David Bellaire	FSI	
Adriana Kugler		
Joe Piacentini		
Lou Campagna		
Fred Wong		

1/24/2012

Name	Organization	Phone / e-mail
Tim Hauser	DOL/SOL/PBSD	[redacted]
Jerry Lindrow	DOL/EBSA/OPR	[redacted]
Chris Cosby	DOL/EBSA/OPR	[redacted]
Jim Szostek	American Council of Life Insurers	[redacted]
Felicia Smith	The Financial Services Roundtable	[redacted]
Lillian Vogl	Nat'l Assoc. of Insurance + Financial Advisors	[redacted]
Sarah Holden	Investment Company Institute	[redacted]
Mary Podesta	Investment Company Institute	[redacted]
Sean Collins	Investment Company Institute	[redacted]
Brian Tate	brian@fsround.org	[redacted]
John Little	Insured Retirement Institute	[redacted]
Tim Keehan	American Bankers Association	[redacted]
Lisa Bleier	SIFMA	[redacted]
Ira Hammerman	SIFMA	[redacted]
Walter Welsh	American Council of Life Insurers	[redacted]
Matthew Kozora	SEC	[redacted]
Jennifer Marietta	SEC	[redacted]
Daniel Puskin	DOL/EBSA/OPR	[redacted]
Brian Buyniski	DOL/EBSA/OPR	[redacted]
Keith Bergstresser	DOL/EBSA/OPR	[redacted]
Anja Decressin	DOL/EBSA/OPR	[redacted]
Joe Piacentini	"	[redacted]
Adriana Kugler		
Fred Wong		
Lou Campagna		
Luisa Grillo-Chope		
Meredith Regine		

From:	Decressin, Anja - EBSA
To:	Edozie, Melinda U - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Hauser, Timothy - SOL; Wong, Fred - EBSA; Kugler, Adriana D - OSEC; Epstein, Zachary A. - OSEC
Cc:	"Kozora, Matthew"; "Marietta-Westberg, Jennifer"; Buyniski, Brian - EBSA; Puskin, Dan - EBSA; Bergstresser, Keith - EBSA
Subject:	RE: Meeting on Fiduciary data Request
Date:	Tuesday, January 24, 2012 6:33:11 PM

Anja Decressin

Employee Benefits Security Administration

phone: [redacted]

[redacted]@dol.gov

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Sent: Wednesday, January 18, 2012 9:56 AM
To: Edozie, Melinda U - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Decressin, Anja - EBSA; Hauser, Timothy - SOL; Canary, Joe - EBSA; Wong, Fred - EBSA; Kugler, Adriana D - OSEC; [redacted]@sifma.org'; [redacted]@NAIFA.org'; [redacted]@financialservices.org'; [redacted]@aba.com'; Brian Tate [redacted]@fsround.org); [redacted]@acli.com; [redacted]@ici.org'; Epstein, Zachary A. - OSEC
Cc: 'Kozora, Matthew'; 'Marietta-Westberg, Jennifer'; Buyniski, Brian - EBSA; Puskin, Dan - EBSA
Subject: Meeting on Fiduciary data Request
When: Tuesday, January 24, 2012 3:00 PM-4:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: FPB Rm. 3 C5515

<< Message: Meeting on fiduciary data request >>

Please arrive 10 minutes before the meeting to be checked through security. I will give security a list of names as well. The address here is 200 Constitution Ave. NW Washington D.C. 20210. For those that cannot attend in person please feel free to use the dial in number and passcode below. This is the final date and time for this meeting it will not be changed.

Passcodes/Pin codes:

Participant passcode: [redacted]

For security reasons, the passcode will be required to join the call.

Dial in numbers:

Country

Toll Numbers

Freephone/
Toll Free Number

USA

[redacted]

Thanks,

Melinda Edozie

[redacted]

From: Gonzalez, Lourdes
To: Hauser, Timothy - SOL
Subject: Re: Treasury
Date: Monday, July 25, 2011 9:45:58 AM

Tim, someone on my staff gave me a long list of cases and I asked her this morning to cut them down to the best ones. I expect to have something for you shortly.

Lourdes

On 7/25/11 9:21 AM, "Hauser, Timothy - SOL" [redacted]@dol.gov> wrote:

> Any time! Have you had any luck tracking down some good case examples for me?
>
> -----Original Message-----
> From: Gonzalez, Lourdes [redacted]@SEC.GOV]
> Sent: Saturday, July 23, 2011 6:11 AM
> To: [redacted]@cftc.gov; Hauser, Timothy - SOL
> Subject: Treasury
>
> We talked. Same conversation. Thanks guys.
>
> Lourdes
>
> Lourdes Gonzalez
> Assistant Chief Counsel - Sales Practices
> Division of Trading and Markets
> U.S. Securities and Exchange Commission

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
US Securities and Exchange Commission

From:	Hauser, Timothy - SOL
To:	"Gonzalez, Lourdes"
Cc:	Hauser, Timothy - SOL
Subject:	The last responses to our data request
Date:	Friday, March 02, 2012 4:53:54 PM
Attachments:	Data Request Response to DOL.PDF SIFMA Oliver Wyman Study.pdf

These arrived yesterday.

March 1, 2012

Mr. Joseph S. Piacentini
Director
The Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor – Room [redacted]
200 Constitution Ave., NW
Washington, DC 20210

Dear Mr. Piacentini:

We are writing in response to your request for data related to the economic analysis the Department of Labor (the "Department") is required to undertake in order to re-propose regulations that would substantially modify the definition of a fiduciary under section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974 ("ERISA") .

In your original request for data, which we received in late December 2011[1], you noted that the Department was trying to develop a more appropriate "expanded" regulatory impact analysis that would assess the impact of the re-proposal on both ERISA-covered plans and Individual Retirement Accounts ("IRAs") subject to the prohibited transaction provisions of section 4975 of the Internal Revenue Code of 1986. You requested a significant amount of information that covered every client account, and every trade in every account, including investment returns in these accounts, over the last ten years. Further, you requested information about current and former ERISA plan and IRA account holders' economic attributes, financial literacy, length of time with their broker or adviser and various other points of personal information about each account holder and his broker or adviser.

As we have explained to the Department in numerous discussions (including at a meeting on January 24 that was attended by our trades and several others that received the Department's December data request), none of our trade associations maintains an electronic or hard-copy database containing the information the Department has requested. Nor have we ever undertaken the type of costly and extensive survey and system build that would be required to obtain and collate this vast amount of data. At the Department's request, and in light of our sincere belief that an appropriately structured regulatory impact analysis will support our belief that the any regulatory revision to the definition of the term "fiduciary" consistent with the Department's October 2010 proposal will be extremely costly to participants and service providers, with little tangible benefit, we have reached out to several hundred member companies to determine what, if any, data responsive to the Department's request, might be available and in what format (electronic, searchable, PDF, paper, *etc*.). We address what our member companies are telling us concerning this request below.

In light of our conversations with our members we also would like to make the following points with respect to the data request itself.

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[1] Letter sent to Timothy Ryan, President and CEO, SIFMA, dated December 15, 2011 and received December 22nd, 2011. Letters also sent to IRI and FSR.

The Department Does Not Seem to be Requesting Useful Data

Our members are extremely concerned that the Department is neither looking for the "right" type of data to complete an appropriate regulatory impact analysis, nor do we believe that if it were to receive all of the data it has requested, it could analyze it in a manner that controls for outside variables. While the Department so far has declined our request that it share with us the methodology it plans to use to analyze the data it collects, we would like to make the following observations. First, if the Department would like to use the data to try to determine the relationship, based on individual investor experience, between (a) the "quality" of advice being provided, (b) the aggregate or investment-specific fees being charged, and (c) the account performance (or the performance of any particular asset), we believe the data requested will be of little use to the Department. The request does not differentiate between non-fiduciary advice and fiduciary advice, raising the question of accurate comparisons against a "control group" population. If the Department would like to use the data to compare fees and performance in non-fiduciary accounts and accounts where a financial representative agrees it is acting as a fiduciary, we also do not think the data requested will be helpful because it would not differentiate between the two groups, and does not control for whether, in a non-advised account on any particular transaction, a recommendation was or was not made, and if one was made, whether it was followed. It also does not take into account the situation where an investor has multiple account types, one or more of which may be used for more aggressive and riskier investing.

We also question how focusing on investor attributes (a key data component requested by the Department) correlates, if at all, with the existence of or quality of the investment advice rendered by the financial institutions being surveyed, either in a brokerage context or where the financial institution, or an affiliate, serves as a fiduciary to a client in a non-discretionary capacity. As we have stated many times, we believe that, in order to determine the true economic impact of a regulation like the one proposed by the Department in 2010, of turning virtually all conversations between brokers (and other service providers) into fiduciary "investment advice", the Department needs to focus on the very real potential negative cost to plans and individual account holders if they do not have access to meaningful retirement planning.

Should the proposal move forward as proposed, individuals will no longer have access to asset allocation assistance or guidance regarding the benefits of raising their deferral rate. There will be limited retirement planning help, as well as the guidance necessary to educate about the tax consequences of taking a withdrawal, loan or hardship distribution. Even simple discussions regarding saving in the appropriate retirement plan or helping clients make pre-tax or post-tax distribution decisions will become cost prohibitive or obsolete. These are education efforts undertaken by many advisors which could turn them into fiduciaries under the Department's proposal which will then limit the availability of these services. This will impact individual retirement savings and needs to be assessed by the Department to determine the cost of the proposal. Unfortunately we do not see any evidence in the request that the Department sent to us that the Department is even remotely considering these costs. Of course, if the Department already understands and concedes these costs, perhaps it has determined that no further data is necessary.

Challenges with providing the millions of pieces of data requested

While we continue to encourage the Department to re-focus its efforts on the cost impact to individual investors, we are working to be responsive to the Department's request by trying to determine what data our members might be able to provide. Our member firms have collectively spent a tremendous amount of time over the past several weeks working with their technology, operations and business partners to determine what data from the Department's request is available and in what form, as well as the resource and cost impact in providing that data. Initial cost estimates from some of our member firms in providing even a portion of the data runs in the hundreds of thousands of dollars. As stated above, not only is this type of cost and resource expenditure substantial, we do not believe it would yield any meaningful data that could be analyzed by the Department or that could offer any practical utility in connection with the Department's regulatory impact analysis.

First, while certain of our member firms theoretically could provide PDFs of monthly account statements for particular accounts, all of those PDFs would need to be "sanitized" for personal information, which itself might take thousands of hours, and it is entirely unclear to us what the Department would do with this paper information for millions of accounts that cannot be collated or organized or analyzed other than manually. Our members cannot simply deliver to the Department unredacted documents containing client data without individual client consent. Most firms are understandably reluctant to ask their clients to consent to provide their personal financial information to a governmental agency, and even with that consent, we cannot identify under what FOIA exception you would be able to protect this material from public disclosure. Indeed, at our January 24 meeting, you were unable to address the industry's confidentiality concerns. Not only would disclosure raise concerns under other applicable laws, it could put clients' financial privacy at risk and endanger our members' relationships with their clients. As noted above, to attempt to remove client-specific information from a PDF file or system feed would be costly, labor intensive, and would still leave behind confidentiality concerns because enough trading information and possible other data might make a client identifiable.

While our members do maintain some of the information that the Department requested, as the Department may or may not be aware, firms keep the data in a variety of forms (which may differ from firm to firm and even from department to department within a firm). For example, some of the information that is specifically listed on the Department's request may be available only in PDF format at many member firms. Further, conditions exist that may call into question the quality of the data. For example the financial representative responsible for an account may have changed over time or the account type may have changed over time, and there may be no way to identify or flag those changes.

Moreover, the systems maintained across and even within our members were created in anticipation of certain foreseeable business or regulatory requests, but were never designed with the type of broad large scale survey request that the Department now makes. Indeed, a data request of the type requested by the Department is particularly challenging in light of changes over time to our members, such as system changes due to mergers, acquisition, or spin-offs as part of broader financial industry consolidation. There are also different systems between firms and within firms due to upgrades to programs, servers or other hardware. None of our members could merely push a button and pull the ten years of data the Department has requested.

Finally, different firms have different practices which lead to the retention of different information in different storage media and for different timeframes. The codes, categories and titling vary greatly among firms. All these challenges make it difficult or impossible to gather and compare data across firms without taking steps to make sure the data is uniform across firms. We see nothing in the Department's data requests that suggests how the Department might seek to do that and we assume the Department is not suggesting that we undertake the expense and time commitment to develop and implement a manual process that might seek to do that.

For all of these reasons, the specific data requested by the Department is not easily accessible or available to provide to the Department without significant cost both in expense and resources.

Potential Sources of Data

In recent years, SIFMA has begun a joint research project maintained by the Investment Company Institute called The IRA Investor Database™. This database includes certain account-level information on more than 10 million IRA investors; however, this database has certain limitations in the scope of the information. ICI submitted a recent letter to the Department explaining the database and those limitations, as well as the wealth of information that can be found within this database. We would encourage the Department to take a look at the material and reports prepared by the ICI in reliance on the database.

Data Retained in Database Format

We continue to work with our members to find information that is kept in database format, common across firms and could be manipulated for data analysis by the Department. Once we determine what information is kept in database format and is accessible across multiple organizations with common sourcing or titling, we will still have challenges regarding the aggregation of this data, the potential format of the data and the scope of the data request (timeframe, etc.).

To that end, we have found common ground among our members in their daily trade blotters which include the amount of assets being bought or sold on a particular day, the price it is being sold at that day, the quantity and the trade date. Some firms have additional information, including CUSIP and commission; however, it appears that most firms hold that additional information on a different blotter, or in a different database that does not necessarily cross with the main daily trade blotter. As a result, the clear common categories we have identified are:

- An account number[2]
- A buy/sell order
- A price
- Quantity
- Trade date
- Ticker Symbol

[2] All account numbers would need to be masked before any data could be provided.

Please note that while these categories are common across most of our members who replied to this survey for data available in electronic form, the time frame over which the data is so maintained does not uniformly extend to the 10-year period the Department contemplated in its data request. There may be a handful of additional categories that multiple firms have in common; however, of the additional 226 categories identified, the same category did not appear on more than five firms' blotters. It is possible that some of the categories identified the same type of information but utilized different naming conventions; however, we were unable to make that differentiation in the short timeframe provided.

Even if the account information can be aggregated and provided to the Department in a format that would be practical for analysis and not overly costly and burdensome for the industry, we would like to understand the methodology the Department would use. We sincerely believe the Department has now correctly decided that before proposing a potentially costly and disruptive change to the definition of "fiduciary" under ERISA, it needs to undertake a thoughtful analysis to determine what the costs and benefits of any proposed changes and potential alternatives will be. Furthermore, some of our members question the timing and motivation behind this data request, which, when added to recent public statements by senior officials at the Department (e.g., "I didn't anticipate there would be an entire industry that without a statutory basis think they are above the law") raises concerns that, rather than undertaking an unbiased analysis, the Department merely is seeking to opportunistically pick amongst terabytes of data to provide a justification for changes it long ago decided to make.

Accordingly, we truly need to understand the Department's analytical framework and methodology before moving forward with a possible large-scale undertaking. Knowledge of the intended analysis could also inform the data points that would be useful to the Departments analysis. Having this information would also provide us an opportunity to work with the Department on its data request so that any information we agreed to provide would be directly related to the Department meeting its stated goal.

The SIFMA Oliver Wyman Study[3]

In October 2010 SIFMA and Oliver Wyman submitted a study to the U.S. Securities and Exchange Commission (SEC) on the impact of implementing a harmonized fiduciary standard of conduct, which is attached. The study is also available at http://www.sifma.org/issues/item.aspx?id=21999. On November 17, 2010, SIFMA made a supplemental submission to the SEC to address the methodology of the study and the robustness of the data, among other things. The supplemental submission is available at http://www.sifma.org/issues/item.aspx?id=22336.

A key concern for the securities industry in implementing a harmonized fiduciary standard is how to better protect investors while preserving their choice of relationship, product access, and affordability of advisory services. The key insight from the SIFMA /Oliver Wyman study is that broker-dealers play a critical role in the financial services industry that cannot be easily replicated with alternative services models. Wholesale adoption of the Investment Advisers Act

[3] Please note that this Oliver Wyman Study is distinct from a later study coordinated by the Davis & Harman law firm, not commissioned by SIFMA, focused on the Department's change to the definition of fiduciary and submitted to the Department on April 12, 2011.

of 1940 for all brokerage activity is likely to have a negative impact on consumers (particularly smaller investors) across each of the following dimensions: choice, product access, and affordability of advisory services. Oliver Wyman collected data from a broad selection of retail brokerage firms to assess the impact of significant changes to the existing standard of conduct for broker-dealers and investment advisers.

We are currently investigating the ability to provide the Department with certain underlying data relating to this study. While certain data may no longer be accessible, certain other data may still be available. We will let you know as soon as we have identified the underlying information from that study that is still available.

Conclusion

As the Department determines the utility of the particular information that current systems might capture and whether such a survey will assist the Department in determining the merits of any proposed rule, it is important to note that systems generally capture facts at a particular point in time, and not the conversation between the parties or the sophistication of the client, its guidelines, its risk parameters, *etc.* Investment ideas appropriately provided to a person at age 50 will be entirely different than those given to that same person at age 70. Investment ideas appropriately provided to an owner of a $50,000 IRA with no other investible assets are different from those given to an IRA owner of a $50,000 IRA with a significant 401(k) plan balance, a pension from a defined benefit plan, and substantial other assets. None of this context would be evident from the information the Department has requested.

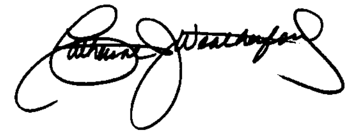
We would also like to suggest that if the Department would share its work plan for the study with industry consultants and member firm IT personnel, together the parties might be able to identify a subset of data that would allow the Department to more quickly and economically achieve its goals.

We are committed to working with the Department to provide useful information for its economic impact analysis. We believe a mutually cooperative working environment between the Department, the trade organizations and our member firms is essential to ensure that any reproposal of the definition of "fiduciary" both sufficiently protects investors and can be implemented by those in the financial services industry without interrupting their ability to help those same investors make critical retirement decisions.

Please contact any of the undersigned if we can be of further assistance. In order to avoid potential timing issues associated with mailing correspondence, we provide our email addresses below, which we request you use in the future.

Sincerely,

Lisa J. Bleier
Managing Director
SIFMA
[redacted]@sifma.org



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OLIVER WYMAN

sifma

Invested in America

Financial Services

October 2010

Standard of Care Harmonization
Impact Assessment for SEC

NYC-FMJ001-001

Contents

Section 1

Executive summary

Summary findings (1)

- Oliver Wyman collected data from a broad selection of retail brokerage firms to assess the impact of significant changes to the existing standard of care for broker-dealers and investment advisors
  - A total of 17 firms provided data
  - These institutions serve 38.2MM households and manage $6.8TN in client assets
  - The survey captures approximately 33% of households and 25% of retail financial assets in the US
- The primary issue at stake in the SEC 'standard of care' study is how to better protect the investor while preserving choice of relationship, product access, and affordability of advisory services
- The key insight from the survey is that broker-dealers play a critical role in the financial services industry that cannot be easily replicated with alternative services models
- Wholesale adoption of the Investment Advisers Act of 1940 for all brokerage activity is likely to have a negative impact on consumers (particularly smaller investors) across each of the following dimensions
  - Choice
  - Product access
  - Affordability of advisory services

Continued…

Summary findings (2)

Potential impact of rulemaking on retail investors

Choice	▪ Reduced access to the preferred 'investment and advisory model' for retail investors – 95% of households hold commission-based brokerage accounts today – The fee-based advisory platform is far less popular (only 5% of households) – The 'preference' for brokerage accounts is evident across all wealth segments but strongest for smaller investors with less than $250K in assets
Product Access	▪ Reduced access to products distributed primarily through broker-dealers – Municipal and corporate bonds represent ~15% of assets held by retail investors – These products (among others) are generally offered on a 'principal basis' – Restricting principal or proprietary offerings will limit investor access to these products <u>and</u> possibly limit financing options for municipalities or corporates at current pricing
Affordability of Advisory Service	▪ Reduced access to the most affordable investment options – Fee-based services are 23-37 bps more expensive than brokerage[1] – For an investor with $200K in assets, this translates to $460 in additional fees – The cost of shifting to fee-based pricing alone would reduce expected returns by more than $20K over a 20 year horizon (assuming 5% annual returns) ▪ And the indirect costs of additional compliance, disclosure, and surveillance may have an even greater impact on consumers → we estimate that 12-17MM small investors 'at the margin' could lose access to current levels of advisory service if even 2 additional hours of coverage and support is required per client

1. Cost expressed as a percentage of assets under management in basis points (1bp = 0.01%)

Section 2

Methodology and source data

Oliver Wyman collected data from 17 SIFMA member firms to support the impact assessment

Purpose of study

- The impact assessment that follows was designed in response to the SEC request for comment on the upcoming study of the standard of care obligations for broker-dealers and investment advisers
- Oliver Wyman gathered data from 17 SIFMA member firms to provide relevant market data for the SEC study
- The study is intended to help
  - Identify the investor segments most likely to be affected by changes to the standard of care
  - Understand the cost to the consumer (choice, product access, transaction costs) of potential changes
  - Understand the one-time and ongoing costs of compliance for advisory and brokerage firms
  - Estimate the broader market / economic impact of any changes, particularly for capital formation

Note on survey methodology

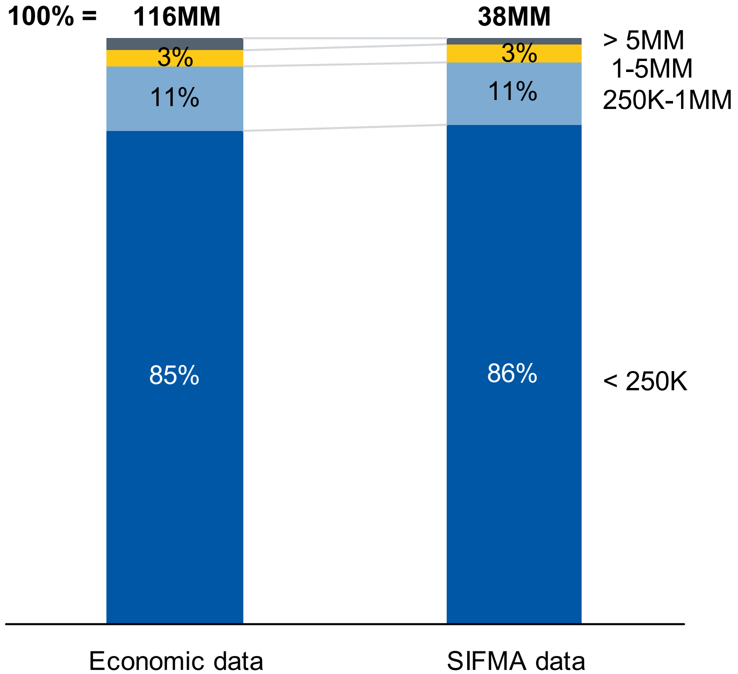
- 17 member firms participated, representing $6.8TN in assets (approximately 27% of total U.S. household financial assets) across 38.2MM households
- To obtain a fairly representative sample of the industry, data on asset management accounts, investor profiles, and cost structure was gathered from a diverse set of brokerage firms

Note on confidentiality

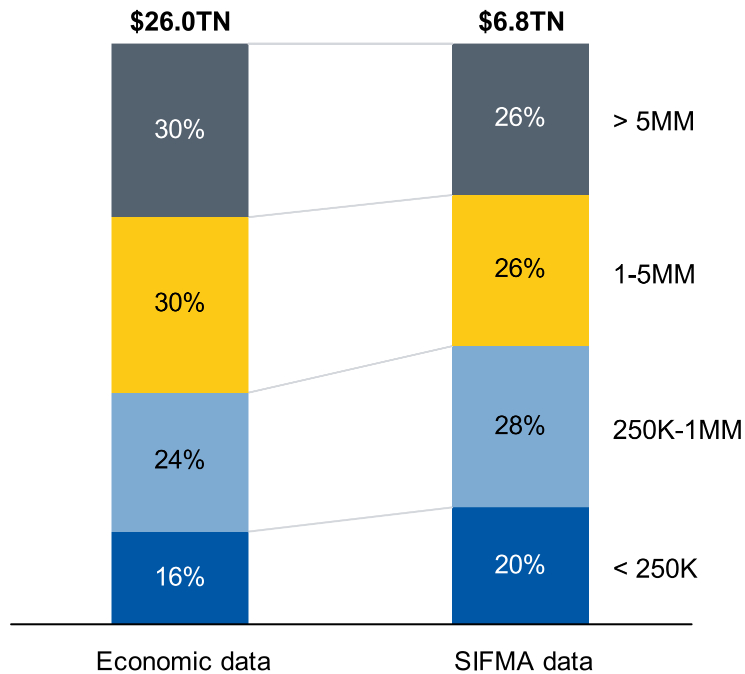
- Due to the highly sensitive nature of firm-specific information, all data is presented in aggregated form

The survey proved to be highly representative of the investor population as a whole, capturing 33% of households and 27% of financial assets

Investors by wealth segment[1]
Number of U.S. households, 2009



Assets by wealth segment
Investable assets, 2009



Note: Economic data includes all investable assets whereas SIFMA data refers to managed assets, SIFMA data skews toward investors with <$1MM in assets

1. Wealth segments based on client assets under management
Source: SIFMA member data, 2007 Federal Reserve Survey of Consumer Finances, Oliver Wyman analysis

Section 3

Background and context

Regulators have wide discretion in establishing a uniform 'standard of care' for the IABD industry

- Regulators have a range of options in establishing a uniform 'standard of care' for broker-dealers and investment advisers in the United States
  - Limited changes to current model
  - A 'standard of care' with disclosure / consent to conflicts that preserves commission-based brokerage
  - Wholesale adoption of the Advisers Act of 1940 for all broker-dealers and investment advisers
- A major shift in the 'standard of care' will impact individual investors in several ways
  - Choice of advisory model
  - Access to investment products
  - Cost of investment and advisory services
- Beyond these direct costs to the consumer, we also anticipate broader economic costs to the industry as a whole
  - Broker-dealers and investment advisory firms will all face one-time and ongoing costs to comply with new fiduciary, disclosure, and surveillance requirements → these may be passed on to investors
  - Potential limitations on product accessibility for retail investors will place constraints on capital formation and issuers' ability to finance at attractive rates

Our analysis will focus on the relative impact of two possible scenarios for harmonization of the standard of care

Activity	Rule making scenarios		
	STATUS QUO WITH GREATER DISCLOSURE *Harmonized standards that preserve existing practices but require greater disclosure*	**FIDUCIARY DUTY WITH CONSENT TO CONFLICTS** *Fiduciary standard for advisory activity that preserves commission-based brokerage model*	**ADOPTION OF ADVISERS ACT OF 1940** *Fiduciary standard for advisory activity with fees based on assets under management*
Investment planning	▪ Suitability for resultant securities transactions	▪ Best interest of the client with disclosure / consent to conflicts	▪ Best interest of the client
Asset allocation advice	▪ Suitability for resultant securities transactions	▪ Best interest of the client with disclosure / consent to conflicts	▪ Best interest of the client
Advice on client holdings	▪ Best interest of the client (advisory services) or suitability (brokerage services)	▪ Best interest of the client, at point of sale or ongoing depending on relationship	▪ Best interest of the client
Proprietary product sales	▪ Best interest of the client (advisory services) or suitability (brokerage services)	▪ Best interest of the client with disclosure / consent to conflicts	▪ Not available
Principal transactions	▪ Best interest of the client (advisory services) or suitability (brokerage services)	▪ Best interest of the client with disclosure / consent to conflicts	▪ Trade-by-trade prior consent required
IRA / retirement accounts	▪ Best interest of the client (advisory services) or suitability (brokerage services)	▪ Best interest of the client or solely in the interest of the client, depending on relationship	▪ Solely in the interest of the client

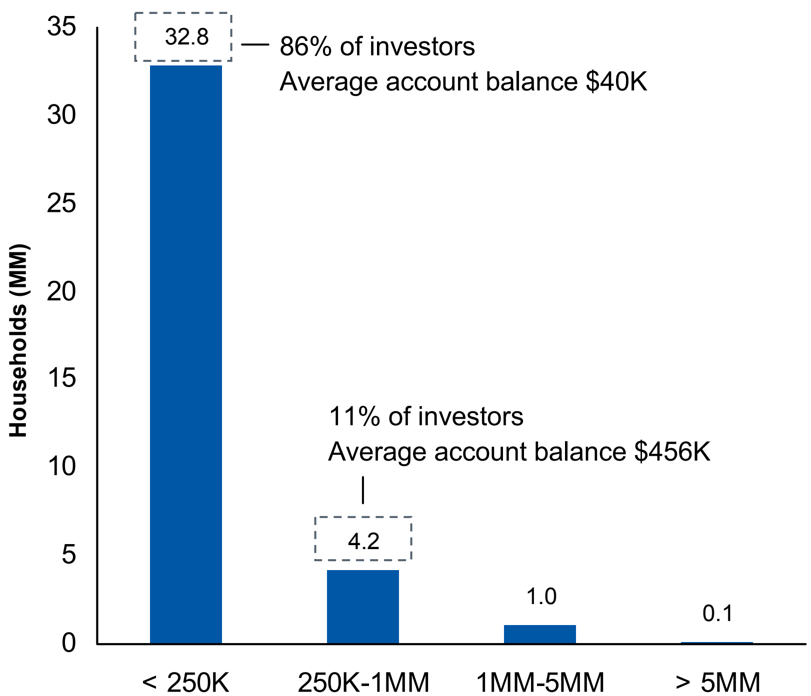
Baseline for impact analysis

Section 4

Impact on choice

The vast majority (97%) of the US investor population holds less than $1MM in assets with a broker-dealer or investment adviser

Investor landscape (survey population)
Number of investors by wealth segment[1], 2009



Client assets under management			
$1.3TN	$1.9TN	$1.8TN	$1.8TN

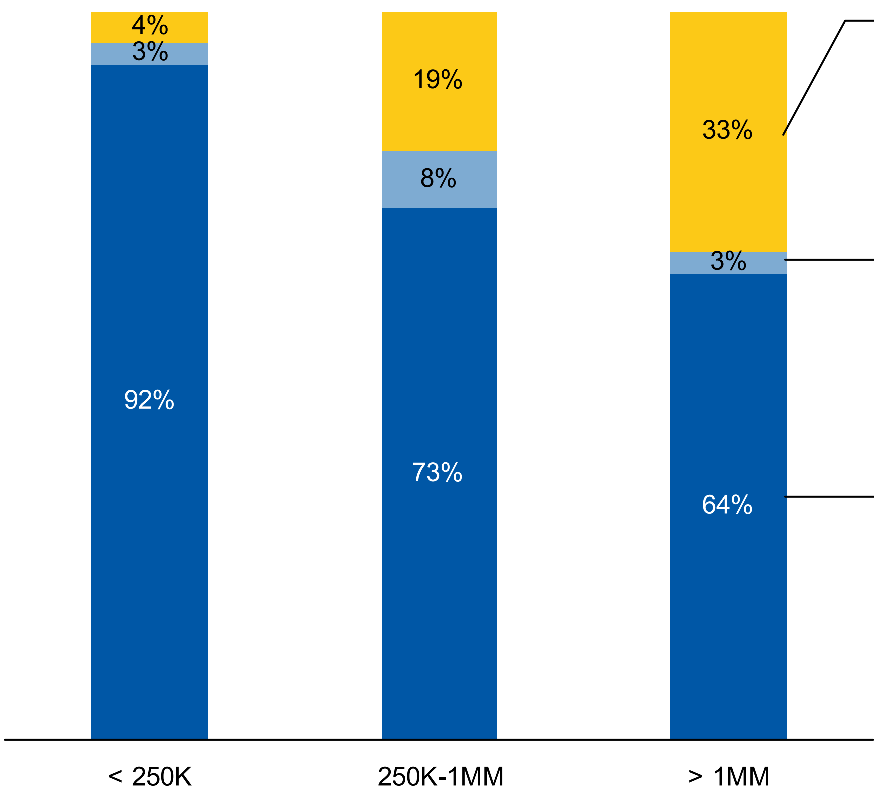
Key observations

- 97% of investors in the survey (37.0MM) hold less than $1MM in assets with broker-dealers or investment advisers
- Despite the heavy skew toward small clients, total assets are evenly distributed across the wealth spectrum ($1.3-1.9TN in all groups)
- Average account balance for investors in the lowest wealth segment is $40K → this is the segment most likely to be affected by a significant increase in costs

1. Wealth segments based on client assets under management
Source: SIFMA member data, 2007 Federal Reserve Survey of Consumer Finances, Oliver Wyman analysis

Across wealth segments, less than 5% of investors use fee-based accounts alone to serve their investment needs

Channel preference (survey population)
Number of households by relationship model, 2009



1 Mix of commission- and fee-based accounts

- As wealth increases, more investors use a hybrid model of fees and commissions-based management

2 Fee-based accounts

- Only 1.3MM investors (4% of total) hold AUM solely under fee-based management
- Fees-only management is the least common channel across all wealth segments

3 Commission-based accounts

- Over 30MM households hold assets solely in commission-based accounts; 27MM of these are from the lowest wealth segment
- Investors in the lowest wealth segment have a much stronger skew towards commissions-only management than any other wealth segment

Source: SIFMA member data, 2007 Federal Reserve Survey of Consumer Finances, Oliver Wyman analysis

The current model offers investors a wide range of advisory service, product access, and pricing options

Key Attributes	Account Types			
	Fee-Based	**Fees and Commissions**	**Commission-Based** *Advised*	**Commission-Based**[1] *Non-Advised*
Share of population	4%	7%	← 88% →	
Advisory needs	▪ Broad, portfolio-based financial planning and investment advice	▪ Broad, portfolio-based financial planning and investment advice plus product-specific advice	▪ Product-specific advice, access to principal products	▪ Uncertain
Investment activity	▪ Combination of active and passive, depending on client needs	▪ Active investment	▪ Combination of active and passive, depending on client choice	▪ Combination of active and passive, depending on client choice
Level of service	▪ Highest → ongoing advice and account surveillance	▪ Highest → ongoing advice and account surveillance	▪ Balanced → point in time advice on specific products	▪ Limited service
Typical holdings	▪ Investable assets only	▪ Investable assets ▪ Cash and equivalents ▪ Concentrated positions with special requirements	▪ Investable assets ▪ Cash and equivalents ▪ Concentrated positions with special requirements	▪ All investable assets ▪ Cash and equivalents
Cost	▪ Highest cost ▪ Range = 67-117 bps[2]	▪ Balanced cost ▪ Range = 43-99 bps[2]	▪ Balanced cost ▪ Range = 38-94 bps[2]	▪ Lowest cost, depending on trading activity
Common investors	▪ Affluent and HNW	▪ Affluent and HNW	▪ All investors	▪ Predominantly lower net worth investors

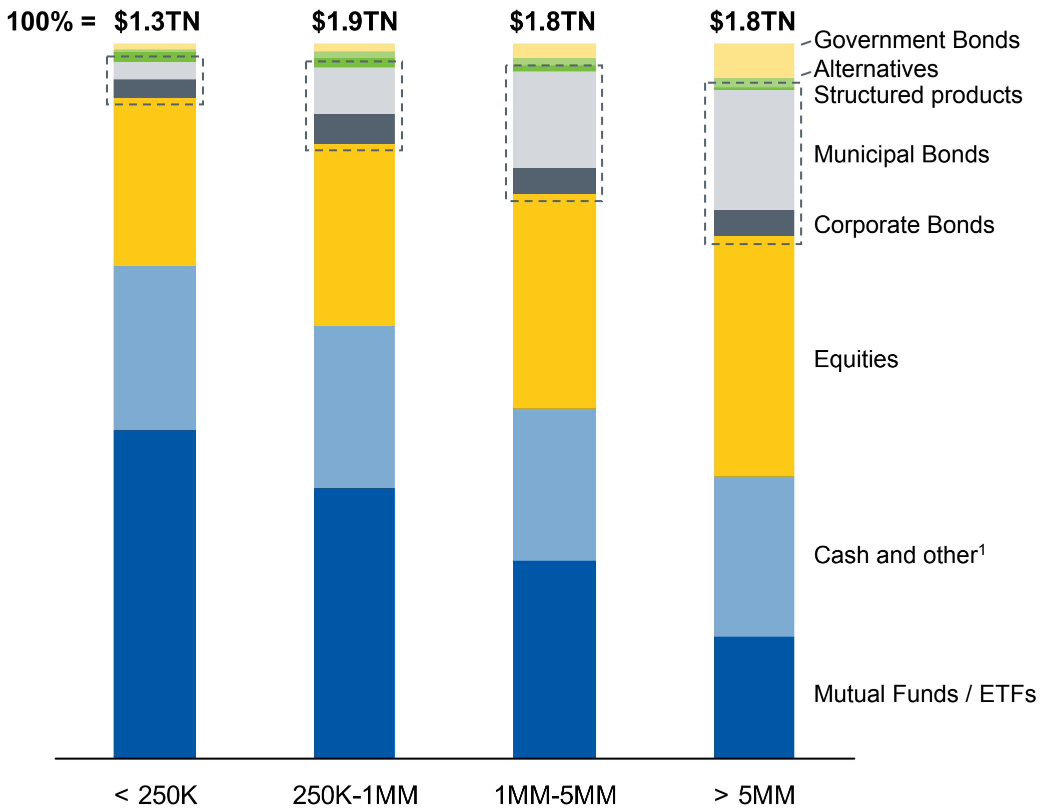
1. Non-advised accounts (e.g. self-directed online) were not targeted in this study but represent a significant subset of commission-based accounts
2. Range dependent on wealth segment (high end of the range reflects pricing for lowest wealth segment)

Section 5

Impact on product access

Direct holdings of individual securities (such as municipal bonds) represent an important element of investment strategy across all wealth segments

Asset allocation (survey population)
Allocation of assets (%) by wealth segment, 2009

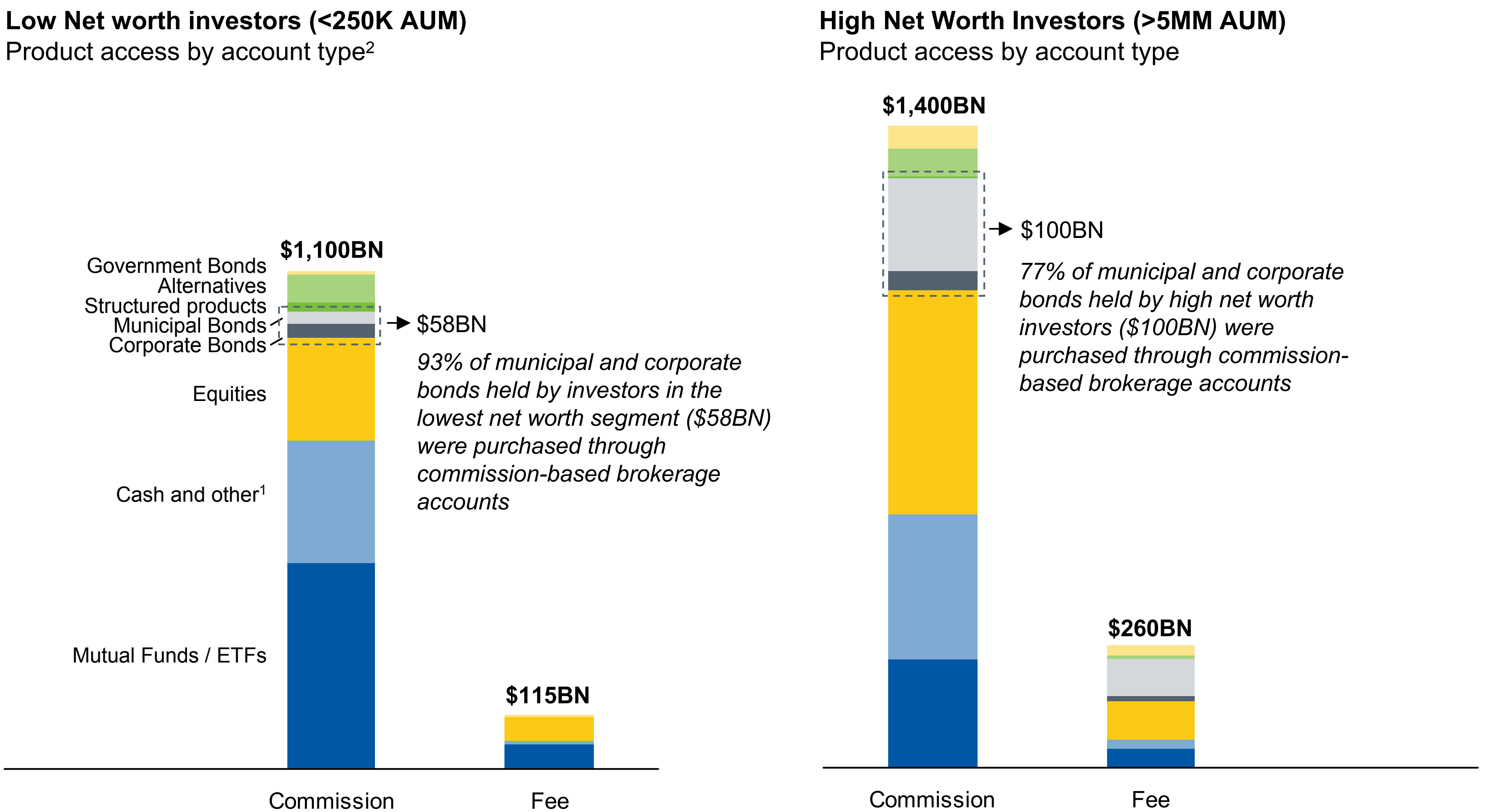


1. Includes cash, currencies, money market funds, etc
Source: SIFMA member data, Oliver Wyman analysis

Key observations

- Investors across all wealth segments have at least 30% of their portfolio in direct holdings of individual securities
- Municipal and corporate bonds offer tax and diversification benefits that investors may be unable to access via funds
- Across all investors, municipal and corporate bonds represent 13% of total wealth and 18% of invested assets (excluding cash)
- Allocations to municipal and corporate bonds range from 7% of investable assets for low net worth accounts to as high as 26% for high net worth accounts

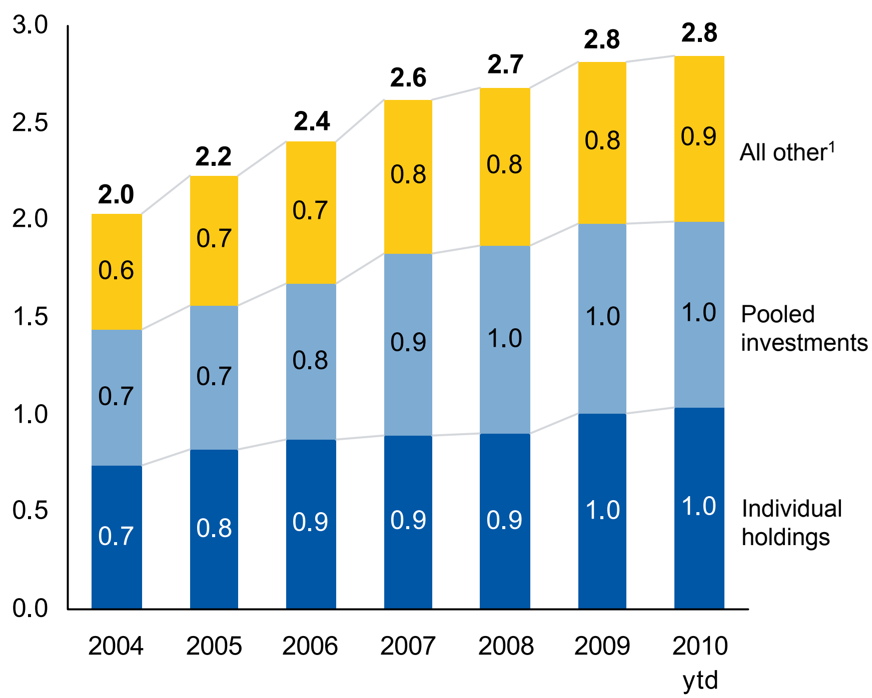
Commission-based brokerage is the primary channel for accessing these products today, especially for investors in the lowest wealth segment



1. Cash and other includes cash, currencies, money market funds, etc.
2. Non-discretionary, commission accounts and discretionary, fee accounts
Source: SIFMA member data, Oliver Wyman analysis

Individual investors hold 70% of municipal debt in the US today, both through direct and pooled investments

Investor demand for Municipal Securities
Holdings of Municipal Securities by segment, $TN



Individual holdings (% of total outstanding)							
Direct	37%	37%	36%	34%	34%	36%	36%
Indirect	34%	33%	34%	36%	36%	35%	34%

1. Other sectors include corporates, financial institutions, broker-dealers, and foreign entities
Source: Federal Reserve

Key observations

- The municipal securities market has grown steadily over the past several years and now provides nearly $3TN in financing for state and local governments
- Municipalities in the U.S. have issued ~$400BN debt annually over the past five years through these instruments
- The market is dominated by individual investors who hold ~ 70% of outstanding debt, split across direct exposures and pooled investments
- Financial institutions are relatively minor players in the space, collectively holding less than 30% of total assets (including broker-dealer inventories)
- A significant shift in the 'standard of care' required for origination and distribution of investments sold on a principal basis (as Munis are) could have a significant market impact along 2 dimensions
  - Access and cost for retail investors
  - Low cost financing for municipalities

Broker-dealers play a key role in the Munis market, providing individual investors with direct and cost effective access to new issuances of these securities

Channels

Retail Investors

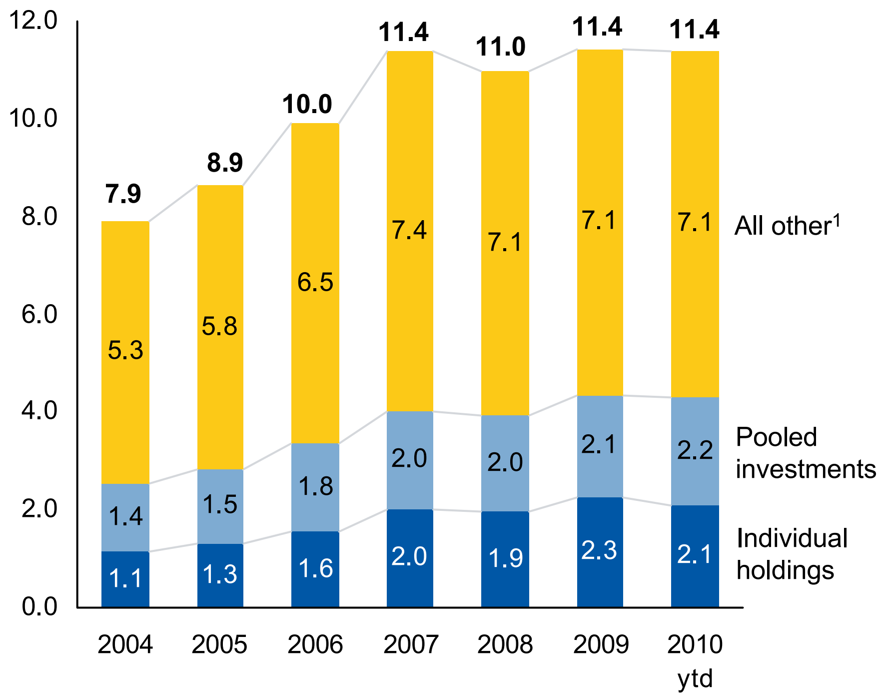
Channel	
Primary market	▪ Transaction costs are built into the 'discount' or underwriting fees paid by the issuer ▪ Investors have access to securities with no explicit mark-up during limited retail order periods
Secondary market	▪ Securities trade on the secondary market and prices fluctuate to reflect supply and demand ▪ Investors have access to securities through broker-dealers who act as principals and build inventory (mark-up paid by investors)
Pooled investment funds	▪ Securities are bought and sold by broker-dealers on behalf of pooled investment funds ▪ Investors pay the funds' asset management / advisory fees in addition to transaction costs / sales loads passed on by the fund

Role of the broker-dealer

- Direct, affordable access to municipal bonds for retail investors via primary and secondary principal trading desks → mutual funds are an alternative channel to Munis but at higher cost as management fees erode returns (~1% management fees vs. 4-5% average yield)

Individual investors are also important participants in the corporate bond market

Investor demand for Corporate and Foreign Bonds
Holdings of Corporate and Foreign Securities by segment, $TN



Individual holdings (% of total outstanding)							
Direct	14%	15%	16%	18%	18%	20%	18%
Indirect	18%	17%	18%	18%	18%	18%	19%

1. Other sectors include corporates, financial institutions, broker-dealers, and foreign entities
Source: Federal Reserve

Key observations

- Corporations and foreign entities rapidly increased issuance of new debt between 2004-2007 and have maintained annual new bond issuance of ~ $11TN since the financial crisis
- Individual investors (via direct holdings or pooled investments) are the largest single class of investor in the corporate and foreign bond market
- Individual investors hold $4.3TN or nearly 40% of outstanding debt today
- In absolute terms, individual investors' share of the corporate securities market is larger than municipal securities
- Capital formation for US corporates is driven in large part by individual investment

Broker-dealers anticipate retail demand for corporate bonds and hold inventory to quickly, efficiently, and cost effectively meet client needs in the secondary market

Channels

Channel	Retail Investors
Primary market	▪ Predominantly institutional market ▪ Retail investors have little to no access to primary issuance
Secondary market	▪ Primarily over-the-counter market → broker-dealers provide main point of access for retail investors to these securities ▪ Investors pay upfront mark-ups but no ongoing management fees that are likely to erode returns
Pooled investment funds	▪ Securities are bought and sold by broker-dealers on behalf of pooled investment funds ▪ Investors pay the funds' asset management / advisory fees in addition to transaction costs / sales loads passed on by the fund

Role of the broker-dealer

- Direct, affordable access to corporate bonds for retail investors via secondary principal trading desks → principal traders anticipate retail demand and build inventory that meets specific investment needs of clients

Section 6

Impact on cost

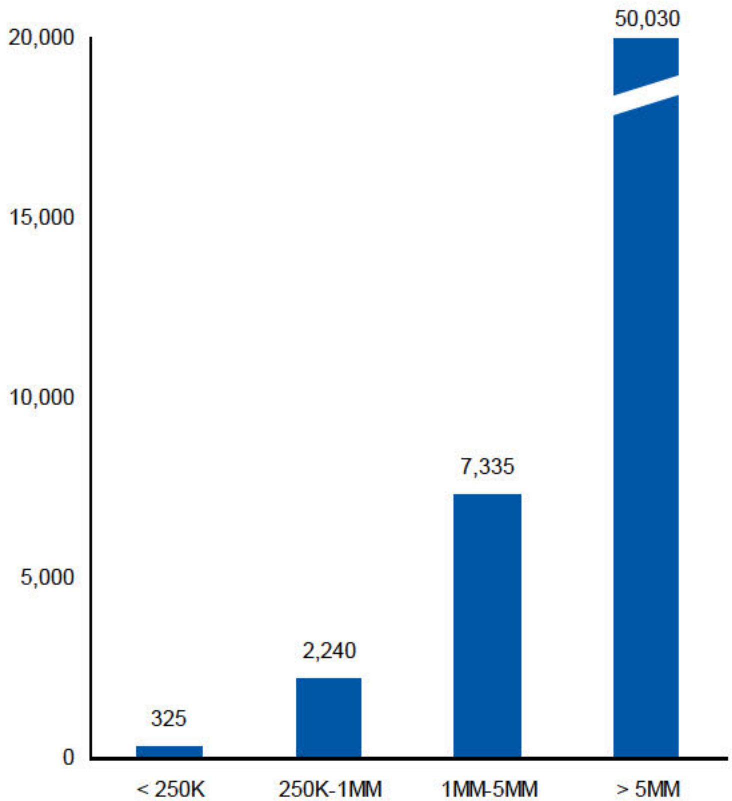
We have profiled three typical investors within each wealth segment to evaluate the potential costs of broad application of the Advisers Act of 1940[1]

A	**'Small Investor' with commission-based accounts** *77% of all investors*	▪ $200K in assets held exclusively in commission-based accounts ▪ Passive investor with less than 10 trades per year (~50% of investors in <$250K segment) ▪ Pays 94 bps or $1,890 in commissions per year ▪ Holds $132K (68% of assets) in mutual funds and cash / cash equivalents ▪ Significant direct holdings (31% of assets), mainly in equities ▪ Limited investments in alternatives, fixed income, and structured products
B	**'Affluent Investor' with commission-based accounts** *7% of all investors*	▪ $500K in assets held in commission-based accounts ▪ Active investor with more than 10 trades per year (~75% of investors in $250K-1MM segment) ▪ Pays 53 bps or $2,650 in commissions per year ▪ Holds $292K (59% of assets) in mutual funds and cash / cash equivalents ▪ Holds $117.5K (23% of assets) in equities ▪ Hold $90.5K (18% of assets) in fixed income, structured products and alternatives
C	**'High Net Worth Investor' with commission-based accounts** *2% of all investors*	▪ $10MM in assets held in commission-based accounts ▪ Active investor with more than 10 trades per year (~75% of investors in >$1MM segment) ▪ Pays 38 bps or $38,000 in commissions per year ▪ Mutual funds and cash / cash equivalents together are $4.1MM (41% of assets) ▪ Equities are largest part of portfolio, with $3.3MM invested (33% of assets) ▪ Fixed income, structured products and alternatives represent $2.6MM (26% of assets)

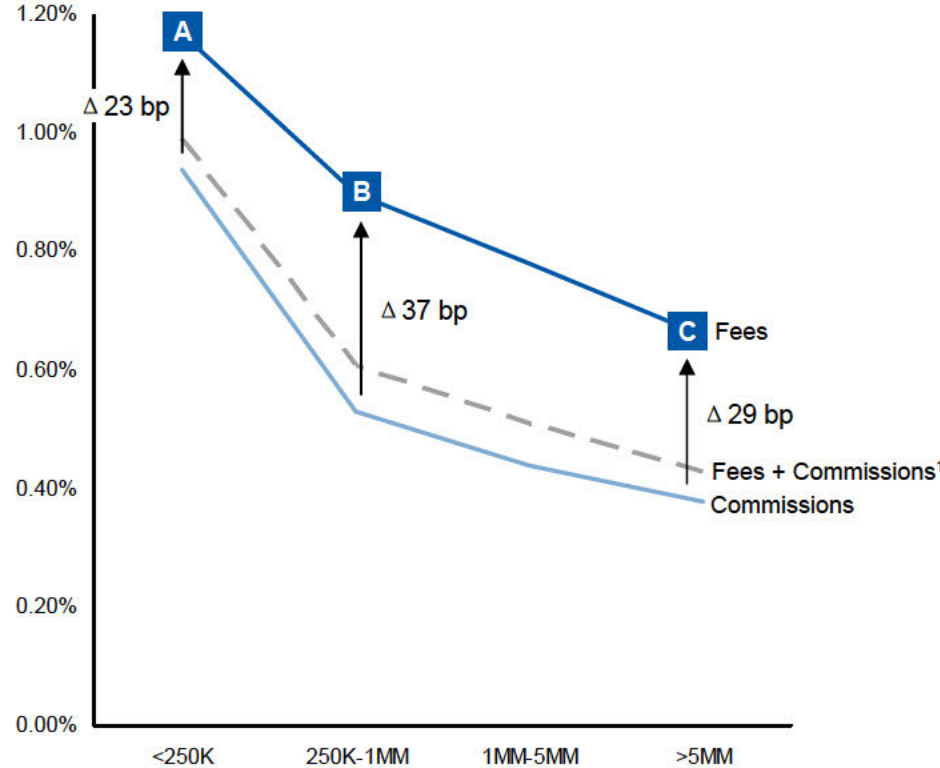
1. Asset allocation based on observed average asset allocation for each wealth segment
Source: SIFMA member data, Oliver Wyman analysis

Commission-based accounts provide the most cost effective option for investors across the wealth spectrum today

Financial cost to consumer
Average annual fees and commissions, 2009



Average annual fees and commissions as % of AUM, 2009

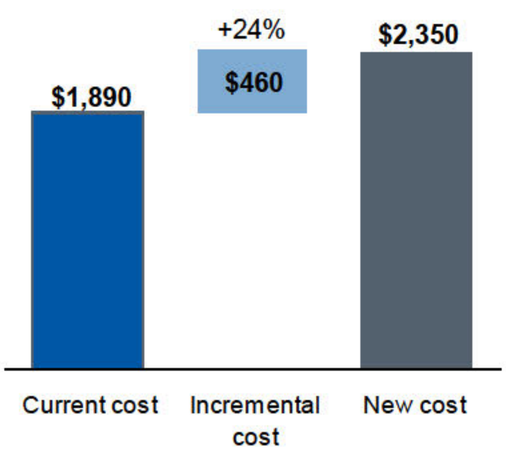


1. Based on existing balance of assets between fee-based and commission-based accounts
Source: SIFMA member data, Oliver Wyman analysis

A broad shift to fee-based advisory would substantially increase costs across all wealth segments

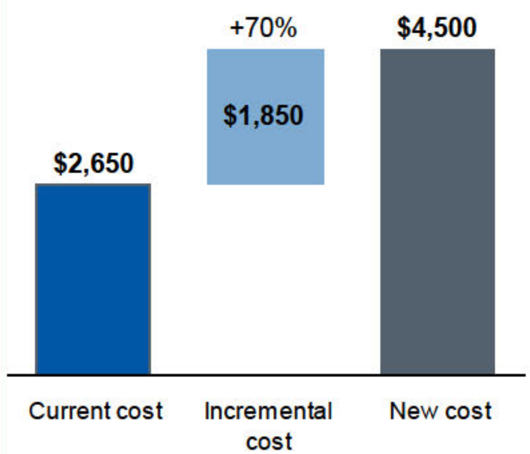
Potential impact on advisory fees and expected returns
Pro forma impact of transition to fee-based accounts at current pricing, annual advisory costs[1]

A Small Investor



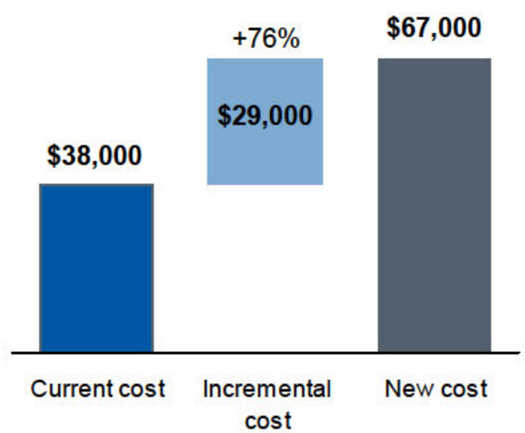
Gross Expected Return[1]	5.00%
- Current Cost	0.94%
Current Expected Return	4.06%
- Incremental Cost	0.23%
New Expected Return	**3.83%**

B Affluent Investor



Gross Expected Return[1]	5.00%
- Current Cost	0.53%
Current Expected Return	4.47%
- Incremental Cost	0.37%
New Expected Return	**4.10%**

C High net worth Investor

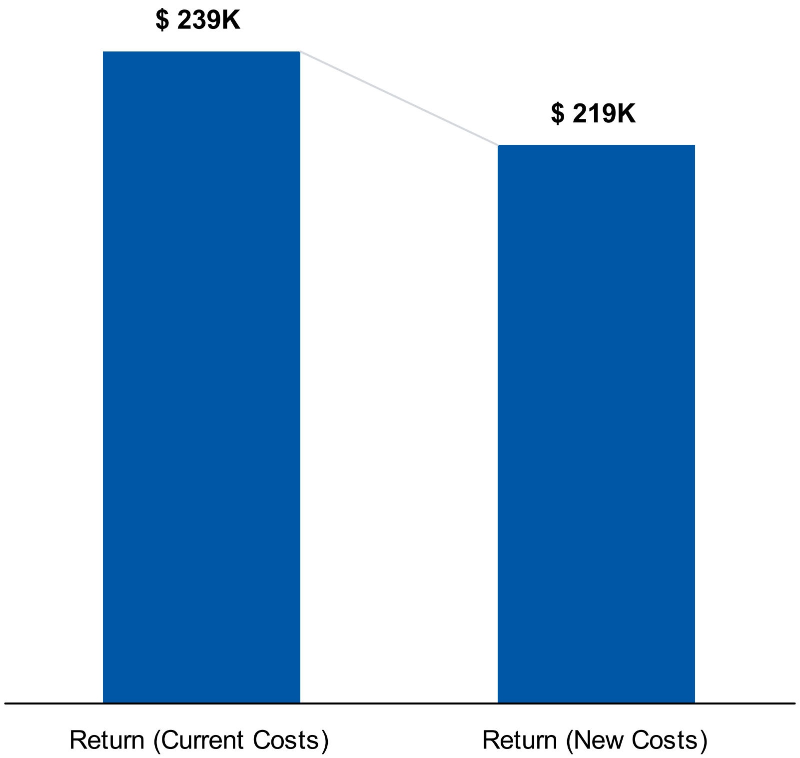


Gross Expected Return[1]	5.00%
- Current Cost	0.38%
Current Expected Return	4.62%
- Incremental Cost	0.29%
New Expected Return	**4.33%**

1. Assumes current pricing for commission- and fee-based accounts hold for all investors
2. Illustrative, not based on observed annual returns
Sources: SIFMA data, Oliver Wyman analysis

The shift to a fee-based model would reduce cumulative returns to 'small investor' (with $200K in assets) by $20K over the next 20 years

Impact of cost on investor returns
Expected investment gains on $200K portfolio, 2010-2030[1]



Key observations

- The average investor in the lowest wealth segment trades relatively infrequently over the course of the year
- As a result, a fee-based cost structure is generally more costly for these 'passive investors' and the incremental costs (+23 bps) erode returns
- For 'small investor,' a fee-based model results in a cumulative reduction in investment gains of $20K over 10 years, roughly 10% of the initial investment
  - 'Small investor' would pay ~ $59K in commissions over the course of 20 years through commission-based brokerage accounts
  - Under a fee-based advisory model, 'small investor' would pay an additional $13K in fees and lose $7K in investment gains as a result of lower principal balances each year

1. Assumes initial investment of $200K in a balanced portfolio reflecting typical, balanced asset allocation for lower net worth investors with <$250K AUM; based on constant annual returns of 5%, not adjusted for inflation; commissions deducted from principal balance starting at year end

However, the costs of complying with and / or demonstrating compliance with the new standard of care will place additional pressure on pricing

Increased activities required by shift in 'standard of care'

- Adviser training
- Increased legal and compliance
- Increased risk management and oversight
- Production and mailing of additional disclosures
- Initial client consultation
  - Review relationship
  - Obtain formal consent for existing strategy
- Investment strategy and plan
  - Evaluate portfolio
  - Assess investment objectives
  - Agree on new investment plan for client
- Documentation of client discussions
- Ongoing account surveillance

Incremental cost of compliance
Annual costs expressed as bps over assets

Additional hours	1	2	3	4	5
Estimated cost	**$200**	**$400**	**$600**	**$800**	**$1,000**
A Small investor ($200K)	10bps	20bps	30bps	40bps	50bps
B Affluent investor ($500K)	4bps	8bps	12bps	16bps	20bps
C HNW investor ($10MM)	2bps	4bps	6bps	8bps	10bps

Focus of analysis on following slides (conservative estimate)

Methodology for calculating hourly rate

- Median income for investment advisers estimated at $173K[1]
- Adviser compensation represents 42% of fully loaded costs based on SIFMA member data
- Given 2,000 working hours per year, average hourly rate of service is $200 / hour

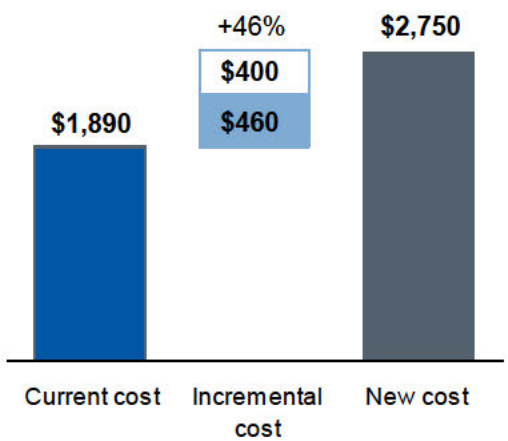
1. Based on 2010 annual compensation survey by Registered Rep
Source: SIFMA member data, Oliver Wyman analysis

These incremental costs will disproportionately impact investors with smaller investment portfolios

Potential impact on advisory fees and expected returns

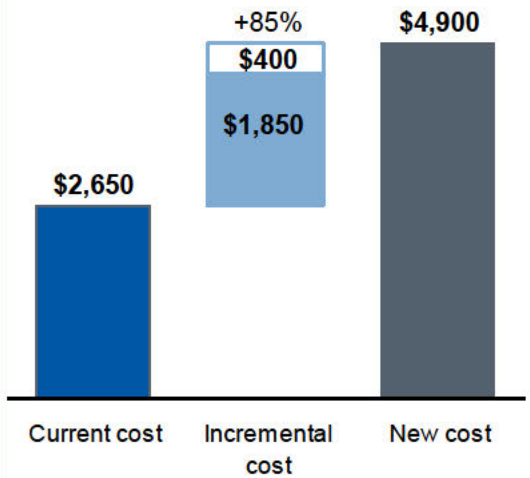
Pro forma impact of transition to fee-based accounts at new pricing, annual advisory costs

A Small Investor



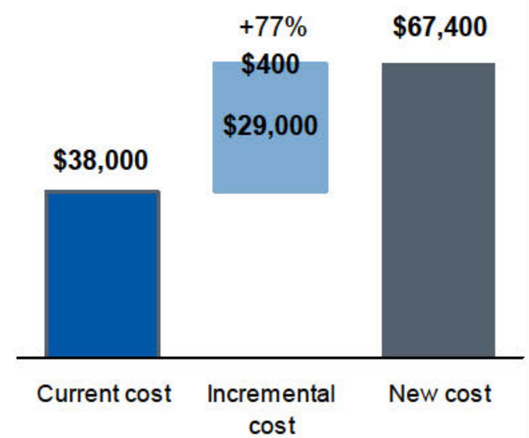
Gross Expected Return[1]	5.00%
- Current Cost	0.94%
Current Expected Return	4.06%
- Incremental Cost	0.43%
New Expected Return	**3.63%**

B Affluent Investor



Gross Expected Return[1]	5.00%
- Current Cost	0.53%
Current Expected Return	4.47%
- Incremental Cost	0.45%
New Expected Return	**4.02%**

C High net worth Investor



Gross Expected Return[1]	5.00%
- Current Cost	0.38%
Current Expected Return	4.62%
- Incremental Cost	0.29%
New Expected Return	**4.33%**

1. Assumes pricing for commission- and fee-based accounts rises to account for additional activity
2. Illustrative, not based on observed annual returns

Sources: SIFMA data, Oliver Wyman analysis

Consumers may also face significant adviser capacity constraints that will limit the availability of service under the new standard of care

Capacity analysis

Current state

Investors with <$250K in commission accounts	28.4MM
Average commissions/investor	$268
Hourly rate for asset management services	$200
Time spent per investor	1.3 hours
Time spent on all investors with <$250K AUM	38.1MM hours
Minimum number of required advisers	19K

Impact of additional service requirements
+ 2 hours per investor

Current utilization levels	**70%**	**80%**	**90%**	**100%**
Implied capacity (MM hours)	54.4	47.6	42.3	38.1
Implied capacity (total investors, MM)	16.3	14.3	12.7	11.4
Coverage gap (total investors, MM)	12.1	14.2	15.8	17.0
Additional advisers needed	20K	24K	26K	28K

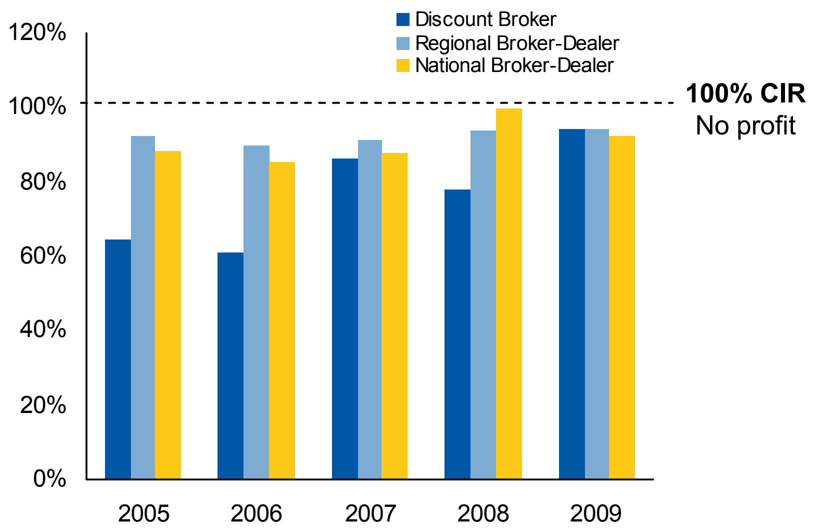
Implications

- Given current resources, we estimate that 40-57% of investors in the lowest wealth segment can be covered if advisers are required to spend 2 additional hours with each investor
- We estimate that 20-28K additional advisers will be needed to serve the 'uncovered' investors in our sample population → our sample population is 33% of US investors, which suggests that 60-84K new advisers may be needed
- Faced with this, the brokerage and investment advisory industry can respond in one of three ways
  - Increase workforce and raise prices
  - Increase workforce and absorb new costs
  - Reduce coverage for lower net worth investors whose 'personalized investment' advisory needs will exceed capacity
- While the autonomy provided by self-directed accounts is desirable for certain investors, market data suggests that investors with advised accounts
  - Make more sophisticated investment decisions
  - Achieve higher average investment returns

Source: SIFMA member data, Oliver Wyman analysis

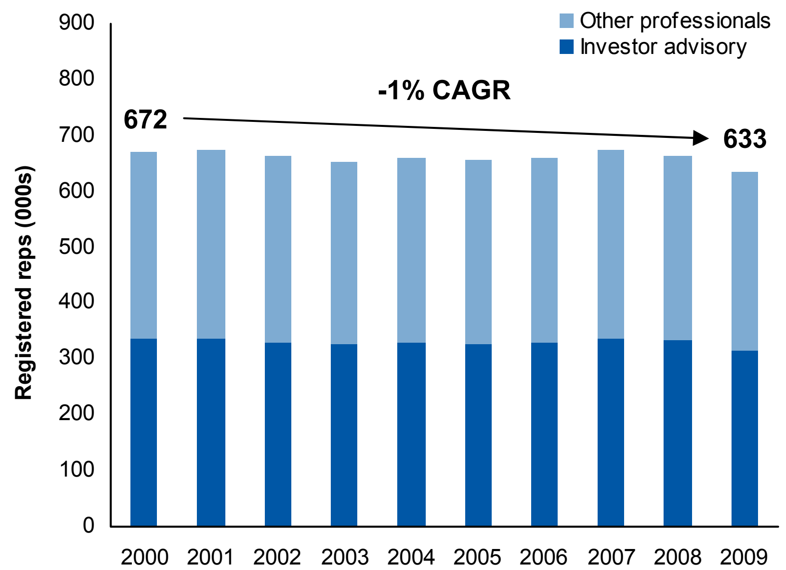
Current economics of the IA/BD industry suggest that investors will need to accept higher costs or turn to alternative service models for investment

Industry profitability
Total costs before tax over total revenues[1]



Operating margins across the industry are thin and have deteriorated since 2005, leaving little room to absorb additional cost

Industry capacity
FINRA registered representatives (000s)[2]

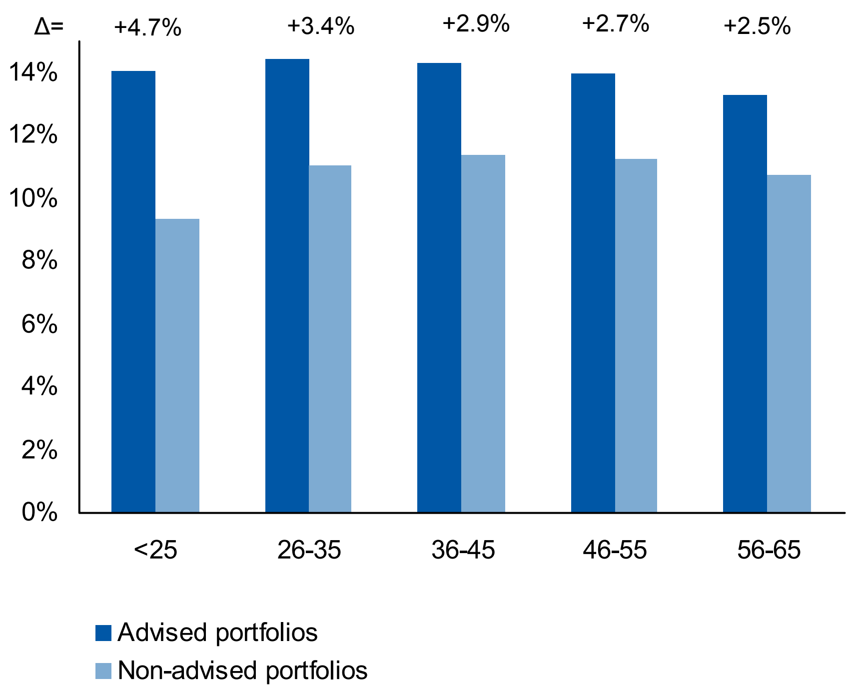


Industry headcount has been flat to negative over the past ten years; the additional capacity required to cover small clients would be difficult to provide (at least in the near term)

1. Public data for companies within the SNL National Broker-Dealer, Regional Broker-Dealer, and Discount Broker indices
2. Figures overstate actual industry capacity (approximately 50-60% of individuals who hold Series 7 licenses do not advise investors, but serve in other capacities e.g. legal, compliance, etc.)
Sources: SNL Financial, FINRA

And several recent studies suggest that investors without access to advisory services may be disadvantaged and fail to realize investment goals

Impact of professional financial advice[1] on portfolio returns
401k returns by age segment, 2006 data



Key observations

- Participants in 401k plans administered by Schwab achieved returns that were 3.3% higher on average if some level of financial advice was provided
- In addition to higher portfolio returns, professional financial advice had an impact on several dimensions
  - Savings rate → 70% of participants who received financial advice doubled their saving rates from an average of 5% to 10% of pre-tax income
  - Portfolio diversification → Participants who received financial advice held positions across 8 asset classes on average vs. self-directed investors who held positions in 3.7
  - Investor confidence → Of participants who received advice, 29% were confident of having adequate funds to retire vs. 16% of investors who did not

1. Use of advisory services for >1 year, 'advisory services' include personalized investment advice online, via phone, or in person
Source: Charles Schwab studies on 401(k) portfolio returns (2007) and impact of professional advisory relationships in 401(k) plans (2010)

Appendix

MiFID Investor Protection

In 2007, the Markets in Financial Instruments Directive (MiFID) made significant provisions for 'investor protection'

MiFID provisions

- Regulation of alternative trading systems
  - Regulation of multi-lateral trading facilities
  - Treatment of systemic internalisers, or principal traders, as mini-exchanges
- Increased pre and post trade transparency for all trading facilities
- Passporting or development of a single market for transactions in financial instruments across a number of European Union member states
- Requirement to enhance corporate governance structures to accommodate an independent compliance function
- Investor protection
  - Appropriate client categorization and client order handling
  - Best execution requirement for all trades on behalf of clients
  - Robust record keeping systems for periodic statements, transaction reporting, and client contracts and agreements

MiFID relative to Advisers Act of 1940

- MiFID provisions covered a narrower range of activities and imposed a less onerous standard of care than the 'best interest' standards that would be required if the Advisers Act were adopted

	MiFID	
	Suitability	Best interest
Investment planning	✓	×
Asset allocation advice	✓	×
Advice on client holdings	✓	×
Proprietary product sales	✓	×
Underwriting	Not covered	
Principal trading	✓	×
IRA / retirement accounts	✓	×

Although less onerous than the 'standard of care' currently under consideration in the US, MiFID studies nonetheless show the impact of similar compliance costs on asset management firms

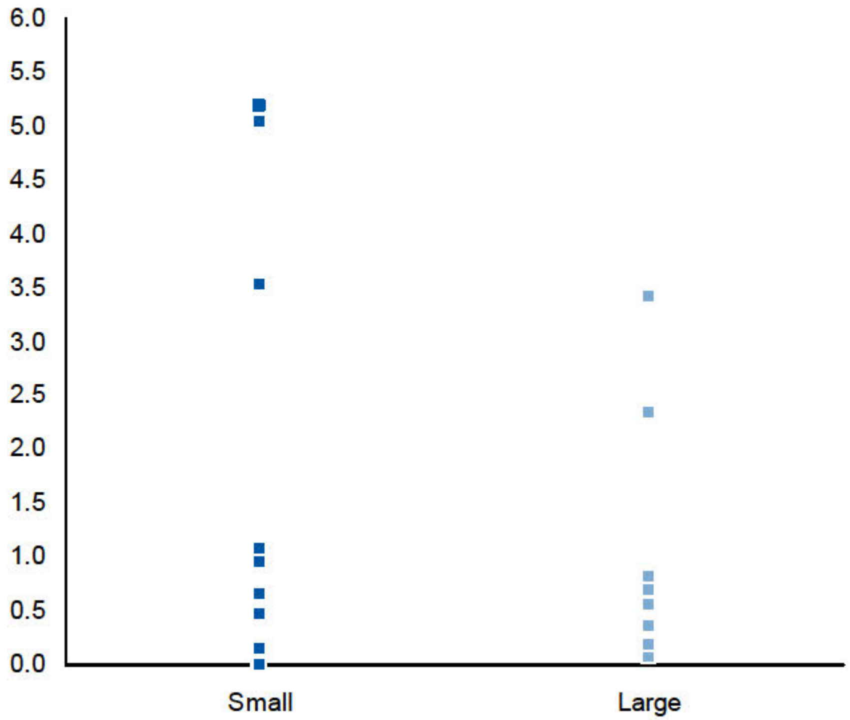
The FSA's impact studies on MiFID identified investor protection provisions as the greatest contributors to compliance costs

	Activity	Objective	Cost Factors	Cost Drivers
Client Acquisition	**Classifying client base**	Categorizing clients according to size of portfolio, # trades, etc.	System/process to capture client data Client data collection	Fixed cost # clients, length of client discussions
	Suitability/ Appropriateness	Understanding needs, objectives, risk profiles, experience and expertise of clients	System/process to capture client data Client data collection Updated risk information on products	Fixed cost # clients, level of existing data # products offered
Client Management	**Consent/ Disclosure**	Disclosing information on suitability, best execution policy, conflicts of interest policy, principal trading, etc.	One time client agreements/contracts Routine disclosure	Response rate, # of clients # clients, frequency of disclosure
	Maintenance of client portfolios	Upholding suitability requirement to maintain AUM in appropriate investments	Monitoring client accounts	# clients, # products offered
Order Execution	**Best execution**	Achieving optimal mix of price, speed and likelihood of execution	Regular reviews of execution venues Disclosure to prove best execution policy	# monitored execution venues # clients, frequency of disclosure
	Conflict of Interest	Identifying/addressing conflicts, actively managing potential issues before they become conflicts	Maintaining Chinese Walls Documentation/database	# departments, level of principal trading # products offered
	Documentation of trades	Demonstrating compliance with suitability and best execution requirements	Electronic/voice storage Paper document storage	# trades, # clients, required level of detail # trades, # clients, required level of detail

Source: Implementing MiFID for Firms and Markets, FSA Consultation Paper 2006

Smaller firms with a large retail client base incurred higher one-off costs of compliance as a percentage of operating costs

One-off compliance costs of MiFID by firm size[1]
One-off costs as a percentage of operating costs, 2007



Determinants of one-off costs

- The study found that client profile is the most important determinant of costs, with retail clients incurring significantly more costs than institutional clients
- The biggest one-off costs arose from investment in IT and revisions of CRM systems to reflect new data points, especially for certain retail segments
- A significant portion of one-off costs were fixed, irrespective of firm size and number of clients
- Impact studies indicated that small firms would be unable to sustain large fixed costs of compliance and exit the industry
- In absolute terms, average one-off costs were ~€1 MM for a small firm and ~€4 MM for a large firm
- There is high variability in the level of one-off costs amongst smaller firms depending upon
  – Extent to which firms serve retail clients
  – Ability of firms to make large upfront investments

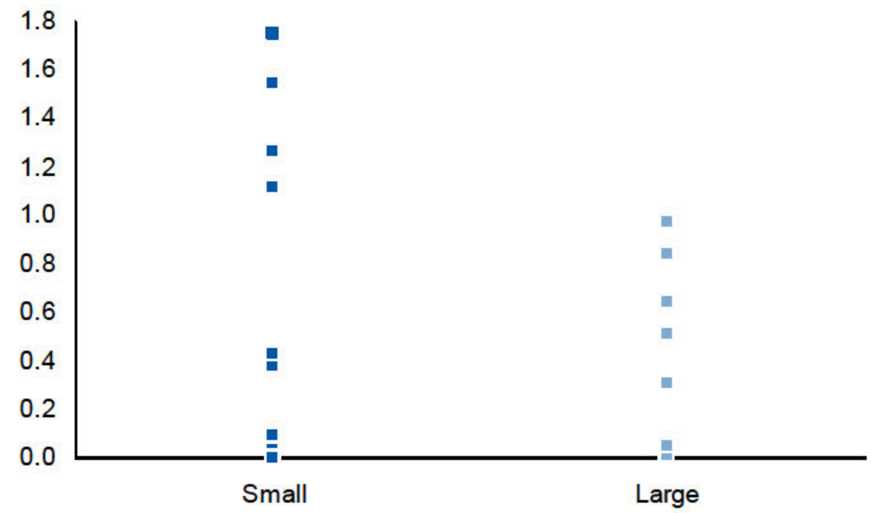
1. Firms with fewer than 100 employees were classified as "Small"
Source: Europe Economics Study, 2007

Due to their inability to make sizeable upfront investments, smaller firms typically also sustained higher ongoing costs of compliance as a percent of operating costs

On-going compliance costs of MiFID
European asset managers by firm size[1], 2007

	Small	Large
Additional staff	70%	18%
Internal reporting	9%	12%
IT	4%	30%
External reporting	12%	17%
Training	2%	7%
Audit	2%	16%

Ongoing compliance costs of MiFID by firm size
Ongoing costs as a percentage of operating costs, 2007



- Whereas larger asset managers complied with MiFID by investing in automated systems, smaller firms increased headcount
- There is a trade-off between one-off and on-going costs, e.g. for smaller firms the option of updating IT systems might have been too expensive, thus on-going costs of sustaining a larger workforce are much higher
- The smallest firms in the study had no specialist compliance functions prior to MiFID, and required significant resources to cover compliance activities

1. Firms with fewer than 100 employees were classified as "Small"
Source: Europe Economics Study, 2007

From: Lloyd, Karen - EBSA
To: Bartmann, Thoreau
Subject: RE: EBSA Question
Date: Thursday, January 31, 2013 4:23:00 PM

Great, thanks!

From: Bartmann, Thoreau [[redacted]@SEC.GOV]
Sent: Thursday, January 31, 2013 3:51 PM
To: Lloyd, Karen - EBSA
Cc: Uyeda, Mark T; Prince, Brice D.
Subject: RE: EBSA Question

Thanks Karen, I will give you a call at three tomorrow.

Thoreau Bartmann
Branch Chief, Office of Regulatory Policy
Division of Investment Management, SEC
[redacted]

From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Thursday, January 31, 2013 2:45 PM
To: Bartmann, Thoreau
Cc: Uyeda, Mark T; Prince, Brice D.
Subject: RE: EBSA Question

Thanks so much for the quick reply. It would be great to have a call. I hope to not take up too much of your time. I am free tomorrow at 3 pm or any time Monday afternoon.

-Karen

From: Bartmann, Thoreau [redacted]@SEC.GOV]
Sent: Thursday, January 31, 2013 2:26 PM
To: Lloyd, Karen - EBSA
Cc: Uyeda, Mark T; Prince, Brice D.
Subject: EBSA Question

Hi Karen, my name is Thoreau Bartmann and I work with Mark here in Investment Management at the SEC. Mark passed your question on to me-I would be happy to try and help answer your questions the best I can. I am also CCing a colleague of mine in our trading and markets division who may be able to provide some insight into the broker side of your questions. Perhaps we can set up a call tomorrow or next week to discuss your questions? We may not be able to answer everything right away, but if we get a better sense of what you want to know we should be able to get you answers or put you in contact with the right people here at the SEC who can help.

I am free most of the afternoon this Friday and Monday-let me know what time works for you.
Thanks,

Thoreau Bartmann

Branch Chief, Office of Regulatory Policy
Division of Investment Management, SEC
[redacted]

From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Thursday, January 31, 2013 11:17 AM
To: Uyeda, Mark T
Subject: Question from EBSA

Hi Mark,

You and I were on a call together recently regarding the proposed amendments to EBSA's class exemptions to remove credit ratings, per Dodd-Frank. I remember that you said you acted as our liaison for SEC questions, and I was hoping to take you up on that.

We were hoping to talk to someone briefly about the mechanics of mutual fund shares purchases/sales, particularly the circumstances in which a purchase can be made by a broker as an agent on behalf of an employee plan, as opposed to in a principal transaction. It is our understanding that section 22(d) of the Investment Company Act references sales by "dealers" and we want to clarify whether that precludes sales in which a broker is acting as agent. We also want to confirm our understanding of the possible fees that a broker may charge in connection with transactions involving no-load funds.

Would you be able to put us in touch with someone on this issue?

Thanks so much,
Karen Lloyd
Division of Class Exemptions
Office of Exemption Determinations
Employee Benefits Security Administration
[redacted]

From: Lloyd, Karen - EBSA
To: Porter, Jennifer R.
Subject: RE: Follow up from DOL
Date: Thursday, January 29, 2015 1:03:00 PM

Great, thanks.

-----Original Message-----
From: Porter, Jennifer R. [redacted]@SEC.GOV]
Sent: Thursday, January 29, 2015 1:02 PM
To: Lloyd, Karen - EBSA
Subject: RE: Follow up from DOL

Karen, 2 pm works for us. We will call you.

Thanks,
Jen

-----Original Message-----
From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Thursday, January 29, 2015 9:46 AM
To: Porter, Jennifer R.
Subject: Follow up from DOL

Hi Jen,

Thanks for your voicemail, I'm sorry I wasn't able to call you back last night. I appreciate your time in looking into this further. I am around all afternoon - should we try to talk at 2pm?

Karen

Karen E. Lloyd
Chief, Division of Class Exemptions
Office of Exemption Determinations
Employee Benefits Security Administration
[redacted]

From: Lloyd, Karen - EBSA
To: Russell, Emily
Subject: RE: Follow up from EBSA
Date: Tuesday, August 27, 2013 3:13:00 PM

Thanks, we are very appreciative of your time and input.

-----Original Message-----
From: Russell, Emily [redacted]@SEC.GOV]
Sent: Tuesday, August 27, 2013 3:11 PM
To: Lloyd, Karen - EBSA; Gonzalez, Lourdes
Cc: Baltz, Brian
Subject: RE: Follow up from EBSA

Great - we can use the same dial-in information we used for today's meeting (re-copied below):

US Toll-Free: [redacted]
Access Code: [redacted]

We look forward to the discussion!

Emily

-----Original Message-----
From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Tuesday, August 27, 2013 3:05 PM
To: Russell, Emily; Gonzalez, Lourdes
Cc: Baltz, Brian
Subject: RE: Follow up from EBSA

That would be great. We can do 1 pm.

-----Original Message-----
From: Russell, Emily [redacted]@SEC.GOV]
Sent: Tuesday, August 27, 2013 3:01 PM
To: Gonzalez, Lourdes; Lloyd, Karen - EBSA
Cc: Baltz, Brian
Subject: RE: Follow up from EBSA

Hi Karen -

We checked our calendars, and it seems that we could do a call sometime between 1-3 on Friday, if that works for you. We may suggest on the earlier side, if possible, only because of the holiday weekend (people may be running out earlier than currently reflected on their calendars).

Thanks,

Emily

-----Original Message-----
From: Gonzalez, Lourdes
Sent: Tuesday, August 27, 2013 12:37 PM
To: [redacted]@dol.gov'; Russell, Emily
Cc: Baltz, Brian
Subject: Re: Follow up from EBSA

Let's check with our colleagues and get back to you shortly. Thank you.

----- Original Message -----
From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Tuesday, August 27, 2013 12:35 PM Eastern Standard Time
To: Russell, Emily
Cc: Gonzalez, Lourdes
Subject: RE: Follow up from EBSA

Thank you again for your time earlier today. We would love to follow up and have a similar conversation about the global compensation exemption
-- would Friday by chance work for those on your end?

--Karen

-----Original Message-----
From: Russell, Emily [redacted]@SEC.GOV]
Sent: Wednesday, August 14, 2013 4:00 PM
To: Lloyd, Karen - EBSA
Cc: Gonzalez, Lourdes
Subject: RE: Follow up from EBSA

Great - Let's plan from 10-11 on the 27th. Please use the below dial-in information:

US Toll-Free: [redacted]
Access Code: [redacted]

We look forward to discussing with you in person.

Thank you,

Emily

-----Original Message-----
From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Wednesday, August 14, 2013 3:24 PM
To: Russell, Emily
Cc: Gonzalez, Lourdes
Subject: RE: Follow up from EBSA

That would be great. On the 26th we can do it anytime in the afternoon except between 2-3 pm. On the 27th we can do it at 10 a.m.

-----Original Message-----
From: Russell, Emily [redacted]@SEC.GOV]
Sent: Wednesday, August 14, 2013 2:27 PM
To: Lloyd, Karen - EBSA
Cc: Gonzalez, Lourdes
Subject: RE: Follow up from EBSA

Hi Karen -

Thank you so much for your email and for coming to meet with us last week. Your email is timely, as we were just following up internally with our staff experts on the matters addressed in the draft exemption.
Looking at our collective calendars, it seems we are available the afternoon of August 26th or the morning of

August 27th, if there is an hour or so in either of those time frames that works for you and your team. We are happy to do by phone, if that works best for all involved.

Thanks,

Emily

-----Original Message-----
From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Wednesday, August 14, 2013 12:35 PM
To: Russell, Emily
Subject: Follow up from EBSA

Hi Emily,

I am one of the EBSA people who attended the meeting last week on the fiduciary rule. I work on the class exemptions. We are very interested in any feedback the SEC staff can provide on our principal transactions draft exemption. Would it be possible to put a meeting or call on the calendar to discuss it? I am out on vacation next week but will be in the week of August 26, if that is a possibility at all.

Thank you for your help,
-Karen

Karen E. Lloyd
Office of Exemption Determinations
Employee Benefits Security Administration
[redacted]

From:	Lloyd, Karen - EBSA
To:	Porter, Jennifer R.
Cc:	Buescher, Sarah A.
Subject:	Re: Follow up
Date:	Tuesday, December 23, 2014 5:21:16 PM

Thank you!

From: Porter, Jennifer R. [redacted]@SEC.GOV>
Sent: Tuesday, December 23, 2014 5:16:11 PM
To: Lloyd, Karen - EBSA
Cc: Buescher, Sarah A.
Subject: RE: Follow up

Karen,

I have information for investment advisers but I will have to send the information for broker-dealers later (hopefully tomorrow). I copied Sarah from our Division of Investment Management in case you have follow-up questions about the following.

In general, there is not a definition of "material conflict of interest" in the Advisers Act, but there are certain principles, such as what a reasonable investor might consider material, and the idea that a material conflict is one that could cause an adviser to provide advice that was not disinterested. For example:

- SEC staff said in the "Information for Newly-Registered Advisers" that "Generally, facts are "material" if a reasonable investor would consider them to be important." http://www.sec.gov/divisions/investment/advoverview.htm.

- In the Capital Gains Supreme Court decision: "[t]he Investment Advisers Act of 1940 reflects a congressional recognition of the delicate fiduciary nature of an investment advisory relationship as well as a congressional intent to eliminate, or at least to expose, all conflicts of interest which might incline an investment adviser—consciously or unconsciously—to render advice which was not disinterested." It doesn't say "material" but that would be the assumption, as the Commission has said that an adviser has a duty to disclose material conflicts of interest (see, e.g. Amendments to Form ADV, Advisers Act Rel. No. 3060 (July 28, 2010)).

- This principle is also in Basic v. Levinson where the Supreme Court said in the proxy solicitation context that materiality depends on the significance the reasonable investor would place on the withheld or misrepresented information. That case is attached.

Please let us know if you have any questions or need anything additional on this. Again, I will send information for broker-dealers in a separate email.

Thanks,

Jen

JENNIFER R. PORTER
Senior Advisor to the Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549
Phone | [redacted]
[redacted]@sec.gov

-----Original Message-----
From: Lloyd, Karen - EBSA [redacted]@dol.gov]
Sent: Tuesday, December 23, 2014 3:46 PM
To: Porter, Jennifer R.
Subject: Follow up

Hi Jen,

Thank you for your help earlier today. I had one additional question -- I am sorry to ask you this just before the holiday, please don't feel like you have to get right back to me. Can you point me to a securities law cite on "materiality" as it might relate to conflicts of interest?

Thanks,
Karen

Karen E. Lloyd
Chief, Division of Class Exemptions
Office of Exemption Determinations
Employee Benefits Security Administration
[redacted]

From: Lloyd, Karen - EBSA
To: Gonzalez, Lourdes
Cc: McGowan, Thomas K.
Subject: RE: Questions from DOL on brokers extensions of credit
Date: Friday, September 26, 2014 4:32:00 PM

Thanks Lourdes.

Tom, can I give you a call early next week to flesh out our question?

Karen

From: Gonzalez, Lourdes [redacted]@SEC.GOV]
Sent: Friday, September 26, 2014 4:29 PM
To: Lloyd, Karen - EBSA
Cc: McGowan, Thomas K.
Subject: Re: Questions from DOL on brokers extensions of credit

Hi Karen.

This is outside my area. I'm copying my counterpart in the financial responsibility group, Tom McGowan, to see if he can help you. I suspect he'll need more facts to help answer your question.

Rule 10b-16 is about disclosure of margin terms. Think of it as Truth in Lending disclosure for brokers. I'm not familiar with that FINRA rule but I can facilitate a conversation with FINRA if you decide you want to talk to them.

Lourdes Gonzalez
Assistant Chief Counsel – Sales Practices
Division of Trading and Markets
U.S. Securities and Exchange Commission

From: <Lloyd>, Karen - EBSA [redacted]@dol.gov>
Date: Friday, September 26, 2014 4:03 PM
To: SEC Lourdes Gonzales [redacted]@sec.gov>
Subject: Questions from DOL on brokers extensions of credit

Hi Lourdes,

I'm part of the DOL team working on the fiduciary project. Thank you for all of the time you have spent assisting us with the project. We have some discrete questions on another exemption related to our fiduciary project. If you have time, we would like to discuss securities laws requirements regarding extensions of credit between brokers and their clients. (This would be just a few people in the Office of Exemption Determinations, not our whole group.)

Specifically, the question relates to broker-dealers extending credit to clients to avoid a failed securities transaction. Because extending credit/receiving compensation for the extension of credit are prohibited transactions, we have been told that an exemption is necessary for brokers who become fiduciaries to continue to do this. We would like to understand primarily whether this type of extension of credit is *required* of brokers under the securities laws -- are they required to step in if their customers do not perform obligations under a trade? Further we would like to know what (if any) disclosure requirements or other requirements apply in connection with these types of extensions of credit. We have come across FINRA Rule 11810 and Securities Exchange Act Rule 10b-16 but are not sure if both apply (10b-16 seems to apply to margin transactions only?).

We would really appreciate any guidance that you can give you on this issue.

Karen

Karen E. Lloyd
Chief, Division of Class Exemptions
Office of Exemption Determinations
Employee Benefits Security Administration
[redacted]

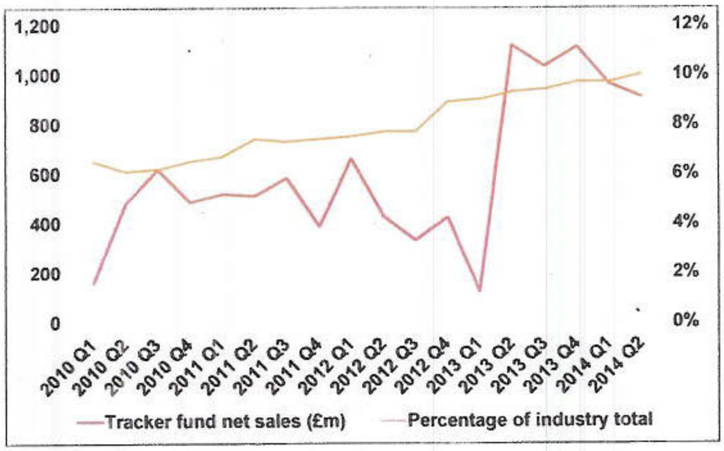
From: Block, Sharon I - OSEC
To: Lona Nallengara [redacted]@SEC.GOV)
Subject: COI follow up
Date: Wednesday, December 03, 2014 10:10:00 AM
Attachments: FCA Charts_2014111806364200.pdf

Lona – I think our respective bosses' schedulers are trying to find a new time for the call that we unfortunately missed yesterday. Once the call gets rescheduled, I've asked Ronetta in my office to find time for the follow up call we discussed yesterday. Secretary Perez asked me in the meantime to make sure that Chair White gets the attached document, which he referred to in their last conversation. It reflects data from Chair Griffith Jones of the UK Financial Conduct Authority about what they are seeing as a result of the implementation of their advice reform regulation. Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

FCA Restricted

Evidence on costs: dramatic post-RDR increase in tracker funds sales (typically lower cost)

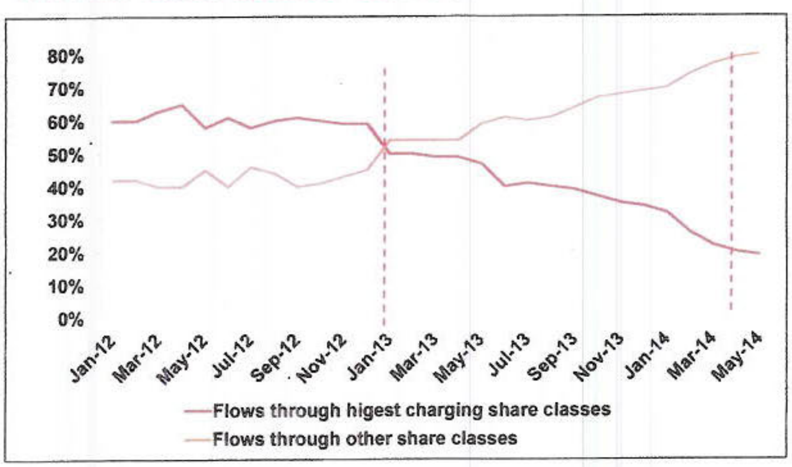


6 Financial Conduct Authority

FCA

FCA Restricted

Evidence on costs 2: post-RDR shift to lower cost share classes



7 Financial Conduct Authority

FCA

From:	Nallengara, Lona
To:	Block, Sharon I - OSEC
Subject:	Contact
Date:	Tuesday, February 17, 2015 2:05:30 PM

Sharon –

I hope that you are doing well and that you are enjoying the snow.

We are getting press questions about your rulemaking. Is there someone that our communications person (Gina Talamona) can contact to share notes?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Subject: Message
Date: Tuesday, March 03, 2015 9:19:08 PM

Sharon,

I hope you had a restful vacation. I am sorry for not getting back to you sooner.

What is your day like on Wednesday for a call?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Nallengara, Lona
To: Block, Sharon I - OSEC; Trupo, Michael - OPA
Cc: Talamona, Gina
Subject: RE: Contact
Date: Tuesday, February 17, 2015 2:26:28 PM

Thanks, Sharon.

I have added Gina to this note.

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Tuesday, February 17, 2015 2:09 PM
To: Nallengara, Lona; Trupo, Michael - OPA
Subject: RE: Contact

Looping in Mike Trupo in our press shop.

From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Tuesday, February 17, 2015 2:04 PM
To: Block, Sharon I - OSEC
Subject: Contact

Sharon –

I hope that you are doing well and that you are enjoying the snow.

We are getting press questions about your rulemaking. Is there someone that our communications person (Gina Talamona) can contact to share notes?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From:	Block, Sharon I - OSEC
To:	"Nallengara, Lona"; Trupo, Michael - OPA
Subject:	RE: Contact
Date:	Tuesday, February 17, 2015 2:08:00 PM

Looping in Mike Trupo in our press shop.

From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Tuesday, February 17, 2015 2:04 PM
To: Block, Sharon I - OSEC
Subject: Contact

Sharon –

I hope that you are doing well and that you are enjoying the snow.

We are getting press questions about your rulemaking. Is there someone that our communications person (Gina Talamona) can contact to share notes?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Trupo, Michael - OPA
To: Nallengara, Lona; Block, Sharon I - OSEC
Cc: Talamona, Gina
Subject: Re: Contact
Date: Tuesday, February 17, 2015 3:35:27 PM

Thank you. I will catch up with Gina today.

--Mike

From: Nallengara, Lona [redacted]@SEC.GOV>
Sent: Tuesday, February 17, 2015 2:25 PM
To: Block, Sharon I - OSEC; Trupo, Michael - OPA
Cc: Talamona, Gina
Subject: RE: Contact

Thanks, Sharon.

I have added Gina to this note.

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Tuesday, February 17, 2015 2:09 PM
To: Nallengara, Lona; Trupo, Michael - OPA
Subject: RE: Contact

Looping in Mike Trupo in our press shop.

From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Tuesday, February 17, 2015 2:04 PM
To: Block, Sharon I - OSEC
Subject: Contact

Sharon –

I hope that you are doing well and that you are enjoying the snow.

We are getting press questions about your rulemaking. Is there someone that our communications person (Gina Talamona) can contact to share notes?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From:	Block, Sharon I - OSEC
To:	"Nallengara, Lona"
Cc:	Hauser, Timothy - EBSA
Subject:	RE: EBSA responses to SEC comments
Date:	Saturday, January 10, 2015 4:43:00 PM

Thanks Lona. It is certainly an interest (and I think helpful) reference. I will certainly share it with the Secretary.

From: Nallengara, Lona [redacted]@SEC.GOV]
Sent: Friday, January 09, 2015 11:50 PM
To: Block, Sharon I - OSEC
Cc: Hauser, Timothy - EBSA
Subject: RE: EBSA responses to SEC comments

Thanks, Sharon. I was very nice to meet you.

During our meeting Mary Jo mentioned to the Secretary that FINRA recently issued its Regulatory Examinations Priorities Letter and the letter had a reference to FINRA's perspective on interests of a client. It is a small reference, but an interesting one. I have attached the letter and I have highlighted the section on page 2. I was hoping you could pass this on to the Secretary, if you think he would be interested in looking at this.

I hope you have a nice weekend.

- Lona

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Friday, January 09, 2015 4:19 PM
To: Nallengara, Lona
Cc: Hauser, Timothy - EBSA
Subject: EBSA responses to SEC comments

Lona – It was great to finally meet you in person this week. Following up on our bosses' conversation, attached please find a chart that details the most recent comments on the draft that we've received from Jen Porter and her team and our responses. I've copied Tim Hauser, who leads our reg drafting team and who has been working with Jen, in case Jen has any follow up questions. Thanks, Sharon

Sharon Block
Senior Counselor to the Secretary
U.S. Department of Labor
[redacted]*@dol.gov*
[redacted]

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Cc: Choi, Sarah
Subject: RE: Message
Date: Tuesday, March 03, 2015 10:21:00 PM

That works for me.

From: Block, Sharon I - OSEC [redacted]@dol.gov]
Sent: Tuesday, March 03, 2015 9:27 PM
To: Nallengara, Lona
Subject: Re: Message

No worries. My day tomorrow is awful -- literally back to back all day. How about 10:30am on Thursday?

From: Nallengara, Lona [redacted]@SEC.GOV>
Sent: Tuesday, March 03, 2015 9:18:02 PM
To: Block, Sharon I - OSEC
Subject: Message

Sharon,

I hope you had a restful vacation. I am sorry for not getting back to you sooner.

What is your day like on Wednesday for a call?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Block, Sharon I - OSEC
To: Lona Nallengara
Subject: Re: Message
Date: Tuesday, March 03, 2015 9:27:02 PM

No worries. My day tomorrow is awful -- literally back to back all day. How about 10:30am on Thursday?

From: Nallengara, Lona [redacted]@SEC.GOV>
Sent: Tuesday, March 03, 2015 9:18:02 PM
To: Block, Sharon I - OSEC
Subject: Message

Sharon,

I hope you had a restful vacation. I am sorry for not getting back to you sooner.

What is your day like on Wednesday for a call?

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Zelman, Allison L - OSEC
To: Block, Sharon I - OSEC; Nallengara, Lona
Subject: RE: Tomorrow
Date: Sunday, February 22, 2015 9:28:10 PM

Hi Lona,
Here is my personal cell phone in case you need anything: [redacted]. Please let me know if you need anything tomorrow.

Thank you!
Allison

-----Original Message-----
From: Block, Sharon I - OSEC
Sent: Sunday, February 22, 2015 8:20 PM
To: Nallengara, Lona
Cc: Zelman, Allison L - OSEC
Subject: Re: Tomorrow

Lona -- Thanks for reaching out. Unbelievably, I'm actually on a long scheduled vacation and won't be at the event tomorrow. I've looped in Allison Zelman who will be with Secretary Perez tomorrow if you need a POC. Otherwise, let's touch base next week when I'm back. Thanks, Sharon

Sent using OWA for iPhone

From: Nallengara, Lona [redacted]@SEC.GOV>
Sent: Sunday, February 22, 2015 8:01:25 PM
To: Block, Sharon I - OSEC
Subject: Tomorrow

Sharon,

I hope that you are well and that you are having a nice weekend.

I know the Secretary reached out to Mary Jo about tomorrow. Please let me know if there is anything we should discuss or if there is any assistance I can provide.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From:	Block, Sharon I - OSEC
To:	Nallengara, Lona
Cc:	Zelman, Allison L - OSEC
Subject:	Re: Tomorrow
Date:	Sunday, February 22, 2015 8:19:58 PM

Lona -- Thanks for reaching out. Unbelievably, I'm actually on a long scheduled vacation and won't be at the event tomorrow. I've looped in Allison Zelman who will be with Secretary Perez tomorrow if you need a POC. Otherwise, let's touch base next week when I'm back. Thanks, Sharon

Sent using OWA for iPhone

From: Nallengara, Lona <[redacted]@SEC.GOV>
Sent: Sunday, February 22, 2015 8:01:25 PM
To: Block, Sharon I - OSEC
Subject: Tomorrow

Sharon,

I hope that you are well and that you are having a nice weekend.

I know the Secretary reached out to Mary Jo about tomorrow. Please let me know if there is anything we should discuss or if there is any assistance I can provide.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From: Nallengara, Lona
To: Zelman, Allison L - OSEC; Block, Sharon I - OSEC
Subject: Re: Tomorrow
Date: Sunday, February 22, 2015 9:43:33 PM

Thank you, Allison.

I can be reached on my office number below during the day tomorrow or on [redacted] anytime.

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

----- Original Message -----
From: Zelman, Allison L - OSEC [redacted]@DOL.gov]
Sent: Sunday, February 22, 2015 09:28 PM
To: Block, Sharon I - OSEC <[redacted]@dol.gov>; Nallengara, Lona
Subject: RE: Tomorrow

Hi Lona,
Here is my personal cell phone in case you need anything: [redacted] Please let me know if you need anything tomorrow.

Thank you!
Allison

-----Original Message-----
From: Block, Sharon I - OSEC
Sent: Sunday, February 22, 2015 8:20 PM
To: Nallengara, Lona
Cc: Zelman, Allison L - OSEC
Subject: Re: Tomorrow

Lona -- Thanks for reaching out. Unbelievably, I'm actually on a long scheduled vacation and won't be at the event tomorrow. I've looped in Allison Zelman who will be with Secretary Perez tomorrow if you need a POC. Otherwise, let's touch base next week when I'm back. Thanks, Sharon

Sent using OWA for iPhone

From: Nallengara, Lona <[redacted]@SEC.GOV>
Sent: Sunday, February 22, 2015 8:01:25 PM
To: Block, Sharon I - OSEC
Subject: Tomorrow

Sharon,

I hope that you are well and that you are having a nice weekend.

I know the Secretary reached out to Mary Jo about tomorrow. Please let me know if there is anything we should discuss or if there is any assistance I can provide.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549 D - [redacted] | E - [redacted]@sec.gov

From: Nallengara, Lona
To: Block, Sharon I - OSEC
Subject: Tomorrow
Date: Sunday, February 22, 2015 8:00:34 PM

Sharon,

I hope that you are well and that you are having a nice weekend.

I know the Secretary reached out to Mary Jo about tomorrow. Please let me know if there is anything we should discuss or if there is any assistance I can provide.

- Lona

Lona Nallengara
U.S. Securities and Exchange Commission
100 F Street NE | Washington D.C. 20549
D - [redacted] | E - [redacted]@sec.gov

From:	Cosby, Chris - EBSA
To:	"Kozora, Matthew"; Piacentini, Joseph - EBSA
Cc:	"Marietta-Westberg, Jennifer"
Subject:	RE: iabd comment letters
Date:	Friday, July 26, 2013 3:19:24 PM

Thanks, Matt!

Best,

Chris

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Friday, July 26, 2013 9:11 AM
To: Cosby, Chris - EBSA; Piacentini, Joseph - EBSA
Cc: Marietta-Westberg, Jennifer
Subject: iabd comment letters

Dear Chris,

Unfortunately I have not been able to get through all of the comment letters as of yet, but there are a few that do provide some form of quantitative information. These include

Financial Planning Coalition
http://www.sec.gov/comments/4-606/4606-3126.pdf
Charles Schwab
http://www.sec.gov/comments/4-606/4606-3137.pdf
sifma (including info on IRA accounts)
http://www.sec.gov/comments/4-606/4606-3128.pdf
Financial Services Institute
http://www.sec.gov/comments/4-606/4606-3138.pdf
State Farm Investment Management Corp
http://www.sec.gov/comments/4-606/4606-3104.pdf

Also, the letter from the Consumer Federation of America is worth a read.
http://www.sec.gov/comments/4-606/4606-3119.pdf

Lastly, the attached paper came across my desk recently. I am sure you are probably already aware of it but just in case you are not…

To my knowledge we have not received any kind of dataset with account level or other granular information. I will let you know if I come across any other interesting/applicable comment letters. Please ask if you have any questions.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries

Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

From:	Kozora, Matthew
To:	Bergstresser, Keith - EBSA; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Butikofer, James - EBSA
Cc:	Gonzalez, Lourdes; McGovern, Suzanne
Subject:	RE: index information and future call
Date:	Friday, June 14, 2013 12:45:28 PM

Dear Keith,

Please invite Lourdes, Suzanne McGovern, and myself. I am not sure whether we will have written comments by then.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Friday, June 14, 2013 11:25 AM
To: Kozora, Matthew; Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Butikofer, James - EBSA
Subject: RE: index information and future call

Hi Matt,

We are available for the Thursday time slot (June 20th, 9-10am). I'll send out an Outlook invite. Who else should be on it on your side?

On our last phone call, you had mentioned that you would compile some written comments based on your and Jennifer's reactions to our draft. Would you be able to send those before the phone call?

Please send our thanks to Lourdes for the examples of referring to indexes.

Thanks,
Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, June 13, 2013 11:02 AM
To: Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Bergstresser, Keith - EBSA; Butikofer, James - EBSA
Subject: FW: index information and future call

Dear DOL,

Are you available from 9 to 10 on either Wednesday or Thursday of next week for a phone call?

Thanks

Matthew

From: Kozora, Matthew
Sent: Thursday, June 13, 2013 9:19 AM
To: [redacted]@dol.gov; Cosby, Chris - EBSA [redacted]@dol.gov); Bergstresser, Keith - EBSA ([redacted]@dol.gov); Butikofer, James - EBSA [redacted]@dol.gov)
Cc: Marietta-Westberg, Jennifer; Gonzalez, Lourdes
Subject: index information and future call

Dear DOL,

As a follow up to our call a few weeks ago, we have some references for you regarding specifying indices in rulemaking (all thanks should go to Lourdes). The references are below my email signature.

We also would like to set up a call with you regarding the records BDs maintain. Are there times next week or the week after that you are available?

Thanks

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U.S. Securities & Exchange Commission
Phone: [redacted]

In the product definitions adopting release regarding swaps (see attached), the Commission discussed the nature of security indexes in general (see pp. 48285-6). However, we did not address whether specific indexes are broad or narrow-based, under the definitions of swap and security-based swap jointly adopted by the Commission and the CFTC.

Please check Sections 3 and 6 of Chapter XIV in the following link that should lead you to NASDAQ's index options standards:

http://nasdaq.cchwallstreet.com/NASDAQTools/PlatformViewer.asp?selectednode=chp%5F1%5F1%5F14&manual=%2Fnasdaq%2Fmain%2Fnasdaq%2Doptionsrules%2F

I've cut and pasted these Sections below as well. You'll notice that the criteria may differ, depending on the specific underlying index (MSCI) named in the rule:

Sec. 3 Designation of a Broad-Based Index

(a) The component securities of an index underlying a broad-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a broad-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) NOM may trade options on a broad-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Section 2(j) of this Chapter;

(2) Options on the index are designated as A.M.-settled;

(3) The index is capitalization-weighted, modified capitalization weighted, price-weighted, or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least $75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least $100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Section 3 of Chapter IV applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by OPRA, CTA/CQ, NIDS or one or more major market data vendors during the time options on the index are traded on NOM;

(12) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

(1) The requirements set forth in subparagraphs (b)(1) - (b)(3) and (b)(9) - (b)(15) must continue to be satisfied. The requirements set forth in subparagraphs (b)(5) - (b)(8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b) (2) of the Exchange Act.

(d) MSCI EM Index

(i) NOM may trade options on the MSCI EM Index if each of the following conditions is

satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EM Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty-two and a half percent (22.5%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d).

(1) The conditions set forth in subparagraphs (d)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (d)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(e) MSCI EAFE Index

(i) NOM may trade options on the MSCI EAFE Index if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Chapter XIV, Section 2(j);

(2) Options on the index are designated as P.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 500 or more component securities;

(5) All of the component securities of the index will have a market capitalization of greater than $100 million;

(6) No single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the MSCI EAFE Index;

(7) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(8) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on NOM;

(9) NOM reasonably believes it has adequate system capacity to support the trading of

options on the index, based on a calculation of the NOM's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and

(10) NOM has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(ii) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (e).

(1) The conditions set forth in subparagraphs (e)(i) (1), (2), (3), (4), (7) (8), (9) and (10) must continue to be satisfied. The conditions set forth in subparagraphs (e)(i) (5) and (6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

* * * * *

Sec. 6 Designation of Narrow-Base and Micro-Narrow-Based Index Options

(a) The component securities of an index underlying a narrow-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a narrow-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) *Narrow-Based Index*. NOM may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted, and consists of ten or more component securities;

(3) Each component security has a market capitalization of at least $75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least $50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index;

(7) Component securities that account for at least 90% of the weight of the index and at least

80% of the total number of component securities in the index satisfy the requirements of Chapter IV, Section 3 applicable to individual underlying securities;

(8) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Securities Exchange Act of 1934.

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;

(10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter; and

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

(c) *Maintenance Criteria.* The following maintenance listing standards shall apply to each class of index options originally listed pursuant to subsection (b) above:

(1) The requirements stated in subsections (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(4) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.

In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(d) Notwithstanding paragraph (a) above, NOM may trade options on a Micro Narrow-Based security index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following condition is satisfied:

(1) The Index is a security index:

(i) that has 9 or fewer component securities; or

(ii) in which a component security comprises more than 30 percent of the index's weighting; or

(iii) in which the 5 highest weighted component securities in the aggregate comprise more

than 60 percent of the index's weighting; or

(iv) in which the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading volume of less than $50,000,000 (or in the case of an index with 15 or more component securities, $30,000,000) except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security;

(2) The index is capitalization-weighted, modified capitalization-weighted, price-weighted, share weighted, equal dollarweighted, approximate equal-dollar weighted, or modified equal-dollar weighted;

(i) For the purposes of this paragraph (d), an approximate equal-dollar weighted index is composed of one or more securities in which each component security will be weighted equally based on its market price on the index's selection date and the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion.

(ii) For the purposes of this paragraph (d), a modified equal-dollar weighted index is an index in which each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index. A modified equal-dollar weighted index will be balanced quarterly.

(iii) For the purposes of this paragraph (d), a share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components. A share-weighted Micro Narrow-Based index will not be rebalanced. If a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under Subsection (e) of this rule, NOM will restrict trading in existing option series to closing transactions and will not issue additional series for that index.

(iv) NOM may rebalance any Micro Narrow-Based index on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the options contract on the index, outstanding contracts are unaffected by rebalancings.

(3) Each component security in the index has a minimum market capitalization of at least $75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only $50 million;

(4) The average daily trading volume in each of the preceding six months for each component security in the index is at least 45,500 shares, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares for each

of the last six months;

(5) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months; or (2) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months;

(6) Subject to subparagraphs (4) and (5) above, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements applicable to individual underlying securities;

(7)

(i) Each component security in the index is a "reported security" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(ii) Foreign securities or ADRs that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(8) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(9) An equal dollar-weighted index will be rebalanced at least once every quarter;

(10) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act; and

(12) Cash settled index options are designated as A.M.-settled options.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The index meets the criteria of paragraph (d)(1) of this Rule;

(2) Subject to subparagraphs (9) and (10) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements of Section 3 of Chapter IV.

(3) Each component security in the index has a market capitalization of at least $75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only $50 million;

(4) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(6) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on NOM;

(7) If the underlying index is maintained by a broker-dealer, the index is calculated by a third

party who is not a brokerdealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(8) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing;

(9) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(10) In a capitalization-weighted index and a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act;

(12) In an approximate equal-dollar weighted index, the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. NOM reserves the right to rebalance quarterly at its discretion;

(13) In a modified equal-dollar weighted index NOM will rebalance the index quarterly;

(14) In a share-weighted index, if a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under paragraph (e) of this Section NOM will not re-balance the index, will restrict trading in existing option series to closing transactions, and will not issue additional series for that index; and

(15) In the event a class of index options listed on NOM fails to satisfy the maintenance listing standards set forth herein, NOM shall not open for trading any additional series of options of that class unless such failure is determined by NOM not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the 1934 Act.

From: Kozora, Matthew
To: Piacentini, Joseph - EBSA
Cc: Cosby, Chris - EBSA; Bergstresser, Keith - EBSA
Subject: RE: Quantria report
Date: Friday, April 11, 2014 8:36:11 AM

Dear Joe,

Thanks for bringing this to my attention. I will take a look at it and let you know my thoughts.

m|k

From: Piacentini, Joseph - EBSA [redacted]@dol.gov]
Sent: Thursday, April 10, 2014 5:17 PM
To: Kozora, Matthew
Cc: Cosby, Chris - EBSA; Bergstresser, Keith - EBSA
Subject: Quantria report

Hi Matt,

Thought you might be interested in this. It predicts negative impacts from DOL's forthcoming conflicts of interest rule. If you are inclined to look at it, I would be very interested to hear your reaction. Happy to discuss.

Expected Labor Department Fiduciary Regulation Could Cost Americans $20-$32 Billion in Retirement Savings

Rule change could reduce retirement security by causing more people to cash out their retirement accounts when they leave their jobsIncreased cash-outs caused by a loss of financial guidance could decrease retirement savings by as much as 40 percent for a

April 9, 2014

WASHINGTON — American workers who cash out their retirement accounts when they leave their jobs are jeopardizing their future retirement security – a situation that could be exacerbated by a new regulation being considered by the U.S. Department of Labor (DOL) to expand fiduciary status. A study released today by Quantria Strategies reveals that the new regulation could reduce retirement savings by 20 to 40 percent for affected individuals, costing Americans between $20 and $32 billion in annual retirement savings.

The study found that those most likely to cash out their retirement savings are low-wage workers, those with low account balances, and workers under 30. High cash-out rates are also an issue for African-Americans and Hispanics.

The DOL is expected to issue a proposed fiduciary regulation later this year that would effectively prohibit many financial professionals from providing workers with education and guidance regarding the options available to them when they leave their jobs. Without this guidance, many workers may jeopardize their retirement security by cashing out their retirement savings at this critical point.

"Financial illiteracy increases Americans' risk of bad decisions at what we know to be key 'choke points' in the retirement savings process," according to Quantria Strategies. "A critical choke point is job-change time. The evidence reveals that when individuals -- particularly those with lower financial literacy -- have a financial professional's help at job-change time, they are much more likely to do what benefits their long-term financial health: keep their money invested in a retirement savings vehicle rather than cash out and leave nothing for retirement."

One company cited in the report found that speaking with a financial representative can make departing employees 3.2 times less likely to cash out their retirement savings, thus demonstrating the very substantial role that financial representatives can play in enhancing retirement security.

"Any regulation that limits an individual's access to investment information when leaving a job could have a substantially adverse impact on retirement savings, reducing those savings by as much as 40 percent for affected individuals," said Judy Xanthopoulos at Quantria Strategies. "When you're looking at $100,000 in retirement savings versus $167,000, it makes a big difference."

This report was commissioned by Davis & Harman LLP on behalf of a coalition of financial services organizations that provide retirement services to millions of Americans. Kent Mason of Davis & Harman is available to discuss the policy implications of this study, including with respect to the new fiduciary regulation being considered by the DOL: kamason@davis-harman.com and 202-662-2288.

The full report is available to download here.

With extensive experience providing nonpartisan support to Congress on revenue legislation, the partners of Quantria Strategies, LLC, provide independent and unbiased data-intensive analysis of difficult policy questions, with specific expertise in tax, health, and pension policy. Emphasizing a comprehensive approach to policy analysis, Quantria's computer models answer questions relating to aggregate economic impacts (macroeconomic), distributional analysis (micro simulation), long-run demographic implications (dynamic micro simulation), and uncertainty (risk and portfolio).

Read more here: http://www.heraldonline.com/2014/04/09/5852206/expected-labor-department-fiduciary.html?sp=/100/773/385/#storylink=cpy

From:	Flannery, Mark
To:	Piacentini, Joseph - EBSA
Cc:	Decressin, Anja - EBSA; Marietta-Westberg, Jennifer
Subject:	RE: UK RDR, etc.
Date:	Saturday, November 22, 2014 12:25:35 PM

Dear Joe and Anja,

Thanks very much for your note and the letter from February 2014. I read the latter with great interest.

We will find the study discussed by Commissioner Piwowar in a recent speech, and forward it to you within a few days. As you say, let's stay in touch on this.

Best wishes,
Mark

From: Piacentini, Joseph - EBSA [redacted]@dol.gov]
Sent: Friday, November 21, 2014 3:42 PM
To: Flannery, Mark
Cc: Decressin, Anja - EBSA; Marietta-Westberg, Jennifer
Subject: UK RDR, etc.

Mark,

It was a pleasure meeting you yesterday. You had mentioned a study on availability of advice to small investors in the UK post-RDR. I would be very interested to see it. I mentioned that my agency has been in contact with the UK FCA about their experience so far under the RDR. I am attaching a letter that might be of interest to you. We have not shared it widely yet, so please keep it within SEC.

If as planned my agency soon issues a new fiduciary proposal, I expect questions might come your way about both the proposal itself and our impact analysis. As I mentioned yesterday, I have had the opportunity from time to time to consult with both Jennifer and Matt about our shared interest in this issue, and Matt currently has a copy of the confidential draft RIA.

I would be very happy to consult further with any or all of you, either before or after we issue a proposal. Unfortunately I will be mostly away from the office between now and the holidays. I have copied my Deputy, Anja Decressin, on this email, and you all should feel free to contact her during my absence.

My contact info and a link to info about my office appear below.

Thanks and best regards,
Joe Piacentini

Joseph Piacentini
Chief Economist and Director of Policy and Research
USDOL, Employee Benefits Security Administration
[redacted]@dol.gov

From: Marietta-Westberg, Jennifer
To: Puskin, Dan - EBSA; Blass, D.W. (David); Bagnall, Robert; Bham, Leila; Buescher, Sarah A.; Courtney, Catherine A.; Crovitz, Sara P.; Fisher, Daniel; Gonzalez, Lourdes; Grim, David W.; Haghshenas, Parisa; Hunter-Ceci, Holly L.; Kahl, Daniel; Kozora, Matthew; McHugh, Jennifer B.; Roverts, Melissa A.; Russell, Emily; Scheidt, Douglas J.; ten Siethoff, Sarah G.
Subject: DOL call
Date: Thursday, February 23, 2012 9:20:05 AM

Sorry for the multiple e-mails!

The DOL's Chief Economist phoned me yesterday when he saw that many people from our working group had accepted the call for today. He is happy we are all participating but wanted to let me know that he really hopes the hour will be filled with insights from the academics. I think he is worried we might take over the call, but I told him that we viewed this as the DOL's call, and that we wouldn't hijack the meeting.

Thanks,

J.

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Article
Date: Friday, March 22, 2013 11:48:00 AM

Very interesting! Interesting times ahead.

Thank you for forwarding it to me,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, March 22, 2013 11:29 AM
To: Puskin, Dan - EBSA
Subject: Article

Saw this today in one of the industry publications I receive.
Thought you might be interested.

B

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Friday, July 19, 2013 9:48:00 AM

Nice! Just to make sure—the staff's 1,100 number is the number of approved registrations in a typical year (pre-Dodd Frank).

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, July 19, 2013 9:13 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Sounds about right to me.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, July 19, 2013 9:10 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is excellent! So, if I have it right, pre-Dodd-Frank, approximately 10 percent of registrants with the SEC were new each year (1,100 approved registrations of approximately 10,754). Does that sound right?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, July 19, 2013 8:13 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Apparently, we can only get approved registrations where the adviser remained registered at the end of the year.
This will cause the data will be a little bit off (very minor) for a few advisers that withdrew their registrations, reapplied for registration, and were approved in the same calendar year.
The withdrawals include advisers that switched to state registration.
Initial registrations include advisers that applied for registration but were never approved because they did not provide a complete application (or for other reasons).
Exempt Reporting Advisers or "ERAs" did not exist before 2012.
The data for calendar year 2012 is unusual because certain regulatory changes (i.e., the Dodd Frank Act) required that certain advisers switch to state registration, and also required unregistered advisers to private funds to register with the SEC.
The staff believes that the Commission historically has about 1,100 new registrations each year and about 700-800 withdrawals, and that the absolute growth of advisers is about 300 per year in a

normal year (300 more registrations approved than withdrawals).

	ADV-W withdrawals	Initial Registration Requests	Registration Approved	ERAs
2012	3,048	2,121	2,000	2,330
2011	832	903	806	N/A
2010	801	1,133	1,036	N/A

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, July 18, 2013 9:04 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Calendar year is good. Separate info on the exempt reporting advisers would be interesting to have. Number of new distinct registered investment advisers would be most useful. Not having the state info is okay-- just need some sense of what fraction of RIAs are new each year. Thanks again for all your help!

All the best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, July 18, 2013 8:16 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Is calendar year basis OK or do you need fiscal year?
Are you looking for the number of registration requests (which may not all have been approved), the number of approved registrations, or the actual increase in the number of registered investment advisers?
Do you also want numbers on the exempt reporting advisers (which just file info but are not approved or rejected)
Finally, my colleague wants to note that we don't have state data (smaller investment advisers do not need to register with the Commission, but may need to register with the various states).

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 17, 2013 11:22 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is perfect! I was wondering if there are any stats on the number of new registrants each year for the RIAs (analogous to the numbers you gave me for Broker-Dealer firms). Hope all is well.

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 4:19 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

When I asked my colleague in Investment Management, he indicated that there were 2,331 SEC exempt reporting advisers filing reports with the SEC as of January 1, 2013, and there were 17,259 state-registered investment advisers (699 state ERAs) as of January 1, 2013. There is some double counting of advisers as about 124 SEC-registered investment advisers are also state-registered investment advisers and 540 SEC exempt reporting advisers are also state exempt reporting advisers as of January 1, 2013.

Bonnie

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Sent: Monday, July 08, 2013 2:46 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Thank you Bonnie! Do you know where I could access the exempt adviser totals and state registered investment adviser totals that are not included in the SEC counts?

I hope you had a good Fourth,
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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 12:57 PM
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Subject: RE: Broker-dealer numbers

Hi Dan!

A colleague in our Division of Investment Management has informed me that the number of SEC-registered investment advisers on January 1, 2013 was 10,754. This does not include exempt reporting advisers (not registered) and does not include state registered investment advisers.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 02, 2013 3:04 PM
To: TradingAndMarkets

Subject: RE: Broker-dealer numbers

Hi Bonnie,
I realize that we also need number of Registered Investment Advisor Firms. Do you know who I could contact to get those numbers? I hope all is well.

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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
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Hi Dan!

Here is the only list we have. We receive this list monthly from FINRA, which maintains the Central Registration Depository system used by broker-dealers to file Forms BD. Forms BD are used to register not only with the SEC, but also with the exchanges and associations (e.g., FINRA or the Chicago Board Options Exchange ("CBOE")), and the states.

The reason there are over 6,000 rows here is because some broker-dealers are listed twice. I believe this is because each broker-dealer that is a member of more than one exchange or association is once for each exchange or association of which they are a member.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 8:30 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
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Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

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Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010...."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, July 19, 2013 9:12:47 AM

Sounds about right to me.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, July 19, 2013 9:10 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is excellent! So, if I have it right, pre-Dodd-Frank, approximately 10 percent of registrants with the SEC were new each year (1,100 approved registrations of approximately 10,754). Does that sound right?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, July 19, 2013 8:13 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

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Bonnie

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Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010...."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
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These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Friday, July 19, 2013 9:09:00 AM

This is excellent! So, if I have it right, pre-Dodd-Frank, approximately 10 percent of registrants with the SEC were new each year (1,100 approved registrations of approximately 10,754). Does that sound right?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, July 19, 2013 8:13 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Apparently, we can only get approved registrations where the adviser remained registered at the end of the year.
This will cause the data will be a little bit off (very minor) for a few advisers that withdrew their registrations, reapplied for registration, and were approved in the same calendar year.
The withdrawals include advisers that switched to state registration.
Initial registrations include advisers that applied for registration but were never approved because they did not provide a complete application (or for other reasons).
Exempt Reporting Advisers or "ERAs" did not exist before 2012.
The data for calendar year 2012 is unusual because certain regulatory changes (i.e., the Dodd Frank Act) required that certain advisers switch to state registration, and also required unregistered advisers to private funds to register with the SEC.
The staff believes that the Commission historically has about 1,100 new registrations each year and about 700-800 withdrawals, and that the absolute growth of advisers is about 300 per year in a normal year (300 more registrations approved than withdrawals).

	ADV-W withdrawals	Initial Registration Requests	Registration Approved	ERAs
2012	3,048	2,121	2,000	2,330
2011	832	903	806	N/A
2010	801	1,133	1,036	N/A

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, July 18, 2013 9:04 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Calendar year is good. Separate info on the exempt reporting advisers would be interesting to have. Number of new distinct registered investment advisers would be most useful. Not having the state info is okay-- just need some sense of what fraction of RIAs are new each year. Thanks again for all your help!

All the best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, July 18, 2013 8:16 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Is calendar year basis OK or do you need fiscal year?
Are you looking for the number of registration requests (which may not all have been approved), the number of approved registrations, or the actual increase in the number of registered investment advisers?
Do you also want numbers on the exempt reporting advisers (which just file info but are not approved or rejected)
Finally, my colleague wants to note that we don't have state data (smaller investment advisers do not need to register with the Commission, but may need to register with the various states).

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 17, 2013 11:22 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is perfect! I was wondering if there are any stats on the number of new registrants each year for the RIAs (analogous to the numbers you gave me for Broker-Dealer firms). Hope all is well.

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 4:19 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

When I asked my colleague in Investment Management, he indicated that there were 2,331 SEC exempt reporting advisers filing reports with the SEC as of January 1, 2013, and there were 17,259 state-registered investment advisers (699 state ERAs) as of January 1, 2013. There is some double counting of advisers as about 124 SEC-registered investment advisers are also state-registered investment advisers and 540 SEC exempt reporting advisers are also state exempt reporting advisers as of January 1, 2013.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Monday, July 08, 2013 2:46 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Thank you Bonnie! Do you know where I could access the exempt adviser totals and state registered investment adviser totals that are not included in the SEC counts?

I hope you had a good Fourth,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 12:57 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

A colleague in our Division of Investment Management has informed me that the number of SEC-registered investment advisers on January 1, 2013 was 10,754. This does not include exempt reporting advisers (not registered) and does not include state registered investment advisers.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 02, 2013 3:04 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
I realize that we also need number of Registered Investment Advisor Firms. Do you know who I could contact to get those numbers? I hope all is well.

Best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Here is the only list we have. We receive this list monthly from FINRA, which maintains the Central Registration Depository system used by broker-dealers to file Forms BD. Forms BD are used to register not only with the SEC, but also with the exchanges and associations (e.g., FINRA or the Chicago Board Options Exchange ("CBOE")), and the states.

The reason there are over 6,000 rows here is because some broker-dealers are listed twice. I believe this is because each broker-dealer that is a member of more than one exchange or association is once for each exchange or association of which they are a member.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 8:30 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]

Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
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To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
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Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
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Subject: RE: Broker-dealer numbers

Hi Bonnie,
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To: Puskin, Dan - EBSA
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Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."
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In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

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You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

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Dear Dan,

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Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
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I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA
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Date: Friday, July 19, 2013 8:14:55 AM

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2010	801	1,133	1,036	N/A

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, July 18, 2013 9:04 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Calendar year is good. Separate info on the exempt reporting advisers would be interesting to have. Number of new distinct registered investment advisers would be most useful. Not having the state info is okay-- just need some sense of what fraction of RIAs are new each year. Thanks again for all your help!

All the best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, July 18, 2013 8:16 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Is calendar year basis OK or do you need fiscal year?
Are you looking for the number of registration requests (which may not all have been approved), the number of approved registrations, or the actual increase in the number of registered investment advisers?
Do you also want numbers on the exempt reporting advisers (which just file info but are not approved or rejected)
Finally, my colleague wants to note that we don't have state data (smaller investment advisers do not need to register with the Commission, but may need to register with the various states).

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 17, 2013 11:22 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is perfect! I was wondering if there are any stats on the number of new registrants each year for the RIAs (analogous to the numbers you gave me for Broker-Dealer firms). Hope all is well.

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 4:19 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

When I asked my colleague in Investment Management, he indicated that there were 2,331 SEC exempt reporting advisers filing reports with the SEC as of January 1, 2013, and there were 17,259 state-registered investment advisers (699 state ERAs) as of January 1, 2013. There is some double counting of advisers as about 124 SEC-registered investment advisers are also state-registered investment advisers and 540 SEC exempt reporting advisers are also state exempt reporting advisers as of January 1, 2013.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Monday, July 08, 2013 2:46 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Thank you Bonnie! Do you know where I could access the exempt adviser totals and state registered investment adviser totals that are not included in the SEC counts?

I hope you had a good Fourth,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 12:57 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

A colleague in our Division of Investment Management has informed me that the number of SEC-registered investment advisers on January 1, 2013 was 10,754. This does not include exempt reporting advisers (not registered) and does not include state registered investment advisers.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 02, 2013 3:04 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
I realize that we also need number of Registered Investment Advisor Firms. Do you know who I could contact to get those numbers? I hope all is well.

Best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Here is the only list we have. We receive this list monthly from FINRA, which maintains the Central Registration Depository system used by broker-dealers to file Forms BD. Forms BD are used to register not only with the SEC, but also with the exchanges and associations (e.g., FINRA or the Chicago Board Options Exchange ("CBOE")), and the states.

The reason there are over 6,000 rows here is because some broker-dealers are listed twice. I believe this is because each broker-dealer that is a member of more than one exchange or association is once for each exchange or association of which they are a member.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 8:30 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is ([redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]

Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected “Y” for “IAD” – or Item “S” in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010…."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional

accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.

These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378

These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.

As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061

and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Thursday, July 18, 2013 9:04:00 AM

Hi Bonnie,

Calendar year is good. Separate info on the exempt reporting advisers would be interesting to have. Number of new distinct registered investment advisers would be most useful. Not having the state info is okay-- just need some sense of what fraction of RIAs are new each year. Thanks again for all your help!

All the best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, July 18, 2013 8:16 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Is calendar year basis OK or do you need fiscal year?
Are you looking for the number of registration requests (which may not all have been approved), the number of approved registrations, or the actual increase in the number of registered investment advisers?
Do you also want numbers on the exempt reporting advisers (which just file info but are not approved or rejected)
Finally, my colleague wants to note that we don't have state data (smaller investment advisers do not need to register with the Commission, but may need to register with the various states).

Bonnie

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Sent: Wednesday, July 17, 2013 11:22 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is perfect! I was wondering if there are any stats on the number of new registrants each year for the RIAs (analogous to the numbers you gave me for Broker-Dealer firms). Hope all is well.

Dan

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To: Puskin, Dan - EBSA
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Hi Dan!

When I asked my colleague in Investment Management, he indicated that there were 2,331 SEC exempt reporting advisers filing reports with the SEC as of January 1, 2013, and there were 17,259 state-registered investment advisers (699 state ERAs) as of January 1, 2013. There is some double counting of advisers as about 124 SEC-registered investment advisers are also state-registered investment advisers and 540 SEC exempt reporting advisers are also state exempt reporting advisers as of January 1, 2013.

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The reason there are over 6,000 rows here is because some broker-dealers are listed twice. I believe this is because each broker-dealer that is a member of more than one exchange or association is once for each exchange or association of which they are a member.

Yours,

Bonnie

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To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
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Hi Bonnie,

Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

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From: TradingAndMarkets [redacted]@SEC.GOV]
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Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
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Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

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Dan,

As of 3/17/2013 927 broker-dealers had selected “Y” for “IAD” – or Item “S” in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
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Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of “discount broker?” A lot of people use that term, but I don’t believe there is one definition. Also, I don’t believe it is a question the Commission asks on any of its forms.
I also don’t believe there is a way to easily isolate those BDs that might be associated with insurance

companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

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Bonnie

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I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]l@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
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Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
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Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA[redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: 2[redacted]
email:[redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw

from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
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These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From:	TradingAndMarkets
To:	Puskin, Dan - EBSA
Subject:	RE: Broker-dealer numbers
Date:	Thursday, July 18, 2013 8:15:40 AM

Hi Dan!

Is calendar year basis OK or do you need fiscal year?
Are you looking for the number of registration requests (which may not all have been approved), the number of approved registrations, or the actual increase in the number of registered investment advisers?
Do you also want numbers on the exempt reporting advisers (which just file info but are not approved or rejected)
Finally, my colleague wants to note that we don't have state data (smaller investment advisers do not need to register with the Commission, but may need to register with the various states).

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 17, 2013 11:22 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is perfect! I was wondering if there are any stats on the number of new registrants each year for the RIAs (analogous to the numbers you gave me for Broker-Dealer firms). Hope all is well.

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 4:19 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

When I asked my colleague in Investment Management, he indicated that there were 2,331 SEC exempt reporting advisers filing reports with the SEC as of January 1, 2013, and there were 17,259 state-registered investment advisers (699 state ERAs) as of January 1, 2013. There is some double counting of advisers as about 124 SEC-registered investment advisers are also state-registered investment advisers and 540 SEC exempt reporting advisers are also state exempt reporting advisers as of January 1, 2013.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Monday, July 08, 2013 2:46 PM

To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Thank you Bonnie! Do you know where I could access the exempt adviser totals and state registered investment adviser totals that are not included in the SEC counts?

I hope you had a good Fourth,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 12:57 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

A colleague in our Division of Investment Management has informed me that the number of SEC-registered investment advisers on January 1, 2013 was 10,754. This does not include exempt reporting advisers (not registered) and does not include state registered investment advisers.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 02, 2013 3:04 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
I realize that we also need number of Registered Investment Advisor Firms. Do you know who I could contact to get those numbers? I hope all is well.

Best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Here is the only list we have. We receive this list monthly from FINRA, which maintains the Central Registration Depository system used by broker-dealers to file Forms BD. Forms BD are used to register not only with the SEC, but also with the exchanges and associations (e.g., FINRA or the Chicago Board Options Exchange ("CBOE")), and the states.

The reason there are over 6,000 rows here is because some broker-dealers are listed twice.
I believe this is because each broker-dealer that is a member of more than one exchange or

association is once for each exchange or association of which they are a member.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 8:30 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted].

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms. I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository

("CRD") as of September 30, 2010…."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
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To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

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Thanks,

Margaret

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To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
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Please let us know if we can help with anything else!

Margaret

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Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

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All the best,
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Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

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Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers* *and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
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Subject: Broker-dealer numbers

Hi Daniel!

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I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Wednesday, July 17, 2013 11:22:00 AM

This is perfect! I was wondering if there are any stats on the number of new registrants each year for the RIAs (analogous to the numbers you gave me for Broker-Dealer firms). Hope all is well.

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Hi Dan!

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Yours,

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To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

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Sent: Tuesday, May 21, 2013 6:36 PM
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Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
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Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question

12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

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Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010…."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist

DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
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Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers
Date: Monday, July 08, 2013 4:18:55 PM

Hi Dan!

When I asked my colleague in Investment Management, he indicated that there were 2,331 SEC exempt reporting advisers filing reports with the SEC as of January 1, 2013, and there were 17,259 state-registered investment advisers (699 state ERAs) as of January 1, 2013. There is some double counting of advisers as about 124 SEC-registered investment advisers are also state-registered investment advisers and 540 SEC exempt reporting advisers are also state exempt reporting advisers as of January 1, 2013.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Monday, July 08, 2013 2:46 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Thank you Bonnie! Do you know where I could access the exempt adviser totals and state registered investment adviser totals that are not included in the SEC counts?

I hope you had a good Fourth,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 12:57 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

A colleague in our Division of Investment Management has informed me that the number of SEC-registered investment advisers on January 1, 2013 was 10,754. This does not include exempt reporting advisers (not registered) and does not include state registered investment advisers.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 02, 2013 3:04 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
I realize that we also need number of Registered Investment Advisor Firms. Do you know who I could contact to get those numbers? I hope all is well.

Best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Here is the only list we have. We receive this list monthly from FINRA, which maintains the Central Registration Depository system used by broker-dealers to file Forms BD. Forms BD are used to register not only with the SEC, but also with the exchanges and associations (e.g., FINRA or the Chicago Board Options Exchange ("CBOE")), and the states.

The reason there are over 6,000 rows here is because some broker-dealers are listed twice. I believe this is because each broker-dealer that is a member of more than one exchange or association is once for each exchange or association of which they are a member.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 8:30 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]

Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is ([redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms. I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
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Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
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Dear Margaret,
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Dan

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Dear Dan,

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Dear Margaret,

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Please let us know if we can help with anything else!

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From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
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Dear Ms. Smith,

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Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

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Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
[redacted]
email: [redacted]@dol.gov

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Sent: Friday, October 05, 2012 4:00 PM
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Hi Daniel!

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Have a terrific weekend!

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Subject: RE: Broker-dealer numbers

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Bonnie

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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA

Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected “Y” for “IAD” – or Item “S” in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of “discount broker?” A lot of people use that term, but I don’t believe there is one definition. Also, I don’t believe it is a question the Commission asks on any of its forms.
I also don’t believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."

The corresponding footnote reads, “Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers’ responses to questions on the Uniform Application for Broker-Dealer Registration (“Form BD”) reported through the Central Registration Depository (“CRD”) as of September 30, 2010….”
I would highlight here that the text and footnote indicate that the number of broker-dealers is both “approximate,” and based on data collected by the Commission “as of September 30, 2010.”

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [[redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You’re welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you’re definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [[redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [[redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [[redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
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Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started

business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers
Date: Tuesday, July 02, 2013 3:25:11 PM

Hi Dan!

I will find out and get back to you.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 02, 2013 3:04 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
I realize that we also need number of Registered Investment Advisor Firms. Do you know who I could contact to get those numbers? I hope all is well.

Best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Here is the only list we have. We receive this list monthly from FINRA, which maintains the Central Registration Depository system used by broker-dealers to file Forms BD. Forms BD are used to register not only with the SEC, but also with the exchanges and associations (e.g., FINRA or the Chicago Board Options Exchange ("CBOE")), and the states.

The reason there are over 6,000 rows here is because some broker-dealers are listed twice. I believe this is because each broker-dealer that is a member of more than one exchange or association is once for each exchange or association of which they are a member.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 8:30 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [[redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
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Thank you for all your help in this process!
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From: TradingAndMarkets [redacted]@SEC.GOV]

Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

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Bonnie

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I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

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Sent: Friday, December 28, 2012 11:33 AM
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Dan

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Have a very happy new year!

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Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

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I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers
Date: Monday, July 08, 2013 12:58:02 PM

Hi Dan!

A colleague in our Division of Investment Management has informed me that the number of SEC-registered investment advisers on January 1, 2013 was 10,754. This does not include exempt reporting advisers (not registered) and does not include state registered investment advisers.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 02, 2013 3:04 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
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Bonnie

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Yours,

Bonnie

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To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

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Best,
Dan

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Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected “Y” for “IAD” – or Item “S” in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010…."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets

Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or

2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph:[redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
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Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Tuesday, July 02, 2013 3:03:00 PM

Hi Bonnie,
I realize that we also need number of Registered Investment Advisor Firms. Do you know who I could contact to get those numbers? I hope all is well.

Best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Here is the only list we have. We receive this list monthly from FINRA, which maintains the Central Registration Depository system used by broker-dealers to file Forms BD. Forms BD are used to register not only with the SEC, but also with the exchanges and associations (e.g., FINRA or the Chicago Board Options Exchange ("CBOE")), and the states.

The reason there are over 6,000 rows here is because some broker-dealers are listed twice. I believe this is because each broker-dealer that is a member of more than one exchange or association is once for each exchange or association of which they are a member.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 8:30 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
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I hope this addresses your concerns.

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Attorney

[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

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Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

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Dear Ms. Smith,

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All the best,
Daniel

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Dear Dr. Puskin,

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Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

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Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]

email: [redacted]@dol.gov

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I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Thursday, June 27, 2013 8:48:00 AM

Thanks!

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

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Bonnie

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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
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Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

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Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
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To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
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Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms. I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
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Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010...."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]

Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
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Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549
Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Wednesday, June 26, 2013 8:30:00 AM

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets

Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
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Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

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Have a terrific weekend!

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Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers
Date: Wednesday, June 26, 2013 7:31:19 AM

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Please let me know the date/time frame you need.

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Subject: RE: Broker-dealer numbers

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We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

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Sent: Monday, December 31, 2012 1:53 PM
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In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
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Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

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Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
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Subject: RE: Broker-dealer numbers

Dear Daniel,

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Please let us know if we can help with anything else!

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From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
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To: TradingAndMarkets
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"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
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These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Tuesday, June 25, 2013 5:02:00 PM

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
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Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

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To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

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First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms. I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

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DOL/EBSA
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ph: [redacted]
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Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

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I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Tuesday, May 21, 2013 6:35:00 PM

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

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Hope all is well,
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Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected “Y” for “IAD” – or Item “S” in response to Question 12 on Form BD.

I hope this is helpful.

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From: Puskin, Dan - EBSA [redacted]@dol.gov]
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To: TradingAndMarkets
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Subject: RE: Broker-dealer numbers

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Sorry!

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Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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Best,
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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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"approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

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Attorney
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From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
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Thanks again for all your help,
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Subject: RE: Broker-dealer numbers

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To:	TradingAndMarkets
Cc:	Beckmann, Allan - EBSA
Subject:	RE: Broker-dealer numbers
Date:	Friday, May 17, 2013 1:00:00 PM

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Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, May 17, 2013 12:57:23 PM

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
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Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected “Y” for “IAD” – or Item “S” in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM
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Sent: Tuesday, March 19, 2013 12:35 PM
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Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

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First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms. I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

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To: Puskin, Dan - EBSA
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Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

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Hi Dan!

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I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
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Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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Thanks again for all your help,
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Please let us know if we can help with anything else!

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From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
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Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

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Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
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To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

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In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
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Date: Friday, May 17, 2013 9:48:00 AM

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Office of Policy and Research
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From: Puskin, Dan - EBSA
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Wednesday, April 10, 2013 2:48:00 PM

Hi Bonnie,

This was very helpful! Was there any information available on what fraction of BDs met these criteria of being considered small entities?

All the best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, March 28, 2013 10:15 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Here is a rule release with a good discussion of the small business issue: http://www.sec.gov/rules/proposed/2007/34-55431fr.pdf.
I had to go back a couple of years because since Dodd-Frank the rulemakings seem to be more about security-based swap dealers rather than broker-dealers.
Attached also is a release regarding our rule wherein we define the term "small entity" with respect to broker-dealers (at bottom of third column).

I hope these are helpful.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 26, 2013 3:02 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Sorry to bombard you with questions. Is there any way to know the distribution of the size of the registered BD firms (i.e. assets under management, employees per firm)? In our regulatory analyses, we need to analyze how our rules may impact small businesses.

All the best,
Dan

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Wednesday, March 27, 2013 11:03:00 AM

Bonnie,

Sorry to bother you again. I have a follow up question concerning the fraction of broker dealers providing advice. Does it seem right to you that only 20 (927/4612) of the Broker-Dealers provide investment advice? Does that mean that the other 80 percent provide no retirement planning services, asset allocation assistance, etc.? Or, are the BDs interpreting Question 12 Item "S" differently than I would, or just not filling out that part of the questionnaire? Thanks again for all your help.

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Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

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Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Wednesday, March 20, 2013 6:43:00 PM

It is!

Thanks again,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
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Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
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Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

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2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

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I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From:	TradingAndMarkets
To:	Puskin, Dan - EBSA; TradingAndMarkets
Cc:	Beckmann, Allan - EBSA
Subject:	RE: Broker-dealer numbers
Date:	Tuesday, March 19, 2013 12:37:01 PM

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms. I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

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Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Thursday, January 10, 2013 10:15:00 AM

Hi Bonnie,

Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]…"

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Date:	Friday, December 28, 2012 11:32:00 AM

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As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, December 28, 2012 11:04:00 AM

Dear Margaret,

Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

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Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

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I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, December 28, 2012 10:26:09 AM

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

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From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

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All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

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I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, December 28, 2012 9:37:00 AM

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

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Please let us know if we can help with anything else!

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From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

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From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

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Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Friday, December 28, 2012 9:08:42 AM

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

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To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

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From: TradingAndMarkets [redacted]@SEC.GOV]
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To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

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To: TradingAndMarkets
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Subject: RE: Broker-dealer numbers

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Attorney
[redacted]

From: Puskin, Dan - EBSA
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers
Date: Friday, December 28, 2012 8:44:00 AM

Dear Ms. Smith,

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Office of Policy and Research
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email: [redacted]@dol.gov

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Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, December 28, 2012 8:30:00 AM

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To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers
Date: Thursday, December 27, 2012 4:58:00 PM

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Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
Forms BD filed in the calendar year ending 12/31/2009 - 337
Forms BD filed in the calendar year ending 12/31/2010 - 285
Forms BD filed in the calendar year ending 12/31/2011 - 216
Forms BDW filed in the calendar year ending 12/31/2009 - 285
Forms BDW filed in the calendar year ending 12/31/2010 - 549

Forms BDW filed in the calendar year ending 12/31/2011 – 378
These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: TradingAndMarkets
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers
Date: Friday, July 19, 2013 12:45:03 PM

Hi Dan!

My IM colleague confirms that in a typical year about 1,000 to 1,100 investment adviser registrations are approved.
He says that the percentage of new registered advisers in a typical year is generally about 9-10% of the adviser population annually.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, July 19, 2013 9:49 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Nice! Just to make sure—the staff's 1,100 number is the number of approved registrations in a typical year (pre-Dodd Frank).

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, July 19, 2013 9:13 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Sounds about right to me.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, July 19, 2013 9:10 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is excellent! So, if I have it right, pre-Dodd-Frank, approximately 10 percent of registrants with the SEC were new each year (1,100 approved registrations of approximately 10,754). Does that sound right?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, July 19, 2013 8:13 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Apparently, we can only get approved registrations where the adviser remained registered at the end of the year.
This will cause the data will be a little bit off (very minor) for a few advisers that withdrew their registrations, reapplied for registration, and were approved in the same calendar year.
The withdrawals include advisers that switched to state registration.
Initial registrations include advisers that applied for registration but were never approved because they did not provide a complete application (or for other reasons).
Exempt Reporting Advisers or "ERAs" did not exist before 2012.
The data for calendar year 2012 is unusual because certain regulatory changes (i.e., the Dodd Frank Act) required that certain advisers switch to state registration, and also required unregistered advisers to private funds to register with the SEC.
The staff believes that the Commission historically has about 1,100 new registrations each year and about 700-800 withdrawals, and that the absolute growth of advisers is about 300 per year in a normal year (300 more registrations approved than withdrawals).

	ADV-W withdrawals	Initial Registration Requests	Registration Approved	ERAs
2012	3,048	2,121	2,000	2,330
2011	832	903	806	N/A
2010	801	1,133	1,036	N/A

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, July 18, 2013 9:04 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Calendar year is good. Separate info on the exempt reporting advisers would be interesting to have. Number of new distinct registered investment advisers would be most useful. Not having the state info is okay-- just need some sense of what fraction of RIAs are new each year. Thanks again for all your help!

All the best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, July 18, 2013 8:16 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Is calendar year basis OK or do you need fiscal year?
Are you looking for the number of registration requests (which may not all have been approved), the number of approved registrations, or the actual increase in the number of registered investment advisers?

Do you also want numbers on the exempt reporting advisers (which just file info but are not approved or rejected)
Finally, my colleague wants to note that we don't have state data (smaller investment advisers do not need to register with the Commission, but may need to register with the various states).

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, July 17, 2013 11:22 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

This is perfect! I was wondering if there are any stats on the number of new registrants each year for the RIAs (analogous to the numbers you gave me for Broker-Dealer firms). Hope all is well.

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 4:19 PM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

When I asked my colleague in Investment Management, he indicated that there were 2,331 SEC exempt reporting advisers filing reports with the SEC as of January 1, 2013, and there were 17,259 state-registered investment advisers (699 state ERAs) as of January 1, 2013. There is some double counting of advisers as about 124 SEC-registered investment advisers are also state-registered investment advisers and 540 SEC exempt reporting advisers are also state exempt reporting advisers as of January 1, 2013.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Monday, July 08, 2013 2:46 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Thank you Bonnie! Do you know where I could access the exempt adviser totals and state registered investment adviser totals that are not included in the SEC counts?

I hope you had a good Fourth,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, July 08, 2013 12:57 PM

To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

A colleague in our Division of Investment Management has informed me that the number of SEC-registered investment advisers on January 1, 2013 was 10,754. This does not include exempt reporting advisers (not registered) and does not include state registered investment advisers.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, July 02, 2013 3:04 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
I realize that we also need number of Registered Investment Advisor Firms. Do you know who I could contact to get those numbers? I hope all is well.

Best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 8:30 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Here is the only list we have. We receive this list monthly from FINRA, which maintains the Central Registration Depository system used by broker-dealers to file Forms BD. Forms BD are used to register not only with the SEC, but also with the exchanges and associations (e.g., FINRA or the Chicago Board Options Exchange ("CBOE")), and the states.

The reason there are over 6,000 rows here is because some broker-dealers are listed twice. I believe this is because each broker-dealer that is a member of more than one exchange or association is once for each exchange or association of which they are a member.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 8:30 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

If possible, the list as of December 31.

Thanks!
Dan

From: TradingAndMarkets [[redacted]@SEC.GOV]
Sent: Wednesday, June 26, 2013 7:24 AM
To: Puskin, Dan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

Please let me know the date/time frame you need.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, June 25, 2013 5:02 PM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Is there a list of all the broker dealer firms registered with the SEC? I hope all is well.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, May 22, 2013 7:50 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I do not have that information. You might try asking FINRA. Their phone number is [redacted]

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Tuesday, May 21, 2013 6:36 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thanks again! Is there any way to get the total number of broker dealerrepresentatives as well as the number of new broker representatives entering the market each year as well as.

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, May 17, 2013 12:57 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

For calendar year-end 2012 the Commission received 289 Form BD applications and 444 Form BDW filings.

Yours,

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, May 17, 2013 9:49 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Sorry to bother you--I realize I never asked for the new filers in 2012. You told me there were 4,612 BDs registered in 2012. How many BDs initiated registration and withdrew registration last year?

Hope all is well,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Wednesday, March 20, 2013 9:21 AM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dan,

As of 3/17/2013 927 broker-dealers had selected "Y" for "IAD" – or Item "S" in response to Question 12 on Form BD.

I hope this is helpful.

Bonnie Gauch

From: Puskin, Dan - EBSA [[redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 1:20 PM

To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

Is there any designation on whether the BD provides investment advice? On the Form BD, Question 12 looks particularly useful. For example, is there a distribution of how respondents answered question 12 part S (relating to investment advisory services) on the Form BD?

Thanks,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Tuesday, March 19, 2013 12:35 PM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

I believe the answer to both of these questions is no.
First, what is the definition of "discount broker?" A lot of people use that term, but I don't believe there is one definition. Also, I don't believe it is a question the Commission asks on any of its forms.
I also don't believe there is a way to easily isolate those BDs that might be associated with insurance companies. While the SEC probably receives information in this regard, it would not be in a format that would be searchable.

Sorry!

Bonnie

From: Puskin, Dan - EBSA [[redacted]@dol.gov]
Sent: Tuesday, March 19, 2013 11:22 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,

We have a couple more questions concerning the broker-dealer counts. Is there any way to break down whether the broker-dealers are discount brokers versus full service brokers? Also, can we separate out counts for whether the broker-dealer is affiliated with an insurance company or not?

Thank you for all your help in this process!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]

Sent: Thursday, January 10, 2013 6:11 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The number of broker-dealers registered with the Commission as of 12/31/2012 was 4,612.

Bonnie

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, January 10, 2013 10:16 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Bonnie,
Thank you so much for all your help! If we wanted to state the total number of broker-dealers in the United States that have commission based arrangements, would 5,100 be a good estimate, or are we missing some set of BDs that is not included in that statistic?

Best,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Monday, December 31, 2012 1:53 PM
To: Puskin, Dan - EBSA
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Hi Dan!

The study you point to was issued by the Commission on January 22, 2011. On page 8 of this study, the Commission states, "Currently, the Commission oversees approximately 5,100 broker-dealers[11]..."
The corresponding footnote reads, "Unless otherwise specified, the statistics in Section II.A.2 are based on data derived from broker-dealers' responses to questions on the Uniform Application for Broker-Dealer Registration ("Form BD") reported through the Central Registration Depository ("CRD") as of September 30, 2010...."
I would highlight here that the text and footnote indicate that the number of broker-dealers is both "approximate," and based on data collected by the Commission "as of September 30, 2010."

In October, I provided you with data on the number of broker-dealers registered with the Commission as of the calendar years ending December, 2010 and December, 2011.

I hope this addresses your concerns.

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:33 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Happy New Year to you as well!

Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 11:24 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

You're welcome! Thanks for waiting for Bonnie to return for the other part of your question.

Have a very happy new year!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 11:04 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,
Sorry about my confusion--you're definitely right about what is in the e-mail. I can delay the answer about where the 5,100 comes from.

Thanks again for all your help,
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 10:25 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dan,

Perhaps I am mistaken, but I didn't read Bonnie's message to mean that the BD number is overstated; I read it to mean that to get the data you were looking for you should reduce the number of Forms BD and Forms BDW filed to account for duplicate filings. I believe you can rely on her 4,813 number as the correct number of total number of BDs.

I'm not sure what the 5,100 number is based on. Would it be OK to wait until Bonnie returns on Monday and she can ask the person who gave her the other statistics? Perhaps that person knows.

Thanks,

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 9:38 AM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Margaret,

In the statistics sent by Bonnie Gauch, she mentions that the BD number is overstated (see her message below). Is the 5,100 used in the Dodd-Frank report based on the 5,061 filers from 2010 or is it based on an adjustment to the 5,257 number in 2009.

Thanks for all your help!
Dan

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 9:08 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Daniel,

Thank you for the clarification. There were 4,813 broker-dealers registered with the Commission as of 12/31/2011. I don't know when the 2012 number will be available; I believe the number is reported annually, but I don't know when.

Please let us know if we can help with anything else!

Margaret

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Friday, December 28, 2012 8:44 AM
To: TradingAndMarkets
Subject: RE: Broker-dealer numbers

Dear Ms. Smith,

The only number we need is the total number of broker-dealers. The 5,100 Broker-Dealers estimate in the Dodd-Frank report is based on 2009 numbers. If there was an updated estimate for the total number of broker dealers, that would be very helpful. Here is a link to the version of the report we've been looking at:

www.sec.gov/news/studies/2011/913studyfinal.pdf

All the best,
Daniel

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, December 28, 2012 8:29 AM
To: Puskin, Dan - EBSA; TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Dear Dr. Puskin,

Bonnie is out this week, and I'm filling in for her.

Would you mind clarifying which number(s) you would like updated?

Thanks,

Margaret Smith

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, December 27, 2012 4:58 PM
To: TradingAndMarkets
Cc: Beckmann, Allan - EBSA
Subject: RE: Broker-dealer numbers

Thank you so much for your help in October. The statistics on new broker-dealers have been very useful! I now have a follow up question. In SEC's Dodd-Frank report (*Study on Investment Advisers and Broker-Dealers*), there is a passage that reads as follows:

"*Broker-Dealers*: The Commission and FINRA oversee approximately 5,100 broker-dealers. As of the end of 2009, FINRA-registered broker-dealers held over 109 million retail and institutional accounts. Approximately 18% of FINRA-registered broker-dealers also are registered as investment advisers with the Commission or a state. Most broker-dealers receive transaction-based compensation."

Is it possible to get more updated numbers for the total number of broker-dealers based on 2011 or 2012 submissions?

Happy Holidays,
Daniel

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: TradingAndMarkets [redacted]@SEC.GOV]
Sent: Friday, October 05, 2012 4:00 PM
To: Puskin, Dan - EBSA
Subject: Broker-dealer numbers

Hi Daniel!

I guess we don't keep track of the number of new BDs registered and the number of BDs that exited – instead we keep track of the number of Forms BD (to initiate registration) and BDW (to withdraw from registration) filed.
These numbers are as follows:
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These would include possible duplicate filings (deficient Forms BDW where the firm was required to re-file the Form, and BD apps that were never accepted or were withdrawn before they started business). The expert here who deals with these filings suggests reducing the number of Forms BD by 5% and the number of Forms BDW by 10% to account for these duplicates.
As you are an economist, I am providing the raw numbers and the suggested reductions to allow you the ability to either retain the raw number or reduce the raw numbers, as suggested.

In addition, the total number of broker-dealers and the number of small broker-dealers registered with the Commission as of 12/31/2009, 12/31/2010, and 12/31/2011 were 5,257 and 927, 5,061 and 841, and 4,813 and 808, respectively.

I hope this is helpful to you.

Have a terrific weekend!

Bonnie Gauch
Attorney
[redacted]

From: Puskin, Dan - EBSA
To: Cosby, Chris - EBSA; "Kozora, Matthew"
Cc: Puskin, Dan - EBSA; Piacentini, Joseph - EBSA
Subject: RE: Data Request
Date: Wednesday, May 08, 2013 6:30:00 PM

Hi Matt,

We have spoken with approximately 20 academics.

From the phone calls you were on:
Andreas Hackethal, Anna Lusardi, Richard Evans, Eric Zitzewitz, George Loewenstein, Miles Livingston, Ohad Kadan, Javier Gil-Bazo, Antoinette Schoar, Mercer Bullard, Jonathan Reuter, Marco Ottaviani, Allan Ferrell and Brad Barber

Also have spoken with:
Matthew Morey, Daylain Cain, Alicia Munnell, Peter Tufano, Geoffrey Friesen and Roman Inderst

This is just a sampling of those who would have thoughts on the fiduciary topic. For example, coauthors of the listed authors would also be willing to discuss it. People have been very open to speaking with us--providing a range of useful insights and opinions on our work. Additionally, you might want to look at the itineraries of the Wharton Conference from 2012 (http://www.pensionresearchcouncil.org/conferences/conf-2012.php), the Rand Behavioral Finance Conference from last year and at this year's agenda as well as the NBER Behavioral Finance Working group, which met most recently last month in Chicago.

Best,
Dan

From: Cosby, Chris - EBSA
Sent: Monday, May 06, 2013 11:28 PM
To: Kozora, Matthew
Cc: Puskin, Dan - EBSA [redacted]l@dol.gov); Joseph Piacentini [redacted]@dol.gov'
Subject: RE: Data Request

Hi Matt:

By copying of this message, I am asking Dan Puskin to provide the names to you.

Best,

Chris

From: Kozora, Matthew [[redacted]@SEC.GOV]
Sent: Monday, May 06, 2013 4:19 PM
To: Cosby, Chris - EBSA
Subject: FW: Data Request

Dear Chris,

Do you have a list of academics who may be interested in the fiduciary topic? We are building a list to reach out to regarding our request for information.

Thanks!

Matthew

From: Marietta-Westberg, Jennifer
Sent: Saturday, April 13, 2013 9:52 AM
To: 'Cosby, Chris - EBSA'
Subject: RE: Data Request

We have not done that yet, Chris, but that is a great idea. If you would like to forward the list to some of your contacts that would be fine with me. The more eyes on the document, the better chance we will actually receive data and/or analysis.

Have a great weekend,

Jennifer

From: Cosby, Chris - EBSA [redacted]@dol.gov]
Sent: Friday, April 12, 2013 4:59 PM
To: Marietta-Westberg, Jennifer
Subject: Data Request

Hi Jennifer:

Hope all is well! Joe thought it would be good to reach out to some of our academic contacts to encourage them to send comments on your data request. Have you already reached out to academics?

Best,

Chris

From:	Cosby, Chris - EBSA
To:	Kozora, Matthew
Cc:	Puskin, Dan - EBSA ([redacted]@dol.gov); 'Joseph Piacentini [redacted]@dol.gov''
Subject:	RE: Data Request
Date:	Monday, May 06, 2013 11:27:37 PM

Hi Matt:

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Best,

Chris

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Sent: Monday, May 06, 2013 4:19 PM
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Chris

From: Kozora, Matthew
To: Puskin, Dan - EBSA; Cosby, Chris - EBSA
Cc: Piacentini, Joseph - EBSA
Subject: RE: Data Request
Date: Monday, May 13, 2013 8:15:24 AM

Dear Dan,

Thank you for the wonderful information. I appreciate it.

Best,

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Risk, Strategy, and Financial Innovation
U.S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, May 08, 2013 6:30 PM
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Cc: Puskin, Dan - EBSA; Piacentini, Joseph - EBSA
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Best,

Dan

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Subject: Data Request

Hi Jennifer:

Hope all is well! Joe thought it would be good to reach out to some of our academic contacts to encourage them to send comments on your data request. Have you already reached out to academics?

Best,

Chris

From: Blass, D.W. (David)
To: Marietta-Westberg, Jennifer; Puskin, Dan - EBSA; Bagnall, Robert; Bham, Leila; Buescher, Sarah A.; Courtney, Catherine A.; Crovitz, Sara P.; Fisher, Daniel; Gonzalez, Lourdes; Grim, David W.; Haghshenas, Parisa; Hunter-Ceci, Holly L.; Kahl, Daniel; Kozora, Matthew; McHugh, Jennifer B.; Roverts, Melissa A.; Russell, Emily; Scheidt, Douglas J.; ten Siethoff, Sarah G.
Subject: Re: DOL call
Date: Thursday, February 23, 2012 9:30:10 AM

Absolutely. Thanks for the head's up regarding their concern.

David W. Blass
Chief Counsel
Division of Trading and Markets
Securities and Exchange Commission

From: Marietta-Westberg, Jennifer
Sent: Thursday, February 23, 2012 09:20 AM
To: Puskin, Dan - EBSA <[redacted]@dol.gov>; Blass, D.W. (David); Bagnall, Robert; Bham, Leila; Buescher, Sarah A.; Courtney, Catherine A.; Crovitz, Sara P.; Fisher, Daniel; Gonzalez, Lourdes; Grim, David W.; Haghshenas, Parisa; Hunter-Ceci, Holly L.; Kahl, Daniel; Kozora, Matthew; McHugh, Jennifer B.; Roverts, Melissa A.; Russell, Emily; Scheidt, Douglas J.; ten Siethoff, Sarah G.
Subject: DOL call

Sorry for the multiple e-mails!

The DOL's Chief Economist phoned me yesterday when he saw that many people from our working group had accepted the call for today. He is happy we are all participating but wanted to let me know that he really hopes the hour will be filled with insights from the academics. I think he is worried we might take over the call, but I told him that we viewed this as the DOL's call, and that we wouldn't hijack the meeting.

Thanks,

J.

Jennifer Marietta-Westberg, PhD
Assistant Director, Office of Investments and Intermediaries
Division of Risk, Strategy and Financial Innovation
U.S. Securities and Exchange Commission
100 F St NE
Washington, D.C. 20549
[redacted]
[redacted]@sec.gov

From: Puskin, Dan - EBSA
To: Kozora, Matthew
Cc: Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily
Subject: RE: Estimate of Affected Broker-Dealer Reps
Date: Thursday, June 27, 2013 1:25:00 PM

The Cerulli source is the Advisor Metrics 2011 report-- Exhibit 1.04 "Historical Change in Total Advisors by Channel 2004-2010"
Also, you'll notice that in Exhibit 1.10 "Top -25 Broker/Dealers by Advisor Headcount 2004-2010" that certain companies like Charles Schwab, Fidelity and Vanguard are omitted. We asked Cerulli about it. Below is our e-mail exchange with them. After reading their responses, I am still unsure whether their counts include all the advice delivering reps we need for our estimate.

Thanks,
Dan

Keith and Dan,

I can answer both questions.

1) When we are sizing advisors, we are scrubbing out RIAs and Series 7 licensed reps that are not providing wealth management services. RIAs have to have at least 25% in Retail Assets and are offering wealth management services to end investor. For example, BlackRock is an RIA but not a Retail RIA.

2) Fidelity and Vanguard are part of our Direct Channel as they are offering centralized advice and therefore not part of our Retail Advisor Sizing.

Let me know if you want to chat this afternoon or anytime this week and will be happy to discuss further.

Best,
Austin

Austin Ulep **Associate Director, U.S. Sales** **CERULLI ASSOCIATES**
[redacted]@cerulli.com

From: "Bergstresser, Keith - EBSA"[redacted]@dol.gov>
To: [redacted]@cerulli.com>
Cc: "Puskin, Dan - EBSA" <[redacted]@dol.gov>
Date: 06/26/2013 10:33 AM
Subject: questions for analyst

Hi Austin,

Here are a couple questions we have for an analyst These questions are on the 2011 Advisor Metrics report

1) Exhibit 1 04 – Where do the advisor numbers come from? According to the SEC, there are over 600,000 broker-dealers, but the chart lists much fewer of them as advisors How do you define/determine which of them are advisors? Similarly for RIAs, according to the SEC Dodd-Frank report, there are about 275,000 state registered RIAs, but the number of RIA advisors in the chart is much lower
2) Exhibit 1 10 – Why don t Fidelity and Vanguard appear on the list? Are their representatives not registered as broker-dealers, or are they broker-dealers, but not considered to be advisors?

We are available tomorrow, Friday, or next Monday or Tuesday to discuss these questions

Thanks,
Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 12:50 PM
To: Puskin, Dan - EBSA
Cc: Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily
Subject: RE: Estimate of Affected Broker-Dealer Reps

Dear Dan,

That is a great question. I am forwarding it on to members of Division of Trading and Markets who may have a better idea.

Which Cerulli table are you referencing? Do you mind sending me the title of the table?

Thanks!

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 4:50 PM
To: Kozora, Matthew
Cc: Bergstresser, Keith - EBSA
Subject: Estimate of Affected Broker-Dealer Reps

Hi Matt,

I have a question that relates to our cost benefit analysis and was hoping you could help. We anticipate that by changing the definition of fiduciary under ERISA, certain service providers and their reps will incur higher liability costs (in the form of higher errors and omissions insurance). Thus, we need an estimate of the number of broker dealer reps who might be facing higher liability insurance as a consequence of performing functions that will newly be held to a fiduciary standard.

To get this estimate, we need a count of the number of BD reps who deliver advice in the retail market. The SEC's Dodd Frank Report (www **sec** gov/news/**studies**/2011/913**study**final pdf) estimated that there were 600,000 BD reps. However, it is my understanding that many of these reps do not provide advice to retail investors in DC plans or IRAs (or provide advice at all). Cerulli Associates' *Advisor Metrics 2011* estimates that there are approximately 300,000 BD reps who qualify as "advisors". Do you think this number is more appropriate, or would some other source be better? Any assistance you could provide would be very useful.

Best,
Dan

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From: Kozora, Matthew
To: Puskin, Dan - EBSA
Cc: Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily; Jenson, Paula R.
Subject: RE: Estimate of Affected Broker-Dealer Reps
Date: Thursday, June 27, 2013 5:24:19 PM

Dear Dan,

It does not seem like there is an easy solution to your problem, especially in relation to the number of reps that provide advice in DC plans or IRAs, or as you say, provide advice at all. The difficulty to even distinguish between discount BDs and full-service BDs that provide advice is also difficult considering some discount BDs provide advice.

Our best source for these market sizing issues would be the Cerulli reports or anything that we can find online.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, June 27, 2013 1:25 PM
To: Kozora, Matthew
Cc: Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily
Subject: RE: Estimate of Affected Broker-Dealer Reps

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Best,
Austin

Austin Ulep Associate Director, U.S. Sales CERULLI ASSOCIATES
[redacted] [redacted]@cerulli.com

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2013 Cerulli Research Agenda
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From: "Bergstresser, Keith - EBSA" <[redacted]@dol.gov>
To: [redacted]@cerulli.com>
Cc: "Puskin, Dan - EBSA"[redacted]@dol.gov>
Date: 06/26/2013 10:33 AM
Subject: questions for analyst

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Thanks,
Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 12:50 PM
To: Puskin, Dan - EBSA
Cc: Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily
Subject: RE: Estimate of Affected Broker-Dealer Reps

Dear Dan,

That is a great question. I am forwarding it on to members of Division of Trading and Markets who may have a better idea.

Which Cerulli table are you referencing? Do you mind sending me the title of the table?

Thanks!

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 4:50 PM
To: Kozora, Matthew
Cc: Bergstresser, Keith - EBSA
Subject: Estimate of Affected Broker-Dealer Reps

Hi Matt,

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Best,
Dan

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From:	Puskin, Dan - EBSA
To:	Kanyan, Keith
Subject:	RE: Investment Adviser Registration Counts
Date:	Wednesday, October 24, 2012 10:39:00 AM

Thank you! This looks like just what we need.

All the best,
Daniel

From: Kanyan, Keith [redacted]@SEC.GOV]
Sent: Wednesday, October 24, 2012 10:36 AM
To: Puskin, Dan - EBSA
Subject: Investment Adviser Registration Counts

Hello Daniel,

You requested the information below   Please let me know if you have any questions Thank you

	2009	2010	2011	Oct 1, 2012
Number SEC-registered investment advisers on December 31st	11488	11794	11657	11002
Number investment adviser registration requests with the SEC	1119	1133	904	1934
Number of investment adviser registration requests approved by the SEC and still registered at the end of the calendar year	977	1036	806	1908

Keith Kanyan
[redacted]
SEC
Division of Investment Management
MS 8549
100 F Street, N E
Washington, D C   20549

Guidance provided by staff via the telephone or email is informal and is not binding on the staff or the Commission. When submitting tips, complaints, questions, or other information to the SEC, please read the Privacy Act Statement located at   www.sec.gov/privacy.htm

From: Turner, Jeffrey - EBSA
To: Mark Uyeda [redacted]@sec.gov"
Subject: Re: FY 2014 Appropriations Hearing (Record Insert Fiduciary Standards)
Date: Thursday, April 25, 2013 7:14:11 PM

Thanks very much.

Sent via my BlackBerry Wireless Handheld

----- Original Message -----
From: Uyeda, Mark T [redacted]@sec.gov]
Sent: Thursday, April 25, 2013 07:04 PM
To: Turner, Jeffrey - EBSA
Cc: Canary, Joe - EBSA; Hauser, Timothy - SOL; Blass, D.W. (David) [redacted]@SEC.GOV>; Gonzalez, Lourdes [redacted]@SEC.GOV>; Scheidt, Douglas J. [redacted]@SEC.GOV>; Hunter-Ceci, Holly L. <Hunter-CeciH@sec.gov>; Blizzard, Diane C. [redacted]@sec.gov>; McHugh, Jennifer B. [redacted]@SEC.GOV>; Henseler, Timothy [redacted]@SEC.gov>
Subject: RE: FY 2014 Appropriations Hearing (Record Insert Fiduciary Standards)

Jeff:

Attached please find suggestions of SEC staff from both the Division of Investment Management and the Division of Trading and Markets to DOL's testimony regarding fiduciary standards. Both clean and marked versions are attached. Thanks.

Mark T. Uyeda
Division of Investment Management
U.S. Securities and Exchange Commission
100 F Street, N.E., Mail Stop [redacted]
Washington, DC 20549
Tel: [redacted] Fax: [redacted]

-----Original Message-----
From: Turner, Jeffrey - EBSA [redacted]@dol.gov]
Sent: Thursday, April 25, 2013 12:18 PM
To: Uyeda, Mark T
Cc: Canary, Joe - EBSA; Hauser, Timothy - SOL; Turner, Jeffrey - EBSA
Subject: FY 2014 Appropriations Hearing (Record Insert Fiduciary Standards)

<<FY 2014 Appropriations Hearing (Record Insert Fiduciary Standards).docx>> Mark,

Per our conversation, attached is our draft insert. As I mentioned, our Acting Secretary was testifying before the Congress last week and, as follow up to that testimony, DOL has been asked to provide an explanation of the differences in the fiduciary standard under ERISA versus the standard under securities law. Your comments are appreciated very much. Please circulate to the appropriate people in your building.

Give me a call if you need any further background.

Jeff

From: Turner, Jeffrey - EBSA
To: Uyeda, Mark T
Cc: Turner, Jeffrey - EBSA
Subject: RE: FY 2014 Appropriations Hearing (Record Insert Fiduciary Standards)
Date: Thursday, April 25, 2013 2:03:30 PM

ASAP, naturally. COB would be great. Let me know if that's not doable please.

-----Original Message-----
From: Uyeda, Mark T [redacted]@sec.gov]
Sent: Thursday, April 25, 2013 12:22 PM
To: Turner, Jeffrey - EBSA
Subject: RE: FY 2014 Appropriations Hearing (Record Insert Fiduciary Standards)

Thanks -- what is your deadline?

-----Original Message-----
From: Turner, Jeffrey - EBSA [redacted]@dol.gov]
Sent: Thursday, April 25, 2013 12:18 PM
To: Uyeda, Mark T
Cc: Canary, Joe - EBSA; Hauser, Timothy - SOL; Turner, Jeffrey - EBSA
Subject: FY 2014 Appropriations Hearing (Record Insert Fiduciary Standards)

<<FY 2014 Appropriations Hearing (Record Insert Fiduciary Standards).docx>> Mark,

Per our conversation, attached is our draft insert. As I mentioned, our Acting Secretary was testifying before the Congress last week and, as follow up to that testimony, DOL has been asked to provide an explanation of the differences in the fiduciary standard under ERISA versus the standard under securities law. Your comments are appreciated very much. Please circulate to the appropriate people in your building.

Give me a call if you need any further background.

Jeff

From:	Turner, Jeffrey - EBSA
To:	Uyeda, Mark T
Cc:	Turner, Jeffrey - EBSA
Subject:	RE: RFI
Date:	Monday, March 04, 2013 12:40:00 PM

Anytime today would be good. No rush. You don't need to pull together a team or anything b/c I don't want to talk substance. Really just wondering about the lack of a heads up before it went out. I'm getting heat from some of my bosses who feel like they were surprised about the RFI. You might remember we're in the middle of a multi year fiduciary definition regulation.

Jeff
38526

-----Original Message-----
From: Uyeda, Mark T [redacted]@sec.gov]
Sent: Monday, March 04, 2013 12:25 PM
To: Turner, Jeffrey - EBSA
Subject: RE: RFI

Jeff: I have not been directly involved with the RFI, but I can put you in touch with the project leaders. How soon do you want to have a call?

Mark

-----Original Message-----
From: Turner, Jeffrey - EBSA [redacted]@dol.gov]
Sent: Monday, March 04, 2013 12:01 PM
To: Uyeda, Mark T
Subject: RFI

Got a second to chat about the RFI you guys just published?

Sent via my BlackBerry Wireless Handheld

From: Bergstresser, Keith - EBSA
To: Kozora, Matthew [redacted] @SEC.GOV)
Subject: Barber and Odean
Date: Thursday, March 06, 2014 10:46:00 AM
Attachments: Barber_Out of Sight, Out of Mind.pdf

Hey Matt,

You mentioned Barber and Odean at the meeting last Friday. Is this (attached) the paper you were thinking of?

Thanks,
Keith

Keith D. Bergstresser, Ph.D.
Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
Phone: [redacted]
Fax: [redacted]
Telework Phone: [redacted] (Tuesdays)
[redacted]@dol.gov

Brad M. Barber
Graduate School of Management, University of California, Davis

Terrance Odean
Haas School of Management, University of California, Berkeley

Lu Zheng
Ross School of Business, University of Michigan

Out of Sight, Out of Mind: The Effects of Expenses on Mutual Fund Flows*

We argue that the purchase decisions of mutual fund investors are influenced by salient, attention-grabbing information. Investors are more sensitive to salient, in-your-face fees, like front-end loads and commissions, than operating expenses; they buy funds that attract their attention through exceptional performance, marketing, or advertising. We analyze mutual fund flows over the last 30 years and find negative relations between flows and front-end-load fees. In contrast, we find no relation between operating expenses and flows. Additional analyses indicate that marketing and advertising, the costs of which are often embedded in funds' operating expenses, account for this surprising result.

I. Introduction

We analyze the fees charged by mutual funds over the last several decades. Mutual funds have dramatically changed the way that they charge expenses. The proportion of diversified U.S. equity mutual fund assets invested in front-end-load funds has dropped from 91% in 1962 to 35% in 1999 (see fig. 1). In contrast, asset-weighted operating expenses for these funds increased by more than 60%, from 54 basis points in 1962 to 90 basis points in 1999 (see fig. 2), despite the great increase in total assets under management. In addition to documenting these facts, which are

* This paper was previously entitled "The Behavior of Mutual Fund Investors." We benefited from the comments of Nicholas Barberis, Shlomo Benartzi, Marshall Blume, William Goetzmann, Daniel Hirsch, John Rea, Brian Reid, Jason Zweig, and seminar participants at Duke, the NBER Behavioral Finance Group, UCLA, the Western Finance Association Meetings (June 2001), and the Conference on Distribution and Pricing of Dele gated Portfolio Management (Wharton Financial Institutions Center May 2002). We are grateful to the discount brokerage firm that provided us with the data for this study. Zheng thanks Fang Cai and Michael Clare for excellent research assistance. All er rors are our own.

(*Journal of Business,* 2005, vol. 78, no. 6)

0021 9398/2005/7806 0002$10.00

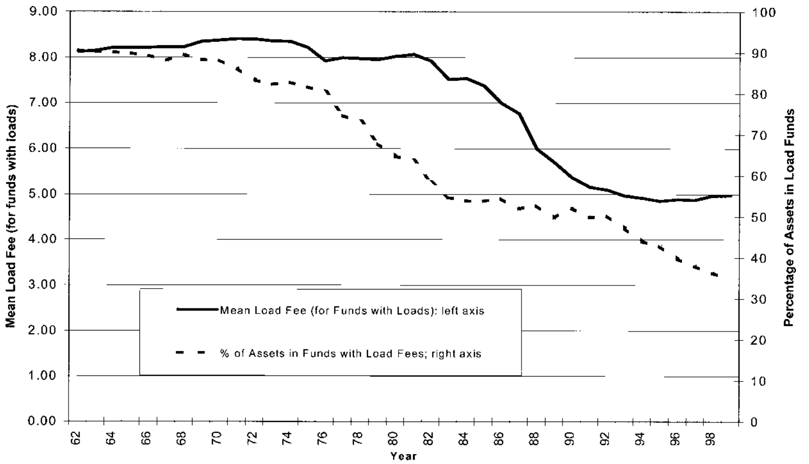

FIG. 1. Mean Front End load fee and percentage of assets invested in funds with front end loads for U.S. diversified equity mutual funds, 1962 99. Front end load fees are from the CRSP mutual fund database. The mean load fee is based only on funds charging a front end load and is weighted by fund size.

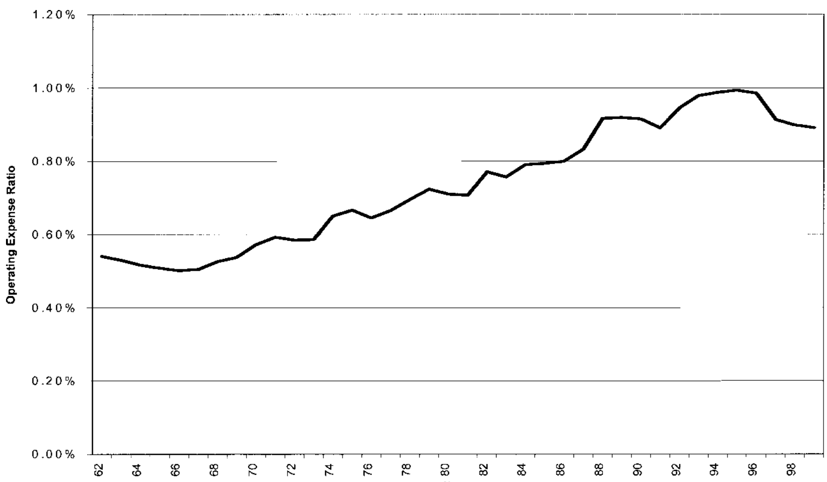

FIG. 2. Mean operating expense ratio for U.S. diversified equity mutual funds, 1962 99. The mean operating expense ratio is calculated based on expense ratios reported in the CRSP mutual fund database for U.S. diversified equity mutual funds and is weighted by fund size. Funds with zero expense ratios are excluded from the calculation of the mean. On average, 97% of assets are held in funds with nonzero expense ratios, ranging from 92% in 1987 to 100% in 1999.

interesting on their own, we argue that the most plausible explanation for this change over time is investor learning. Investors have learned by experience to avoid mutual fund expenses. However, they learned more quickly about front-end-load fees, which are large, salient, one-time fees, than operating expenses, which are smaller, ongoing fees that are easily masked by the volatility of equity returns.

When shopping for a mutual fund, investors can choose from thousands of funds, far more than any investor can carefully consider. Most investors have no formal training in what factors to weigh when selecting a fund. Academic finance advises investors that low fees are preferable to high fees, that past returns are poor predictors of future returns in the long run, and that there is little, or no, evidence that active managers can outperform indices. Thus, investors would be best off choosing any well-diversified mutual fund with low fees (e.g., an index fund).

Over the last three decades, mutual fund investing has increased dramatically.[1] Investors, in aggregate and individually, have had the opportunity to learn about mutual funds and to change the ways in which they weigh various factors when buying funds. Funds, too, have had the opportunity to adapt to a changing marketplace.

In this paper, we focus on changes in how investors treat various mutual fund expenses, that is, front-end-load fees, commissions, and operating expenses. We contend that, over time, investors have become increasingly aware of and averse to mutual fund costs. However, they have learned more quickly to avoid high front-end-load and commission costs than high operating expense costs.

We argue that front-end loads are more salient than operating expenses. Front-end-load fees are paid when a fund is purchased and generally obvious in nominal terms on the first statement following the transaction (load fees are approximately the difference between the amount initially invested in the fund and the fund value on the first monthly statement). Therefore, front-end-load fees are transparent and thus salient, in-your-face expenses. While the salience of these expenses may come too late for first-time fund investors (e.g., may coincide with first monthly statement), it is likely to be remembered when they buy again. Thus, we hypothesize that investors have learned to avoid front-end-load funds by experience. We test this hypothesis in two ways. First, we use fund flows data from 1970 to 1999 to estimate cross-sectional regressions of fund flows on front-end-load fees and other fund characteristics. Consistent with our hypothesis, we find a significant negative relation between fund flows and front-end-load fees. Second, using brokerage account data pulled from the trades of 78,000 households from

1. For example, from 1989 to 1998, the percentage of households owning mutual funds nearly doubled from 7.1% to 16.2%. In contrast, the percentage of households owning stock directly increased from 16.2% to 19.2% (Kennickell and Starr McCluer (1994, 2000)).

1991 to 1996, we contrast first-time mutual fund purchases with repeat mutual fund purchases. The results of this test provide direct evidence of learning; experienced fund purchasers pay, on average, about half the front-end-load fees of first time purchasers.

Operating expenses are less salient than loads. While operating expenses constitute a steady drain on a fund's performance, the effect of that drain is masked by the considerable volatility in the returns on equity mutual funds.[2] Thus, we hypothesize that investors are less likely to avoid funds with high operating expenses. Using fund flows data from 1970 to 1999 and cross-sectional regressions, we document that there is at best no relation, and at worst a perverse positive relation, between fund flows and operating expenses. Using brokerage data from 1991 to 1996, we find virtually no difference between the operating expenses of first-time fund purchases and repeat fund purchases.

Our analyses help to inform ongoing policy discussions regarding how mutual fund expenses should be disclosed to investors. The implicit assumption underlying this debate is that mutual fund investors are sensitive to the form in which fund expenses are disclosed to investors. For example, in June 2000, the General Accounting Office (GAO) issued the following recommendation:

> Although most industry officials that the GAO interviewed considered mutual fund disclosures to be extensive, others, including some private money managers and academic researchers, indicated that the information currently provided does not sufficiently make investors aware of the level of fees they pay. These critics have called for mutual funds to disclose to each investor the actual *dollar amount* of fees paid on their fund shares. Providing such information could reinforce to investors the fact that they pay fees on their mutual funds and provide them information with which to evaluate the services their funds provide. In addition, having mutual funds regularly disclose the dollar amounts of fees that investors pay may encourage additional fee-based competition that could result in further reductions in fund expense ratios. GAO is recommending that this information be provided to investors.

In December 2000, the Securities and Exchange Commission issued a report recommending "that information about the *dollar amount* of [mutual fund] fees and expenses be presented in a fund's shareholder reports."

Both front-end-load fees and operating expenses are used to pay for marketing (e.g., distribution payments to brokers or advertising). We do not contend that load fees spent on marketing are less efficacious than

2. Mutual funds report returns net of operating expenses. This may cause investors to be less sensitive to operating expenses than if operating expenses and gross returns were reported separately. Thaler (1985) shows that, in general, people are less sensitive to losses (e.g., operating expenses) when those losses are aggregated with other losses (e.g., negative gross fund returns) or with larger gains (e.g., gross fund returns in excess of expenses).

operating expenses spent on marketing. Rather, we believe that over time investors have learned more quickly to avoid salient load fees than obfuscated operating expenses. While virtually all front-end-load fees are used for marketing, operating expenses can be disaggregated into 12B-1 fees (fees earmarked for marketing) and other operating expenses. We find the significant positive relation between flows and expenses is confined to 12B-1 fees. Thus, all else equal, investors do not prefer to buy mutual funds with high operating expenses, but they do buy funds that attract their attention through advertising and distribution. In short, consistent with the findings of Jain and Wu (2000), mutual fund advertising works.

After discussing related literature, we describe our data, present results, and conclude.

II. Related Literature

Several academic studies have documented a negative relation between a fund's operating expense ratio and performance (e.g., Gruber 1996 and Carhart 1997). Thus, it is sensible for investors to eschew the purchase of funds with high operating expenses. Generally, investors pay fees to mutual funds through operating expense ratios applied to assets under management or through load fees charged when investors purchase (or less commonly sell) a mutual fund. When purchasing funds through a broker, investors pay a commission to the broker for some mutual funds, but not for others, which are designated as nontransaction fee (NTF) funds.

Survey and experimental evidence support our contention that mutual fund investors are generally unable to assess the trade-off between different fees charged by mutual funds. Wilcox (2003) presents 50 consumers who currently invest in mutual funds with profiles of stock mutual funds with different expense ratio and load combinations. He documents that 46 of the 50 study participants overemphasized loads relative to expense ratios. Alexander, Jones, and Nigro (1998) document that less than 20% of 2,000 surveyed mutual fund investors could give an estimate of the expenses incurred for their largest mutual fund holding. Furthermore, despite empirical evidence to the contrary, 84% of respondents believed that mutual funds with higher expenses earned average or above average returns.

Surprisingly little empirical research has been done on how investors consider expenses when investing in mutual funds. The only empirical work that we are aware of is Sirri and Tufano (1998), who document a negative relation between fund flows and total fund expenses (amortized front-end-load fees and operating expenses).

We fill this void in the empirical literature by analyzing new money flowing into mutual funds from 1970 through 1999. When we separate front-end-load fees and expense ratios, we find strong evidence that investors treat the two differently. In both univariate and multivariate analyses, we document a significant negative relation between fund flows and front-end-load fees, but no relation, or a positive one, between fund flows and operating expenses. When we disaggregate operating expenses into 12B-1 fees and other operating expenses for the limited sample period for which we have 12B-1 fee data (1993–99), we find the significant positive relation between flows and expenses confined to 12B-1 fees.

III. Data

We obtained data on mutual funds from the Center for Research in Security Prices (CRSP) mutual fund database. Consistent with many prior mutual fund studies, we restricted our analysis to diversified U.S. equity mutual funds.[3] Thus, we exclude from our analyses bond funds, international equity funds, and specialized sector funds. The number of funds meeting these data requirements grew over time. In 1970, 465 funds met these requirements, while in 1998, 3,533 funds met these requirements.

We analyze the period 1970 through 1999, since the CRSP database reports total net assets (TNA) on a quarterly basis beginning in 1970. Consistent with prior research, we calculate new money as a percentage of beginning-of-period TNA as

$$\frac{\mathrm{TNA}_{it} - \mathrm{TNA}_{i,t-1}(1 + R_{it})}{\mathrm{TNA}_{i,t-1}},$$

where R_{it} is the return of fund i in period t. Essentially, this is a percentage growth in new money during period t. Here we assume that new money flows in and out of each fund at the end of each period since we do not know the exact timing of cash flows. For some analyses we use quarterly growth, while for others we use annual growth. The median mutual fund experiences annual growth of 5.3% and quarterly growth of 1.2%. There is considerable cross-sectional variation in growth. The interquartile range is −21 to 51% for annual growth and −3 to 11% for quarterly growth. High growth in new money relative to other funds generally leads to a greater market share.[4]

3. We selected funds according to the following criteria. First, we selected funds with the following Investment Company Data, Inc. (ICDI) objectives: aggressive growth, growth and income, long term growth, or total return (only if they have the following Strategic Insight's fund objectives: flexible, growth, or income growth). If ICDI objectives are missing, we select funds with the following Strategic Insight's fund objectives: aggressive growth, growth and income, growth, income growth, or small company growth. If both ICDI and Strategic Insight's objectives are missing, we select funds with the following Weisenberger fund types: AAL, AGG, G, G I, G I S, G S, G S I, GCI, GRI, GRO, I G, I G S, I S, I S G, MCG, SCG, or TR. If all three of these criteria are missing, we select funds described as common stock funds according to the policy and objective codes.

4. There are obviously exceptions to this general relationship. For example, a fund with strong performance and negative growth in new money might lose market share — clearly an unusual occurrence since it is well documented that the highest growth in new money occurs for funds with strong performance.

IV. Results

A. Univariate Sorts

Our primary focus is the relation between different forms of expenses and the growth of new money. We begin by presenting basic descriptive statistics for two partitions of our data. In the first partition, we construct deciles on the basis of expense ratios; in the second partition, we compare funds with front-end loads to those without front-end loads. For each partition, we calculate mean expense ratios, front-end-load fees, and TNA for the sorting year, while we calculate the annual growth of new money and fund returns during the following year.

We calculate the mean monthly return for funds in each partition and two performance measures: the capital asset pricing model (CAPM) alpha and a three-factor alpha. These performance measures are based on the time-series of mean monthly returns for mutual funds within a partition (R_{pt}), where funds are reassigned to partitions annually. The CAPM alpha is the intercept from the following time-series regression:

$$(R_{pt} - R_{ft}) = \alpha + \beta(R_{mt} - R_{ft}) + \varepsilon_t,$$

where

R_{ft} = the monthly return on T-bills,[5]
R_{mt} = the monthly return on a value-weighted market index,
α = the CAPM intercept (Jensen's alpha),
β = the market beta, and
ε_i = the regression error term.

The Fama-French alpha is the intercept from the three-factor model developed by Fama and French (1993):

$$(R_{pt} - R_{ft}) = \alpha + \beta(R_{mt} - R_{ft}) + s\mathrm{SMB}_t + h\mathrm{HML}_t + \varepsilon_t,$$

where SMB_t is the return on a value-weighted portfolio of small stocks minus the return on a value-weighted portfolio of big stocks and HML_t is the return on a value-weighted portfolio of high book-to-market stocks minus the return on a value-weighted portfolio of low book-to-market stocks.[6] The regression yields parameter estimates of α, β, s, and h. The error term in the regression is denoted by ε_t.

The results of this analysis are presented in table 1. In panel A, we present results for mutual funds sorted into deciles on the basis of

5. The return on T bills is from *Stocks, Bonds, Bills, and Inflation, 2000 Yearbook*, Ibbotson Associates, Chicago.

6. The construction of these portfolios is discussed in detail in Fama and French (1993). We thank Kenneth French for providing us with these data.

TABLE 1 Descriptive Statistics for Mutual Funds Sorted by Expense Ratio Deciles and Front End Load versus No Load Funds, 1970 99

Decile	Mean Expense Ratio (%)	Mean Load Fee (%)	Mean TNA ($mil.)	Mean New Money (% of TNA)	Mean Monthly Return (%)	CAPM Alpha (%)	Fama-French Alpha (%)
Panel A. Operating Expense Partition							
1 (low)	.47	3.77	844.821	1.33	1.056	.059	.004
2	.72	4.19	456.255	.89	1.038	.068	.006
3	.85	3.84	301.311	1.57	1.066	.057	.006
4	.96	4.36	232.351	2.76	1.010	.102	.035
5	1.07	4.23	151.334	6.76	1.079	.037	.055
6	1.18	4.19	112.470	9.79	1.010	.149	.052
7	1.34	3.90	93.703	9.37	1.027	.119	.040
8	1.53	3.10	77.198	17.37	1.055	.057	.026
9	1.76	2.68	46.936	20.82	1.096	.029	.030
10 (high)	3.18	1.67	25.037	20.77	.816	.366**	.256*
Panel B. Front-End-Load vs. No-Front-End-Load Funds							
No load	1.07	0	158.479	6.61	1.079	.059	.012
Load	1.13	6.77	296.890	.04	1.026	.098	.017

NOTE. In panel A, funds are sorted into deciles on the basis of operating expense ratios in year *t* 1 from 1969 1998. In panel B, funds are sorted into deciles on the basis of front-end-load fees in year *t* 1 from 1969 to 1998. The table presents the number of funds, mean expense ratio, front-end-load fee, and mean TNA in sorting year (*t* 1). New money as a percentage of TNA and the equally weighted mean monthly return for each performance decile are for the subsequent year (*t*). The CAPM alpha is the intercept from a monthly time-series regression of the mean monthly excess return for each sample partition on the market excess return. The Fama-French alpha is the intercept from a monthly time-series regression of the mean monthly excess return for each sample partition on the market excess return, a zero-investment portfolio formed on the basis of firm size, and a zero-investment portfolio formed on the basis of book-to-market ratios.

**, * Significant at the 5% or 10% level, two -tailed test.

expense ratios, while panel B contrasts front-end-load and no-front-end-load funds. Load fees and operating expenses are not perfect substitutes. Although low expense funds have higher front-end-load fees than high expense funds, the relation between expenses and front-end loads is far from monotonic. In addition, front-end-load funds have higher average expense ratios than funds without front-end loads. Clearly, investors could choose a fund with no front-end load and low expenses. For example, in May 2002, the Vanguard 500 Index fund charged no front-end load and sported an expense ratio of 18 basis points.

Funds with low expense ratios are dramatically larger than funds with high expense ratios. For example, the funds in the lowest expense decile represent 36% of assets in mutual funds, while funds in the highest expense decile represent only 1%. This is consistent with the evidence in Khorana and Servaes (2000), who document fund families with low expenses have a higher market share than fund families with higher expenses. Low expenses may attract investors, or new money may lead to economies of scale that allow funds to lower expenses. Thus, it is unclear whether low expenses lead to a greater market share or a greater market share leads to lower expenses.

If low expenses lead to a greater market share, we would expect growth rates to be higher for funds with low expenses. This is not the case during our sample period. In fact, our crude univariate sorts indicate a nearly monotonic positive relationship between expenses and growth rates. Funds with high expenses have the highest growth rates. In contrast, funds without front-end loads, which tend to be smaller than front-end-load funds, enjoy higher growth rates.

In the last three columns of table 1, we present the mean monthly returns for each partition, the CAPM alpha, and the Fama-French alpha. Although there is no discernible relationship between performance and expenses for the majority of funds, investors clearly pay a large price for investing in funds with the highest expenses. These funds underperform by an economically large margin (26 to 37 basis points per month).[7] Furthermore, the returns on front-end-load funds are not significantly different from the returns on other funds. Thus, these results confirm the conventional wisdom that investors should spurn funds with front-end loads or high expenses.

B. Multivariate Analyses

The results based on univariate sorts are insufficient evidence to draw strong conclusions about the relationship between new money and operating expenses or front-end-load fees. It is possible that the univariate

7. During our sample period, the CAPM alpha for the average diversified U.S. equity mutual fund is 0.10% per month, while the Fama French alpha is 0.02% per month. Neither figure is reliably different from zero.

relationships are driven solely by mean reversion in market share over time: small funds, which have high expense ratios, gain market share, while large funds, which have low expense ratios, lose market share.

To address this possibility, we estimate a series of cross-sectional regressions. The dependent variable in these regressions is the quarterly net flow scaled by beginning of quarter TNA for each diversified U.S. equity mutual fund from the first quarter of 1970 to third quarter of 1999.[8] For each quarter, we regress this dependent variable on a series of independent variables, which we describe next. Test-statistics are based on the time series of coefficient estimates across the 119 quarters. Note that our dependent variable measures changes in investor buying behavior over time. For example, if flow scaled by TNA is negatively related to front-end-load fees, then investors are putting relatively less money into front-end-load funds over time.

To control for the effect of performance on fund flows, we include the annual market-adjusted returns on the fund during each of the 2 years preceding quarter *t* as independent variables in the regressions. The annual market-adjusted return is the annual fund return less the annual return on the CRSP NYSE/ASE/NASDAQ value-weighted index. We include squared market-adjusted returns for each of the previous 2 years to capture the well-documented nonlinear relation between performance and fund flows (Sirri and Tufano 1998; Chevalier and Ellison 1997). We also include a fund's monthly return standard deviation (measured over the 2 years leading up to quarter *t*), as an independent variable in the regression. Monthly return standard deviation measures the short-term volatility of a fund. All independent variables in the regressions are from the CRSP mutual fund database.[9]

Our primary focus is the relation between fund flows and expenses. First, we replicate the results of Sirri and Tufano (1998) by calculating total expenses for each fund. As in Sirri and Tufano (1998), total expenses are defined to be the operating expense ratio plus one-seventh of the percentage front-end-load fee, if any.[10] This calculation assumes that an investor in a load fund would hold the fund for 7 years, thus

8. To reduce the effect of outliers on the coefficient estimates, we winsorize the dependent variables at the ninety ninth percentile. Our results are qualitatively similar when we include these outliers. We also exclude 26 funds that were closed to new investment during our sample period. Fund closing data are from CRSP. These funds are excluded in the year of closing and all subsequent years.

9. The CRSP mutual fund database reports zero operating expenses and turnover for a large number of funds. Based on our discussions with CRSP, zero operating expenses likely indicate missing information. Thus, we exclude funds with either zero operating expenses from these analyses. From 1990 to 1995, CRSP reports nonzero operating expense ratios for 87% of funds.

10. We exclude back end load fees from our calculation of total expenses for two reasons. First, data on back end loads is not available in the CRSP database prior to 1993. (The post 1993 data on back end loads also often reports a redemption fee as a back end load.) Second, back end loads are often waived if an investor holds a fund for a specified period of time.

amortizing the front-end-load fee over that holding period. This regression specification obviously assumes that investors respond similarly to load fees and expense ratios. To test our conjecture that they do not, we then estimate regressions that include operating expenses and front-end-load fees as separate independent variables. We include a dummy variable that takes on a value of 1 if a fund is in the highest expense decile, since it is among these funds where high expenses extract the largest performance penalty. To control for the possibility that fund families are steering money into new funds (with lower front-end loads and higher operating expenses) and thus creating a spurious correlation between loads and growth, we include the log of fund age as an independent variable. We also estimate these regressions excluding funds less than 5 years old. Since we are concerned that our results might be driven by small funds, we include the log of total net asset value as an independent variable. We also estimate these regressions in each quarter for the 50 mutual funds with the largest beginning-of-quarter TNA and estimate regressions excluding the smallest 30% of funds in our sample.

In a plausible equilibrium, we would expect no relation between fund flows and any of our expense variables. For example, one group of investors might reasonably prefer front-end-load funds with low expenses, while a second group of investors might reasonably prefer no-load funds with higher expenses. Assuming the preferences of the two groups do not change over time and the wealth of the two groups grows similarly over time, expenses and loads would be unrelated to fund flows. Thus, the coefficient estimates on our expense variables from the cross-sectional regressions are tests of changing preferences over time. We hypothesize that investors have learned to avoid front-end-load funds but not operating expenses. Thus, we predict a stronger negative relation between front-end-load fees and flows than between operating expenses and flows.

The results of this analysis are presented in table 2. Consider first the results for the control variables. The coefficient estimates on the return variables are consistent with the nonlinearity in the relationship between performance and fund flows. The cross-sectional standard deviation of market-adjusted returns for mutual funds is roughly 10%. Thus, our regression estimates for all funds indicate that a fund that beats the market by 10% (roughly a one standard deviation event) experiences growth of 5% (e.g., using coefficients from the second column of table 2, $0.393*0.1 + 1.01*0.1^2 \approx 0.05$), while a fund that lags the market by 10% shrinks by 3%. A fund that beats the market by 20% experiences growth of 12%, while a fund that lags the market by 20% shrinks by only 4%. Consistent with the evidence in Chevalier and Ellison (1997), these patterns are less pronounced for larger and older funds. There is a negative relationship between monthly volatility and flows. Small funds

TABLE 2 **Cross Sectional Regressions of Quarterly New Money on Fund Characteristics, 1970 99**

	All Funds		Largest 50 Funds		Largest 70% of Funds		Old Funds (age > 5 years)	
Total expenses (TX_{t-1})	.389**		.424***		.298**		.180*	
	(2.11)		(3.11)		(2.08)		(1.76)	
Operating expense (X_{t-1})		.104		.833**		.826**		.511*
		(.24)		(2.06)		(2.08)		(1.85)
Front end load (L_{t-1})		.066**		.082***		.077***		.056***
		(2.25)		(3.76)		(3.19)		(2.86)
High expense dummy	.010	.001	0.005	.006	.010*	.005	.011***	.002
	(1.55)	(.17)	(1.38)	(1.65)	(1.71)	(.70)	(2.88)	(.39)
MAR_{t-1}	.393***	.397***	.252***	.257***	.359***	.364***	.314***	.317***
	(11.17)	(11.30)	(9.89)	(9.76)	(11.14)	(11.39)	(13.33)	(13.51)
MAR^2_{t-1}	1.01***	.993***	.396***	.351**	.801***	.786***	.716***	.698***
	(9.02)	(8.90)	(2.63)	(2.32)	(7.14)	(7.04)	(10.36)	(10.06)
MAR_{t-2}	.166***	.164***	.158***	.161***	.172***	.172***	.167***	.166***
	(10.40)	(10.37)	(8.15)	(78.45)	(10.00)	(10.06)	(12.25)	(12.16)
MAR^2_{t-2}	.106	.067	.024	.027	.124*	.091	.258***	.214***
	(1.16)	(.75)	(.12)	(.14)	(1.72)	(1.30)	(4.46)	(3.79)
$\sigma(R)$	.596***	.599***	.350**	.322**	.640***	.636***	.575***	.577**
	(4.63)	(4.68)	(2.21)	(2.07)	(4.71)	(4.70)	(6.01)	(6.11)
$\ln(TNA_{t-1})$	.009***	.009***	.002**	.003***	.003***	.002**	.003***	.002***
	(8.89)	(7.29)	(2.08)	(2.98)	(4.46)	(2.30)	(6.79)	(3.56)
ln(Age)	.014***	.014***	.014***	.013***	.014***	.013***	.012***	.011***
	(8.76)	(8.63)	(7.92)	(7.59)	(8.42)	(8.24)	(9.20)	(8.94)
Adj. R^2	.139	.146	.309	.318	.178	.185	.180	.189

NOTE. This table reports the mean coefficient estimates and associated t-statistics (in parentheses) from cross-sectional regressions of fund flows on selected fund characteristics from the first quarter of 1970 to the third quarter of 1999. The dependent variable is the quarterly net fund flows scaled by the beginning of quarter TNA. The independent variables include total expenses (TX, operating expenses plus one-seventh of a fund's front-end-load fee), operating expenses (X), front load (L), a dummy variable which takes a value of 1 if the fund appeared in the highest expense decile in year t 1(high-expense dummy), the annual market-adjusted fund return for the previous 12 months (MAR), the annual market-adjusted fund return for the 12 months in year t 2, the annual adjusted fund returns squared for years t 1 and t 2, the monthly standard deviation of the fund's return over the previous 24 months, log of beginning-of-quarter TNA, and log of fund age. The dependent variable is winsorized at the ninety-ninth percentile. Funds closed to new investors are excluded from the analyses at the time and after they became closed. Test statistics (in parentheses) are based on the time series of coefficient estimates across 119 quarters.

***, **, * Significant at the 1%, 5%, or 10% level, two-tailed test.

experience higher growth rates, although this relation reverses when we analyze only the largest 50 funds. Older funds also experience lower growth rates than younger funds.

There is a significant negative relation between total expenses and fund flows, consistent with the results reported by Sirri and Tufano (1998). This relation holds for all funds, although the economic significance of the relation is modest. A 100 basis point decrease in total expenses is associated with 0.39% growth in new money. The results of our remaining analyses are generally consistent with this negative but economically small relation between total expenses and flows.

However, when we include operating expenses and front-end-load fees as separate independent variables in the regression, the negative relation between total expenses and flows is clearly driven by a significant negative relation between front-end load fees and flows. For all funds, there is no relation between operating expenses and flows, while for the largest 50 funds, the largest 70% of funds, and funds older than 5 years there is a positiv*e* relation. This evidence indicates that the results from the univariate sorts presented previously are not driven solely by small or young funds. Thus, consistent with our hypothesis that investors respond differently to different expenses, we document a significant negative relation between flows and front-end loads. In contrast, there is, at best, no relation between operating expenses and flows and, at worst, a perverse positive relation between expenses and flows for large funds.[11]

C. The Role of Advertising

The lack of relation between expense ratios and fund flows suggests that mutual funds can raise operating expense ratios with impunity. This is not the case. Mutual fund managers have a choice between pocketing expenses or spending on marketing. In this section, we present evidence that expenditures on marketing can largely explain the lack of relation between expense ratios and fund flows.

Mutual funds can take out up to 1.25% of average daily fund assets each year to cover the costs of selling and marketing shares, an arrangement allowed by the SEC's Rule 12B-1, which was passed in 1980. CRSP provides data on these so-called 12B-1 fees beginning in 1993.

11. A significant portion of cash flows to mutual funds come from employee sponsored retirement plans. These cash flows also tend to be persistent, as investors in employee sponsored retirement plans do not change their fund allocations regularly. Although we are unable to identify the source of funds in the analyses that rely on aggregate flows using CRSP data, we later analyze flows at brokerage accounts that do not include employee sponsored retirement plans. Similar to the results discussed here, we find a negative relation between front end loads and flows but no reliable relation between operating expenses and flows. Furthermore, these results are similar when we separately identify flows in taxable accounts and tax deferred accounts (e.g., 401k and Keogh).

For the period 1993–99, we are able to separately identify fees devoted to the selling and marketing of shares (12B-1 fees) and other fees (non-12B-1 fees). We augment our regression analysis by including these two variables separately as independent variables in the regression.

We suspect that both front-end-load fees and 12B-1 fees are spent in the manner that the fund managers believe will best attract fund flows. We anticipate that fund flows will be positively related to 12B-1 fees because the positive effects on flows of marketing will dominate the negative effects of fees charged as operating expenses; fund flows will be less positively related to front-end loads because the positive effects on flows of spending front-end-load fees on marketing will be at least partially offset by the negative effect of loads being salient to investors; and fund flows will be negatively related to non-12B-1 operating fees because the negative effect of fees is not, here, offset by marketing.

The results of this analysis are presented in table 3. To provide a baseline for comparison, we also include results for total expenses. Because of the reduced sample period, the power of the empirical tests is diminished; for example, the relation between total expenses and fund flows is no longer reliably negative.

When operating expenses are separated into 12B-1 and non-12B-1 fees, the coefficient estimates for 12B-1 fees are reliably positive for all funds, for the large funds, and for older funds; the coefficient estimates for non-12B-1 fees are negative, although not statistically significant for the largest 50 funds and funds over 5 years old; and the coefficient estimates for front-end-load fees always lie between those of 12B-1 and non-12-1 fees.[12]

Advertising works. Funds with higher expenditures on 12B-1 fees garner more new money. This result is consistent with the findings of Jain and Wu (2000), who document that 294 mutual funds that advertised in *Barron's* or *Money* magazine grew faster than a control group of funds with similar performance prior to the advertising period.

A natural question that arises from this discussion is whether the long-run increase in operating expenses can be solely explained by increasing expenditures on 12B-1 fees as a result of the emergence of many new funds and mutual fund supermarkets. This is a plausible conjecture, as more and more funds compete to be heard above the din of mutual fund advertising. Consistent with this conjecture, from 1993 to

12. Operating expenses are paid annually, while load fees are a one time expense and thus should be amortized over an investor's holding period for comparison purposes. Thus, the comparison of the coefficient estimates on front end load fees should be divided by the relevant holding period. Using any reasonable holding period, the coefficient estimates on loads always fall between those of non 12B 1 expenses and 12B 1 expenses. Indeed, despite a much shorter time series and, thus, less powerful tests, we can comfortably reject the null hypothesis that flows are equally sensitive to 12B 1 fees and load fees for all funds, the largest 50 funds, and the largest 70% of all funds.

TABLE 3 Cross Sectional Regressions of Quarterly New Money on Fund Characteristics: 1993 99

	All Funds		Largest 50 Funds		Largest 70% of Funds		Old Funds (Age > 5 Years)	
Total expenses (TX_{t-1})	.523		.050		.221		.122	
	(1.58)		(.18)		(.79)		(.64)	
Front end load (L_{t-1})		.040		.039		.037		.080*
		(.65)		(.73)		(.68)		(2.02)
High expense dummy	.006	.008	.001	.003	.017**	.018*	.011**	.011**
	(.66)	(.69)	(1.00)	(1.00)	(2.08)	(1.87)	(2.64)	(2.11)
Non 12B$_{t-1}$		1.828***		1.223		1.171**		.212
		(2.95)		(1.39)		(2.69)		(.67)
12B$_{t-1}$		1.454***		1.542***		1.432***		.957**
		(2.81)		(3.23)		(2.89)		(2.42)
MAR$_{t-1}$	.781***	.788***	.494***	.506***	.715***	.721***	.602***	.605***
	(11.33)	(11.10)	(9.70)	(9.49)	(10.66)	(10.71)	(15.61)	(15.57)
MAR$^2_{t-1}$	1.634***	1.678***	.277	.141	1.564***	1.602***	1.039***	1.057***
	(6.83)	(7.38)	(.75)	(.39)	(5.43)	(5.68)	(7.38)	(7.44)
MAR$_{t-2}$	.246***	.251***	.228***	.236***	.273***	.274***	.285***	.290***
	(7.05)	(7.29)	(5.37)	(5.38)	(8.63)	(8.61)	(13.92)	(14.18)
MAR$^2_{t-1}$	.026	.064	1.235**	1.379**	.224	.189	.278**	.315***
	(.18)	(.46)	(2.22)	(2.50)	(1.61)	(1.35)	(3.56)	(4.04)
$\sigma(R)$	1.094***	1.029***	.310	.139	1.263***	1.201***	.957***	.939***
	(4.01)	(3.74)	(.80)	(.35)	(4.67)	(4.40)	(5.31)	(5.16)
ln(TNA$_{t-1}$)	.020***	.021***	.001	.0002	.006***	.008***	.005***	.005***
	(8.32)	(8.60)	(.37)	(.07)	(6.35)	(7.35)	(8.28)	(8.01)
ln(age)	.015***	.013***	.017***	.016***	.019***	.018***	.013***	.012***
	(7.23)	(6.00)	(7.60)	(6.81)	(8.87)	(8.51)	(7.68)	(7.57)
Adj. R^2	.099	.101	.402	.417	.153	.156	.174	.177

NOTE. This table reports the mean coefficient estimates and associated *t*-statistics (in parentheses) from cross-sectional regressions of fund flows on selected fund characteristics from the first quarter of 1993 to the third quarter of 1999. The dependent variable is the quarterly net fund flows scaled by the beginning of quarter TNA. The independent variables include total expenses (TX, operating expenses plus one-seventh of a fund's front-end-load fee), front load (*L*), a dummy variable which takes a value of 1 if the fund appeared in the highest expense decile in year *t* 1 (high-expense dummy), non-12B expenses, 12B expenses, the annual market-adjusted fund return for the previous 12 months (MAR), the annual market-adjusted fund return for the 12 months in year *t* 2, the annual adjusted fund returns squared for years *t* 1 and *t* 2, the monthly standard deviation of the fund's return over the previous 24 months, log of beginning-of-quarter TNA, and log of fund age. The dependent variable is winsorized at the ninety-ninth percentile. Funds closed to new investors are excluded from the analyses at the time and after they became closed. Test statistics (in parentheses) are based on the time series of coefficient estimates across 27 quarters.

***, **, * Significant at the 1%, 5%, or 10% level, two -tailed test.

1999 the mean (TNA-weighted) 12B-1 fee charged by mutual funds increased from 0.139% to 0.202%. (There was also a marked increase in the proportion of funds charging 12B-1 fees during this period, from 34% of all funds in 1993 to 57% of all funds in 1999.) However, from 1962 to 1999, the mean (TNA-weighted) operating expense increased by 35 basis points. Thus, increased expenditures on 12B-1 fees, though they may have contributed to the long-run increase in operating expenses, cannot totally explain the increase.

D. *Mutual Fund Commissions*

With the exception of front-end-load fees, mutual fund investors can generally purchase mutual funds directly from the fund complex at zero transaction costs. However, many mutual funds are traded through mutual fund marketplaces at major brokerage firms. When purchasing mutual funds through a broker, a commission is charged for the purchase or sale of some funds, but not others. Generally fund complexes will pay a fee to the broker to gain status as a nontransaction fee fund. Laplante (2001) documents that funds traded with NTF status on marketplaces have expense ratios that are 17 to 19 basis points higher than funds not available in the marketplaces.[13] We hypothesize that commissions, like load fees, are salient expenses for many investors and thus expect that funds with NTF status will garner more new money, despite higher average operating expenses.

To test this hypothesis, we analyze the mutual fund purchase and sale decisions of households with accounts at one nationwide discount broker. The data span the period 1991 through 1996 (see Barber and Odean 2000 for a more complete description of these data). Of the 78,000 sampled households, 32,199 (41%) had positions in mutual funds during at least 1 month; the remaining households held either cash or investments in securities other than mutual funds. For the 78,000 households, 17% of all market value was held in mutual funds and 64% in individual common stocks. There were over 3 million trades in all securities. Mutual funds accounted for 18% percent of all trades; individual common stocks accounted for 64%. By virtue of being bought or sold through one brokerage, all of the funds traded in this sample are part of that brokerage's mutual fund "supermarket," but not all funds in the supermarket have NTF status. In our sample, 76% of fund purchases and 49% of sales are NTF funds.

13. Ciccotello, Greene, and Walsh (2003) analyze funds traded in a supermarket and those that are not. They document that the mean expense ratios of funds traded in mar ketplaces are similar to those not traded in a marketplace. They also find that funds do not increase their expense ratios or the 12B 1 fees after they join an NTF supermarket. In con trast, the conclusions of Laplante (2001) are based on a multivariate regression of operating expenses on fund characteristics.

Of the 32,199 households with positions in mutual funds, the average held 3.6 mutual funds worth \$36,988. Both of these numbers are positively skewed. The median household held two mutual funds worth \$12,844 dollars. For these households, the positions in mutual funds and individual common stocks were roughly equal. Forty-two percent of the market value in these accounts was held in mutual funds and 39% in individual common stocks. In aggregate, these households held 1,073 mutual funds worth \$1.4 billion in December 1996.

For each fund (i) in each month (t), we estimate new money as the value of buys (B) less the value of sells (S) scaled by beginning of month total net assets (TNA): $(B_{it} - S_{it})/\mathrm{TNA}_{i,t-1}$. Unlike that in the aggregate case, here we know the exact amount and timing of new money. As before, we estimate cross-sectional regressions for each month then average coefficient estimates across months. We also include a dummy variable that takes on a value of 1 if a fund can be traded without a commission (a nontransaction fee fund).[14]

The results of this analysis are presented in table 4. Consistent with our prior results, we find either no relation or a positive relation between funds' operating expenses and new money for these households. Also consistent with our prior evidence, we find a significant negative relation between front-end-load fees and new money.

The primary variable of interest—the NTF dummy—is consistently positive for all eight regressions and significant for six of these. NTF funds garner significantly more new money than funds for which investors pay a commission to buy or sell. Commissions are salient, one-time expenses to which investors attend.

E. Experienced versus First-Time Mutual Fund Buyers

We contend that front-end-load fees are more obvious and salient to investors than operating expense fees. We believe that a large, one-time fee is more likely to capture an investor's attention than a smaller, ongoing expense. Both loads and fees are usually quoted in percentage terms. However, the dollar cost of a front-end load is likely to be obvious when an investor receives the first fund statement (i.e., approximately the difference between the amount invested and the first statement balance). The immediate effect of operating expenses on the investor's principal is small and the subsequent drain of operating expenses on return is likely to be masked by fund volatility. An important implicit assumption in our argument is that investors learn by experience and they learn more quickly about salient load fees than the less obvious operating expenses. We are able to test this hypothesis directly using the discount brokerage account data.

14. We define a fund as a nontransaction fee fund if more than 90% of the trades in the fund were executed without a commission during our sample period.

TABLE 4 Cross Sectional Regressions of Monthly New Money from Discount Brokerage Accounts, 1991 96

	All Funds		Largest 50 Funds		Largest 70% of Funds		Old Funds (Age > 5 Years)	
Total expenses(TX_{t-1})	990.64		989.92***		1,103.60		1,002.82	
	(.67)		(3.17)		(1.20)		(.64)	
Operating expense X_{t-1})		6,264.49**		338.17		5,837.25***		4,716.46*
		(2.41)		(.34)		(2.63)		(1.78)
Front end load(L_{t-1})		1,018.58***		179.74*		1,033.02***		682.60***
		(4.14)		(1.92)		(4.40)		(3.00)
High expense dummy	66.52*	11.70	7.35	6.19	103.36	3.49	32.55	26.26
	(1.66)	(0.26)	(1.60)	(1.30)	(1.62)	(.05)	(.89)	(.63)
NTF dummy	30.20**	52.65***	5.94	7.05**	8.38	25.52***	34.52***	51.41***
	(2.63)	(4.54)	(1.55)	(2.05)	(.77)	(2.67)	(3.44)	(4.80)
MAR_{t-1}	1,081.23***	1,095.17***	155.96***	192.01***	841.94***	849.86***	883.96***	900.24***
	(7.39)	(7.51)	(2.60)	(3.07)	(7.21)	(7.44)	(6.61)	(6.64)
MAR^2_{t-1}	2,887.57***	2,671.81***	712.34	562.33	3,026.80***	2,878.48***	1,769.01**	1585.74**
	(3.37)	(3.19)	(1.11)	(.92)	(4.77)	(4.58)	(2.25)	(2.05)
MAR_{t-2}	53.19	54.65	193.66***	160.57***	46.82	19.05	104.59	106.51***
	(.47)	(.47)	(3.28)	(2.73)	(.42)	(.18)	(.99)	(.99)
MAR^2_{t-2}	666.86	1,027.06	341.61	287.18	1,287.98*	1,607.39**	380.15	710.38
	(.94)	(1.47)	(.72)	(.60)	(1.81)	(2.23)	(.55)	(1.06)
$\sigma(R)$	4,928.40***	4,934.79***	868.63**	897.09**	1,820.23	1,805.24	5,307.07***	5,254.63***
	(3.31)	(3.33)	(1.96)	(1.96)	(1.61)	(1.61)	(3.78)	(3.75)
ln(TNA_{t-1})	6.81	14.91*	.34	.71	12.31**	1.32	12.70	18.59**
	(.93)	(1.77)	(.16)	(.41)	(2.51)	(.26)	(1.64)	(2.07)
ln(age)	15.68**	21.49***	.46	1.05	7.47	14.25*	13.82**	18.42**
	(2.29)	(2.81)	(.15)	(.30)	(1.13)	(1.80)	(2.04)	(2.52)
Adj. R^2	.082	.088	.190	.206	.112	.121	.079	.085

NOTE. This table reports the mean coefficient estimates and associated t-statistics (in parentheses) from cross-sectional regressions of fund flows based on the account transaction data from a U.S. discount brokerage firm on selected fund characteristics from January 1991 to November 1996. The dependent variable, $(B_{it} \quad S_{it})/\mathrm{TNA}_{i,t \quad 1}$, is the total value of buys less the total value of sells for fund i scaled by the beginning-of-month TNA. The independent variables include total expenses (TX, operating expenses plus one-seventh of a fund's load fee), operating expenses (X), front load (L), a dummy variable which takes a value of 1 if the fund appeared in the highest expense decile in year t 1(high-expense dummy), the annual market-adjusted fund return for the previous 12 months (MAR), the annual market-adjusted fund return for the 12 months in year t 2, the annual adjusted fund returns squared for years t 1 and t 2, the monthly standard deviation of the fund's return over the previous 24 months, log of beginning-of-quarter TNA, and log of fund age. The dependent variable is winsorized at the ninety-ninth percentile and is multiplied by 1 million. Funds closed to new investors are excluded from the analyses at the time and after they became closed. Test statistics (in parentheses) are based on the time series of coefficient estimates across 72 months.

***, **, * Significant at the 1%, 5%, or 10% level, two-tailed test.

TABLE 5 **Mean Characteristics of First Mutual Fund Purchases (19,056) versus Subsequent Purchases (188,506) from Discount Broker Trades Data, 1991 96**

	First Purchases	Subsequent Purchases	Difference
Total expenses (%)	.95	.95	.00 (.82)
Operating expenses (%)	.93	.94	.01** (2.18)
Front end load fees (%)	.111	.061	.05***(10.69)
NTF status (%)	39.67	39.09	.58 (1.57)
Fund MAR_{t-1}(%)	7.16	5.58	1.57***(14.22)
Fund MAR_{t-2}(%)	6.14	5.00	1.14***(10.46)

Note. Descriptive statistics are for 19,056 first mutual fund purchases of households and 188,506 subsequent purchases. Data are from trades made at a large discount broker from 1991 through 1996. Variables include total expenses (operating expenses plus one-seventh of a fund's load fee), operating expenses, front load, nontransaction fee (NTF) status at the broker, the annual market-adjusted fund return for the previous 12 months (MAR), and the annual market-adjusted fund return for the 12 months in year t 2. The t-statistics are in parentheses.
***, ** Significant at the 1% and 5% level, respectively (two-tailed test).

Many investors purchase more than one mutual fund in their life. If we are correct in our contention that load fees are more salient than operating expenses and investors learn over time, then we would expect repeat buyers to demonstrate more aversion to loads than first-time buyers and more aversion to loads than operating expenses. Table 5 reports descriptive statistics for first-time fund purchases and subsequent fund purchases by investors in our large discount brokerage data set.[15] Our estimate of total expenses is unchanged for first-time and subsequent purchases. Experienced fund buyers have a small, but statistically significant, tendency to buy funds with higher operating expenses. As we anticipated, experienced buyers choose funds with much lower loads than first-time buyers: 0.06% for experienced buyers vs. 0.11% for first-time buyers. Experienced buyers also put apparently less weight on a fund's previous returns than first-time buyers.

To test the robustness of these results, we separately analyze the three major fund categories in our dataset: aggressive growth, growth and income, and long-term growth. In each of these three fund categories, the front-end loads paid by first-time buyers are reliably greater than those paid by experienced buyers. In contrast, the pattern for operating expenses is not consistent across these three fund categories; the operating expenses paid by first-time buyers is lower for aggressive growth and growth and income funds but higher for long-term growth funds.

15. We categorize purchases as first time if the investor has not previously purchased a fund at this brokerage during our sample period. Obviously, some purchases categorized as first time were made by investors who had previously purchased funds elsewhere or before our sample period. Purchases incorrectly labeled first time will only make it more difficult to distinguish differences in the characteristics of funds actually purchased for the first time and other funds.

F. Changes in Expenses

We find evidence that mutual fund investors pay attention to salient, in-your-face fees like front-end loads and commissions, while they attend less to operating expense ratios. Yet low expense mutual funds have greater average market share than high expense mutual funds. Our results indicate that the high market share enjoyed by low expense funds is not a result of new money flowing into low expense funds. Low expense funds may have greater average market share because fund growth leads to lower expenses; indeed, many mutual fund prospectuses prescribe reductions in operating expenses as assets under management grow. In this section, we present empirical evidence consistent with this conjecture.

To test whether funds lower expenses as they grow, we calculate the change in operating expenses for all funds, the 50 largest funds, the largest 70% of funds, and funds older than 5 years. Assets under management can grow by attracting new money or posting strong returns. Since mutual funds enjoy economies of scale (Baumol et al. 1990), increased assets under management would allow funds to lower expenses. In each year, we regress the change in operating expenses on new money received in the prior 2 years and the fund's raw return in the prior 2 years. We include the raw return squared, since it is unlikely that economies of scale are linearly related to fund size. We include changes in front-end-load fees as an independent variable, since some funds may increase expenses when they lower or eliminate a front-end-load fee. Fund size and the monthly standard deviation of fund returns are also included as control variables.

The results of this analysis are presented in table 6. For all funds, the largest 70% of funds, and funds older than 5 years, there is strong evidence that growth leads to lower expenses for mutual funds. New money and strong returns lead to lower expenses. For example, the coefficient estimate for all funds of 0.00591 on a fund's prior year return indicates that a 10% return is associated with an average decrease in the expense ratio of 6 basis points in the following year. When we restrict our analysis to the 50 largest funds, we find no evidence that new money or fund performance predicts expense changes. This is not surprising, since large funds already enjoy economies of scale.

V. An Alternative Hypothesis: Search Costs and Service

A possible alternative explanation for our results is search costs. Perhaps investors find it extremely costly to search for mutual funds. Thus, rather than incur the hassle of finding a fund, they merely invest in funds that come to their attention through advertising. In short, these investors knowingly sacrifice performance (i.e., the cost of advertising, which is a net drain on fund performance) to reduce the hassle of picking a mutual fund.

We believe attention influences investors' choices of mutual fund just as it influences their choices of stocks (Barber and Odean 2003). We do

TABLE 6 **Cross Sectional Regressions of Annual Expense Changes on Fund Characteristics, 1970 99**

	All Funds	Largest 50 Funds	Largest 70% of Funds	Old Funds (Age > 5 Years)
Change in front	.00176	.00446	.00591**	.00212
loads (L_t L_{t-1})	(.79)	(1.16)	(2.28)	(.92)
New money	.00048**	.00054	.00043**	.00063*
(t 1) NM_{t-1}	(2.41)	(1.39)	(2.10)	(1.89)
New Money	.00005	.00011	.00008	.00008
(t 2) NM_{t-2}	(.42)	(.31)	(.91)	(.63)
MAR_{t-1}	.00591**	.00271	.00463**	.00485*
	(2.21)	(.60)	(2.65)	(2.00)
MAR^2_{t-1}	.00964	.00642	.00282	.00898
	(1.28)	(.57)	(.62)	(1.22)
MAR_{t-2}	.00753***	.00764	.00652**	.00896**
	(2.75)	(1.30)	(2.24)	(2.61)
MAR^2_{t-2}	.00952*	.011060	.00758*	.01325**
	(1.85)	(.99)	(1.33)	(2.14)
$\sigma(R)$	.00723	.00530	.00741	.00823
	(1.02)	(1.04)	(.96)	(1.10)
$\ln(\mathrm{TNA}_{t-1})$	.00001	.00001	.00001	.00001
	(.41)	(.25)	(.11)	(.37)
ln(age)	.00005	.00008	.00001	.00004
	(.47)	(.74)	(.16)	(.34)
Adj. R^2	.069	.103	.095	.079

NOTE. This table reports the mean coefficient estimates and associated t-statistics (in parentheses) from cross-sectional regressions of annual expense changes on selected fund characteristics from 1970 to 1999. The dependent variable, X_t $X_{t\ 1}$, is the change in expense ratios. The independent variables include change in front-end load fees (L), annual fund new money scaled by the beginning of year TNA (NM), the annual market-adjusted fund return for the previous 12 months (MAR), the annual market-adjusted fund return for the 12 months in year t 2, the annual adjusted fund returns squared for years t 1 and t 2, the monthly standard deviation of the previous 24 months fund returns, log of TNA at the beginning of each quarter, and log of fund age. The new money variables are winsorized at the ninety-ninth percentile.

***, **, * Significant at the 1%, 5%, or 10% level, two-tailed test.

not believe, however, that our results are driven solely by rational investors who, to minimize search costs, buy mutual funds that catch their attention. On the one hand, many—if not most—mutual fund investors do not minimize search costs. On the other hand, even when attention is not an issue, individuals overemphasize front-end loads relative to expense ratios. Several facts support this view.

First, Wilcox (2003) presents 50 consumers who currently invest in mutual funds with profiles of stock mutual funds with different expense ratio and load combinations. He documents that 46 of the 50 study participants overemphasize loads relative to expense ratios. There is clearly no search cost in this experimental design, yet he observes the same general patterns that we find in flow data.

Second, many investors actively trade mutual funds. In the brokerage account data that we use, mutual fund turnover exceeds 70% annually (which corresponds to a holding period of less than 18 months). In general, redemption rates for mutual funds are quite high, reaching 40%

TABLE 7 Mean Characteristics of Mutual Fund Sales Followed by Mutual Fund Purchase within Three Weeks from Discount Broker Trades Data, 1991 96

	Funds Bought	Funds Sold	Difference	
Total expenses (%)	.998	.989	.009**	(2.44)
Operating expenses (%)	.983	.963	.021***	(5.72)
Front end load fees (%)	.099	.180	.080***	(10.44)
NTF status (%)	22.8	18.9	3.9***	(9.09)
Fund MAR$_{t-1}$(%)	8.25	.55	7.70***	(58.40)
Fund MAR$_{t-2}$(%)	4.97	4.93	.04	(.34)

NOTE. Descriptive statistics are for 14,862 mutual fund sales followed by a mutual fund purchase within 3 weeks. Data are from trades made at a large discount broker from 1991 through 1996. Variables include total expenses (operating expenses plus one-seventh of a fund's load fee), operating expenses, front load, nontransaction fee (NTF) status at the broker, the annual market-adjusted fund return for the previous 12 months (MAR), and the annual market adjusted fund return for the 12 months in year t 2. The t-statistics are in parentheses.
***, ** Significant at the 1% and 5% level, respectively (two-tailed test).

in the late 1990s, which implies a holding period of 30 months.[16] If search costs loom large, we would expect investors to trade their mutual funds somewhat less often than they do.

Third, we can bring some data to bear on this issue. Using the brokerage data, we are able to identify mutual fund sales followed by mutual fund purchases within 3 weeks. It is unlikely that these sales were liquidity motivated, since they were followed by a purchase within 3 weeks. Although some of these sales might have been made to realize a tax loss, the average sale clearly was not, since the average fund sold outperformed the market (by more than 4% during a period when the market averaged more than 17% annually). Thus, it is likely that these sales followed by purchases were speculative in nature. It is worth noting that roughly half of all mutual fund sales in our brokerage data are followed by purchases within 3 weeks.

Clearly, the most straightforward way for investors who already own mutual funds to reduce search costs is to continue holding the mutual funds they already own. Yet, these investors do not do so. They willingly sell one fund to buy another. If the desire to minimize search costs were driving our findings then our findings would be dramatically different for these investors, who are clearly not minimizing search costs.

We present descriptive statistics on the funds bought and the funds sold in table 7. Consistent with our broad evidence, the average operating expense ratio of funds bought is slightly higher than that of funds sold, though the average front-end-load fee is lower. Investors are more likely to buy a fund with NTF status. Prior to the transaction, the funds bought

16. See "Vanguard Founder Targets Short Focus of Fund Firms," *Wall Street Journal* (May 16, 2000), p. C1.

had exceptional performance; the funds sold also beat the market, though by a much smaller margin.

In addition to search costs, investors might choose mutual funds with high expenses if high expense funds provided better service than other funds. We believe that different levels of service are unlikely to explain our results since first-rate service and low expenses are not mutually exclusive. For example, Vanguard, which is well-known for its low-cost mutual fund offerings, has won numerous service awards.[17]

VI. Conclusions

Investing is a learning process. Over the last several decades investors have learned about mutual funds. They have grown less willing to invest in funds with higher front-end-load fees. However, funds with higher operating expense ratios have not lost market share. Using mutual fund flows from 1970 to 1999 and actual mutual fund purchase and sale decision by investors at a large discount broker from 1991 to 1996, our empirical analysis documents consistently negative relations between fund flows and front-end-load fees or commissions but no relation (or a perverse, positive relation) between fund flows and operating expenses. When we split operating expenses into marketing expenses (12B-1 fees) and other expenses, we find that investors are more likely to buy funds with higher marketing expenses but less likely to buy those with higher other operating expenses. We argue that, all else equal, investors prefer to pay lower fees to mutual fund companies, but they have grown sensitive to front-end-load fees and commissions more quickly than to operating expenses. This is because front-end-load fees and commissions are more obvious and salient. Front-end-load fees are particularly salient for investors who have previously paid them. We find that experienced mutual fund investors are less likely to pay front-end loads than first-time buyers, but experienced mutual fund investors do not invest in mutual funds with lower operating expenses.

We report evidence that mutual fund marketing does work. On average, any negative effect of expense fees on fund flows is more than offset when that money is spent on marketing; nonmarketing expenses, however, reduce fund flows. Although front-end load fees are also spent on marketing, the positive effect of marketing on flows does not appear to be sufficient to offset investors' growing awareness of and aversion to loads.

17. *Mutual Funds* named Vanguard #1 in the Best Service category and as the favorite fund family overall, based on a 1999 survey of 2,000 subscribers. A November 2000 *SmartMoney* survey of 600 randomly selected readers named Vanguard as the Best Fund Family. *Worth* designated Vanguard the winner in both the Best Fund Family and Best Discount Broker categories for service and performance, based on a 1999 survey of 4,000 readers.

From 1962 to 1999, the average operating expense charged by mutual funds has steadily increased (see fig. 2), while the proportion of funds charging front-end-load fees and the level of those load fees have declined (see fig. 1). While, no doubt, there are many plausible explanations for this observed pattern, one possibility is that mutual fund managers have figured out that investors are sensitive to load fees but less so to operating expenses.

Investors would benefit from a greater understanding and awareness of mutual fund expenses. While educating investors is a complex and multifaceted task, our results support the GAO's recommendation that one step in that process could be for mutual funds to disclose to investors the actual dollar amount of fees paid. Expenses that remain out of sight are likely to remain out of mind.

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From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: Get back to work!
Date: Thursday, October 17, 2013 6:56:13 AM

Keith –

Welcome back! I am a tight deadline with this rule that I am working on. Can we reschedule the presentation until a later date?

Thanks!
m|k

From:	Bergstresser, Keith - EBSA
To:	Kozora, Matthew [redacted]@SEC.GOV); Piacentini, Joseph - EBSA; Cosby, Chris - EBSA [redacted]@dol.gov); Butikofer, James - EBSA; Beckmann, Allan - EBSA; Buyniski, Brian - EBSA; Decressin, Anja - EBSA [redacted]@dol.gov); Johnson, Lynn - EBSA; Zimmerman, Elaine - EBSA; "Saleh, Basel - EBSA [redacted]@dol.gov)"; Yi, Song G - EBSA; Hartwig, Katherine E - EBSA; Levin, David - EBSA
Cc:	Hunt, Jennifer A. - OSEC; Lloyd, Karen - EBSA; Shiker, Brian - EBSA; Hall, Lyssa - EBSA; Canary, Joe - EBSA; Hauser, Timothy - SOL
Subject:	Presentation by Matthew Kozora, SEC Economist
Start:	Friday, October 25, 2013 3:00:00 PM
End:	Friday, October 25, 2013 4:00:00 PM
Location:	OPR Conference Room - [redacted]
Attachments:	SSRN-id2323519.pdf

Conference Line:
1-888-[redacted]
Participant code:
[redacted]

We will postpone this presentation until next week.

Hello All,

On Thursday, October 17th, we will welcome Matthew Kozora, an economist at the Securities and Exchange Commission, to present his work on "The Effect of Regulatory Regimes on the Provision of Retail Investment Advice." The paper is available at SSRN (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2323519), and I have attached a copy below. Matt's work has close ties to our conflicted advice project, and may have implications for the regulatory impact analysis. I hope others (not involved in the conflicted advice project) will be interested in this work as an example of how to examine the effects of rulemaking.

I do not anticipate having slides for the presentation; Matt will present from the paper.

The Effect of Regulatory Regimes on the Provision of Retail Investment Advice*,**

Matthew L. Kozora

09/09/2013

Division of Economic and Risk Analysis

U.S. Securities and Exchange Commission

Working Paper

Abstract

Broker-dealers and investment advisers are two separate types of financial intermediaries subject to different regulatory regimes that can provide personalized investment advice about securities to investors. In this paper, I investigate whether differences between the broker-dealer regulatory regime and the investment adviser regulatory regime may be significant to retail investment advice by examining the principal transactions of investment grade municipal bonds. The results in this paper indicate that the advice retail investors receive may be dependent on the legal framework governing its provision. In particular, I find evidence of a potential relationship between the standards under which broker-dealers and investment advisers provide advice and the sale of investment grade municipal bonds to retail investors.

Keywords: Retail Investors, Broker-Dealers, Investment Advisers, Fiduciary Standard of Conduct, Municipal Bonds

I. Introduction

Investors can receive personalized investment advice about securities (or "personalized investment advice") from two regulated types of financial intermediaries, broker-dealers and investment advisers, that may provide similar services but are subject to two different and

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*The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author's colleagues upon the staff of the Commission.

**I thank all Commission staff that have assisted in the development of this work, including staff in Division of Economic and Risk Analysis, Division of Trading and Markets, Division of Investment Management, Office of Compliance Inspections and Examinations, and Office of the General Counsel. All mistakes are my own.
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separate regulatory regimes. At the federal level, firms registered as broker-dealers are subject to the Securities Exchange Act of 1934 (or "Exchange Act") and the rules thereunder, and the rules of self-regulatory organizations (or "SROs"), whereas firms registered as investment advisers are subject to the Investment Advisers Act of 1940 (or "Advisers Act") and the rules thereunder. A firm registered as both a broker-dealer and an investment adviser (or "dual registrant firm") may provide both brokerage and advisory services, and depending on whether the account is a brokerage account or an advisory account, be subject to the rules of either regulatory regime.[1]

Little to no research currently exists indicating whether differences between the broker-dealer and the investment adviser regulatory regimes can be significant to the advice retail investors receive in non-discretionary accounts.[2] In this paper, I investigate the effect of regulatory regimes by examining the principal transactions of investment grade municipal bonds.[3] I find evidence that suggests the regulatory regime, in particular the standards under which advice is given, may be significant to the advice retail investors receive.

I use investment grade municipal bonds in this study for two primary reasons. First, retail investors are major participants in the municipal bond market, individually investing in close to one-half of all municipal bonds outstanding.[4] The illiquidity and opacity of the municipal securities market (SEC; 2012a) also increases the importance of a financial agent

[1]A recent study by U.S. Securities and Exchange Commission (SEC) staff on investment advisers and broker-dealers as pursuant to Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (or the "913 Study") provides an in-depth review of the two regulatory regimes.

[2]The focus of this paper is the provision of personalized investment advice in non-discretionary accounts. A non-discretionary account does not provide a financial agent authority to transact securities without the consent of the account holder, whereas a discretionary account grants such authority. Recent estimates place the number of non-discretionary advisory accounts managed by federally registered investment advisers at 5 million, and the number of brokerage accounts at federally registered broker-dealers at 110 million. Both estimates include both institutional and retail accounts. Investment adviser information can be found at www.sec.gov/foia/iareports/inva-archive.htm. The broker-dealer estimate includes both non-discretionary and discretionary accounts, and can be found in SEC (2011). I will refer to advisory clients with non-discretionary accounts as "advisory clients" or "clients," brokerage customers with non-discretionary accounts as "brokerage customers" or "customers," and brokerage customers and advisory clients generally as "investors."

[3]A principal transaction is a transaction where the broker-dealer or investment adviser buys or sells securities for its own account.

[4]The estimate is as of the third quarter 2012, and can be found in the *Flow of Funds Accounts of the United States* statistical release, published by the Federal Reserve.

to provide advice to their customer or client.

Second, I use investment grade municipal bonds to incorporate a regulatory event into the empirical methodology. The regulatory event is the October 2007 adoption of a temporary SEC rule (or "temporary rule"). The temporary rule, among other things, established an alternative set of principal transaction disclosure and consent requirements under the Advisers Act for investment advisers also registered as broker-dealers. Prior to the temporary rule adoption, dual registrant firms typically did not engage in principal transactions with advisory clients, engaging in principal transactions with brokerage customers only.[5] Dual registrant firms adhering to the temporary rule (or "BA firms") began engaging in principal transactions with both brokerage customers and advisory clients. Other firms, including all firms registered solely as broker-dealers and those dual registrant firms not adhering to the temporary rule (or "B firms"), continued to engage in principal transactions with brokerage customers only.[6] The temporary rule, still in effect at the time of this writing, does not permit a firm to rely on the rule for securities that it or an affiliated entity underwrites or issues except for non-convertible investment grade debt. I therefore use municipal bonds of investment grade only to be certain that the temporary rule can apply to all principal transactions in the empirical sample.[7]

The time period of the study is from January 2006 to December 2008. Broadly, I investigate whether regulatory regimes may be significant to the provision of personalized investment advice by comparing the change to the principal transactions of BA firms following the temporary rule adoption with the change to the principal transactions of B firms. If adherence to the temporary rule and the recommendation and transaction of investment

[5]In the initial temporary rule release, the SEC describes discussions with representatives of dual registrant firms regarding the difficulties of complying with the disclosure requirements under Section 206(3) of the Advisers Act (SEC; 2007). Firms explained that they typically did not engage in principal transactions with advisory clients as a result of the operationally restrictive disclosure requirements. The temporary rule has since been extended to December 31, 2014. See Section II.a for further explanation.

[6]I utilize municipal bond transaction data from the Municipal Securities Rulemaking Board (MSRB) Real-time Transaction Reporting System (RTRS). MSRB requires all broker-dealers and municipal securities dealers to report the transactions of municipal securities. Consequently, no firms in the sample are registered solely as investment advisers.

[7]See Section II.a for a further discussion of the temporary rule.

grade municipal bonds subject to the investment adviser regulatory regime is significant, then I may observe a difference in the change in principal transactions between BA firms and B firms as BA firms apply the temporary rule and the investment adviser regulatory regime to activities that would have otherwise been subject to only the broker-dealer regulatory regime.

As part of the empirical methodology, I specifically investigate whether the standard of conduct as required by federal and state law may be significant to the provision of personalized advice to retail investors.[8] At the federal level, an investment adviser is a fiduciary who is to serve in the best interests of its clients, including an obligation not to subordinate the clients' interests for their own and to disclose or eliminate all material conflicts of interest, whereas broker-dealers are required to deal fairly with their customers and in most instances are not considered a fiduciary. At the state level, broker-dealers may be subject to a fiduciary standard of conduct (SEC; 2011).[9]

I refine the broad comparison between BA firms and B firms to the state level, and compare the difference in the change in principal transactions between the two firm classifications between states where broker-dealers may be subject to additional standards of conduct that relate to a fiduciary standard of conduct (i.e., "fiduciary states") and states where broker-dealers are generally not subject to a fiduciary standard of conduct (i.e., "non-fiduciary states"). I assume, similar to the equity "home bias" (Coval and Moskowitz; 1999), that retail investors purchase the bonds of local or within-state municipalities.[10] By assumption, additional state standards of conduct would apply to the principal transactions of the municipal securities relating to the state.

Adherence to the temporary rule by BA firms in non-fiduciary states brought about the

[8]Other differences between the two regulatory regimes include disclosure requirements, supervisory and control procedures, continuing education requirements, and restrictions on advertising and other communications. The investment adviser regulatory regime is also largely principles-based and not predominately rules-based like the broker-dealer regulatory regime.

[9]See Section II.b for a further discussion of standards of conduct.

[10]Exemption from state and local taxes may also induce retail investors to purchase bonds of local or within-state municipalities (SEC; 2012a).

introduction of a fiduciary standard of conduct to the portion of investment grade municipal bond recommendations and transactions with advisory clients that would have otherwise been with brokerage customers, whereas adherence to the temporary rule by BA firms in fiduciary states did not result in a similar introduction of a fiduciary standard of conduct. Regardless of the presence of state fiduciary laws, the standard of conduct governing the recommendation and transaction of investment grade municipal bonds by B firms did not change following the temporary rule adoption as these firms continued to engage in principal transactions with brokerage customers only. Taken together, changes to the principal transactions of BA firms relative to B firms in fiduciary states may relate to the temporary rule and the investment adviser regulatory regime, but not a fiduciary standard of conduct, and changes to the principal transactions of BA firms relative to B firms in non-fiduciary states may relate to the temporary rule and the investment adviser regulatory regime including a fiduciary standard of conduct. An additional difference between BA firms and B firms in non-fiduciary states relative to fiduciary states, therefore, may relate to a fiduciary standard of conduct.

In the first set of tests, I investigate the effect of regulatory regimes on security recommendations by examining the sale of investment grade municipal bonds to retail investors. I do not find evidence indicating a difference in the change in sales to retail investors between BA firms and B firms following the temporary rule adoption in fiduciary states, but I do find evidence of additional sales to retail investors by BA firms relative to B firms in non-fiduciary states. Thus, I find evidence suggesting that a fiduciary standard of conduct may relate to the recommendation and sale of investment grade municipal bonds to retail investors, but no evidence that application of the temporary rule or other aspects of the investment adviser regulatory regime were also significant in explaining retail sales. In additional tests, I find that the relative increase in sales to retail investors by BA firms in non-fiduciary states was most significant soon after the temporary rule adoption. This result suggests that the increase in sales by BA firms in non-fiduciary states may relate more to the temporary rule

adoption and less to other factors which may also had an effect including events relating to the recent financial crisis.

In the second set of tests, I investigate the effect of regulatory regimes on the markup/ markdown on, or the "transaction cost" (Harris and Piwowar; 2006) of, investment grade municipal bonds. The implementation of policies and procedures to adhere to the temporary rule may have led to an increase in the compliance costs of BA firms. The increase in compliance costs may have resulted in higher transaction costs for retail investors who may have less access to pricing information than institutional investors (SEC; 2012a).[11] Research by Green, Hollifield, and Schürhoff (2007a) find evidence of differences in the level of informed trading between retail investors and institutional investors; transactions of smaller size, relating to retail investors, often exhibit less advantageous prices and a greater range of prices than the transactions of larger size, relating to institutional investors. I continue to distinguish bonds by state classification to investigate whether the additional increase in sales to retail investors by BA firms relative to B firms in non-fiduciary states was contemporaneous with an additional change in retail transaction cost.

I find evidence of an increase in transaction cost by BA firms relative to B firms following the temporary rule adoption in fiduciary states, but that the increase in transaction cost was not specific to retail transactions but also present in institutional transactions. Thus, I do not find evidence indicating that adherence to the temporary rule led specifically to additional retail investor transaction costs but instead find evidence of a more systematic change to the cost of all BA firm transactions. I also find evidence indicating an additional decrease in the cost of retail transactions by BA firms relative to B firms following the temporary rule adoption in non-fiduciary states. The time periods in which I find the additional decrease in transaction cost, however, only partially aligns with the time periods in which I find the additional increase in retail sales. Taken together, I do not find sufficient evidence in these

[11]See Section II.a for a further discussion of the requirements of the temporary rule. The markup/ markdown bond traders set on firm inventory, especially for transactions that are more arm's length, presumably would not be dependent on the account type of the investor and the regulatory regime under which the registered representative provides recommendations.

tests to conclude that changes to the regulatory regime stemming from the temporary rule adoption had an effect, either directly or indirectly, on the cost of retail transactions.

The results in this paper only provide suggestive evidence of the effects of regulatory regimes as a result of conducting tests at the firm level and not at the account level. Tests at the account level would require information describing the type of investor account, whether the transaction was solicited or unsolicited, and investor characteristics.[12] Other factors may be important in explaining the test results. I attempt to control for these other factors by comparing principal transactions between time periods, firms, and states, and controlling for differences between bonds, firms, and states with additional explanatory variables.

This is the first paper to empirically investigate the effect of regulatory regimes on the advice retail investors receive. The appropriate standard of conduct for broker-dealers and investment advisers is the subject of an ongoing debate among federal agencies, industry representatives, and investor advocacy groups. Some believe that a uniform fiduciary standard at the federal level applied across broker-dealers and investment advisers would provide additional retail investor protections, whereas others believe that a fiduciary standard of conduct applied to the broker-dealer regulatory regime would increase firm costs with little benefit and would ultimately result in reduced investor access to advice.[13] Examples of firm costs include ongoing costs relating to "back-office" functions, other compliance costs, and litigation costs.

Past research relating to the provision of financial advice typically investigates its net benefit or quality, and investigates only one type of financial agent or makes no distinction. Recent examples include Chalmers and Reuter (2011) who investigate the performance of

[12]The SEC recently requested data and other information relating to the benefits and costs of the standards of conduct and other obligations of broker-dealers and investment advisers (SEC; 2013). Examples of requested data and information include the types of services available to retail investors, the types of securities financial agents offer or recommend, and the costs to financial agents of providing personalized investment advice about securities.

[13]Comments to the 913 Study, including one by Oliver Wyman and the Securities Industry and Financial Markets Association, dated October 27, 2010, and one by State Farm VP Management Corporation, dated August 27, 2010, describe the potential costs of broker-dealers shifting to a fiduciary standard of conduct. All comment letters to the 913 Study and to a subsequent request for information and other data (SEC; 2013) can be found at http://www.sec.gov/comments/4-606/4-606.shtml.

brokerage customer retirement portfolios; and Mullainathan, Nöth, and Schoar (2011) who investigate the quality of investment advice provided by financial agents in an audit study.[14] These examples, as well as other research utilizing international data, indicate that retail investors do not always receive beneficial investment advice.[15] Other research finds conflicts of interest may partially determine the advice investors receive. For example, Bergstresser, Chalmers, and Tufano (2009) find that funds sold through an intermediary underperform funds sold directly to investors, and that the sale of underperforming funds may stem from conflicts of interest as a result of intermediary sales incentives.[16] I find that the advice investors receive may be partially determined by the regulatory regime governing its provision, and that investment advice should be evaluated in this respect.

Although the focus of this paper is on the provision of personalized investment advice, it also contributes to the municipal bond literature investigating municipal securities markets including Harris and Piwowar (2006); Green, Hollifield, and Schürhoff (2007a); Green, Hollifield, and Schürhoff (2007b); Green, Li, and Schürhoff (2010); Li and Schürhoff (2012); and Schultz (2012). I find evidence that the regulatory regime governing the provision of personalized investment advice may be an important determinant in the transaction of these securities, especially with respect to retail investors.

I organize the rest of the paper as follows: Section II provides additional regulatory background information, Section III describes the data, Section IV describes the tests of sales to retail investors, Section V describes the tests of transaction cost, and Section VI concludes.

[14] In relation to this paper, it is unclear whether Mullainathan et al. (2011) conduct audits of broker-dealers, investment advisers, or both. For instance, their use of the term "investment advisers" relates to "retail advisers whom the average citizen can access via their bank, independent brokerages, or investment advisory firms." Thus, their definition of investment adviser seemingly incorporates both broker-dealers and investment advisers.

[15] Examples of research utilizing international data to investigate the quality of investment advice include Bhattacharya, Hackethal, Kaesler, Loos, and Meyer (2012); Fecht, Hackethal, and Karabulut (2010); Bluethgen, Meyer, and Hackethal (2008); Bluethgen, Gintschel, Hackethal, and Müller (2008); Karabulut (2011); Kramer (2009); and Kramer and Lensink (2009).

[16] Other work examining the distribution of mutual funds include Del Guercio and Reuter (2011); Del Guercio, Reuter, and Tkac (2010); and Christoffersen, Evans, and Musto (2013).

II. Regulatory Background

This paper investigates the effect of regulatory regimes on the provision of personalized investment advice to retail investors. The null hypothesis is that the temporary rule and differences between the regulatory regimes do not matter to the principal transactions of investment grade municipal bonds relating to retail investors. The alternative hypothesis is that the temporary rule and differences between the regulatory regimes do matter to the principal transactions of investment grade municipal bonds relating to retail investors. Below, I provide additional background on the temporary rule, the investment adviser regulatory regime, and fiduciary standards of conduct. Figure 1 provides a diagram of the changes to the regulatory regime governing the principal transactions of investment grade municipal bonds by firm and state classification during the sample period.

II.a *Changes to the Regulatory Regime Governing Principal Transactions*

The temporary rule establishes an alternative means for dual registrant firms to meet the requirements under Section 206(3) of the Advisers Act when engaging in principal transactions with non-discretionary advisory clients (SEC; 2007). The temporary rule, adopted in October 2007, was in direct response to a March 2007 court decision (*Financial Planning Association v. U.S. Securities and Exchange Commission*) overturning an SEC rule exempting broker-dealers from the definition of "investment adviser" when charging non-transaction based compensation (or "fee-based" brokerage accounts).[17]

Section 206(3) of the Advisers Act requires an investment adviser to provide written conflict-of-interest disclosure describing its role as principal when transacting securities from its own account and obtain client consent prior to transaction completion. The temporary rule provides a dual registrant firm the option of providing transaction-by-transaction disclosures verbally instead of in writing when engaging in principal transactions with non-

[17] Non-transaction based fees include fees based on the amount of assets under management. A consequence of the court decision was the requirement that dual registrant firms and broker-dealers treat fee-based brokerage accounts as advisory accounts, and that the firms as a result became subject to the restrictions of the Advisers Act when engaging in principal transactions. The temporary rule was adopted so that dually registered advisers could continue to engage in principal transactions with the customers of these accounts.

discretionary advisory clients as long as the firm satisfies additional requirements. Additional requirements of the temporary rule include the provision of a written prospective disclosure to clients describing the conflicts arising from principal transactions, acquisition of written revocable client consent prospectively authorizing such transactions, the provision of transaction-by-transaction confirmations, and the provision of annual reports itemizing the clients' principal transactions thereafter. The temporary rule does not relieve the obligations of the investment adviser regulatory regime including its fiduciary standard of conduct. Moreover, dual registrant firms engaging in principal transactions with advisory clients must also still adhere to the broker-dealer sales practice and best-execution obligations set by the SEC and SROs (SEC; 2007).

There are two primary changes to the regulatory regime governing the recommendation and transaction of investment grade municipal bonds stemming from adherence to the temporary rule which may have led to a change in sales to retail investors and retail transaction cost. The first primary change is the rules and requirements of the temporary rule itself. A dual registrant firm cannot rely on the rule for securities it or an affiliated entity underwrites or issues except for investment grade non-convertible debt. This restriction may have possibly resulted in a shift in sales from other securities to investment grade municipal bonds. Adherence to the temporary rule may have also led to an increase in compliance costs which may have been passed on to investors in the form of higher transaction costs. Compliance costs include the provision of written prospective disclosures, acquisition of written revocable client consent, and the implementation of systems to monitor adherence to the rule.

The second primary change is the application of the rules and requirements of the investment adviser regulatory regime, not including the rules and requirements of the temporary rule, to the recommendation and transaction of investment grade municipal bonds. The provision of personalized investment advice subject to the investment adviser regulatory regime, including a fiduciary standard of conduct, may have led to a change in security

recommendations retail investors receive and the cost of providing advice.[18]

Both primary changes may in some form have contributed to the results found below.[19] The results suggest that the introduction of a fiduciary standard of conduct to the recommendation and transaction of investment grade municipal bonds by BA firms in non-fiduciary states may have led to greater sales to retail investors.

II.b *Standards of Conduct*

At the federal level, investment advisers are fiduciaries to their clients, whereas broker-dealers generally are not fiduciaries to their customers.[20] Both regulatory regimes provide protections to retail investors from abusive practices. Such protections include the obligation to seek best execution on customer or client orders, and the provision of investment advice which is suitable and in the best interests of their customers or clients. As part of a fiduciary duty, investment advisers also have an obligation to place the clients' interests in front of their own and to disclose or eliminate all material conflicts of interest.

In some states, broker-dealers are subject to a fiduciary standard of conduct (SEC; 2011). I assume that in practice standards of conduct, either directly or indirectly, are constraints to

[18]See footnote 13 and related text.

[19]Two other secondary changes may have also led to a change in security recommendations and transaction cost. The first of these secondary changes is the possible change in the number and the characteristics of investors with access to investment grade municipal bonds. As a result of the temporary rule, investment advisers at BA firms have greater ability to recommend certain securities from firm inventory to their advisory clients. If some advisory clients did not have access to these securities such as through additional brokerage accounts prior to the temporary rule adoption, then the adherence to the temporary rule may have changed the population of investors with access to these securities.

The second of these secondary changes is the change in the form of financial agent compensation for those customers transferring assets from fee-based brokerage accounts to commission-based brokerage accounts. Financial agents compensated with commissions may be more inclined to recommend securities not intended to be invested in long-term to collect transaction based fees. On the other hand, financial agents compensated with fees based on the amount of assets under management may be more inclined to recommend securities intended to be invested in long-term to avoid transaction costs.

Both the possible change in the population of investors with access to securities from firm inventory and the form of financial agent compensation would have effects that are more ongoing and that are independent of state fiduciary laws. The results, especially with respect to sales to retail investors, instead indicate that changes to the principal transactions of investment grade municipal bonds is dependent on state classification. It is possible, however, that these secondary changes also had an influence on the test results.

[20]There are differing interpretations as to when broker-dealers have a fiduciary obligation to their customers. The ambiguity stems from a lack of litigated cases impeding the development of case law, variation in customer contracts, and inconsistencies between states (Laby; 2010).

the investment advice financial agents provide. Although firms may not implement control and compliance systems or procedures to address differences in state law, state law may still be important to the provision of personalized investment advice. For instance, in case of customer dispute, federal courts would look to state law to determine the fiduciary obligations of a broker-dealer (Laby; 2010), and arbitrators can apply state laws to determine awards in case of customer arbitration.[21]

III. Data Description

I obtain information describing the business of dual registrant firms and broker-dealers from public SEC filings, municipal bond characteristics from the Mergent Municipal Bond Securities Database (Mergent dataset) and SDC Platinum, municipal bond transaction data from the MSRB RTRS dataset, and state information from various sources.

The time period of study is from January 2006 to December 2008. I use bonds with offering dates between January 2006 and December 2006, and between October 2007 and September 2008. I choose a short time period to accurately test the change in municipal bond transactions while avoiding to the fullest extent possible the impact of the global financial crisis of 2008. I do not include municipal bonds with offering dates within 60 trading days of the court decision, from January 2007 to March 2007, and between the court decision and the temporary rule adoption, from March 2007 to September 2007, due to the legal uncertainty of the time period. Similar to Green et al. (2007a), my sample includes only bond transactions occurring within 60 trading days of the bond offering date. The 60 trading day window allows me to incorporate the municipal bonds that are the most frequently traded and to limit the number of municipal bonds with trading periods that overlap either the court decision or the temporary rule adoption.

[21] Customers of broker-dealers and dual registrant firms, including the advisory clients at dual registrant firms, typically sign pre-dispute arbitration agreements with their financial agent. Training materials from the Financial Industry Regulatory Authority (FINRA), which operates the largest dispute resolution program in the securities industry, guides arbitrators to seek guidance in most cases from the parties involved to determine the applicable law or laws. See *The Neutral Corner*, Volume 3 (2010), published by FINRA, and *Basic Arbitrator Training*, also published by FINRA, for training materials.

III.a *Broker-Dealer and Dual Registrant Firm Information*

The initial sample of broker-dealers (and dual registrant firms) includes all broker-dealers that engaged in a municipal bond transaction during the sample period and that is reported in the MSRB RTRS dataset. I require all firms to file annual SEC Form X-17A-5 audited reports with information encompassing the sample period to ensure that the sample of broker-dealers does not change from before the court decision to after the temporary rule adoption. Form X-17A-5 is a financial and operational report that must be filed by all broker-dealers registered with the SEC, and can be found on the SEC's EDGAR system. I obtain information describing the firm's investment adviser business, if any, from annual SEC Form ADV filings. Investment advisers and dual registrant firms file Form ADV with the SEC to provide general information including the types of clients, compensation arrangements, and advisory activities. Past Form ADV filings can be found on the SEC's Investment Adviser Public Disclosure website.

I classify a firm as a BA firm if it files Form ADV, reports actively engaging in business as a broker-dealer, reports a positive number of non-discretionary advisory accounts, and reports that it engages in principal transactions with advisory clients. BA firms are only potentially adhering to the temporary rule because firms filing Form ADV do not specifically acknowledge adherence to the rule. A B firm either does not file Form ADV, does not report actively engaging in business as a broker-dealer, does not report a positive number of non-discretionary clients, or does not report that it engages in principal transactions with advisory clients. B firms, therefore, could not be relying on the temporary rule. Because firms generally did not engage in principal transactions with non-discretionary advisory clients prior to the temporary rule adoption, I classify firms using information from the time period following the rule adoption only. To obtain a more direct comparison between firms either adhering to the temporary rule or not adhering to the rule, I exclude firms that are not solely classified as either a BA firm or a B firm as of December 2007 and December 2008. There are 95 BA firms and 1,475 B firms that meet all sample requirements.

III.b *Municipal Bond Characteristics*

I obtain bond characteristic information from the Mergent dataset. The Mergent dataset provides security and issue information for 484,256 individual bonds with offering dates between July 2005 and December 2008. I extract bond information from the Mergent dataset including the type and frequency of coupon payments, put options, call options, sinking fund provisions, non-standard interest frequency or interest calculation, credit enhancements, tax status, the type of debt-paying assets, and the use of proceeds. I obtain bond ratings information from SDC Platinum.

I exclude 26,075 individual bonds from the initial sample with missing offering price information, missing or inaccurate total offering amount information, remarketed bonds, and bonds not relating to any of the 50 states or the District of Columbia.[22] To incorporate the Harris and Piwowar (2006) bond model in my analysis, I exclude 16,586 individual bonds with a derivative or warrant feature, and 8,346 individual bonds with non-standard coupon payments (adjustable, floating, flexible, variable, inverse, or index-linked coupons). I also exclude 80,986 individual bonds that are either designated as non-investment grade or with missing ratings information in SDC Platinum to ensure that the temporary rule can apply to all bonds in the sample. There are 352,309 bonds remaining in the sample. Bond issuances are spread evenly throughout the sample period. There are 109,168 investment grade municipal bonds meeting sample requirements with offering dates between January 2006 and December 2006, and there are 89,543 investment grade municipal bonds meeting sample requirements with offering dates between October 2007 and September 2008.

III.c *State Information*

I obtain state law information from Finke and Langdon (2012) who classify states and the District of Columbia into one of three categories based on whether broker-dealers are subject to a fiduciary standard of conduct, a quasi-fiduciary standard of conduct, or no

[22] I search for inaccurate total offering amount information by examining individual bonds with total offering amount less than denomination amount. Often these securities are zero-coupon bonds selling at a discount. However, it can also be indicative of data error. I find only a few such examples.

fiduciary standard of conduct. They base their classification scheme on court decisions and state regulations. It is unclear the extent to which state level fiduciary or quasi-fiduciary standards of conduct relate to the fiduciary standard of conduct of the investment adviser regulatory regime. For instance, Finke and Langdon (2012) note that some quasi-fiduciary states "impose a standard higher than the suitability standard imposed by FINRA for non-discretionary accounts."

From the classification of Finke and Langdon (2012), I define a fiduciary state as a state where broker-dealers are subject to a fiduciary or quasi-fiduciary standard of conduct, and a non-fiduciary state as a state where generally broker-dealers are not subject to a fiduciary standard of conduct. State classifications relate to the standards of conduct governing the provision of advice in non-discretionary accounts. The difference between states is whether broker-dealers are either subject to additional standards of conduct that seemingly relate to a fiduciary standard or are generally not subject to a fiduciary standard of conduct. Table 1 presents a listing of fiduciary states and non-fiduciary states by geographic region. There are 37 fiduciary states and 14 non-fiduciary states. A little more than a quarter of bond issues relate to non-fiduciary states.

I obtain state income information from the U.S. Census Bureau, gross state product statistics from the Bureau of Economic Statistics, and tax information from the Federation of Tax Administrators. I incorporate the information in the regressions below to control for state level economic differences.

III.d *Municipal Bond Transaction Data*

I obtain municipal bond transaction data from the MSRB RTRS dataset. The dataset contains information for all municipal bond transactions from July 2005 to March 2009. Each observation provides information regarding bond cusip, trade date, time of trade, settlement date, bond price, par value, and transaction commissions. The dataset also contains fields identifying the transacting broker or brokers, the type of transaction (between two dealers or a dealer and a customer, sale or purchase), and dealer capacity (principal or agent). The

dataset does not contain information describing the type of investor engaging in customer transactions (institutional or retail), the type of customer account (brokerage or advisory), and whether the transaction was solicited or unsolicited. There are 5,382,087 observations relating to the principal transactions of sample investment grade municipal bonds in the final sample. In Appendix A.1, I describe measures to clean the dataset for missing or inaccurate trade dates, inaccurate prices, managed account transactions, and other possible data errors.

Table 2 presents the amount of investment grade municipal bond customer principal transactions relating to firms in the final sample. The table includes four panels presenting the total number and value of all customer transactions (Panel A), the total number and value of all sales to customers (Panel B), the total number and value of all sales to customers less than or equal to $50,000 (Panel C), and the total number and value of all sales to customers less than or equal to $20,000 (Panel D). I use sales to customers less than or equal to $50,000 and less than or equal to $20,000 to proxy for sales to retail investors. In each panel the table also presents transaction information by firm classification. In no year did B firms engage in more customer transactions or sales to customers than BA firms. Considering the number of BA firms to B firms, the comparison in customer transactions and sales highlights the difference in trading activity between the two classifications of firms.

IV. Tests of Municipal Bond Sales

IV.a *Empirical Model*

In the first set of tests, I investigate the effect of regulatory regimes on security recommendations by examining the sale of investment grade municipal bonds to retail investors. I define a transaction as a "retail transaction" if the par amount is less than or equal to $50,000. Alternatively, I define a transaction as a retail transaction if the par amount is less than or equal to $20,000. Evidence by Green et al. (2007a) indicates that sales to customers of smaller par amount exhibit greater average markups and intraday price dispersion than sales to customers of larger par amount. The greater price dispersion among smaller trans-

actions is akin to a set of investors, such as retail investors, with varying access to pricing information.

I estimate regressions at the individual bond level, measuring the sale of investment grade municipal bonds to retail investors with *ParSale*, equal to the net par sold to retail investors, and *NumSale*, equal to the net number of sales to retail investors. I include two sets of explanatory variables in the regression. Similar to the difference-in-difference-in-differences empirical methodology, the first set of explanatory variables controls for the time period of the bond offering date (either before the court decision or after the temporary rule adoption), the classifications of firms engaging in customer sales (either BA or B), and the state classification relating to the bond (either non-fiduciary or fiduciary). The variables include

- I^{TR} - an indicator variable equal to 1 if the offering date of the bond is after the temporary rule adoption, and 0 if the offering date of the bond is before the court decision
- $\overline{I^{BA}}$ - a continuous variable with a range between 0 and 1 equal to the average of I^{BA} (an indicator variable equal to 1 if a BA firm engages in the bond sale, and 0 if a B firm engages in the bond sale) for all firms engaging in at least one customer sale regardless of par amount[23]
- I^{NF} - an indicator variable equal to 1 if the bond relates to a non-fiduciary state, and 0 if the bond relates to a fiduciary state
- interaction terms between I^{TR}, $\overline{I^{BA}}$, and I^{NF} - $I^{TR} \times \overline{I^{BA}}$, $I^{TR} \times I^{NF}$, $\overline{I^{BA}} \times I^{NF}$, and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$

[23] I weight the average with the total par amount of firm customer sales. I average I^{BA} using all firms engaging in at least one customer sale regardless of transaction size instead of firms engaging in at least one retail sale to measure the classifications of firms that could have engaged in a retail sale. $\overline{I^{BA}}$ is undefined for bonds with no customer sales. These bonds are therefore not in the regression sample.

The second set of explanatory variables controls for differences between firms, bonds, and states that could also be important in explaining retail sales. The potential amount of bond sales to retail investors should relate to the trading activity of the firms engaging in customer sales. I control for firm trading activity with a quarterly measure of net firm customer sales (*CSales*) averaged at the bond level similar to $\overline{I^{BA}}$ ($\overline{CSales}$). I also control for differences between bonds by including variables describing the total par offering amount (*TotPar*), bond maturity (*Maturity*), and other bond characteristics (see Appendix A.2).

Assuming that retail investors purchase the bonds of within-state municipalities, economic differences between states could also be important in explaining retail sales. I control for differences in income distributions with annual median income (*StateMedInc*) and annual income standard error (*StateIncSE*). I also control for differences in investor demand (*StateDmnd*) equal to the natural log of the product of state GDP and the maximum of personal, corporate, and bank state tax rates (Harris and Piwowar; 2006). Lastly I include aggregate state level total par offering amount (*StateTotPar*) to control for recent bond issuance activity.

I rescale *ParSale*, $\overline{CSales}$, *TotPar*, *StateMedInc*, *StateIncSE*, and *StateTotPar*, by dividing each variable by 10,000 and then taking the natural log of one plus the scaled value. I also rescale *NumSale* and *Maturity* by taking the natural log of one plus its value. I lag $\overline{CSales}$, *TotPar*, *StateTotPar*, *StateMedInc* *StateIncSE*, and *StateDmnd* to the quarter or year prior to the bond offering date. In equation form, I estimate the following regression

$$\begin{aligned} Y_i \;=\;& \beta_0 + \beta_1 I_i^{TR} + \beta_2 \overline{I_i^{BA}} + \beta_3 \left(I_i^{TR} \times \overline{I_i^{BA}} \right) \\ & + \beta_4 I_i^{NF} + \beta_5 \left(I_i^{TR} \times I_i^{NF} \right) + \beta_6 \left(\overline{I_i^{BA}} \times I_i^{NF} \right) \\ & + \beta_7 \left(I_i^{TR} \times \overline{I_i^{BA}} \times I_i^{NF} \right) + \boldsymbol{\beta} \mathbf{X}_i \; + \varepsilon_i \end{aligned} \tag{1}$$

where Y represents either *ParSale* or *NumSale*, β represents model parameters, $\mathbf{X}$ represents

the set of additional control variables, ε represents model error, and i indexes bonds.[24] I estimate both regressions using a tobit model that specifies censored observations at 0. I exclude individual bond observations with net par sold or net number of sales less than 0. With these observations, I am likely either missing transactions as a result of excluding firms not meeting sample requirements or miscategorizing transactions as relating to either retail or institutional customers.[25] I calculate t-statistics with standard errors clustered at the 6-digit cusip level to account for correlations in the error term at the level of the municipality. There are 157,116 observations relating to individual bonds in the regressions describing net sales less than or equal to \$50,000, and there are 157,979 observations relating to individual bonds in the regressions describing net sales less than or equal to \$20,000.

Two of the explanatory variables are of particular interest. The first variable of interest, $I^{TR} \times \overline{I^{BA}}$, controls for the change in retail sales following the temporary rule adoption in fiduciary states (setting I^{NF} equal to 0) dependent on the classification of firms engaging in bond customer sales. A significant regression parameter estimate corresponding to this variable indicates that the retail sale of a bond following the temporary rule adoption is dependent on the classifications of firms engaging in customer sales, and suggests that the temporary rule or the investment adviser regulatory regime, but not a fiduciary standard of conduct, may influence security recommendations.

The second variable of interest, $I^{TR} \times \overline{I^{BA}} \times I^{NF}$, controls for the additional change in retail sales following the temporary rule adoption in non-fiduciary states (setting I^{NF} equal to 1) dependent on the classification of firms engaging in customer sales. A significant regression parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicates that there is an additional effect following the temporary rule adoption in the relationship between retail sales and the classifications of firms engaging in customer sales in non-fiduciary states, and

[24] I also include state fixed effects in an alternative regression specification. I find little difference in the results.

[25] I exclude 3,444 observations with either negative net retail or institutional sales (see Section IV.c) when the retail transaction threshold is set at \$50,000, and I exclude 2,473 observations with either negative net retail or institutional sales when the retail transaction threshold is set at \$20,000.

suggests that a fiduciary standard of conduct may influence security recommendations.

IV.b *Results*

Table 3a presents model estimates for regression equation (1) when the retail transaction threshold is set at \$50,000, and Table 3b presents model estimates for regression equation (1) when the retail transaction threshold is set at \$20,000. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ are insignificant in all regressions, whereas the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are positive and significant at the 95% confidence level in all regressions. The sign and significance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicate an additional increase in retail sales by BA firms relative to B firms in non-fiduciary states following the temporary rule adoption, and suggests that a fiduciary standard of conduct may relate to the retail sale of investment grade municipal bonds. The insignificance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ indicate that I do not find evidence in this empirical setting that the temporary rule or other aspects of the investment adviser regulatory regime may also explain retail sales following the rule adoption.

Among the other control variables, I find that average firm customer sales, bond total par offering amount, and bond maturity are positive and significant determinants of retail sales, whereas other bond characteristics including sinking fund provisions, odd interest payment frequency, and federal and state taxes are negative and significant. In general, the sign and significance of the bond characteristic variables reflects the inclination of financial agents to avoid recommending and selling municipal bonds to retail investors with disadvantageous or complex features. I also find that state median income and investor demand are also positive and significant determinants of retail sales.

I estimate the possible economic significance of a fiduciary standard of conduct by subtracting the change in the unconditional expected value of *ParSale* and *NumSale* for a bond sold entirely by BA firms in non-fiduciary states with (a) the same change for a bond sold entirely by B firms in non-fiduciary states, and with (b) the same change for a bond sold

entirely by BA firms in fiduciary states. I calculate the unconditional expected amount of retail sales for a bond sold either entirely by BA firms or by B firms to obtain the most direct comparison between firm and state classifications as possible. In equation form, I estimate

$$\underbrace{(E[Y_{1,1,1}] - E[Y_{0,1,1}])}_{\Delta \text{ BA/non-fiduciary}} - \underbrace{(E[Y_{1,0,1}] - E[Y_{0,0,1}])}_{\Delta \text{ B/non-fiduciary}} - \underbrace{(E[Y_{1,1,0}] - E[Y_{0,1,0}])}_{\Delta \text{ BA/fiduciary}}$$

where Y represents either *ParSale* or *NumSale*, the first subindex of Y represents the value of I^{TR}, the second subindex of Y represents the value of $\overline{I^{BA}}$, and the third subindex of Y represents the value of I^{NF}. The first comparison, retail sales relating to B firms in non-fiduciary states, accounts for the change in expected retail sales in non-fiduciary states, and the second comparison, retail sales relating to BA firms in fiduciary states, accounts for the change in expected retail sales by BA firms. Neither comparison accounts for the change in bond sales as a result of an introduction of a fiduciary standard of conduct, such as with BA firms in non-fiduciary states, to a portion of security recommendations that would otherwise have not been subject to such a standard. The full difference, therefore, measures the potential effect of a fiduciary standard of conduct to the recommendation and sale of investment grade municipal bonds. To obtain a relative measure, I benchmark the full difference to the unconditional expected value of the dependent variables for a bond sold entirely by BA firms in non-fiduciary states prior to the court decision ($E[Y_{0,1,1}]$).

Table 4 presents the estimates of economic significance. When the retail transaction threshold is set at \$50,000, I find that a fiduciary standard of conduct may lead to an 8.3% increase in *ParSale* and a 9.2% increase in *NumSale* per bond, and when the retail transaction threshold is set at \$20,000, I find that a fiduciary standard of conduct may lead to a 16.4% increase in *ParSale* and a 16.0% increase in *NumSale* per bond. The influence of a fiduciary standard of conduct on security recommendations does not necessarily imply that the recommendations are necessarily "better," but does imply that the recommendations are different. For example, there is a trade-off between having securities in brokerage accounts

where generally the financial agent has no continuing obligation after providing investment advice but also does not charge ongoing fees, and having securities in advisory accounts where more typically the financial agent has agreed to a continuing obligation after providing investment advice but charges fees based on assets under management.[26] The decision to have long term assets in advisory accounts instead of brokerage accounts may therefore prove to be more costly in the long run.

IV.c *Extensions*

The time period of the study overlaps events relating to the recent financial crisis which may also have had an effect on the recommendation and sale of investment grade municipal bonds. For instance, bonds with offering dates from July 2008 to September 2008 have 60 trading day windows that overlap the bankruptcy of Lehman Brothers in September 2008. To investigate whether other events may have also led to a change in retail sales following the temporary rule adoption, I partition the full regression sample into calendar quarters and reestimate regression equation (1). That is, I reestimate regression equation (1) using bonds with offering dates either in the fourth quarter of 2006 and in the fourth quarter of 2007 (the first quarter following the temporary rule adoption), in the first quarter of 2006 and in the first quarter of 2008, in the second quarter of 2006 and in the second quarter of 2008, or in the third quarter of 2006 and the third quarter of 2008 (the fourth quarter following the temporary rule adoption). I partition the regression sample by calendar quarter to control for the effect of seasonal trends. If the results in the first set of tests relate to the adoption of the temporary rule, then I should find similar evidence either soon after the temporary rule adoption or throughout the post-event time period.

Table 5a presents the abbreviated regression results when the retail transaction threshold is set at $50,000, and Table 5b presents the abbreviated regression results when the retail

[26] Whether a broker-dealer or investment adviser has continuing obligations is dependent on the contractual arrangement with the customer. Over 95% of investment advisers charge fees based on the percentage of assets under management and less than 10% of investment advisers charge transaction based compensation (SEC; 2011).

transaction threshold is set at \$20,000. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are positive and statistically significant in the regressions describing the retail sale of bonds with offering dates in the first quarter and in the second quarter following the temporary rule adoption, and are insignificant in the regressions describing the retail sale of bonds with offering dates in the third quarter and in the fourth quarter. These results indicate that if a fiduciary standard of conduct was significant in resulting in additional investment grade municipal bond retail sales, then it was most significant shortly after the rule adoption and before the potential influence of other events. I also only find strong evidence that $I^{TR} \times \overline{I^{BA}}$ is statistically significant in the regressions describing retail sales of bonds with offering dates in the second quarter. Thus, I do not find evidence of a trend that could relate to the temporary rule or other aspects of the investment adviser regulatory regime.

As a comparison to retail sales, I reestimate regression equation (1) but instead model institutional sales. I define a customer transaction as an "institutional transaction" if the par amount is strictly greater than \$50,000. The additional increase in retail sales by BA firms relative to B firms in non-fiduciary states following the temporary rule adoption could be the result of a relative overall increase in the sale of these securities by BA firms and may not pertain specifically to retail investors. I reestimate regression equation (1) using the full regression sample and the regression sample partitioned by calendar quarter.

Table 6 presents the regression results when I use the full regression sample. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ are positive and statistically significant in both regressions, and that only in the regression describing *ParSale* is the parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ statistically significant albeit negative. These results suggest that although there was an increase in institutional sales by BA firms relative to B firms following the temporary rule adoption, the change in institutional sales dependent on the classification of firms engaging in customer sales was more positive for bonds relating to fiduciary states than to non-fiduciary states. Although a relationship potentially exists

between retail and institutional sales, these results suggest that the relative increase in retail sales by BA firms in non-fiduciary states is not reflective of an overall trend relating to these firms and securities. Table 7 presents the abbreviated regression results when I separate bond observations by calendar quarter. Similar to the quarterly regressions describing retail sales, and further evidence of a potential relationship between retail and institutional sales, I find that parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are significant in the regressions describing the institutional sale of bonds with offering dates in the first quarter and in the second quarter following the temporary rule adoption, and insignificant in the regressions describing the institutional sale of bonds with offering dates in the third quarter and in the fourth quarter.

V. Tests of Retail Transaction Cost

V.a *Empirical Model*

In the second set of tests, I investigate the effect of regulatory regimes on the transaction cost of investment grade municipal bonds. I utilize the Harris and Piwowar (2006) methodology to measure transaction cost.[27] The model describes bond price as a function of bond value, transaction cost, and interdealer price concession. The authors model transaction cost as a three term function. From this cost function, I obtain estimates of transaction cost at the individual bond level for transactions of par value equal to \$20,000, \$50,000, \$100,000, and \$1,000,000. Cost estimates of transactions of par value equal to \$20,000 and \$50,000 relate more to the cost of retail transactions, and cost estimates of transactions of par value equal to \$100,000 and \$1,000,000 relate more to the cost of institutional transactions.

To investigate the effect of regulatory regimes on transaction cost, I regress estimates of transaction cost on variables controlling for firm classification, the time period of the bond offering, the state classification relating to the bond, and other potential determinants of transaction cost including bond characteristics and state level variables. The additional variables in the cost function are similar to the explanatory variables that I use to explain

[27]See Appendix A.3 for a description of the methodology.

customer sales in Section IV. However, I respecify $\overline{I^{BA}}$ and $\overline{CSales}$ to take into consideration the utilization of each customer transaction to estimate transaction cost. I now define the variable $\overline{I^{BA}}$ as the non-weighted average of I^{BA} of all customer transactions, both purchases and sales, and $\overline{CSales}$ as the non-weighted average of the aggregate par amount of all firm customer transactions ($\overline{CTrans}$). I estimate the following regression

$$\begin{aligned}
\widehat{C}_{S,i} \quad = \quad & \beta_0 + \beta_1 I_i^{TR} + \beta_2 \overline{I_i^{BA}} + \beta_3 \left(I_i^{TR} \times \overline{I_i^{BA}} \right) \\
& + \beta_4 I_i^{NF} + \beta_5 \left(I_i^{TR} \times I_i^{NF} \right) + \beta_6 \left(\overline{I_i^{BA}} \times I_i^{NF} \right) \\
& + \beta_7 \left(I_i^{TR} \times \overline{I_i^{BA}} \times I_i^{NF} \right) + \boldsymbol{\beta} \mathbf{X}_i \; + \varepsilon_i \qquad (2)
\end{aligned}$$

where $\widehat{C}$ represents cost estimates and S represents transaction size.[28] I incorporate the Bayesian shrinkage estimator of Harris and Piwowar (2006) to calculate the variance of cost estimates, and weight regression observations with the inverse of the variances. I calculate t-statistics with standard errors clustered at the 6-digit cusip level to account for correlations in the error term at the level of the municipality. There are 57,540 individual bonds that meet the requirements of the Harris and Piwowar (2006) model, and 57,500 observations relating to individual bonds that are in the regression sample.

Similar to the regressions in Section IV, the two variables of interest are $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$. A significant regression parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}}$ indicates a change in transaction cost following the temporary rule adoption in fiduciary states dependent on the classification of firms engaging in bond customer transactions. Significance of this variable suggests, especially for estimates of retail transaction cost, that the costs relating to compliance of the temporary rule may have resulted in an increase in the cost of BA firm transactions. A significant regression parameter corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicates an additional change in transaction cost in non-fiduciary states following the temporary rule adoption dependent on the classification of firms engaging in

[28] I also include state fixed effects in an alternative regression specification. I find little difference in the results.

bond customer transactions. The results in the first set of tests indicate an additional increase in retail sales by BA firms relative to B firms in non-fiduciary states. It is possible that this additional increase in retail sales is also contemporaneous with a change in retail transaction cost.

V.b *Results*

Similar to Harris and Piwowar (2006), I find that customer transaction cost decreases as transaction size increases. For example, average transaction cost weighted by the inverse of cost estimate variance ranges from 87 basis points for transactions of \$20,000, to 77 basis points for transactions of \$50,000, to 63 basis points for transactions of \$100,000, and to 21 basis points for transactions of \$1,000,000. These estimates are similar to Harris and Piwowar (2006) who find that average customer transaction cost ranges from 99 basis points for transactions of \$20,000, to 77 basis points for transactions of \$50,000, to 62 basis points for transactions of \$100,000, and to 24 basis points for transactions of \$1,000,000.

Table 8a presents model estimates for regression equation (2) describing the cost of transactions of par value equal to \$20,000 and \$50,000, and Table 8b presents model estimates for regression equation (2) describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. I find that $I^{TR} \times \overline{I^{BA}}$ is a positive and significant determinant of transaction cost in all four regressions, and that $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ is a negative and significant determinant in regressions describing the cost of transactions of par value equal to \$20,000, \$50,000, and \$100,000. The significance and similar magnitude of parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ in all four regressions suggests that the additional change in transaction cost dependent on the classification of firms engaging in customer transactions may not relate to the temporary rule but instead to other factors that would have a more systematic effect on the cost of all transactions regardless of size. The sign and significance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicate an additional decrease in retail transaction cost for those bonds relating to non-fiduciary states and with a greater proportion of transactions by BA firms. Although this additional decrease is greater for transactions relat-

ing more to retail investors, the tests below indicate that it may not relate to the additional increase in retail sales found in Section IV.

Among the other control variables, bond characteristics that are positive and significant determinants of retail transaction cost include bond maturity, optional call schedules, odd interest payment frequency, and state median income. Credit enhancements are also positively and significantly related to retail transaction cost, but more so prior to the temporary rule adoption than after; although the credit enhancement indicator variable is positive and statistically significant, the interaction term between the credit enhancement indicator variable and I^{TR} is negative and statistically significant. Retail transaction cost is also lower for bonds with total par offering amount. The sign and significance of many of the control variables are similar to the findings of Harris and Piwowar (2006).

V.c *Extension*

To investigate whether other events could relate to the changes in transaction cost following the temporary rule adoption, I again partition the full regression sample into calendar quarters and reestimate regression equation (2). In each one of the regressions, the variables of interest are again $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$.

Table 9a presents the abbreviated regression results describing the cost of transactions of par value equal to \$20,000 and \$50,000, and Table 9b presents the abbreviated regression results describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. I find that $I^{TR} \times \overline{I^{BA}}$ is positive in all regressions, and significant in at least one regression relating to each transaction size and quarter. On the other hand, I find that $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ is negative and statistically significant in the regressions describing the transaction cost of bonds with offering dates in the second quarter and in the third quarter following the temporary rule adoption. This result indicates that the time periods in which I find an additional decrease in retail transaction cost by BA firms relative to B firms in non-fiduciary states only partially overlaps the time periods in which I find an additional increase in retail sales. These two results, therefore, may not be related. Taken together, I do not find

enough evidence to conclude that changes to the regulatory regime governing the principal transactions of investment grade municipal bonds relate to changes in transaction cost that is specific to retail investors.

VI. Conclusion

This paper is a first step in determining the importance of regulatory regimes to the provision of personalized investment advice about securities to retail investors. Broker-dealers and investment advisers may provide many of the same services yet are subject to two different legal frameworks. The results in this paper indicate that differences between the two regulatory regimes may be important to the advice retail investors receive.

This paper investigates just one aspect of the many services broker-dealers and investment advisers may provide. Although I utilize transaction level data, regulatory events, and additional information like state laws, the lack of account level information limits the efficacy of the empirical methodology. Both regulators and researchers would greatly benefit from information describing investor demographics, account characteristics, the types of security investments, and security returns. Such information can not only provide a more meaningful description of a market characterized by information asymmetries, but also an industry that is vital to the financial well-being of many retail investors.

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Appendix

A.1 *MSRB RTRS Dataset*

There are 35,169,982 transaction observations in the MSRB dataset from July 2005 to December 2008.[29] The dataset reduces to 11,065,403 observations after I exclude bonds with missing issuance or bond information on Mergent, and bonds not meeting sample requirements (see Section II.b), and further reduces to 6,046,632 observations after I exclude transactions with missing trade date, time of trade, transaction price, and par amount information; inaccurate trade date information; and transactions with trade dates not within 60 trading days of the bond offering date.

I also exclude managed account transactions, or where an intermediary acts on the behalf of multiple customers and allocates securities across accounts. These transactions may appear in the dataset as a contemporaneous purchase and then sale to multiple customers at the same time and price with equal par amounts. There are 5,993,465 observations after combining multiple transactions with these similarities to one.

I identify observations with inaccurate transaction prices by comparing the price of an observation to the offering price of the bond and the prices of transactions that immediately precede and follow the observation. For each comparison price (relating to the offering price, the transaction price immediately preceding the observation, and the transaction price immediately following the observation), I calculate a measure equal to the absolute value of the observation price minus the comparison price, all divided by the observation price. I then separately rank each one the three sets of comparison measures. I classify a price as inaccurate with respect to one of the three comparison prices if it ranks in the top 0.05%. I choose 0.05% by examining outliers in the remaining sample when the threshold ranges from 0.01% to 0.1%.

[29] After August 2007, the original dataset separates each interdealer transaction into two observations. However, the original dataset also contains a field assigning each interdealer transaction an identification code. I use the identification code to combine the duplicate interdealer transactions. If I cannot match interdealer transactions on identification code, then I match on trade information. I assume the remaining interdealer transactions are non-duplicative.

I delete all individual observations from the sample where each one of the three comparison measures classify as inaccurate and the prices of the transactions immediately following and preceding the observation are also not inaccurate with respect to the next closest transaction. I also exclude all observations relating to a particular bond if an individual observation is inaccurate with respect to the offering price but I cannot delete it from the sample. This can occur when bond prices are inaccurate with respect to the offering price in consecutive transactions. I exclude 5,911 observations from the sample using this methodology, and I also exclude an additional 40,487 observations with bond price less than or equal to 0.01.

I also clean the dataset using par value traded information. I exclude observations with par value traded greater than total par offering amount. I also identify duplicate observations in the dataset by aggregating the par value traded to customers. I consider identical observations to be duplicate if the total par value sold to customer accounts is greater than the total par offering amount by the par value traded. I exclude 369 transactions that are duplicate and 2,209 observations with par traded greater than total par offering amount. Past researchers have taken additional steps to refine the MSRB transaction dataset. The additional refinements, however, impose additional assumptions on the dataset. There are 5,944,489 observations before excluding additional observations relating to agency transactions, and bonds that are not investment grade from the final sample.

A.2 *Bond Characteristic Variables*

The following is a list of bond characteristic indicator variables that I use in the regressions as explanatory variables. I define each variable with information from the Mergent dataset.

- AAA - equal to 1 if the bond has an investment grade rating of AAA, 0 otherwise
- *OptCallSched* - equal to 1 if the bond has an optional call schedule, 0 otherwise
- *ExtraOrdCall* - equal to 1 if the bond issue is subject to an extraordinary call, 0 otherwise

- *PutOption* - equal to 1 if the bond has a put option, 0 otherwise
- *CredEnh* - equal to 1 if the bond has either additional credit or bond insurance, 0 otherwise
- *SinkFund* - equal to 1 if the bond has a sinking fund provision, 0 otherwise
- *OddIntFreq* - equal to 1 if the frequency of interest payments is not semi-annual, 0 otherwise
- *OddIntCalc* - equal to 1 if the interest calculation is not 30 days per month by 360 days per year, 0 otherwise
- *GenObl* - equal to 1 if the security is a general obligation bond, 0 otherwise
- *RevBond* - equal to 1 if the security is a revenue bond, 0 otherwise
- *GenPurp* - equal to 1 if the security is for general purpose or public improvement, 0 otherwise
- *Education* - equal to 1 if the use of proceeds relates to higher education, primary and secondary education, and other education; 0 otherwise
- *Utility* - equal to 1 if the use of proceeds relates to public utilities including power, gas telephone, water, and waste; 0 otherwise
- *Health* - equal to 1 if the use of proceeds relates to hospitals, nursing homes, and other healthcare; 0 otherwise
- *CertPart* - equal to 1 if the type of debt is a certificate of participation, 0 otherwise
- *FedTax* - equal to 1 if the maturity is taxable at the federal level, 0 otherwise
- *StateTax* - equal to 1 if the maturity is taxable by the state of issue, 0 otherwise

I also include an interaction term between *CredEnh* and I^{TR} ($CredEnh \times I^{TR}$) to control for the potential change to the influence of credit enhancements on bond transactions as a result of the financial crisis.

A.3 *Harris and Piwowar (2006) Methodology*

I follow Harris and Piwowar (2006) and model bond price P as a function of bond value V, investor transaction cost C, and interdealer price concession δ. Transaction cost is dependent on whether the bond transaction is a dealer sale to a customer, a dealer purchase from a customer, or an interdealer transaction. To incorporate differences in transaction type, investor transaction cost is interacted with variable Q, equal to 1 if the transaction is a dealer sale to a customer, equal to -1 if the transaction is a dealer purchase from a customer, and equal to 0 if the transaction is an interdealer trade. Interdealer price concession δ is interacted with an indicator variable I^D, equal to 1 if the trade is an interdealer trade, and equal to 0 otherwise. In equation form, the price for bond i at time t is

$$P_{it} = V_{it} + Q_{it} P_{it} C_{it} + I_{it}^{D} P_{it} \delta_{it}$$

After taking the natural log of both sides of the bond price equation, the price equation for bond i at time t is subtracted from the price equation for bond i at time s. Following the approximations made by Harris and Piwowar (2006), the equation for the difference in bond price from time s to time t is

$$r_{its}^{P} = r_{ts}^{V} + Q_{it} C_{it} - Q_{is} C_{is} + I_{it}^{D} \delta_{it} - I_{is}^{D} \delta_{is}$$

where r^P represents the difference in the natural log of bond price and r^V represents the difference in the natural log of bond value. I define time s using the most recent bond trade, either customer or interdealer, prior to the trade at time t. If more than one bond transaction occurs at time s, then I use the bond transaction with greatest par value to calculate returns for transactions that occur at time t. Large transactions, typically involving institutional investors, are likely to provide more information than small transactions, possibly involving

retail investors. If more than one transaction occurs at time t, then time s is equal to time t. In this instance, I use the transaction with the greatest par amount to calculate differences in the natural log of bond price.

Harris and Piwowar (2006) model the difference in the natural log of bond value between the two trades as

$$r^V_{its} = N^{CalDay}_{ts}(5\% - Coupon_i) + \beta^V_1 AvgSL_{ts} + \beta^V_2 DiffSL_{ts} + \gamma_{its}$$

where N^{CalDay}_{ts} represents the number of calendar days between time s and time t, (5%-*Coupon*) represents the difference between the bond's coupon interest rate and 5%, *AvgSL* represents the average in and *DiffSL* represents the difference between short-term and long-term index returns, and γ is model error. The difference between the bond's coupon rate and 5%, in units of one calendar day, measures the return a trader would expect between trade dates when interest rates are constant. The expression of all bond returns in this manner, including when calculating bond index returns, should not affect the results. The error term γ has mean zero and variance equal to $N^{TrdSes}_{ts}\sigma^2_{TrdSes}$ where N^{TrdSes}_{ts} represents the number of trading sessions from time s to time t. I estimate index returns using a repeat sales regression methodology (Case and Shiller; 1987).[30]

Harris and Piwowar (2006) model transaction cost as a three or four term function. The primary cost function in their analysis is

$$C_i = c_0 + c_1 S_i^{-1} + c_2 \ln S_i + \kappa_i$$

where c_0, c_1, and c_2 represent model parameters; S represents transaction size; and κ represents model error. They motivate the equation as one part that controls for cost as a proportion of transaction size (c_0), one part that controls for fixed costs per trade, ($c_1 S^{-1}$), and one part that controls for cost as it varies with transaction size ($c_2 \ln S$).

The bond price equation is modeled separately for each bond. The full bond price

[30]See Appendix A.4 for a full explanation of the repeat sales regression methodology.

equation is

$$r_{its}^{P} - N_{ts}^{CalDay}(5\% - Coupon_i) = \beta_1^V AvgSL_{ts} + \beta_2^V DiffSL_{ts} + Q_{it}C_{it} - Q_{is}C_{is} + \eta_{its} \quad (3)$$

where η repesents model error. The error term η can be expressed as

$$\eta_{its} = \gamma_{its} + I_{it}^{D}\delta_{it} - I_{is}^{D}\delta_{is} + Q_{it}\kappa_{it}' - Q_{is}\kappa_{is}'$$

with zero mean and variance, σ_η^2, that can be expressed as

$$\sigma_\eta^2 = N^{TrdSes}\sigma_{TrdSes}^2 + D_{ts}\sigma_\delta^2 + (2 - D_{ts})\,\sigma_\kappa^2$$

where D_{ts} is equal to the number of interdealer transactions between each of the two trades (0, 1 or 2), σ_δ^2 represents the variance of δ, and σ_κ^2 represents the variance of κ.

I follow Harris and Piwowar (2006) and use an iterated least squares methodology to estimate parameter estimates of equation (3) with weights equal to the inverse of σ_η^2 estimates. Estimates of σ_η^2 are obtained by pooling error terms from equation (3) and regressing the square of these error terms on N^{TrdSes}, D_{ts}, and $(2 - D_{ts})$. The parameters multiplying N^{TrdSes}, D_{ts}, and $(2 - D_{ts})$ are constrained to be strictly greater than zero.

A.4 *Repeat-Sale Regression*

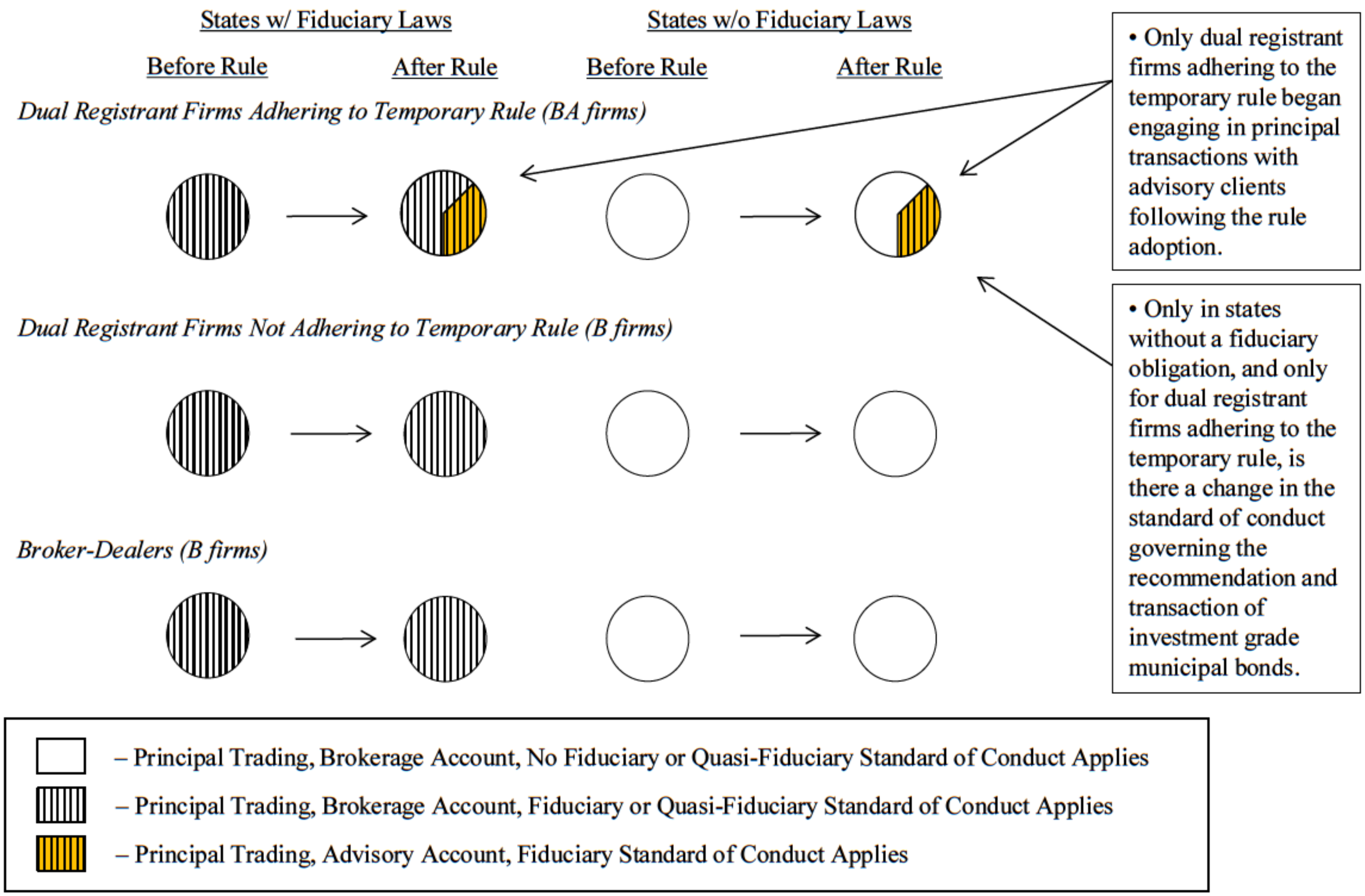
I calculate short-term and long-term bond daily index returns using the repeat-sale regression method of Case and Shiller (1987), regressing the returns of short-term bonds or long-term bonds on a set of indicator variables representing trade dates. I define bonds as short-term if less than 60 months remain until maturity, and bonds as long-term if at least 144 months remain until maturity. The indicator variables, I^{td}, are equal to 1 if the bond is held or sold on the trade date, 0 otherwise. The repeat-sale regression in equation form for all trades from the beginning of the sample period ($\tau = 1$) to the end of the sample period ($\tau =$ T) is

$$r_{its} - N_{ts}^{CalDay}(5\% - Coupon_i) = \sum_{1 \le \tau}^{\tau \le T} \beta_\tau I_\tau^{td} + \zeta_{its} \quad (4)$$

where r_{its} represents the difference in the natural log of the price of bond i between time s and time t, N_{ts}^{CalDay} represents the number of calendar days between time s and time t, and (5%-*Coupon*) is the difference between the bond's coupon interest rate and 5% in units of one calendar day.

I obtain parameter estimates for both short-term and long-term bonds using a three-step procedure beginning with an initial estimate of equation (4). I then regress the initial squared estimates of ζ on the total number of days between consecutive trades, the squared total number of days between trade dates, and an intercept. Lastly, I reestimate equation (4) using fitted values from the second stage as regression weights. I use interdealer transactions only in the repeat-sale regression to avoid noise from the bond prices of customer transactions. If more than one interdealer transaction occurs for the same bond on a given trade date, then I use the last interdealer transaction on that date.

Figure 1: Changes to the Regulatory Regime Governing the Principal Transactions of Investment Grade Municipal Bonds by Firm and State Classification



This figure describes the change in the regulatory regime governing principal transactions dependent on firm classification and the presence of state fiduciary laws. For simplicity, this figure does not account for changes to the proportion of advisory accounts held at dual registrant firms following the court decision and temporary rule adoption. See Section II for further discussion.

Table 1: State Classification by Region

Region	Non-Fiduciary States		Fiduciary States	
	States	N	States	N
Northeast	Massachusetts, New York	2	Connecticut, Maine, New Hampshire, New Jersey, Pennsylvania, Rhode Island, Vermont	7
Midwest	Minnesota, North Dakota, Wisconsin	3	Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Nebraska, Ohio, South Dakota	9
Southeast	Arkansas, Mississippi, North Carolina	3	Alabama, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Oklahoma, South Carolina, Tennessee, Texas, Virgina, West Virginia	14
West	Arizona, Colorado, Hawaii, Montana, Oregon, Washington	6	Alaska, California, Idaho, New Mexico, Nevada, Utah, Wyoming	7
Number		14		37

This table lists the states either classifying as a fiduciary state or a non-fiduciary state by region. A fiduciary state requires broker-dealers to operate in a fiduciary or quasi-fiduciary capacity, whereas a non-fiduciary state makes no such requirements. See Sections II.b and III.c for a further description.

Table 2: Number and Par Value of Customer Transactions

Year	All N	All $bn.	BA N	BA $bn.	B N	B $bn.	All N	All $bn.	BA N	BA $bn.	B N	B $bn.
	Panel A - All Customer Transactions						*Panel B - All Customer Sales*					
2006	588,049	286.03	363,051	198.58	224,998	87.45	563,445	237.16	351,390	162.18	212,055	74.98
2007	617,520	350.79	390,557	245.88	226,963	104.91	592,575	290.07	377,988	200.12	214,587	89.95
2008	662,597	285.69	399,161	198.72	263,436	86.96	636,130	243.40	388,201	169.73	247,929	73.67
	Panel C - All Customer Sales ≤ $50k						*Panel C - All Customer Sales ≤ $20k*					
2006	324,646	8.91	213,633	5.82	111,013	3.10	131,061	1.72	87,926	1.16	43,135	0.56
2007	332,124	9.29	222,049	6.19	110,075	3.10	129,266	1.72	87,542	1.18	41,724	0.54
2008	376,530	10.48	238,460	6.68	138,070	3.80	146,090	1.91	91,553	1.22	54,537	0.69

This table presents the aggregate number and value of all investment grade municipal bond customer principal transactions. Panel A presents information describing all customer sales and purchases, Panel B presents information describing all sales to customers, Panel C presents information describing all sales to customers less than or equal to $50,000, and Panel D presents information describing all sales to customers less than or equal to $20,000. The table presents customer transactions for all firms, for dual registrant firms engaging in principal transactions with brokerage and advisory clients after the temporary rule adoption (BA firms), and for firms engaging in principal transactions with brokerage clients only after the temporary rule adoption (B firms). I obtain transaction information from the MSRB RTRS dataset.

Table 3a: Tobit Regressions Describing Retail Sales ($\leq$ \$50k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	0.036	(0.52)	0.020	(0.41)	*RevBond*	-0.009	(0.18)	0.002	(0.06)
$\overline{I^{BA}}$	0.099^b	(2.30)	0.086^a	(2.81)	*GenPurp*	-0.073	(1.48)	-0.059	(1.63)
$I^{TR} \times \overline{I^{BA}}$	-0.046	(0.73)	-0.024	(0.55)	*Education*	-0.188^a	(3.80)	-0.141^a	(3.93)
I^{NF}	-0.037	(0.63)	-0.004	(0.10)	*Utility*	-0.318^a	(5.34)	-0.242^a	(5.64)
$I^{TR} \times I^{NF}$	-0.150^c	(1.93)	-0.110^b	(1.99)	*Health*	-0.446^a	(3.97)	-0.286^a	(3.52)
$\overline{I^{BA}} \times I^{NF}$	0.183^b	(2.20)	0.117^b	(1.99)	*CertPart*	0.164^b	(2.13)	0.109^b	(2.00)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.249^b	(2.13)	0.178^b	(2.14)	*FedTax*	-0.854^a	(11.37)	-0.567^a	(10.38)
$\overline{CSales}$	0.285^a	(39.85)	0.203^a	(39.85)	*StateTax*	-0.899^a	(14.87)	-0.643^a	(15.29)
TotPar	0.086^a	(6.35)	0.078^a	(7.40)	*StateTotPar*	-0.064^a	(3.57)	-0.046^a	(3.55)
Maturity	0.141^a	(6.77)	0.138^a	(9.48)	*StateMedInc*	0.688^a	(3.76)	0.492^a	(3.71)
AAA	0.079^c	(1.74)	0.045	(1.35)	*StateIncSE*	1.367^a	(2.65)	1.171^a	(3.13)
OptCallSched	-0.100^a	(3.67)	-0.009	(0.47)	*StateDmnd*	0.102^a	(8.94)	0.075^a	(9.43)
ExtraOrdCall	-0.015	(0.26)	-0.004	(0.10)	*Constant*	-4.404^a	(14.33)	-3.464^a	(15.39)
PutOption	-0.260	(0.91)	-0.194	(0.92)					
CredEnh	-0.102^c	(1.70)	-0.070	(1.59)	σ	2.175		1.524	
$CredEnh \times I^{TR}$	0.070	(1.09)	0.044	(0.93)	N	157,116		157,116	
SinkFund	-0.523^a	(12.42)	-0.298^a	(9.64)	N = 0	70,877		70,849	
OddIntFreq	-1.109^a	(15.74)	-0.735^a	(14.61)	*pseudo* R^2	0.04		0.05	
OddIntCalc	-0.926	(1.02)	-0.619	(0.97)					
GenObl	-0.310^a	(7.79)	-0.216^a	(7.48)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 3b: Tobit Regressions Describing Retail Sales ($\leq$ \$20k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	-0.018	(0.27)	-0.009	(0.15)	*RevBond*	0.019	(0.44)	0.023	(0.57)
$\overline{I^{BA}}$	0.189^a	(4.77)	0.170^a	(4.85)	*GenPurp*	-0.091^b	(2.00)	-0.082^b	(2.02)
$I^{TR} \times \overline{I^{BA}}$	-0.023	(0.41)	-0.024	(0.47)	*Education*	-0.168^a	(3.77)	-0.150^a	(3.77)
I^{NF}	0.107^b	(2.04)	0.103^b	(2.20)	*Utility*	-0.322^a	(6.17)	-0.292^a	(6.27)
$I^{TR} \times I^{NF}$	-0.156^b	(2.16)	-0.144^b	(2.21)	*Health*	-0.202^b	(2.16)	-0.170^b	(2.02)
$\overline{I^{BA}} \times I^{NF}$	0.018	(0.24)	0.009	(0.14)	*CertPart*	0.094	(1.51)	0.080	(1.44)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.233^b	(2.25)	0.206^b	(2.23)	*FedTax*	-0.388^a	(5.38)	-0.341^a	(5.27)
$\overline{CSales}$	0.257^a	(35.70)	0.227^a	(35.32)	*StateTax*	-0.840^a	(15.59)	-0.753^a	(15.72)
TotPar	0.086^a	(6.26)	0.079^a	(6.32)	*StateTotPar*	-0.065^a	(3.91)	-0.058^a	(3.90)
Maturity	0.370^a	(19.17)	0.330^a	(19.15)	*StateMedInc*	0.441^a	(2.71)	0.388^a	(2.67)
AAA	0.052	(1.22)	0.042	(1.09)	*StateIncSE*	2.242^a	(4.86)	2.051^a	(4.96)
OptCallSched	0.216^a	(9.14)	0.195^a	(9.32)	*StateDmnd*	0.094^a	(10.07)	0.085^a	(10.19)
ExtraOrdCall	0.016	(0.31)	0.014	(0.32)	*Constant*	-5.830^a	(20.85)	-5.197^a	(20.61)
PutOption	-0.306	(1.13)	-0.268	(1.10)					
CredEnh	-0.086	(1.54)	-0.073	(1.46)	σ	1.865		1.653	
CredEnh$\times I^{TR}$	0.061	(0.68)	0.054	(0.74)	N	157,979		157,979	
SinkFund	-0.173^a	(4.86)	-0.129^a	(4.04)	N = 0	105,926		105,931	
OddIntFreq	-0.599^a	(8.81)	-0.527^a	(8.77)	*pseudo* R^2	0.06		0.06	
OddIntCalc	-0.665	(1.05)	-0.571	(1.01)					
GenObl	-0.264^a	(7.25)	-0.231^a	(7.08)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$20,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 4: Expected Changes in Retail Sales by Firm and State Classification

	$\overline{I^{BA}} = 1,\ I^{NF} = 1$			$\overline{I^{BA}} = 0,\ I^{NF} = 1$			$\overline{I^{BA}} = 1,\ I^{NF} = 0$			$\Delta_1 - \Delta_2$	Bench-	
	$E[Y]$		Δ_1	$E[Y]$		Δ_2	$E[Y]$		Δ_3	$-\Delta_3$	mark	$\Delta\%$
$I^{TR} =$	1	0		1	0		1	0				
Panel A: Expected Changes in Sales less than or equal to \$50k by Firm and State Classification												
ParSale	1.372	1.289	0.083	1.074	1.117	-0.043	1.217	1.198	0.018	0.107	1.289	8.3%
NumSale	0.919	0.863	0.056	0.707	0.743	-0.036	0.807	0.795	0.013	0.079	0.863	9.2%
Panel B: Expected Changes in Sales less than or equal to \$20k by Firm and State Classification												
ParSale	0.497	0.478	0.019	0.355	0.405	-0.050	0.424	0.433	-0.009	0.078	0.478	16.4%
NumSale	0.436	0.421	0.015	0.313	0.358	-0.045	0.373	0.381	-0.008	0.067	0.421	16.0%

This table reports estimates of the potential economic significance of a fiduciary standard of conduct. Columns with "$E[Y]$" headers report the unconditional expected value of the dependent variables stemming from the estimation of regression equation (1) given the time period of the retail sales, I^{TR}, the classification of firms engaging in customer sales, $\overline{I^{BA}}$, and the state classification relating to the bond, I^{NF}. All other variables are set to its sample mean. The variable Y represents either *ParSale* or *NumSale*. Columns with "Δ_i" headers report differences between time periods, and the third to last column reports the full difference between all firm and state classifications. I benchmark the full difference with the unconditional expected value of the dependent variables by BA firms in non-fiduciary states prior to temporary rule adoption. The last column relates the full difference to the benchmark. See Section IV for full explanation.

Table 5a: Tobit Regressions Describing Retail Sales by Calendar Quarter ($\leq$ \$50k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.113	(0.80)	-0.307^b	(2.13)	0.019	(0.17)	0.050	(0.39)
$\overline{I^{BA}}$	0.137^c	(1.71)	0.219^a	(2.58)	0.089	(1.05)	-0.029	(0.36)
$I^{TR} \times \overline{I^{BA}}$	-0.131	(1.06)	-0.354^a	(2.62)	0.039	(0.34)	0.183	(1.52)
I^{NF}	-0.025	(0.23)	0.218^c	(1.92)	-0.187^c	(1.81)	-0.101	(0.93)
$I^{TR} \times I^{NF}$	-0.187	(1.19)	-0.433^a	(2.63)	0.006	(0.04)	-0.104	(0.71)
$\overline{I^{BA}} \times I^{NF}$	0.010	(0.07)	0.105	(0.63)	0.269^c	(1.72)	0.406^a	(2.57)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.533^b	(2.35)	0.381	(1.49)	0.134	(0.60)	-0.057	(0.25)
...								
N	41,959		33,511		44,222		37,424	
N = 0	20,262		15,521		19,354		15,740	
pseudo R^2	0.03		0.04		0.04		0.04	
Panel B: NumSale								
I^{TR}	0.087	(0.87)	-0.239^b	(2.31)	0.006	(0.08)	0.027	(0.30)
$\overline{I^{BA}}$	0.110^b	(1.97)	0.177^a	(2.92)	0.079	(1.31)	-0.007	(0.12)
$I^{TR} \times \overline{I^{BA}}$	-0.082	(0.96)	-0.266^a	(2.78)	0.046	(0.57)	0.141^c	(1.65)
I^{NF}	0.003	(0.04)	0.175^b	(2.17)	-0.100	(1.37)	-0.057	(0.73)
$I^{TR} \times I^{NF}$	-0.121	(1.12)	-0.322^a	(2.78)	0.003	(0.03)	-0.080	(0.78)
$\overline{I^{BA}} \times I^{NF}$	-0.006	(0.05)	0.047	(0.39)	0.188^c	(1.68)	0.278^b	(2.48)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.369^b	(2.34)	0.297^c	(1.65)	0.075	(0.47)	-0.033	(0.20)
...								
N	41,959		33,511		44,222		37,424	
N = 0	20,255		15,518		19,345		21,693	
pseudo R^2	0.04		0.05		0.05		0.06	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 5b: Tobit Regressions Describing Retail Sales by Calendar Quarter ($\leq$ \$20k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.122	(0.92)	-0.355^a	(2.75)	-0.085	(0.81)	0.036	(0.30)
$\overline{I^{BA}}$	0.231^a	(3.08)	0.247^a	(3.23)	0.174^b	(2.20)	0.109	(1.46)
$I^{TR} \times \overline{I^{BA}}$	-0.075	(0.67)	-0.330^a	(2.73)	0.115	(1.14)	0.081	(0.73)
I^{NF}	0.120	(1.22)	0.284^a	(2.82)	0.027	(0.29)	0.030	(0.30)
$I^{TR} \times I^{NF}$	-0.123	(0.85)	-0.459^a	(3.12)	0.022	(0.17)	-0.178	(1.31)
$\overline{I^{BA}} \times I^{NF}$	-0.146	(1.06)	-0.090	(0.62)	0.158	(1.13)	0.174	(1.21)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.456^b	(2.23)	0.533^b	(2.44)	-0.048	(0.24)	0.052	(0.26)
...								
N	42,128		33,743		44,473		37,635	
N = 0	29,651		22,741		29,093		24,441	
pseudo R^2	0.05		0.07		0.06		0.07	
Panel B: NumSale								
I^{TR}	0.108	(0.91)	-0.315^a	(2.72)	-0.066	(0.70)	0.046	(0.42)
$\overline{I^{BA}}$	0.200^a	(3.00)	0.226^a	(3.32)	0.160^b	(2.29)	0.102	(1.53)
$I^{TR} \times \overline{I^{BA}}$	-0.058	(0.59)	-0.302^a	(2.80)	0.094	(1.05)	0.068	(0.68)
I^{NF}	0.112	(1.29)	0.258^a	(2.84)	0.037	(0.44)	0.036	(0.40)
$I^{TR} \times I^{NF}$	-0.112	(0.87)	-0.416^a	(3.14)	0.013	(0.11)	-0.161	(1.32)
$\overline{I^{BA}} \times I^{NF}$	-0.133	(1.09)	-0.081	(0.62)	0.128	(1.03)	0.149	(1.16)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.400^b	(2.20)	0.473^b	(2.41)	-0.041	(0.23)	0.047	(0.26)
...								
N	42,128		33,743		44,473		37,635	
N = 0	29,650		22,742		29,095		13,191	
pseudo R^2	0.05		0.07		0.06		0.07	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$20,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 6: Tobit Regressions Describing Institutional Sales (> \$50k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	0.087^a	(2.87)	0.062^a	(3.87)	*RevBond*	-0.068^a	(2.90)	-0.027^b	(2.24)
$\overline{I^{BA}}$	-0.145^a	(7.21)	-0.050^a	(5.34)	*GenPurp*	0.052^b	(2.38)	0.006	(0.48)
$I^{TR} \times \overline{I^{BA}}$	0.055^b	(2.06)	0.026^c	(1.95)	*Education*	0.031	(1.37)	-0.028^a	(2.59)
I^{NF}	0.054^b	(2.07)	0.044^a	(4.00)	*Utility*	0.120^a	(4.47)	-0.009	(0.66)
$I^{TR} \times I^{NF}$	0.089^a	(2.67)	-0.008	(0.52)	*Health*	0.068	(1.41)	-0.086^a	(3.52)
$\overline{I^{BA}} \times I^{NF}$	-0.049	(1.23)	-0.007	(0.40)	*CertPart*	-0.122^a	(2.90)	-0.014	(0.80)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.158^a	(2.96)	0.004	(0.17)	*FedTax*	0.034	(1.08)	-0.228^a	(15.84)
$\overline{CSales}$	0.024^a	(6.41)	0.037^a	(23.90)	*StateTax*	0.235^a	(11.76)	-0.032^a	(2.93)
TotPar	1.098^a	(192.21)	0.316^a	(63.85)	*StateTotPar*	-0.011	(1.43)	0.000	(0.10)
Maturity	-0.119^a	(10.65)	-0.066^a	(12.12)	*StateMedInc*	-0.341^a	(4.63)	-0.098^b	(2.24)
AAA	-0.044^b	(2.17)	-0.031^a	(2.72)	*StateIncSE*	-0.289	(1.24)	0.103	(0.85)
OptCallSched	-0.024^c	(1.69)	-0.058^a	(8.13)	*StateDmnd*	0.001	(0.15)	0.017^a	(4.80)
ExtraOrdCall	0.003	(0.10)	0.003	(0.22)	*Constant*	-0.447^a	(3.50)	-0.589^a	(8.40)
PutOption	-0.120	(1.28)	0.023	(0.34)					
CredEnh	0.134^a	(5.02)	0.074^a	(5.30)	σ	1.190		0.573	
$CredEnh \times I^{TR}$	-0.039	(1.39)	-0.019	(1.24)	N	157,116		157,116	
SinkFund	0.146^a	(9.08)	-0.019^b	(2.16)	N = 0	16,714		16,828	
OddIntFreq	-0.003	(0.08)	-0.198^a	(11.12)	*pseudo* R^2	0.24		0.22	
OddIntCalc	-0.043	(0.24)	-0.387^b	(1.98)					
GenObl	0.043^b	(2.45)	-0.030^a	(3.21)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to institutional investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define institutional sales as customer sales with par value strictly greater than \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 7: Tobit Regressions Describing Institutional Sales by Calendar Quarter (> $50k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.155^a	(2.63)	0.153^a	(2.52)	0.083	(1.48)	-0.001	(0.01)
$\overline{I^{BA}}$	-0.153^a	(4.02)	-0.165^a	(3.86)	-0.133^a	(3.61)	-0.141^a	(3.76)
$I^{TR} \times \overline{I^{BA}}$	0.096^c	(1.88)	0.138^b	(2.39)	0.023	(0.48)	-0.031	(0.56)
I^{NF}	0.089^c	(1.91)	-0.146^c	(1.86)	0.119^a	(2.75)	0.079^c	(1.82)
$I^{TR} \times I^{NF}$	0.058	(0.94)	0.339^a	(3.84)	0.031	(0.50)	0.023	(0.36)
$\overline{I^{BA}} \times I^{NF}$	-0.038	(0.56)	0.175	(1.58)	-0.100	(1.56)	-0.187^a	(2.73)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.158^c	(1.76)	-0.377^a	(2.82)	-0.150	(1.60)	-0.015	(0.14)
...								
N	41,959		33,511		44,222		37,424	
N = 0	4,585		3,641		4,392		4,096	
pseudo R^2	0.25		0.23		0.24		0.24	
Panel B: NumSale								
I^{TR}	0.061^c	(1.86)	0.031	(0.93)	0.073^a	(2.80)	0.031	(1.07)
$\overline{I^{BA}}$	-0.035^b	(2.07)	-0.041^b	(2.21)	-0.068^a	(3.91)	-0.053^a	(2.94)
$I^{TR} \times \overline{I^{BA}}$	0.022	(0.85)	0.002	(0.08)	0.059^b	(2.42)	0.010	(0.40)
I^{NF}	0.057^a	(2.92)	0.029	(1.16)	0.047^a	(2.59)	0.032	(1.39)
$I^{TR} \times I^{NF}$	-0.001	(0.03)	0.025	(0.75)	0.000	(0.02)	-0.047	(1.61)
$\overline{I^{BA}} \times I^{NF}$	-0.024	(0.79)	0.029	(0.78)	0.008	(0.27)	-0.029	(0.78)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.039	(0.81)	-0.033	(0.64)	-0.030	(0.71)	0.022	(0.39)
...								
N	41,959		33,511		44,222		37,424	
N = 0	4,586		3,663		4,441		4,138	
pseudo R^2	0.21		0.22		0.22		0.24	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to institutional investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define institutional sales as customer sales with par value strictly greater than $50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 8a: Regressions Describing Retail Transaction Cost

	\$20k		*\$50k*			*\$20k*		*\$50k*	
I^{TR}	-0.0013^a	(5.62)	-0.0009^a	(4.49)	*RevBond*	-0.0002	(1.30)	-0.0001	(1.37)
$\overline{I^{BA}}$	0.0019^a	(7.77)	0.0018^a	(9.47)	*GenPurp*	0.0000	(0.16)	0.0002	(1.31)
$I^{TR} \times \overline{I^{BA}}$	0.0012^a	(3.54)	0.0011^a	(4.07)	*Education*	0.0005^a	(3.01)	0.0003^b	(2.56)
I^{NF}	0.0000	0.00	0.0001	(0.31)	*Utility*	0.0003	(1.54)	0.0001	(0.85)
$I^{TR} \times I^{NF}$	0.0012^a	(3.40)	0.0008^a	(2.98)	*Health*	0.0003	(1.04)	0.0001	(0.53)
$\overline{I^{BA}} \times I^{NF}$	0.0000	(0.07)	0.0001	(0.19)	*CertPart*	-0.0001	(0.82)	0.0000	(0.24)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0019^a	(3.13)	-0.0014^a	(2.89)	*FedTax*	-0.0015^a	(4.08)	-0.0013^a	(3.85)
$\overline{CTrans}$	0.0000	(0.66)	0.0001^b	(2.39)	*StateTax*	-0.0002	(0.40)	-0.0004	(1.60)
TotPar	-0.0001^b	(2.17)	-0.0002^a	(5.51)	*StateTotPar*	-0.0001	(1.25)	0.0000	(0.19)
Maturity	0.0048^a	(39.85)	0.0042^a	(44.88)	*StateMedInc*	0.0029^a	(4.82)	0.0028^a	(5.99)
AAA	0.0001	(0.70)	0.0001	(1.58)	*StateIncSE*	-0.0040^b	(2.37)	-0.0038^a	(3.00)
OptCallSched	0.0032^a	(19.00)	0.0034^a	(26.59)	*StateDmnd*	-0.0001^a	(3.91)	-0.0001^a	(2.66)
ExtraOrdCall	0.0000	(0.21)	0.0000	(0.06)	*Constant*	-0.0061^a	(6.67)	-0.0077^a	(10.73)
PutOption	-0.0064^a	(4.47)	-0.0055^a	(4.93)					
CredEnh	0.0008^a	(6.18)	0.0007^a	(6.05)	N	57,500		57,500	
$CredEnh \times I^{TR}$	-0.0004^b	(2.18)	-0.0003^b	(2.00)	*adj.* R^2	0.68		0.68	
SinkFund	0.0002	(1.19)	0.0002	(1.60)					
OddIntFreq	0.0022^a	(10.20)	0.0022^a	(10.65)					
OddIntCalc	-0.0016	(1.16)	-0.0020^c	(1.93)					
GenObl	-0.0004^a	(3.53)	-0.0004^a	(4.43)					

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$20,000 and \$50,000. The regression model is equation (2). I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 8b: Regressions Describing Institutional Transaction Cost

	\$100k		*\$1M*			*\$100k*		*\$1M*	
I^{TR}	-0.0007^a	(4.23)	-0.0002	(0.77)	*RevBond*	-0.0002^b	(1.97)	-0.0003^a	(3.09)
$\overline{I^{BA}}$	0.0013^a	(7.71)	0.0003	(1.22)	*GenPurp*	0.0001	(0.67)	-0.0001	(0.72)
$I^{TR} \times \overline{I^{BA}}$	0.0010^a	(4.11)	0.0011^a	(4.18)	*Education*	0.0001	(0.97)	-0.0003^a	(2.74)
I^{NF}	0.0001	(0.80)	0.0006^b	(2.16)	*Utility*	0.0001	(0.47)	-0.0001	(0.65)
$I^{TR} \times I^{NF}$	0.0007^a	(2.70)	-0.0002	(0.61)	*Health*	0.0000	(0.08)	-0.0004^c	(1.75)
$\overline{I^{BA}} \times I^{NF}$	0.0000	(0.14)	-0.0010^c	(1.65)	*CertPart*	0.0000	(0.20)	0.0002	(1.04)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0012^a	(2.64)	0.0008	(1.09)	*FedTax*	-0.0012^a	(3.82)	-0.0004^b	(2.31)
$\overline{CTrans}$	0.0002^a	(4.84)	0.0001^b	(2.42)	*StateTax*	-0.0005^b	(2.29)	-0.0009^a	(4.09)
TotPar	-0.0002^a	(5.06)	-0.0002^a	(3.78)	*StateTotPar*	0.0000	(0.62)	0.0001^b	(2.25)
Maturity	0.0034^a	(40.01)	0.0008^a	(4.43)	*StateMedInc*	0.0021^a	(5.11)	0.0013^b	(2.51)
AAA	0.0002^a	(2.93)	0.0001	(0.63)	*StateIncSE*	-0.0037^a	(3.30)	-0.0030^b	(2.39)
OptCallSched	0.0032^a	(26.31)	0.0014^a	(11.22)	*StateDmnd*	0.0000^c	(1.77)	0.0000	(0.66)
ExtraOrdCall	-0.0001	(0.85)	-0.0006^a	(3.87)	*Constant*	-0.0074^a	(11.15)	-0.0031^a	(3.60)
PutOption	-0.0045^a	(4.86)	-0.0008^b	(2.24)					
CredEnh	0.0005^a	(5.14)	0.0002	(1.19)	N	57,500		57,500	
CredEnh$\times I^{TR}$	-0.0001	(0.99)	-0.0001	(0.40)	*adj.* R^2	0.64		0.17	
SinkFund	0.0003^b	(2.35)	0.0003	(1.36)					
OddIntFreq	0.0016^a	(8.31)	0.0004	(1.28)					
OddIntCalc	-0.0005	(0.83)	-0.0005	(1.54)					
GenObl	-0.0003^a	(3.34)	0.0001	(0.71)					

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. The regression model is equation (2). I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 9a: Regressions Describing Transaction Cost by Calendar Quarter

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: $20k								
I^{TR}	-0.0014^{a}	(3.21)	-0.0033^{a}	(6.07)	-0.0015^{a}	(3.94)	-0.0002	(0.44)
$\overline{I^{BA}}$	0.0015^{a}	(3.75)	0.0021^{a}	(4.53)	0.0014^{a}	(3.17)	0.0021^{a}	(5.12)
$I^{TR} \times \overline{I^{BA}}$	0.0006	(1.10)	0.0024^{a}	(2.98)	0.0016^{a}	(2.69)	0.0003	(0.54)
I^{NF}	-0.0006	(1.24)	0.0001	(0.30)	-0.0004	(0.84)	0.0002	(0.50)
$I^{TR} \times I^{NF}$	0.0011^{c}	(1.65)	0.0020^{a}	(2.75)	0.0017^{a}	(2.64)	0.0002	(0.40)
$\overline{I^{BA}} \times I^{NF}$	-0.0001	(0.14)	-0.0002	(0.26)	0.0015^{c}	(1.94)	-0.0010	(1.30)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0003	(0.28)	-0.0027^{b}	(2.12)	-0.0034^{a}	(3.00)	-0.0004	(0.37)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.76		0.62		0.61		0.69	
Panel B: $50k								
I^{TR}	-0.0010^{a}	(3.25)	-0.0021^{a}	(5.18)	-0.0012^{a}	(3.93)	-0.0002	(0.56)
$\overline{I^{BA}}$	0.0013^{a}	(3.98)	0.0024^{a}	(6.19)	0.0013^{a}	(3.98)	0.0017^{a}	(4.99)
$I^{TR} \times \overline{I^{BA}}$	0.0007	(1.60)	0.0013^{b}	(2.12)	0.0014^{a}	(3.15)	0.0007	(1.58)
I^{NF}	-0.0003	(0.93)	0.0001	(0.37)	-0.0001	(0.42)	0.0001	(0.15)
$I^{TR} \times I^{NF}$	0.0009^{c}	(1.75)	0.0015^{a}	(2.58)	0.0011^{b}	(2.26)	0.0001	(0.26)
$\overline{I^{BA}} \times I^{NF}$	-0.0001	(0.14)	-0.0004	(0.68)	0.0012^{b}	(2.06)	-0.0003	(0.43)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0005	(0.54)	-0.0018^{c}	(1.82)	-0.0023^{a}	(2.60)	-0.0005	(0.56)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.75		0.63		0.62		0.71	

This table reports the results from weighted regressions describing the cost of transactions of par value equal to $20,000 and $50,000. The regression model is equation (2). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 9b: Regressions Describing Transaction Cost by Calendar Quarter

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: $100k								
I^{TR}	-0.0008^a	(2.78)	-0.0016^a	(4.64)	-0.0009^a	(3.51)	-0.0002	(0.78)
$\overline{I^{BA}}$	0.0010^a	(3.28)	0.0018^a	(5.30)	0.0011^a	(3.50)	0.0012^a	(3.63)
$I^{TR} \times \overline{I^{BA}}$	0.0007^c	(1.78)	0.0010^c	(1.82)	0.0011^a	(2.74)	0.0009^b	(2.04)
I^{NF}	0.0000	(0.14)	0.0000	(0.03)	-0.0002	(0.61)	0.0003	(0.74)
$I^{TR} \times I^{NF}$	0.0004	(0.93)	0.0014^a	(2.67)	0.0010^b	(2.23)	0.0000	(0.10)
$\overline{I^{BA}} \times I^{NF}$	-0.0005	(0.82)	-0.0003	(0.48)	0.0012^b	(2.03)	-0.0005	(0.70)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.0000	(0.02)	-0.0017^c	(1.94)	-0.0018^b	(2.34)	-0.0005	(0.54)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.71		0.59		0.58		0.67	
Panel B: $1M								
I^{TR}	0.0001	(0.30)	0.0005	(1.43)	-0.0004^c	(1.65)	0.0000	(0.02)
$\overline{I^{BA}}$	0.0000	(0.11)	0.0012^a	(2.82)	-0.0004	(1.35)	-0.0002	(0.43)
$I^{TR} \times \overline{I^{BA}}$	0.0012^b	(2.25)	0.0004	(0.71)	0.0015^a	(3.65)	0.0013^a	(2.58)
I^{NF}	0.0003	(0.75)	0.0011^b	(2.13)	0.0001	(0.21)	0.0006	(1.53)
$I^{TR} \times I^{NF}$	-0.0001	(0.22)	-0.0006	(0.92)	-0.0001	(0.13)	-0.0005	(1.00)
$\overline{I^{BA}} \times I^{NF}$	-0.0007	(0.88)	-0.0017^c	(1.94)	0.0006	(0.68)	-0.0003	(0.52)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.0008	(0.77)	0.0002	(0.18)	-0.0001	(0.10)	0.0005	(0.60)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.22		0.10		0.11		0.19	

This table reports the results from weighted regressions describing the cost of transactions of par value equal to $100,000 and $1,000,000. The regression model is equation (2). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

From:	Bergstresser, Keith - EBSA
To:	Kozora, Matthew [redacted] @SEC.GOV); Piacentini, Joseph - EBSA; Cosby, Chris - EBSA [redacted] @dol.gov); Butikofer, James - EBSA; Beckmann, Allan - EBSA; Buyniski, Brian - EBSA; Decressin, Anja - EBSA [redacted] @dol.gov); Johnson, Lynn - EBSA; Zimmerman, Elaine - EBSA; "Saleh, Basel - EBSA [redacted] @dol.gov)"; Yi, Song G - EBSA; Hartwig, Katherine E - EBSA; Levin, David - EBSA
Cc:	Hunt, Jennifer A. - OSEC
Subject:	Presentation by Matthew Kozora, SEC Economist
Attachments:	SSRN-id2323519.pdf

We will postpone this presentation until next week.

Hello All,

On Thursday, October 17th, we will welcome Matthew Kozora, an economist at the Securities and Exchange Commission, to present his work on "The Effect of Regulatory Regimes on the Provision of Retail Investment Advice." The paper is available at SSRN (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2323519), and I have attached a copy below. Matt's work has close ties to our conflicted advice project, and may have implications for the regulatory impact analysis. I hope others (not involved in the conflicted advice project) will be interested in this work as an example of how to examine the effects of rulemaking.

I do not anticipate having slides for the presentation; Matt will present from the paper.

The Effect of Regulatory Regimes on the Provision of Retail Investment Advice*,**

Matthew L. Kozora

09/09/2013

Division of Economic and Risk Analysis

U.S. Securities and Exchange Commission

Working Paper

Abstract

Broker-dealers and investment advisers are two separate types of financial intermediaries subject to different regulatory regimes that can provide personalized investment advice about securities to investors. In this paper, I investigate whether differences between the broker-dealer regulatory regime and the investment adviser regulatory regime may be significant to retail investment advice by examining the principal transactions of investment grade municipal bonds. The results in this paper indicate that the advice retail investors receive may be dependent on the legal framework governing its provision. In particular, I find evidence of a potential relationship between the standards under which broker-dealers and investment advisers provide advice and the sale of investment grade municipal bonds to retail investors.

Keywords: Retail Investors, Broker-Dealers, Investment Advisers, Fiduciary Standard of Conduct, Municipal Bonds

I. Introduction

Investors can receive personalized investment advice about securities (or "personalized investment advice") from two regulated types of financial intermediaries, broker-dealers and investment advisers, that may provide similar services but are subject to two different and

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*The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author's colleagues upon the staff of the Commission.

**I thank all Commission staff that have assisted in the development of this work, including staff in Division of Economic and Risk Analysis, Division of Trading and Markets, Division of Investment Management, Office of Compliance Inspections and Examinations, and Office of the General Counsel. All mistakes are my own.
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separate regulatory regimes. At the federal level, firms registered as broker-dealers are subject to the Securities Exchange Act of 1934 (or "Exchange Act") and the rules thereunder, and the rules of self-regulatory organizations (or "SROs"), whereas firms registered as investment advisers are subject to the Investment Advisers Act of 1940 (or "Advisers Act") and the rules thereunder. A firm registered as both a broker-dealer and an investment adviser (or "dual registrant firm") may provide both brokerage and advisory services, and depending on whether the account is a brokerage account or an advisory account, be subject to the rules of either regulatory regime.[1]

Little to no research currently exists indicating whether differences between the broker-dealer and the investment adviser regulatory regimes can be significant to the advice retail investors receive in non-discretionary accounts.[2] In this paper, I investigate the effect of regulatory regimes by examining the principal transactions of investment grade municipal bonds.[3] I find evidence that suggests the regulatory regime, in particular the standards under which advice is given, may be significant to the advice retail investors receive.

I use investment grade municipal bonds in this study for two primary reasons. First, retail investors are major participants in the municipal bond market, individually investing in close to one-half of all municipal bonds outstanding.[4] The illiquidity and opacity of the municipal securities market (SEC; 2012a) also increases the importance of a financial agent

[1]A recent study by U.S. Securities and Exchange Commission (SEC) staff on investment advisers and broker-dealers as pursuant to Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (or the "913 Study") provides an in-depth review of the two regulatory regimes.

[2]The focus of this paper is the provision of personalized investment advice in non-discretionary accounts. A non-discretionary account does not provide a financial agent authority to transact securities without the consent of the account holder, whereas a discretionary account grants such authority. Recent estimates place the number of non-discretionary advisory accounts managed by federally registered investment advisers at 5 million, and the number of brokerage accounts at federally registered broker-dealers at 110 million. Both estimates include both institutional and retail accounts. Investment adviser information can be found at www.sec.gov/foia/iareports/inva-archive.htm. The broker-dealer estimate includes both non-discretionary and discretionary accounts, and can be found in SEC (2011). I will refer to advisory clients with non-discretionary accounts as "advisory clients" or "clients," brokerage customers with non-discretionary accounts as "brokerage customers" or "customers," and brokerage customers and advisory clients generally as "investors."

[3]A principal transaction is a transaction where the broker-dealer or investment adviser buys or sells securities for its own account.

[4]The estimate is as of the third quarter 2012, and can be found in the *Flow of Funds Accounts of the United States* statistical release, published by the Federal Reserve.

to provide advice to their customer or client.

Second, I use investment grade municipal bonds to incorporate a regulatory event into the empirical methodology. The regulatory event is the October 2007 adoption of a temporary SEC rule (or "temporary rule"). The temporary rule, among other things, established an alternative set of principal transaction disclosure and consent requirements under the Advisers Act for investment advisers also registered as broker-dealers. Prior to the temporary rule adoption, dual registrant firms typically did not engage in principal transactions with advisory clients, engaging in principal transactions with brokerage customers only.[5] Dual registrant firms adhering to the temporary rule (or "BA firms") began engaging in principal transactions with both brokerage customers and advisory clients. Other firms, including all firms registered solely as broker-dealers and those dual registrant firms not adhering to the temporary rule (or "B firms"), continued to engage in principal transactions with brokerage customers only.[6] The temporary rule, still in effect at the time of this writing, does not permit a firm to rely on the rule for securities that it or an affiliated entity underwrites or issues except for non-convertible investment grade debt. I therefore use municipal bonds of investment grade only to be certain that the temporary rule can apply to all principal transactions in the empirical sample.[7]

The time period of the study is from January 2006 to December 2008. Broadly, I investigate whether regulatory regimes may be significant to the provision of personalized investment advice by comparing the change to the principal transactions of BA firms following the temporary rule adoption with the change to the principal transactions of B firms. If adherence to the temporary rule and the recommendation and transaction of investment

[5]In the initial temporary rule release, the SEC describes discussions with representatives of dual registrant firms regarding the difficulties of complying with the disclosure requirements under Section 206(3) of the Advisers Act (SEC; 2007). Firms explained that they typically did not engage in principal transactions with advisory clients as a result of the operationally restrictive disclosure requirements. The temporary rule has since been extended to December 31, 2014. See Section II.a for further explanation.

[6]I utilize municipal bond transaction data from the Municipal Securities Rulemaking Board (MSRB) Real-time Transaction Reporting System (RTRS). MSRB requires all broker-dealers and municipal securities dealers to report the transactions of municipal securities. Consequently, no firms in the sample are registered solely as investment advisers.

[7]See Section II.a for a further discussion of the temporary rule.

grade municipal bonds subject to the investment adviser regulatory regime is significant, then I may observe a difference in the change in principal transactions between BA firms and B firms as BA firms apply the temporary rule and the investment adviser regulatory regime to activities that would have otherwise been subject to only the broker-dealer regulatory regime.

As part of the empirical methodology, I specifically investigate whether the standard of conduct as required by federal and state law may be significant to the provision of personalized advice to retail investors.[8] At the federal level, an investment adviser is a fiduciary who is to serve in the best interests of its clients, including an obligation not to subordinate the clients' interests for their own and to disclose or eliminate all material conflicts of interest, whereas broker-dealers are required to deal fairly with their customers and in most instances are not considered a fiduciary. At the state level, broker-dealers may be subject to a fiduciary standard of conduct (SEC; 2011).[9]

I refine the broad comparison between BA firms and B firms to the state level, and compare the difference in the change in principal transactions between the two firm classifications between states where broker-dealers may be subject to additional standards of conduct that relate to a fiduciary standard of conduct (i.e., "fiduciary states") and states where broker-dealers are generally not subject to a fiduciary standard of conduct (i.e., "non-fiduciary states"). I assume, similar to the equity "home bias" (Coval and Moskowitz; 1999), that retail investors purchase the bonds of local or within-state municipalities.[10] By assumption, additional state standards of conduct would apply to the principal transactions of the municipal securities relating to the state.

Adherence to the temporary rule by BA firms in non-fiduciary states brought about the

[8]Other differences between the two regulatory regimes include disclosure requirements, supervisory and control procedures, continuing education requirements, and restrictions on advertising and other communications. The investment adviser regulatory regime is also largely principles-based and not predominately rules-based like the broker-dealer regulatory regime.

[9]See Section II.b for a further discussion of standards of conduct.

[10]Exemption from state and local taxes may also induce retail investors to purchase bonds of local or within-state municipalities (SEC; 2012a).

introduction of a fiduciary standard of conduct to the portion of investment grade municipal bond recommendations and transactions with advisory clients that would have otherwise been with brokerage customers, whereas adherence to the temporary rule by BA firms in fiduciary states did not result in a similar introduction of a fiduciary standard of conduct. Regardless of the presence of state fiduciary laws, the standard of conduct governing the recommendation and transaction of investment grade municipal bonds by B firms did not change following the temporary rule adoption as these firms continued to engage in principal transactions with brokerage customers only. Taken together, changes to the principal transactions of BA firms relative to B firms in fiduciary states may relate to the temporary rule and the investment adviser regulatory regime, but not a fiduciary standard of conduct, and changes to the principal transactions of BA firms relative to B firms in non-fiduciary states may relate to the temporary rule and the investment adviser regulatory regime including a fiduciary standard of conduct. An additional difference between BA firms and B firms in non-fiduciary states relative to fiduciary states, therefore, may relate to a fiduciary standard of conduct.

In the first set of tests, I investigate the effect of regulatory regimes on security recommendations by examining the sale of investment grade municipal bonds to retail investors. I do not find evidence indicating a difference in the change in sales to retail investors between BA firms and B firms following the temporary rule adoption in fiduciary states, but I do find evidence of additional sales to retail investors by BA firms relative to B firms in non-fiduciary states. Thus, I find evidence suggesting that a fiduciary standard of conduct may relate to the recommendation and sale of investment grade municipal bonds to retail investors, but no evidence that application of the temporary rule or other aspects of the investment adviser regulatory regime were also significant in explaining retail sales. In additional tests, I find that the relative increase in sales to retail investors by BA firms in non-fiduciary states was most significant soon after the temporary rule adoption. This result suggests that the increase in sales by BA firms in non-fiduciary states may relate more to the temporary rule

adoption and less to other factors which may also had an effect including events relating to the recent financial crisis.

In the second set of tests, I investigate the effect of regulatory regimes on the markup/ markdown on, or the "transaction cost" (Harris and Piwowar; 2006) of, investment grade municipal bonds. The implementation of policies and procedures to adhere to the temporary rule may have led to an increase in the compliance costs of BA firms. The increase in compliance costs may have resulted in higher transaction costs for retail investors who may have less access to pricing information than institutional investors (SEC; 2012a).[11] Research by Green, Hollifield, and Schürhoff (2007a) find evidence of differences in the level of informed trading between retail investors and institutional investors; transactions of smaller size, relating to retail investors, often exhibit less advantageous prices and a greater range of prices than the transactions of larger size, relating to institutional investors. I continue to distinguish bonds by state classification to investigate whether the additional increase in sales to retail investors by BA firms relative to B firms in non-fiduciary states was contemporaneous with an additional change in retail transaction cost.

I find evidence of an increase in transaction cost by BA firms relative to B firms following the temporary rule adoption in fiduciary states, but that the increase in transaction cost was not specific to retail transactions but also present in institutional transactions. Thus, I do not find evidence indicating that adherence to the temporary rule led specifically to additional retail investor transaction costs but instead find evidence of a more systematic change to the cost of all BA firm transactions. I also find evidence indicating an additional decrease in the cost of retail transactions by BA firms relative to B firms following the temporary rule adoption in non-fiduciary states. The time periods in which I find the additional decrease in transaction cost, however, only partially aligns with the time periods in which I find the additional increase in retail sales. Taken together, I do not find sufficient evidence in these

[11]See Section II.a for a further discussion of the requirements of the temporary rule. The markup/ markdown bond traders set on firm inventory, especially for transactions that are more arm's length, presumably would not be dependent on the account type of the investor and the regulatory regime under which the registered representative provides recommendations.

tests to conclude that changes to the regulatory regime stemming from the temporary rule adoption had an effect, either directly or indirectly, on the cost of retail transactions.

The results in this paper only provide suggestive evidence of the effects of regulatory regimes as a result of conducting tests at the firm level and not at the account level. Tests at the account level would require information describing the type of investor account, whether the transaction was solicited or unsolicited, and investor characteristics.[12] Other factors may be important in explaining the test results. I attempt to control for these other factors by comparing principal transactions between time periods, firms, and states, and controlling for differences between bonds, firms, and states with additional explanatory variables.

This is the first paper to empirically investigate the effect of regulatory regimes on the advice retail investors receive. The appropriate standard of conduct for broker-dealers and investment advisers is the subject of an ongoing debate among federal agencies, industry representatives, and investor advocacy groups. Some believe that a uniform fiduciary standard at the federal level applied across broker-dealers and investment advisers would provide additional retail investor protections, whereas others believe that a fiduciary standard of conduct applied to the broker-dealer regulatory regime would increase firm costs with little benefit and would ultimately result in reduced investor access to advice.[13] Examples of firm costs include ongoing costs relating to "back-office" functions, other compliance costs, and litigation costs.

Past research relating to the provision of financial advice typically investigates its net benefit or quality, and investigates only one type of financial agent or makes no distinction. Recent examples include Chalmers and Reuter (2011) who investigate the performance of

[12] The SEC recently requested data and other information relating to the benefits and costs of the standards of conduct and other obligations of broker-dealers and investment advisers (SEC; 2013). Examples of requested data and information include the types of services available to retail investors, the types of securities financial agents offer or recommend, and the costs to financial agents of providing personalized investment advice about securities.

[13] Comments to the 913 Study, including one by Oliver Wyman and the Securities Industry and Financial Markets Association, dated October 27, 2010, and one by State Farm VP Management Corporation, dated August 27, 2010, describe the potential costs of broker-dealers shifting to a fiduciary standard of conduct. All comment letters to the 913 Study and to a subsequent request for information and other data (SEC; 2013) can be found at http://www.sec.gov/comments/4-606/4-606.shtml.

brokerage customer retirement portfolios; and Mullainathan, Nöth, and Schoar (2011) who investigate the quality of investment advice provided by financial agents in an audit study.[14] These examples, as well as other research utilizing international data, indicate that retail investors do not always receive beneficial investment advice.[15] Other research finds conflicts of interest may partially determine the advice investors receive. For example, Bergstresser, Chalmers, and Tufano (2009) find that funds sold through an intermediary underperform funds sold directly to investors, and that the sale of underperforming funds may stem from conflicts of interest as a result of intermediary sales incentives.[16] I find that the advice investors receive may be partially determined by the regulatory regime governing its provision, and that investment advice should be evaluated in this respect.

Although the focus of this paper is on the provision of personalized investment advice, it also contributes to the municipal bond literature investigating municipal securities markets including Harris and Piwowar (2006); Green, Hollifield, and Schürhoff (2007a); Green, Hollifield, and Schürhoff (2007b); Green, Li, and Schürhoff (2010); Li and Schürhoff (2012); and Schultz (2012). I find evidence that the regulatory regime governing the provision of personalized investment advice may be an important determinant in the transaction of these securities, especially with respect to retail investors.

I organize the rest of the paper as follows: Section II provides additional regulatory background information, Section III describes the data, Section IV describes the tests of sales to retail investors, Section V describes the tests of transaction cost, and Section VI concludes.

[14] In relation to this paper, it is unclear whether Mullainathan et al. (2011) conduct audits of broker-dealers, investment advisers, or both. For instance, their use of the term "investment advisers" relates to "retail advisers whom the average citizen can access via their bank, independent brokerages, or investment advisory firms." Thus, their definition of investment adviser seemingly incorporates both broker-dealers and investment advisers.

[15] Examples of research utilizing international data to investigate the quality of investment advice include Bhattacharya, Hackethal, Kaesler, Loos, and Meyer (2012); Fecht, Hackethal, and Karabulut (2010); Bluethgen, Meyer, and Hackethal (2008); Bluethgen, Gintschel, Hackethal, and Müller (2008); Karabulut (2011); Kramer (2009); and Kramer and Lensink (2009).

[16] Other work examining the distribution of mutual funds include Del Guercio and Reuter (2011); Del Guercio, Reuter, and Tkac (2010); and Christoffersen, Evans, and Musto (2013).

II. Regulatory Background

This paper investigates the effect of regulatory regimes on the provision of personalized investment advice to retail investors. The null hypothesis is that the temporary rule and differences between the regulatory regimes do not matter to the principal transactions of investment grade municipal bonds relating to retail investors. The alternative hypothesis is that the temporary rule and differences between the regulatory regimes do matter to the principal transactions of investment grade municipal bonds relating to retail investors. Below, I provide additional background on the temporary rule, the investment adviser regulatory regime, and fiduciary standards of conduct. Figure 1 provides a diagram of the changes to the regulatory regime governing the principal transactions of investment grade municipal bonds by firm and state classification during the sample period.

II.a *Changes to the Regulatory Regime Governing Principal Transactions*

The temporary rule establishes an alternative means for dual registrant firms to meet the requirements under Section 206(3) of the Advisers Act when engaging in principal transactions with non-discretionary advisory clients (SEC; 2007). The temporary rule, adopted in October 2007, was in direct response to a March 2007 court decision (*Financial Planning Association v. U.S. Securities and Exchange Commission*) overturning an SEC rule exempting broker-dealers from the definition of "investment adviser" when charging non-transaction based compensation (or "fee-based" brokerage accounts).[17]

Section 206(3) of the Advisers Act requires an investment adviser to provide written conflict-of-interest disclosure describing its role as principal when transacting securities from its own account and obtain client consent prior to transaction completion. The temporary rule provides a dual registrant firm the option of providing transaction-by-transaction disclosures verbally instead of in writing when engaging in principal transactions with non-

[17]Non-transaction based fees include fees based on the amount of assets under management. A consequence of the court decision was the requirement that dual registrant firms and broker-dealers treat fee-based brokerage accounts as advisory accounts, and that the firms as a result became subject to the restrictions of the Advisers Act when engaging in principal transactions. The temporary rule was adopted so that dually registered advisers could continue to engage in principal transactions with the customers of these accounts.

discretionary advisory clients as long as the firm satisfies additional requirements. Additional requirements of the temporary rule include the provision of a written prospective disclosure to clients describing the conflicts arising from principal transactions, acquisition of written revocable client consent prospectively authorizing such transactions, the provision of transaction-by-transaction confirmations, and the provision of annual reports itemizing the clients' principal transactions thereafter. The temporary rule does not relieve the obligations of the investment adviser regulatory regime including its fiduciary standard of conduct. Moreover, dual registrant firms engaging in principal transactions with advisory clients must also still adhere to the broker-dealer sales practice and best-execution obligations set by the SEC and SROs (SEC; 2007).

There are two primary changes to the regulatory regime governing the recommendation and transaction of investment grade municipal bonds stemming from adherence to the temporary rule which may have led to a change in sales to retail investors and retail transaction cost. The first primary change is the rules and requirements of the temporary rule itself. A dual registrant firm cannot rely on the rule for securities it or an affiliated entity underwrites or issues except for investment grade non-convertible debt. This restriction may have possibly resulted in a shift in sales from other securities to investment grade municipal bonds. Adherence to the temporary rule may have also led to an increase in compliance costs which may have been passed on to investors in the form of higher transaction costs. Compliance costs include the provision of written prospective disclosures, acquisition of written revocable client consent, and the implementation of systems to monitor adherence to the rule.

The second primary change is the application of the rules and requirements of the investment adviser regulatory regime, not including the rules and requirements of the temporary rule, to the recommendation and transaction of investment grade municipal bonds. The provision of personalized investment advice subject to the investment adviser regulatory regime, including a fiduciary standard of conduct, may have led to a change in security

recommendations retail investors receive and the cost of providing advice.[18]

Both primary changes may in some form have contributed to the results found below.[19] The results suggest that the introduction of a fiduciary standard of conduct to the recommendation and transaction of investment grade municipal bonds by BA firms in non-fiduciary states may have led to greater sales to retail investors.

II.b *Standards of Conduct*

At the federal level, investment advisers are fiduciaries to their clients, whereas broker-dealers generally are not fiduciaries to their customers.[20] Both regulatory regimes provide protections to retail investors from abusive practices. Such protections include the obligation to seek best execution on customer or client orders, and the provision of investment advice which is suitable and in the best interests of their customers or clients. As part of a fiduciary duty, investment advisers also have an obligation to place the clients' interests in front of their own and to disclose or eliminate all material conflicts of interest.

In some states, broker-dealers are subject to a fiduciary standard of conduct (SEC; 2011). I assume that in practice standards of conduct, either directly or indirectly, are constraints to

[18]See footnote 13 and related text.

[19]Two other secondary changes may have also led to a change in security recommendations and transaction cost. The first of these secondary changes is the possible change in the number and the characteristics of investors with access to investment grade municipal bonds. As a result of the temporary rule, investment advisers at BA firms have greater ability to recommend certain securities from firm inventory to their advisory clients. If some advisory clients did not have access to these securities such as through additional brokerage accounts prior to the temporary rule adoption, then the adherence to the temporary rule may have changed the population of investors with access to these securities.

The second of these secondary changes is the change in the form of financial agent compensation for those customers transferring assets from fee-based brokerage accounts to commission-based brokerage accounts. Financial agents compensated with commissions may be more inclined to recommend securities not intended to be invested in long-term to collect transaction based fees. On the other hand, financial agents compensated with fees based on the amount of assets under management may be more inclined to recommend securities intended to be invested in long-term to avoid transaction costs.

Both the possible change in the population of investors with access to securities from firm inventory and the form of financial agent compensation would have effects that are more ongoing and that are independent of state fiduciary laws. The results, especially with respect to sales to retail investors, instead indicate that changes to the principal transactions of investment grade municipal bonds is dependent on state classification. It is possible, however, that these secondary changes also had an influence on the test results.

[20]There are differing interpretations as to when broker-dealers have a fiduciary obligation to their customers. The ambiguity stems from a lack of litigated cases impeding the development of case law, variation in customer contracts, and inconsistencies between states (Laby; 2010).

the investment advice financial agents provide. Although firms may not implement control and compliance systems or procedures to address differences in state law, state law may still be important to the provision of personalized investment advice. For instance, in case of customer dispute, federal courts would look to state law to determine the fiduciary obligations of a broker-dealer (Laby; 2010), and arbitrators can apply state laws to determine awards in case of customer arbitration.[21]

III. Data Description

I obtain information describing the business of dual registrant firms and broker-dealers from public SEC filings, municipal bond characteristics from the Mergent Municipal Bond Securities Database (Mergent dataset) and SDC Platinum, municipal bond transaction data from the MSRB RTRS dataset, and state information from various sources.

The time period of study is from January 2006 to December 2008. I use bonds with offering dates between January 2006 and December 2006, and between October 2007 and September 2008. I choose a short time period to accurately test the change in municipal bond transactions while avoiding to the fullest extent possible the impact of the global financial crisis of 2008. I do not include municipal bonds with offering dates within 60 trading days of the court decision, from January 2007 to March 2007, and between the court decision and the temporary rule adoption, from March 2007 to September 2007, due to the legal uncertainty of the time period. Similar to Green et al. (2007a), my sample includes only bond transactions occurring within 60 trading days of the bond offering date. The 60 trading day window allows me to incorporate the municipal bonds that are the most frequently traded and to limit the number of municipal bonds with trading periods that overlap either the court decision or the temporary rule adoption.

[21] Customers of broker-dealers and dual registrant firms, including the advisory clients at dual registrant firms, typically sign pre-dispute arbitration agreements with their financial agent. Training materials from the Financial Industry Regulatory Authority (FINRA), which operates the largest dispute resolution program in the securities industry, guides arbitrators to seek guidance in most cases from the parties involved to determine the applicable law or laws. See *The Neutral Corner*, Volume 3 (2010), published by FINRA, and *Basic Arbitrator Training*, also published by FINRA, for training materials.

III.a *Broker-Dealer and Dual Registrant Firm Information*

The initial sample of broker-dealers (and dual registrant firms) includes all broker-dealers that engaged in a municipal bond transaction during the sample period and that is reported in the MSRB RTRS dataset. I require all firms to file annual SEC Form X-17A-5 audited reports with information encompassing the sample period to ensure that the sample of broker-dealers does not change from before the court decision to after the temporary rule adoption. Form X-17A-5 is a financial and operational report that must be filed by all broker-dealers registered with the SEC, and can be found on the SEC's EDGAR system. I obtain information describing the firm's investment adviser business, if any, from annual SEC Form ADV filings. Investment advisers and dual registrant firms file Form ADV with the SEC to provide general information including the types of clients, compensation arrangements, and advisory activities. Past Form ADV filings can be found on the SEC's Investment Adviser Public Disclosure website.

I classify a firm as a BA firm if it files Form ADV, reports actively engaging in business as a broker-dealer, reports a positive number of non-discretionary advisory accounts, and reports that it engages in principal transactions with advisory clients. BA firms are only potentially adhering to the temporary rule because firms filing Form ADV do not specifically acknowledge adherence to the rule. A B firm either does not file Form ADV, does not report actively engaging in business as a broker-dealer, does not report a positive number of non-discretionary clients, or does not report that it engages in principal transactions with advisory clients. B firms, therefore, could not be relying on the temporary rule. Because firms generally did not engage in principal transactions with non-discretionary advisory clients prior to the temporary rule adoption, I classify firms using information from the time period following the rule adoption only. To obtain a more direct comparison between firms either adhering to the temporary rule or not adhering to the rule, I exclude firms that are not solely classified as either a BA firm or a B firm as of December 2007 and December 2008. There are 95 BA firms and 1,475 B firms that meet all sample requirements.

III.b *Municipal Bond Characteristics*

I obtain bond characteristic information from the Mergent dataset. The Mergent dataset provides security and issue information for 484,256 individual bonds with offering dates between July 2005 and December 2008. I extract bond information from the Mergent dataset including the type and frequency of coupon payments, put options, call options, sinking fund provisions, non-standard interest frequency or interest calculation, credit enhancements, tax status, the type of debt-paying assets, and the use of proceeds. I obtain bond ratings information from SDC Platinum.

I exclude 26,075 individual bonds from the initial sample with missing offering price information, missing or inaccurate total offering amount information, remarketed bonds, and bonds not relating to any of the 50 states or the District of Columbia.[22] To incorporate the Harris and Piwowar (2006) bond model in my analysis, I exclude 16,586 individual bonds with a derivative or warrant feature, and 8,346 individual bonds with non-standard coupon payments (adjustable, floating, flexible, variable, inverse, or index-linked coupons). I also exclude 80,986 individual bonds that are either designated as non-investment grade or with missing ratings information in SDC Platinum to ensure that the temporary rule can apply to all bonds in the sample. There are 352,309 bonds remaining in the sample. Bond issuances are spread evenly throughout the sample period. There are 109,168 investment grade municipal bonds meeting sample requirements with offering dates between January 2006 and December 2006, and there are 89,543 investment grade municipal bonds meeting sample requirements with offering dates between October 2007 and September 2008.

III.c *State Information*

I obtain state law information from Finke and Langdon (2012) who classify states and the District of Columbia into one of three categories based on whether broker-dealers are subject to a fiduciary standard of conduct, a quasi-fiduciary standard of conduct, or no

[22] I search for inaccurate total offering amount information by examining individual bonds with total offering amount less than denomination amount. Often these securities are zero-coupon bonds selling at a discount. However, it can also be indicative of data error. I find only a few such examples.

fiduciary standard of conduct. They base their classification scheme on court decisions and state regulations. It is unclear the extent to which state level fiduciary or quasi-fiduciary standards of conduct relate to the fiduciary standard of conduct of the investment adviser regulatory regime. For instance, Finke and Langdon (2012) note that some quasi-fiduciary states "impose a standard higher than the suitability standard imposed by FINRA for non-discretionary accounts."

From the classification of Finke and Langdon (2012), I define a fiduciary state as a state where broker-dealers are subject to a fiduciary or quasi-fiduciary standard of conduct, and a non-fiduciary state as a state where generally broker-dealers are not subject to a fiduciary standard of conduct. State classifications relate to the standards of conduct governing the provision of advice in non-discretionary accounts. The difference between states is whether broker-dealers are either subject to additional standards of conduct that seemingly relate to a fiduciary standard or are generally not subject to a fiduciary standard of conduct. Table 1 presents a listing of fiduciary states and non-fiduciary states by geographic region. There are 37 fiduciary states and 14 non-fiduciary states. A little more than a quarter of bond issues relate to non-fiduciary states.

I obtain state income information from the U.S. Census Bureau, gross state product statistics from the Bureau of Economic Statistics, and tax information from the Federation of Tax Administrators. I incorporate the information in the regressions below to control for state level economic differences.

III.d *Municipal Bond Transaction Data*

I obtain municipal bond transaction data from the MSRB RTRS dataset. The dataset contains information for all municipal bond transactions from July 2005 to March 2009. Each observation provides information regarding bond cusip, trade date, time of trade, settlement date, bond price, par value, and transaction commissions. The dataset also contains fields identifying the transacting broker or brokers, the type of transaction (between two dealers or a dealer and a customer, sale or purchase), and dealer capacity (principal or agent). The

dataset does not contain information describing the type of investor engaging in customer transactions (institutional or retail), the type of customer account (brokerage or advisory), and whether the transaction was solicited or unsolicited. There are 5,382,087 observations relating to the principal transactions of sample investment grade municipal bonds in the final sample. In Appendix A.1, I describe measures to clean the dataset for missing or inaccurate trade dates, inaccurate prices, managed account transactions, and other possible data errors.

Table 2 presents the amount of investment grade municipal bond customer principal transactions relating to firms in the final sample. The table includes four panels presenting the total number and value of all customer transactions (Panel A), the total number and value of all sales to customers (Panel B), the total number and value of all sales to customers less than or equal to $50,000 (Panel C), and the total number and value of all sales to customers less than or equal to $20,000 (Panel D). I use sales to customers less than or equal to $50,000 and less than or equal to $20,000 to proxy for sales to retail investors. In each panel the table also presents transaction information by firm classification. In no year did B firms engage in more customer transactions or sales to customers than BA firms. Considering the number of BA firms to B firms, the comparison in customer transactions and sales highlights the difference in trading activity between the two classifications of firms.

IV. Tests of Municipal Bond Sales

IV.a *Empirical Model*

In the first set of tests, I investigate the effect of regulatory regimes on security recommendations by examining the sale of investment grade municipal bonds to retail investors. I define a transaction as a "retail transaction" if the par amount is less than or equal to $50,000. Alternatively, I define a transaction as a retail transaction if the par amount is less than or equal to $20,000. Evidence by Green et al. (2007a) indicates that sales to customers of smaller par amount exhibit greater average markups and intraday price dispersion than sales to customers of larger par amount. The greater price dispersion among smaller trans-

actions is akin to a set of investors, such as retail investors, with varying access to pricing information.

I estimate regressions at the individual bond level, measuring the sale of investment grade municipal bonds to retail investors with *ParSale*, equal to the net par sold to retail investors, and *NumSale*, equal to the net number of sales to retail investors. I include two sets of explanatory variables in the regression. Similar to the difference-in-difference-in-differences empirical methodology, the first set of explanatory variables controls for the time period of the bond offering date (either before the court decision or after the temporary rule adoption), the classifications of firms engaging in customer sales (either BA or B), and the state classification relating to the bond (either non-fiduciary or fiduciary). The variables include

- I^{TR} - an indicator variable equal to 1 if the offering date of the bond is after the temporary rule adoption, and 0 if the offering date of the bond is before the court decision
- $\overline{I^{BA}}$ - a continuous variable with a range between 0 and 1 equal to the average of I^{BA} (an indicator variable equal to 1 if a BA firm engages in the bond sale, and 0 if a B firm engages in the bond sale) for all firms engaging in at least one customer sale regardless of par amount[23]
- I^{NF} - an indicator variable equal to 1 if the bond relates to a non-fiduciary state, and 0 if the bond relates to a fiduciary state
- interaction terms between I^{TR}, $\overline{I^{BA}}$, and I^{NF} - $I^{TR} \times \overline{I^{BA}}$, $I^{TR} \times I^{NF}$, $\overline{I^{BA}} \times I^{NF}$, and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$

[23] I weight the average with the total par amount of firm customer sales. I average I^{BA} using all firms engaging in at least one customer sale regardless of transaction size instead of firms engaging in at least one retail sale to measure the classifications of firms that could have engaged in a retail sale. $\overline{I^{BA}}$ is undefined for bonds with no customer sales. These bonds are therefore not in the regression sample.

The second set of explanatory variables controls for differences between firms, bonds, and states that could also be important in explaining retail sales. The potential amount of bond sales to retail investors should relate to the trading activity of the firms engaging in customer sales. I control for firm trading activity with a quarterly measure of net firm customer sales (*CSales*) averaged at the bond level similar to $\overline{I^{BA}}$ ($\overline{CSales}$). I also control for differences between bonds by including variables describing the total par offering amount (*TotPar*), bond maturity (*Maturity*), and other bond characteristics (see Appendix A.2).

Assuming that retail investors purchase the bonds of within-state municipalities, economic differences between states could also be important in explaining retail sales. I control for differences in income distributions with annual median income (*StateMedInc*) and annual income standard error (*StateIncSE*). I also control for differences in investor demand (*StateDmnd*) equal to the natural log of the product of state GDP and the maximum of personal, corporate, and bank state tax rates (Harris and Piwowar; 2006). Lastly I include aggregate state level total par offering amount (*StateTotPar*) to control for recent bond issuance activity.

I rescale *ParSale*, $\overline{CSales}$, *TotPar*, *StateMedInc*, *StateIncSE*, and *StateTotPar*, by dividing each variable by 10,000 and then taking the natural log of one plus the scaled value. I also rescale *NumSale* and *Maturity* by taking the natural log of one plus its value. I lag $\overline{CSales}$, *TotPar*, *StateTotPar*, *StateMedInc* *StateIncSE*, and *StateDmnd* to the quarter or year prior to the bond offering date. In equation form, I estimate the following regression

$$\begin{aligned} Y_i \quad = \quad & \beta_0 + \beta_1 I_i^{TR} + \beta_2 \overline{I_i^{BA}} + \beta_3 \left(I_i^{TR} \times \overline{I_i^{BA}} \right) \\ & + \beta_4 I_i^{NF} + \beta_5 \left(I_i^{TR} \times I_i^{NF} \right) + \beta_6 \left(\overline{I_i^{BA}} \times I_i^{NF} \right) \\ & + \beta_7 \left(I_i^{TR} \times \overline{I_i^{BA}} \times I_i^{NF} \right) + \boldsymbol{\beta} \mathbf{X}_i \; + \varepsilon_i \end{aligned} \tag{1}$$

where Y represents either *ParSale* or *NumSale*, β represents model parameters, $\mathbf{X}$ represents

the set of additional control variables, ε represents model error, and i indexes bonds.[24] I estimate both regressions using a tobit model that specifies censored observations at 0. I exclude individual bond observations with net par sold or net number of sales less than 0. With these observations, I am likely either missing transactions as a result of excluding firms not meeting sample requirements or miscategorizing transactions as relating to either retail or institutional customers.[25] I calculate t-statistics with standard errors clustered at the 6-digit cusip level to account for correlations in the error term at the level of the municipality. There are 157,116 observations relating to individual bonds in the regressions describing net sales less than or equal to \$50,000, and there are 157,979 observations relating to individual bonds in the regressions describing net sales less than or equal to \$20,000.

Two of the explanatory variables are of particular interest. The first variable of interest, $I^{TR} \times \overline{I^{BA}}$, controls for the change in retail sales following the temporary rule adoption in fiduciary states (setting I^{NF} equal to 0) dependent on the classification of firms engaging in bond customer sales. A significant regression parameter estimate corresponding to this variable indicates that the retail sale of a bond following the temporary rule adoption is dependent on the classifications of firms engaging in customer sales, and suggests that the temporary rule or the investment adviser regulatory regime, but not a fiduciary standard of conduct, may influence security recommendations.

The second variable of interest, $I^{TR} \times \overline{I^{BA}} \times I^{NF}$, controls for the additional change in retail sales following the temporary rule adoption in non-fiduciary states (setting I^{NF} equal to 1) dependent on the classification of firms engaging in customer sales. A significant regression parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicates that there is an additional effect following the temporary rule adoption in the relationship between retail sales and the classifications of firms engaging in customer sales in non-fiduciary states, and

[24] I also include state fixed effects in an alternative regression specification. I find little difference in the results.

[25] I exclude 3,444 observations with either negative net retail or institutional sales (see Section IV.c) when the retail transaction threshold is set at \$50,000, and I exclude 2,473 observations with either negative net retail or institutional sales when the retail transaction threshold is set at \$20,000.

suggests that a fiduciary standard of conduct may influence security recommendations.

IV.b *Results*

Table 3a presents model estimates for regression equation (1) when the retail transaction threshold is set at \$50,000, and Table 3b presents model estimates for regression equation (1) when the retail transaction threshold is set at \$20,000. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ are insignificant in all regressions, whereas the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are positive and significant at the 95% confidence level in all regressions. The sign and significance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicate an additional increase in retail sales by BA firms relative to B firms in non-fiduciary states following the temporary rule adoption, and suggests that a fiduciary standard of conduct may relate to the retail sale of investment grade municipal bonds. The insignificance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ indicate that I do not find evidence in this empirical setting that the temporary rule or other aspects of the investment adviser regulatory regime may also explain retail sales following the rule adoption.

Among the other control variables, I find that average firm customer sales, bond total par offering amount, and bond maturity are positive and significant determinants of retail sales, whereas other bond characteristics including sinking fund provisions, odd interest payment frequency, and federal and state taxes are negative and significant. In general, the sign and significance of the bond characteristic variables reflects the inclination of financial agents to avoid recommending and selling municipal bonds to retail investors with disadvantageous or complex features. I also find that state median income and investor demand are also positive and significant determinants of retail sales.

I estimate the possible economic significance of a fiduciary standard of conduct by subtracting the change in the unconditional expected value of *ParSale* and *NumSale* for a bond sold entirely by BA firms in non-fiduciary states with (a) the same change for a bond sold entirely by B firms in non-fiduciary states, and with (b) the same change for a bond sold

entirely by BA firms in fiduciary states. I calculate the unconditional expected amount of retail sales for a bond sold either entirely by BA firms or by B firms to obtain the most direct comparison between firm and state classifications as possible. In equation form, I estimate

$$\underbrace{(E[Y_{1,1,1}] - E[Y_{0,1,1}])}_{\Delta \text{ BA/non-fiduciary}} - \underbrace{(E[Y_{1,0,1}] - E[Y_{0,0,1}])}_{\Delta \text{ B/non-fiduciary}} - \underbrace{(E[Y_{1,1,0}] - E[Y_{0,1,0}])}_{\Delta \text{ BA/fiduciary}}$$

where Y represents either *ParSale* or *NumSale*, the first subindex of Y represents the value of I^{TR}, the second subindex of Y represents the value of $\overline{I^{BA}}$, and the third subindex of Y represents the value of I^{NF}. The first comparison, retail sales relating to B firms in non-fiduciary states, accounts for the change in expected retail sales in non-fiduciary states, and the second comparison, retail sales relating to BA firms in fiduciary states, accounts for the change in expected retail sales by BA firms. Neither comparison accounts for the change in bond sales as a result of an introduction of a fiduciary standard of conduct, such as with BA firms in non-fiduciary states, to a portion of security recommendations that would otherwise have not been subject to such a standard. The full difference, therefore, measures the potential effect of a fiduciary standard of conduct to the recommendation and sale of investment grade municipal bonds. To obtain a relative measure, I benchmark the full difference to the unconditional expected value of the dependent variables for a bond sold entirely by BA firms in non-fiduciary states prior to the court decision ($E[Y_{0,1,1}]$).

Table 4 presents the estimates of economic significance. When the retail transaction threshold is set at \$50,000, I find that a fiduciary standard of conduct may lead to an 8.3% increase in *ParSale* and a 9.2% increase in *NumSale* per bond, and when the retail transaction threshold is set at \$20,000, I find that a fiduciary standard of conduct may lead to a 16.4% increase in *ParSale* and a 16.0% increase in *NumSale* per bond. The influence of a fiduciary standard of conduct on security recommendations does not necessarily imply that the recommendations are necessarily "better," but does imply that the recommendations are different. For example, there is a trade-off between having securities in brokerage accounts

where generally the financial agent has no continuing obligation after providing investment advice but also does not charge ongoing fees, and having securities in advisory accounts where more typically the financial agent has agreed to a continuing obligation after providing investment advice but charges fees based on assets under management.[26] The decision to have long term assets in advisory accounts instead of brokerage accounts may therefore prove to be more costly in the long run.

IV.c *Extensions*

The time period of the study overlaps events relating to the recent financial crisis which may also have had an effect on the recommendation and sale of investment grade municipal bonds. For instance, bonds with offering dates from July 2008 to September 2008 have 60 trading day windows that overlap the bankruptcy of Lehman Brothers in September 2008. To investigate whether other events may have also led to a change in retail sales following the temporary rule adoption, I partition the full regression sample into calendar quarters and reestimate regression equation (1). That is, I reestimate regression equation (1) using bonds with offering dates either in the fourth quarter of 2006 and in the fourth quarter of 2007 (the first quarter following the temporary rule adoption), in the first quarter of 2006 and in the first quarter of 2008, in the second quarter of 2006 and in the second quarter of 2008, or in the third quarter of 2006 and the third quarter of 2008 (the fourth quarter following the temporary rule adoption). I partition the regression sample by calendar quarter to control for the effect of seasonal trends. If the results in the first set of tests relate to the adoption of the temporary rule, then I should find similar evidence either soon after the temporary rule adoption or throughout the post-event time period.

Table 5a presents the abbreviated regression results when the retail transaction threshold is set at $50,000, and Table 5b presents the abbreviated regression results when the retail

[26] Whether a broker-dealer or investment adviser has continuing obligations is dependent on the contractual arrangement with the customer. Over 95% of investment advisers charge fees based on the percentage of assets under management and less than 10% of investment advisers charge transaction based compensation (SEC; 2011).

transaction threshold is set at $20,000. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are positive and statistically significant in the regressions describing the retail sale of bonds with offering dates in the first quarter and in the second quarter following the temporary rule adoption, and are insignificant in the regressions describing the retail sale of bonds with offering dates in the third quarter and in the fourth quarter. These results indicate that if a fiduciary standard of conduct was significant in resulting in additional investment grade municipal bond retail sales, then it was most significant shortly after the rule adoption and before the potential influence of other events. I also only find strong evidence that $I^{TR} \times \overline{I^{BA}}$ is statistically significant in the regressions describing retail sales of bonds with offering dates in the second quarter. Thus, I do not find evidence of a trend that could relate to the temporary rule or other aspects of the investment adviser regulatory regime.

As a comparison to retail sales, I reestimate regression equation (1) but instead model institutional sales. I define a customer transaction as an "institutional transaction" if the par amount is strictly greater than $50,000. The additional increase in retail sales by BA firms relative to B firms in non-fiduciary states following the temporary rule adoption could be the result of a relative overall increase in the sale of these securities by BA firms and may not pertain specifically to retail investors. I reestimate regression equation (1) using the full regression sample and the regression sample partitioned by calendar quarter.

Table 6 presents the regression results when I use the full regression sample. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ are positive and statistically significant in both regressions, and that only in the regression describing *ParSale* is the parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ statistically significant albeit negative. These results suggest that although there was an increase in institutional sales by BA firms relative to B firms following the temporary rule adoption, the change in institutional sales dependent on the classification of firms engaging in customer sales was more positive for bonds relating to fiduciary states than to non-fiduciary states. Although a relationship potentially exists

between retail and institutional sales, these results suggest that the relative increase in retail sales by BA firms in non-fiduciary states is not reflective of an overall trend relating to these firms and securities. Table 7 presents the abbreviated regression results when I separate bond observations by calendar quarter. Similar to the quarterly regressions describing retail sales, and further evidence of a potential relationship between retail and institutional sales, I find that parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are significant in the regressions describing the institutional sale of bonds with offering dates in the first quarter and in the second quarter following the temporary rule adoption, and insignificant in the regressions describing the institutional sale of bonds with offering dates in the third quarter and in the fourth quarter.

V. Tests of Retail Transaction Cost

V.a *Empirical Model*

In the second set of tests, I investigate the effect of regulatory regimes on the transaction cost of investment grade municipal bonds. I utilize the Harris and Piwowar (2006) methodology to measure transaction cost.[27] The model describes bond price as a function of bond value, transaction cost, and interdealer price concession. The authors model transaction cost as a three term function. From this cost function, I obtain estimates of transaction cost at the individual bond level for transactions of par value equal to \$20,000, \$50,000, \$100,000, and \$1,000,000. Cost estimates of transactions of par value equal to \$20,000 and \$50,000 relate more to the cost of retail transactions, and cost estimates of transactions of par value equal to \$100,000 and \$1,000,000 relate more to the cost of institutional transactions.

To investigate the effect of regulatory regimes on transaction cost, I regress estimates of transaction cost on variables controlling for firm classification, the time period of the bond offering, the state classification relating to the bond, and other potential determinants of transaction cost including bond characteristics and state level variables. The additional variables in the cost function are similar to the explanatory variables that I use to explain

[27]See Appendix A.3 for a description of the methodology.

customer sales in Section IV. However, I respecify $\overline{I^{BA}}$ and $\overline{CSales}$ to take into consideration the utilization of each customer transaction to estimate transaction cost. I now define the variable $\overline{I^{BA}}$ as the non-weighted average of I^{BA} of all customer transactions, both purchases and sales, and $\overline{CSales}$ as the non-weighted average of the aggregate par amount of all firm customer transactions ($\overline{CTrans}$). I estimate the following regression

$$\begin{aligned}\widehat{C}_{S,i} &= \beta_0 + \beta_1 I_i^{TR} + \beta_2 \overline{I_i^{BA}} + \beta_3 \left(I_i^{TR} \times \overline{I_i^{BA}}\right) \\ &\quad + \beta_4 I_i^{NF} + \beta_5 \left(I_i^{TR} \times I_i^{NF}\right) + \beta_6 \left(\overline{I_i^{BA}} \times I_i^{NF}\right) \\ &\quad + \beta_7 \left(I_i^{TR} \times \overline{I_i^{BA}} \times I_i^{NF}\right) + \boldsymbol{\beta}\mathbf{X}_i + \varepsilon_i \end{aligned} \tag{2}$$

where $\widehat{C}$ represents cost estimates and S represents transaction size.[28] I incorporate the Bayesian shrinkage estimator of Harris and Piwowar (2006) to calculate the variance of cost estimates, and weight regression observations with the inverse of the variances. I calculate t-statistics with standard errors clustered at the 6-digit cusip level to account for correlations in the error term at the level of the municipality. There are 57,540 individual bonds that meet the requirements of the Harris and Piwowar (2006) model, and 57,500 observations relating to individual bonds that are in the regression sample.

Similar to the regressions in Section IV, the two variables of interest are $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$. A significant regression parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}}$ indicates a change in transaction cost following the temporary rule adoption in fiduciary states dependent on the classification of firms engaging in bond customer transactions. Significance of this variable suggests, especially for estimates of retail transaction cost, that the costs relating to compliance of the temporary rule may have resulted in an increase in the cost of BA firm transactions. A significant regression parameter corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicates an additional change in transaction cost in non-fiduciary states following the temporary rule adoption dependent on the classification of firms engaging in

[28] I also include state fixed effects in an alternative regression specification. I find little difference in the results.

bond customer transactions. The results in the first set of tests indicate an additional increase in retail sales by BA firms relative to B firms in non-fiduciary states. It is possible that this additional increase in retail sales is also contemporaneous with a change in retail transaction cost.

V.b *Results*

Similar to Harris and Piwowar (2006), I find that customer transaction cost decreases as transaction size increases. For example, average transaction cost weighted by the inverse of cost estimate variance ranges from 87 basis points for transactions of \$20,000, to 77 basis points for transactions of \$50,000, to 63 basis points for transactions of \$100,000, and to 21 basis points for transactions of \$1,000,000. These estimates are similar to Harris and Piwowar (2006) who find that average customer transaction cost ranges from 99 basis points for transactions of \$20,000, to 77 basis points for transactions of \$50,000, to 62 basis points for transactions of \$100,000, and to 24 basis points for transactions of \$1,000,000.

Table 8a presents model estimates for regression equation (2) describing the cost of transactions of par value equal to \$20,000 and \$50,000, and Table 8b presents model estimates for regression equation (2) describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. I find that $I^{TR} \times \overline{I^{BA}}$ is a positive and significant determinant of transaction cost in all four regressions, and that $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ is a negative and significant determinant in regressions describing the cost of transactions of par value equal to \$20,000, \$50,000, and \$100,000. The significance and similar magnitude of parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ in all four regressions suggests that the additional change in transaction cost dependent on the classification of firms engaging in customer transactions may not relate to the temporary rule but instead to other factors that would have a more systematic effect on the cost of all transactions regardless of size. The sign and significance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicate an additional decrease in retail transaction cost for those bonds relating to non-fiduciary states and with a greater proportion of transactions by BA firms. Although this additional decrease is greater for transactions relat-

ing more to retail investors, the tests below indicate that it may not relate to the additional increase in retail sales found in Section IV.

Among the other control variables, bond characteristics that are positive and significant determinants of retail transaction cost include bond maturity, optional call schedules, odd interest payment frequency, and state median income. Credit enhancements are also positively and significantly related to retail transaction cost, but more so prior to the temporary rule adoption than after; although the credit enhancement indicator variable is positive and statistically significant, the interaction term between the credit enhancement indicator variable and I^{TR} is negative and statistically significant. Retail transaction cost is also lower for bonds with total par offering amount. The sign and significance of many of the control variables are similar to the findings of Harris and Piwowar (2006).

V.c *Extension*

To investigate whether other events could relate to the changes in transaction cost following the temporary rule adoption, I again partition the full regression sample into calendar quarters and reestimate regression equation (2). In each one of the regressions, the variables of interest are again $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$.

Table 9a presents the abbreviated regression results describing the cost of transactions of par value equal to \$20,000 and \$50,000, and Table 9b presents the abbreviated regression results describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. I find that $I^{TR} \times \overline{I^{BA}}$ is positive in all regressions, and significant in at least one regression relating to each transaction size and quarter. On the other hand, I find that $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ is negative and statistically significant in the regressions describing the transaction cost of bonds with offering dates in the second quarter and in the third quarter following the temporary rule adoption. This result indicates that the time periods in which I find an additional decrease in retail transaction cost by BA firms relative to B firms in non-fiduciary states only partially overlaps the time periods in which I find an additional increase in retail sales. These two results, therefore, may not be related. Taken together, I do not find

enough evidence to conclude that changes to the regulatory regime governing the principal transactions of investment grade municipal bonds relate to changes in transaction cost that is specific to retail investors.

VI. Conclusion

This paper is a first step in determining the importance of regulatory regimes to the provision of personalized investment advice about securities to retail investors. Broker-dealers and investment advisers may provide many of the same services yet are subject to two different legal frameworks. The results in this paper indicate that differences between the two regulatory regimes may be important to the advice retail investors receive.

This paper investigates just one aspect of the many services broker-dealers and investment advisers may provide. Although I utilize transaction level data, regulatory events, and additional information like state laws, the lack of account level information limits the efficacy of the empirical methodology. Both regulators and researchers would greatly benefit from information describing investor demographics, account characteristics, the types of security investments, and security returns. Such information can not only provide a more meaningful description of a market characterized by information asymmetries, but also an industry that is vital to the financial well-being of many retail investors.

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Appendix

A.1 *MSRB RTRS Dataset*

There are 35,169,982 transaction observations in the MSRB dataset from July 2005 to December 2008.[29] The dataset reduces to 11,065,403 observations after I exclude bonds with missing issuance or bond information on Mergent, and bonds not meeting sample requirements (see Section II.b), and further reduces to 6,046,632 observations after I exclude transactions with missing trade date, time of trade, transaction price, and par amount information; inaccurate trade date information; and transactions with trade dates not within 60 trading days of the bond offering date.

I also exclude managed account transactions, or where an intermediary acts on the behalf of multiple customers and allocates securities across accounts. These transactions may appear in the dataset as a contemporaneous purchase and then sale to multiple customers at the same time and price with equal par amounts. There are 5,993,465 observations after combining multiple transactions with these similarities to one.

I identify observations with inaccurate transaction prices by comparing the price of an observation to the offering price of the bond and the prices of transactions that immediately precede and follow the observation. For each comparison price (relating to the offering price, the transaction price immediately preceding the observation, and the transaction price immediately following the observation), I calculate a measure equal to the absolute value of the observation price minus the comparison price, all divided by the observation price. I then separately rank each one the three sets of comparison measures. I classify a price as inaccurate with respect to one of the three comparison prices if it ranks in the top 0.05%. I choose 0.05% by examining outliers in the remaining sample when the threshold ranges from 0.01% to 0.1%.

[29] After August 2007, the original dataset separates each interdealer transaction into two observations. However, the original dataset also contains a field assigning each interdealer transaction an identification code. I use the identification code to combine the duplicate interdealer transactions. If I cannot match interdealer transactions on identification code, then I match on trade information. I assume the remaining interdealer transactions are non-duplicative.

I delete all individual observations from the sample where each one of the three comparison measures classify as inaccurate and the prices of the transactions immediately following and preceding the observation are also not inaccurate with respect to the next closest transaction. I also exclude all observations relating to a particular bond if an individual observation is inaccurate with respect to the offering price but I cannot delete it from the sample. This can occur when bond prices are inaccurate with respect to the offering price in consecutive transactions. I exclude 5,911 observations from the sample using this methodology, and I also exclude an additional 40,487 observations with bond price less than or equal to 0.01.

I also clean the dataset using par value traded information. I exclude observations with par value traded greater than total par offering amount. I also identify duplicate observations in the dataset by aggregating the par value traded to customers. I consider identical observations to be duplicate if the total par value sold to customer accounts is greater than the total par offering amount by the par value traded. I exclude 369 transactions that are duplicate and 2,209 observations with par traded greater than total par offering amount. Past researchers have taken additional steps to refine the MSRB transaction dataset. The additional refinements, however, impose additional assumptions on the dataset. There are 5,944,489 observations before excluding additional observations relating to agency transactions, and bonds that are not investment grade from the final sample.

A.2 *Bond Characteristic Variables*

The following is a list of bond characteristic indicator variables that I use in the regressions as explanatory variables. I define each variable with information from the Mergent dataset.

- *AAA* - equal to 1 if the bond has an investment grade rating of AAA, 0 otherwise
- *OptCallSched* - equal to 1 if the bond has an optional call schedule, 0 otherwise
- *ExtraOrdCall* - equal to 1 if the bond issue is subject to an extraordinary call, 0 otherwise

- *PutOption* - equal to 1 if the bond has a put option, 0 otherwise
- *CredEnh* - equal to 1 if the bond has either additional credit or bond insurance, 0 otherwise
- *SinkFund* - equal to 1 if the bond has a sinking fund provision, 0 otherwise
- *OddIntFreq* - equal to 1 if the frequency of interest payments is not semi-annual, 0 otherwise
- *OddIntCalc* - equal to 1 if the interest calculation is not 30 days per month by 360 days per year, 0 otherwise
- *GenObl* - equal to 1 if the security is a general obligation bond, 0 otherwise
- *RevBond* - equal to 1 if the security is a revenue bond, 0 otherwise
- *GenPurp* - equal to 1 if the security is for general purpose or public improvement, 0 otherwise
- *Education* - equal to 1 if the use of proceeds relates to higher education, primary and secondary education, and other education; 0 otherwise
- *Utility* - equal to 1 if the use of proceeds relates to public utilities including power, gas telephone, water, and waste; 0 otherwise
- *Health* - equal to 1 if the use of proceeds relates to hospitals, nursing homes, and other healthcare; 0 otherwise
- *CertPart* - equal to 1 if the type of debt is a certificate of participation, 0 otherwise
- *FedTax* - equal to 1 if the maturity is taxable at the federal level, 0 otherwise
- *StateTax* - equal to 1 if the maturity is taxable by the state of issue, 0 otherwise

I also include an interaction term between *CredEnh* and I^{TR} ($CredEnh \times I^{TR}$) to control for the potential change to the influence of credit enhancements on bond transactions as a result of the financial crisis.

A.3 *Harris and Piwowar (2006) Methodology*

I follow Harris and Piwowar (2006) and model bond price P as a function of bond value V, investor transaction cost C, and interdealer price concession δ. Transaction cost is dependent on whether the bond transaction is a dealer sale to a customer, a dealer purchase from a customer, or an interdealer transaction. To incorporate differences in transaction type, investor transaction cost is interacted with variable Q, equal to 1 if the transaction is a dealer sale to a customer, equal to -1 if the transaction is a dealer purchase from a customer, and equal to 0 if the transaction is an interdealer trade. Interdealer price concession δ is interacted with an indicator variable I^D, equal to 1 if the trade is an interdealer trade, and equal to 0 otherwise. In equation form, the price for bond i at time t is

$$P_{it} = V_{it} + Q_{it} P_{it} C_{it} + I^D_{it} P_{it} \delta_{it}$$

After taking the natural log of both sides of the bond price equation, the price equation for bond i at time t is subtracted from the price equation for bond i at time s. Following the approximations made by Harris and Piwowar (2006), the equation for the difference in bond price from time s to time t is

$$r^P_{its} = r^V_{ts} + Q_{it} C_{it} - Q_{is} C_{is} + I^D_{it} \delta_{it} - I^D_{is} \delta_{is}$$

where r^P represents the difference in the natural log of bond price and r^V represents the difference in the natural log of bond value. I define time s using the most recent bond trade, either customer or interdealer, prior to the trade at time t. If more than one bond transaction occurs at time s, then I use the bond transaction with greatest par value to calculate returns for transactions that occur at time t. Large transactions, typically involving institutional investors, are likely to provide more information than small transactions, possibly involving

retail investors. If more than one transaction occurs at time t, then time s is equal to time t. In this instance, I use the transaction with the greatest par amount to calculate differences in the natural log of bond price.

Harris and Piwowar (2006) model the difference in the natural log of bond value between the two trades as

$$r^V_{its} = N^{CalDay}_{ts}(5\% - Coupon_i) + \beta^V_1 AvgSL_{ts} + \beta^V_2 DiffSL_{ts} + \gamma_{its}$$

where N^{CalDay}_{ts} represents the number of calendar days between time s and time t, (5%-*Coupon*) represents the difference between the bond's coupon interest rate and 5%, *AvgSL* represents the average in and *DiffSL* represents the difference between short-term and long-term index returns, and γ is model error. The difference between the bond's coupon rate and 5%, in units of one calendar day, measures the return a trader would expect between trade dates when interest rates are constant. The expression of all bond returns in this manner, including when calculating bond index returns, should not affect the results. The error term γ has mean zero and variance equal to $N^{TrdSes}_{ts}\sigma^2_{TrdSes}$ where N^{TrdSes}_{ts} represents the number of trading sessions from time s to time t. I estimate index returns using a repeat sales regression methodology (Case and Shiller; 1987).[30]

Harris and Piwowar (2006) model transaction cost as a three or four term function. The primary cost function in their analysis is

$$C_i = c_0 + c_1 S_i^{-1} + c_2 \ln S_i + \kappa_i$$

where c_0, c_1, and c_2 represent model parameters; S represents transaction size; and κ represents model error. They motivate the equation as one part that controls for cost as a proportion of transaction size (c_0), one part that controls for fixed costs per trade, ($c_1 S^{-1}$), and one part that controls for cost as it varies with transaction size ($c_2 \ln S$).

The bond price equation is modeled separately for each bond. The full bond price

[30] See Appendix A.4 for a full explanation of the repeat sales regression methodology.

equation is

$$r^P_{its} - N^{CalDay}_{ts}(5\% - Coupon_i) = \beta^V_1 AvgSL_{ts} + \beta^V_2 DiffSL_{ts} + Q_{it}C_{it} - Q_{is}C_{is} + \eta_{its} \quad (3)$$

where η repesents model error. The error term η can be expressed as

$$\eta_{its} = \gamma_{its} + I^D_{it}\delta_{it} - I^D_{is}\delta_{is} + Q_{it}\kappa'_{it} - Q_{is}\kappa'_{is}$$

with zero mean and variance, σ^2_η, that can be expressed as

$$\sigma^2_\eta = N^{TrdSes}\sigma^2_{TrdSes} + D_{ts}\sigma^2_\delta + (2 - D_{ts})\,\sigma^2_\kappa$$

where D_{ts} is equal to the number of interdealer transactions between each of the two trades (0, 1 or 2), σ^2_δ represents the variance of δ, and σ^2_κ represents the variance of κ.

I follow Harris and Piwowar (2006) and use an iterated least squares methodology to estimate parameter estimates of equation (3) with weights equal to the inverse of σ^2_η estimates. Estimates of σ^2_η are obtained by pooling error terms from equation (3) and regressing the square of these error terms on N^{TrdSes}, D_{ts}, and $(2 - D_{ts})$. The parameters multiplying N^{TrdSes}, D_{ts}, and $(2 - D_{ts})$ are constrained to be strictly greater than zero.

A.4 *Repeat-Sale Regression*

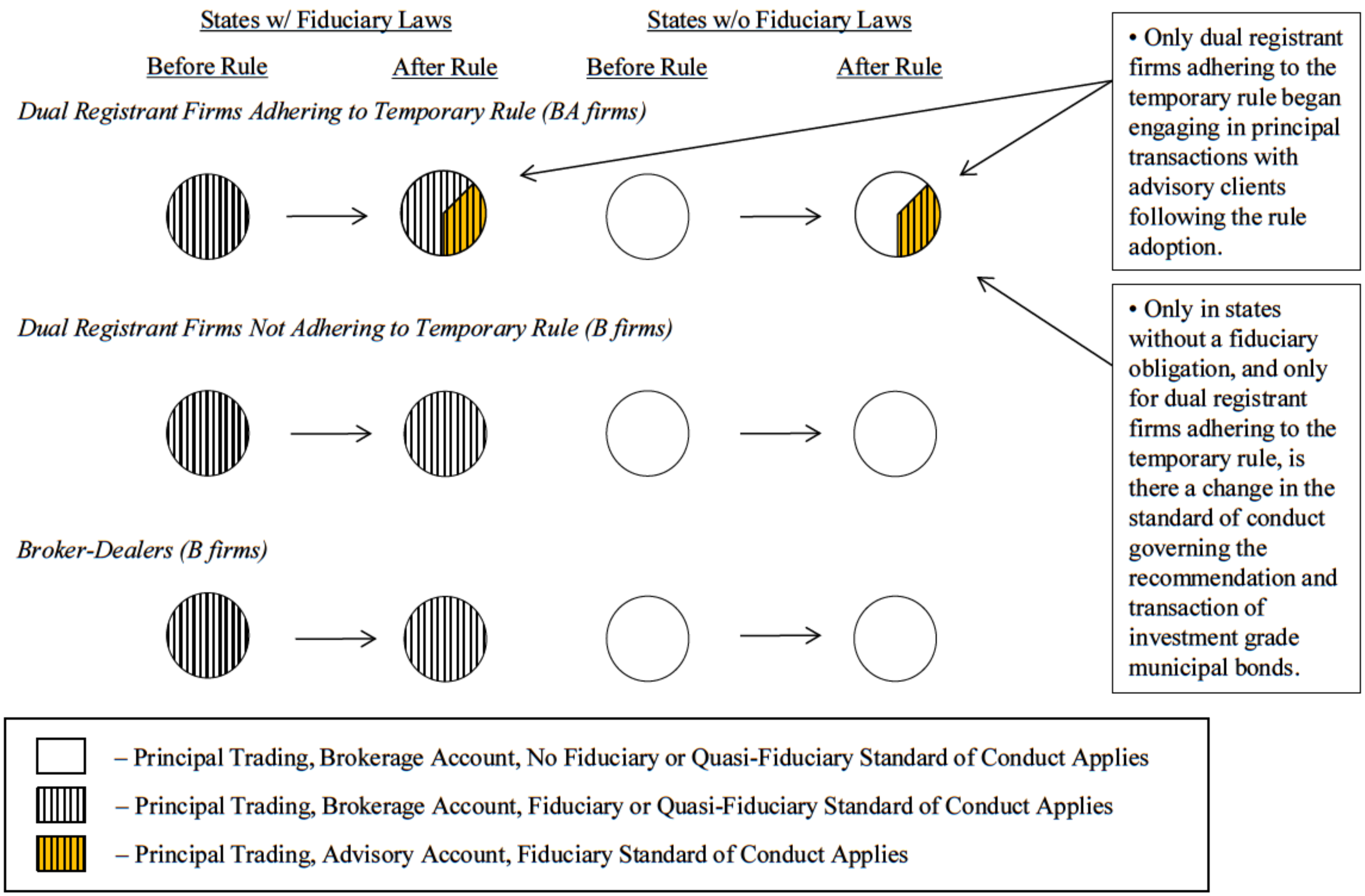
I calculate short-term and long-term bond daily index returns using the repeat-sale regression method of Case and Shiller (1987), regressing the returns of short-term bonds or long-term bonds on a set of indicator variables representing trade dates. I define bonds as short-term if less than 60 months remain until maturity, and bonds as long-term if at least 144 months remain until maturity. The indicator variables, I^{td}, are equal to 1 if the bond is held or sold on the trade date, 0 otherwise. The repeat-sale regression in equation form for all trades from the beginning of the sample period ($\tau = 1$) to the end of the sample period ($\tau =$ T) is

$$r_{its} - N^{CalDay}_{ts}(5\% - Coupon_i) = \sum_{1\leq\tau}^{\tau\leq T} \beta_\tau I^{td}_\tau + \zeta_{its} \quad (4)$$

where r_{its} represents the difference in the natural log of the price of bond i between time s and time t, N_{ts}^{CalDay} represents the number of calendar days between time s and time t, and (5%-*Coupon*) is the difference between the bond's coupon interest rate and 5% in units of one calendar day.

I obtain parameter estimates for both short-term and long-term bonds using a three-step procedure beginning with an initial estimate of equation (4). I then regress the initial squared estimates of ζ on the total number of days between consecutive trades, the squared total number of days between trade dates, and an intercept. Lastly, I reestimate equation (4) using fitted values from the second stage as regression weights. I use interdealer transactions only in the repeat-sale regression to avoid noise from the bond prices of customer transactions. If more than one interdealer transaction occurs for the same bond on a given trade date, then I use the last interdealer transaction on that date.

Figure 1: Changes to the Regulatory Regime Governing the Principal Transactions of Investment Grade Municipal Bonds by Firm and State Classification



This figure describes the change in the regulatory regime governing principal transactions dependent on firm classification and the presence of state fiduciary laws. For simplicity, this figure does not account for changes to the proportion of advisory accounts held at dual registrant firms following the court decision and temporary rule adoption. See Section II for further discussion.

Table 1: State Classification by Region

Region	Non-Fiduciary States		Fiduciary States	
	States	N	States	N
Northeast	Massachusetts, New York	2	Connecticut, Maine, New Hampshire, New Jersey, Pennsylvania, Rhode Island, Vermont	7
Midwest	Minnesota, North Dakota, Wisconsin	3	Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Nebraska, Ohio, South Dakota	9
Southeast	Arkansas, Mississippi, North Carolina	3	Alabama, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Oklahoma, South Carolina, Tennessee, Texas, Virgina, West Virginia	14
West	Arizona, Colorado, Hawaii, Montana, Oregon, Washington	6	Alaska, California, Idaho, New Mexico, Nevada, Utah, Wyoming	7
Number		14		37

This table lists the states either classifying as a fiduciary state or a non-fiduciary state by region. A fiduciary state requires broker-dealers to operate in a fiduciary or quasi-fiduciary capacity, whereas a non-fiduciary state makes no such requirements. See Sections II.b and III.c for a further description.

Table 2: Number and Par Value of Customer Transactions

Year	All		BA		B		All		BA		B	
	N	$bn.	N	$bn.	N	$bn.	N	$bn.	N	$bn.	N	$bn.
	Panel A - All Customer Transactions						*Panel B - All Customer Sales*					
2006	588,049	286.03	363,051	198.58	224,998	87.45	563,445	237.16	351,390	162.18	212,055	74.98
2007	617,520	350.79	390,557	245.88	226,963	104.91	592,575	290.07	377,988	200.12	214,587	89.95
2008	662,597	285.69	399,161	198.72	263,436	86.96	636,130	243.40	388,201	169.73	247,929	73.67
	Panel C - All Customer Sales ≤ $50k						*Panel C - All Customer Sales ≤ $20k*					
2006	324,646	8.91	213,633	5.82	111,013	3.10	131,061	1.72	87,926	1.16	43,135	0.56
2007	332,124	9.29	222,049	6.19	110,075	3.10	129,266	1.72	87,542	1.18	41,724	0.54
2008	376,530	10.48	238,460	6.68	138,070	3.80	146,090	1.91	91,553	1.22	54,537	0.69

This table presents the aggregate number and value of all investment grade municipal bond customer principal transactions. Panel A presents information describing all customer sales and purchases, Panel B presents information describing all sales to customers, Panel C presents information describing all sales to customers less than or equal to $50,000, and Panel D presents information describing all sales to customers less than or equal to $20,000. The table presents customer transactions for all firms, for dual registrant firms engaging in principal transactions with brokerage and advisory clients after the temporary rule adoption (BA firms), and for firms engaging in principal transactions with brokerage clients only after the temporary rule adoption (B firms). I obtain transaction information from the MSRB RTRS dataset.

Table 3a: Tobit Regressions Describing Retail Sales ($\leq$ \$50k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	0.036	(0.52)	0.020	(0.41)	*RevBond*	-0.009	(0.18)	0.002	(0.06)
$\overline{I^{BA}}$	0.099^b	(2.30)	0.086^a	(2.81)	*GenPurp*	-0.073	(1.48)	-0.059	(1.63)
$I^{TR} \times \overline{I^{BA}}$	-0.046	(0.73)	-0.024	(0.55)	*Education*	-0.188^a	(3.80)	-0.141^a	(3.93)
I^{NF}	-0.037	(0.63)	-0.004	(0.10)	*Utility*	-0.318^a	(5.34)	-0.242^a	(5.64)
$I^{TR} \times I^{NF}$	-0.150^c	(1.93)	-0.110^b	(1.99)	*Health*	-0.446^a	(3.97)	-0.286^a	(3.52)
$\overline{I^{BA}} \times I^{NF}$	0.183^b	(2.20)	0.117^b	(1.99)	*CertPart*	0.164^b	(2.13)	0.109^b	(2.00)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.249^b	(2.13)	0.178^b	(2.14)	*FedTax*	-0.854^a	(11.37)	-0.567^a	(10.38)
$\overline{CSales}$	0.285^a	(39.85)	0.203^a	(39.85)	*StateTax*	-0.899^a	(14.87)	-0.643^a	(15.29)
TotPar	0.086^a	(6.35)	0.078^a	(7.40)	*StateTotPar*	-0.064^a	(3.57)	-0.046^a	(3.55)
Maturity	0.141^a	(6.77)	0.138^a	(9.48)	*StateMedInc*	0.688^a	(3.76)	0.492^a	(3.71)
AAA	0.079^c	(1.74)	0.045	(1.35)	*StateIncSE*	1.367^a	(2.65)	1.171^a	(3.13)
OptCallSched	-0.100^a	(3.67)	-0.009	(0.47)	*StateDmnd*	0.102^a	(8.94)	0.075^a	(9.43)
ExtraOrdCall	-0.015	(0.26)	-0.004	(0.10)	*Constant*	-4.404^a	(14.33)	-3.464^a	(15.39)
PutOption	-0.260	(0.91)	-0.194	(0.92)					
CredEnh	-0.102^c	(1.70)	-0.070	(1.59)	σ	2.175		1.524	
$CredEnh \times I^{TR}$	0.070	(1.09)	0.044	(0.93)	N	157,116		157,116	
SinkFund	-0.523^a	(12.42)	-0.298^a	(9.64)	N = 0	70,877		70,849	
OddIntFreq	-1.109^a	(15.74)	-0.735^a	(14.61)	*pseudo* R^2	0.04		0.05	
OddIntCalc	-0.926	(1.02)	-0.619	(0.97)					
GenObl	-0.310^a	(7.79)	-0.216^a	(7.48)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 3b: Tobit Regressions Describing Retail Sales ($\leq$ \$20k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	-0.018	(0.27)	-0.009	(0.15)	*RevBond*	0.019	(0.44)	0.023	(0.57)
$\overline{I^{BA}}$	0.189^{a}	(4.77)	0.170^{a}	(4.85)	*GenPurp*	-0.091^{b}	(2.00)	-0.082^{b}	(2.02)
$I^{TR} \times \overline{I^{BA}}$	-0.023	(0.41)	-0.024	(0.47)	*Education*	-0.168^{a}	(3.77)	-0.150^{a}	(3.77)
I^{NF}	0.107^{b}	(2.04)	0.103^{b}	(2.20)	*Utility*	-0.322^{a}	(6.17)	-0.292^{a}	(6.27)
$I^{TR} \times I^{NF}$	-0.156^{b}	(2.16)	-0.144^{b}	(2.21)	*Health*	-0.202^{b}	(2.16)	-0.170^{b}	(2.02)
$\overline{I^{BA}} \times I^{NF}$	0.018	(0.24)	0.009	(0.14)	*CertPart*	0.094	(1.51)	0.080	(1.44)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.233^{b}	(2.25)	0.206^{b}	(2.23)	*FedTax*	-0.388^{a}	(5.38)	-0.341^{a}	(5.27)
$\overline{CSales}$	0.257^{a}	(35.70)	0.227^{a}	(35.32)	*StateTax*	-0.840^{a}	(15.59)	-0.753^{a}	(15.72)
TotPar	0.086^{a}	(6.26)	0.079^{a}	(6.32)	*StateTotPar*	-0.065^{a}	(3.91)	-0.058^{a}	(3.90)
Maturity	0.370^{a}	(19.17)	0.330^{a}	(19.15)	*StateMedInc*	0.441^{a}	(2.71)	0.388^{a}	(2.67)
AAA	0.052	(1.22)	0.042	(1.09)	*StateIncSE*	2.242^{a}	(4.86)	2.051^{a}	(4.96)
OptCallSched	0.216^{a}	(9.14)	0.195^{a}	(9.32)	*StateDmnd*	0.094^{a}	(10.07)	0.085^{a}	(10.19)
ExtraOrdCall	0.016	(0.31)	0.014	(0.32)	*Constant*	-5.830^{a}	(20.85)	-5.197^{a}	(20.61)
PutOption	-0.306	(1.13)	-0.268	(1.10)					
CredEnh	-0.086	(1.54)	-0.073	(1.46)	σ	1.865		1.653	
$CredEnh \times I^{TR}$	0.061	(0.68)	0.054	(0.74)	N	157,979		157,979	
SinkFund	-0.173^{a}	(4.86)	-0.129^{a}	(4.04)	N = 0	105,926		105,931	
OddIntFreq	-0.599^{a}	(8.81)	-0.527^{a}	(8.77)	*pseudo* R^2	0.06		0.06	
OddIntCalc	-0.665	(1.05)	-0.571	(1.01)					
GenObl	-0.264^{a}	(7.25)	-0.231^{a}	(7.08)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$20,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 4: Expected Changes in Retail Sales by Firm and State Classification

	$\overline{I^{BA}} = 1,\ I^{NF} = 1$			$\overline{I^{BA}} = 0,\ I^{NF} = 1$			$\overline{I^{BA}} = 1,\ I^{NF} = 0$			$\Delta_1 - \Delta_2$	Bench-	
	$E[Y]$		Δ_1	$E[Y]$		Δ_2	$E[Y]$		Δ_3	$-\Delta_3$	mark	$\Delta\%$
$I^{TR} =$	1	0		1	0		1	0				
Panel A: Expected Changes in Sales less than or equal to $50k by Firm and State Classification												
ParSale	1.372	1.289	0.083	1.074	1.117	-0.043	1.217	1.198	0.018	0.107	1.289	8.3%
NumSale	0.919	0.863	0.056	0.707	0.743	-0.036	0.807	0.795	0.013	0.079	0.863	9.2%
Panel B: Expected Changes in Sales less than or equal to $20k by Firm and State Classification												
ParSale	0.497	0.478	0.019	0.355	0.405	-0.050	0.424	0.433	-0.009	0.078	0.478	16.4%
NumSale	0.436	0.421	0.015	0.313	0.358	-0.045	0.373	0.381	-0.008	0.067	0.421	16.0%

This table reports estimates of the potential economic significance of a fiduciary standard of conduct. Columns with "$E[Y]$" headers report the unconditional expected value of the dependent variables stemming from the estimation of regression equation (1) given the time period of the retail sales, I^{TR}, the classification of firms engaging in customer sales, $\overline{I^{BA}}$, and the state classification relating to the bond, I^{NF}. All other variables are set to its sample mean. The variable Y represents either *ParSale* or *NumSale*. Columns with "Δ_i" headers report differences between time periods, and the third to last column reports the full difference between all firm and state classifications. I benchmark the full difference with the unconditional expected value of the dependent variables by BA firms in non-fiduciary states prior to temporary rule adoption. The last column relates the full difference to the benchmark. See Section IV for full explanation.

Table 5a: Tobit Regressions Describing Retail Sales by Calendar Quarter ($\leq$ \$50k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.113	(0.80)	-0.307^{b}	(2.13)	0.019	(0.17)	0.050	(0.39)
$\overline{I^{BA}}$	0.137^{c}	(1.71)	0.219^{a}	(2.58)	0.089	(1.05)	-0.029	(0.36)
$I^{TR} \times \overline{I^{BA}}$	-0.131	(1.06)	-0.354^{a}	(2.62)	0.039	(0.34)	0.183	(1.52)
I^{NF}	-0.025	(0.23)	0.218^{c}	(1.92)	-0.187^{c}	(1.81)	-0.101	(0.93)
$I^{TR} \times I^{NF}$	-0.187	(1.19)	-0.433^{a}	(2.63)	0.006	(0.04)	-0.104	(0.71)
$\overline{I^{BA}} \times I^{NF}$	0.010	(0.07)	0.105	(0.63)	0.269^{c}	(1.72)	0.406^{a}	(2.57)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.533^{b}	(2.35)	0.381	(1.49)	0.134	(0.60)	-0.057	(0.25)
...								
N	41,959		33,511		44,222		37,424	
N = 0	20,262		15,521		19,354		15,740	
pseudo R^2	0.03		0.04		0.04		0.04	
Panel B: NumSale								
I^{TR}	0.087	(0.87)	-0.239^{b}	(2.31)	0.006	(0.08)	0.027	(0.30)
$\overline{I^{BA}}$	0.110^{b}	(1.97)	0.177^{a}	(2.92)	0.079	(1.31)	-0.007	(0.12)
$I^{TR} \times \overline{I^{BA}}$	-0.082	(0.96)	-0.266^{a}	(2.78)	0.046	(0.57)	0.141^{c}	(1.65)
I^{NF}	0.003	(0.04)	0.175^{b}	(2.17)	-0.100	(1.37)	-0.057	(0.73)
$I^{TR} \times I^{NF}$	-0.121	(1.12)	-0.322^{a}	(2.78)	0.003	(0.03)	-0.080	(0.78)
$\overline{I^{BA}} \times I^{NF}$	-0.006	(0.05)	0.047	(0.39)	0.188^{c}	(1.68)	0.278^{b}	(2.48)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.369^{b}	(2.34)	0.297^{c}	(1.65)	0.075	(0.47)	-0.033	(0.20)
...								
N	41,959		33,511		44,222		37,424	
N = 0	20,255		15,518		19,345		21,693	
pseudo R^2	0.04		0.05		0.05		0.06	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 5b: Tobit Regressions Describing Retail Sales by Calendar Quarter ($\leq$ \$20k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.122	(0.92)	-0.355^a	(2.75)	-0.085	(0.81)	0.036	(0.30)
$\overline{I^{BA}}$	0.231^a	(3.08)	0.247^a	(3.23)	0.174^b	(2.20)	0.109	(1.46)
$I^{TR} \times \overline{I^{BA}}$	-0.075	(0.67)	-0.330^a	(2.73)	0.115	(1.14)	0.081	(0.73)
I^{NF}	0.120	(1.22)	0.284^a	(2.82)	0.027	(0.29)	0.030	(0.30)
$I^{TR} \times I^{NF}$	-0.123	(0.85)	-0.459^a	(3.12)	0.022	(0.17)	-0.178	(1.31)
$\overline{I^{BA}} \times I^{NF}$	-0.146	(1.06)	-0.090	(0.62)	0.158	(1.13)	0.174	(1.21)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.456^b	(2.23)	0.533^b	(2.44)	-0.048	(0.24)	0.052	(0.26)
...								
N	42,128		33,743		44,473		37,635	
N = 0	29,651		22,741		29,093		24,441	
pseudo R^2	0.05		0.07		0.06		0.07	
Panel B: NumSale								
I^{TR}	0.108	(0.91)	-0.315^a	(2.72)	-0.066	(0.70)	0.046	(0.42)
$\overline{I^{BA}}$	0.200^a	(3.00)	0.226^a	(3.32)	0.160^b	(2.29)	0.102	(1.53)
$I^{TR} \times \overline{I^{BA}}$	-0.058	(0.59)	-0.302^a	(2.80)	0.094	(1.05)	0.068	(0.68)
I^{NF}	0.112	(1.29)	0.258^a	(2.84)	0.037	(0.44)	0.036	(0.40)
$I^{TR} \times I^{NF}$	-0.112	(0.87)	-0.416^a	(3.14)	0.013	(0.11)	-0.161	(1.32)
$\overline{I^{BA}} \times I^{NF}$	-0.133	(1.09)	-0.081	(0.62)	0.128	(1.03)	0.149	(1.16)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.400^b	(2.20)	0.473^b	(2.41)	-0.041	(0.23)	0.047	(0.26)
...								
N	42,128		33,743		44,473		37,635	
N = 0	29,650		22,742		29,095		13,191	
pseudo R^2	0.05		0.07		0.06		0.07	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$20,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 6: Tobit Regressions Describing Institutional Sales (> $50k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	0.087^a	(2.87)	0.062^a	(3.87)	*RevBond*	-0.068^a	(2.90)	-0.027^b	(2.24)
$\overline{I^{BA}}$	-0.145^a	(7.21)	-0.050^a	(5.34)	*GenPurp*	0.052^b	(2.38)	0.006	(0.48)
$I^{TR} \times \overline{I^{BA}}$	0.055^b	(2.06)	0.026^c	(1.95)	*Education*	0.031	(1.37)	-0.028^a	(2.59)
I^{NF}	0.054^b	(2.07)	0.044^a	(4.00)	*Utility*	0.120^a	(4.47)	-0.009	(0.66)
$I^{TR} \times I^{NF}$	0.089^a	(2.67)	-0.008	(0.52)	*Health*	0.068	(1.41)	-0.086^a	(3.52)
$\overline{I^{BA}} \times I^{NF}$	-0.049	(1.23)	-0.007	(0.40)	*CertPart*	-0.122^a	(2.90)	-0.014	(0.80)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.158^a	(2.96)	0.004	(0.17)	*FedTax*	0.034	(1.08)	-0.228^a	(15.84)
$\overline{CSales}$	0.024^a	(6.41)	0.037^a	(23.90)	*StateTax*	0.235^a	(11.76)	-0.032^a	(2.93)
TotPar	1.098^a	(192.21)	0.316^a	(63.85)	*StateTotPar*	-0.011	(1.43)	0.000	(0.10)
Maturity	-0.119^a	(10.65)	-0.066^a	(12.12)	*StateMedInc*	-0.341^a	(4.63)	-0.098^b	(2.24)
AAA	-0.044^b	(2.17)	-0.031^a	(2.72)	*StateIncSE*	-0.289	(1.24)	0.103	(0.85)
OptCallSched	-0.024^c	(1.69)	-0.058^a	(8.13)	*StateDmnd*	0.001	(0.15)	0.017^a	(4.80)
ExtraOrdCall	0.003	(0.10)	0.003	(0.22)	*Constant*	-0.447^a	(3.50)	-0.589^a	(8.40)
PutOption	-0.120	(1.28)	0.023	(0.34)					
CredEnh	0.134^a	(5.02)	0.074^a	(5.30)	σ	1.190		0.573	
$CredEnh \times I^{TR}$	-0.039	(1.39)	-0.019	(1.24)	N	157,116		157,116	
SinkFund	0.146^a	(9.08)	-0.019^b	(2.16)	N = 0	16,714		16,828	
OddIntFreq	-0.003	(0.08)	-0.198^a	(11.12)	*pseudo* R^2	0.24		0.22	
OddIntCalc	-0.043	(0.24)	-0.387^b	(1.98)					
GenObl	0.043^b	(2.45)	-0.030^a	(3.21)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to institutional investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define institutional sales as customer sales with par value strictly greater than $50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 7: Tobit Regressions Describing Institutional Sales by Calendar Quarter (> \$50k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.155^{a}	(2.63)	0.153^{a}	(2.52)	0.083	(1.48)	-0.001	(0.01)
$\overline{I^{BA}}$	-0.153^{a}	(4.02)	-0.165^{a}	(3.86)	-0.133^{a}	(3.61)	-0.141^{a}	(3.76)
$I^{TR} \times \overline{I^{BA}}$	0.096^{c}	(1.88)	0.138^{b}	(2.39)	0.023	(0.48)	-0.031	(0.56)
I^{NF}	0.089^{c}	(1.91)	-0.146^{c}	(1.86)	0.119^{a}	(2.75)	0.079^{c}	(1.82)
$I^{TR} \times I^{NF}$	0.058	(0.94)	0.339^{a}	(3.84)	0.031	(0.50)	0.023	(0.36)
$\overline{I^{BA}} \times I^{NF}$	-0.038	(0.56)	0.175	(1.58)	-0.100	(1.56)	-0.187^{a}	(2.73)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.158^{c}	(1.76)	-0.377^{a}	(2.82)	-0.150	(1.60)	-0.015	(0.14)
...								
N	41,959		33,511		44,222		37,424	
N = 0	4,585		3,641		4,392		4,096	
pseudo R^2	0.25		0.23		0.24		0.24	
Panel B: NumSale								
I^{TR}	0.061^{c}	(1.86)	0.031	(0.93)	0.073^{a}	(2.80)	0.031	(1.07)
$\overline{I^{BA}}$	-0.035^{b}	(2.07)	-0.041^{b}	(2.21)	-0.068^{a}	(3.91)	-0.053^{a}	(2.94)
$I^{TR} \times \overline{I^{BA}}$	0.022	(0.85)	0.002	(0.08)	0.059^{b}	(2.42)	0.010	(0.40)
I^{NF}	0.057^{a}	(2.92)	0.029	(1.16)	0.047^{a}	(2.59)	0.032	(1.39)
$I^{TR} \times I^{NF}$	-0.001	(0.03)	0.025	(0.75)	0.000	(0.02)	-0.047	(1.61)
$\overline{I^{BA}} \times I^{NF}$	-0.024	(0.79)	0.029	(0.78)	0.008	(0.27)	-0.029	(0.78)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.039	(0.81)	-0.033	(0.64)	-0.030	(0.71)	0.022	(0.39)
...								
N	41,959		33,511		44,222		37,424	
N = 0	4,586		3,663		4,441		4,138	
pseudo R^2	0.21		0.22		0.22		0.24	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to institutional investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define institutional sales as customer sales with par value strictly greater than \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 8a: Regressions Describing Retail Transaction Cost

	\$20k		*\$50k*			*\$20k*		*\$50k*	
I^{TR}	-0.0013^a	(5.62)	-0.0009^a	(4.49)	*RevBond*	-0.0002	(1.30)	-0.0001	(1.37)
$\overline{I^{BA}}$	0.0019^a	(7.77)	0.0018^a	(9.47)	*GenPurp*	0.0000	(0.16)	0.0002	(1.31)
$I^{TR} \times \overline{I^{BA}}$	0.0012^a	(3.54)	0.0011^a	(4.07)	*Education*	0.0005^a	(3.01)	0.0003^b	(2.56)
I^{NF}	0.0000	0.00	0.0001	(0.31)	*Utility*	0.0003	(1.54)	0.0001	(0.85)
$I^{TR} \times I^{NF}$	0.0012^a	(3.40)	0.0008^a	(2.98)	*Health*	0.0003	(1.04)	0.0001	(0.53)
$\overline{I^{BA}} \times I^{NF}$	0.0000	(0.07)	0.0001	(0.19)	*CertPart*	-0.0001	(0.82)	0.0000	(0.24)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0019^a	(3.13)	-0.0014^a	(2.89)	*FedTax*	-0.0015^a	(4.08)	-0.0013^a	(3.85)
$\overline{CTrans}$	0.0000	(0.66)	0.0001^b	(2.39)	*StateTax*	-0.0002	(0.40)	-0.0004	(1.60)
TotPar	-0.0001^b	(2.17)	-0.0002^a	(5.51)	*StateTotPar*	-0.0001	(1.25)	0.0000	(0.19)
Maturity	0.0048^a	(39.85)	0.0042^a	(44.88)	*StateMedInc*	0.0029^a	(4.82)	0.0028^a	(5.99)
AAA	0.0001	(0.70)	0.0001	(1.58)	*StateIncSE*	-0.0040^b	(2.37)	-0.0038^a	(3.00)
OptCallSched	0.0032^a	(19.00)	0.0034^a	(26.59)	*StateDmnd*	-0.0001^a	(3.91)	-0.0001^a	(2.66)
ExtraOrdCall	0.0000	(0.21)	0.0000	(0.06)	*Constant*	-0.0061^a	(6.67)	-0.0077^a	(10.73)
PutOption	-0.0064^a	(4.47)	-0.0055^a	(4.93)					
CredEnh	0.0008^a	(6.18)	0.0007^a	(6.05)	N	57,500		57,500	
$CredEnh \times I^{TR}$	-0.0004^b	(2.18)	-0.0003^b	(2.00)	*adj.* R^2	0.68		0.68	
SinkFund	0.0002	(1.19)	0.0002	(1.60)					
OddIntFreq	0.0022^a	(10.20)	0.0022^a	(10.65)					
OddIntCalc	-0.0016	(1.16)	-0.0020^c	(1.93)					
GenObl	-0.0004^a	(3.53)	-0.0004^a	(4.43)					

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$20,000 and \$50,000. The regression model is equation (2). I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 8b: Regressions Describing Institutional Transaction Cost

	$100k		$1M			$100k		$1M	
I^{TR}	-0.0007^a	(4.23)	-0.0002	(0.77)	*RevBond*	-0.0002^b	(1.97)	-0.0003^a	(3.09)
$\overline{I^{BA}}$	0.0013^a	(7.71)	0.0003	(1.22)	*GenPurp*	0.0001	(0.67)	-0.0001	(0.72)
$I^{TR} \times \overline{I^{BA}}$	0.0010^a	(4.11)	0.0011^a	(4.18)	*Education*	0.0001	(0.97)	-0.0003^a	(2.74)
I^{NF}	0.0001	(0.80)	0.0006^b	(2.16)	*Utility*	0.0001	(0.47)	-0.0001	(0.65)
$I^{TR} \times I^{NF}$	0.0007^a	(2.70)	-0.0002	(0.61)	*Health*	0.0000	(0.08)	-0.0004^c	(1.75)
$\overline{I^{BA}} \times I^{NF}$	0.0000	(0.14)	-0.0010^c	(1.65)	*CertPart*	0.0000	(0.20)	0.0002	(1.04)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0012^a	(2.64)	0.0008	(1.09)	*FedTax*	-0.0012^a	(3.82)	-0.0004^b	(2.31)
$\overline{CTrans}$	0.0002^a	(4.84)	0.0001^b	(2.42)	*StateTax*	-0.0005^b	(2.29)	-0.0009^a	(4.09)
TotPar	-0.0002^a	(5.06)	-0.0002^a	(3.78)	*StateTotPar*	0.0000	(0.62)	0.0001^b	(2.25)
Maturity	0.0034^a	(40.01)	0.0008^a	(4.43)	*StateMedInc*	0.0021^a	(5.11)	0.0013^b	(2.51)
AAA	0.0002^a	(2.93)	0.0001	(0.63)	*StateIncSE*	-0.0037^a	(3.30)	-0.0030^b	(2.39)
OptCallSched	0.0032^a	(26.31)	0.0014^a	(11.22)	*StateDmnd*	0.0000^c	(1.77)	0.0000	(0.66)
ExtraOrdCall	-0.0001	(0.85)	-0.0006^a	(3.87)	*Constant*	-0.0074^a	(11.15)	-0.0031^a	(3.60)
PutOption	-0.0045^a	(4.86)	-0.0008^b	(2.24)					
CredEnh	0.0005^a	(5.14)	0.0002	(1.19)	N	57,500		57,500	
CredEnh$\times I^{TR}$	-0.0001	(0.99)	-0.0001	(0.40)	*adj.* R^2	0.64		0.17	
SinkFund	0.0003^b	(2.35)	0.0003	(1.36)					
OddIntFreq	0.0016^a	(8.31)	0.0004	(1.28)					
OddIntCalc	-0.0005	(0.83)	-0.0005	(1.54)					
GenObl	-0.0003^a	(3.34)	0.0001	(0.71)					

This table reports the results from weighted regressions describing the cost of transactions of par value equal to $100,000 and $1,000,000. The regression model is equation (2). I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 9a: Regressions Describing Transaction Cost by Calendar Quarter

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: \$20k								
I^{TR}	-0.0014^a	(3.21)	-0.0033^a	(6.07)	-0.0015^a	(3.94)	-0.0002	(0.44)
$\overline{I^{BA}}$	0.0015^a	(3.75)	0.0021^a	(4.53)	0.0014^a	(3.17)	0.0021^a	(5.12)
$I^{TR} \times \overline{I^{BA}}$	0.0006	(1.10)	0.0024^a	(2.98)	0.0016^a	(2.69)	0.0003	(0.54)
I^{NF}	-0.0006	(1.24)	0.0001	(0.30)	-0.0004	(0.84)	0.0002	(0.50)
$I^{TR} \times I^{NF}$	0.0011^c	(1.65)	0.0020^a	(2.75)	0.0017^a	(2.64)	0.0002	(0.40)
$\overline{I^{BA}} \times I^{NF}$	-0.0001	(0.14)	-0.0002	(0.26)	0.0015^c	(1.94)	-0.0010	(1.30)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0003	(0.28)	-0.0027^b	(2.12)	-0.0034^a	(3.00)	-0.0004	(0.37)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.76		0.62		0.61		0.69	
Panel B: \$50k								
I^{TR}	-0.0010^a	(3.25)	-0.0021^a	(5.18)	-0.0012^a	(3.93)	-0.0002	(0.56)
$\overline{I^{BA}}$	0.0013^a	(3.98)	0.0024^a	(6.19)	0.0013^a	(3.98)	0.0017^a	(4.99)
$I^{TR} \times \overline{I^{BA}}$	0.0007	(1.60)	0.0013^b	(2.12)	0.0014^a	(3.15)	0.0007	(1.58)
I^{NF}	-0.0003	(0.93)	0.0001	(0.37)	-0.0001	(0.42)	0.0001	(0.15)
$I^{TR} \times I^{NF}$	0.0009^c	(1.75)	0.0015^a	(2.58)	0.0011^b	(2.26)	0.0001	(0.26)
$\overline{I^{BA}} \times I^{NF}$	-0.0001	(0.14)	-0.0004	(0.68)	0.0012^b	(2.06)	-0.0003	(0.43)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0005	(0.54)	-0.0018^c	(1.82)	-0.0023^a	(2.60)	-0.0005	(0.56)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.75		0.63		0.62		0.71	

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$20,000 and \$50,000. The regression model is equation (2). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 9b: Regressions Describing Transaction Cost by Calendar Quarter

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: $100k								
I^{TR}	-0.0008^a	(2.78)	-0.0016^a	(4.64)	-0.0009^a	(3.51)	-0.0002	(0.78)
$\overline{I^{BA}}$	0.0010^a	(3.28)	0.0018^a	(5.30)	0.0011^a	(3.50)	0.0012^a	(3.63)
$I^{TR} \times \overline{I^{BA}}$	0.0007^c	(1.78)	0.0010^c	(1.82)	0.0011^a	(2.74)	0.0009^b	(2.04)
I^{NF}	0.0000	(0.14)	0.0000	(0.03)	-0.0002	(0.61)	0.0003	(0.74)
$I^{TR} \times I^{NF}$	0.0004	(0.93)	0.0014^a	(2.67)	0.0010^b	(2.23)	0.0000	(0.10)
$\overline{I^{BA}} \times I^{NF}$	-0.0005	(0.82)	-0.0003	(0.48)	0.0012^b	(2.03)	-0.0005	(0.70)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.0000	(0.02)	-0.0017^c	(1.94)	-0.0018^b	(2.34)	-0.0005	(0.54)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.71		0.59		0.58		0.67	
Panel B: $1M								
I^{TR}	0.0001	(0.30)	0.0005	(1.43)	-0.0004^c	(1.65)	0.0000	(0.02)
$\overline{I^{BA}}$	0.0000	(0.11)	0.0012^a	(2.82)	-0.0004	(1.35)	-0.0002	(0.43)
$I^{TR} \times \overline{I^{BA}}$	0.0012^b	(2.25)	0.0004	(0.71)	0.0015^a	(3.65)	0.0013^a	(2.58)
I^{NF}	0.0003	(0.75)	0.0011^b	(2.13)	0.0001	(0.21)	0.0006	(1.53)
$I^{TR} \times I^{NF}$	-0.0001	(0.22)	-0.0006	(0.92)	-0.0001	(0.13)	-0.0005	(1.00)
$\overline{I^{BA}} \times I^{NF}$	-0.0007	(0.88)	-0.0017^c	(1.94)	0.0006	(0.68)	-0.0003	(0.52)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.0008	(0.77)	0.0002	(0.18)	-0.0001	(0.10)	0.0005	(0.60)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.22		0.10		0.11		0.19	

This table reports the results from weighted regressions describing the cost of transactions of par value equal to $100,000 and $1,000,000. The regression model is equation (2). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

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Subject: Presentation by Matthew Kozora, SEC Economist
Attachments: SSRN-id2323519.pdf

Hello All,

On Thursday, October 17th, we will welcome Matthew Kozora, an economist at the Securities and Exchange Commission, to present his work on "The Effect of Regulatory Regimes on the Provision of Retail Investment Advice." The paper is available at SSRN (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2323519), and I have attached a copy below. Matt's work has close ties to our conflicted advice project, and may have implications for the regulatory impact analysis. I hope others (not involved in the conflicted advice project) will be interested in this work as an example of how to examine the effects of rulemaking.

I do not anticipate having slides for the presentation; Matt will present from the paper.

The Effect of Regulatory Regimes on the Provision of Retail Investment Advice*,**

Matthew L. Kozora

09/09/2013

Division of Economic and Risk Analysis

U.S. Securities and Exchange Commission

Working Paper

Abstract

Broker-dealers and investment advisers are two separate types of financial intermediaries subject to different regulatory regimes that can provide personalized investment advice about securities to investors. In this paper, I investigate whether differences between the broker-dealer regulatory regime and the investment adviser regulatory regime may be significant to retail investment advice by examining the principal transactions of investment grade municipal bonds. The results in this paper indicate that the advice retail investors receive may be dependent on the legal framework governing its provision. In particular, I find evidence of a potential relationship between the standards under which broker-dealers and investment advisers provide advice and the sale of investment grade municipal bonds to retail investors.

Keywords: Retail Investors, Broker-Dealers, Investment Advisers, Fiduciary Standard of Conduct, Municipal Bonds

I. Introduction

Investors can receive personalized investment advice about securities (or "personalized investment advice") from two regulated types of financial intermediaries, broker-dealers and investment advisers, that may provide similar services but are subject to two different and

*The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author's colleagues upon the staff of the Commission.

**I thank all Commission staff that have assisted in the development of this work, including staff in Division of Economic and Risk Analysis, Division of Trading and Markets, Division of Investment Management, Office of Compliance Inspections and Examinations, and Office of the General Counsel. All mistakes are my own.
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separate regulatory regimes. At the federal level, firms registered as broker-dealers are subject to the Securities Exchange Act of 1934 (or "Exchange Act") and the rules thereunder, and the rules of self-regulatory organizations (or "SROs"), whereas firms registered as investment advisers are subject to the Investment Advisers Act of 1940 (or "Advisers Act") and the rules thereunder. A firm registered as both a broker-dealer and an investment adviser (or "dual registrant firm") may provide both brokerage and advisory services, and depending on whether the account is a brokerage account or an advisory account, be subject to the rules of either regulatory regime.[1]

Little to no research currently exists indicating whether differences between the broker-dealer and the investment adviser regulatory regimes can be significant to the advice retail investors receive in non-discretionary accounts.[2] In this paper, I investigate the effect of regulatory regimes by examining the principal transactions of investment grade municipal bonds.[3] I find evidence that suggests the regulatory regime, in particular the standards under which advice is given, may be significant to the advice retail investors receive.

I use investment grade municipal bonds in this study for two primary reasons. First, retail investors are major participants in the municipal bond market, individually investing in close to one-half of all municipal bonds outstanding.[4] The illiquidity and opacity of the municipal securities market (SEC; 2012a) also increases the importance of a financial agent

[1] A recent study by U.S. Securities and Exchange Commission (SEC) staff on investment advisers and broker-dealers as pursuant to Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (or the "913 Study") provides an in-depth review of the two regulatory regimes.

[2] The focus of this paper is the provision of personalized investment advice in non-discretionary accounts. A non-discretionary account does not provide a financial agent authority to transact securities without the consent of the account holder, whereas a discretionary account grants such authority. Recent estimates place the number of non-discretionary advisory accounts managed by federally registered investment advisers at 5 million, and the number of brokerage accounts at federally registered broker-dealers at 110 million. Both estimates include both institutional and retail accounts. Investment adviser information can be found at www.sec.gov/foia/iareports/inva-archive.htm. The broker-dealer estimate includes both non-discretionary and discretionary accounts, and can be found in SEC (2011). I will refer to advisory clients with non-discretionary accounts as "advisory clients" or "clients," brokerage customers with non-discretionary accounts as "brokerage customers" or "customers," and brokerage customers and advisory clients generally as "investors."

[3] A principal transaction is a transaction where the broker-dealer or investment adviser buys or sells securities for its own account.

[4] The estimate is as of the third quarter 2012, and can be found in the *Flow of Funds Accounts of the United States* statistical release, published by the Federal Reserve.

to provide advice to their customer or client.

Second, I use investment grade municipal bonds to incorporate a regulatory event into the empirical methodology. The regulatory event is the October 2007 adoption of a temporary SEC rule (or "temporary rule"). The temporary rule, among other things, established an alternative set of principal transaction disclosure and consent requirements under the Advisers Act for investment advisers also registered as broker-dealers. Prior to the temporary rule adoption, dual registrant firms typically did not engage in principal transactions with advisory clients, engaging in principal transactions with brokerage customers only.[5] Dual registrant firms adhering to the temporary rule (or "BA firms") began engaging in principal transactions with both brokerage customers and advisory clients. Other firms, including all firms registered solely as broker-dealers and those dual registrant firms not adhering to the temporary rule (or "B firms"), continued to engage in principal transactions with brokerage customers only.[6] The temporary rule, still in effect at the time of this writing, does not permit a firm to rely on the rule for securities that it or an affiliated entity underwrites or issues except for non-convertible investment grade debt. I therefore use municipal bonds of investment grade only to be certain that the temporary rule can apply to all principal transactions in the empirical sample.[7]

The time period of the study is from January 2006 to December 2008. Broadly, I investigate whether regulatory regimes may be significant to the provision of personalized investment advice by comparing the change to the principal transactions of BA firms following the temporary rule adoption with the change to the principal transactions of B firms. If adherence to the temporary rule and the recommendation and transaction of investment

[5]In the initial temporary rule release, the SEC describes discussions with representatives of dual registrant firms regarding the difficulties of complying with the disclosure requirements under Section 206(3) of the Advisers Act (SEC; 2007). Firms explained that they typically did not engage in principal transactions with advisory clients as a result of the operationally restrictive disclosure requirements. The temporary rule has since been extended to December 31, 2014. See Section II.a for further explanation.

[6]I utilize municipal bond transaction data from the Municipal Securities Rulemaking Board (MSRB) Real-time Transaction Reporting System (RTRS). MSRB requires all broker-dealers and municipal securities dealers to report the transactions of municipal securities. Consequently, no firms in the sample are registered solely as investment advisers.

[7]See Section II.a for a further discussion of the temporary rule.

grade municipal bonds subject to the investment adviser regulatory regime is significant, then I may observe a difference in the change in principal transactions between BA firms and B firms as BA firms apply the temporary rule and the investment adviser regulatory regime to activities that would have otherwise been subject to only the broker-dealer regulatory regime.

As part of the empirical methodology, I specifically investigate whether the standard of conduct as required by federal and state law may be significant to the provision of personalized advice to retail investors.[8] At the federal level, an investment adviser is a fiduciary who is to serve in the best interests of its clients, including an obligation not to subordinate the clients' interests for their own and to disclose or eliminate all material conflicts of interest, whereas broker-dealers are required to deal fairly with their customers and in most instances are not considered a fiduciary. At the state level, broker-dealers may be subject to a fiduciary standard of conduct (SEC; 2011).[9]

I refine the broad comparison between BA firms and B firms to the state level, and compare the difference in the change in principal transactions between the two firm classifications between states where broker-dealers may be subject to additional standards of conduct that relate to a fiduciary standard of conduct (i.e., "fiduciary states") and states where broker-dealers are generally not subject to a fiduciary standard of conduct (i.e., "non-fiduciary states"). I assume, similar to the equity "home bias" (Coval and Moskowitz; 1999), that retail investors purchase the bonds of local or within-state municipalities.[10] By assumption, additional state standards of conduct would apply to the principal transactions of the municipal securities relating to the state.

Adherence to the temporary rule by BA firms in non-fiduciary states brought about the

[8]Other differences between the two regulatory regimes include disclosure requirements, supervisory and control procedures, continuing education requirements, and restrictions on advertising and other communications. The investment adviser regulatory regime is also largely principles-based and not predominately rules-based like the broker-dealer regulatory regime.

[9]See Section II.b for a further discussion of standards of conduct.

[10]Exemption from state and local taxes may also induce retail investors to purchase bonds of local or within-state municipalities (SEC; 2012a).

introduction of a fiduciary standard of conduct to the portion of investment grade municipal bond recommendations and transactions with advisory clients that would have otherwise been with brokerage customers, whereas adherence to the temporary rule by BA firms in fiduciary states did not result in a similar introduction of a fiduciary standard of conduct. Regardless of the presence of state fiduciary laws, the standard of conduct governing the recommendation and transaction of investment grade municipal bonds by B firms did not change following the temporary rule adoption as these firms continued to engage in principal transactions with brokerage customers only. Taken together, changes to the principal transactions of BA firms relative to B firms in fiduciary states may relate to the temporary rule and the investment adviser regulatory regime, but not a fiduciary standard of conduct, and changes to the principal transactions of BA firms relative to B firms in non-fiduciary states may relate to the temporary rule and the investment adviser regulatory regime including a fiduciary standard of conduct. An additional difference between BA firms and B firms in non-fiduciary states relative to fiduciary states, therefore, may relate to a fiduciary standard of conduct.

In the first set of tests, I investigate the effect of regulatory regimes on security recommendations by examining the sale of investment grade municipal bonds to retail investors. I do not find evidence indicating a difference in the change in sales to retail investors between BA firms and B firms following the temporary rule adoption in fiduciary states, but I do find evidence of additional sales to retail investors by BA firms relative to B firms in non-fiduciary states. Thus, I find evidence suggesting that a fiduciary standard of conduct may relate to the recommendation and sale of investment grade municipal bonds to retail investors, but no evidence that application of the temporary rule or other aspects of the investment adviser regulatory regime were also significant in explaining retail sales. In additional tests, I find that the relative increase in sales to retail investors by BA firms in non-fiduciary states was most significant soon after the temporary rule adoption. This result suggests that the increase in sales by BA firms in non-fiduciary states may relate more to the temporary rule

adoption and less to other factors which may also had an effect including events relating to the recent financial crisis.

In the second set of tests, I investigate the effect of regulatory regimes on the markup/ markdown on, or the "transaction cost" (Harris and Piwowar; 2006) of, investment grade municipal bonds. The implementation of policies and procedures to adhere to the temporary rule may have led to an increase in the compliance costs of BA firms. The increase in compliance costs may have resulted in higher transaction costs for retail investors who may have less access to pricing information than institutional investors (SEC; 2012a).[11] Research by Green, Hollifield, and Schürhoff (2007a) find evidence of differences in the level of informed trading between retail investors and institutional investors; transactions of smaller size, relating to retail investors, often exhibit less advantageous prices and a greater range of prices than the transactions of larger size, relating to institutional investors. I continue to distinguish bonds by state classification to investigate whether the additional increase in sales to retail investors by BA firms relative to B firms in non-fiduciary states was contemporaneous with an additional change in retail transaction cost.

I find evidence of an increase in transaction cost by BA firms relative to B firms following the temporary rule adoption in fiduciary states, but that the increase in transaction cost was not specific to retail transactions but also present in institutional transactions. Thus, I do not find evidence indicating that adherence to the temporary rule led specifically to additional retail investor transaction costs but instead find evidence of a more systematic change to the cost of all BA firm transactions. I also find evidence indicating an additional decrease in the cost of retail transactions by BA firms relative to B firms following the temporary rule adoption in non-fiduciary states. The time periods in which I find the additional decrease in transaction cost, however, only partially aligns with the time periods in which I find the additional increase in retail sales. Taken together, I do not find sufficient evidence in these

[11] See Section II.a for a further discussion of the requirements of the temporary rule. The markup/ markdown bond traders set on firm inventory, especially for transactions that are more arm's length, presumably would not be dependent on the account type of the investor and the regulatory regime under which the registered representative provides recommendations.

tests to conclude that changes to the regulatory regime stemming from the temporary rule adoption had an effect, either directly or indirectly, on the cost of retail transactions.

The results in this paper only provide suggestive evidence of the effects of regulatory regimes as a result of conducting tests at the firm level and not at the account level. Tests at the account level would require information describing the type of investor account, whether the transaction was solicited or unsolicited, and investor characteristics.[12] Other factors may be important in explaining the test results. I attempt to control for these other factors by comparing principal transactions between time periods, firms, and states, and controlling for differences between bonds, firms, and states with additional explanatory variables.

This is the first paper to empirically investigate the effect of regulatory regimes on the advice retail investors receive. The appropriate standard of conduct for broker-dealers and investment advisers is the subject of an ongoing debate among federal agencies, industry representatives, and investor advocacy groups. Some believe that a uniform fiduciary standard at the federal level applied across broker-dealers and investment advisers would provide additional retail investor protections, whereas others believe that a fiduciary standard of conduct applied to the broker-dealer regulatory regime would increase firm costs with little benefit and would ultimately result in reduced investor access to advice.[13] Examples of firm costs include ongoing costs relating to "back-office" functions, other compliance costs, and litigation costs.

Past research relating to the provision of financial advice typically investigates its net benefit or quality, and investigates only one type of financial agent or makes no distinction. Recent examples include Chalmers and Reuter (2011) who investigate the performance of

[12]The SEC recently requested data and other information relating to the benefits and costs of the standards of conduct and other obligations of broker-dealers and investment advisers (SEC; 2013). Examples of requested data and information include the types of services available to retail investors, the types of securities financial agents offer or recommend, and the costs to financial agents of providing personalized investment advice about securities.

[13]Comments to the 913 Study, including one by Oliver Wyman and the Securities Industry and Financial Markets Association, dated October 27, 2010, and one by State Farm VP Management Corporation, dated August 27, 2010, describe the potential costs of broker-dealers shifting to a fiduciary standard of conduct. All comment letters to the 913 Study and to a subsequent request for information and other data (SEC; 2013) can be found at http://www.sec.gov/comments/4-606/4-606.shtml.

brokerage customer retirement portfolios; and Mullainathan, Nöth, and Schoar (2011) who investigate the quality of investment advice provided by financial agents in an audit study.[14] These examples, as well as other research utilizing international data, indicate that retail investors do not always receive beneficial investment advice.[15] Other research finds conflicts of interest may partially determine the advice investors receive. For example, Bergstresser, Chalmers, and Tufano (2009) find that funds sold through an intermediary underperform funds sold directly to investors, and that the sale of underperforming funds may stem from conflicts of interest as a result of intermediary sales incentives.[16] I find that the advice investors receive may be partially determined by the regulatory regime governing its provision, and that investment advice should be evaluated in this respect.

Although the focus of this paper is on the provision of personalized investment advice, it also contributes to the municipal bond literature investigating municipal securities markets including Harris and Piwowar (2006); Green, Hollifield, and Schürhoff (2007a); Green, Hollifield, and Schürhoff (2007b); Green, Li, and Schürhoff (2010); Li and Schürhoff (2012); and Schultz (2012). I find evidence that the regulatory regime governing the provision of personalized investment advice may be an important determinant in the transaction of these securities, especially with respect to retail investors.

I organize the rest of the paper as follows: Section II provides additional regulatory background information, Section III describes the data, Section IV describes the tests of sales to retail investors, Section V describes the tests of transaction cost, and Section VI concludes.

[14] In relation to this paper, it is unclear whether Mullainathan et al. (2011) conduct audits of broker-dealers, investment advisers, or both. For instance, their use of the term "investment advisers" relates to "retail advisers whom the average citizen can access via their bank, independent brokerages, or investment advisory firms." Thus, their definition of investment adviser seemingly incorporates both broker-dealers and investment advisers.

[15] Examples of research utilizing international data to investigate the quality of investment advice include Bhattacharya, Hackethal, Kaesler, Loos, and Meyer (2012); Fecht, Hackethal, and Karabulut (2010); Bluethgen, Meyer, and Hackethal (2008); Bluethgen, Gintschel, Hackethal, and Müller (2008); Karabulut (2011); Kramer (2009); and Kramer and Lensink (2009).

[16] Other work examining the distribution of mutual funds include Del Guercio and Reuter (2011); Del Guercio, Reuter, and Tkac (2010); and Christoffersen, Evans, and Musto (2013).

II. Regulatory Background

This paper investigates the effect of regulatory regimes on the provision of personalized investment advice to retail investors. The null hypothesis is that the temporary rule and differences between the regulatory regimes do not matter to the principal transactions of investment grade municipal bonds relating to retail investors. The alternative hypothesis is that the temporary rule and differences between the regulatory regimes do matter to the principal transactions of investment grade municipal bonds relating to retail investors. Below, I provide additional background on the temporary rule, the investment adviser regulatory regime, and fiduciary standards of conduct. Figure 1 provides a diagram of the changes to the regulatory regime governing the principal transactions of investment grade municipal bonds by firm and state classification during the sample period.

II.a *Changes to the Regulatory Regime Governing Principal Transactions*

The temporary rule establishes an alternative means for dual registrant firms to meet the requirements under Section 206(3) of the Advisers Act when engaging in principal transactions with non-discretionary advisory clients (SEC; 2007). The temporary rule, adopted in October 2007, was in direct response to a March 2007 court decision (*Financial Planning Association v. U.S. Securities and Exchange Commission*) overturning an SEC rule exempting broker-dealers from the definition of "investment adviser" when charging non-transaction based compensation (or "fee-based" brokerage accounts).[17]

Section 206(3) of the Advisers Act requires an investment adviser to provide written conflict-of-interest disclosure describing its role as principal when transacting securities from its own account and obtain client consent prior to transaction completion. The temporary rule provides a dual registrant firm the option of providing transaction-by-transaction disclosures verbally instead of in writing when engaging in principal transactions with non-

[17] Non-transaction based fees include fees based on the amount of assets under management. A consequence of the court decision was the requirement that dual registrant firms and broker-dealers treat fee-based brokerage accounts as advisory accounts, and that the firms as a result became subject to the restrictions of the Advisers Act when engaging in principal transactions. The temporary rule was adopted so that dually registered advisers could continue to engage in principal transactions with the customers of these accounts.

discretionary advisory clients as long as the firm satisfies additional requirements. Additional requirements of the temporary rule include the provision of a written prospective disclosure to clients describing the conflicts arising from principal transactions, acquisition of written revocable client consent prospectively authorizing such transactions, the provision of transaction-by-transaction confirmations, and the provision of annual reports itemizing the clients' principal transactions thereafter. The temporary rule does not relieve the obligations of the investment adviser regulatory regime including its fiduciary standard of conduct. Moreover, dual registrant firms engaging in principal transactions with advisory clients must also still adhere to the broker-dealer sales practice and best-execution obligations set by the SEC and SROs (SEC; 2007).

There are two primary changes to the regulatory regime governing the recommendation and transaction of investment grade municipal bonds stemming from adherence to the temporary rule which may have led to a change in sales to retail investors and retail transaction cost. The first primary change is the rules and requirements of the temporary rule itself. A dual registrant firm cannot rely on the rule for securities it or an affiliated entity underwrites or issues except for investment grade non-convertible debt. This restriction may have possibly resulted in a shift in sales from other securities to investment grade municipal bonds. Adherence to the temporary rule may have also led to an increase in compliance costs which may have been passed on to investors in the form of higher transaction costs. Compliance costs include the provision of written prospective disclosures, acquisition of written revocable client consent, and the implementation of systems to monitor adherence to the rule.

The second primary change is the application of the rules and requirements of the investment adviser regulatory regime, not including the rules and requirements of the temporary rule, to the recommendation and transaction of investment grade municipal bonds. The provision of personalized investment advice subject to the investment adviser regulatory regime, including a fiduciary standard of conduct, may have led to a change in security

recommendations retail investors receive and the cost of providing advice.[18]

Both primary changes may in some form have contributed to the results found below.[19] The results suggest that the introduction of a fiduciary standard of conduct to the recommendation and transaction of investment grade municipal bonds by BA firms in non-fiduciary states may have led to greater sales to retail investors.

II.b *Standards of Conduct*

At the federal level, investment advisers are fiduciaries to their clients, whereas broker-dealers generally are not fiduciaries to their customers.[20] Both regulatory regimes provide protections to retail investors from abusive practices. Such protections include the obligation to seek best execution on customer or client orders, and the provision of investment advice which is suitable and in the best interests of their customers or clients. As part of a fiduciary duty, investment advisers also have an obligation to place the clients' interests in front of their own and to disclose or eliminate all material conflicts of interest.

In some states, broker-dealers are subject to a fiduciary standard of conduct (SEC; 2011). I assume that in practice standards of conduct, either directly or indirectly, are constraints to

[18]See footnote 13 and related text.

[19]Two other secondary changes may have also led to a change in security recommendations and transaction cost. The first of these secondary changes is the possible change in the number and the characteristics of investors with access to investment grade municipal bonds. As a result of the temporary rule, investment advisers at BA firms have greater ability to recommend certain securities from firm inventory to their advisory clients. If some advisory clients did not have access to these securities such as through additional brokerage accounts prior to the temporary rule adoption, then the adherence to the temporary rule may have changed the population of investors with access to these securities.

The second of these secondary changes is the change in the form of financial agent compensation for those customers transferring assets from fee-based brokerage accounts to commission-based brokerage accounts. Financial agents compensated with commissions may be more inclined to recommend securities not intended to be invested in long-term to collect transaction based fees. On the other hand, financial agents compensated with fees based on the amount of assets under management may be more inclined to recommend securities intended to be invested in long-term to avoid transaction costs.

Both the possible change in the population of investors with access to securities from firm inventory and the form of financial agent compensation would have effects that are more ongoing and that are independent of state fiduciary laws. The results, especially with respect to sales to retail investors, instead indicate that changes to the principal transactions of investment grade municipal bonds is dependent on state classification. It is possible, however, that these secondary changes also had an influence on the test results.

[20]There are differing interpretations as to when broker-dealers have a fiduciary obligation to their customers. The ambiguity stems from a lack of litigated cases impeding the development of case law, variation in customer contracts, and inconsistencies between states (Laby; 2010).

the investment advice financial agents provide. Although firms may not implement control and compliance systems or procedures to address differences in state law, state law may still be important to the provision of personalized investment advice. For instance, in case of customer dispute, federal courts would look to state law to determine the fiduciary obligations of a broker-dealer (Laby; 2010), and arbitrators can apply state laws to determine awards in case of customer arbitration.[21]

III. Data Description

I obtain information describing the business of dual registrant firms and broker-dealers from public SEC filings, municipal bond characteristics from the Mergent Municipal Bond Securities Database (Mergent dataset) and SDC Platinum, municipal bond transaction data from the MSRB RTRS dataset, and state information from various sources.

The time period of study is from January 2006 to December 2008. I use bonds with offering dates between January 2006 and December 2006, and between October 2007 and September 2008. I choose a short time period to accurately test the change in municipal bond transactions while avoiding to the fullest extent possible the impact of the global financial crisis of 2008. I do not include municipal bonds with offering dates within 60 trading days of the court decision, from January 2007 to March 2007, and between the court decision and the temporary rule adoption, from March 2007 to September 2007, due to the legal uncertainty of the time period. Similar to Green et al. (2007a), my sample includes only bond transactions occurring within 60 trading days of the bond offering date. The 60 trading day window allows me to incorporate the municipal bonds that are the most frequently traded and to limit the number of municipal bonds with trading periods that overlap either the court decision or the temporary rule adoption.

[21] Customers of broker-dealers and dual registrant firms, including the advisory clients at dual registrant firms, typically sign pre-dispute arbitration agreements with their financial agent. Training materials from the Financial Industry Regulatory Authority (FINRA), which operates the largest dispute resolution program in the securities industry, guides arbitrators to seek guidance in most cases from the parties involved to determine the applicable law or laws. See *The Neutral Corner*, Volume 3 (2010), published by FINRA, and *Basic Arbitrator Training*, also published by FINRA, for training materials.

III.a *Broker-Dealer and Dual Registrant Firm Information*

The initial sample of broker-dealers (and dual registrant firms) includes all broker-dealers that engaged in a municipal bond transaction during the sample period and that is reported in the MSRB RTRS dataset. I require all firms to file annual SEC Form X-17A-5 audited reports with information encompassing the sample period to ensure that the sample of broker-dealers does not change from before the court decision to after the temporary rule adoption. Form X-17A-5 is a financial and operational report that must be filed by all broker-dealers registered with the SEC, and can be found on the SEC's EDGAR system. I obtain information describing the firm's investment adviser business, if any, from annual SEC Form ADV filings. Investment advisers and dual registrant firms file Form ADV with the SEC to provide general information including the types of clients, compensation arrangements, and advisory activities. Past Form ADV filings can be found on the SEC's Investment Adviser Public Disclosure website.

I classify a firm as a BA firm if it files Form ADV, reports actively engaging in business as a broker-dealer, reports a positive number of non-discretionary advisory accounts, and reports that it engages in principal transactions with advisory clients. BA firms are only potentially adhering to the temporary rule because firms filing Form ADV do not specifically acknowledge adherence to the rule. A B firm either does not file Form ADV, does not report actively engaging in business as a broker-dealer, does not report a positive number of non-discretionary clients, or does not report that it engages in principal transactions with advisory clients. B firms, therefore, could not be relying on the temporary rule. Because firms generally did not engage in principal transactions with non-discretionary advisory clients prior to the temporary rule adoption, I classify firms using information from the time period following the rule adoption only. To obtain a more direct comparison between firms either adhering to the temporary rule or not adhering to the rule, I exclude firms that are not solely classified as either a BA firm or a B firm as of December 2007 and December 2008. There are 95 BA firms and 1,475 B firms that meet all sample requirements.

III.b *Municipal Bond Characteristics*

I obtain bond characteristic information from the Mergent dataset. The Mergent dataset provides security and issue information for 484,256 individual bonds with offering dates between July 2005 and December 2008. I extract bond information from the Mergent dataset including the type and frequency of coupon payments, put options, call options, sinking fund provisions, non-standard interest frequency or interest calculation, credit enhancements, tax status, the type of debt-paying assets, and the use of proceeds. I obtain bond ratings information from SDC Platinum.

I exclude 26,075 individual bonds from the initial sample with missing offering price information, missing or inaccurate total offering amount information, remarketed bonds, and bonds not relating to any of the 50 states or the District of Columbia.[22] To incorporate the Harris and Piwowar (2006) bond model in my analysis, I exclude 16,586 individual bonds with a derivative or warrant feature, and 8,346 individual bonds with non-standard coupon payments (adjustable, floating, flexible, variable, inverse, or index-linked coupons). I also exclude 80,986 individual bonds that are either designated as non-investment grade or with missing ratings information in SDC Platinum to ensure that the temporary rule can apply to all bonds in the sample. There are 352,309 bonds remaining in the sample. Bond issuances are spread evenly throughout the sample period. There are 109,168 investment grade municipal bonds meeting sample requirements with offering dates between January 2006 and December 2006, and there are 89,543 investment grade municipal bonds meeting sample requirements with offering dates between October 2007 and September 2008.

III.c *State Information*

I obtain state law information from Finke and Langdon (2012) who classify states and the District of Columbia into one of three categories based on whether broker-dealers are subject to a fiduciary standard of conduct, a quasi-fiduciary standard of conduct, or no

[22] I search for inaccurate total offering amount information by examining individual bonds with total offering amount less than denomination amount. Often these securities are zero-coupon bonds selling at a discount. However, it can also be indicative of data error. I find only a few such examples.

fiduciary standard of conduct. They base their classification scheme on court decisions and state regulations. It is unclear the extent to which state level fiduciary or quasi-fiduciary standards of conduct relate to the fiduciary standard of conduct of the investment adviser regulatory regime. For instance, Finke and Langdon (2012) note that some quasi-fiduciary states "impose a standard higher than the suitability standard imposed by FINRA for non-discretionary accounts."

From the classification of Finke and Langdon (2012), I define a fiduciary state as a state where broker-dealers are subject to a fiduciary or quasi-fiduciary standard of conduct, and a non-fiduciary state as a state where generally broker-dealers are not subject to a fiduciary standard of conduct. State classifications relate to the standards of conduct governing the provision of advice in non-discretionary accounts. The difference between states is whether broker-dealers are either subject to additional standards of conduct that seemingly relate to a fiduciary standard or are generally not subject to a fiduciary standard of conduct. Table 1 presents a listing of fiduciary states and non-fiduciary states by geographic region. There are 37 fiduciary states and 14 non-fiduciary states. A little more than a quarter of bond issues relate to non-fiduciary states.

I obtain state income information from the U.S. Census Bureau, gross state product statistics from the Bureau of Economic Statistics, and tax information from the Federation of Tax Administrators. I incorporate the information in the regressions below to control for state level economic differences.

III.d *Municipal Bond Transaction Data*

I obtain municipal bond transaction data from the MSRB RTRS dataset. The dataset contains information for all municipal bond transactions from July 2005 to March 2009. Each observation provides information regarding bond cusip, trade date, time of trade, settlement date, bond price, par value, and transaction commissions. The dataset also contains fields identifying the transacting broker or brokers, the type of transaction (between two dealers or a dealer and a customer, sale or purchase), and dealer capacity (principal or agent). The

dataset does not contain information describing the type of investor engaging in customer transactions (institutional or retail), the type of customer account (brokerage or advisory), and whether the transaction was solicited or unsolicited. There are 5,382,087 observations relating to the principal transactions of sample investment grade municipal bonds in the final sample. In Appendix A.1, I describe measures to clean the dataset for missing or inaccurate trade dates, inaccurate prices, managed account transactions, and other possible data errors.

Table 2 presents the amount of investment grade municipal bond customer principal transactions relating to firms in the final sample. The table includes four panels presenting the total number and value of all customer transactions (Panel A), the total number and value of all sales to customers (Panel B), the total number and value of all sales to customers less than or equal to $50,000 (Panel C), and the total number and value of all sales to customers less than or equal to $20,000 (Panel D). I use sales to customers less than or equal to $50,000 and less than or equal to $20,000 to proxy for sales to retail investors. In each panel the table also presents transaction information by firm classification. In no year did B firms engage in more customer transactions or sales to customers than BA firms. Considering the number of BA firms to B firms, the comparison in customer transactions and sales highlights the difference in trading activity between the two classifications of firms.

IV. Tests of Municipal Bond Sales

IV.a *Empirical Model*

In the first set of tests, I investigate the effect of regulatory regimes on security recommendations by examining the sale of investment grade municipal bonds to retail investors. I define a transaction as a "retail transaction" if the par amount is less than or equal to $50,000. Alternatively, I define a transaction as a retail transaction if the par amount is less than or equal to $20,000. Evidence by Green et al. (2007a) indicates that sales to customers of smaller par amount exhibit greater average markups and intraday price dispersion than sales to customers of larger par amount. The greater price dispersion among smaller trans-

actions is akin to a set of investors, such as retail investors, with varying access to pricing information.

I estimate regressions at the individual bond level, measuring the sale of investment grade municipal bonds to retail investors with *ParSale*, equal to the net par sold to retail investors, and *NumSale*, equal to the net number of sales to retail investors. I include two sets of explanatory variables in the regression. Similar to the difference-in-difference-in-differences empirical methodology, the first set of explanatory variables controls for the time period of the bond offering date (either before the court decision or after the temporary rule adoption), the classifications of firms engaging in customer sales (either BA or B), and the state classification relating to the bond (either non-fiduciary or fiduciary). The variables include

- I^{TR} - an indicator variable equal to 1 if the offering date of the bond is after the temporary rule adoption, and 0 if the offering date of the bond is before the court decision
- $\overline{I^{BA}}$ - a continuous variable with a range between 0 and 1 equal to the average of I^{BA} (an indicator variable equal to 1 if a BA firm engages in the bond sale, and 0 if a B firm engages in the bond sale) for all firms engaging in at least one customer sale regardless of par amount[23]
- I^{NF} - an indicator variable equal to 1 if the bond relates to a non-fiduciary state, and 0 if the bond relates to a fiduciary state
- interaction terms between I^{TR}, $\overline{I^{BA}}$, and I^{NF} - $I^{TR} \times \overline{I^{BA}}$, $I^{TR} \times I^{NF}$, $\overline{I^{BA}} \times I^{NF}$, and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$

[23] I weight the average with the total par amount of firm customer sales. I average I^{BA} using all firms engaging in at least one customer sale regardless of transaction size instead of firms engaging in at least one retail sale to measure the classifications of firms that could have engaged in a retail sale. $\overline{I^{BA}}$ is undefined for bonds with no customer sales. These bonds are therefore not in the regression sample.

The second set of explanatory variables controls for differences between firms, bonds, and states that could also be important in explaining retail sales. The potential amount of bond sales to retail investors should relate to the trading activity of the firms engaging in customer sales. I control for firm trading activity with a quarterly measure of net firm customer sales (*CSales*) averaged at the bond level similar to $\overline{I^{BA}}$ ($\overline{CSales}$). I also control for differences between bonds by including variables describing the total par offering amount (*TotPar*), bond maturity (*Maturity*), and other bond characteristics (see Appendix A.2).

Assuming that retail investors purchase the bonds of within-state municipalities, economic differences between states could also be important in explaining retail sales. I control for differences in income distributions with annual median income (*StateMedInc*) and annual income standard error (*StateIncSE*). I also control for differences in investor demand (*StateDmnd*) equal to the natural log of the product of state GDP and the maximum of personal, corporate, and bank state tax rates (Harris and Piwowar; 2006). Lastly I include aggregate state level total par offering amount (*StateTotPar*) to control for recent bond issuance activity.

I rescale *ParSale*, $\overline{CSales}$, *TotPar*, *StateMedInc*, *StateIncSE*, and *StateTotPar*, by dividing each variable by 10,000 and then taking the natural log of one plus the scaled value. I also rescale *NumSale* and *Maturity* by taking the natural log of one plus its value. I lag $\overline{CSales}$, *TotPar*, *StateTotPar*, *StateMedInc* *StateIncSE*, and *StateDmnd* to the quarter or year prior to the bond offering date. In equation form, I estimate the following regression

$$\begin{aligned}
Y_i \;=\; & \beta_0 + \beta_1 I_i^{TR} + \beta_2 \overline{I_i^{BA}} + \beta_3 \left(I_i^{TR} \times \overline{I_i^{BA}} \right) \\
& + \beta_4 I_i^{NF} + \beta_5 \left(I_i^{TR} \times I_i^{NF} \right) + \beta_6 \left(\overline{I_i^{BA}} \times I_i^{NF} \right) \\
& + \beta_7 \left(I_i^{TR} \times \overline{I_i^{BA}} \times I_i^{NF} \right) + \boldsymbol{\beta} \mathbf{X}_i \; + \varepsilon_i \qquad (1)
\end{aligned}$$

where Y represents either *ParSale* or *NumSale*, β represents model parameters, $\mathbf{X}$ represents

the set of additional control variables, ε represents model error, and i indexes bonds.[24] I estimate both regressions using a tobit model that specifies censored observations at 0. I exclude individual bond observations with net par sold or net number of sales less than 0. With these observations, I am likely either missing transactions as a result of excluding firms not meeting sample requirements or miscategorizing transactions as relating to either retail or institutional customers.[25] I calculate t-statistics with standard errors clustered at the 6-digit cusip level to account for correlations in the error term at the level of the municipality. There are 157,116 observations relating to individual bonds in the regressions describing net sales less than or equal to \$50,000, and there are 157,979 observations relating to individual bonds in the regressions describing net sales less than or equal to \$20,000.

Two of the explanatory variables are of particular interest. The first variable of interest, $I^{TR} \times \overline{I^{BA}}$, controls for the change in retail sales following the temporary rule adoption in fiduciary states (setting I^{NF} equal to 0) dependent on the classification of firms engaging in bond customer sales. A significant regression parameter estimate corresponding to this variable indicates that the retail sale of a bond following the temporary rule adoption is dependent on the classifications of firms engaging in customer sales, and suggests that the temporary rule or the investment adviser regulatory regime, but not a fiduciary standard of conduct, may influence security recommendations.

The second variable of interest, $I^{TR} \times \overline{I^{BA}} \times I^{NF}$, controls for the additional change in retail sales following the temporary rule adoption in non-fiduciary states (setting I^{NF} equal to 1) dependent on the classification of firms engaging in customer sales. A significant regression parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicates that there is an additional effect following the temporary rule adoption in the relationship between retail sales and the classifications of firms engaging in customer sales in non-fiduciary states, and

[24] I also include state fixed effects in an alternative regression specification. I find little difference in the results.

[25] I exclude 3,444 observations with either negative net retail or institutional sales (see Section IV.c) when the retail transaction threshold is set at \$50,000, and I exclude 2,473 observations with either negative net retail or institutional sales when the retail transaction threshold is set at \$20,000.

suggests that a fiduciary standard of conduct may influence security recommendations.

IV.b *Results*

Table 3a presents model estimates for regression equation (1) when the retail transaction threshold is set at \$50,000, and Table 3b presents model estimates for regression equation (1) when the retail transaction threshold is set at \$20,000. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ are insignificant in all regressions, whereas the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are positive and significant at the 95% confidence level in all regressions. The sign and significance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicate an additional increase in retail sales by BA firms relative to B firms in non-fiduciary states following the temporary rule adoption, and suggests that a fiduciary standard of conduct may relate to the retail sale of investment grade municipal bonds. The insignificance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ indicate that I do not find evidence in this empirical setting that the temporary rule or other aspects of the investment adviser regulatory regime may also explain retail sales following the rule adoption.

Among the other control variables, I find that average firm customer sales, bond total par offering amount, and bond maturity are positive and significant determinants of retail sales, whereas other bond characteristics including sinking fund provisions, odd interest payment frequency, and federal and state taxes are negative and significant. In general, the sign and significance of the bond characteristic variables reflects the inclination of financial agents to avoid recommending and selling municipal bonds to retail investors with disadvantageous or complex features. I also find that state median income and investor demand are also positive and significant determinants of retail sales.

I estimate the possible economic significance of a fiduciary standard of conduct by subtracting the change in the unconditional expected value of *ParSale* and *NumSale* for a bond sold entirely by BA firms in non-fiduciary states with (a) the same change for a bond sold entirely by B firms in non-fiduciary states, and with (b) the same change for a bond sold

entirely by BA firms in fiduciary states. I calculate the unconditional expected amount of retail sales for a bond sold either entirely by BA firms or by B firms to obtain the most direct comparison between firm and state classifications as possible. In equation form, I estimate

$$\underbrace{(E[Y_{1,1,1}] - E[Y_{0,1,1}])}_{\Delta \text{ BA/non-fiduciary}} - \underbrace{(E[Y_{1,0,1}] - E[Y_{0,0,1}])}_{\Delta \text{ B/non-fiduciary}} - \underbrace{(E[Y_{1,1,0}] - E[Y_{0,1,0}])}_{\Delta \text{ BA/fiduciary}}$$

where Y represents either *ParSale* or *NumSale*, the first subindex of Y represents the value of I^{TR}, the second subindex of Y represents the value of $\overline{I^{BA}}$, and the third subindex of Y represents the value of I^{NF}. The first comparison, retail sales relating to B firms in non-fiduciary states, accounts for the change in expected retail sales in non-fiduciary states, and the second comparison, retail sales relating to BA firms in fiduciary states, accounts for the change in expected retail sales by BA firms. Neither comparison accounts for the change in bond sales as a result of an introduction of a fiduciary standard of conduct, such as with BA firms in non-fiduciary states, to a portion of security recommendations that would otherwise have not been subject to such a standard. The full difference, therefore, measures the potential effect of a fiduciary standard of conduct to the recommendation and sale of investment grade municipal bonds. To obtain a relative measure, I benchmark the full difference to the unconditional expected value of the dependent variables for a bond sold entirely by BA firms in non-fiduciary states prior to the court decision ($E[Y_{0,1,1}]$).

Table 4 presents the estimates of economic significance. When the retail transaction threshold is set at $50,000, I find that a fiduciary standard of conduct may lead to an 8.3% increase in *ParSale* and a 9.2% increase in *NumSale* per bond, and when the retail transaction threshold is set at $20,000, I find that a fiduciary standard of conduct may lead to a 16.4% increase in *ParSale* and a 16.0% increase in *NumSale* per bond. The influence of a fiduciary standard of conduct on security recommendations does not necessarily imply that the recommendations are necessarily "better," but does imply that the recommendations are different. For example, there is a trade-off between having securities in brokerage accounts

where generally the financial agent has no continuing obligation after providing investment advice but also does not charge ongoing fees, and having securities in advisory accounts where more typically the financial agent has agreed to a continuing obligation after providing investment advice but charges fees based on assets under management.[26] The decision to have long term assets in advisory accounts instead of brokerage accounts may therefore prove to be more costly in the long run.

IV.c *Extensions*

The time period of the study overlaps events relating to the recent financial crisis which may also have had an effect on the recommendation and sale of investment grade municipal bonds. For instance, bonds with offering dates from July 2008 to September 2008 have 60 trading day windows that overlap the bankruptcy of Lehman Brothers in September 2008. To investigate whether other events may have also led to a change in retail sales following the temporary rule adoption, I partition the full regression sample into calendar quarters and reestimate regression equation (1). That is, I reestimate regression equation (1) using bonds with offering dates either in the fourth quarter of 2006 and in the fourth quarter of 2007 (the first quarter following the temporary rule adoption), in the first quarter of 2006 and in the first quarter of 2008, in the second quarter of 2006 and in the second quarter of 2008, or in the third quarter of 2006 and the third quarter of 2008 (the fourth quarter following the temporary rule adoption). I partition the regression sample by calendar quarter to control for the effect of seasonal trends. If the results in the first set of tests relate to the adoption of the temporary rule, then I should find similar evidence either soon after the temporary rule adoption or throughout the post-event time period.

Table 5a presents the abbreviated regression results when the retail transaction threshold is set at $50,000, and Table 5b presents the abbreviated regression results when the retail

[26]Whether a broker-dealer or investment adviser has continuing obligations is dependent on the contractual arrangement with the customer. Over 95% of investment advisers charge fees based on the percentage of assets under management and less than 10% of investment advisers charge transaction based compensation (SEC; 2011).

transaction threshold is set at $20,000. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are positive and statistically significant in the regressions describing the retail sale of bonds with offering dates in the first quarter and in the second quarter following the temporary rule adoption, and are insignificant in the regressions describing the retail sale of bonds with offering dates in the third quarter and in the fourth quarter. These results indicate that if a fiduciary standard of conduct was significant in resulting in additional investment grade municipal bond retail sales, then it was most significant shortly after the rule adoption and before the potential influence of other events. I also only find strong evidence that $I^{TR} \times \overline{I^{BA}}$ is statistically significant in the regressions describing retail sales of bonds with offering dates in the second quarter. Thus, I do not find evidence of a trend that could relate to the temporary rule or other aspects of the investment adviser regulatory regime.

As a comparison to retail sales, I reestimate regression equation (1) but instead model institutional sales. I define a customer transaction as an "institutional transaction" if the par amount is strictly greater than $50,000. The additional increase in retail sales by BA firms relative to B firms in non-fiduciary states following the temporary rule adoption could be the result of a relative overall increase in the sale of these securities by BA firms and may not pertain specifically to retail investors. I reestimate regression equation (1) using the full regression sample and the regression sample partitioned by calendar quarter.

Table 6 presents the regression results when I use the full regression sample. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ are positive and statistically significant in both regressions, and that only in the regression describing *ParSale* is the parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ statistically significant albeit negative. These results suggest that although there was an increase in institutional sales by BA firms relative to B firms following the temporary rule adoption, the change in institutional sales dependent on the classification of firms engaging in customer sales was more positive for bonds relating to fiduciary states than to non-fiduciary states. Although a relationship potentially exists

between retail and institutional sales, these results suggest that the relative increase in retail sales by BA firms in non-fiduciary states is not reflective of an overall trend relating to these firms and securities. Table 7 presents the abbreviated regression results when I separate bond observations by calendar quarter. Similar to the quarterly regressions describing retail sales, and further evidence of a potential relationship between retail and institutional sales, I find that parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are significant in the regressions describing the institutional sale of bonds with offering dates in the first quarter and in the second quarter following the temporary rule adoption, and insignificant in the regressions describing the institutional sale of bonds with offering dates in the third quarter and in the fourth quarter.

V. Tests of Retail Transaction Cost

V.a *Empirical Model*

In the second set of tests, I investigate the effect of regulatory regimes on the transaction cost of investment grade municipal bonds. I utilize the Harris and Piwowar (2006) methodology to measure transaction cost.[27] The model describes bond price as a function of bond value, transaction cost, and interdealer price concession. The authors model transaction cost as a three term function. From this cost function, I obtain estimates of transaction cost at the individual bond level for transactions of par value equal to \$20,000, \$50,000, \$100,000, and \$1,000,000. Cost estimates of transactions of par value equal to \$20,000 and \$50,000 relate more to the cost of retail transactions, and cost estimates of transactions of par value equal to \$100,000 and \$1,000,000 relate more to the cost of institutional transactions.

To investigate the effect of regulatory regimes on transaction cost, I regress estimates of transaction cost on variables controlling for firm classification, the time period of the bond offering, the state classification relating to the bond, and other potential determinants of transaction cost including bond characteristics and state level variables. The additional variables in the cost function are similar to the explanatory variables that I use to explain

[27] See Appendix A.3 for a description of the methodology.

customer sales in Section IV. However, I respecify $\overline{I^{BA}}$ and $\overline{CSales}$ to take into consideration the utilization of each customer transaction to estimate transaction cost. I now define the variable $\overline{I^{BA}}$ as the non-weighted average of I^{BA} of all customer transactions, both purchases and sales, and $\overline{CSales}$ as the non-weighted average of the aggregate par amount of all firm customer transactions ($\overline{CTrans}$). I estimate the following regression

$$\begin{aligned}
\widehat{C}_{S,i} \quad = \quad & \beta_0 + \beta_1 I_i^{TR} + \beta_2 \overline{I_i^{BA}} + \beta_3 \left(I_i^{TR} \times \overline{I_i^{BA}} \right) \\
& + \beta_4 I_i^{NF} + \beta_5 \left(I_i^{TR} \times I_i^{NF} \right) + \beta_6 \left(\overline{I_i^{BA}} \times I_i^{NF} \right) \\
& + \beta_7 \left(I_i^{TR} \times \overline{I_i^{BA}} \times I_i^{NF} \right) + \boldsymbol{\beta} \mathbf{X}_i \; + \varepsilon_i
\end{aligned} \tag{2}$$

where $\widehat{C}$ represents cost estimates and S represents transaction size.[28] I incorporate the Bayesian shrinkage estimator of Harris and Piwowar (2006) to calculate the variance of cost estimates, and weight regression observations with the inverse of the variances. I calculate t-statistics with standard errors clustered at the 6-digit cusip level to account for correlations in the error term at the level of the municipality. There are 57,540 individual bonds that meet the requirements of the Harris and Piwowar (2006) model, and 57,500 observations relating to individual bonds that are in the regression sample.

Similar to the regressions in Section IV, the two variables of interest are $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$. A significant regression parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}}$ indicates a change in transaction cost following the temporary rule adoption in fiduciary states dependent on the classification of firms engaging in bond customer transactions. Significance of this variable suggests, especially for estimates of retail transaction cost, that the costs relating to compliance of the temporary rule may have resulted in an increase in the cost of BA firm transactions. A significant regression parameter corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicates an additional change in transaction cost in non-fiduciary states following the temporary rule adoption dependent on the classification of firms engaging in

[28]I also include state fixed effects in an alternative regression specification. I find little difference in the results.

bond customer transactions. The results in the first set of tests indicate an additional increase in retail sales by BA firms relative to B firms in non-fiduciary states. It is possible that this additional increase in retail sales is also contemporaneous with a change in retail transaction cost.

V.b *Results*

Similar to Harris and Piwowar (2006), I find that customer transaction cost decreases as transaction size increases. For example, average transaction cost weighted by the inverse of cost estimate variance ranges from 87 basis points for transactions of \$20,000, to 77 basis points for transactions of \$50,000, to 63 basis points for transactions of \$100,000, and to 21 basis points for transactions of \$1,000,000. These estimates are similar to Harris and Piwowar (2006) who find that average customer transaction cost ranges from 99 basis points for transactions of \$20,000, to 77 basis points for transactions of \$50,000, to 62 basis points for transactions of \$100,000, and to 24 basis points for transactions of \$1,000,000.

Table 8a presents model estimates for regression equation (2) describing the cost of transactions of par value equal to \$20,000 and \$50,000, and Table 8b presents model estimates for regression equation (2) describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. I find that $I^{TR} \times \overline{I^{BA}}$ is a positive and significant determinant of transaction cost in all four regressions, and that $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ is a negative and significant determinant in regressions describing the cost of transactions of par value equal to \$20,000, \$50,000, and \$100,000. The significance and similar magnitude of parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ in all four regressions suggests that the additional change in transaction cost dependent on the classification of firms engaging in customer transactions may not relate to the temporary rule but instead to other factors that would have a more systematic effect on the cost of all transactions regardless of size. The sign and significance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicate an additional decrease in retail transaction cost for those bonds relating to non-fiduciary states and with a greater proportion of transactions by BA firms. Although this additional decrease is greater for transactions relat-

ing more to retail investors, the tests below indicate that it may not relate to the additional increase in retail sales found in Section IV.

Among the other control variables, bond characteristics that are positive and significant determinants of retail transaction cost include bond maturity, optional call schedules, odd interest payment frequency, and state median income. Credit enhancements are also positively and significantly related to retail transaction cost, but more so prior to the temporary rule adoption than after; although the credit enhancement indicator variable is positive and statistically significant, the interaction term between the credit enhancement indicator variable and I^{TR} is negative and statistically significant. Retail transaction cost is also lower for bonds with total par offering amount. The sign and significance of many of the control variables are similar to the findings of Harris and Piwowar (2006).

V.c *Extension*

To investigate whether other events could relate to the changes in transaction cost following the temporary rule adoption, I again partition the full regression sample into calendar quarters and reestimate regression equation (2). In each one of the regressions, the variables of interest are again $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$.

Table 9a presents the abbreviated regression results describing the cost of transactions of par value equal to \$20,000 and \$50,000, and Table 9b presents the abbreviated regression results describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. I find that $I^{TR} \times \overline{I^{BA}}$ is positive in all regressions, and significant in at least one regression relating to each transaction size and quarter. On the other hand, I find that $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ is negative and statistically significant in the regressions describing the transaction cost of bonds with offering dates in the second quarter and in the third quarter following the temporary rule adoption. This result indicates that the time periods in which I find an additional decrease in retail transaction cost by BA firms relative to B firms in non-fiduciary states only partially overlaps the time periods in which I find an additional increase in retail sales. These two results, therefore, may not be related. Taken together, I do not find

enough evidence to conclude that changes to the regulatory regime governing the principal transactions of investment grade municipal bonds relate to changes in transaction cost that is specific to retail investors.

VI. Conclusion

This paper is a first step in determining the importance of regulatory regimes to the provision of personalized investment advice about securities to retail investors. Broker-dealers and investment advisers may provide many of the same services yet are subject to two different legal frameworks. The results in this paper indicate that differences between the two regulatory regimes may be important to the advice retail investors receive.

This paper investigates just one aspect of the many services broker-dealers and investment advisers may provide. Although I utilize transaction level data, regulatory events, and additional information like state laws, the lack of account level information limits the efficacy of the empirical methodology. Both regulators and researchers would greatly benefit from information describing investor demographics, account characteristics, the types of security investments, and security returns. Such information can not only provide a more meaningful description of a market characterized by information asymmetries, but also an industry that is vital to the financial well-being of many retail investors.

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Appendix

A.1 *MSRB RTRS Dataset*

There are 35,169,982 transaction observations in the MSRB dataset from July 2005 to December 2008.[29] The dataset reduces to 11,065,403 observations after I exclude bonds with missing issuance or bond information on Mergent, and bonds not meeting sample requirements (see Section II.b), and further reduces to 6,046,632 observations after I exclude transactions with missing trade date, time of trade, transaction price, and par amount information; inaccurate trade date information; and transactions with trade dates not within 60 trading days of the bond offering date.

I also exclude managed account transactions, or where an intermediary acts on the behalf of multiple customers and allocates securities across accounts. These transactions may appear in the dataset as a contemporaneous purchase and then sale to multiple customers at the same time and price with equal par amounts. There are 5,993,465 observations after combining multiple transactions with these similarities to one.

I identify observations with inaccurate transaction prices by comparing the price of an observation to the offering price of the bond and the prices of transactions that immediately precede and follow the observation. For each comparison price (relating to the offering price, the transaction price immediately preceding the observation, and the transaction price immediately following the observation), I calculate a measure equal to the absolute value of the observation price minus the comparison price, all divided by the observation price. I then separately rank each one the three sets of comparison measures. I classify a price as inaccurate with respect to one of the three comparison prices if it ranks in the top 0.05%. I choose 0.05% by examining outliers in the remaining sample when the threshold ranges from 0.01% to 0.1%.

[29] After August 2007, the original dataset separates each interdealer transaction into two observations. However, the original dataset also contains a field assigning each interdealer transaction an identification code. I use the identification code to combine the duplicate interdealer transactions. If I cannot match interdealer transactions on identification code, then I match on trade information. I assume the remaining interdealer transactions are non-duplicative.

I delete all individual observations from the sample where each one of the three comparison measures classify as inaccurate and the prices of the transactions immediately following and preceding the observation are also not inaccurate with respect to the next closest transaction. I also exclude all observations relating to a particular bond if an individual observation is inaccurate with respect to the offering price but I cannot delete it from the sample. This can occur when bond prices are inaccurate with respect to the offering price in consecutive transactions. I exclude 5,911 observations from the sample using this methodology, and I also exclude an additional 40,487 observations with bond price less than or equal to 0.01.

I also clean the dataset using par value traded information. I exclude observations with par value traded greater than total par offering amount. I also identify duplicate observations in the dataset by aggregating the par value traded to customers. I consider identical observations to be duplicate if the total par value sold to customer accounts is greater than the total par offering amount by the par value traded. I exclude 369 transactions that are duplicate and 2,209 observations with par traded greater than total par offering amount. Past researchers have taken additional steps to refine the MSRB transaction dataset. The additional refinements, however, impose additional assumptions on the dataset. There are 5,944,489 observations before excluding additional observations relating to agency transactions, and bonds that are not investment grade from the final sample.

A.2 *Bond Characteristic Variables*

The following is a list of bond characteristic indicator variables that I use in the regressions as explanatory variables. I define each variable with information from the Mergent dataset.

- *AAA* - equal to 1 if the bond has an investment grade rating of AAA, 0 otherwise
- *OptCallSched* - equal to 1 if the bond has an optional call schedule, 0 otherwise
- *ExtraOrdCall* - equal to 1 if the bond issue is subject to an extraordinary call, 0 otherwise

- *PutOption* - equal to 1 if the bond has a put option, 0 otherwise
- *CredEnh* - equal to 1 if the bond has either additional credit or bond insurance, 0 otherwise
- *SinkFund* - equal to 1 if the bond has a sinking fund provision, 0 otherwise
- *OddIntFreq* - equal to 1 if the frequency of interest payments is not semi-annual, 0 otherwise
- *OddIntCalc* - equal to 1 if the interest calculation is not 30 days per month by 360 days per year, 0 otherwise
- *GenObl* - equal to 1 if the security is a general obligation bond, 0 otherwise
- *RevBond* - equal to 1 if the security is a revenue bond, 0 otherwise
- *GenPurp* - equal to 1 if the security is for general purpose or public improvement, 0 otherwise
- *Education* - equal to 1 if the use of proceeds relates to higher education, primary and secondary education, and other education; 0 otherwise
- *Utility* - equal to 1 if the use of proceeds relates to public utilities including power, gas telephone, water, and waste; 0 otherwise
- *Health* - equal to 1 if the use of proceeds relates to hospitals, nursing homes, and other healthcare; 0 otherwise
- *CertPart* - equal to 1 if the type of debt is a certificate of participation, 0 otherwise
- *FedTax* - equal to 1 if the maturity is taxable at the federal level, 0 otherwise
- *StateTax* - equal to 1 if the maturity is taxable by the state of issue, 0 otherwise

I also include an interaction term between *CredEnh* and I^{TR} ($CredEnh \times I^{TR}$) to control for the potential change to the influence of credit enhancements on bond transactions as a result of the financial crisis.

A.3 *Harris and Piwowar (2006) Methodology*

I follow Harris and Piwowar (2006) and model bond price P as a function of bond value V, investor transaction cost C, and interdealer price concession δ. Transaction cost is dependent on whether the bond transaction is a dealer sale to a customer, a dealer purchase from a customer, or an interdealer transaction. To incorporate differences in transaction type, investor transaction cost is interacted with variable Q, equal to 1 if the transaction is a dealer sale to a customer, equal to -1 if the transaction is a dealer purchase from a customer, and equal to 0 if the transaction is an interdealer trade. Interdealer price concession δ is interacted with an indicator variable I^D, equal to 1 if the trade is an interdealer trade, and equal to 0 otherwise. In equation form, the price for bond i at time t is

$$P_{it} = V_{it} + Q_{it} P_{it} C_{it} + I^D_{it} P_{it} \delta_{it}$$

After taking the natural log of both sides of the bond price equation, the price equation for bond i at time t is subtracted from the price equation for bond i at time s. Following the approximations made by Harris and Piwowar (2006), the equation for the difference in bond price from time s to time t is

$$r^P_{its} = r^V_{ts} + Q_{it} C_{it} - Q_{is} C_{is} + I^D_{it} \delta_{it} - I^D_{is} \delta_{is}$$

where r^P represents the difference in the natural log of bond price and r^V represents the difference in the natural log of bond value. I define time s using the most recent bond trade, either customer or interdealer, prior to the trade at time t. If more than one bond transaction occurs at time s, then I use the bond transaction with greatest par value to calculate returns for transactions that occur at time t. Large transactions, typically involving institutional investors, are likely to provide more information than small transactions, possibly involving

retail investors. If more than one transaction occurs at time t, then time s is equal to time t. In this instance, I use the transaction with the greatest par amount to calculate differences in the natural log of bond price.

Harris and Piwowar (2006) model the difference in the natural log of bond value between the two trades as

$$r_{its}^{V} = N_{ts}^{CalDay}(5\% - Coupon_i) + \beta_1^V AvgSL_{ts} + \beta_2^V DiffSL_{ts} + \gamma_{its}$$

where N_{ts}^{CalDay} represents the number of calendar days between time s and time t, (5%-*Coupon*) represents the difference between the bond's coupon interest rate and 5%, *AvgSL* represents the average in and *DiffSL* represents the difference between short-term and long-term index returns, and γ is model error. The difference between the bond's coupon rate and 5%, in units of one calendar day, measures the return a trader would expect between trade dates when interest rates are constant. The expression of all bond returns in this manner, including when calculating bond index returns, should not affect the results. The error term γ has mean zero and variance equal to $N_{ts}^{TrdSes}\sigma_{TrdSes}^2$ where N_{ts}^{TrdSes} represents the number of trading sessions from time s to time t. I estimate index returns using a repeat sales regression methodology (Case and Shiller; 1987).[30]

Harris and Piwowar (2006) model transaction cost as a three or four term function. The primary cost function in their analysis is

$$C_i = c_0 + c_1 S_i^{-1} + c_2 \ln S_i + \kappa_i$$

where c_0, c_1, and c_2 represent model parameters; S represents transaction size; and κ represents model error. They motivate the equation as one part that controls for cost as a proportion of transaction size (c_0), one part that controls for fixed costs per trade, ($c_1 S^{-1}$), and one part that controls for cost as it varies with transaction size ($c_2 \ln S$).

The bond price equation is modeled separately for each bond. The full bond price

[30]See Appendix A.4 for a full explanation of the repeat sales regression methodology.

equation is

$$r^P_{its} - N^{CalDay}_{ts}(5\% - Coupon_i) = \beta^V_1 AvgSL_{ts} + \beta^V_2 DiffSL_{ts} + Q_{it}C_{it} - Q_{is}C_{is} + \eta_{its} \tag{3}$$

where η repesents model error. The error term η can be expressed as

$$\eta_{its} = \gamma_{its} + I^D_{it}\delta_{it} - I^D_{is}\delta_{is} + Q_{it}\kappa'_{it} - Q_{is}\kappa'_{is}$$

with zero mean and variance, σ^2_η, that can be expressed as

$$\sigma^2_\eta = N^{TrdSes}\sigma^2_{TrdSes} + D_{ts}\sigma^2_\delta + (2 - D_{ts})\,\sigma^2_\kappa$$

where D_{ts} is equal to the number of interdealer transactions between each of the two trades (0, 1 or 2), σ^2_δ represents the variance of δ, and σ^2_κ represents the variance of κ.

I follow Harris and Piwowar (2006) and use an iterated least squares methodology to estimate parameter estimates of equation (3) with weights equal to the inverse of σ^2_η estimates. Estimates of σ^2_η are obtained by pooling error terms from equation (3) and regressing the square of these error terms on N^{TrdSes}, D_{ts}, and $(2 - D_{ts})$. The parameters multiplying N^{TrdSes}, D_{ts}, and $(2 - D_{ts})$ are constrained to be strictly greater than zero.

A.4 *Repeat-Sale Regression*

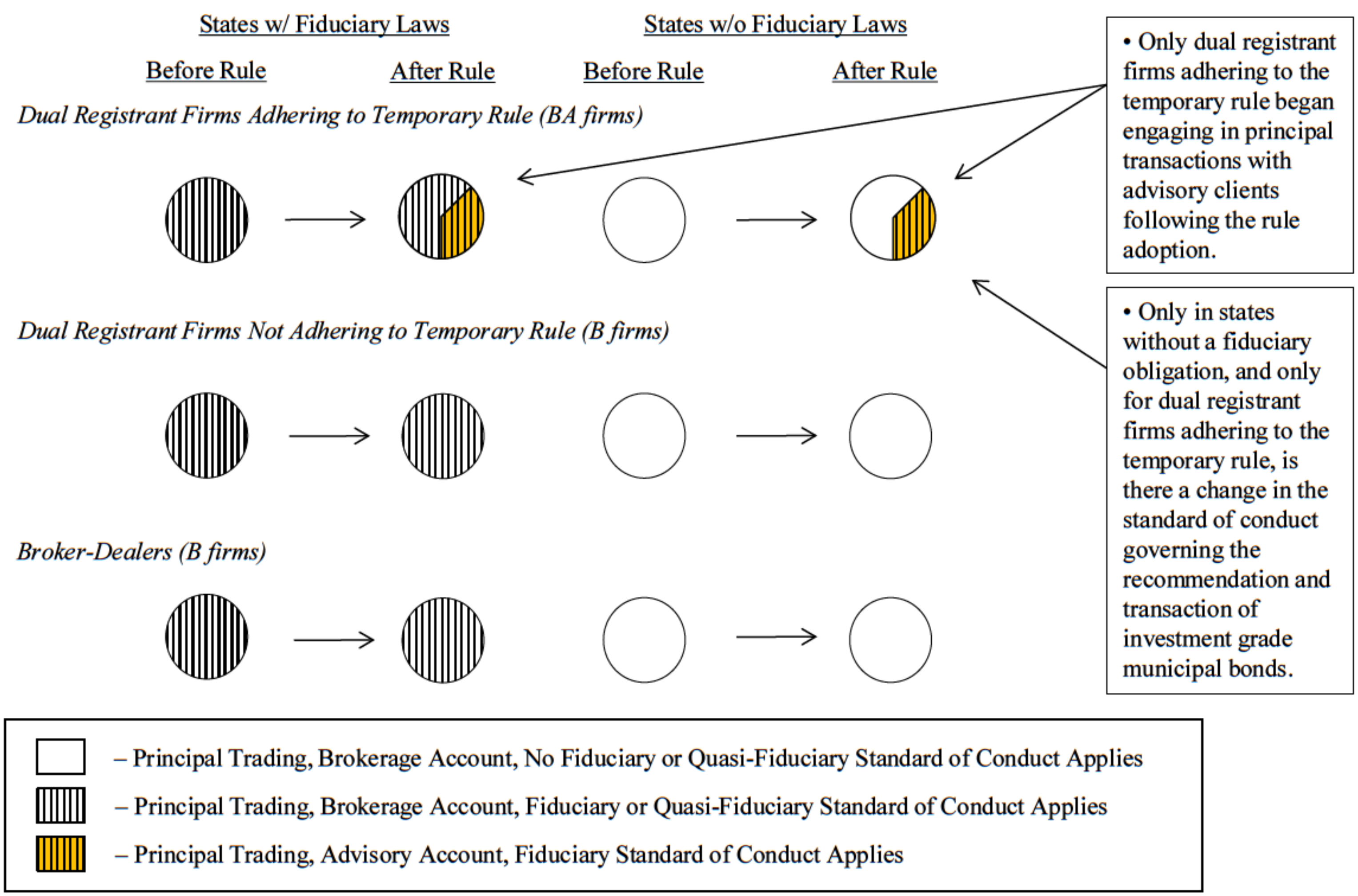
I calculate short-term and long-term bond daily index returns using the repeat-sale regression method of Case and Shiller (1987), regressing the returns of short-term bonds or long-term bonds on a set of indicator variables representing trade dates. I define bonds as short-term if less than 60 months remain until maturity, and bonds as long-term if at least 144 months remain until maturity. The indicator variables, I^{td}, are equal to 1 if the bond is held or sold on the trade date, 0 otherwise. The repeat-sale regression in equation form for all trades from the beginning of the sample period ($\tau = 1$) to the end of the sample period ($\tau =$ T) is

$$r_{its} - N^{CalDay}_{ts}(5\% - Coupon_i) = \sum_{1\le\tau}^{\tau\le T} \beta_\tau I^{td}_\tau + \zeta_{its} \tag{4}$$

where r_{its} represents the difference in the natural log of the price of bond i between time s and time t, N_{ts}^{CalDay} represents the number of calendar days between time s and time t, and (5%-*Coupon*) is the difference between the bond's coupon interest rate and 5% in units of one calendar day.

I obtain parameter estimates for both short-term and long-term bonds using a three-step procedure beginning with an initial estimate of equation (4). I then regress the initial squared estimates of ζ on the total number of days between consecutive trades, the squared total number of days between trade dates, and an intercept. Lastly, I reestimate equation (4) using fitted values from the second stage as regression weights. I use interdealer transactions only in the repeat-sale regression to avoid noise from the bond prices of customer transactions. If more than one interdealer transaction occurs for the same bond on a given trade date, then I use the last interdealer transaction on that date.

Figure 1: Changes to the Regulatory Regime Governing the Principal Transactions of Investment Grade Municipal Bonds by Firm and State Classification



This figure describes the change in the regulatory regime governing principal transactions dependent on firm classification and the presence of state fiduciary laws. For simplicity, this figure does not account for changes to the proportion of advisory accounts held at dual registrant firms following the court decision and temporary rule adoption. See Section II for further discussion.

Table 1: State Classification by Region

Region	Non-Fiduciary States		Fiduciary States	
	States	N	States	N
Northeast	Massachusetts, New York	2	Connecticut, Maine, New Hampshire, New Jersey, Pennsylvania, Rhode Island, Vermont	7
Midwest	Minnesota, North Dakota, Wisconsin	3	Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Nebraska, Ohio, South Dakota	9
Southeast	Arkansas, Mississippi, North Carolina	3	Alabama, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Oklahoma, South Carolina, Tennessee, Texas, Virgina, West Virginia	14
West	Arizona, Colorado, Hawaii, Montana, Oregon, Washington	6	Alaska, California, Idaho, New Mexico, Nevada, Utah, Wyoming	7
Number		14		37

This table lists the states either classifying as a fiduciary state or a non-fiduciary state by region. A fiduciary state requires broker-dealers to operate in a fiduciary or quasi-fiduciary capacity, whereas a non-fiduciary state makes no such requirements. See Sections II.b and III.c for a further description.

Table 2: Number and Par Value of Customer Transactions

Year	All		BA		B		All		BA		B	
	N	$bn.	N	$bn.	N	$bn.	N	$bn.	N	$bn.	N	$bn.
	Panel A - All Customer Transactions						*Panel B - All Customer Sales*					
2006	588,049	286.03	363,051	198.58	224,998	87.45	563,445	237.16	351,390	162.18	212,055	74.98
2007	617,520	350.79	390,557	245.88	226,963	104.91	592,575	290.07	377,988	200.12	214,587	89.95
2008	662,597	285.69	399,161	198.72	263,436	86.96	636,130	243.40	388,201	169.73	247,929	73.67
	Panel C - All Customer Sales ≤ $50k						*Panel C - All Customer Sales ≤ $20k*					
2006	324,646	8.91	213,633	5.82	111,013	3.10	131,061	1.72	87,926	1.16	43,135	0.56
2007	332,124	9.29	222,049	6.19	110,075	3.10	129,266	1.72	87,542	1.18	41,724	0.54
2008	376,530	10.48	238,460	6.68	138,070	3.80	146,090	1.91	91,553	1.22	54,537	0.69

This table presents the aggregate number and value of all investment grade municipal bond customer principal transactions. Panel A presents information describing all customer sales and purchases, Panel B presents information describing all sales to customers, Panel C presents information describing all sales to customers less than or equal to $50,000, and Panel D presents information describing all sales to customers less than or equal to $20,000. The table presents customer transactions for all firms, for dual registrant firms engaging in principal transactions with brokerage and advisory clients after the temporary rule adoption (BA firms), and for firms engaging in principal transactions with brokerage clients only after the temporary rule adoption (B firms). I obtain transaction information from the MSRB RTRS dataset.

Table 3a: Tobit Regressions Describing Retail Sales ($\leq$ \$50k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	0.036	(0.52)	0.020	(0.41)	*RevBond*	-0.009	(0.18)	0.002	(0.06)
$\overline{I^{BA}}$	0.099^{b}	(2.30)	0.086^{a}	(2.81)	*GenPurp*	-0.073	(1.48)	-0.059	(1.63)
$I^{TR} \times \overline{I^{BA}}$	-0.046	(0.73)	-0.024	(0.55)	*Education*	-0.188^{a}	(3.80)	-0.141^{a}	(3.93)
I^{NF}	-0.037	(0.63)	-0.004	(0.10)	*Utility*	-0.318^{a}	(5.34)	-0.242^{a}	(5.64)
$I^{TR} \times I^{NF}$	-0.150^{c}	(1.93)	-0.110^{b}	(1.99)	*Health*	-0.446^{a}	(3.97)	-0.286^{a}	(3.52)
$\overline{I^{BA}} \times I^{NF}$	0.183^{b}	(2.20)	0.117^{b}	(1.99)	*CertPart*	0.164^{b}	(2.13)	0.109^{b}	(2.00)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.249^{b}	(2.13)	0.178^{b}	(2.14)	*FedTax*	-0.854^{a}	(11.37)	-0.567^{a}	(10.38)
$\overline{CSales}$	0.285^{a}	(39.85)	0.203^{a}	(39.85)	*StateTax*	-0.899^{a}	(14.87)	-0.643^{a}	(15.29)
TotPar	0.086^{a}	(6.35)	0.078^{a}	(7.40)	*StateTotPar*	-0.064^{a}	(3.57)	-0.046^{a}	(3.55)
Maturity	0.141^{a}	(6.77)	0.138^{a}	(9.48)	*StateMedInc*	0.688^{a}	(3.76)	0.492^{a}	(3.71)
AAA	0.079^{c}	(1.74)	0.045	(1.35)	*StateIncSE*	1.367^{a}	(2.65)	1.171^{a}	(3.13)
OptCallSched	-0.100^{a}	(3.67)	-0.009	(0.47)	*StateDmnd*	0.102^{a}	(8.94)	0.075^{a}	(9.43)
ExtraOrdCall	-0.015	(0.26)	-0.004	(0.10)	*Constant*	-4.404^{a}	(14.33)	-3.464^{a}	(15.39)
PutOption	-0.260	(0.91)	-0.194	(0.92)					
CredEnh	-0.102^{c}	(1.70)	-0.070	(1.59)	σ	2.175		1.524	
CredEnh$\times I^{TR}$	0.070	(1.09)	0.044	(0.93)	N	157,116		157,116	
SinkFund	-0.523^{a}	(12.42)	-0.298^{a}	(9.64)	N = 0	70,877		70,849	
OddIntFreq	-1.109^{a}	(15.74)	-0.735^{a}	(14.61)	*pseudo* R^2	0.04		0.05	
OddIntCalc	-0.926	(1.02)	-0.619	(0.97)					
GenObl	-0.310^{a}	(7.79)	-0.216^{a}	(7.48)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 3b: Tobit Regressions Describing Retail Sales ($\leq$ \$20k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	-0.018	(0.27)	-0.009	(0.15)	*RevBond*	0.019	(0.44)	0.023	(0.57)
$\overline{I^{BA}}$	0.189^a	(4.77)	0.170^a	(4.85)	*GenPurp*	-0.091^b	(2.00)	-0.082^b	(2.02)
$I^{TR} \times \overline{I^{BA}}$	-0.023	(0.41)	-0.024	(0.47)	*Education*	-0.168^a	(3.77)	-0.150^a	(3.77)
I^{NF}	0.107^b	(2.04)	0.103^b	(2.20)	*Utility*	-0.322^a	(6.17)	-0.292^a	(6.27)
$I^{TR} \times I^{NF}$	-0.156^b	(2.16)	-0.144^b	(2.21)	*Health*	-0.202^b	(2.16)	-0.170^b	(2.02)
$\overline{I^{BA}} \times I^{NF}$	0.018	(0.24)	0.009	(0.14)	*CertPart*	0.094	(1.51)	0.080	(1.44)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.233^b	(2.25)	0.206^b	(2.23)	*FedTax*	-0.388^a	(5.38)	-0.341^a	(5.27)
$\overline{CSales}$	0.257^a	(35.70)	0.227^a	(35.32)	*StateTax*	-0.840^a	(15.59)	-0.753^a	(15.72)
TotPar	0.086^a	(6.26)	0.079^a	(6.32)	*StateTotPar*	-0.065^a	(3.91)	-0.058^a	(3.90)
Maturity	0.370^a	(19.17)	0.330^a	(19.15)	*StateMedInc*	0.441^a	(2.71)	0.388^a	(2.67)
AAA	0.052	(1.22)	0.042	(1.09)	*StateIncSE*	2.242^a	(4.86)	2.051^a	(4.96)
OptCallSched	0.216^a	(9.14)	0.195^a	(9.32)	*StateDmnd*	0.094^a	(10.07)	0.085^a	(10.19)
ExtraOrdCall	0.016	(0.31)	0.014	(0.32)	*Constant*	-5.830^a	(20.85)	-5.197^a	(20.61)
PutOption	-0.306	(1.13)	-0.268	(1.10)					
CredEnh	-0.086	(1.54)	-0.073	(1.46)	σ	1.865		1.653	
CredEnh$\times I^{TR}$	0.061	(0.68)	0.054	(0.74)	N	157,979		157,979	
SinkFund	-0.173^a	(4.86)	-0.129^a	(4.04)	N = 0	105,926		105,931	
OddIntFreq	-0.599^a	(8.81)	-0.527^a	(8.77)	*pseudo* R^2	0.06		0.06	
OddIntCalc	-0.665	(1.05)	-0.571	(1.01)					
GenObl	-0.264^a	(7.25)	-0.231^a	(7.08)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$20,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 4: Expected Changes in Retail Sales by Firm and State Classification

	$\overline{I^{BA}} = 1,\ I^{NF} = 1$			$\overline{I^{BA}} = 0,\ I^{NF} = 1$			$\overline{I^{BA}} = 1,\ I^{NF} = 0$			$\Delta_1 - \Delta_2$	Bench-	
	$E[Y]$		Δ_1	$E[Y]$		Δ_2	$E[Y]$		Δ_3	$-\Delta_3$	mark	$\Delta\%$
$I^{TR} =$	1	0		1	0		1	0				
Panel A: Expected Changes in Sales less than or equal to \$50k by Firm and State Classification												
ParSale	1.372	1.289	0.083	1.074	1.117	-0.043	1.217	1.198	0.018	0.107	1.289	8.3%
NumSale	0.919	0.863	0.056	0.707	0.743	-0.036	0.807	0.795	0.013	0.079	0.863	9.2%
Panel B: Expected Changes in Sales less than or equal to \$20k by Firm and State Classification												
ParSale	0.497	0.478	0.019	0.355	0.405	-0.050	0.424	0.433	-0.009	0.078	0.478	16.4%
NumSale	0.436	0.421	0.015	0.313	0.358	-0.045	0.373	0.381	-0.008	0.067	0.421	16.0%

This table reports estimates of the potential economic significance of a fiduciary standard of conduct. Columns with "$E[Y]$" headers report the unconditional expected value of the dependent variables stemming from the estimation of regression equation (1) given the time period of the retail sales, I^{TR}, the classification of firms engaging in customer sales, $\overline{I^{BA}}$, and the state classification relating to the bond, I^{NF}. All other variables are set to its sample mean. The variable Y represents either *ParSale* or *NumSale*. Columns with "Δ_i" headers report differences between time periods, and the third to last column reports the full difference between all firm and state classifications. I benchmark the full difference with the unconditional expected value of the dependent variables by BA firms in non-fiduciary states prior to temporary rule adoption. The last column relates the full difference to the benchmark. See Section IV for full explanation.

Table 5a: Tobit Regressions Describing Retail Sales by Calendar Quarter ($\leq$ \$50k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.113	(0.80)	-0.307^{b}	(2.13)	0.019	(0.17)	0.050	(0.39)
$\overline{I^{BA}}$	0.137^{c}	(1.71)	0.219^{a}	(2.58)	0.089	(1.05)	-0.029	(0.36)
$I^{TR} \times \overline{I^{BA}}$	-0.131	(1.06)	-0.354^{a}	(2.62)	0.039	(0.34)	0.183	(1.52)
I^{NF}	-0.025	(0.23)	0.218^{c}	(1.92)	-0.187^{c}	(1.81)	-0.101	(0.93)
$I^{TR} \times I^{NF}$	-0.187	(1.19)	-0.433^{a}	(2.63)	0.006	(0.04)	-0.104	(0.71)
$\overline{I^{BA}} \times I^{NF}$	0.010	(0.07)	0.105	(0.63)	0.269^{c}	(1.72)	0.406^{a}	(2.57)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.533^{b}	(2.35)	0.381	(1.49)	0.134	(0.60)	-0.057	(0.25)
...								
N	41,959		33,511		44,222		37,424	
N = 0	20,262		15,521		19,354		15,740	
pseudo R^2	0.03		0.04		0.04		0.04	
Panel B: NumSale								
I^{TR}	0.087	(0.87)	-0.239^{b}	(2.31)	0.006	(0.08)	0.027	(0.30)
$\overline{I^{BA}}$	0.110^{b}	(1.97)	0.177^{a}	(2.92)	0.079	(1.31)	-0.007	(0.12)
$I^{TR} \times \overline{I^{BA}}$	-0.082	(0.96)	-0.266^{a}	(2.78)	0.046	(0.57)	0.141^{c}	(1.65)
I^{NF}	0.003	(0.04)	0.175^{b}	(2.17)	-0.100	(1.37)	-0.057	(0.73)
$I^{TR} \times I^{NF}$	-0.121	(1.12)	-0.322^{a}	(2.78)	0.003	(0.03)	-0.080	(0.78)
$\overline{I^{BA}} \times I^{NF}$	-0.006	(0.05)	0.047	(0.39)	0.188^{c}	(1.68)	0.278^{b}	(2.48)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.369^{b}	(2.34)	0.297^{c}	(1.65)	0.075	(0.47)	-0.033	(0.20)
...								
N	41,959		33,511		44,222		37,424	
N = 0	20,255		15,518		19,345		21,693	
pseudo R^2	0.04		0.05		0.05		0.06	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 5b: Tobit Regressions Describing Retail Sales by Calendar Quarter ($\leq$ \$20k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.122	(0.92)	-0.355^{a}	(2.75)	-0.085	(0.81)	0.036	(0.30)
$\overline{I^{BA}}$	0.231^{a}	(3.08)	0.247^{a}	(3.23)	0.174^{b}	(2.20)	0.109	(1.46)
$I^{TR} \times \overline{I^{BA}}$	-0.075	(0.67)	-0.330^{a}	(2.73)	0.115	(1.14)	0.081	(0.73)
I^{NF}	0.120	(1.22)	0.284^{a}	(2.82)	0.027	(0.29)	0.030	(0.30)
$I^{TR} \times I^{NF}$	-0.123	(0.85)	-0.459^{a}	(3.12)	0.022	(0.17)	-0.178	(1.31)
$\overline{I^{BA}} \times I^{NF}$	-0.146	(1.06)	-0.090	(0.62)	0.158	(1.13)	0.174	(1.21)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.456^{b}	(2.23)	0.533^{b}	(2.44)	-0.048	(0.24)	0.052	(0.26)
...								
N	42,128		33,743		44,473		37,635	
N = 0	29,651		22,741		29,093		24,441	
pseudo R^2	0.05		0.07		0.06		0.07	
Panel B: NumSale								
I^{TR}	0.108	(0.91)	-0.315^{a}	(2.72)	-0.066	(0.70)	0.046	(0.42)
$\overline{I^{BA}}$	0.200^{a}	(3.00)	0.226^{a}	(3.32)	0.160^{b}	(2.29)	0.102	(1.53)
$I^{TR} \times \overline{I^{BA}}$	-0.058	(0.59)	-0.302^{a}	(2.80)	0.094	(1.05)	0.068	(0.68)
I^{NF}	0.112	(1.29)	0.258^{a}	(2.84)	0.037	(0.44)	0.036	(0.40)
$I^{TR} \times I^{NF}$	-0.112	(0.87)	-0.416^{a}	(3.14)	0.013	(0.11)	-0.161	(1.32)
$\overline{I^{BA}} \times I^{NF}$	-0.133	(1.09)	-0.081	(0.62)	0.128	(1.03)	0.149	(1.16)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.400^{b}	(2.20)	0.473^{b}	(2.41)	-0.041	(0.23)	0.047	(0.26)
...								
N	42,128		33,743		44,473		37,635	
N = 0	29,650		22,742		29,095		13,191	
pseudo R^2	0.05		0.07		0.06		0.07	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$20,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 6: Tobit Regressions Describing Institutional Sales (> $50k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	0.087^a	(2.87)	0.062^a	(3.87)	*RevBond*	-0.068^a	(2.90)	-0.027^b	(2.24)
$\overline{I^{BA}}$	-0.145^a	(7.21)	-0.050^a	(5.34)	*GenPurp*	0.052^b	(2.38)	0.006	(0.48)
$I^{TR} \times \overline{I^{BA}}$	0.055^b	(2.06)	0.026^c	(1.95)	*Education*	0.031	(1.37)	-0.028^a	(2.59)
I^{NF}	0.054^b	(2.07)	0.044^a	(4.00)	*Utility*	0.120^a	(4.47)	-0.009	(0.66)
$I^{TR} \times I^{NF}$	0.089^a	(2.67)	-0.008	(0.52)	*Health*	0.068	(1.41)	-0.086^a	(3.52)
$\overline{I^{BA}} \times I^{NF}$	-0.049	(1.23)	-0.007	(0.40)	*CertPart*	-0.122^a	(2.90)	-0.014	(0.80)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.158^a	(2.96)	0.004	(0.17)	*FedTax*	0.034	(1.08)	-0.228^a	(15.84)
$\overline{CSales}$	0.024^a	(6.41)	0.037^a	(23.90)	*StateTax*	0.235^a	(11.76)	-0.032^a	(2.93)
TotPar	1.098^a	(192.21)	0.316^a	(63.85)	*StateTotPar*	-0.011	(1.43)	0.000	(0.10)
Maturity	-0.119^a	(10.65)	-0.066^a	(12.12)	*StateMedInc*	-0.341^a	(4.63)	-0.098^b	(2.24)
AAA	-0.044^b	(2.17)	-0.031^a	(2.72)	*StateIncSE*	-0.289	(1.24)	0.103	(0.85)
OptCallSched	-0.024^c	(1.69)	-0.058^a	(8.13)	*StateDmnd*	0.001	(0.15)	0.017^a	(4.80)
ExtraOrdCall	0.003	(0.10)	0.003	(0.22)	*Constant*	-0.447^a	(3.50)	-0.589^a	(8.40)
PutOption	-0.120	(1.28)	0.023	(0.34)					
CredEnh	0.134^a	(5.02)	0.074^a	(5.30)	σ	1.190		0.573	
CredEnh$\times I^{TR}$	-0.039	(1.39)	-0.019	(1.24)	N	157,116		157,116	
SinkFund	0.146^a	(9.08)	-0.019^b	(2.16)	N = 0	16,714		16,828	
OddIntFreq	-0.003	(0.08)	-0.198^a	(11.12)	*pseudo* R^2	0.24		0.22	
OddIntCalc	-0.043	(0.24)	-0.387^b	(1.98)					
GenObl	0.043^b	(2.45)	-0.030^a	(3.21)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to institutional investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define institutional sales as customer sales with par value strictly greater than $50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 7: Tobit Regressions Describing Institutional Sales by Calendar Quarter (> $50k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.155^a	(2.63)	0.153^a	(2.52)	0.083	(1.48)	-0.001	(0.01)
$\overline{I^{BA}}$	-0.153^a	(4.02)	-0.165^a	(3.86)	-0.133^a	(3.61)	-0.141^a	(3.76)
$I^{TR} \times \overline{I^{BA}}$	0.096^c	(1.88)	0.138^b	(2.39)	0.023	(0.48)	-0.031	(0.56)
I^{NF}	0.089^c	(1.91)	-0.146^c	(1.86)	0.119^a	(2.75)	0.079^c	(1.82)
$I^{TR} \times I^{NF}$	0.058	(0.94)	0.339^a	(3.84)	0.031	(0.50)	0.023	(0.36)
$\overline{I^{BA}} \times I^{NF}$	-0.038	(0.56)	0.175	(1.58)	-0.100	(1.56)	-0.187^a	(2.73)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.158^c	(1.76)	-0.377^a	(2.82)	-0.150	(1.60)	-0.015	(0.14)
...								
N	41,959		33,511		44,222		37,424	
N = 0	4,585		3,641		4,392		4,096	
pseudo R^2	0.25		0.23		0.24		0.24	
Panel B: NumSale								
I^{TR}	0.061^c	(1.86)	0.031	(0.93)	0.073^a	(2.80)	0.031	(1.07)
$\overline{I^{BA}}$	-0.035^b	(2.07)	-0.041^b	(2.21)	-0.068^a	(3.91)	-0.053^a	(2.94)
$I^{TR} \times \overline{I^{BA}}$	0.022	(0.85)	0.002	(0.08)	0.059^b	(2.42)	0.010	(0.40)
I^{NF}	0.057^a	(2.92)	0.029	(1.16)	0.047^a	(2.59)	0.032	(1.39)
$I^{TR} \times I^{NF}$	-0.001	(0.03)	0.025	(0.75)	0.000	(0.02)	-0.047	(1.61)
$\overline{I^{BA}} \times I^{NF}$	-0.024	(0.79)	0.029	(0.78)	0.008	(0.27)	-0.029	(0.78)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.039	(0.81)	-0.033	(0.64)	-0.030	(0.71)	0.022	(0.39)
...								
N	41,959		33,511		44,222		37,424	
N = 0	4,586		3,663		4,441		4,138	
pseudo R^2	0.21		0.22		0.22		0.24	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to institutional investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define institutional sales as customer sales with par value strictly greater than $50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 8a: Regressions Describing Retail Transaction Cost

	\$20k		*\$50k*			*\$20k*		*\$50k*	
I^{TR}	-0.0013[a]	(5.62)	-0.0009[a]	(4.49)	*RevBond*	-0.0002	(1.30)	-0.0001	(1.37)
$\overline{I^{BA}}$	0.0019[a]	(7.77)	0.0018[a]	(9.47)	*GenPurp*	0.0000	(0.16)	0.0002	(1.31)
$I^{TR} \times \overline{I^{BA}}$	0.0012[a]	(3.54)	0.0011[a]	(4.07)	*Education*	0.0005[a]	(3.01)	0.0003[b]	(2.56)
I^{NF}	0.0000	0.00	0.0001	(0.31)	*Utility*	0.0003	(1.54)	0.0001	(0.85)
$I^{TR} \times I^{NF}$	0.0012[a]	(3.40)	0.0008[a]	(2.98)	*Health*	0.0003	(1.04)	0.0001	(0.53)
$\overline{I^{BA}} \times I^{NF}$	0.0000	(0.07)	0.0001	(0.19)	*CertPart*	-0.0001	(0.82)	0.0000	(0.24)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0019[a]	(3.13)	-0.0014[a]	(2.89)	*FedTax*	-0.0015[a]	(4.08)	-0.0013[a]	(3.85)
$\overline{CTrans}$	0.0000	(0.66)	0.0001[b]	(2.39)	*StateTax*	-0.0002	(0.40)	-0.0004	(1.60)
TotPar	-0.0001[b]	(2.17)	-0.0002[a]	(5.51)	*StateTotPar*	-0.0001	(1.25)	0.0000	(0.19)
Maturity	0.0048[a]	(39.85)	0.0042[a]	(44.88)	*StateMedInc*	0.0029[a]	(4.82)	0.0028[a]	(5.99)
AAA	0.0001	(0.70)	0.0001	(1.58)	*StateIncSE*	-0.0040[b]	(2.37)	-0.0038[a]	(3.00)
OptCallSched	0.0032[a]	(19.00)	0.0034[a]	(26.59)	*StateDmnd*	-0.0001[a]	(3.91)	-0.0001[a]	(2.66)
ExtraOrdCall	0.0000	(0.21)	0.0000	(0.06)	*Constant*	-0.0061[a]	(6.67)	-0.0077[a]	(10.73)
PutOption	-0.0064[a]	(4.47)	-0.0055[a]	(4.93)					
CredEnh	0.0008[a]	(6.18)	0.0007[a]	(6.05)	N	57,500		57,500	
$CredEnh \times I^{TR}$	-0.0004[b]	(2.18)	-0.0003[b]	(2.00)	*adj.* R^2	0.68		0.68	
SinkFund	0.0002	(1.19)	0.0002	(1.60)					
OddIntFreq	0.0022[a]	(10.20)	0.0022[a]	(10.65)					
OddIntCalc	-0.0016	(1.16)	-0.0020[c]	(1.93)					
GenObl	-0.0004[a]	(3.53)	-0.0004[a]	(4.43)					

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$20,000 and \$50,000. The regression model is equation (2). I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 8b: Regressions Describing Institutional Transaction Cost

	\$100k		\$1M			\$100k		\$1M	
I^{TR}	-0.0007^a	(4.23)	-0.0002	(0.77)	*RevBond*	-0.0002^b	(1.97)	-0.0003^a	(3.09)
$\overline{I^{BA}}$	0.0013^a	(7.71)	0.0003	(1.22)	*GenPurp*	0.0001	(0.67)	-0.0001	(0.72)
$I^{TR} \times \overline{I^{BA}}$	0.0010^a	(4.11)	0.0011^a	(4.18)	*Education*	0.0001	(0.97)	-0.0003^a	(2.74)
I^{NF}	0.0001	(0.80)	0.0006^b	(2.16)	*Utility*	0.0001	(0.47)	-0.0001	(0.65)
$I^{TR} \times I^{NF}$	0.0007^a	(2.70)	-0.0002	(0.61)	*Health*	0.0000	(0.08)	-0.0004^c	(1.75)
$\overline{I^{BA}} \times I^{NF}$	0.0000	(0.14)	-0.0010^c	(1.65)	*CertPart*	0.0000	(0.20)	0.0002	(1.04)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0012^a	(2.64)	0.0008	(1.09)	*FedTax*	-0.0012^a	(3.82)	-0.0004^b	(2.31)
$\overline{CTrans}$	0.0002^a	(4.84)	0.0001^b	(2.42)	*StateTax*	-0.0005^b	(2.29)	-0.0009^a	(4.09)
TotPar	-0.0002^a	(5.06)	-0.0002^a	(3.78)	*StateTotPar*	0.0000	(0.62)	0.0001^b	(2.25)
Maturity	0.0034^a	(40.01)	0.0008^a	(4.43)	*StateMedInc*	0.0021^a	(5.11)	0.0013^b	(2.51)
AAA	0.0002^a	(2.93)	0.0001	(0.63)	*StateIncSE*	-0.0037^a	(3.30)	-0.0030^b	(2.39)
OptCallSched	0.0032^a	(26.31)	0.0014^a	(11.22)	*StateDmnd*	0.0000^c	(1.77)	0.0000	(0.66)
ExtraOrdCall	-0.0001	(0.85)	-0.0006^a	(3.87)	*Constant*	-0.0074^a	(11.15)	-0.0031^a	(3.60)
PutOption	-0.0045^a	(4.86)	-0.0008^b	(2.24)					
CredEnh	0.0005^a	(5.14)	0.0002	(1.19)	N	57,500		57,500	
$CredEnh \times I^{TR}$	-0.0001	(0.99)	-0.0001	(0.40)	*adj.* R^2	0.64		0.17	
SinkFund	0.0003^b	(2.35)	0.0003	(1.36)					
OddIntFreq	0.0016^a	(8.31)	0.0004	(1.28)					
OddIntCalc	-0.0005	(0.83)	-0.0005	(1.54)					
GenObl	-0.0003^a	(3.34)	0.0001	(0.71)					

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. The regression model is equation (2). I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 9a: Regressions Describing Transaction Cost by Calendar Quarter

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: $20k								
I^{TR}	-0.0014^{a}	(3.21)	-0.0033^{a}	(6.07)	-0.0015^{a}	(3.94)	-0.0002	(0.44)
$\overline{I^{BA}}$	0.0015^{a}	(3.75)	0.0021^{a}	(4.53)	0.0014^{a}	(3.17)	0.0021^{a}	(5.12)
$I^{TR} \times \overline{I^{BA}}$	0.0006	(1.10)	0.0024^{a}	(2.98)	0.0016^{a}	(2.69)	0.0003	(0.54)
I^{NF}	-0.0006	(1.24)	0.0001	(0.30)	-0.0004	(0.84)	0.0002	(0.50)
$I^{TR} \times I^{NF}$	0.0011^{c}	(1.65)	0.0020^{a}	(2.75)	0.0017^{a}	(2.64)	0.0002	(0.40)
$\overline{I^{BA}} \times I^{NF}$	-0.0001	(0.14)	-0.0002	(0.26)	0.0015^{c}	(1.94)	-0.0010	(1.30)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0003	(0.28)	-0.0027^{b}	(2.12)	-0.0034^{a}	(3.00)	-0.0004	(0.37)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.76		0.62		0.61		0.69	
Panel B: $50k								
I^{TR}	-0.0010^{a}	(3.25)	-0.0021^{a}	(5.18)	-0.0012^{a}	(3.93)	-0.0002	(0.56)
$\overline{I^{BA}}$	0.0013^{a}	(3.98)	0.0024^{a}	(6.19)	0.0013^{a}	(3.98)	0.0017^{a}	(4.99)
$I^{TR} \times \overline{I^{BA}}$	0.0007	(1.60)	0.0013^{b}	(2.12)	0.0014^{a}	(3.15)	0.0007	(1.58)
I^{NF}	-0.0003	(0.93)	0.0001	(0.37)	-0.0001	(0.42)	0.0001	(0.15)
$I^{TR} \times I^{NF}$	0.0009^{c}	(1.75)	0.0015^{a}	(2.58)	0.0011^{b}	(2.26)	0.0001	(0.26)
$\overline{I^{BA}} \times I^{NF}$	-0.0001	(0.14)	-0.0004	(0.68)	0.0012^{b}	(2.06)	-0.0003	(0.43)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0005	(0.54)	-0.0018^{c}	(1.82)	-0.0023^{a}	(2.60)	-0.0005	(0.56)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.75		0.63		0.62		0.71	

This table reports the results from weighted regressions describing the cost of transactions of par value equal to $20,000 and $50,000. The regression model is equation (2). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 9b: Regressions Describing Transaction Cost by Calendar Quarter

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: \$100k								
I^{TR}	-0.0008^a	(2.78)	-0.0016^a	(4.64)	-0.0009^a	(3.51)	-0.0002	(0.78)
$\overline{I^{BA}}$	0.0010^a	(3.28)	0.0018^a	(5.30)	0.0011^a	(3.50)	0.0012^a	(3.63)
$I^{TR} \times \overline{I^{BA}}$	0.0007^c	(1.78)	0.0010^c	(1.82)	0.0011^a	(2.74)	0.0009^b	(2.04)
I^{NF}	0.0000	(0.14)	0.0000	(0.03)	-0.0002	(0.61)	0.0003	(0.74)
$I^{TR} \times I^{NF}$	0.0004	(0.93)	0.0014^a	(2.67)	0.0010^b	(2.23)	0.0000	(0.10)
$\overline{I^{BA}} \times I^{NF}$	-0.0005	(0.82)	-0.0003	(0.48)	0.0012^b	(2.03)	-0.0005	(0.70)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.0000	(0.02)	-0.0017^c	(1.94)	-0.0018^b	(2.34)	-0.0005	(0.54)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.71		0.59		0.58		0.67	
Panel B: \$1M								
I^{TR}	0.0001	(0.30)	0.0005	(1.43)	-0.0004^c	(1.65)	0.0000	(0.02)
$\overline{I^{BA}}$	0.0000	(0.11)	0.0012^a	(2.82)	-0.0004	(1.35)	-0.0002	(0.43)
$I^{TR} \times \overline{I^{BA}}$	0.0012^b	(2.25)	0.0004	(0.71)	0.0015^a	(3.65)	0.0013^a	(2.58)
I^{NF}	0.0003	(0.75)	0.0011^b	(2.13)	0.0001	(0.21)	0.0006	(1.53)
$I^{TR} \times I^{NF}$	-0.0001	(0.22)	-0.0006	(0.92)	-0.0001	(0.13)	-0.0005	(1.00)
$\overline{I^{BA}} \times I^{NF}$	-0.0007	(0.88)	-0.0017^c	(1.94)	0.0006	(0.68)	-0.0003	(0.52)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.0008	(0.77)	0.0002	(0.18)	-0.0001	(0.10)	0.0005	(0.60)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.22		0.10		0.11		0.19	

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. The regression model is equation (2). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

From: Kozora, Matthew
To: Puskin, Dan - EBSA
Cc: Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily; Jenson, Paula R.
Subject: RE: Estimate of Affected Broker-Dealer Reps
Date: Thursday, June 27, 2013 5:24:19 PM

Dear Dan,

It does not seem like there is an easy solution to your problem, especially in relation to the number of reps that provide advice in DC plans or IRAs, or as you say, provide advice at all. The difficulty to even distinguish between discount BDs and full-service BDs that provide advice is also difficult considering some discount BDs provide advice.

Our best source for these market sizing issues would be the Cerulli reports or anything that we can find online.

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U S. Securities & Exchange Commission
Phone: [redacted]

Please consider the environment before printing this email.

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Thursday, June 27, 2013 1:25 PM
To: Kozora, Matthew
Cc: Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily
Subject: RE: Estimate of Affected Broker-Dealer Reps

The Cerulli source is the Advisor Metrics 2011 report-- Exhibit 1.04 "Historical Change in Total Advisors by Channel 2004-2010"
Also, you'll notice that in Exhibit 1.10 "Top -25 Broker/Dealers by Advisor Headcount 2004-2010" that certain companies like Charles Schwab, Fidelity and Vanguard are omitted. We asked Cerulli about it. Below is our e-mail exchange with them. After reading their responses, I am still unsure whether their counts include all the advice delivering reps we need for our estimate.

Thanks,
Dan

Keith and Dan,

I can answer both questions.

1) When we are sizing advisors, we are scrubbing out RIAs and Series 7 licensed reps that are not providing wealth management services. RIAs have to have at least 25% in Retail Assets and are offering wealth management services to end investor. For example, BlackRock is an RIA but not a Retail RIA.

2) Fidelity and Vanguard are part of our Direct Channel as they are offering centralized advice and therefore not part of our Retail Advisor Sizing.

Let me know if you want to chat this afternoon or anytime this week and will be happy to discuss further.

Best,
Austin

Austin Ulep **Associate Director, U.S. Sales** **CERULLI ASSOCIATES**
[redacted] | [redacted]@cerulli.com

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https://external.cerulli.com/file.sv?Cerulli-Boutique-Advisory-Firms-RIAs-2013-info-pack

2013 Cerulli Research Agenda
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From: "Bergstresser, Keith - EBSA"[redacted]@dol.gov>
To: [redacted]@cerulli.com>
Cc: "Puskin, Dan - EBSA"[redacted]@dol.gov>
Date: 06/26/2013 10:33 AM
Subject: questions for analyst

Hi Austin,

Here are a couple questions we have for an analyst   These questions are on the 2011 Advisor Metrics report

1) Exhibit 1 04 – Where do the advisor numbers come from? According to the SEC, there are over 600,000 broker-dealers, but the chart lists much fewer of them as advisors How do you define/determine which of them are advisors? Similarly for RIAs, according to the SEC Dodd-Frank report, there are about 275,000 state registered RIAs, but the number of RIA advisors in the chart is much lower
2) Exhibit 1 10 – Why don t Fidelity and Vanguard appear on the list? Are their representatives not registered as broker-dealers, or are they broker-dealers, but not considered to be advisors?

We are available tomorrow, Friday, or next Monday or Tuesday to discuss these questions

Thanks,
Keith

From: Kozora, Matthew [redacted]@SEC.GOV]
Sent: Thursday, June 27, 2013 12:50 PM
To: Puskin, Dan - EBSA
Cc: Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily
Subject: RE: Estimate of Affected Broker-Dealer Reps

Dear Dan,

That is a great question. I am forwarding it on to members of Division of Trading and Markets who may have a better idea.

Which Cerulli table are you referencing? Do you mind sending me the title of the table?

Thanks!

Matthew Kozora, PhD
Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U S. Securities & Exchange Commission
Phone: [redacted]

From: Puskin, Dan - EBSA [redacted]@dol.gov]
Sent: Wednesday, June 26, 2013 4:50 PM
To: Kozora, Matthew
Cc: Bergstresser, Keith - EBSA
Subject: Estimate of Affected Broker-Dealer Reps

Hi Matt,

I have a question that relates to our cost benefit analysis and was hoping you could help. We anticipate that by changing the definition of fiduciary under ERISA, certain service providers and their reps will incur higher liability costs (in the form of higher errors and omissions insurance). Thus, we need an estimate of the number of broker dealer reps who might be facing higher liability insurance as a consequence of performing functions that will newly be held to a fiduciary standard.

To get this estimate, we need a count of the number of BD reps who deliver advice in the retail market. The SEC's Dodd Frank Report (www **sec** gov/news/**studies**/2011/913**study**final pdf) estimated that there were 600,000 BD reps. However, it is my understanding that many of these reps do not provide advice to retail investors in DC plans or IRAs (or provide advice at all). Cerulli Associates' *Advisor Metrics 2011* estimates that there are approximately 300,000 BD reps who qualify as "advisors". Do you think this number is more appropriate, or would some other source be better? Any assistance you could provide would be very useful.

Best,
Dan

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From:	Puskin, Dan - EBSA
To:	Kozora, Matthew
Cc:	Bergstresser, Keith - EBSA; Fisher, Daniel; Gonzalez, Lourdes; Russell, Emily
Subject:	RE: Estimate of Affected Broker-Dealer Reps
Date:	Thursday, June 27, 2013 1:25:18 PM

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Also, you'll notice that in Exhibit 1.10 "Top -25 Broker/Dealers by Advisor Headcount 2004-2010" that certain companies like Charles Schwab, Fidelity and Vanguard are omitted. We asked Cerulli about it. Below is our e-mail exchange with them. After reading their responses, I am still unsure whether their counts include all the advice delivering reps we need for our estimate.

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Let me know if you want to chat this afternoon or anytime this week and will be happy to discuss further.

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[redacted] | [redacted]@cerulli com

From: "Bergstresser, Keith - EBSA"[redacted]@dol.gov>
To: [redacted]@cerulli.com>
Cc: "Puskin, Dan - EBSA"[redacted]@dol.gov>
Date: 06/26/2013 10:33 AM
Subject: questions for analyst

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Thanks!

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Financial Economist
Office of Investments and Intermediaries
Division of Economic and Risk Analysis
U S. Securities & Exchange Commission
Phone: [redacted]

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Cc: Bergstresser, Keith - EBSA
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Best,
Dan

Daniel Puskin, PhD
Economist
DOL/EBSA
Office of Policy and Research
ph: [redacted]
email: [redacted]@dol.gov

From:	Bergstresser, Keith - EBSA
To:	Kozora, Matthew [redacted] @SEC.GOV)
Subject:	RE: Presentation by Matthew Kozora, SEC Economist
Date:	Tuesday, October 01, 2013 10:12:00 AM

Hi Matt,

As you probably know, a lapse in government funding has occurred causing many EBSA employees to be in temporary furlough status. Should we remain in temporary furlough status through the time of this meeting, we will need to reschedule your presentation.

Thank you,

Keith

-----Original Appointment-----
From: Bergstresser, Keith - EBSA
Sent: Thursday, September 26, 2013 2:31 PM
To: Bergstresser, Keith - EBSA; Kozora, Matthew [redacted] @SEC.GOV); Piacentini, Joseph - EBSA; Cosby, Chris - EBSA [redacted] @dol.gov); Butikofer, James - EBSA; Beckmann, Allan - EBSA; Buyniski, Brian - EBSA; Decressin, Anja - EBSA [redacted] @dol.gov); Johnson, Lynn - EBSA; Zimmerman, Elaine - EBSA; Saleh, Basel - EBSA [redacted] @dol.gov); Yi, Song G - EBSA; Hartwig, Katherine E - EBSA; Levin, David - EBSA
Cc: Hunt, Jennifer A. - OSEC
Subject: Presentation by Matthew Kozora, SEC Economist
When: Thursday, October 17, 2013 1:00 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: OPR Conference Room - [redacted]

Hello All,

On Thursday, October 17th, we will welcome Matthew Kozora, an economist at the Securities and Exchange Commission, to present his work on "The Effect of Regulatory Regimes on the Provision of Retail Investment Advice." The paper is available at SSRN (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2323519), and I have attached a copy below. Matt's work has close ties to our conflicted advice project, and may have implications for the regulatory impact analysis. I hope others (not involved in the conflicted advice project) will be interested in this work as an example of how to examine the effects of rulemaking.

I do not anticipate having slides for the presentation; Matt will present from the paper.

<< File: SSRN-id2323519.pdf >>

From: Kozora, Matthew
To: Bergstresser, Keith - EBSA
Subject: RE: Presentation by Matthew Kozora, SEC Economist
Date: Tuesday, October 01, 2013 10:13:25 AM

Understood. Take care!

m|k

From: Bergstresser, Keith - EBSA [redacted]@dol.gov]
Sent: Tuesday, October 01, 2013 10:12 AM
To: Kozora, Matthew
Subject: RE: Presentation by Matthew Kozora, SEC Economist

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<< File: SSRN-id2323519.pdf >>

From:	Bergstresser, Keith - EBSA
To:	Kozora, Matthew [redacted]@SEC.GOV); Piacentini, Joseph - EBSA; Cosby, Chris - EBSA; Butikofer, James - EBSA; Beckmann, Allan - EBSA; Buyniski, Brian - EBSA; Decressin, Anja - EBSA; Johnson, Lynn - EBSA; Zimmerman, Elaine - EBSA; Saleh, Basel - EBSA; Yi, Song G - EBSA; Hartwig, Katherine E - EBSA; Levin, David - EBSA
Cc:	Hunt, Jennifer A. - OSEC; Lloyd, Karen - EBSA; Shiker, Brian - EBSA; Hall, Lyssa - EBSA; Canary, Joe - EBSA; Hauser, Timothy - SOL
Subject:	Presentation by Matthew Kozora, SEC Economist
Start:	Friday, October 25, 2013 3:00:00 PM
End:	Friday, October 25, 2013 4:00:00 PM
Location:	OPR Conference Room - [redacted]
Attachments:	SSRN-id2323519.pdf

Conference Line:
[redacted]
Participant code:
[redacted]

We will postpone this presentation until next week.

Hello All,

On Thursday, October 17th, we will welcome Matthew Kozora, an economist at the Securities and Exchange Commission, to present his work on "The Effect of Regulatory Regimes on the Provision of Retail Investment Advice." The paper is available at SSRN (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2323519), and I have attached a copy below. Matt's work has close ties to our conflicted advice project, and may have implications for the regulatory impact analysis. I hope others (not involved in the conflicted advice project) will be interested in this work as an example of how to examine the effects of rulemaking.

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The Effect of Regulatory Regimes on the Provision of Retail Investment Advice*,**

Matthew L. Kozora

09/09/2013

Division of Economic and Risk Analysis

U.S. Securities and Exchange Commission

Working Paper

Abstract

Broker-dealers and investment advisers are two separate types of financial intermediaries subject to different regulatory regimes that can provide personalized investment advice about securities to investors. In this paper, I investigate whether differences between the broker-dealer regulatory regime and the investment adviser regulatory regime may be significant to retail investment advice by examining the principal transactions of investment grade municipal bonds. The results in this paper indicate that the advice retail investors receive may be dependent on the legal framework governing its provision. In particular, I find evidence of a potential relationship between the standards under which broker-dealers and investment advisers provide advice and the sale of investment grade municipal bonds to retail investors.

Keywords: Retail Investors, Broker-Dealers, Investment Advisers, Fiduciary Standard of Conduct, Municipal Bonds

I. Introduction

Investors can receive personalized investment advice about securities (or "personalized investment advice") from two regulated types of financial intermediaries, broker-dealers and investment advisers, that may provide similar services but are subject to two different and

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separate regulatory regimes. At the federal level, firms registered as broker-dealers are subject to the Securities Exchange Act of 1934 (or "Exchange Act") and the rules thereunder, and the rules of self-regulatory organizations (or "SROs"), whereas firms registered as investment advisers are subject to the Investment Advisers Act of 1940 (or "Advisers Act") and the rules thereunder. A firm registered as both a broker-dealer and an investment adviser (or "dual registrant firm") may provide both brokerage and advisory services, and depending on whether the account is a brokerage account or an advisory account, be subject to the rules of either regulatory regime.[1]

Little to no research currently exists indicating whether differences between the broker-dealer and the investment adviser regulatory regimes can be significant to the advice retail investors receive in non-discretionary accounts.[2] In this paper, I investigate the effect of regulatory regimes by examining the principal transactions of investment grade municipal bonds.[3] I find evidence that suggests the regulatory regime, in particular the standards under which advice is given, may be significant to the advice retail investors receive.

I use investment grade municipal bonds in this study for two primary reasons. First, retail investors are major participants in the municipal bond market, individually investing in close to one-half of all municipal bonds outstanding.[4] The illiquidity and opacity of the municipal securities market (SEC; 2012a) also increases the importance of a financial agent

[1]A recent study by U.S. Securities and Exchange Commission (SEC) staff on investment advisers and broker-dealers as pursuant to Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (or the "913 Study") provides an in-depth review of the two regulatory regimes.

[2]The focus of this paper is the provision of personalized investment advice in non-discretionary accounts. A non-discretionary account does not provide a financial agent authority to transact securities without the consent of the account holder, whereas a discretionary account grants such authority. Recent estimates place the number of non-discretionary advisory accounts managed by federally registered investment advisers at 5 million, and the number of brokerage accounts at federally registered broker-dealers at 110 million. Both estimates include both institutional and retail accounts. Investment adviser information can be found at www.sec.gov/foia/iareports/inva-archive.htm. The broker-dealer estimate includes both non-discretionary and discretionary accounts, and can be found in SEC (2011). I will refer to advisory clients with non-discretionary accounts as "advisory clients" or "clients," brokerage customers with non-discretionary accounts as "brokerage customers" or "customers," and brokerage customers and advisory clients generally as "investors."

[3]A principal transaction is a transaction where the broker-dealer or investment adviser buys or sells securities for its own account.

[4]The estimate is as of the third quarter 2012, and can be found in the *Flow of Funds Accounts of the United States* statistical release, published by the Federal Reserve.

to provide advice to their customer or client.

Second, I use investment grade municipal bonds to incorporate a regulatory event into the empirical methodology. The regulatory event is the October 2007 adoption of a temporary SEC rule (or "temporary rule"). The temporary rule, among other things, established an alternative set of principal transaction disclosure and consent requirements under the Advisers Act for investment advisers also registered as broker-dealers. Prior to the temporary rule adoption, dual registrant firms typically did not engage in principal transactions with advisory clients, engaging in principal transactions with brokerage customers only.[5] Dual registrant firms adhering to the temporary rule (or "BA firms") began engaging in principal transactions with both brokerage customers and advisory clients. Other firms, including all firms registered solely as broker-dealers and those dual registrant firms not adhering to the temporary rule (or "B firms"), continued to engage in principal transactions with brokerage customers only.[6] The temporary rule, still in effect at the time of this writing, does not permit a firm to rely on the rule for securities that it or an affiliated entity underwrites or issues except for non-convertible investment grade debt. I therefore use municipal bonds of investment grade only to be certain that the temporary rule can apply to all principal transactions in the empirical sample.[7]

The time period of the study is from January 2006 to December 2008. Broadly, I investigate whether regulatory regimes may be significant to the provision of personalized investment advice by comparing the change to the principal transactions of BA firms following the temporary rule adoption with the change to the principal transactions of B firms. If adherence to the temporary rule and the recommendation and transaction of investment

[5] In the initial temporary rule release, the SEC describes discussions with representatives of dual registrant firms regarding the difficulties of complying with the disclosure requirements under Section 206(3) of the Advisers Act (SEC; 2007). Firms explained that they typically did not engage in principal transactions with advisory clients as a result of the operationally restrictive disclosure requirements. The temporary rule has since been extended to December 31, 2014. See Section II.a for further explanation.

[6] I utilize municipal bond transaction data from the Municipal Securities Rulemaking Board (MSRB) Real-time Transaction Reporting System (RTRS). MSRB requires all broker-dealers and municipal securities dealers to report the transactions of municipal securities. Consequently, no firms in the sample are registered solely as investment advisers.

[7] See Section II.a for a further discussion of the temporary rule.

grade municipal bonds subject to the investment adviser regulatory regime is significant, then I may observe a difference in the change in principal transactions between BA firms and B firms as BA firms apply the temporary rule and the investment adviser regulatory regime to activities that would have otherwise been subject to only the broker-dealer regulatory regime.

As part of the empirical methodology, I specifically investigate whether the standard of conduct as required by federal and state law may be significant to the provision of personalized advice to retail investors.[8] At the federal level, an investment adviser is a fiduciary who is to serve in the best interests of its clients, including an obligation not to subordinate the clients' interests for their own and to disclose or eliminate all material conflicts of interest, whereas broker-dealers are required to deal fairly with their customers and in most instances are not considered a fiduciary. At the state level, broker-dealers may be subject to a fiduciary standard of conduct (SEC; 2011).[9]

I refine the broad comparison between BA firms and B firms to the state level, and compare the difference in the change in principal transactions between the two firm classifications between states where broker-dealers may be subject to additional standards of conduct that relate to a fiduciary standard of conduct (i.e., "fiduciary states") and states where broker-dealers are generally not subject to a fiduciary standard of conduct (i.e., "non-fiduciary states"). I assume, similar to the equity "home bias" (Coval and Moskowitz; 1999), that retail investors purchase the bonds of local or within-state municipalities.[10] By assumption, additional state standards of conduct would apply to the principal transactions of the municipal securities relating to the state.

Adherence to the temporary rule by BA firms in non-fiduciary states brought about the

[8]Other differences between the two regulatory regimes include disclosure requirements, supervisory and control procedures, continuing education requirements, and restrictions on advertising and other communications. The investment adviser regulatory regime is also largely principles-based and not predominately rules-based like the broker-dealer regulatory regime.

[9]See Section II.b for a further discussion of standards of conduct.

[10]Exemption from state and local taxes may also induce retail investors to purchase bonds of local or within-state municipalities (SEC; 2012a).

introduction of a fiduciary standard of conduct to the portion of investment grade municipal bond recommendations and transactions with advisory clients that would have otherwise been with brokerage customers, whereas adherence to the temporary rule by BA firms in fiduciary states did not result in a similar introduction of a fiduciary standard of conduct. Regardless of the presence of state fiduciary laws, the standard of conduct governing the recommendation and transaction of investment grade municipal bonds by B firms did not change following the temporary rule adoption as these firms continued to engage in principal transactions with brokerage customers only. Taken together, changes to the principal transactions of BA firms relative to B firms in fiduciary states may relate to the temporary rule and the investment adviser regulatory regime, but not a fiduciary standard of conduct, and changes to the principal transactions of BA firms relative to B firms in non-fiduciary states may relate to the temporary rule and the investment adviser regulatory regime including a fiduciary standard of conduct. An additional difference between BA firms and B firms in non-fiduciary states relative to fiduciary states, therefore, may relate to a fiduciary standard of conduct.

In the first set of tests, I investigate the effect of regulatory regimes on security recommendations by examining the sale of investment grade municipal bonds to retail investors. I do not find evidence indicating a difference in the change in sales to retail investors between BA firms and B firms following the temporary rule adoption in fiduciary states, but I do find evidence of additional sales to retail investors by BA firms relative to B firms in non-fiduciary states. Thus, I find evidence suggesting that a fiduciary standard of conduct may relate to the recommendation and sale of investment grade municipal bonds to retail investors, but no evidence that application of the temporary rule or other aspects of the investment adviser regulatory regime were also significant in explaining retail sales. In additional tests, I find that the relative increase in sales to retail investors by BA firms in non-fiduciary states was most significant soon after the temporary rule adoption. This result suggests that the increase in sales by BA firms in non-fiduciary states may relate more to the temporary rule

adoption and less to other factors which may also had an effect including events relating to the recent financial crisis.

In the second set of tests, I investigate the effect of regulatory regimes on the markup/ markdown on, or the "transaction cost" (Harris and Piwowar; 2006) of, investment grade municipal bonds. The implementation of policies and procedures to adhere to the temporary rule may have led to an increase in the compliance costs of BA firms. The increase in compliance costs may have resulted in higher transaction costs for retail investors who may have less access to pricing information than institutional investors (SEC; 2012a).[11] Research by Green, Hollifield, and Schürhoff (2007a) find evidence of differences in the level of informed trading between retail investors and institutional investors; transactions of smaller size, relating to retail investors, often exhibit less advantageous prices and a greater range of prices than the transactions of larger size, relating to institutional investors. I continue to distinguish bonds by state classification to investigate whether the additional increase in sales to retail investors by BA firms relative to B firms in non-fiduciary states was contemporaneous with an additional change in retail transaction cost.

I find evidence of an increase in transaction cost by BA firms relative to B firms following the temporary rule adoption in fiduciary states, but that the increase in transaction cost was not specific to retail transactions but also present in institutional transactions. Thus, I do not find evidence indicating that adherence to the temporary rule led specifically to additional retail investor transaction costs but instead find evidence of a more systematic change to the cost of all BA firm transactions. I also find evidence indicating an additional decrease in the cost of retail transactions by BA firms relative to B firms following the temporary rule adoption in non-fiduciary states. The time periods in which I find the additional decrease in transaction cost, however, only partially aligns with the time periods in which I find the additional increase in retail sales. Taken together, I do not find sufficient evidence in these

[11] See Section II.a for a further discussion of the requirements of the temporary rule. The markup/ markdown bond traders set on firm inventory, especially for transactions that are more arm's length, presumably would not be dependent on the account type of the investor and the regulatory regime under which the registered representative provides recommendations.

tests to conclude that changes to the regulatory regime stemming from the temporary rule adoption had an effect, either directly or indirectly, on the cost of retail transactions.

The results in this paper only provide suggestive evidence of the effects of regulatory regimes as a result of conducting tests at the firm level and not at the account level. Tests at the account level would require information describing the type of investor account, whether the transaction was solicited or unsolicited, and investor characteristics.[12] Other factors may be important in explaining the test results. I attempt to control for these other factors by comparing principal transactions between time periods, firms, and states, and controlling for differences between bonds, firms, and states with additional explanatory variables.

This is the first paper to empirically investigate the effect of regulatory regimes on the advice retail investors receive. The appropriate standard of conduct for broker-dealers and investment advisers is the subject of an ongoing debate among federal agencies, industry representatives, and investor advocacy groups. Some believe that a uniform fiduciary standard at the federal level applied across broker-dealers and investment advisers would provide additional retail investor protections, whereas others believe that a fiduciary standard of conduct applied to the broker-dealer regulatory regime would increase firm costs with little benefit and would ultimately result in reduced investor access to advice.[13] Examples of firm costs include ongoing costs relating to "back-office" functions, other compliance costs, and litigation costs.

Past research relating to the provision of financial advice typically investigates its net benefit or quality, and investigates only one type of financial agent or makes no distinction. Recent examples include Chalmers and Reuter (2011) who investigate the performance of

[12]The SEC recently requested data and other information relating to the benefits and costs of the standards of conduct and other obligations of broker-dealers and investment advisers (SEC; 2013). Examples of requested data and information include the types of services available to retail investors, the types of securities financial agents offer or recommend, and the costs to financial agents of providing personalized investment advice about securities.

[13]Comments to the 913 Study, including one by Oliver Wyman and the Securities Industry and Financial Markets Association, dated October 27, 2010, and one by State Farm VP Management Corporation, dated August 27, 2010, describe the potential costs of broker-dealers shifting to a fiduciary standard of conduct. All comment letters to the 913 Study and to a subsequent request for information and other data (SEC; 2013) can be found at http://www.sec.gov/comments/4-606/4-606.shtml.

brokerage customer retirement portfolios; and Mullainathan, Nöth, and Schoar (2011) who investigate the quality of investment advice provided by financial agents in an audit study.[14] These examples, as well as other research utilizing international data, indicate that retail investors do not always receive beneficial investment advice.[15] Other research finds conflicts of interest may partially determine the advice investors receive. For example, Bergstresser, Chalmers, and Tufano (2009) find that funds sold through an intermediary underperform funds sold directly to investors, and that the sale of underperforming funds may stem from conflicts of interest as a result of intermediary sales incentives.[16] I find that the advice investors receive may be partially determined by the regulatory regime governing its provision, and that investment advice should be evaluated in this respect.

Although the focus of this paper is on the provision of personalized investment advice, it also contributes to the municipal bond literature investigating municipal securities markets including Harris and Piwowar (2006); Green, Hollifield, and Schürhoff (2007a); Green, Hollifield, and Schürhoff (2007b); Green, Li, and Schürhoff (2010); Li and Schürhoff (2012); and Schultz (2012). I find evidence that the regulatory regime governing the provision of personalized investment advice may be an important determinant in the transaction of these securities, especially with respect to retail investors.

I organize the rest of the paper as follows: Section II provides additional regulatory background information, Section III describes the data, Section IV describes the tests of sales to retail investors, Section V describes the tests of transaction cost, and Section VI concludes.

[14]In relation to this paper, it is unclear whether Mullainathan et al. (2011) conduct audits of broker-dealers, investment advisers, or both. For instance, their use of the term "investment advisers" relates to "retail advisers whom the average citizen can access via their bank, independent brokerages, or investment advisory firms." Thus, their definition of investment adviser seemingly incorporates both broker-dealers and investment advisers.

[15]Examples of research utilizing international data to investigate the quality of investment advice include Bhattacharya, Hackethal, Kaesler, Loos, and Meyer (2012); Fecht, Hackethal, and Karabulut (2010); Bluethgen, Meyer, and Hackethal (2008); Bluethgen, Gintschel, Hackethal, and Müller (2008); Karabulut (2011); Kramer (2009); and Kramer and Lensink (2009).

[16]Other work examining the distribution of mutual funds include Del Guercio and Reuter (2011); Del Guercio, Reuter, and Tkac (2010); and Christoffersen, Evans, and Musto (2013).

II. Regulatory Background

This paper investigates the effect of regulatory regimes on the provision of personalized investment advice to retail investors. The null hypothesis is that the temporary rule and differences between the regulatory regimes do not matter to the principal transactions of investment grade municipal bonds relating to retail investors. The alternative hypothesis is that the temporary rule and differences between the regulatory regimes do matter to the principal transactions of investment grade municipal bonds relating to retail investors. Below, I provide additional background on the temporary rule, the investment adviser regulatory regime, and fiduciary standards of conduct. Figure 1 provides a diagram of the changes to the regulatory regime governing the principal transactions of investment grade municipal bonds by firm and state classification during the sample period.

II.a *Changes to the Regulatory Regime Governing Principal Transactions*

The temporary rule establishes an alternative means for dual registrant firms to meet the requirements under Section 206(3) of the Advisers Act when engaging in principal transactions with non-discretionary advisory clients (SEC; 2007). The temporary rule, adopted in October 2007, was in direct response to a March 2007 court decision (*Financial Planning Association v. U.S. Securities and Exchange Commission*) overturning an SEC rule exempting broker-dealers from the definition of "investment adviser" when charging non-transaction based compensation (or "fee-based" brokerage accounts).[17]

Section 206(3) of the Advisers Act requires an investment adviser to provide written conflict-of-interest disclosure describing its role as principal when transacting securities from its own account and obtain client consent prior to transaction completion. The temporary rule provides a dual registrant firm the option of providing transaction-by-transaction disclosures verbally instead of in writing when engaging in principal transactions with non-

[17]Non-transaction based fees include fees based on the amount of assets under management. A consequence of the court decision was the requirement that dual registrant firms and broker-dealers treat fee-based brokerage accounts as advisory accounts, and that the firms as a result became subject to the restrictions of the Advisers Act when engaging in principal transactions. The temporary rule was adopted so that dually registered advisers could continue to engage in principal transactions with the customers of these accounts.

discretionary advisory clients as long as the firm satisfies additional requirements. Additional requirements of the temporary rule include the provision of a written prospective disclosure to clients describing the conflicts arising from principal transactions, acquisition of written revocable client consent prospectively authorizing such transactions, the provision of transaction-by-transaction confirmations, and the provision of annual reports itemizing the clients' principal transactions thereafter. The temporary rule does not relieve the obligations of the investment adviser regulatory regime including its fiduciary standard of conduct. Moreover, dual registrant firms engaging in principal transactions with advisory clients must also still adhere to the broker-dealer sales practice and best-execution obligations set by the SEC and SROs (SEC; 2007).

There are two primary changes to the regulatory regime governing the recommendation and transaction of investment grade municipal bonds stemming from adherence to the temporary rule which may have led to a change in sales to retail investors and retail transaction cost. The first primary change is the rules and requirements of the temporary rule itself. A dual registrant firm cannot rely on the rule for securities it or an affiliated entity underwrites or issues except for investment grade non-convertible debt. This restriction may have possibly resulted in a shift in sales from other securities to investment grade municipal bonds. Adherence to the temporary rule may have also led to an increase in compliance costs which may have been passed on to investors in the form of higher transaction costs. Compliance costs include the provision of written prospective disclosures, acquisition of written revocable client consent, and the implementation of systems to monitor adherence to the rule.

The second primary change is the application of the rules and requirements of the investment adviser regulatory regime, not including the rules and requirements of the temporary rule, to the recommendation and transaction of investment grade municipal bonds. The provision of personalized investment advice subject to the investment adviser regulatory regime, including a fiduciary standard of conduct, may have led to a change in security

recommendations retail investors receive and the cost of providing advice.[18]

Both primary changes may in some form have contributed to the results found below.[19] The results suggest that the introduction of a fiduciary standard of conduct to the recommendation and transaction of investment grade municipal bonds by BA firms in non-fiduciary states may have led to greater sales to retail investors.

II.b *Standards of Conduct*

At the federal level, investment advisers are fiduciaries to their clients, whereas broker-dealers generally are not fiduciaries to their customers.[20] Both regulatory regimes provide protections to retail investors from abusive practices. Such protections include the obligation to seek best execution on customer or client orders, and the provision of investment advice which is suitable and in the best interests of their customers or clients. As part of a fiduciary duty, investment advisers also have an obligation to place the clients' interests in front of their own and to disclose or eliminate all material conflicts of interest.

In some states, broker-dealers are subject to a fiduciary standard of conduct (SEC; 2011). I assume that in practice standards of conduct, either directly or indirectly, are constraints to

[18] See footnote 13 and related text.

[19] Two other secondary changes may have also led to a change in security recommendations and transaction cost. The first of these secondary changes is the possible change in the number and the characteristics of investors with access to investment grade municipal bonds. As a result of the temporary rule, investment advisers at BA firms have greater ability to recommend certain securities from firm inventory to their advisory clients. If some advisory clients did not have access to these securities such as through additional brokerage accounts prior to the temporary rule adoption, then the adherence to the temporary rule may have changed the population of investors with access to these securities.

The second of these secondary changes is the change in the form of financial agent compensation for those customers transferring assets from fee-based brokerage accounts to commission-based brokerage accounts. Financial agents compensated with commissions may be more inclined to recommend securities not intended to be invested in long-term to collect transaction based fees. On the other hand, financial agents compensated with fees based on the amount of assets under management may be more inclined to recommend securities intended to be invested in long-term to avoid transaction costs.

Both the possible change in the population of investors with access to securities from firm inventory and the form of financial agent compensation would have effects that are more ongoing and that are independent of state fiduciary laws. The results, especially with respect to sales to retail investors, instead indicate that changes to the principal transactions of investment grade municipal bonds is dependent on state classification. It is possible, however, that these secondary changes also had an influence on the test results.

[20] There are differing interpretations as to when broker-dealers have a fiduciary obligation to their customers. The ambiguity stems from a lack of litigated cases impeding the development of case law, variation in customer contracts, and inconsistencies between states (Laby; 2010).

the investment advice financial agents provide. Although firms may not implement control and compliance systems or procedures to address differences in state law, state law may still be important to the provision of personalized investment advice. For instance, in case of customer dispute, federal courts would look to state law to determine the fiduciary obligations of a broker-dealer (Laby; 2010), and arbitrators can apply state laws to determine awards in case of customer arbitration.[21]

III. Data Description

I obtain information describing the business of dual registrant firms and broker-dealers from public SEC filings, municipal bond characteristics from the Mergent Municipal Bond Securities Database (Mergent dataset) and SDC Platinum, municipal bond transaction data from the MSRB RTRS dataset, and state information from various sources.

The time period of study is from January 2006 to December 2008. I use bonds with offering dates between January 2006 and December 2006, and between October 2007 and September 2008. I choose a short time period to accurately test the change in municipal bond transactions while avoiding to the fullest extent possible the impact of the global financial crisis of 2008. I do not include municipal bonds with offering dates within 60 trading days of the court decision, from January 2007 to March 2007, and between the court decision and the temporary rule adoption, from March 2007 to September 2007, due to the legal uncertainty of the time period. Similar to Green et al. (2007a), my sample includes only bond transactions occurring within 60 trading days of the bond offering date. The 60 trading day window allows me to incorporate the municipal bonds that are the most frequently traded and to limit the number of municipal bonds with trading periods that overlap either the court decision or the temporary rule adoption.

[21]Customers of broker-dealers and dual registrant firms, including the advisory clients at dual registrant firms, typically sign pre-dispute arbitration agreements with their financial agent. Training materials from the Financial Industry Regulatory Authority (FINRA), which operates the largest dispute resolution program in the securities industry, guides arbitrators to seek guidance in most cases from the parties involved to determine the applicable law or laws. See *The Neutral Corner*, Volume 3 (2010), published by FINRA, and *Basic Arbitrator Training*, also published by FINRA, for training materials.

III.a *Broker-Dealer and Dual Registrant Firm Information*

The initial sample of broker-dealers (and dual registrant firms) includes all broker-dealers that engaged in a municipal bond transaction during the sample period and that is reported in the MSRB RTRS dataset. I require all firms to file annual SEC Form X-17A-5 audited reports with information encompassing the sample period to ensure that the sample of broker-dealers does not change from before the court decision to after the temporary rule adoption. Form X-17A-5 is a financial and operational report that must be filed by all broker-dealers registered with the SEC, and can be found on the SEC's EDGAR system. I obtain information describing the firm's investment adviser business, if any, from annual SEC Form ADV filings. Investment advisers and dual registrant firms file Form ADV with the SEC to provide general information including the types of clients, compensation arrangements, and advisory activities. Past Form ADV filings can be found on the SEC's Investment Adviser Public Disclosure website.

I classify a firm as a BA firm if it files Form ADV, reports actively engaging in business as a broker-dealer, reports a positive number of non-discretionary advisory accounts, and reports that it engages in principal transactions with advisory clients. BA firms are only potentially adhering to the temporary rule because firms filing Form ADV do not specifically acknowledge adherence to the rule. A B firm either does not file Form ADV, does not report actively engaging in business as a broker-dealer, does not report a positive number of non-discretionary clients, or does not report that it engages in principal transactions with advisory clients. B firms, therefore, could not be relying on the temporary rule. Because firms generally did not engage in principal transactions with non-discretionary advisory clients prior to the temporary rule adoption, I classify firms using information from the time period following the rule adoption only. To obtain a more direct comparison between firms either adhering to the temporary rule or not adhering to the rule, I exclude firms that are not solely classified as either a BA firm or a B firm as of December 2007 and December 2008. There are 95 BA firms and 1,475 B firms that meet all sample requirements.

III.b *Municipal Bond Characteristics*

I obtain bond characteristic information from the Mergent dataset. The Mergent dataset provides security and issue information for 484,256 individual bonds with offering dates between July 2005 and December 2008. I extract bond information from the Mergent dataset including the type and frequency of coupon payments, put options, call options, sinking fund provisions, non-standard interest frequency or interest calculation, credit enhancements, tax status, the type of debt-paying assets, and the use of proceeds. I obtain bond ratings information from SDC Platinum.

I exclude 26,075 individual bonds from the initial sample with missing offering price information, missing or inaccurate total offering amount information, remarketed bonds, and bonds not relating to any of the 50 states or the District of Columbia.[22] To incorporate the Harris and Piwowar (2006) bond model in my analysis, I exclude 16,586 individual bonds with a derivative or warrant feature, and 8,346 individual bonds with non-standard coupon payments (adjustable, floating, flexible, variable, inverse, or index-linked coupons). I also exclude 80,986 individual bonds that are either designated as non-investment grade or with missing ratings information in SDC Platinum to ensure that the temporary rule can apply to all bonds in the sample. There are 352,309 bonds remaining in the sample. Bond issuances are spread evenly throughout the sample period. There are 109,168 investment grade municipal bonds meeting sample requirements with offering dates between January 2006 and December 2006, and there are 89,543 investment grade municipal bonds meeting sample requirements with offering dates between October 2007 and September 2008.

III.c *State Information*

I obtain state law information from Finke and Langdon (2012) who classify states and the District of Columbia into one of three categories based on whether broker-dealers are subject to a fiduciary standard of conduct, a quasi-fiduciary standard of conduct, or no

[22] I search for inaccurate total offering amount information by examining individual bonds with total offering amount less than denomination amount. Often these securities are zero-coupon bonds selling at a discount. However, it can also be indicative of data error. I find only a few such examples.

fiduciary standard of conduct. They base their classification scheme on court decisions and state regulations. It is unclear the extent to which state level fiduciary or quasi-fiduciary standards of conduct relate to the fiduciary standard of conduct of the investment adviser regulatory regime. For instance, Finke and Langdon (2012) note that some quasi-fiduciary states "impose a standard higher than the suitability standard imposed by FINRA for non-discretionary accounts."

From the classification of Finke and Langdon (2012), I define a fiduciary state as a state where broker-dealers are subject to a fiduciary or quasi-fiduciary standard of conduct, and a non-fiduciary state as a state where generally broker-dealers are not subject to a fiduciary standard of conduct. State classifications relate to the standards of conduct governing the provision of advice in non-discretionary accounts. The difference between states is whether broker-dealers are either subject to additional standards of conduct that seemingly relate to a fiduciary standard or are generally not subject to a fiduciary standard of conduct. Table 1 presents a listing of fiduciary states and non-fiduciary states by geographic region. There are 37 fiduciary states and 14 non-fiduciary states. A little more than a quarter of bond issues relate to non-fiduciary states.

I obtain state income information from the U.S. Census Bureau, gross state product statistics from the Bureau of Economic Statistics, and tax information from the Federation of Tax Administrators. I incorporate the information in the regressions below to control for state level economic differences.

III.d *Municipal Bond Transaction Data*

I obtain municipal bond transaction data from the MSRB RTRS dataset. The dataset contains information for all municipal bond transactions from July 2005 to March 2009. Each observation provides information regarding bond cusip, trade date, time of trade, settlement date, bond price, par value, and transaction commissions. The dataset also contains fields identifying the transacting broker or brokers, the type of transaction (between two dealers or a dealer and a customer, sale or purchase), and dealer capacity (principal or agent). The

dataset does not contain information describing the type of investor engaging in customer transactions (institutional or retail), the type of customer account (brokerage or advisory), and whether the transaction was solicited or unsolicited. There are 5,382,087 observations relating to the principal transactions of sample investment grade municipal bonds in the final sample. In Appendix A.1, I describe measures to clean the dataset for missing or inaccurate trade dates, inaccurate prices, managed account transactions, and other possible data errors.

Table 2 presents the amount of investment grade municipal bond customer principal transactions relating to firms in the final sample. The table includes four panels presenting the total number and value of all customer transactions (Panel A), the total number and value of all sales to customers (Panel B), the total number and value of all sales to customers less than or equal to $50,000 (Panel C), and the total number and value of all sales to customers less than or equal to $20,000 (Panel D). I use sales to customers less than or equal to $50,000 and less than or equal to $20,000 to proxy for sales to retail investors. In each panel the table also presents transaction information by firm classification. In no year did B firms engage in more customer transactions or sales to customers than BA firms. Considering the number of BA firms to B firms, the comparison in customer transactions and sales highlights the difference in trading activity between the two classifications of firms.

IV. Tests of Municipal Bond Sales

IV.a *Empirical Model*

In the first set of tests, I investigate the effect of regulatory regimes on security recommendations by examining the sale of investment grade municipal bonds to retail investors. I define a transaction as a "retail transaction" if the par amount is less than or equal to $50,000. Alternatively, I define a transaction as a retail transaction if the par amount is less than or equal to $20,000. Evidence by Green et al. (2007a) indicates that sales to customers of smaller par amount exhibit greater average markups and intraday price dispersion than sales to customers of larger par amount. The greater price dispersion among smaller trans-

actions is akin to a set of investors, such as retail investors, with varying access to pricing information.

I estimate regressions at the individual bond level, measuring the sale of investment grade municipal bonds to retail investors with *ParSale*, equal to the net par sold to retail investors, and *NumSale*, equal to the net number of sales to retail investors. I include two sets of explanatory variables in the regression. Similar to the difference-in-difference-in-differences empirical methodology, the first set of explanatory variables controls for the time period of the bond offering date (either before the court decision or after the temporary rule adoption), the classifications of firms engaging in customer sales (either BA or B), and the state classification relating to the bond (either non-fiduciary or fiduciary). The variables include

- I^{TR} - an indicator variable equal to 1 if the offering date of the bond is after the temporary rule adoption, and 0 if the offering date of the bond is before the court decision
- $\overline{I^{BA}}$ - a continuous variable with a range between 0 and 1 equal to the average of I^{BA} (an indicator variable equal to 1 if a BA firm engages in the bond sale, and 0 if a B firm engages in the bond sale) for all firms engaging in at least one customer sale regardless of par amount[23]
- I^{NF} - an indicator variable equal to 1 if the bond relates to a non-fiduciary state, and 0 if the bond relates to a fiduciary state
- interaction terms between I^{TR}, $\overline{I^{BA}}$, and I^{NF} - $I^{TR} \times \overline{I^{BA}}$, $I^{TR} \times I^{NF}$, $\overline{I^{BA}} \times I^{NF}$, and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$

[23] I weight the average with the total par amount of firm customer sales. I average I^{BA} using all firms engaging in at least one customer sale regardless of transaction size instead of firms engaging in at least one retail sale to measure the classifications of firms that could have engaged in a retail sale. $\overline{I^{BA}}$ is undefined for bonds with no customer sales. These bonds are therefore not in the regression sample.

The second set of explanatory variables controls for differences between firms, bonds, and states that could also be important in explaining retail sales. The potential amount of bond sales to retail investors should relate to the trading activity of the firms engaging in customer sales. I control for firm trading activity with a quarterly measure of net firm customer sales (*CSales*) averaged at the bond level similar to $\overline{I^{BA}}$ ($\overline{CSales}$). I also control for differences between bonds by including variables describing the total par offering amount (*TotPar*), bond maturity (*Maturity*), and other bond characteristics (see Appendix A.2).

Assuming that retail investors purchase the bonds of within-state municipalities, economic differences between states could also be important in explaining retail sales. I control for differences in income distributions with annual median income (*StateMedInc*) and annual income standard error (*StateIncSE*). I also control for differences in investor demand (*StateDmnd*) equal to the natural log of the product of state GDP and the maximum of personal, corporate, and bank state tax rates (Harris and Piwowar; 2006). Lastly I include aggregate state level total par offering amount (*StateTotPar*) to control for recent bond issuance activity.

I rescale *ParSale*, $\overline{CSales}$, *TotPar*, *StateMedInc*, *StateIncSE*, and *StateTotPar*, by dividing each variable by 10,000 and then taking the natural log of one plus the scaled value. I also rescale *NumSale* and *Maturity* by taking the natural log of one plus its value. I lag $\overline{CSales}$, *TotPar*, *StateTotPar*, *StateMedInc* *StateIncSE*, and *StateDmnd* to the quarter or year prior to the bond offering date. In equation form, I estimate the following regression

$$\begin{aligned} Y_i \;=\; & \beta_0 + \beta_1 I_i^{TR} + \beta_2 \overline{I_i^{BA}} + \beta_3 \left(I_i^{TR} \times \overline{I_i^{BA}} \right) \\ & + \beta_4 I_i^{NF} + \beta_5 \left(I_i^{TR} \times I_i^{NF} \right) + \beta_6 \left(\overline{I_i^{BA}} \times I_i^{NF} \right) \\ & + \beta_7 \left(I_i^{TR} \times \overline{I_i^{BA}} \times I_i^{NF} \right) + \boldsymbol{\beta} \mathbf{X}_i \; + \varepsilon_i \qquad (1) \end{aligned}$$

where Y represents either *ParSale* or *NumSale*, β represents model parameters, $\mathbf{X}$ represents

the set of additional control variables, ε represents model error, and i indexes bonds.[24] I estimate both regressions using a tobit model that specifies censored observations at 0. I exclude individual bond observations with net par sold or net number of sales less than 0. With these observations, I am likely either missing transactions as a result of excluding firms not meeting sample requirements or miscategorizing transactions as relating to either retail or institutional customers.[25] I calculate t-statistics with standard errors clustered at the 6-digit cusip level to account for correlations in the error term at the level of the municipality. There are 157,116 observations relating to individual bonds in the regressions describing net sales less than or equal to \$50,000, and there are 157,979 observations relating to individual bonds in the regressions describing net sales less than or equal to \$20,000.

Two of the explanatory variables are of particular interest. The first variable of interest, $I^{TR} \times \overline{I^{BA}}$, controls for the change in retail sales following the temporary rule adoption in fiduciary states (setting I^{NF} equal to 0) dependent on the classification of firms engaging in bond customer sales. A significant regression parameter estimate corresponding to this variable indicates that the retail sale of a bond following the temporary rule adoption is dependent on the classifications of firms engaging in customer sales, and suggests that the temporary rule or the investment adviser regulatory regime, but not a fiduciary standard of conduct, may influence security recommendations.

The second variable of interest, $I^{TR} \times \overline{I^{BA}} \times I^{NF}$, controls for the additional change in retail sales following the temporary rule adoption in non-fiduciary states (setting I^{NF} equal to 1) dependent on the classification of firms engaging in customer sales. A significant regression parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicates that there is an additional effect following the temporary rule adoption in the relationship between retail sales and the classifications of firms engaging in customer sales in non-fiduciary states, and

[24] I also include state fixed effects in an alternative regression specification. I find little difference in the results.

[25] I exclude 3,444 observations with either negative net retail or institutional sales (see Section IV.c) when the retail transaction threshold is set at \$50,000, and I exclude 2,473 observations with either negative net retail or institutional sales when the retail transaction threshold is set at \$20,000.

suggests that a fiduciary standard of conduct may influence security recommendations.

IV.b *Results*

Table 3a presents model estimates for regression equation (1) when the retail transaction threshold is set at \$50,000, and Table 3b presents model estimates for regression equation (1) when the retail transaction threshold is set at \$20,000. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ are insignificant in all regressions, whereas the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are positive and significant at the 95% confidence level in all regressions. The sign and significance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicate an additional increase in retail sales by BA firms relative to B firms in non-fiduciary states following the temporary rule adoption, and suggests that a fiduciary standard of conduct may relate to the retail sale of investment grade municipal bonds. The insignificance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ indicate that I do not find evidence in this empirical setting that the temporary rule or other aspects of the investment adviser regulatory regime may also explain retail sales following the rule adoption.

Among the other control variables, I find that average firm customer sales, bond total par offering amount, and bond maturity are positive and significant determinants of retail sales, whereas other bond characteristics including sinking fund provisions, odd interest payment frequency, and federal and state taxes are negative and significant. In general, the sign and significance of the bond characteristic variables reflects the inclination of financial agents to avoid recommending and selling municipal bonds to retail investors with disadvantageous or complex features. I also find that state median income and investor demand are also positive and significant determinants of retail sales.

I estimate the possible economic significance of a fiduciary standard of conduct by subtracting the change in the unconditional expected value of *ParSale* and *NumSale* for a bond sold entirely by BA firms in non-fiduciary states with (a) the same change for a bond sold entirely by B firms in non-fiduciary states, and with (b) the same change for a bond sold

entirely by BA firms in fiduciary states. I calculate the unconditional expected amount of retail sales for a bond sold either entirely by BA firms or by B firms to obtain the most direct comparison between firm and state classifications as possible. In equation form, I estimate

$$\underbrace{(E[Y_{1,1,1}] - E[Y_{0,1,1}])}_{\Delta \text{ BA/non-fiduciary}} - \underbrace{(E[Y_{1,0,1}] - E[Y_{0,0,1}])}_{\Delta \text{ B/non-fiduciary}} - \underbrace{(E[Y_{1,1,0}] - E[Y_{0,1,0}])}_{\Delta \text{ BA/fiduciary}}$$

where Y represents either *ParSale* or *NumSale*, the first subindex of Y represents the value of I^{TR}, the second subindex of Y represents the value of $\overline{I^{BA}}$, and the third subindex of Y represents the value of I^{NF}. The first comparison, retail sales relating to B firms in non-fiduciary states, accounts for the change in expected retail sales in non-fiduciary states, and the second comparison, retail sales relating to BA firms in fiduciary states, accounts for the change in expected retail sales by BA firms. Neither comparison accounts for the change in bond sales as a result of an introduction of a fiduciary standard of conduct, such as with BA firms in non-fiduciary states, to a portion of security recommendations that would otherwise have not been subject to such a standard. The full difference, therefore, measures the potential effect of a fiduciary standard of conduct to the recommendation and sale of investment grade municipal bonds. To obtain a relative measure, I benchmark the full difference to the unconditional expected value of the dependent variables for a bond sold entirely by BA firms in non-fiduciary states prior to the court decision ($E[Y_{0,1,1}]$).

Table 4 presents the estimates of economic significance. When the retail transaction threshold is set at \$50,000, I find that a fiduciary standard of conduct may lead to an 8.3% increase in *ParSale* and a 9.2% increase in *NumSale* per bond, and when the retail transaction threshold is set at \$20,000, I find that a fiduciary standard of conduct may lead to a 16.4% increase in *ParSale* and a 16.0% increase in *NumSale* per bond. The influence of a fiduciary standard of conduct on security recommendations does not necessarily imply that the recommendations are necessarily "better," but does imply that the recommendations are different. For example, there is a trade-off between having securities in brokerage accounts

where generally the financial agent has no continuing obligation after providing investment advice but also does not charge ongoing fees, and having securities in advisory accounts where more typically the financial agent has agreed to a continuing obligation after providing investment advice but charges fees based on assets under management.[26] The decision to have long term assets in advisory accounts instead of brokerage accounts may therefore prove to be more costly in the long run.

IV.c *Extensions*

The time period of the study overlaps events relating to the recent financial crisis which may also have had an effect on the recommendation and sale of investment grade municipal bonds. For instance, bonds with offering dates from July 2008 to September 2008 have 60 trading day windows that overlap the bankruptcy of Lehman Brothers in September 2008. To investigate whether other events may have also led to a change in retail sales following the temporary rule adoption, I partition the full regression sample into calendar quarters and reestimate regression equation (1). That is, I reestimate regression equation (1) using bonds with offering dates either in the fourth quarter of 2006 and in the fourth quarter of 2007 (the first quarter following the temporary rule adoption), in the first quarter of 2006 and in the first quarter of 2008, in the second quarter of 2006 and in the second quarter of 2008, or in the third quarter of 2006 and the third quarter of 2008 (the fourth quarter following the temporary rule adoption). I partition the regression sample by calendar quarter to control for the effect of seasonal trends. If the results in the first set of tests relate to the adoption of the temporary rule, then I should find similar evidence either soon after the temporary rule adoption or throughout the post-event time period.

Table 5a presents the abbreviated regression results when the retail transaction threshold is set at $50,000, and Table 5b presents the abbreviated regression results when the retail

[26] Whether a broker-dealer or investment adviser has continuing obligations is dependent on the contractual arrangement with the customer. Over 95% of investment advisers charge fees based on the percentage of assets under management and less than 10% of investment advisers charge transaction based compensation (SEC; 2011).

transaction threshold is set at \$20,000. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are positive and statistically significant in the regressions describing the retail sale of bonds with offering dates in the first quarter and in the second quarter following the temporary rule adoption, and are insignificant in the regressions describing the retail sale of bonds with offering dates in the third quarter and in the fourth quarter. These results indicate that if a fiduciary standard of conduct was significant in resulting in additional investment grade municipal bond retail sales, then it was most significant shortly after the rule adoption and before the potential influence of other events. I also only find strong evidence that $I^{TR} \times \overline{I^{BA}}$ is statistically significant in the regressions describing retail sales of bonds with offering dates in the second quarter. Thus, I do not find evidence of a trend that could relate to the temporary rule or other aspects of the investment adviser regulatory regime.

As a comparison to retail sales, I reestimate regression equation (1) but instead model institutional sales. I define a customer transaction as an "institutional transaction" if the par amount is strictly greater than \$50,000. The additional increase in retail sales by BA firms relative to B firms in non-fiduciary states following the temporary rule adoption could be the result of a relative overall increase in the sale of these securities by BA firms and may not pertain specifically to retail investors. I reestimate regression equation (1) using the full regression sample and the regression sample partitioned by calendar quarter.

Table 6 presents the regression results when I use the full regression sample. I find that the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ are positive and statistically significant in both regressions, and that only in the regression describing *ParSale* is the parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ statistically significant albeit negative. These results suggest that although there was an increase in institutional sales by BA firms relative to B firms following the temporary rule adoption, the change in institutional sales dependent on the classification of firms engaging in customer sales was more positive for bonds relating to fiduciary states than to non-fiduciary states. Although a relationship potentially exists

between retail and institutional sales, these results suggest that the relative increase in retail sales by BA firms in non-fiduciary states is not reflective of an overall trend relating to these firms and securities. Table 7 presents the abbreviated regression results when I separate bond observations by calendar quarter. Similar to the quarterly regressions describing retail sales, and further evidence of a potential relationship between retail and institutional sales, I find that parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ are significant in the regressions describing the institutional sale of bonds with offering dates in the first quarter and in the second quarter following the temporary rule adoption, and insignificant in the regressions describing the institutional sale of bonds with offering dates in the third quarter and in the fourth quarter.

V. Tests of Retail Transaction Cost

V.a *Empirical Model*

In the second set of tests, I investigate the effect of regulatory regimes on the transaction cost of investment grade municipal bonds. I utilize the Harris and Piwowar (2006) methodology to measure transaction cost.[27] The model describes bond price as a function of bond value, transaction cost, and interdealer price concession. The authors model transaction cost as a three term function. From this cost function, I obtain estimates of transaction cost at the individual bond level for transactions of par value equal to \$20,000, \$50,000, \$100,000, and \$1,000,000. Cost estimates of transactions of par value equal to \$20,000 and \$50,000 relate more to the cost of retail transactions, and cost estimates of transactions of par value equal to \$100,000 and \$1,000,000 relate more to the cost of institutional transactions.

To investigate the effect of regulatory regimes on transaction cost, I regress estimates of transaction cost on variables controlling for firm classification, the time period of the bond offering, the state classification relating to the bond, and other potential determinants of transaction cost including bond characteristics and state level variables. The additional variables in the cost function are similar to the explanatory variables that I use to explain

[27] See Appendix A.3 for a description of the methodology.

customer sales in Section IV. However, I respecify $\overline{I^{BA}}$ and $\overline{CSales}$ to take into consideration the utilization of each customer transaction to estimate transaction cost. I now define the variable $\overline{I^{BA}}$ as the non-weighted average of I^{BA} of all customer transactions, both purchases and sales, and $\overline{CSales}$ as the non-weighted average of the aggregate par amount of all firm customer transactions ($\overline{CTrans}$). I estimate the following regression

$$\begin{aligned} \widehat{C}_{S,i} \quad = \quad & \beta_0 + \beta_1 I_i^{TR} + \beta_2 \overline{I_i^{BA}} + \beta_3 \left(I_i^{TR} \times \overline{I_i^{BA}} \right) \\ & + \beta_4 I_i^{NF} + \beta_5 \left(I_i^{TR} \times I_i^{NF} \right) + \beta_6 \left(\overline{I_i^{BA}} \times I_i^{NF} \right) \\ & + \beta_7 \left(I_i^{TR} \times \overline{I_i^{BA}} \times I_i^{NF} \right) + \boldsymbol{\beta} \mathbf{X}_i \ + \varepsilon_i \end{aligned} \tag{2}$$

where $\widehat{C}$ represents cost estimates and S represents transaction size.[28] I incorporate the Bayesian shrinkage estimator of Harris and Piwowar (2006) to calculate the variance of cost estimates, and weight regression observations with the inverse of the variances. I calculate t-statistics with standard errors clustered at the 6-digit cusip level to account for correlations in the error term at the level of the municipality. There are 57,540 individual bonds that meet the requirements of the Harris and Piwowar (2006) model, and 57,500 observations relating to individual bonds that are in the regression sample.

Similar to the regressions in Section IV, the two variables of interest are $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$. A significant regression parameter estimate corresponding to $I^{TR} \times \overline{I^{BA}}$ indicates a change in transaction cost following the temporary rule adoption in fiduciary states dependent on the classification of firms engaging in bond customer transactions. Significance of this variable suggests, especially for estimates of retail transaction cost, that the costs relating to compliance of the temporary rule may have resulted in an increase in the cost of BA firm transactions. A significant regression parameter corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicates an additional change in transaction cost in non-fiduciary states following the temporary rule adoption dependent on the classification of firms engaging in

[28] I also include state fixed effects in an alternative regression specification. I find little difference in the results.

bond customer transactions. The results in the first set of tests indicate an additional increase in retail sales by BA firms relative to B firms in non-fiduciary states. It is possible that this additional increase in retail sales is also contemporaneous with a change in retail transaction cost.

V.b *Results*

Similar to Harris and Piwowar (2006), I find that customer transaction cost decreases as transaction size increases. For example, average transaction cost weighted by the inverse of cost estimate variance ranges from 87 basis points for transactions of \$20,000, to 77 basis points for transactions of \$50,000, to 63 basis points for transactions of \$100,000, and to 21 basis points for transactions of \$1,000,000. These estimates are similar to Harris and Piwowar (2006) who find that average customer transaction cost ranges from 99 basis points for transactions of \$20,000, to 77 basis points for transactions of \$50,000, to 62 basis points for transactions of \$100,000, and to 24 basis points for transactions of \$1,000,000.

Table 8a presents model estimates for regression equation (2) describing the cost of transactions of par value equal to \$20,000 and \$50,000, and Table 8b presents model estimates for regression equation (2) describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. I find that $I^{TR} \times \overline{I^{BA}}$ is a positive and significant determinant of transaction cost in all four regressions, and that $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ is a negative and significant determinant in regressions describing the cost of transactions of par value equal to \$20,000, \$50,000, and \$100,000. The significance and similar magnitude of parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}}$ in all four regressions suggests that the additional change in transaction cost dependent on the classification of firms engaging in customer transactions may not relate to the temporary rule but instead to other factors that would have a more systematic effect on the cost of all transactions regardless of size. The sign and significance of the parameter estimates corresponding to $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ indicate an additional decrease in retail transaction cost for those bonds relating to non-fiduciary states and with a greater proportion of transactions by BA firms. Although this additional decrease is greater for transactions relat-

ing more to retail investors, the tests below indicate that it may not relate to the additional increase in retail sales found in Section IV.

Among the other control variables, bond characteristics that are positive and significant determinants of retail transaction cost include bond maturity, optional call schedules, odd interest payment frequency, and state median income. Credit enhancements are also positively and significantly related to retail transaction cost, but more so prior to the temporary rule adoption than after; although the credit enhancement indicator variable is positive and statistically significant, the interaction term between the credit enhancement indicator variable and I^{TR} is negative and statistically significant. Retail transaction cost is also lower for bonds with total par offering amount. The sign and significance of many of the control variables are similar to the findings of Harris and Piwowar (2006).

V.c *Extension*

To investigate whether other events could relate to the changes in transaction cost following the temporary rule adoption, I again partition the full regression sample into calendar quarters and reestimate regression equation (2). In each one of the regressions, the variables of interest are again $I^{TR} \times \overline{I^{BA}}$ and $I^{TR} \times \overline{I^{BA}} \times I^{NF}$.

Table 9a presents the abbreviated regression results describing the cost of transactions of par value equal to \$20,000 and \$50,000, and Table 9b presents the abbreviated regression results describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. I find that $I^{TR} \times \overline{I^{BA}}$ is positive in all regressions, and significant in at least one regression relating to each transaction size and quarter. On the other hand, I find that $I^{TR} \times \overline{I^{BA}} \times I^{NF}$ is negative and statistically significant in the regressions describing the transaction cost of bonds with offering dates in the second quarter and in the third quarter following the temporary rule adoption. This result indicates that the time periods in which I find an additional decrease in retail transaction cost by BA firms relative to B firms in non-fiduciary states only partially overlaps the time periods in which I find an additional increase in retail sales. These two results, therefore, may not be related. Taken together, I do not find

enough evidence to conclude that changes to the regulatory regime governing the principal transactions of investment grade municipal bonds relate to changes in transaction cost that is specific to retail investors.

VI. Conclusion

This paper is a first step in determining the importance of regulatory regimes to the provision of personalized investment advice about securities to retail investors. Broker-dealers and investment advisers may provide many of the same services yet are subject to two different legal frameworks. The results in this paper indicate that differences between the two regulatory regimes may be important to the advice retail investors receive.

This paper investigates just one aspect of the many services broker-dealers and investment advisers may provide. Although I utilize transaction level data, regulatory events, and additional information like state laws, the lack of account level information limits the efficacy of the empirical methodology. Both regulators and researchers would greatly benefit from information describing investor demographics, account characteristics, the types of security investments, and security returns. Such information can not only provide a more meaningful description of a market characterized by information asymmetries, but also an industry that is vital to the financial well-being of many retail investors.

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Appendix

A.1 *MSRB RTRS Dataset*

There are 35,169,982 transaction observations in the MSRB dataset from July 2005 to December 2008.[29] The dataset reduces to 11,065,403 observations after I exclude bonds with missing issuance or bond information on Mergent, and bonds not meeting sample requirements (see Section II.b), and further reduces to 6,046,632 observations after I exclude transactions with missing trade date, time of trade, transaction price, and par amount information; inaccurate trade date information; and transactions with trade dates not within 60 trading days of the bond offering date.

I also exclude managed account transactions, or where an intermediary acts on the behalf of multiple customers and allocates securities across accounts. These transactions may appear in the dataset as a contemporaneous purchase and then sale to multiple customers at the same time and price with equal par amounts. There are 5,993,465 observations after combining multiple transactions with these similarities to one.

I identify observations with inaccurate transaction prices by comparing the price of an observation to the offering price of the bond and the prices of transactions that immediately precede and follow the observation. For each comparison price (relating to the offering price, the transaction price immediately preceding the observation, and the transaction price immediately following the observation), I calculate a measure equal to the absolute value of the observation price minus the comparison price, all divided by the observation price. I then separately rank each one the three sets of comparison measures. I classify a price as inaccurate with respect to one of the three comparison prices if it ranks in the top 0.05%. I choose 0.05% by examining outliers in the remaining sample when the threshold ranges from 0.01% to 0.1%.

[29] After August 2007, the original dataset separates each interdealer transaction into two observations. However, the original dataset also contains a field assigning each interdealer transaction an identification code. I use the identification code to combine the duplicate interdealer transactions. If I cannot match interdealer transactions on identification code, then I match on trade information. I assume the remaining interdealer transactions are non-duplicative.

I delete all individual observations from the sample where each one of the three comparison measures classify as inaccurate and the prices of the transactions immediately following and preceding the observation are also not inaccurate with respect to the next closest transaction. I also exclude all observations relating to a particular bond if an individual observation is inaccurate with respect to the offering price but I cannot delete it from the sample. This can occur when bond prices are inaccurate with respect to the offering price in consecutive transactions. I exclude 5,911 observations from the sample using this methodology, and I also exclude an additional 40,487 observations with bond price less than or equal to 0.01.

I also clean the dataset using par value traded information. I exclude observations with par value traded greater than total par offering amount. I also identify duplicate observations in the dataset by aggregating the par value traded to customers. I consider identical observations to be duplicate if the total par value sold to customer accounts is greater than the total par offering amount by the par value traded. I exclude 369 transactions that are duplicate and 2,209 observations with par traded greater than total par offering amount. Past researchers have taken additional steps to refine the MSRB transaction dataset. The additional refinements, however, impose additional assumptions on the dataset. There are 5,944,489 observations before excluding additional observations relating to agency transactions, and bonds that are not investment grade from the final sample.

A.2 *Bond Characteristic Variables*

The following is a list of bond characteristic indicator variables that I use in the regressions as explanatory variables. I define each variable with information from the Mergent dataset.

- *AAA* - equal to 1 if the bond has an investment grade rating of AAA, 0 otherwise
- *OptCallSched* - equal to 1 if the bond has an optional call schedule, 0 otherwise
- *ExtraOrdCall* - equal to 1 if the bond issue is subject to an extraordinary call, 0 otherwise

- *PutOption* - equal to 1 if the bond has a put option, 0 otherwise
- *CredEnh* - equal to 1 if the bond has either additional credit or bond insurance, 0 otherwise
- *SinkFund* - equal to 1 if the bond has a sinking fund provision, 0 otherwise
- *OddIntFreq* - equal to 1 if the frequency of interest payments is not semi-annual, 0 otherwise
- *OddIntCalc* - equal to 1 if the interest calculation is not 30 days per month by 360 days per year, 0 otherwise
- *GenObl* - equal to 1 if the security is a general obligation bond, 0 otherwise
- *RevBond* - equal to 1 if the security is a revenue bond, 0 otherwise
- *GenPurp* - equal to 1 if the security is for general purpose or public improvement, 0 otherwise
- *Education* - equal to 1 if the use of proceeds relates to higher education, primary and secondary education, and other education; 0 otherwise
- *Utility* - equal to 1 if the use of proceeds relates to public utilities including power, gas telephone, water, and waste; 0 otherwise
- *Health* - equal to 1 if the use of proceeds relates to hospitals, nursing homes, and other healthcare; 0 otherwise
- *CertPart* - equal to 1 if the type of debt is a certificate of participation, 0 otherwise
- *FedTax* - equal to 1 if the maturity is taxable at the federal level, 0 otherwise
- *StateTax* - equal to 1 if the maturity is taxable by the state of issue, 0 otherwise

I also include an interaction term between *CredEnh* and I^{TR} ($CredEnh \times I^{TR}$) to control for the potential change to the influence of credit enhancements on bond transactions as a result of the financial crisis.

A.3 *Harris and Piwowar (2006) Methodology*

I follow Harris and Piwowar (2006) and model bond price P as a function of bond value V, investor transaction cost C, and interdealer price concession δ. Transaction cost is dependent on whether the bond transaction is a dealer sale to a customer, a dealer purchase from a customer, or an interdealer transaction. To incorporate differences in transaction type, investor transaction cost is interacted with variable Q, equal to 1 if the transaction is a dealer sale to a customer, equal to -1 if the transaction is a dealer purchase from a customer, and equal to 0 if the transaction is an interdealer trade. Interdealer price concession δ is interacted with an indicator variable I^D, equal to 1 if the trade is an interdealer trade, and equal to 0 otherwise. In equation form, the price for bond i at time t is

$$P_{it} = V_{it} + Q_{it}P_{it}C_{it} + I^D_{it}P_{it}\delta_{it}$$

After taking the natural log of both sides of the bond price equation, the price equation for bond i at time t is subtracted from the price equation for bond i at time s. Following the approximations made by Harris and Piwowar (2006), the equation for the difference in bond price from time s to time t is

$$r^P_{its} = r^V_{ts} + Q_{it}C_{it} - Q_{is}C_{is} + I^D_{it}\delta_{it} - I^D_{is}\delta_{is}$$

where r^P represents the difference in the natural log of bond price and r^V represents the difference in the natural log of bond value. I define time s using the most recent bond trade, either customer or interdealer, prior to the trade at time t. If more than one bond transaction occurs at time s, then I use the bond transaction with greatest par value to calculate returns for transactions that occur at time t. Large transactions, typically involving institutional investors, are likely to provide more information than small transactions, possibly involving

retail investors. If more than one transaction occurs at time t, then time s is equal to time t. In this instance, I use the transaction with the greatest par amount to calculate differences in the natural log of bond price.

Harris and Piwowar (2006) model the difference in the natural log of bond value between the two trades as

$$r^V_{its} = N^{CalDay}_{ts}(5\% - Coupon_i) + \beta^V_1 AvgSL_{ts} + \beta^V_2 DiffSL_{ts} + \gamma_{its}$$

where N^{CalDay}_{ts} represents the number of calendar days between time s and time t, (5%-*Coupon*) represents the difference between the bond's coupon interest rate and 5%, *AvgSL* represents the average in and *DiffSL* represents the difference between short-term and long-term index returns, and γ is model error. The difference between the bond's coupon rate and 5%, in units of one calendar day, measures the return a trader would expect between trade dates when interest rates are constant. The expression of all bond returns in this manner, including when calculating bond index returns, should not affect the results. The error term γ has mean zero and variance equal to $N^{TrdSes}_{ts}\sigma^2_{TrdSes}$ where N^{TrdSes}_{ts} represents the number of trading sessions from time s to time t. I estimate index returns using a repeat sales regression methodology (Case and Shiller; 1987).[30]

Harris and Piwowar (2006) model transaction cost as a three or four term function. The primary cost function in their analysis is

$$C_i = c_0 + c_1 S_i^{-1} + c_2 \ln S_i + \kappa_i$$

where c_0, c_1, and c_2 represent model parameters; S represents transaction size; and κ represents model error. They motivate the equation as one part that controls for cost as a proportion of transaction size (c_0), one part that controls for fixed costs per trade, ($c_1 S^{-1}$), and one part that controls for cost as it varies with transaction size ($c_2 \ln S$).

The bond price equation is modeled separately for each bond. The full bond price

[30] See Appendix A.4 for a full explanation of the repeat sales regression methodology.

equation is

$$r_{its}^{P} - N_{ts}^{CalDay}(5\% - Coupon_i) = \beta_1^V AvgSL_{ts} + \beta_2^V DiffSL_{ts} + Q_{it}C_{it} - Q_{is}C_{is} + \eta_{its} \tag{3}$$

where η repesents model error. The error term η can be expressed as

$$\eta_{its} = \gamma_{its} + I_{it}^{D}\delta_{it} - I_{is}^{D}\delta_{is} + Q_{it}\kappa'_{it} - Q_{is}\kappa'_{is}$$

with zero mean and variance, σ_η^2, that can be expressed as

$$\sigma_\eta^2 = N^{TrdSes}\sigma_{TrdSes}^2 + D_{ts}\sigma_\delta^2 + (2 - D_{ts})\,\sigma_\kappa^2$$

where D_{ts} is equal to the number of interdealer transactions between each of the two trades (0, 1 or 2), σ_δ^2 represents the variance of δ, and σ_κ^2 represents the variance of κ.

I follow Harris and Piwowar (2006) and use an iterated least squares methodology to estimate parameter estimates of equation (3) with weights equal to the inverse of σ_η^2 estimates. Estimates of σ_η^2 are obtained by pooling error terms from equation (3) and regressing the square of these error terms on N^{TrdSes}, D_{ts}, and $(2 - D_{ts})$. The parameters multiplying N^{TrdSes}, D_{ts}, and $(2 - D_{ts})$ are constrained to be strictly greater than zero.

A.4 *Repeat-Sale Regression*

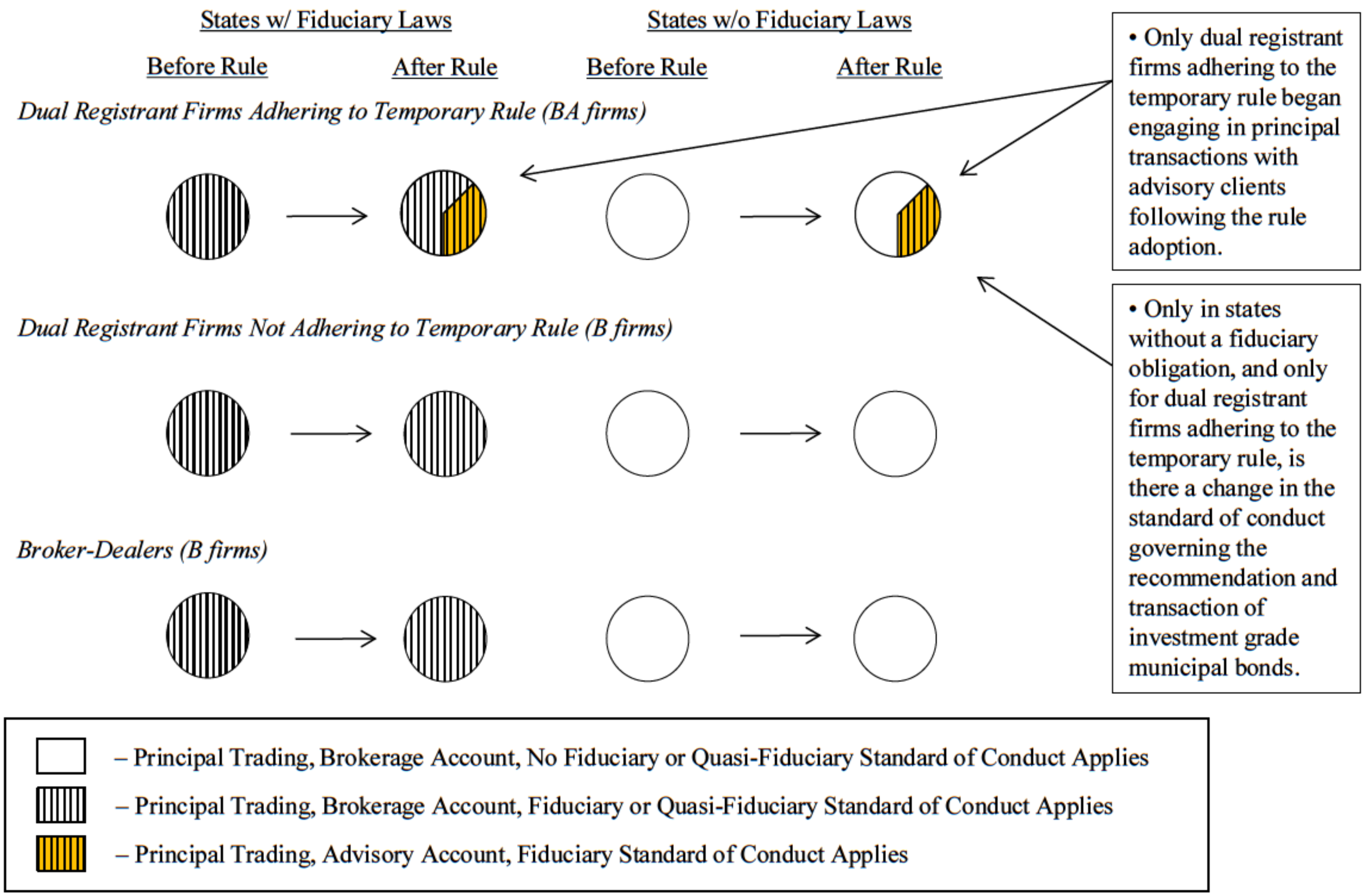
I calculate short-term and long-term bond daily index returns using the repeat-sale regression method of Case and Shiller (1987), regressing the returns of short-term bonds or long-term bonds on a set of indicator variables representing trade dates. I define bonds as short-term if less than 60 months remain until maturity, and bonds as long-term if at least 144 months remain until maturity. The indicator variables, I^{td}, are equal to 1 if the bond is held or sold on the trade date, 0 otherwise. The repeat-sale regression in equation form for all trades from the beginning of the sample period ($\tau = 1$) to the end of the sample period ($\tau =$ T) is

$$r_{its} - N_{ts}^{CalDay}(5\% - Coupon_i) = \sum_{1\leq\tau}^{\tau\leq T} \beta_\tau I_\tau^{td} + \zeta_{its} \tag{4}$$

where r_{its} represents the difference in the natural log of the price of bond i between time s and time t, N_{ts}^{CalDay} represents the number of calendar days between time s and time t, and (5%-*Coupon*) is the difference between the bond's coupon interest rate and 5% in units of one calendar day.

I obtain parameter estimates for both short-term and long-term bonds using a three-step procedure beginning with an initial estimate of equation (4). I then regress the initial squared estimates of ζ on the total number of days between consecutive trades, the squared total number of days between trade dates, and an intercept. Lastly, I reestimate equation (4) using fitted values from the second stage as regression weights. I use interdealer transactions only in the repeat-sale regression to avoid noise from the bond prices of customer transactions. If more than one interdealer transaction occurs for the same bond on a given trade date, then I use the last interdealer transaction on that date.

Figure 1: Changes to the Regulatory Regime Governing the Principal Transactions of Investment Grade Municipal Bonds by Firm and State Classification



This figure describes the change in the regulatory regime governing principal transactions dependent on firm classification and the presence of state fiduciary laws. For simplicity, this figure does not account for changes to the proportion of advisory accounts held at dual registrant firms following the court decision and temporary rule adoption. See Section II for further discussion.

Table 1: State Classification by Region

Region	Non-Fiduciary States		Fiduciary States	
	States	N	States	N
Northeast	Massachusetts, New York	2	Connecticut, Maine, New Hampshire, New Jersey, Pennsylvania, Rhode Island, Vermont	7
Midwest	Minnesota, North Dakota, Wisconsin	3	Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Nebraska, Ohio, South Dakota	9
Southeast	Arkansas, Mississippi, North Carolina	3	Alabama, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Oklahoma, South Carolina, Tennessee, Texas, Virgina, West Virginia	14
West	Arizona, Colorado, Hawaii, Montana, Oregon, Washington	6	Alaska, California, Idaho, New Mexico, Nevada, Utah, Wyoming	7
Number		14		37

This table lists the states either classifying as a fiduciary state or a non-fiduciary state by region. A fiduciary state requires broker-dealers to operate in a fiduciary or quasi-fiduciary capacity, whereas a non-fiduciary state makes no such requirements. See Sections II.b and III.c for a further description.

Table 2: Number and Par Value of Customer Transactions

Year	All		BA		B		All		BA		B	
	N	$bn.	N	$bn.	N	$bn.	N	$bn.	N	$bn.	N	$bn.
	Panel A - All Customer Transactions						*Panel B - All Customer Sales*					
2006	588,049	286.03	363,051	198.58	224,998	87.45	563,445	237.16	351,390	162.18	212,055	74.98
2007	617,520	350.79	390,557	245.88	226,963	104.91	592,575	290.07	377,988	200.12	214,587	89.95
2008	662,597	285.69	399,161	198.72	263,436	86.96	636,130	243.40	388,201	169.73	247,929	73.67
	Panel C - All Customer Sales $\leq$ *$50k*						*Panel C - All Customer Sales* $\leq$ *$20k*					
2006	324,646	8.91	213,633	5.82	111,013	3.10	131,061	1.72	87,926	1.16	43,135	0.56
2007	332,124	9.29	222,049	6.19	110,075	3.10	129,266	1.72	87,542	1.18	41,724	0.54
2008	376,530	10.48	238,460	6.68	138,070	3.80	146,090	1.91	91,553	1.22	54,537	0.69

This table presents the aggregate number and value of all investment grade municipal bond customer principal transactions. Panel A presents information describing all customer sales and purchases, Panel B presents information describing all sales to customers, Panel C presents information describing all sales to customers less than or equal to $50,000, and Panel D presents information describing all sales to customers less than or equal to $20,000. The table presents customer transactions for all firms, for dual registrant firms engaging in principal transactions with brokerage and advisory clients after the temporary rule adoption (BA firms), and for firms engaging in principal transactions with brokerage clients only after the temporary rule adoption (B firms). I obtain transaction information from the MSRB RTRS dataset.

Table 3a: Tobit Regressions Describing Retail Sales ($\leq$ \$50k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	0.036	(0.52)	0.020	(0.41)	*RevBond*	-0.009	(0.18)	0.002	(0.06)
$\overline{I^{BA}}$	0.099^b	(2.30)	0.086^a	(2.81)	*GenPurp*	-0.073	(1.48)	-0.059	(1.63)
$I^{TR} \times \overline{I^{BA}}$	-0.046	(0.73)	-0.024	(0.55)	*Education*	-0.188^a	(3.80)	-0.141^a	(3.93)
I^{NF}	-0.037	(0.63)	-0.004	(0.10)	*Utility*	-0.318^a	(5.34)	-0.242^a	(5.64)
$I^{TR} \times I^{NF}$	-0.150^c	(1.93)	-0.110^b	(1.99)	*Health*	-0.446^a	(3.97)	-0.286^a	(3.52)
$\overline{I^{BA}} \times I^{NF}$	0.183^b	(2.20)	0.117^b	(1.99)	*CertPart*	0.164^b	(2.13)	0.109^b	(2.00)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.249^b	(2.13)	0.178^b	(2.14)	*FedTax*	-0.854^a	(11.37)	-0.567^a	(10.38)
$\overline{CSales}$	0.285^a	(39.85)	0.203^a	(39.85)	*StateTax*	-0.899^a	(14.87)	-0.643^a	(15.29)
TotPar	0.086^a	(6.35)	0.078^a	(7.40)	*StateTotPar*	-0.064^a	(3.57)	-0.046^a	(3.55)
Maturity	0.141^a	(6.77)	0.138^a	(9.48)	*StateMedInc*	0.688^a	(3.76)	0.492^a	(3.71)
AAA	0.079^c	(1.74)	0.045	(1.35)	*StateIncSE*	1.367^a	(2.65)	1.171^a	(3.13)
OptCallSched	-0.100^a	(3.67)	-0.009	(0.47)	*StateDmnd*	0.102^a	(8.94)	0.075^a	(9.43)
ExtraOrdCall	-0.015	(0.26)	-0.004	(0.10)	*Constant*	-4.404^a	(14.33)	-3.464^a	(15.39)
PutOption	-0.260	(0.91)	-0.194	(0.92)					
CredEnh	-0.102^c	(1.70)	-0.070	(1.59)	σ	2.175		1.524	
$CredEnh \times I^{TR}$	0.070	(1.09)	0.044	(0.93)	N	157,116		157,116	
SinkFund	-0.523^a	(12.42)	-0.298^a	(9.64)	N = 0	70,877		70,849	
OddIntFreq	-1.109^a	(15.74)	-0.735^a	(14.61)	*pseudo* R^2	0.04		0.05	
OddIntCalc	-0.926	(1.02)	-0.619	(0.97)					
GenObl	-0.310^a	(7.79)	-0.216^a	(7.48)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 3b: Tobit Regressions Describing Retail Sales ($\leq$ \$20k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	-0.018	(0.27)	-0.009	(0.15)	*RevBond*	0.019	(0.44)	0.023	(0.57)
$\overline{I^{BA}}$	0.189^a	(4.77)	0.170^a	(4.85)	*GenPurp*	-0.091^b	(2.00)	-0.082^b	(2.02)
$I^{TR} \times \overline{I^{BA}}$	-0.023	(0.41)	-0.024	(0.47)	*Education*	-0.168^a	(3.77)	-0.150^a	(3.77)
I^{NF}	0.107^b	(2.04)	0.103^b	(2.20)	*Utility*	-0.322^a	(6.17)	-0.292^a	(6.27)
$I^{TR} \times I^{NF}$	-0.156^b	(2.16)	-0.144^b	(2.21)	*Health*	-0.202^b	(2.16)	-0.170^b	(2.02)
$\overline{I^{BA}} \times I^{NF}$	0.018	(0.24)	0.009	(0.14)	*CertPart*	0.094	(1.51)	0.080	(1.44)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.233^b	(2.25)	0.206^b	(2.23)	*FedTax*	-0.388^a	(5.38)	-0.341^a	(5.27)
$\overline{CSales}$	0.257^a	(35.70)	0.227^a	(35.32)	*StateTax*	-0.840^a	(15.59)	-0.753^a	(15.72)
TotPar	0.086^a	(6.26)	0.079^a	(6.32)	*StateTotPar*	-0.065^a	(3.91)	-0.058^a	(3.90)
Maturity	0.370^a	(19.17)	0.330^a	(19.15)	*StateMedInc*	0.441^a	(2.71)	0.388^a	(2.67)
AAA	0.052	(1.22)	0.042	(1.09)	*StateIncSE*	2.242^a	(4.86)	2.051^a	(4.96)
OptCallSched	0.216^a	(9.14)	0.195^a	(9.32)	*StateDmnd*	0.094^a	(10.07)	0.085^a	(10.19)
ExtraOrdCall	0.016	(0.31)	0.014	(0.32)	*Constant*	-5.830^a	(20.85)	-5.197^a	(20.61)
PutOption	-0.306	(1.13)	-0.268	(1.10)					
CredEnh	-0.086	(1.54)	-0.073	(1.46)	σ	1.865		1.653	
CredEnh$\times I^{TR}$	0.061	(0.68)	0.054	(0.74)	N	157,979		157,979	
SinkFund	-0.173^a	(4.86)	-0.129^a	(4.04)	N = 0	105,926		105,931	
OddIntFreq	-0.599^a	(8.81)	-0.527^a	(8.77)	*pseudo* R^2	0.06		0.06	
OddIntCalc	-0.665	(1.05)	-0.571	(1.01)					
GenObl	-0.264^a	(7.25)	-0.231^a	(7.08)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$20,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 4: Expected Changes in Retail Sales by Firm and State Classification

	$\overline{I^{BA}} = 1,\ I^{NF} = 1$			$\overline{I^{BA}} = 0,\ I^{NF} = 1$			$\overline{I^{BA}} = 1,\ I^{NF} = 0$			$\Delta_1 - \Delta_2$	Bench-	
	$E[Y]$		Δ_1	$E[Y]$		Δ_2	$E[Y]$		Δ_3	$-\Delta_3$	mark	$\Delta\%$
$I^{TR} =$	1	0		1	0		1	0				
Panel A: Expected Changes in Sales less than or equal to \$50k by Firm and State Classification												
ParSale	1.372	1.289	0.083	1.074	1.117	-0.043	1.217	1.198	0.018	0.107	1.289	8.3%
NumSale	0.919	0.863	0.056	0.707	0.743	-0.036	0.807	0.795	0.013	0.079	0.863	9.2%
Panel B: Expected Changes in Sales less than or equal to \$20k by Firm and State Classification												
ParSale	0.497	0.478	0.019	0.355	0.405	-0.050	0.424	0.433	-0.009	0.078	0.478	16.4%
NumSale	0.436	0.421	0.015	0.313	0.358	-0.045	0.373	0.381	-0.008	0.067	0.421	16.0%

This table reports estimates of the potential economic significance of a fiduciary standard of conduct. Columns with "$E[Y]$" headers report the unconditional expected value of the dependent variables stemming from the estimation of regression equation (1) given the time period of the retail sales, I^{TR}, the classification of firms engaging in customer sales, $\overline{I^{BA}}$, and the state classification relating to the bond, I^{NF}. All other variables are set to its sample mean. The variable Y represents either *ParSale* or *NumSale*. Columns with "Δ_i" headers report differences between time periods, and the third to last column reports the full difference between all firm and state classifications. I benchmark the full difference with the unconditional expected value of the dependent variables by BA firms in non-fiduciary states prior to temporary rule adoption. The last column relates the full difference to the benchmark. See Section IV for full explanation.

Table 5a: Tobit Regressions Describing Retail Sales by Calendar Quarter ($\leq$ \$50k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.113	(0.80)	-0.307^b	(2.13)	0.019	(0.17)	0.050	(0.39)
$\overline{I^{BA}}$	0.137^c	(1.71)	0.219^a	(2.58)	0.089	(1.05)	-0.029	(0.36)
$I^{TR} \times \overline{I^{BA}}$	-0.131	(1.06)	-0.354^a	(2.62)	0.039	(0.34)	0.183	(1.52)
I^{NF}	-0.025	(0.23)	0.218^c	(1.92)	-0.187^c	(1.81)	-0.101	(0.93)
$I^{TR} \times I^{NF}$	-0.187	(1.19)	-0.433^a	(2.63)	0.006	(0.04)	-0.104	(0.71)
$\overline{I^{BA}} \times I^{NF}$	0.010	(0.07)	0.105	(0.63)	0.269^c	(1.72)	0.406^a	(2.57)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.533^b	(2.35)	0.381	(1.49)	0.134	(0.60)	-0.057	(0.25)
...								
N	41,959		33,511		44,222		37,424	
N = 0	20,262		15,521		19,354		15,740	
pseudo R^2	0.03		0.04		0.04		0.04	
Panel B: NumSale								
I^{TR}	0.087	(0.87)	-0.239^b	(2.31)	0.006	(0.08)	0.027	(0.30)
$\overline{I^{BA}}$	0.110^b	(1.97)	0.177^a	(2.92)	0.079	(1.31)	-0.007	(0.12)
$I^{TR} \times \overline{I^{BA}}$	-0.082	(0.96)	-0.266^a	(2.78)	0.046	(0.57)	0.141^c	(1.65)
I^{NF}	0.003	(0.04)	0.175^b	(2.17)	-0.100	(1.37)	-0.057	(0.73)
$I^{TR} \times I^{NF}$	-0.121	(1.12)	-0.322^a	(2.78)	0.003	(0.03)	-0.080	(0.78)
$\overline{I^{BA}} \times I^{NF}$	-0.006	(0.05)	0.047	(0.39)	0.188^c	(1.68)	0.278^b	(2.48)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.369^b	(2.34)	0.297^c	(1.65)	0.075	(0.47)	-0.033	(0.20)
...								
N	41,959		33,511		44,222		37,424	
N = 0	20,255		15,518		19,345		21,693	
pseudo R^2	0.04		0.05		0.05		0.06	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 5b: Tobit Regressions Describing Retail Sales by Calendar Quarter ($\leq$ \$20k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.122	(0.92)	-0.355^a	(2.75)	-0.085	(0.81)	0.036	(0.30)
$\overline{I^{BA}}$	0.231^a	(3.08)	0.247^a	(3.23)	0.174^b	(2.20)	0.109	(1.46)
$I^{TR} \times \overline{I^{BA}}$	-0.075	(0.67)	-0.330^a	(2.73)	0.115	(1.14)	0.081	(0.73)
I^{NF}	0.120	(1.22)	0.284^a	(2.82)	0.027	(0.29)	0.030	(0.30)
$I^{TR} \times I^{NF}$	-0.123	(0.85)	-0.459^a	(3.12)	0.022	(0.17)	-0.178	(1.31)
$\overline{I^{BA}} \times I^{NF}$	-0.146	(1.06)	-0.090	(0.62)	0.158	(1.13)	0.174	(1.21)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.456^b	(2.23)	0.533^b	(2.44)	-0.048	(0.24)	0.052	(0.26)
...								
N	42,128		33,743		44,473		37,635	
N = 0	29,651		22,741		29,093		24,441	
pseudo R^2	0.05		0.07		0.06		0.07	
Panel B: NumSale								
I^{TR}	0.108	(0.91)	-0.315^a	(2.72)	-0.066	(0.70)	0.046	(0.42)
$\overline{I^{BA}}$	0.200^a	(3.00)	0.226^a	(3.32)	0.160^b	(2.29)	0.102	(1.53)
$I^{TR} \times \overline{I^{BA}}$	-0.058	(0.59)	-0.302^a	(2.80)	0.094	(1.05)	0.068	(0.68)
I^{NF}	0.112	(1.29)	0.258^a	(2.84)	0.037	(0.44)	0.036	(0.40)
$I^{TR} \times I^{NF}$	-0.112	(0.87)	-0.416^a	(3.14)	0.013	(0.11)	-0.161	(1.32)
$\overline{I^{BA}} \times I^{NF}$	-0.133	(1.09)	-0.081	(0.62)	0.128	(1.03)	0.149	(1.16)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.400^b	(2.20)	0.473^b	(2.41)	-0.041	(0.23)	0.047	(0.26)
...								
N	42,128		33,743		44,473		37,635	
N = 0	29,650		22,742		29,095		13,191	
pseudo R^2	0.05		0.07		0.06		0.07	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to retail investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define retail sales as customer sales with par value less than or equal to \$20,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 6: Tobit Regressions Describing Institutional Sales (> $50k)

	ParSale		*NumSale*			*ParSale*		*NumSale*	
I^{TR}	0.087^a	(2.87)	0.062^a	(3.87)	*RevBond*	-0.068^a	(2.90)	-0.027^b	(2.24)
$\overline{I^{BA}}$	-0.145^a	(7.21)	-0.050^a	(5.34)	*GenPurp*	0.052^b	(2.38)	0.006	(0.48)
$I^{TR} \times \overline{I^{BA}}$	0.055^b	(2.06)	0.026^c	(1.95)	*Education*	0.031	(1.37)	-0.028^a	(2.59)
I^{NF}	0.054^b	(2.07)	0.044^a	(4.00)	*Utility*	0.120^a	(4.47)	-0.009	(0.66)
$I^{TR} \times I^{NF}$	0.089^a	(2.67)	-0.008	(0.52)	*Health*	0.068	(1.41)	-0.086^a	(3.52)
$\overline{I^{BA}} \times I^{NF}$	-0.049	(1.23)	-0.007	(0.40)	*CertPart*	-0.122^a	(2.90)	-0.014	(0.80)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.158^a	(2.96)	0.004	(0.17)	*FedTax*	0.034	(1.08)	-0.228^a	(15.84)
$\overline{CSales}$	0.024^a	(6.41)	0.037^a	(23.90)	*StateTax*	0.235^a	(11.76)	-0.032^a	(2.93)
TotPar	1.098^a	(192.21)	0.316^a	(63.85)	*StateTotPar*	-0.011	(1.43)	0.000	(0.10)
Maturity	-0.119^a	(10.65)	-0.066^a	(12.12)	*StateMedInc*	-0.341^a	(4.63)	-0.098^b	(2.24)
AAA	-0.044^b	(2.17)	-0.031^a	(2.72)	*StateIncSE*	-0.289	(1.24)	0.103	(0.85)
OptCallSched	-0.024^c	(1.69)	-0.058^a	(8.13)	*StateDmnd*	0.001	(0.15)	0.017^a	(4.80)
ExtraOrdCall	0.003	(0.10)	0.003	(0.22)	*Constant*	-0.447^a	(3.50)	-0.589^a	(8.40)
PutOption	-0.120	(1.28)	0.023	(0.34)					
CredEnh	0.134^a	(5.02)	0.074^a	(5.30)	σ	1.190		0.573	
CredEnh$\times I^{TR}$	-0.039	(1.39)	-0.019	(1.24)	N	157,116		157,116	
SinkFund	0.146^a	(9.08)	-0.019^b	(2.16)	N = 0	16,714		16,828	
OddIntFreq	-0.003	(0.08)	-0.198^a	(11.12)	*pseudo* R^2	0.24		0.22	
OddIntCalc	-0.043	(0.24)	-0.387^b	(1.98)					
GenObl	0.043^b	(2.45)	-0.030^a	(3.21)					

This table reports the results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to institutional investors. The regression model is equation (1). Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define institutional sales as customer sales with par value strictly greater than $50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 7: Tobit Regressions Describing Institutional Sales by Calendar Quarter (> $50k)

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: ParSale								
I^{TR}	0.155^a	(2.63)	0.153^a	(2.52)	0.083	(1.48)	-0.001	(0.01)
$\overline{I^{BA}}$	-0.153^a	(4.02)	-0.165^a	(3.86)	-0.133^a	(3.61)	-0.141^a	(3.76)
$I^{TR} \times \overline{I^{BA}}$	0.096^c	(1.88)	0.138^b	(2.39)	0.023	(0.48)	-0.031	(0.56)
I^{NF}	0.089^c	(1.91)	-0.146^c	(1.86)	0.119^a	(2.75)	0.079^c	(1.82)
$I^{TR} \times I^{NF}$	0.058	(0.94)	0.339^a	(3.84)	0.031	(0.50)	0.023	(0.36)
$\overline{I^{BA}} \times I^{NF}$	-0.038	(0.56)	0.175	(1.58)	-0.100	(1.56)	-0.187^a	(2.73)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.158^c	(1.76)	-0.377^a	(2.82)	-0.150	(1.60)	-0.015	(0.14)
...								
N	41,959		33,511		44,222		37,424	
N = 0	4,585		3,641		4,392		4,096	
pseudo R^2	0.25		0.23		0.24		0.24	
Panel B: NumSale								
I^{TR}	0.061^c	(1.86)	0.031	(0.93)	0.073^a	(2.80)	0.031	(1.07)
$\overline{I^{BA}}$	-0.035^b	(2.07)	-0.041^b	(2.21)	-0.068^a	(3.91)	-0.053^a	(2.94)
$I^{TR} \times \overline{I^{BA}}$	0.022	(0.85)	0.002	(0.08)	0.059^b	(2.42)	0.010	(0.40)
I^{NF}	0.057^a	(2.92)	0.029	(1.16)	0.047^a	(2.59)	0.032	(1.39)
$I^{TR} \times I^{NF}$	-0.001	(0.03)	0.025	(0.75)	0.000	(0.02)	-0.047	(1.61)
$\overline{I^{BA}} \times I^{NF}$	-0.024	(0.79)	0.029	(0.78)	0.008	(0.27)	-0.029	(0.78)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.039	(0.81)	-0.033	(0.64)	-0.030	(0.71)	0.022	(0.39)
...								
N	41,959		33,511		44,222		37,424	
N = 0	4,586		3,663		4,441		4,138	
pseudo R^2	0.21		0.22		0.22		0.24	

This table reports the abbreviated results from tobit regressions describing the net par amount sold (*ParSale*) and the net number of municipal bond sales (*NumSale*) to institutional investors. The regression model is equation (1). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm sales, bond characteristics, and state level factors. In these tests, I define institutional sales as customer sales with par value strictly greater than $50,000. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section IV for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 8a: Regressions Describing Retail Transaction Cost

	\$20k		*\$50k*			*\$20k*		*\$50k*	
I^{TR}	-0.0013^a	(5.62)	-0.0009^a	(4.49)	*RevBond*	-0.0002	(1.30)	-0.0001	(1.37)
$\overline{I^{BA}}$	0.0019^a	(7.77)	0.0018^a	(9.47)	*GenPurp*	0.0000	(0.16)	0.0002	(1.31)
$I^{TR} \times \overline{I^{BA}}$	0.0012^a	(3.54)	0.0011^a	(4.07)	*Education*	0.0005^a	(3.01)	0.0003^b	(2.56)
I^{NF}	0.0000	0.00	0.0001	(0.31)	*Utility*	0.0003	(1.54)	0.0001	(0.85)
$I^{TR} \times I^{NF}$	0.0012^a	(3.40)	0.0008^a	(2.98)	*Health*	0.0003	(1.04)	0.0001	(0.53)
$\overline{I^{BA}} \times I^{NF}$	0.0000	(0.07)	0.0001	(0.19)	*CertPart*	-0.0001	(0.82)	0.0000	(0.24)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0019^a	(3.13)	-0.0014^a	(2.89)	*FedTax*	-0.0015^a	(4.08)	-0.0013^a	(3.85)
$\overline{CTrans}$	0.0000	(0.66)	0.0001^b	(2.39)	*StateTax*	-0.0002	(0.40)	-0.0004	(1.60)
TotPar	-0.0001^b	(2.17)	-0.0002^a	(5.51)	*StateTotPar*	-0.0001	(1.25)	0.0000	(0.19)
Maturity	0.0048^a	(39.85)	0.0042^a	(44.88)	*StateMedInc*	0.0029^a	(4.82)	0.0028^a	(5.99)
AAA	0.0001	(0.70)	0.0001	(1.58)	*StateIncSE*	-0.0040^b	(2.37)	-0.0038^a	(3.00)
OptCallSched	0.0032^a	(19.00)	0.0034^a	(26.59)	*StateDmnd*	-0.0001^a	(3.91)	-0.0001^a	(2.66)
ExtraOrdCall	0.0000	(0.21)	0.0000	(0.06)	*Constant*	-0.0061^a	(6.67)	-0.0077^a	(10.73)
PutOption	-0.0064^a	(4.47)	-0.0055^a	(4.93)					
CredEnh	0.0008^a	(6.18)	0.0007^a	(6.05)	N	57,500		57,500	
CredEnh$\times I^{TR}$	-0.0004^b	(2.18)	-0.0003^b	(2.00)	*adj.* R^2	0.68		0.68	
SinkFund	0.0002	(1.19)	0.0002	(1.60)					
OddIntFreq	0.0022^a	(10.20)	0.0022^a	(10.65)					
OddIntCalc	-0.0016	(1.16)	-0.0020^c	(1.93)					
GenObl	-0.0004^a	(3.53)	-0.0004^a	(4.43)					

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$20,000 and \$50,000. The regression model is equation (2). I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 8b: Regressions Describing Institutional Transaction Cost

	\$100k		*\$1M*			*\$100k*		*\$1M*	
I^{TR}	-0.0007^a	(4.23)	-0.0002	(0.77)	*RevBond*	-0.0002^b	(1.97)	-0.0003^a	(3.09)
$\overline{I^{BA}}$	0.0013^a	(7.71)	0.0003	(1.22)	*GenPurp*	0.0001	(0.67)	-0.0001	(0.72)
$I^{TR} \times \overline{I^{BA}}$	0.0010^a	(4.11)	0.0011^a	(4.18)	*Education*	0.0001	(0.97)	-0.0003^a	(2.74)
I^{NF}	0.0001	(0.80)	0.0006^b	(2.16)	*Utility*	0.0001	(0.47)	-0.0001	(0.65)
$I^{TR} \times I^{NF}$	0.0007^a	(2.70)	-0.0002	(0.61)	*Health*	0.0000	(0.08)	-0.0004^c	(1.75)
$\overline{I^{BA}} \times I^{NF}$	0.0000	(0.14)	-0.0010^c	(1.65)	*CertPart*	0.0000	(0.20)	0.0002	(1.04)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0012^a	(2.64)	0.0008	(1.09)	*FedTax*	-0.0012^a	(3.82)	-0.0004^b	(2.31)
$\overline{CTrans}$	0.0002^a	(4.84)	0.0001^b	(2.42)	*StateTax*	-0.0005^b	(2.29)	-0.0009^a	(4.09)
TotPar	-0.0002^a	(5.06)	-0.0002^a	(3.78)	*StateTotPar*	0.0000	(0.62)	0.0001^b	(2.25)
Maturity	0.0034^a	(40.01)	0.0008^a	(4.43)	*StateMedInc*	0.0021^a	(5.11)	0.0013^b	(2.51)
AAA	0.0002^a	(2.93)	0.0001	(0.63)	*StateIncSE*	-0.0037^a	(3.30)	-0.0030^b	(2.39)
OptCallSched	0.0032^a	(26.31)	0.0014^a	(11.22)	*StateDmnd*	0.0000^c	(1.77)	0.0000	(0.66)
ExtraOrdCall	-0.0001	(0.85)	-0.0006^a	(3.87)	*Constant*	-0.0074^a	(11.15)	-0.0031^a	(3.60)
PutOption	-0.0045^a	(4.86)	-0.0008^b	(2.24)					
CredEnh	0.0005^a	(5.14)	0.0002	(1.19)	N	57,500		57,500	
CredEnh$\times I^{TR}$	-0.0001	(0.99)	-0.0001	(0.40)	*adj.* R^2	0.64		0.17	
SinkFund	0.0003^b	(2.35)	0.0003	(1.36)					
OddIntFreq	0.0016^a	(8.31)	0.0004	(1.28)					
OddIntCalc	-0.0005	(0.83)	-0.0005	(1.54)					
GenObl	-0.0003^a	(3.34)	0.0001	(0.71)					

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$100,000 and \$1,000,000. The regression model is equation (2). I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 9a: Regressions Describing Transaction Cost by Calendar Quarter

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: \$20k								
I^{TR}	-0.0014^{a}	(3.21)	-0.0033^{a}	(6.07)	-0.0015^{a}	(3.94)	-0.0002	(0.44)
$\overline{I^{BA}}$	0.0015^{a}	(3.75)	0.0021^{a}	(4.53)	0.0014^{a}	(3.17)	0.0021^{a}	(5.12)
$I^{TR} \times \overline{I^{BA}}$	0.0006	(1.10)	0.0024^{a}	(2.98)	0.0016^{a}	(2.69)	0.0003	(0.54)
I^{NF}	-0.0006	(1.24)	0.0001	(0.30)	-0.0004	(0.84)	0.0002	(0.50)
$I^{TR} \times I^{NF}$	0.0011^{c}	(1.65)	0.0020^{a}	(2.75)	0.0017^{a}	(2.64)	0.0002	(0.40)
$\overline{I^{BA}} \times I^{NF}$	-0.0001	(0.14)	-0.0002	(0.26)	0.0015^{c}	(1.94)	-0.0010	(1.30)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0003	(0.28)	-0.0027^{b}	(2.12)	-0.0034^{a}	(3.00)	-0.0004	(0.37)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.76		0.62		0.61		0.69	
Panel B: \$50k								
I^{TR}	-0.0010^{a}	(3.25)	-0.0021^{a}	(5.18)	-0.0012^{a}	(3.93)	-0.0002	(0.56)
$\overline{I^{BA}}$	0.0013^{a}	(3.98)	0.0024^{a}	(6.19)	0.0013^{a}	(3.98)	0.0017^{a}	(4.99)
$I^{TR} \times \overline{I^{BA}}$	0.0007	(1.60)	0.0013^{b}	(2.12)	0.0014^{a}	(3.15)	0.0007	(1.58)
I^{NF}	-0.0003	(0.93)	0.0001	(0.37)	-0.0001	(0.42)	0.0001	(0.15)
$I^{TR} \times I^{NF}$	0.0009^{c}	(1.75)	0.0015^{a}	(2.58)	0.0011^{b}	(2.26)	0.0001	(0.26)
$\overline{I^{BA}} \times I^{NF}$	-0.0001	(0.14)	-0.0004	(0.68)	0.0012^{b}	(2.06)	-0.0003	(0.43)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	-0.0005	(0.54)	-0.0018^{c}	(1.82)	-0.0023^{a}	(2.60)	-0.0005	(0.56)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.75		0.63		0.62		0.71	

This table reports the results from weighted regressions describing the cost of transactions of par value equal to \$20,000 and \$50,000. The regression model is equation (2). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Table 9b: Regressions Describing Transaction Cost by Calendar Quarter

	Oct. - Dec. (Q1)		*Jan. - Mar.* (Q2)		*Apr. - Jun.* (Q3)		*Jul. - Sep.* (Q4)	
Panel A: $100k								
I^{TR}	-0.0008^a	(2.78)	-0.0016^a	(4.64)	-0.0009^a	(3.51)	-0.0002	(0.78)
$\overline{I^{BA}}$	0.0010^a	(3.28)	0.0018^a	(5.30)	0.0011^a	(3.50)	0.0012^a	(3.63)
$I^{TR} \times \overline{I^{BA}}$	0.0007^c	(1.78)	0.0010^c	(1.82)	0.0011^a	(2.74)	0.0009^b	(2.04)
I^{NF}	0.0000	(0.14)	0.0000	(0.03)	-0.0002	(0.61)	0.0003	(0.74)
$I^{TR} \times I^{NF}$	0.0004	(0.93)	0.0014^a	(2.67)	0.0010^b	(2.23)	0.0000	(0.10)
$\overline{I^{BA}} \times I^{NF}$	-0.0005	(0.82)	-0.0003	(0.48)	0.0012^b	(2.03)	-0.0005	(0.70)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.0000	(0.02)	-0.0017^c	(1.94)	-0.0018^b	(2.34)	-0.0005	(0.54)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.71		0.59		0.58		0.67	
Panel B: $1M								
I^{TR}	0.0001	(0.30)	0.0005	(1.43)	-0.0004^c	(1.65)	0.0000	(0.02)
$\overline{I^{BA}}$	0.0000	(0.11)	0.0012^a	(2.82)	-0.0004	(1.35)	-0.0002	(0.43)
$I^{TR} \times \overline{I^{BA}}$	0.0012^b	(2.25)	0.0004	(0.71)	0.0015^a	(3.65)	0.0013^a	(2.58)
I^{NF}	0.0003	(0.75)	0.0011^b	(2.13)	0.0001	(0.21)	0.0006	(1.53)
$I^{TR} \times I^{NF}$	-0.0001	(0.22)	-0.0006	(0.92)	-0.0001	(0.13)	-0.0005	(1.00)
$\overline{I^{BA}} \times I^{NF}$	-0.0007	(0.88)	-0.0017^c	(1.94)	0.0006	(0.68)	-0.0003	(0.52)
$I^{TR} \times \overline{I^{BA}} \times I^{NF}$	0.0008	(0.77)	0.0002	(0.18)	-0.0001	(0.10)	0.0005	(0.60)
N	14,046		12,130		16,697		14,627	
adj. R^2	0.22		0.10		0.11		0.19	

This table reports the results from weighted regressions describing the cost of transactions of par value equal to $100,000 and $1,000,000. The regression model is equation (2). I partition the full regression sample by calendar quarter. Q1 - Q4 refer to the first quarter to the fourth quarter following the temporary rule adoption. I weight observations with the inverse with transaction cost estimate variance. I follow the Harris and Piwowar (2006) methodology. Independent variables include measures describing the time period of the retail sales (I^{TR}), the proportion of bond sales to retail investors by BA firms ($\overline{I^{BA}}$), the state classification relating to the bond (I^{NF}), interaction terms between these three variables, the amount of firm transactions, bond characteristics, and state level factors. Standard errors are clustered at the 6-digit cusip level, and t-statistics are located to the right of parameter estimates in parentheses. See Section V for a full description. I denote significance at the 1% level with a, the 5% level with b, and the 10% level with c.

Harmonizing the Regulation of Financial Advisers

July 27, 2012

Rutgers University School of Law – Camden


LEHMAN BROTHERS
BEAR STEARNS
Goldman Sachs

Dodd-Frank Legislative Reforms

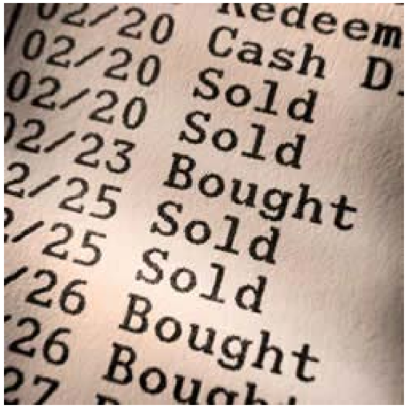
- Consumer Financial Protection Agency
- Regulation of derivatives
- Regulation of executive compensation
- Systemic regulator to manage risk
- Mandatory registration of hedge fund advisers
- Council of regulators
- Heightened consolidated supervision
- *Enhancing investor protection*

Proposal to Enhance Investor Protection

- Harmonize the law regulating broker-dealers and investment advisers
- Impose a fiduciary duty on brokers who give advice to retail customers

Brokers-Dealers v. Investment Advisers

- Broker-dealers – dual role
  - Brokers: execute transactions *for* their customers
  - Dealers: execute transactions *with* their customers
  - Provide advice on what securities to buy and sell
  - Charge commissions



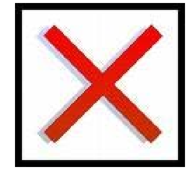
Brokers-Dealers v. Investment Advisers

- Advisers
  - Provide advice
    - Asset allocation
    - Portfolio management
  - No execution (use BD)
  - Restrictions on “dealing”
  - Charge asset-based fees

Federal Regulation

- Broker-dealers
  - Securities Exchange Act of 1934
  - No uniform fiduciary duty to act in customer's best interest – "suitability" standard
- Investment advisers
  - Investment Advisers Act of 1940
  - Strong federal fiduciary duty to act in client's best interest

Broker-Dealer Exclusion



- BDs are excluded from IAA under two conditions
  - Advice is “solely incidental” to brokerage
  - Do not charge “special compensation” for advice
- Separation of brokers and advisers worked well
  - Differentiated by compensation
  - Brokers subject to EA and SRO rules under suitability standard
  - Advisers subject to IAA under fiduciary standard
  - Dual registrants: account-by-account regulation

Changes in the Industry

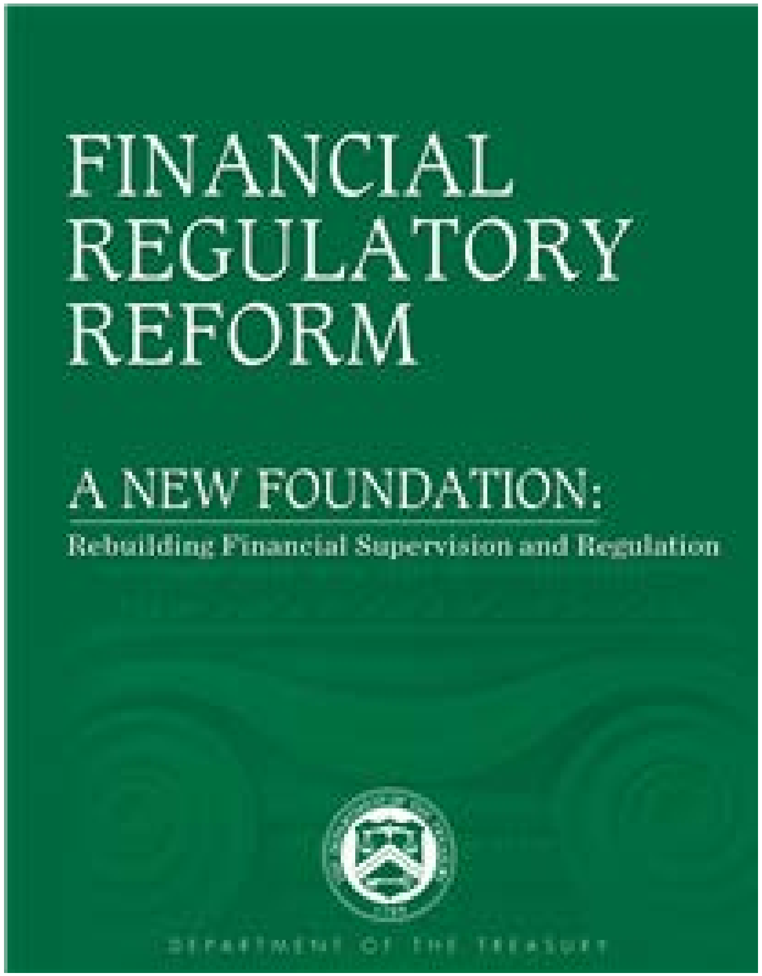
- May 1, 1975. Elimination of fixed commissions
- Led to advent of discount brokerage
  - Resulted in two-tier pricing – difference in fees may be attributable to advice
  - Resulted in migration to fee-based accounts
- Changes could be *special compensation* abrogating broker-dealer exclusion
- Technology: brokerage commoditized; advice more important relative to execution

SEC Exemptive Rule

- Broker exclusion from IAA in jeopardy
- Brokers did not want to be subject to IAA
- Sought an exemption from SEC

- SEC complied in 2005: Certain
  BDs Not Deemed IAs
- Brokers would not be considered IAs regardless of compensation charged
- Challenged by FPA – FPA prevailed in 2007

Obama White Paper



- "From the vantage point of the retail customer, an investment adviser and a broker-dealer appear in all respects identical."
- Legislation should:
  - harmonize the standards
  - impose fiduciary duty on brokers
- Different approach

Dodd-Frank Act

- Dodd-Frank
  - Required SEC to conduct study on regulatory standards imposed on brokers and advisers
  - Provided rulemaking authority to harmonize duties of brokers and advisers
- SEC Study – January 2011
  - SEC delegated project to SEC staff
  - Concluded SEC should write rules to harmonize duties of brokers and advisers
  - Hot potato: Congress to SEC to Staff, back to SEC

Recent Developments: Cost-Benefit Analysis

- Commissioners Casey and Paredes criticized study for lack of CBA
- April 2011 – views were validated by *Business Roundtable v. SEC*, overturning proxy access
- SEC Chairman Mary Schapiro announced the staff is preparing a public request for additional data on costs and benefits

Recent Developments: Retirement Plan Advisers

- DOL has overlapping jurisdiction with SEC as regulator of advice to plans and participants
- Department is attempting to redefine when a service provider becomes a fiduciary
- New definition could cover many brokers and advisers under SEC's jurisdiction
- Different philosophies: SEC often focuses on disclosure; DOL on prohibitions

Recent Developments: SRO for Advisers

FINRA®

- FINRA acts as an SRO for broker-dealers, not investment advisers
- Many calls for an SRO for advisers over the years – true again today
- Disagreement over both the merits of an SRO for advisers and who it should be
- Important for harmonization: If FINRA is SRO for advisers, FINRA will help administer the fiduciary standard

Harmonizing the Regulation of Financial Advisers

July 27, 2012

Rutgers University School of Law – Camden

From: Cosby, Chris - EBSA
To: Kozora, Matthew [redacted]@SEC.GOV)
Cc: Joseph Piacentini [redacted]@dol.gov"
Subject: Top 15 Asset Managers
Date: Friday, March 28, 2014 6:32:00 PM
Attachments: DoL Request- Top 15 Asset Managers.xlsx

Hi Matt:

In response to your request, please find attached an Excel spreadsheet containing the following:

1) The top 15 asset managers based on the value of assets under management for 401(k) plans only;
2) The top 15 asset managers based on the value of assets under management for all DC plan types.

Hope this helps!

Best,

Chris

Asset Manager	***Value of Assets Under Management for 401(k) Plans Only***	
Vanguard Group	$	420,196,959,910
Fidelity	$	349,562,820,810
BlackRock, Inc.	$	156,697,629,810
T. Rowe Price	$	126,878,761,817
State Street Global Advisors	$	121,021,863,916
American Funds (Capital Group)	$	103,576,120,031
PIMCO	$	99,040,504,195
Wells Fargo	$	68,318,255,034
Northern Trust	$	64,163,102,114
Prudential	$	52,755,702,958
JPMorgan	$	49,381,446,561
Principal Financial Group	$	46,271,246,739
Dodge & Cox	$	35,642,687,831
Invesco	$	28,551,064,203
Charles Schwab	$	25,071,786,894

Sorted by Assets Under Management for 401(k) Plans Only
"All DC plan types" includes non-ERISA plans, such as government plans (e.g. 457s)

Value of Assets Under Management for All DC Plan Types	
$	451,209,689,107
$	385,763,114,709
$	158,548,922,017
$	131,739,901,872
$	121,367,434,023
$	110,956,393,324
$	103,821,097,615
$	69,038,207,707
$	64,193,821,725
$	55,992,058,574
$	50,467,139,160
$	50,342,143,332
$	36,496,662,780
$	29,285,849,189
$	25,301,072,507

Asset Manager	*Value of Assets Under Management for All DC Plan Types*	
Vanguard Group	$	451,209,689,107
Fidelity	$	385,763,114,709
BlackRock, Inc.	$	158,548,922,017
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Invesco	$	29,285,849,189

Sorted by Assets Under Management for All Plan Types
"All DC plan types" includes non-ERISA plans, such as government plans (e.g. 457s)

Value of Assets Under Management for 401(k) Plans Only	
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$	349,562,820,810
$	156,697,629,810
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$	99,040,504,195
$	68,318,255,034
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$	52,755,702,958
$	49,381,446,561
$	46,271,246,739
$	35,642,687,831
$	28,551,064,203

From: Halliday, Susan - EBSA
To: [redacted]@sec.gov"; [redacted]@sec.gov"; [redacted]@SEC.GOV"; Halliday, Susan - EBSA
Cc: Canary, Joe - EBSA; Turner, Jeffrey - EBSA; Halliday, Susan - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA
Subject: DOL-public disclosure conditions
Date: Friday, May 18, 2012 12:21:00 PM

Mark, Keith and Susan,

We would like to schedule an exploratory conversation to gauge SEC staff reaction concerning a condition requiring new public disclosures in two prohibited transaction class exemptions, which will be proposed/amended in conjunction with the reproposal of the investment advice fiduciary regulation.

I anticipate that staff from EBSA's Office of Exemption Determinations would be present to briefly explain the class exemption process and then staff from our Office of Policy and Research (OPR) would take over to provide a more detailed explanation of the public disclosure conditions. Our OPR economists believe that the public disclosure conditions would add transparency to the market for financial advice allowing broker-dealers to be judged based on the rate of return at a particular level of risk-which they achieve for their clients.

Please check with SEC staff that you think is appropriate to attend and suggest some alternative dates/times next week for the call as there will be numerous calendars on both ends to co-ordinate. Our OPR economists have been consulting with Jennifer Marietta-Westberg, PhD in SEC' s Division of Risk, Strategy and Financial Innovation on the cost benefit analysis in the fiduciary regulation so she will be invited and the Solicitor's Office has been consulting with its SEC colleagues so they may be invited to attend the meeting too.

Also, should FINRA representatives participate or do you prefer that we contact them separately?

We appreciate your assistance. If you have any questions, please let me know.

Thanks,

Susan

Susan Marie Halliday

Senior Employee Benefits Law Specialist

Employee Benefits Security Administration

US Department of Labor

[redacted]

From:	Nash, Susan
To:	Halliday, Susan - EBSA; Uyeda, Mark T; Carpenter, Keith E.
Cc:	Canary, Joe - EBSA; Turner, Jeffrey - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA
Subject:	RE: DOL-public disclosure conditions
Date:	Friday, May 18, 2012 1:26:51 PM

Hi Susan: We're talking internally to see who should best handle this, and someone will get back to you. Susan

---

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Friday, May 18, 2012 12:21 PM
To: Uyeda, Mark T; Carpenter, Keith E.; Nash, Susan
Cc: Canary, Joe - EBSA; Jeffrey Turner [redacted]@dol.gov; Susan Halliday [redacted]@dol.gov; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA
Subject: DOL-public disclosure conditions

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We appreciate your assistance. If you have any questions, please let me know.

Thanks,

Susan

Susan Marie Halliday

Senior Employee Benefits Law Specialist

Employee Benefits Security Administration

US Department of Labor

[redacted]

From: Halliday, Susan - EBSA
To: Nash, Susan
Subject: RE: DOL-public disclosure conditions
Date: Friday, May 18, 2012 1:31:00 PM

Thank you again for your cooperation.

From: Nash, Susan [redacted]@SEC.GOV]
Sent: Friday, May 18, 2012 1:26 PM
To: Halliday, Susan - EBSA; Uyeda, Mark T; Carpenter, Keith E.
Cc: Canary, Joe - EBSA; Turner, Jeffrey - EBSA; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA
Subject: RE: DOL-public disclosure conditions

Hi Susan: We're talking internally to see who should best handle this, and someone will get back to you. Susan

---

From: Halliday, Susan - EBSA [redacted]@dol.gov]
Sent: Friday, May 18, 2012 12:21 PM
To: Uyeda, Mark T; Carpenter, Keith E.; Nash, Susan
Cc: Canary, Joe - EBSA; Jeffrey Turner [redacted]@dol.gov; Susan Halliday [redacted]@dol.gov; Hall, Lyssa - EBSA; Piacentini, Joseph - EBSA
Subject: DOL-public disclosure conditions

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Also, should FINRA representatives participate or do you prefer that we contact them separately?

We appreciate your assistance. If you have any questions, please let me know.

Thanks,

Susan

Susan Marie Halliday

Senior Employee Benefits Law Specialist

Employee Benefits Security Administration

US Department of Labor

[redacted]

From: Hauser, Timothy - SOL
To: Lourdes Gonzalez
Cc: Hauser, Timothy - SOL
Subject: Responses to DOL investment advice data request
Date: Monday, February 27, 2012 4:57:04 PM
Attachments: NAIFA"s Response.msg
ACLI response.msg
ICI response.msg
FSI response.msg
FSR response.msg
SIFMA response.msg
IRI response.msg
Outgoing letters.msg

Hi Lourdes.

Here are the majority of the responses that we received, as well as EBSA's initial request for data. I need to dig up one or two others to make sure that you have the complete set.

Tim
[redacted]

From: Jennifer Corcoran
To: Piacentini, Joseph - EBSA
Subject: NAIFA"s Response
Date: Thursday, February 16, 2012 3:15:16 PM
Attachments: DOL 2 17 12.pdf

Please find attached NAIFA's response to your letter.

Thank you,
Jen

Jennifer Ellis Corcoran
NAIFA
2901 Telestar Court
Falls Church, VA 22042
[redacted]@naifa.org
[redacted] (direct dial)
[redacted] (fax)

NAIFA

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS

2901 Telestar Court
PO Box 12012
Falls Church, VA
22042-1205
www.naifa.org

703/770-8100

February 17, 2012

Joseph Piacentini
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, Room [redacted]
200 Constitution Ave., NW
Washington, DC 20210
Attn: Definition of Fiduciary RIA Data Request

Dear Mr. Piacentini,

Thank you for maintaining an ongoing dialog with the National Association of Insurance and Financial Advisors and other trade associations that represent companies and individuals who would be impacted by a proposed change to the definition of "fiduciary" under ERISA. This letter is response to your letter dated February 10, 2010, requesting by February 17 a listing of which data elements enumerated in the Department of Labor's December 15, 2011 letter we are able to provide, and in what timeframe.

It is important to note that NAIFA represents approximately 200,000 *individuals* who provide a variety of financial services, not businesses, and the nature of our membership significantly impacts the type of information we can provide. NAIFA members are a diverse group of financial professionals who focus their practices on one or more of the following: life insurance and annuities, health insurance, pension plans, employee benefits, multiline insurance, and financial advising and investments.

Virtually all NAIFA members sell life insurance. According to a recent survey of our membership, nearly two-thirds of NAIFA members also are licensed as registered representatives of broker-dealers (RRs) and sell securities to their clients. Of our members who deal in securities, 41% are "dual-registered" as both RRs and as investment advisers (IAs) under the Investment Advisers Act of 1940. The survey also found that, on average, 77% of a NAIFA member's income comes from commissions, 8% from salary, 11% from assets under management and/or planning fees, and only 4% from bonuses and reimbursements.

Dual-registered NAIFA members provide investment guidance under *both* the commission and fee-based compensation models, depending on the preferred compensation arrangements established by mutual agreement with their clients. Generally speaking, these advisors will act as an IA with clients who have significant assets under management, and act as an RR for clients with less in investable assets, for whom fee-based compensation would not be economical. The guidance provided by these advisors is not driven by which compensation arrangement is in place with a particular client. Rather, financial guidance is determined by which investments are most suitable for the client's current financial situation, needs and goals. It is also critically important to understand that *all* our members are motivated to build long-term relationships of trust with their clients to be a source of ongoing business and referrals.

Because of the nature of our membership, it is not feasible for us to obtain any of the data enumerated in your December 15, 2011 letter. The relationship of our members to their clients and affiliated companies is such that they likely would not have the right to share the client's or company's data even if they have some access to it. NAIFA would, however, be pleased to answer qualitative questions about the diverse ways in which our members serve their clients, and the motivations involved in their relationship-driven business model.

Sincerely,

Susan B. Waters

Dr. Susan Waters, CAE
Chief Executive Officer
National Association of Insurance and Financial Advisors

From: Piacentini, Joseph - EBSA
To: Piacentini, Joseph - EBSA
Subject: ACLI response
Date: Friday, February 24, 2012 5:39:10 PM
Attachments: Piacentini Data Letter Response 02242012.pdf

From: Walter Welsh [redacted]@acli.com]
Sent: Friday, February 24, 2012 4:04 PM
To: Piacentini, Joseph - EBSA
Cc: Borzi, Phyllis - EBSA; Davis, Michael. L- EBSA ; Lebowitz, Alan - EBSA; Walter Welsh; Jim Szostek
Subject: EBSA Request for Assistance in Obtaining Data

Joe,

Please see attached our response. Thanks for your efforts.

Walter Welsh

Walter C. Welsh
American Council of Life Insurers | Financial Security...for Life.
Executive Vice President, Taxes & Retirement Security
[redacted] t [redacted] f
[redacted]@acli.com

www.acli.com
101 Constitution Ave., NW, [redacted]
Washington, DC 20001-2133

ACLI
Financial Security...for Life.

Walter Welsh
Executive Vice President, Taxes & Retirement Security

February 24, 2012

Joseph S. Piacentini
Director, The Office of Policy and Research
Employee Benefits Security Administration
Room [redacted]
U.S. Department of Labor
200 Constitution Ave., NW
Washington, DC 20210

Subject: EBSA Request for Assistance in Obtaining Data Dated December 15, 2011, February 10, 2012

Dear Mr. Piacentini:

Thank you and the other representatives of the Department for taking the time to meet with us and other representatives of the trade associations on January 27, 2012. You answered our questions and clarified certain aspects of the data request.

As we explained, ACLI does not have the account level data that you are seeking. We have asked our members whether they have these data element. While they may have some of the data element, they have few, if any, in electronic format.

We do not think that we can obtain the data you are seeking in the time period that you have suggested. If you have other questions, please contact me.

Thank you for your consideration.

Sincerely,

Walter C. Welsh

Walter C. Welsh

Cc Phyllis C. Borzi
Michael L. Davis
Alan D. Lebowitz

From: Piacentini, Joseph - EBSA
To: Piacentini, Joseph - EBSA
Subject: ICI response
Date: Friday, February 24, 2012 6:11:05 PM
Attachments: ICI Response Letter to Piacentini 02-24-12.pdf

From: Abbey, David [redacted]@ici.org]
Sent: Friday, February 24, 2012 5:37 PM
To: Piacentini, Joseph - EBSA
Cc: Driggs, Anna
Subject: Definition of Fiduciary RIA Data Request

Mr. Piacentini:

Attached please find the response of the Investment Company Institute to your letter of February 10, 2012 regarding the above referenced subject. Please feel free to contact me with any questions.

David

David Abbey
Senior Counsel – Pension Regulation
Investment Company Institute
1401 H Street NW
Washington DC 20005
Phone: [redacted]
[redacted]@ici.org

INVESTMENT
COMPANY
INSTITUTE

David M. Abbey
SENIOR COUNSEL – PENSION REGULATION

1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

[redacted] FAX: [redacted]
[redacted]@ici.org

February 24, 2012

(By email to [redacted]@dol.gov)

Mr. Joseph S. Piacentini
Director
The Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor – Room [redacted]
200 Constitution Avenue, N.W.
Washington, DC 20210

Attention: Definition of Fiduciary RIA Data Request - Supplemental Response

Dear Mr. Piacentini:

We are responding to your letter dated February 10, 2012, requesting assistance identifying data or data sources "that could help the Department [Employee Benefits Security Administration ("EBSA")] evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors." This letter supplements our January 13, 2012 response to your 30-day information request of December 15, 2011 and our meeting on January 24, 2012.[1]

Your December 15, 2011 letter asked for comprehensive information about individual IRA accounts and their owners, including detailed data on all the investments held in a particular IRA and their performance over time; the characteristics and transaction history of the IRA account and whether transactions resulted from specific recommendations and whether the recommendations were solicited; and demographics of the IRA holder including his or her risk tolerance, financial literacy and investment strategy preferences. As we stated in our January 13, 2012 written response and at the January 24th meeting, the Institute conducts regular research on the 401(k) and IRA markets but does not collect the kind of detailed investment data on returns, investment strategies, advice, trades, and investor characteristics identified by specific individual investors that would allow EBSA to assess the impact of a particular recommendation made to an IRA customer.

---

[1] As you know, EBSA's February 10th letter, which requested a response by February 17, 2012, was not received by the Institute until February 16, 2012. By email dated February 16th, EBSA extended the response date to February 24, 2012 "to account for any delay in your receipt of the letter." We also note that EBSA's February 10th letter refers to the meeting as taking place on January 27, 2012. Rather, the ICI attended a meeting with EBSA on January 24th.

The Institute does, however, engage in research that may be helpful to EBSA's effort to determine what impact, if any, conflicts of interest faced by brokers or others who advise IRA investors have on IRAs and is pleased to share that research with you here.

The IRA Investor Database

As we have discussed with you, the Institute, in a joint research project with the Securities Industry and Financial Markets Association (SIFMA), maintains The IRA Investor Database™.[2] The IRA Investor Database™ contains certain account-level information from a wide range of participating mutual fund and insurance companies, which provided data for more than 10 million IRA investors in 2007 and 2008 (data for 2009 and 2010 are still being collected). The database is designed so that most of the data elements are comparable to those provided by the IRA trustee on IRS Forms 5498 and 1099-R. To ease the burdens on participating firms the data are collected on an annual basis: the account balances are year-end snapshots; and the contribution, withdrawal, and rollover activity are captured on a tax year basis.

In providing the data to be included in the database, participating data providers encrypt individual records to protect the identities of individuals, but provide, to the extent available, each investor's year of birth; gender; average income for their zip code; IRA assets (at year-end), contributions, withdrawals, and rollovers. The contract agreements with providers that participate in the database prohibit ICI from disclosing individual IRA balances, contributions, distributions and asset allocations, as well as demographic data pertaining to IRA account holders.[3]

The database receives the information for IRA accounts on a snapshot basis (*e.g.,* end of the year) and therefore does not allow for analysis that would focus on, for example, changes in flows and asset allocations to a particular account throughout the year. More specifically, the database does not track for each account: a personal rate of return (EBSA Request #1.a); time-weighted performance, investment strategy, measure of risk, and fee table of each fund/security (EBSA Request #1.b); gross

[2] ICI has a number of other on-going research projects related to IRAs. ICI estimates total IRA assets on a quarterly basis drawing on data from the IRS Statistics of Income Division, Federal Reserve Board, American Council of Life Insurers, and the Institute's own mutual fund surveys. Annually, the Institute also conducts a (phone) survey of IRA-owning households to understand their characteristics; as well as their contribution, rollover, and withdrawal activity. For the most recent report, *see* Holden and Schrass, "The Role of IRAs in U.S. Households' Saving for Retirement, 2011," *ICI Research Perspective* 17, No. 8 (November 2011), available at http://www.ici.org/pdf/per17-08.pdf.

[3] To the extent EBSA is interested in the type of non-aggregated data on contributions, withdrawals, rollovers, and account balances in IRAs, such information is filed with the Internal Revenue Service on Forms 5498 and 1099-R.

flows by security/fund transacted date or price, commission/loads, mark-ups/downs in principal transactions or whether transaction was initiated by investor or adviser (EBSA Request #1.c); distribution channels (EBSA Request #2.b), identity or attributes of adviser (EBSA Request #2.c); compensation arrangements (EBSA Request #2.d); advice rendered (EBSA Request #2.e); and adviser service level and type (EBSA Request #2.f).

While the IRA Investor Database™ does not contain the type of data that would allow a review of a particular IRA investor's investment practices subsequent to the receipt of information or recommendation from a broker or adviser, the Institute has published a number of reports that analyze how individuals use IRAs in the process of planning for retirement, which we believe contain findings that are relevant to EBSA's query. To date, ICI has analyzed traditional IRA[4] rollover activity in 2007 and 2008 (www.ici.org/pdf/rpt_10_ira_rollovers.pdf), traditional IRA contribution activity in 2007 and 2008 (www.ici.org/pdf/rpt_10_ira_contributions.pdf), and asset allocation of traditional IRAs at year-end 2007 and year-end 2008 (www.ici.org/pdf/rpt_11_ira_asset.pdf). Key results from the asset allocation analysis include:

- IRAs hold a range of investments, and the largest share of traditional IRA assets are invested in equities and equity funds, both in aggregate and across investor age or income groups.

- The pattern of holdings in traditional IRAs tended to vary with investor age, typically as expected across the life cycle.

  - The percentage of traditional IRA assets invested in bond holdings was higher the older the traditional IRA investor.
  - For the most part, younger traditional IRA investors tended to have a higher proportion of their accounts invested in equity holdings compared with older investors.
  - The oldest traditional IRA investors had higher allocations to money market holdings compared with middle-aged traditional IRA investors. The exception to the typically declining equity holdings pattern by age occurred in traditional IRAs held by investors younger than 35, which were more concentrated in money market holdings and less concentrated in equity holdings than expected (likely resulting, in part, from mandatory cash-out rules for smaller balances).[5]

[4] The reference to "traditional IRAs" is meant to distinguish the IRAs that are the subject of this research from Roth IRAs.

[5] *See* Internal Revenue Code § 401(a)(31)(B) (mandatory cash-out provision); 29 CFR 2550.404a-2 (Safe harbor for automatic rollovers for mandatory cash-outs).

- The pattern of investments among traditional IRA investors was broadly consistent with the patterns observed in 401(k) plans, in aggregate and by investor age.
    - Equities and equity funds were the largest share of both traditional IRAs and 401(k) plans, in aggregate and by investor age, at year-end 2007.
    - Bonds and bond funds represented higher shares of account assets among older investors compared to younger investors, whether looking at traditional IRAs or 401(k) plans. However, in aggregate, traditional IRAs had a higher allocation to bonds and bond funds than 401(k) plans, in part because traditional IRA investors tend to be older compared with 401(k) plan participants.
    - Money market funds had higher shares in traditional IRAs across all age groups compared to 401(k) plans and in aggregate, reflecting in part their use as a default investment for small rollovers and perhaps traditional IRA investors' higher demand for liquidity.
    - Younger investors had higher shares of their accounts (IRA or 401(k)) invested in target date funds. Target date funds were a higher share of 401(k) plan assets in aggregate, likely reflecting their use as default investments in many 401(k) plans.

We would be happy to meet with you to discuss in detail any of these reports.

<u>Institute Research on Distribution Channels for IRA Investments</u>

While we do not track distribution channels in The IRA Investor Database™, a recent ICI survey of IRA owners finds that 62 percent of traditional IRA-owning households with a retirement strategy consulted an investment professional when creating the strategy.[6] However, this study did not explore fees paid or the type of specific recommendations made by investment professionals to their clients or whether and to what extent the IRA investor followed the investment professional's guidance (for example, we do not have information responsive to your questions 2.b-f.). In another and earlier study of mutual fund-owning households with ongoing advisory relationships with an investment professional, ICI explored who takes the lead in making the investment decision when an investment professional is consulted.[7] The survey found that 38 percent of the households indicated that the

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[6] *See* Figure 28 in Holden and Schrass, "The Role of IRAs in U.S. Households' Saving for Retirement, 2011," ICI Research Perspective 17, No. 8 (November 2011), available at http://www.ici.org/pdf/per17-08.pdf.

[7] The Investment Company Institute undertook a telephone survey in 2006 to examine mutual fund shareholders' use of ongoing financial advisory services. For information on the survey and other survey results, *see* Leonard-Chambers and

investment professional usually takes the lead in decisions; 34 percent indicated the investment professional and investor make decisions together; and 28 percent indicated that the investor usually takes the lead in decisionmaking. Similar to the other previously referenced study, this study did not explore fees paid or the type of specific recommendations made by investment professionals to their clients.

Expenses Investors Incur in Mutual Funds through 401(k) Plans and IRAs

Using a variety of data sources, the Institute estimates the expenses that investors incur when investing through mutual funds, including expenses on 401(k) assets or IRAs held in mutual funds. Such estimates are based solely on a review of total assets held in mutual funds, or 401(k) plans or IRAs held in mutual funds, as well as the expense ratios paid on those assets. Data on assets in mutual funds and their expense ratios are available from a number of sources, such as Lipper, Morningstar, and Strategic Insight. Through proprietary surveys, ICI also collects from its member firms data on 401(k) assets held in mutual funds and IRA balances held in mutual funds.

These data indicate that the expense ratios that all mutual fund investors incur differ little from those incurred for investing in mutual funds through 401(k) plans or in IRAs. For example, in 2010, the (asset-weighted) average expense ratio all mutual fund investors incurred in stock funds was 0.84% (84 basis points). In comparison, 401(k) assets invested in stock mutual funds incurred an (asset-weighted) average expense ratio of 0.71% (71 basis points). IRA investors incurred an (asset-weighted) average expense ratio of 0.83% (83 basis points). Expense ratios incurred on 401(k) assets in mutual funds are marginally lower than those incurred on IRA balances for a number of reasons. For example, 401(k) plan sponsors sometimes cover a portion of 401(k) plan costs, which allows them to select funds or share classes with less built-in servicing costs. Also, there is a more limited role for the services of investment professionals inside 401(k) plans; with IRAs, some of the costs of the services of investment professionals may be borne through expenses reflected in the mutual fund's expense ratio. Furthermore, many 401(k) plans have large average account balances, and such economies help to reduce the fees and expenses of the funds offered in these plans.

EBSA seeks to tie current account holdings in IRAs to the advice or recommendations received by the particular account holder from a broker (or investment professional) and draw conclusions as to whether potential conflicts that a broker may have had impacted the investment outcome of the IRA account. As we explained in our January 13th letter, the type of comprehensive individual account IRA data – showing the transition of an individual account from recommendation to investment – does not

Bogdan, "Why Do Mutual Fund Investors Use Professional Financial Advisers?" *Investment Company Institute Research Fundamentals* 16, No. 1 (April 2007), available at www.ici.org/pdf/fm-v16n1.pdf.

reside with the Institute and its mutual fund members. As we also noted, households owning mutual funds outside of workplace retirement plans (including IRA investors) purchase their mutual funds through a variety of sources. Institute household survey research finds that 80 percent of households that owned mutual funds outside a workplace retirement plan held mutual funds purchased through an investment professional.[8] Investment professionals include registered investment advisers, full-service brokerage firms, independent financial planners, bank and savings institution representatives, insurance agents, and accountants. In many cases, the mutual fund investments are held in omnibus accounts[9] and the entire relationship and all contacts with the investor are maintained through the financial intermediary, not the mutual fund company. Even in cases where an investor purchases mutual funds for an IRA account directly from a fund company, rather than through an investment professional, the fund company would not know what the decision-making process of the investor was or have the type of investor demographic information the letter calls for.

Accordingly, while the Institute maintains comprehensive information about behavior patterns of IRA investors, including information about how they invest their account balances, identified by demographic data points, and whether they rely on investment professionals in making investment decisions, it does not maintain information regarding specific sources of information or recommendations that generated a particular IRA holder's investment decisions.

Other Sources of Data

While we do not have the particular information called for in your letter, as we are sure EBSA knows, the Securities and Exchange Commission's (the "Commission") books and records rules, Rule 17a-3 and Rule 17a-4 under the Securities Exchange Act of 1934 ("Exchange Act") (hereinafter the "Books and Records Rules"), subject broker-dealers to comprehensive requirements with respect to the collection and maintenance of records regarding customer transaction activity. Additional record collection and maintenance rules apply to the extent the broker-dealer has discretionary authority over the account or is required to make a suitability determination under the Federal securities laws or under

[8] Among mutual fund-owning households in May 2011, 31 percent owned funds solely outside of employer-sponsored retirement plans, and 37 percent had funds both inside and outside these plans. Among these households owning mutual funds outside such plans, 80 percent owned funds purchased from an investment professional. *See* Figure 8 in Bogdan, Holden, and Schrass, "Characteristics of Mutual Fund Investors, 2011," *ICI Research Perspective* 17, No. 6 (October 2011), available at www.ici.org/pdf/per17-06.pdf.

[9] An omnibus account is a master account representing the subaccounts of multiple investors that may include a mix of investor account types. An omnibus account is opened on the records of the mutual fund in the name of the intermediary and the fund complex typically does not have any information identifying or otherwise relating to the beneficial owners of the subaccounts.

the requirements of a self-regulatory organization of which the broker-dealer is a member.[10] It is important to note, however, that such records are maintained in a format necessary to comply with regulatory requirements and not necessarily to respond to data survey requests. In this respect, while certain records (for example, "blotter" entries containing an itemized daily record of all purchases and sales of securities and for what account) may be entered by some broker-dealer firms into computerized data fields and maintained in digital format, other records, such as ledgers, copies of confirms, etc., may be maintained solely in hard copy or *pdf* format. Trying to piece together such records, which may be on different systems or stored in various formats at the broker-dealer, may require costly and time-consuming work and is unlikely to allow for consistent data sampling from broker to broker.

Utility of the Data to Meet EBSA's Goals

Moreover, as we have also pointed out in our January 13th letter, even if EBSA were able to collect information on recommendations provided to IRA holders and line up such information with current account information, we have concerns about the "practical utility" of using this kind of data to draw conclusions about broker-dealer behavior. As we have previously discussed with EBSA, it is not clear how a researcher would measure the extent to which a broker or investment professional did or did not act in the interests of clients with the type of data EBSA is trying to collect. For example, in doing any such analysis, it is not possible to judge the quality of advice or assistance to an IRA holder by looking only at the investments in the IRA account without also knowing what other investments the IRA owner, as an individual or a household, might hold. IRA investments might seem aggressive or undiversified when viewed alone but be reasonable and appropriate in the context of the entire portfolio of the individual or household. Furthermore, the interactions between investment professionals and their clients are complex, and clients do not always follow recommendations they receive. Disentangling these complex interactions and their effects on the investors' returns is beyond the scope of the statistical analysis EBSA apparently has in mind.

While we support the efforts of EBSA to properly assess the need for revisions to the fiduciary definition before re-proposing the investment advice fiduciary rule, we think that it is crucial that any such effort be based on findings about current practices that can only be achieved through an analysis of relevant data collected pursuant to valid data sampling techniques. In this respect, the scope and purposes underlying the Paperwork Reduction Act may be particularly instructive and helpful here. As you know, the Paperwork Reduction Act applies to the "collection of information" by an agency.[11]

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[10] *See* Rule 17a-3(a)(17)(i). *See* also FINRA Rules 2090 and 2111, SEC Exchange Act Rel. No. 63325 (Nov. 17, 2010).

[11] "Persons" is defined broadly to include corporations, associations, partnerships, and the like. 44 U.S.C. § 3502(10). The requirements of the Paperwork Reduction Act apply regardless of whether the request for information is mandatory or

"Collection of information" is defined to mean, as relevant here, "the obtaining, causing to be obtained, soliciting, or requiring the disclosure to third parties or the public, of facts or opinions by or for an agency, regardless of form or format, calling for . . . answers to identical questions posed to, or identical reporting or recordkeeping requirements imposed on, *ten or more persons*,[12] other than agencies, instrumentalities, or employees of the United States[.]" 44 U.S.C. § 3502(3)(A)(i) (emphasis added).

When an agency attempts the "collection of information" as defined by the statute, the agency must engage in a notice and comment period.[13] After which, OMB then approves or disapproves the request, based on its determination of whether the information is "necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility." 44 U.S.C. § 3508. *See generally* Memorandum for the Heads of Executive Departments and Agencies, and Independent Regulatory Agencies, from Cass R. Sunstein, Administrator of the Office of Information and Regulatory Affairs (April 7, 2010).

While we assume that EBSA made a determination that its December 15th and February 10th requests were not subject to the notice and public vetting process required by the Paperwork Reduction Act, we do think that many of the Institute's concerns, which are focused on ensuring that any revision of the fiduciary rule "gets it right" and is based on valid findings drawn from relevant data, could be alleviated by first assessing whether the information being requested will have "practical utility" within the scope of the Act. In this respect, we encourage EBSA to—

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voluntary. 5 C.F.R. 1320.3(c) (providing that definition of "collection of information" applies "whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit").

[12] The regulations provide that the determination of whether ten or more persons received the request should include any requests made by the agency within any 12-month period, 5 C.F.R. 1320.3(c)(4), and that "ten or more persons" includes "any independent entities to which the initial addressee may reasonably be expected to transmit the collection of information during that [12-month] period[.]" *Id.*; *see also Ctr. for Auto Safety v. Nat'l Highway Traffic Safety Admin.*, 244 F.3d 144 (D.C. Cir. 2001) (holding that agency's collection of information from airbag manufacturers was unenforceable because manufacturers needed to collect information from their numerous suppliers in order to respond). Finally, the regulations provide that "[a]ny collection of information addressed to all or a substantial majority of an industry is presumed to involve ten or more persons." 5 C.F.R. 1320.3(c)(4)(ii).

[13] The agency must first publish a 60-day notice in the Federal Register soliciting public comment on the proposed collection of information. The agency must consider any comments received and then submit the proposed collection of information to OMB. An additional notice in the Federal Register is required to alert the public to the start of OMB review and inform interested parties that they may submit comments to OMB during a 30-day period. 44 U.S.C. § 3508.

- Determine whether the data exist in a format readily obtainable and/or whether differences in how brokers and others maintain their records will impact EBSA's ability to obtain a valid sampling of data derived from a proper cross-section of firms.
- Evaluate whether the costs associated with the collection of trading and client data, much of which is likely found only in hard copy or *pdf* format, can be justified in light of the likely utility of such data and the availability of existing research providing relevant findings.[14]
- Consider whether there will be gaps in the data sampling (*e.g.*, the data show a single investment in one account, but not the investor's total portfolio) and how such gaps might impact how a researcher could measure the extent to which a broker or investment professional did or did not act in the interests of clients.

We appreciate being able to share the Institute's research findings with EBSA and our thoughts on how EBSA might better ensure that any findings it makes are drawn from relevant data. We would be happy to discuss any of the matters set out in this response at your convenience. Please do not hesitate to call me.

Sincerely,

David M. Abbey
Senior Counsel – Pension Regulation

cc: The Honorable Phyllis C. Borzi
Michael L. Davis
Alan D. Lebowitz

[14] As discussed above, the Institute's research shows that IRA investors invest their IRA account assets in much the same way as they invest their 401(k) account assets and that differences in investment patterns among IRA holders are more likely to be based on demographic differences, such as age, than some other factor.

From:	Piacentini, Joseph - EBSA
To:	Piacentini, Joseph - EBSA
Subject:	FSI response
Date:	Friday, February 24, 2012 6:02:11 PM
Attachments:	Response to DOL request for fiduciary IRA data 02-24-12.pdf image001.jpg image002.jpg image003.jpg

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From: David Bellaire [redacted]@financialservices.org]
Sent: Friday, February 24, 2012 5:32 PM
To: Piacentini, Joseph - EBSA
Subject: FSI's Response to DOL Request for Information

Joe: Please find our response to your request for information contained in the attached file. If you have any difficulty accessing the file, please feel free to contact me.

Thanks.

David T. Bellaire, Esq.
General Counsel and Director of Government Affairs
Financial Services Institute, Inc.
1001 Pennsylvania Avenue, NW, [redacted]
Washington, DC 20004
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FINANCIAL SERVICES INSTITUTE
VOICE OF INDEPENDENT BROKER-DEALERS AND INDEPENDENT FINANCIAL ADVISORS
www.financialservices.org

February 24, 2012

VIA ELECTRONIC MAIL

Joseph S. Piacentini
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Avenue, NW, [redacted]
Washington, DC 20210

Re: Definition of Fiduciary IRA Data Request

Dear Mr. Piacentini:

Thank you for your letter of December 15, 2011, regarding the Department of Labor's (Department) request for data related to the regulatory impact analysis for the reproposal of the ERISA fiduciary definition, and for the helpful meeting of January 27, 2012, to discuss and clarify that request.

We include with this letter the data the Financial Services Institute (FSI) is able to provide at this time in response to the Department's request. As we discussed at the meeting, the timeline under which the Department has asked us to respond – starting with a December 15 letter received on December 18, a few days before the holidays when many of our members and FSI were operating with a reduced staff; a meeting on short notice on January 27; a letter of February 10 asking for a response by February 17, which we received on February 14; and ultimately the February 24 response date – has severely constrained our ability to be responsive.

The period since the December 15 request has been a particularly demanding time for our members, between their regular year-end reporting and financial accounting obligations, their ongoing compliance requirements, and the need to devote resources to meeting new mandates of the Department and our securities regulators. Moreover, for the reasons discussed below, even a partial response to the Department's request would require an extraordinary amount of time and effort for our member firms, well beyond the response time allowed by the Department. Accordingly, the assistance we are able to provide is quite limited.

About FSI

FSI is the voice of independent broker-dealers and independent financial advisors in Washington, D.C. FSI represents well over 100 independent broker-dealers and 35,000 independent financial advisors who provide financial advice, products and service to more than 15 million households. Member firms formed FSI to improve their compliance efforts and promote the independent broker-dealer business model. Our members have been an important and active part of the retirement community for more than 30 years, helping retirement plan participants and IRA owners achieve their retirement security and other financial goals and objectives. FSI members have a vested interest in a sound retirement system, and are committed to preserving the valuable role that independent broker-dealers and independent financial advisors play in helping Americans achieve their retirement savings goals.

Data Provided in Response to the Request

As we explained at the January 27 meeting, FSI does not itself have or maintain any account-level IRA data. As a member benefit, FSI conducts annual benchmarking studies focused on the management and operation of independent broker-dealer firms; those surveys do not solicit or collect data with respect to the characteristics and performance of investor accounts in the IRA or any other market. During our meeting, we described these surveys, and you expressed an interest in reviewing our Broker-Dealer Financial Performance Study. Pursuant to your request, we enclose a copy of that study for 2009, 2010 and 2011.

As the Department reviews the Financial Performance Studies, it is important to understand their limitations. Specifically:

- The data on which the Financial Performance Studies are based reflects a subset of our member firms that choose to voluntarily respond to the survey. We have been fortunate to have significant membership participation in the study. However, the survey sample is not selected by FSI in order to create a statistically valid sample.

- While the Financial Performance Studies provide anecdotal information that our member firms find useful for comparison and benchmarking purposes, they are not a valid basis from which to extrapolate the performance of the independent broker-dealer community at large or the entire broker-dealer industry.

We hope this information will be helpful to the Department as it considers whether to repropose a new fiduciary definition.

FSI is Unable to Provide Additional Data on the Department's Timeline

Any additional data we might provide in response to the Department's request would come from our member firms on a voluntary basis, and such data is not available at this time, for the reasons discussed below.

At the outset, we note that we have serious doubts about the premises and methodology implicit in the Department's data request. The data request suggests that the Department could draw conclusions – sufficiently reliable to base an enormously consequential regulation like the ERISA fiduciary definition – about the "impact, if any, of conflicts of interests faced by brokers or other[s] who advise IRAs … on IRA investors" from investment returns or trading histories in IRA accounts, analyzed against a (unavoidably, select and less than comprehensive) range of variables. We respectfully disagree, for the following reasons:

- Investment activity and results do not by themselves capture the value of the services provided by financial advisors, whether acting in a broker-dealer or investment advisory capacity. Financial advisors provide value to IRA investors in many ways other than the investment recommendations or advice they provide. They may, for example, give a fearful investor the confidence to set aside funds for retirement. They can help an inexperienced investor fill out the paperwork to get started with an IRA. They may coach an IRA owner on how best to prepare for retirement, balancing other financial needs and taking into account retirement savings in and out of the IRA. They can assist the IRA owner in developing an effective retirement income strategy. That is, financial advisors constructively impact IRA owners in many ways that are not and cannot be measured by the data the Department requested.

- Even if the focus is narrowed to investment services, neither investment returns, nor trading history, nor any of the other investment data the Department requested is a valid indicator of whether the IRA owner has been effectively and impartially served by a financial advisor. It is elementary that a financial advisor may be serving ably and with integrity both, for example, a sophisticated 40-year old with substantial outside assets aggressively seeking alpha in her IRA account through day trading of derivatives, and a retiree with limited assets seeking a risk-free IRA portfolio generating a reliable income stream, where the IRA owners' investment activity and results are very different on an absolute basis or on a relative basis when compared to their respective benchmarks. Even if the Department had access to perfect information – including all the nuanced, personal information about the IRA investor and his or her objectives and needs that financial advisors routinely take into account but do not fit neatly into a data set – in the end the Department inevitably would be making its own subjective, 20-20 hindsight judgment, from a paper record, about the professional advice and motivations of financial advisors. This is a treacherous basis on which to regulate.

Nonetheless, we contacted a number of FSI members to determine if they, on a voluntary basis, would be able to assist the Department with the data request. While our members are in principle willing to be of assistance, they are unable at this time to provide responsive data, for the following reasons:

- Our members, for business and regulatory reasons, do maintain records of identifying and transactional information for the investors served by their independent financial advisors, including IRA owners, and the basis on which financial advisors are compensated.

- Our member firms do not, however, have access to much of the data requested by the Department necessary to meaningfully construct the dependent, independent or control variables of interest to the Department. For example:

  - Broker-dealers and investment advisers are not required to maintain records of some of the essential data points requested by the Department, e.g., whether the investor followed the recommendations or advice of the financial advisor.

  - Neither broker-dealers nor investment advisers are required to maintain ten-year records of customer investment histories. Any data our member firms could provide would reflect a considerably shorter time frame than that requested.

  - Because financial advisors change broker-dealer affiliations from time to time, and investors often follow the advisors to their new firms, the history for a given IRA investor may be scattered across the records of more than one firm.

- With respect to the data our member firms do retain, that data is generally not in a form that would allow it to be readily retrieved in the format requested by and useful to the Department. It would be typical for that data, to the extent it exists, to be spread across multiple systems and paper records, and to be maintained in part by our member firms and in part by the independent financial advisors. Thus, to provide a data set even partially responsive to the Department's request, an FSI member firm would be obliged to construct that data set on a custom basis, drawing not only on its own digitized records but also its paper records and the records of all its independent advisors serving IRA owners.

- The process of collecting, extracting, compiling, normalizing, inputting, formatting and validating that data would be an extraordinary undertaking, requiring the expenditure of very substantial financial and human resources. Estimates from our members to develop even a partial data set range from several hundred thousand to several million dollars, depending on the size of the firm.

- Even if a member firm had been able to start that process on December 15 – the date of the Department's data request – that undertaking could not possibly be completed until many months after the February 24 deadline.

- Finally, we would also need to resolve the important issues under SEC Regulation SP and other applicable law that require our member firms and their financial advisors to preserve the privacy of client-level information of the type requested by the Department, which furthermore may limit the Department's ability to make the requested data part of the public record for any proposed rulemaking.

Accordingly, it simply is not possible for our member firms to provide responsive data on the Department's tight timeline.

<u>Conclusion</u>
FSI is committed to continued constructive engagement in the regulatory process and, therefore, we welcome the opportunity to work with you on this important regulation.

Thank you for your consideration of our letter. Should you have any questions, please contact me at [redacted]. For the timely delivery of any written correspondence, my email address is [redacted]@financialservices.org.

Respectfully submitted,

Dale E. Brown, CAE
President & CEO

2009 Broker-Dealer Financial Performance Study

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Formed in January 2004, the Financial Services Institute's (FSI) mission is to create a healthier regulatory environment for independent broker-dealers and their affiliated independent financial advisors through aggressive and effective advocacy, education and public awareness. FSI is a tax-exempt, non-profit association formed under section 501(c)(6) of the Internal Revenue Code. Our members are independent broker-dealers who do business with the public and independent financial advisors affiliated with broker-dealers.

We are pleased to offer the *2009 FSI Broker-Dealer Financial Performance Study* as an exclusive benefit to FSI broker-dealer members and wish to thank all of the participating firms who contributed to the success of this annual project. We encourage you to take advantage of all the exclusive benefits of your firm's membership and look forward to your participation again next year. For more information, please visit our Web site at http://www.financialservices.org.

FA Insight LLC provides research and consulting services to financial advisory firms and those that service or work with these firms. FA Insight provides clients with actionable insight that is based on a powerful combination of unique marketplace data, consulting and analytical expertise, and deep knowledge of financial advisors and their business environment. Core services focus on: performance benchmarking, "best practices" research, strategic business planning, organizational design and compensation modeling. For more detail please visit the FA Insight Web site at http://www.fainsight.com.

Acknowledgments

We gratefully acknowledge the 54 FSI member firms who committed their time to compile and report data for the benefit of this initiative. We extend a special thanks to the volunteers on the 2009 Broker-Dealer Financial Performance Study Task Force: Matt Bauler, Milton Fritts, Brock Guice, Bardi Huppert and Greg Williams. We also acknowledge the work of previous FSI task forces and Moss Adams LLP, who led production of prior years' reports. Much of the organization, format and classifications found in the 2009 report is built from the foundation of what was prepared in past years.

Legal Disclaimer

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2009 Financial Performance Study
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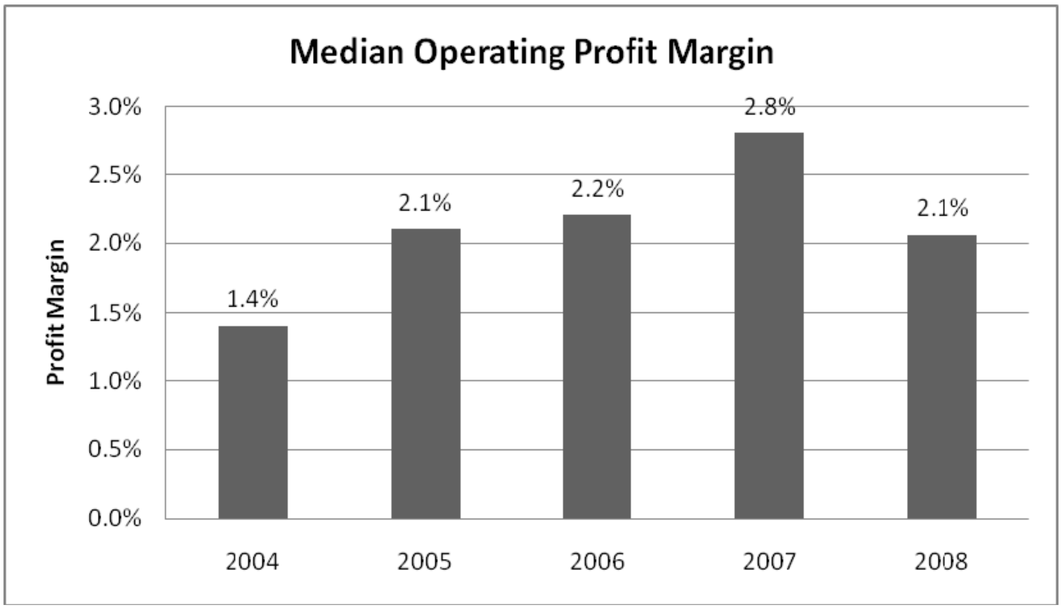
Overview / Executive Summary

Broker-dealers rode a wave of growing revenues and improved profitability through 2007, a trend which came to an abrupt halt in 2008. Firms were especially hard-hit in the year's final quarter following the steep decline in the financial markets that began in September of 2008. As a result, the operating profit margin for the typical broker-dealer in our survey dropped from 2.8% in 2007 to 2.1% in 2008 (Figure 1).

Figure 1: Median Operating Profit Margin, 2004–2008

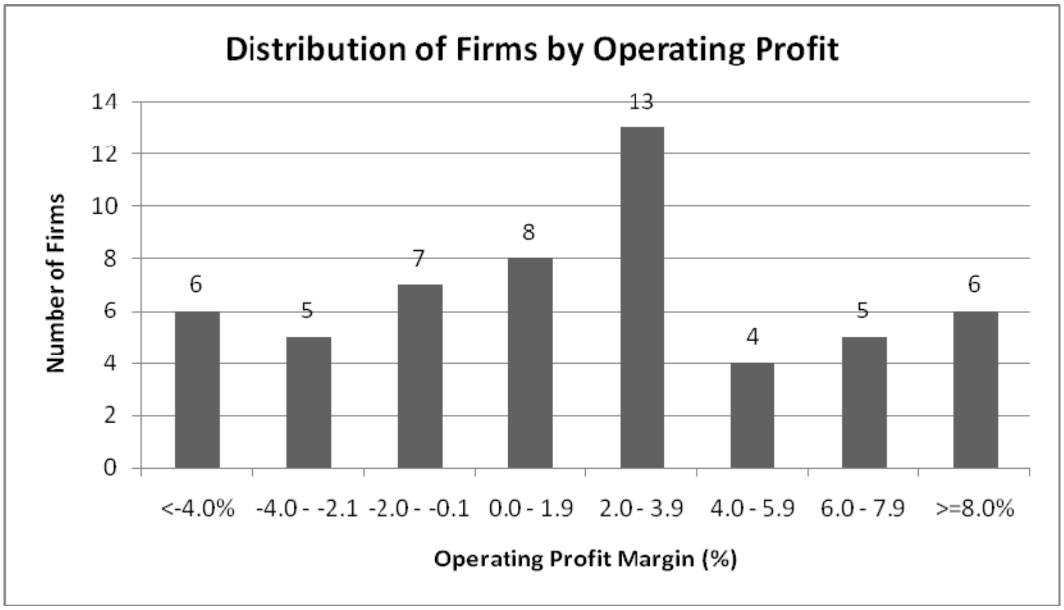


The overall industry average profit margin for 2008, at 3.3%, was significantly higher than median profit. The 2008 average also exceeded the 2007 average operating profit margin of 2.0%. This is a result of the industry's largest firms tending to enjoy much greater success than their smaller counterparts in 2008. Firms with more than $250 million in annual revenue, for example, had average profitability of 4.2% of revenues. The higher margins typical of these larger firms, which are defined in terms of revenue size, naturally receive a larger weight in calculating the average margin.[1]

Figure 2 demonstrates the wide disparity of profitability achieved by firms in this year's survey. The number of firms with operating profit margins of 6.0% or greater is equal to the number of firms who had negative margins of more than 2%.

[1]Note that sampling variability will also come into play when comparing this year's survey results against previous years. Averages can be more vulnerable to this variability than medians. This is especially true for the 2008 results, with proportionately more large firms ($100 million and greater in revenue) participating than in 2007.

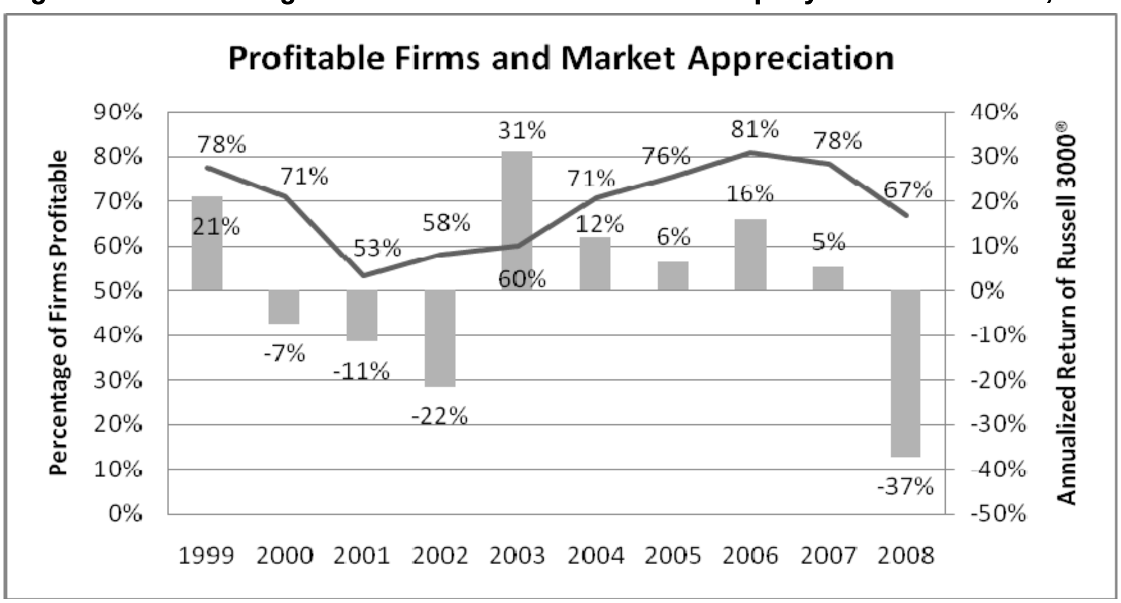
Figure 2: Number of Firms by Operating Profit Margin



Overall, two-thirds of firms earned a positive operating profit in 2008; the lowest percentage of firms with positive income since the industry was climbing out of the last market downturn in 2003 (Figure 3). Many firms are likely to continue struggling in 2009. Results for 2008 only partially reflect the full brunt of the market drop and economic recession, both of which came on in force during the final quarter of 2008.

With that said, it appears that broker-dealers are much better positioned to confront the current market drop and recession when compared with the last downturn. In addition to tracking the percentage share of firms making a positive operating profit, Figure 3 also shows market return over the last decade. For the purposes of this illustration, the Russell 3000® broad market securities index serves as a proxy for financial markets performance.

Figure 3: Percentage of Profitable Firms and US Equity Market Return, 1999–2008



During the 2000–2002 market downturn the number of profitable firms fell sharply from 78% of the survey database in 1999 to a bottom of 53% in 2001. In the wake of 9/11 during the previous year and the Enron and Worldcom scandals, the sharpest drop of the previous securities market downturn came in 2002. Despite the 22% market drop, however, a greater share of broker-dealers achieved profitability in 2002 as weaker players left the business or consolidated with others and survivors implemented efficiency measures.

As a result of threats weathered in the recent past, broker-dealers today are better run and more competitive. The 37% market drop witnessed in 2008 was unlike any other in our generation. Broker-dealers clearly have felt the impact of this decline but, unlike in previous years, they are now better prepared to manage through it. Firms are stronger operationally. The continued evolution toward advisory fees and asset management has helped broker-dealers to diversify and smooth revenue streams, which has helped their affiliated advisors develop deeper and more lasting relationships with clients.

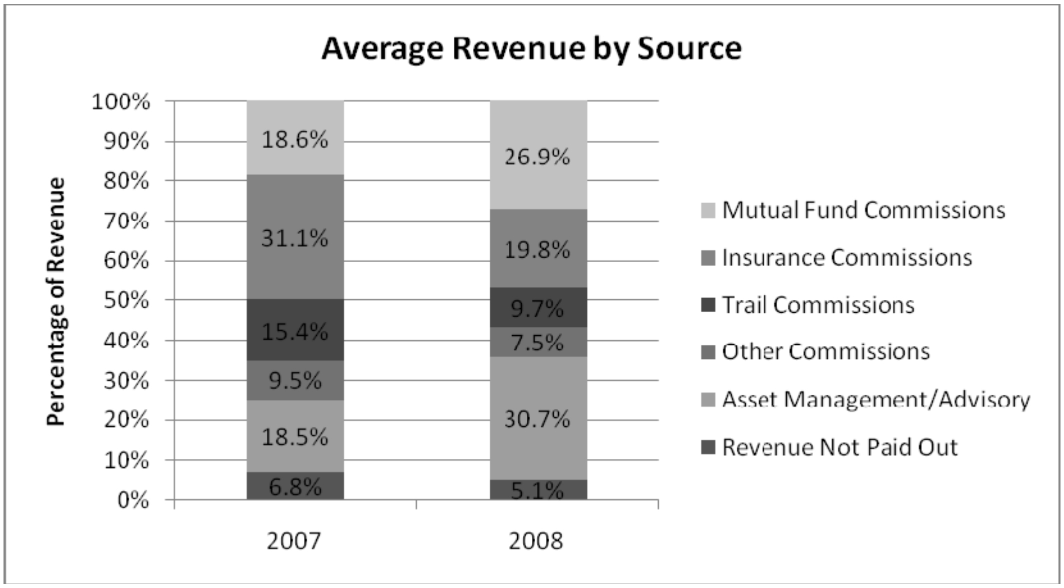
The growing number of wirehouse advisors transitioning to independence is another important factor behind broker-dealer success in a tough economic climate. Broker-dealers are becoming an increasingly attractive affiliation option for former wirehouse advisors, which is easing (but not eliminating) the long-standing challenge of broker-dealer growth through recruitment.

Transitioning wirehouse advisors are motivated by both “push” and “pull” drivers. A tarnished wirehouse brand, often accompanied by deteriorating economics for the advisor, is pushing many wirehouse advisors to seek an alternative affiliation model. The growing sophistication and maturity of broker-dealers, particularity as it relates to operations, technology and product availability, provides the pull.

Surprisingly it is revenue mix and not profits that is perhaps the single most notable difference between this year’s survey results and last year’s. Changes in revenue composition reflect a movement toward fee-based or managed money and away from commission-based products.

While the trend toward an increasing reliance on asset management and advisory fees has been in progress for some time now, 2008 marked a noted acceleration of this growth. Asset management and advisory fees averaged 30.7% of revenues in 2008, more than 1.5 times the 18.5% share measured in 2007 (Figure 4).

Figure 4: Distribution of Firm Revenue by Source, 2007–2008



Note, however, that some of the apparent growth in average revenue share related to fees may simply be due to differences in the 2008 sample versus participants in 2007. Looking at specific firm size ranges across the two years provides additional insight. Firms in the size ranges under $100 million in revenue appear to have increased their proportion of fee-related revenue by only one to two percentage points. In contrast, for firms over $100 million in size, fees accounted for an average of 18% of revenues in 2007 but jumped dramatically to 33% of revenues in 2008.

Regardless, the trend toward fee revenue continues, and it has important and positive profit implications. For example, firms in the highest quartile in terms of operating profit margin generate double the share of revenue from asset management and advisory fees than other firms. Fees average 40% of revenue for high-profit firms compared with 19% of revenues for other firms. Fee revenue does not just originate with the corporate RIA. For the typical high-profit firm, AUM in advisor-owned RIAs is 1.5 times the AUM in the firm's corporate RIA. In contrast, for other firms AUM in advisor-owned RIAs is only about one-tenth the level of corporate RIA AUM.

While the share of commissions contracts as part of the overall revenue mix of firms, another interesting dynamic appears to be taking place within commissions. At the expense of all other sources of commission revenue, mutual fund commissions actually increased in share of revenue, rising dramatically from 18.6% of revenue in 2007 to 26.9% in 2008. Again there is the possibility of differences in survey participants driving some of this change. In the 2008 survey, firms with more than $250 million in revenue were especially reliant on mutual funds, where this source accounted for an average of 34% of revenue. In any case, growing reliance on mutual funds is another indicator that broker-dealers and their affiliated advisors are further embracing managed money solutions for their clients.

In contrast with operating profit, gross profit (revenue less direct expenses) increased both in median and average terms. Average gross profit margin showed the strongest rise, jumping from 18.3% in 2007 to 23.1% in 2008. The gross profit increase was fueled by a corresponding expense decrease in commissions paid.

Firms did struggle with operating expenses, which increased from an average of 16.1% of revenues in 2007 to 19.8% in 2008. In particular, salaries and wages as well as marketing expenses consumed a much greater share of revenues. While marketing expenses averaged just one half of a percentage point of revenues in 2007, this measure roughly tripled to 1.5% in 2008. Firms appear to be ratcheting up marketing budgets in response to growing pressure to stand out and be heard amid the crowded and intensely competitive recruiting market for advisors.

Expenses related to salaries and wages climbed to 7.7% of revenues in 2008 versus 6.2% in 2007. This is not likely due to rising levels of compensation. Rather, it seems that revenue growth has not kept pace with staffing levels. For example, revenue per employee for the typical firm fell 10%, from $1.056 million in 2007 to $952,518 in 2008. In other words, firms were reluctant to adjust staffing levels in response to the market downturn (at least through the end of 2008).

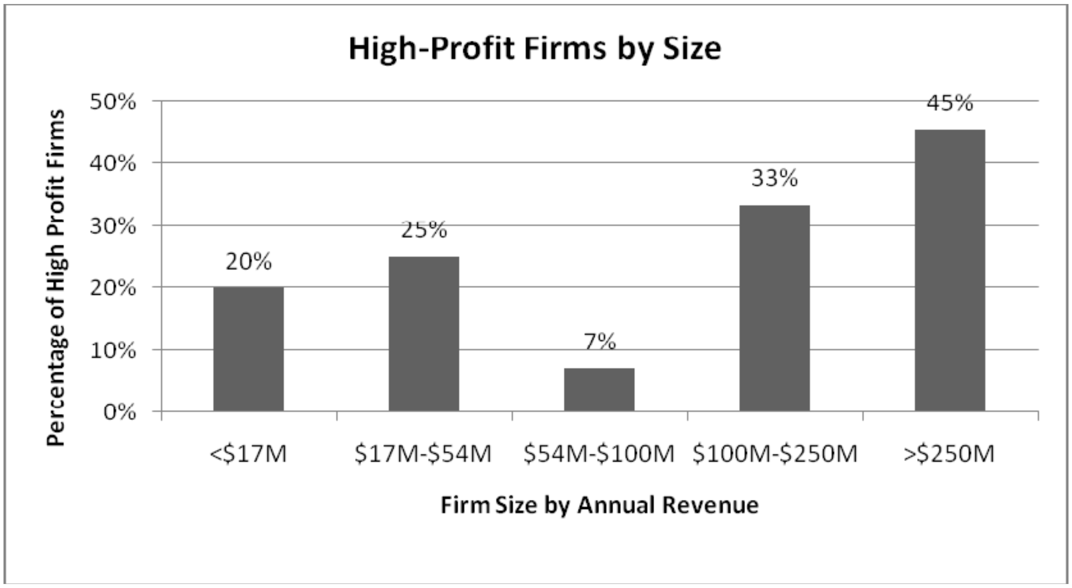
High-Profit Firms

Despite weaker profitability for the typical firm in this years' survey database, an elite sub-set of firms not only made a profit but prospered as well. Their performance is especially admirable given the current economic climate. Together these firms hold out promise for other firms that wish to model their success.

These top-performing firms are distinguished on the basis of profitability and referred to in the study as "high-profit" firms. High-profit firms are defined as any firm in the top 25% or upper quartile of respondents in terms of operating profit margin. Results for high-profit firms are separated from "other" firms. For this year's report, respondents with an operating profit margin of 4.5% or higher were designated high-profit.

The typical high-profit firm earned a profit margin of 7.3% in 2008. In comparison, their lower-earning peers operated at a loss with a median margin of negative 1.7%. Many of the high-profit firms tend to be larger in size and are benefitting from economies of scale. As shown in Figure 5, nearly half (45%) of all firms grossing more than $250 million in revenue were deemed high profit. The greater size of these firms allows them to more broadly spread significant fixed costs related to technology, regulatory compliance and marketing.

Figure 5: Distribution of High-Profit Firms by Revenue Size



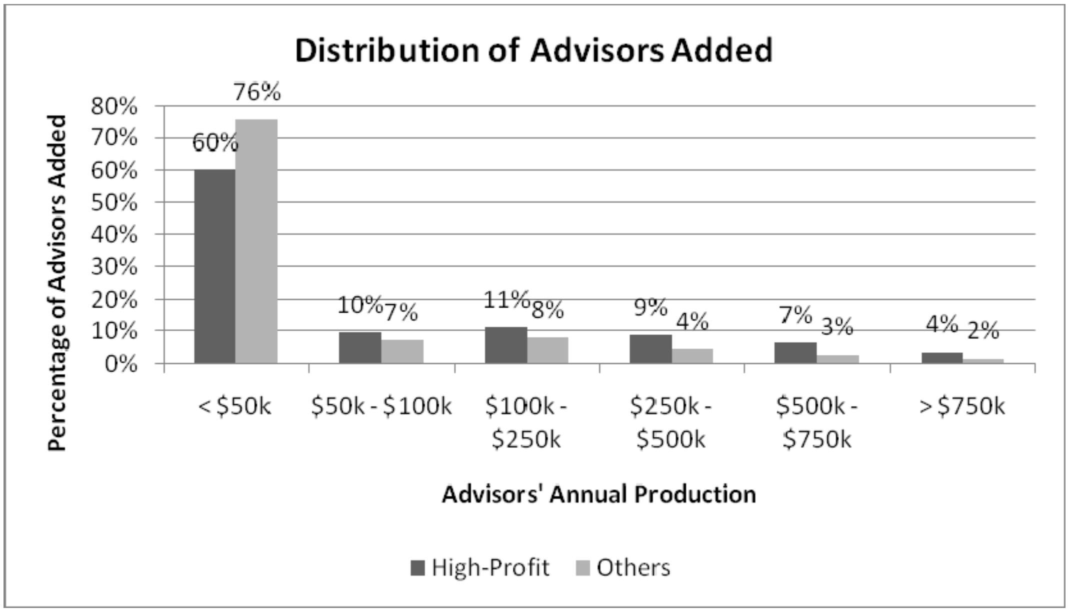
But clearly not all large firms are high profit—a fair share of high-profit broker-dealers exists among the survey's smallest firms. While economies of scale are not in their favor, these firms are also able to deploy size to their advantage. Their small size may enable them to provide more intimate and customized service, establish more personal and longer-lasting relationships with advisors and better note any irregularities with regard to compliance.

While extreme size, especially at the large end, appears to support profitability, three other themes also are common among high-profit firms:

- Recruiting and retention practices that attract and retain higher producing advisors
- Greater reliance on fee business including higher acceptance of advisor-owned RIAs
- Higher producing advisors overall that are also younger in age

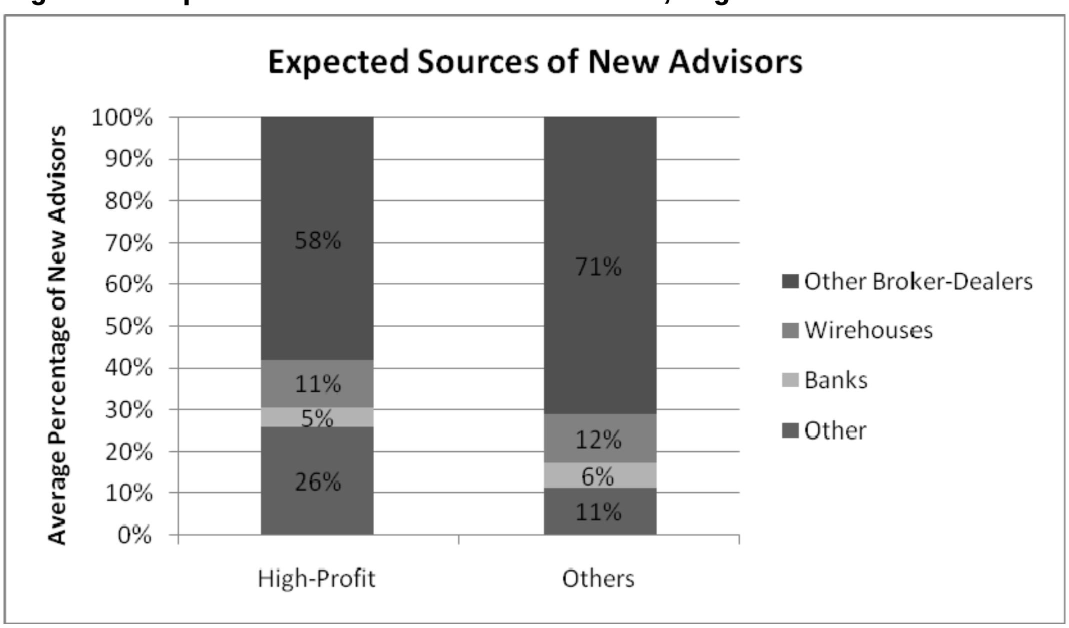
High-profit firms enjoy greater success in attracting and retaining higher producing advisors. This advantage starts with recruitment. As presented in Figure 6, high-profit firms are less apt to take on lower production advisors. Advisors under $50,000 in production accounted for 60% of the advisors recruited by high-profit firms in 2008. This share for other firms, at 76%, was substantially higher. As production levels increase, high-profit firms take an increasing larger share of recruits relative to other firms.

Figure 6: Distribution of Advisors Added in 2008 by Production, High-Profit Firms and Others



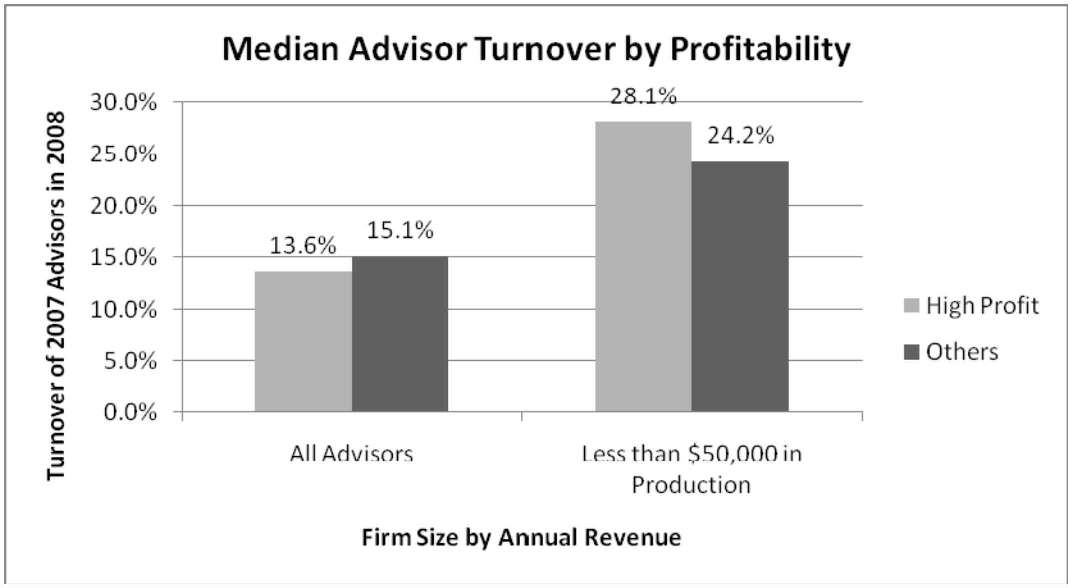
More so than others, high-profit broker-dealers have a greater willingness to look beyond traditional sources for recruits. For 2009, high-profit firms expect to recruit just 58% of advisors from other broker-dealers (Figure 7). This compares with 71% for other firms. The high-profit firm expects 26% of its recruits to come from other non-traditional sources. These sources typically include career-changers from other industries or young professionals just starting a career. A few of the surveyed high-profit firms even mentioned looking to RIA firms as a source of new talent.

Figure 7: Expected Sources of New Advisors, High-Profit Firms and Others



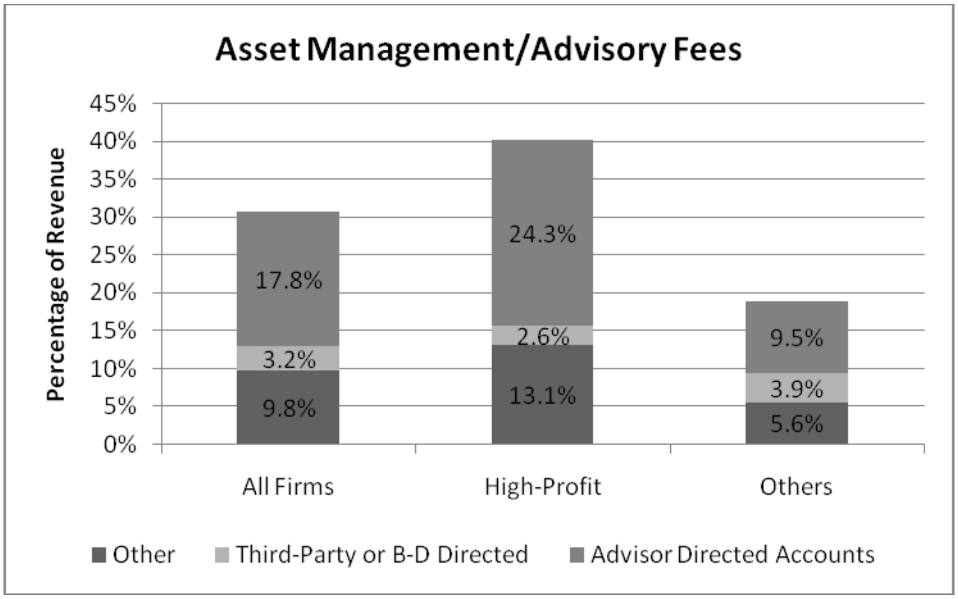
High-profit firms also appear to be deploying turnover in order to better shape a higher producing advisor base. For the typical high-profit firm advisor, turnover runs slightly lower than for other firms. Of the total advisors with high-profit firms in 2007, 13.6% left their broker-dealer during 2008. This compares with a median of 15.1% turnover for others. Relative to other firms, however, turnover at the typical high-profit firm for the lowest producing advisors is much greater at high-profit firms. The typical high-profit firm had 28.1% of its advisors with less than $50,000 production leave during 2008 compared with 24.2% at other firms. This finding suggests high-profit firms have a lower tolerance level for advisors failing to meet minimum production requirements.

Figure 8: Median Advisor Turnover, High-Profit Firms and Others



Another important distinguishing characteristic of high-profit firms is a greater acceptance and reliance on fees as related to asset management and advice. As noted in Figure 9, fees averaged 40% of revenue for high-profit firms, a share that is about double that of other firms.

Figure 9: Average Distribution of Fees by Revenue Source, High-Profit Firms and Others



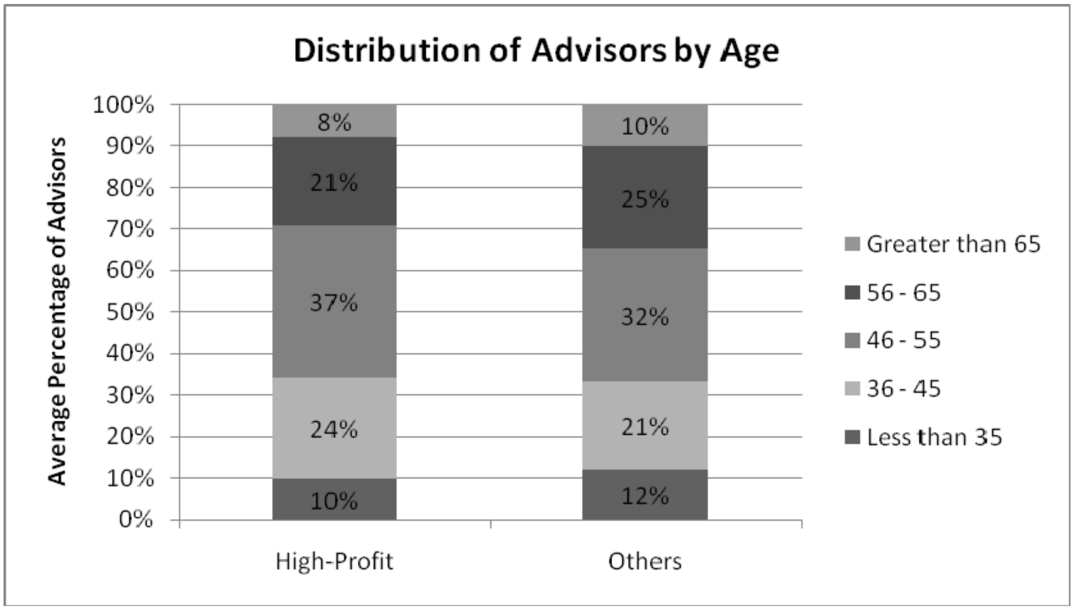
For high-profit firms, embracing fee-business goes beyond advisors managing money on the corporate RIA platform. High-profit broker-dealers are more likely to allow advisor-owned RIAs. An RIA for planning purposes is allowed by 79% of high-profit firms compared with 55% of other firms. An advisor-owned RIA for asset management is allowed by 64% of high-profit firms compared with 50% of others. To better control costs and ease compliance monitoring, however, high-profit firms that allow advisors an RIA for asset management are much more likely to mandate that their advisors use a particular custodian. About two-thirds of high-profit firms mandate custody versus just one-fourth of other firms.

The greater reliance on asset management and advisory fees for high-profit broker-dealers can contribute to greater profitability in several ways. Fee business diversifies a broker-dealer's revenue stream and can often be a steadier form of revenue compared with commissions. Fee business also serves to diversify a broker-dealer's end-client base, attracting a different type of client. As fees emphasize relationships over product sales, client tenure can also be longer lasting. Perhaps most important, however, is that a broker-dealer's acceptance of fee business may facilitate attraction and retention of advisors that are more profitable for the firm to serve.

Advisors at high-profit firms produce greater revenue for their broker-dealer. Median revenue per advisor at high-profit firms is $152,726, 25% greater than the $121,401 at other firms. At any level of production there are fixed costs of on-boarding and servicing an advisor. As a result, servicing high-productivity advisors creates a tremendous profitability advantage for broker-dealers.

Recruiting methods and fee orientation likely support the ability of high-profit firms to maintain an advisor force that is experienced yet less dominated by advisors on the verge of retirement. As shown in Figure 10, 61% of advisors at high-profit firms are between the ages of 36 and 55, compared with 53% for that age group at other firms. Just 29% of advisors at high-profit firms are approaching retirement at 55 of years of age or older. This figure compares with 35% at other firms.

Figure 10: Average Distribution of Advisors by Age, High-Profit Firms and Others



Advisor Compensation

Similar to the past years, advisor compensation was virtually unchanged for 2008. Few differences arose in the median payouts across the payout grid from the last two studies, for both independent and insurance-affiliated broker-dealers (Figures 11 and 12). One exception was median payouts for independent broker-dealers at $50,000 in advisor production, with an increase of 10 percentage points. The median 80% payout at $50,000, however, is equivalent to the payout for the $50,000 production level in 2006. Insurance-affiliated broker-dealers had nearly identical payouts at all ranges. In reviewing the upper quartile of payout percentages for the largest producers, payout was 93% for independent broker-dealers, slightly higher than the 92% rate paid in 2007. Upper quartile payouts for insurance-affiliated broker-dealers matched the 92% rate of last year.

Figure 11: Independent Broker-Dealer Payout in 2007 and 2008

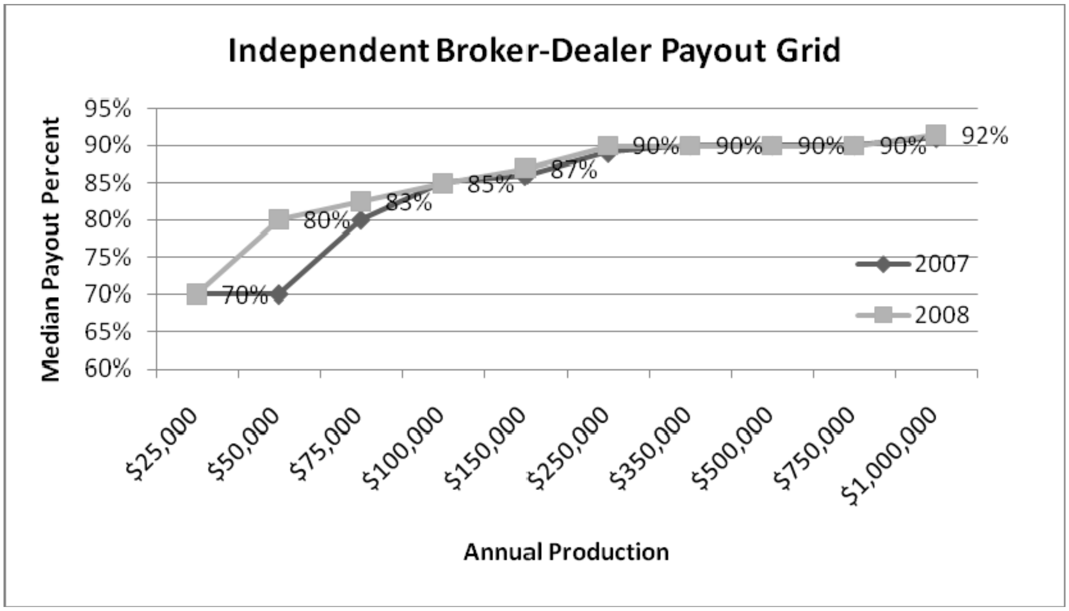
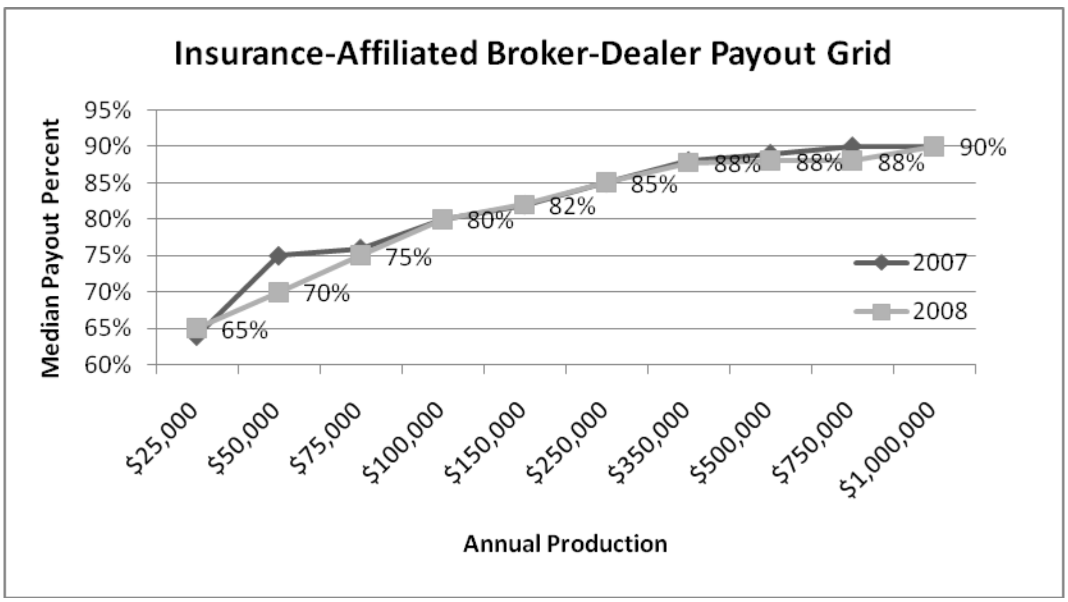
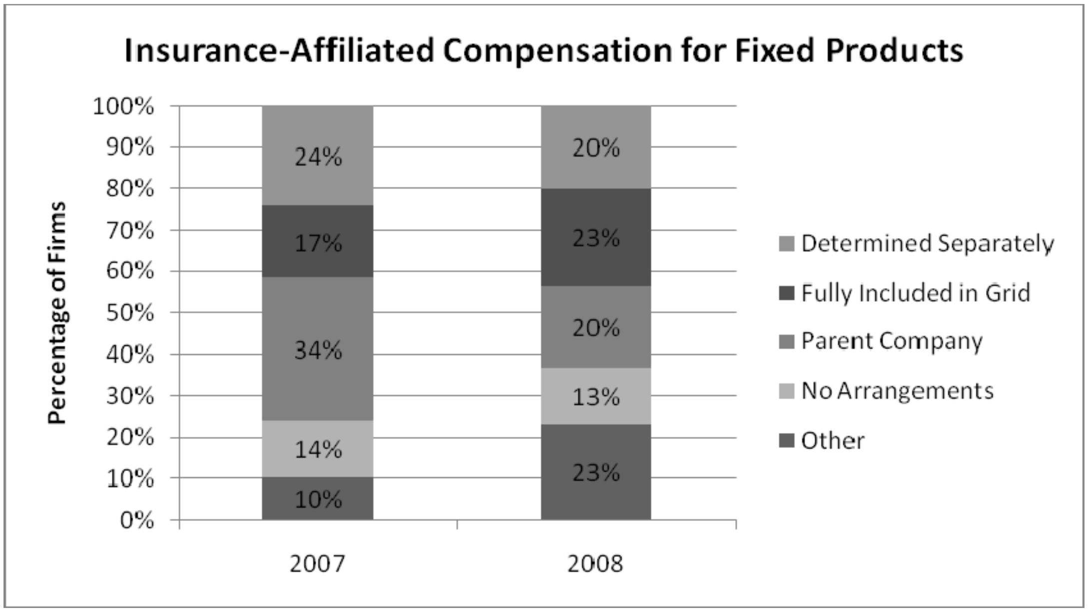


Figure 12: Insurance-Affiliated Broker-Dealer Payout in 2007 and 2008



Both insurance-affiliated and independent broker-dealers made notable changes in the treatment of fixed products from 2007 to 2008. For insurance-affiliated broker-dealers in 2008, there were changes in every type of approach to fixed products (which includes life insurance, annuities and disability insurance). Compared with last year, they were more likely to fully include the production associated with fixed products in the broker-dealer's overall production grid (an increase of 6 percentage points). With a decrease of 14 percentage points, insurance-affiliated broker-dealers were significantly less likely to process fixed products through their parent company.

Figure 13: Insurance-Affiliated Broker-Dealer Approach Toward Fixed Product Compensation, 2007–2008



Independent broker-dealers had noteworthy changes in their treatment to both fixed and variable products. For fixed products, with a decrease of 15 percentage points, they were less likely to fully include the production associated with them in the overall grid for production through the broker-dealer. With an increase of 12 percentage points, they were more likely to count the production toward the overall grid, but determine the payout separately. Half of independent broker-dealers chose this approach, with a median minimum payout of 83% and a median maximum payout of 93%. Regarding variable products, this year 33% of independent broker-dealers chose to fully include the production in the overall grid for production through the broker-dealer, an increase of 12 percentage points. Although with a decrease of 17 percentage points, independent broker-dealers are less likely to have no arrangements for variable products—they are still the majority, with 57% of respondents choosing this option.

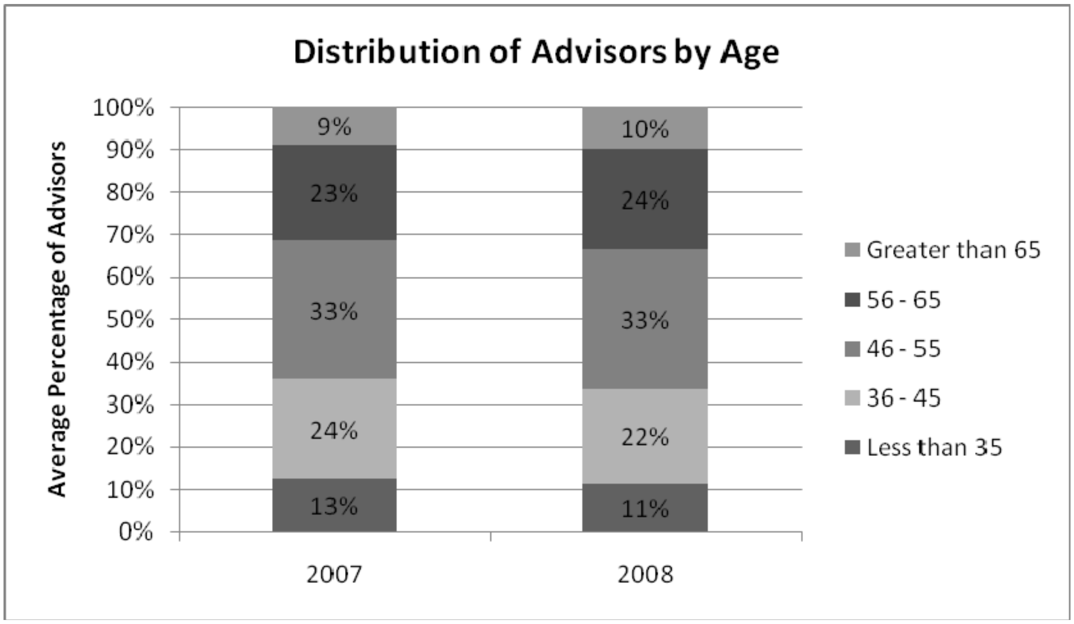
Recruiting and Retention

An aging broker-dealer field force continues to pressure firms to do a better job at recruiting and retention. In the recent past, a lack of experienced advisors significantly hampered not only broker-dealer growth but growth of the entire financial advice industry. Over the past year, the tight market for broker-dealers to acquire experienced talent may have temporarily eased slightly due to a slowdown in the industry overall as well as the fact that disenchantment among wirehouse brokers has helped increase the pool of potential recruits from which broker-dealers can prospect.

This scenario will not last indefinitely, however. The economy and securities markets will invariably rebound in coming months. Wirehouses will repair their tainted brands and adapt their business models to stem the tide of advisors defecting from their firms. What will not change in the near future is that many advisors, like the clients they serve, are on the verge of retirement.

Broker-dealers will remain vulnerable to this retirement wave. Broker-dealer-affiliated advisors continued to collectively age further in 2008 (Figure 14). The average number of advisors beyond the age of 55 increased from 32% in 2007 to 34% in 2008. Growth will be at risk unless broker-dealers are able to devise creative solutions to address the pending loss of talent.

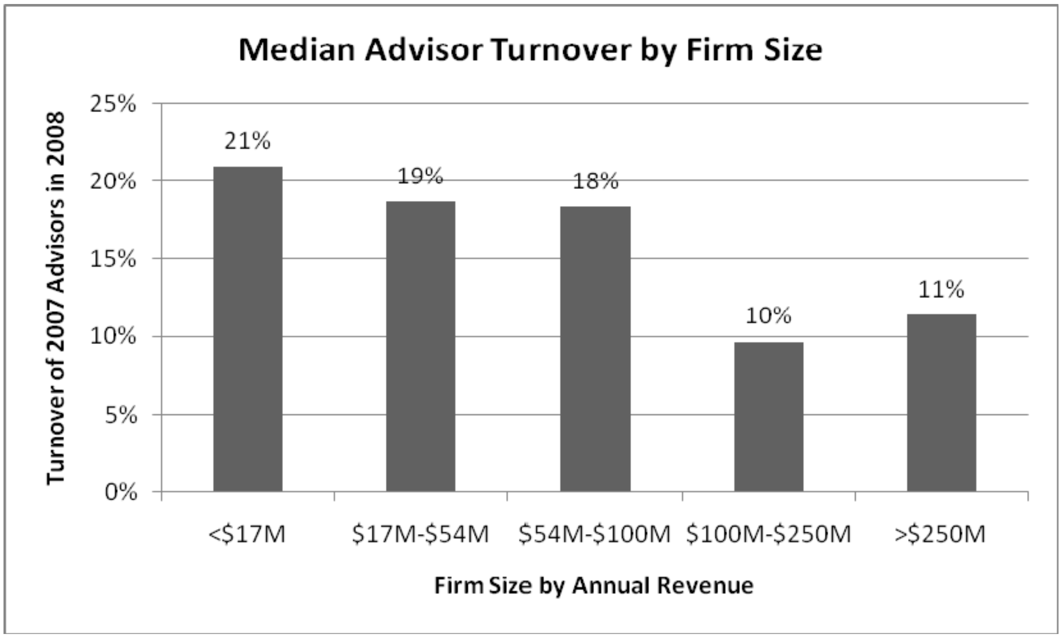
Figure 14: Average Distribution of Advisors by Age, 2007–2008



Ultimately, a broker-dealer has only a limited number of ways it can grow its advisor base. Tactics include recruiting experienced talent, developing new talent or outright acquisition of another broker-dealer. To better leverage the talent that it currently has, a broker-dealer can also choose to focus on retention. While acquisitions were outside of the scope of this study, a variety of findings relate to these other growth tactics.

Regarding retention, in 2008 the typical firm lost 15% of the advisors it ended the year with in 2007. This rate of turnover was up some from the 14% turnover achieved in 2007 but lower than what was measured in 2006. Smaller firms seemed to struggle most with retention. As depicted in Figure 15, a distinct dividing line exists between firms under and firms over $100 million in revenues. While turnover for large firms ranged between 10% and 11%, small firm turnover ranged from 18% to 21%.

Figure 15: Median Advisor Turnover by Firm Size

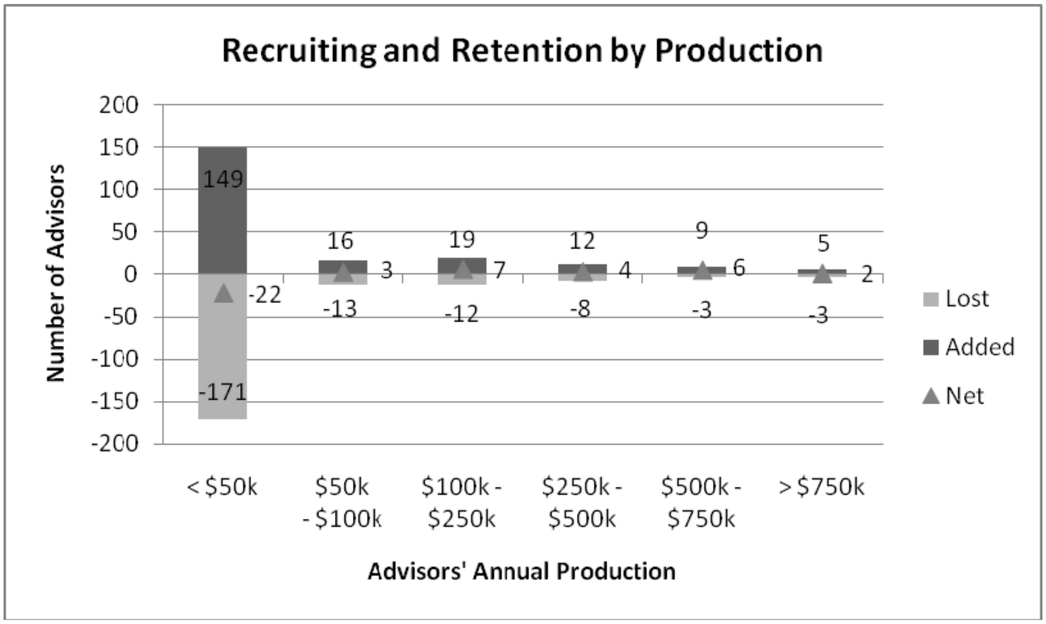


Higher turnover experienced by smaller firms may be indicative of a lack of scale to appeal to a wide range of advisor types. As advisors evolve their practices they are forced to seek another broker-dealer that can better meet their changing needs. Turnover for smaller firms might also be a result of an eagerness to take on any type of advisor in order to meet ambitious growth goals, only to discover later that some of the recruits are not a good fit for the firm.

Alternatively, turnover may be a conscious strategy as a broker-dealer deliberately seeks to improve the quality of its advisor force by weeding out advisors that no longer fit its target profile. This may be what many firms focused on in 2008 as they aimed to improve the quality of their advisors and ultimately the profitably of their firms.

As depicted in Figure 16, the typical firm shed on net 22 advisors generating less than $50,000 in production. All other production ranges showed positive net additions with especially good results for the largest producers. The typical broker-dealer netted slightly more advisors producing over $250,000 than advisors in the $50,000 to $250,000 range.

Figure 16: Median Advisors Lost and Added by Level of Production

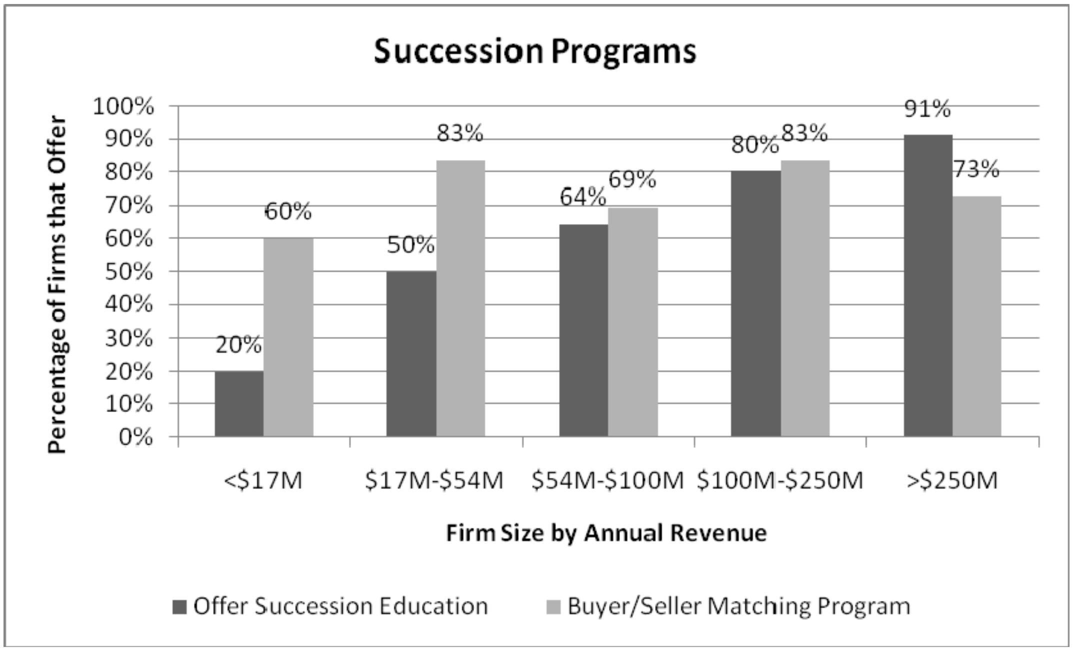


In light of the rising number of advisors nearing retirement, succession assistance can be an important tool for strengthening retention as well as recruiting. Succession programs can bring about several positive outcomes. By facilitating the transfer of a retiring advisor's clients and assets to another advisor within the broker-dealer's network, clients and assets are retained with the broker-dealer.

Less apparent is the power of an effective succession program to serve as a recruiting or retention enticement. Growth-minded advisors will join and stay with a broker-dealer that offers an avenue for practice growth through the acquisition of a succeeding advisor's clients. Advisors approaching retirement will stay with a broker-dealer that is able to provide them liquidity solutions for their practices upon retirement.

Figure 17 shows the growing propensity for firms to provide succession assistance as they increase in size. Nearly all of the industry's largest firms (91%) provide succession education, and 73% offer some type of formal or informal buyer/seller matching program.

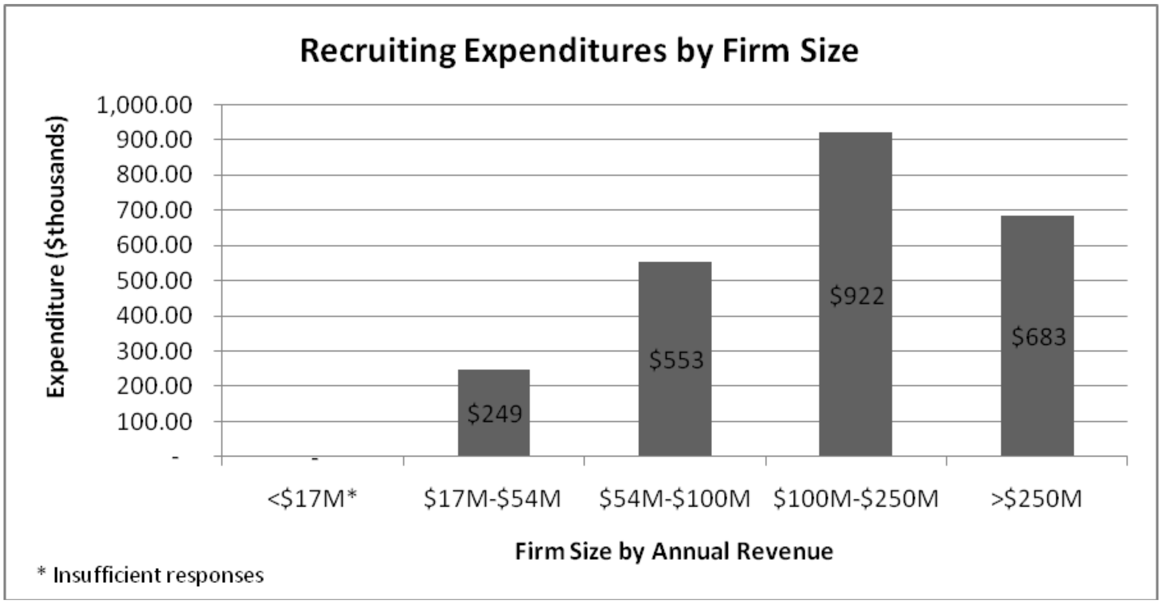
Figure 17: Availability of Succession Education and Transition Assistance



Regardless of how successful firms are with retention, some form of recruiting will always be in order. Broker-dealers invested heavily in recruiting during 2008 and continued a shift regarding prospects targeted. From 2007 to 2008, marketing expenditures increased markedly on average from 0.5% to 1.5% of revenues. Nearly every recruiting-related expense measure was up. Comparing the typical survey firm this year to last year, advertising, internal and external recruiting costs and account transition expenditures were all up nearly 20% or more.

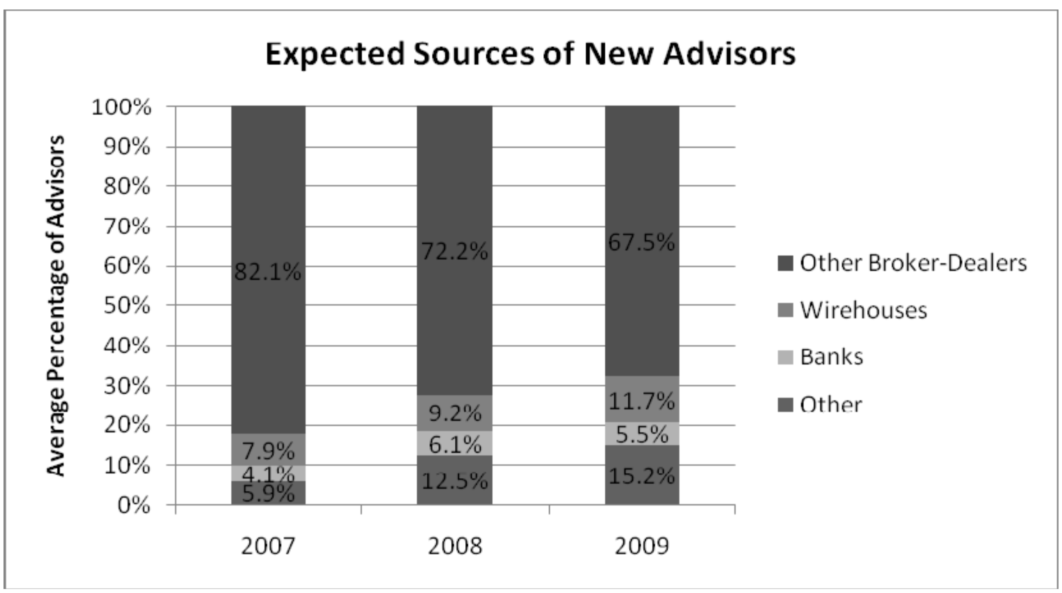
Figure 18 illustrates the average level of general recruiting-related expenditures by firm size. These data are exclusive of "per advisor" costs related to external recruiters, home office visits or transition assistance. While general costs tend to rise with firm size, the figure highlights the disproportionate burden of recruiting expenditures on small firms in order to remain competitive.

Figure 18: General Recruiting Expenditures by Firm Size



In addition to spending more, broker-dealers are also looking farther and wider to attract recruits. As shown in Figure 19, during the last two years, broker-dealers have greatly reduced their expectations for other broker-dealers to serve as a recruiting source of new advisors. Wirehouses and other sources (typically new entrants to the industry) are increasing in importance. The trend is even more apparent among high-profit firms.

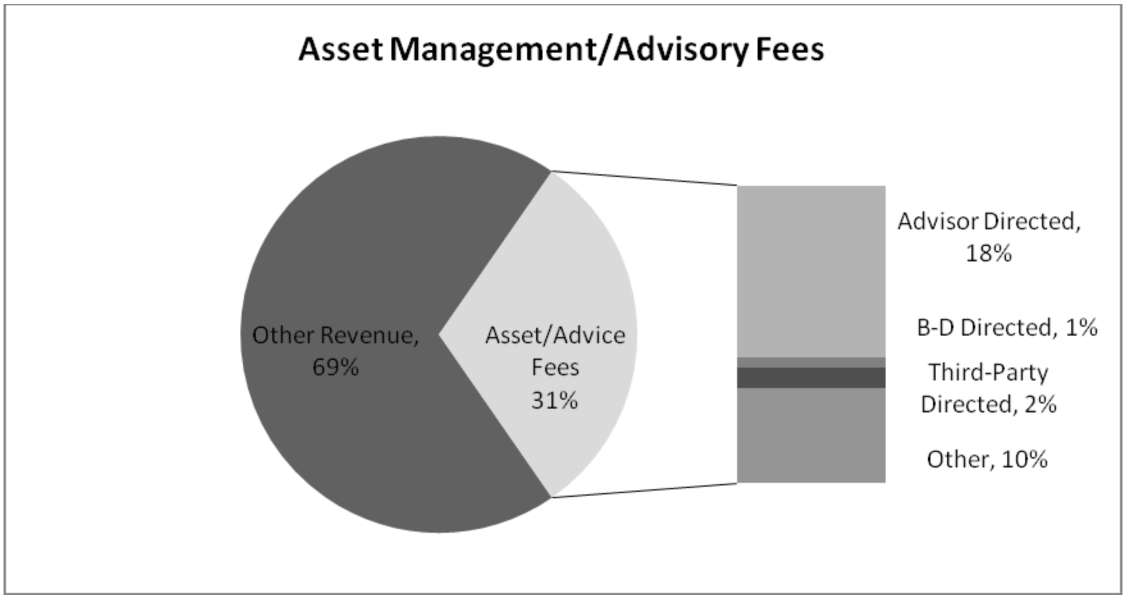
Figure 19: Expected Sources of New Advisors, 2007–2009



Asset Management and Advisory Fees

Asset management and advisory fees, increasing for the last several years, became a major source of broker-dealer revenue in 2008. Averaging 19% in 2007, fees jumped to 31% of revenue in 2008.

Figure 20: Average Distribution of Asset Management/Advisory Fees by Revenue Source



Both in terms of their reliance on fees and their more tolerant attitude toward advisor-owned RIAS, independent firms have more heartedly embraced asset management and advice in comparison to insurance-affiliated firms. As shown in Figure 21, fees accounted for nearly 40% of revenues earned by independent firms compared with 25% for insurance-affiliated firms.

Figure 21: Asset Management/Advisory Fee Distribution, Independent and Insurance-Affiliated Firms

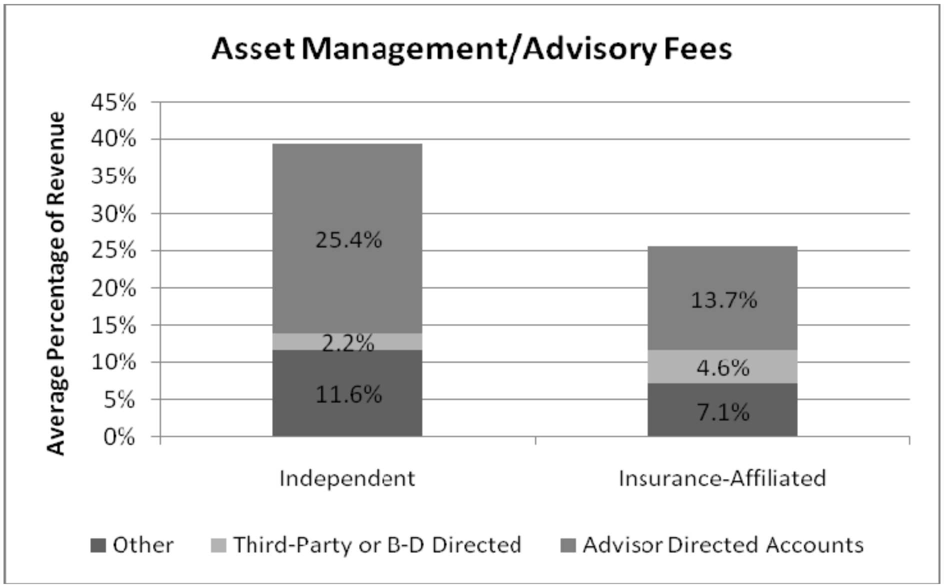
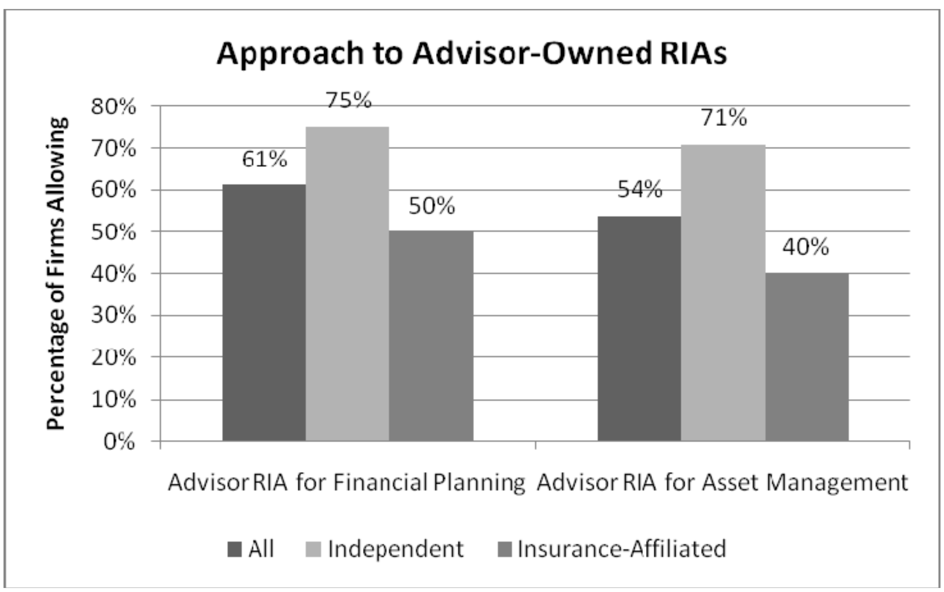


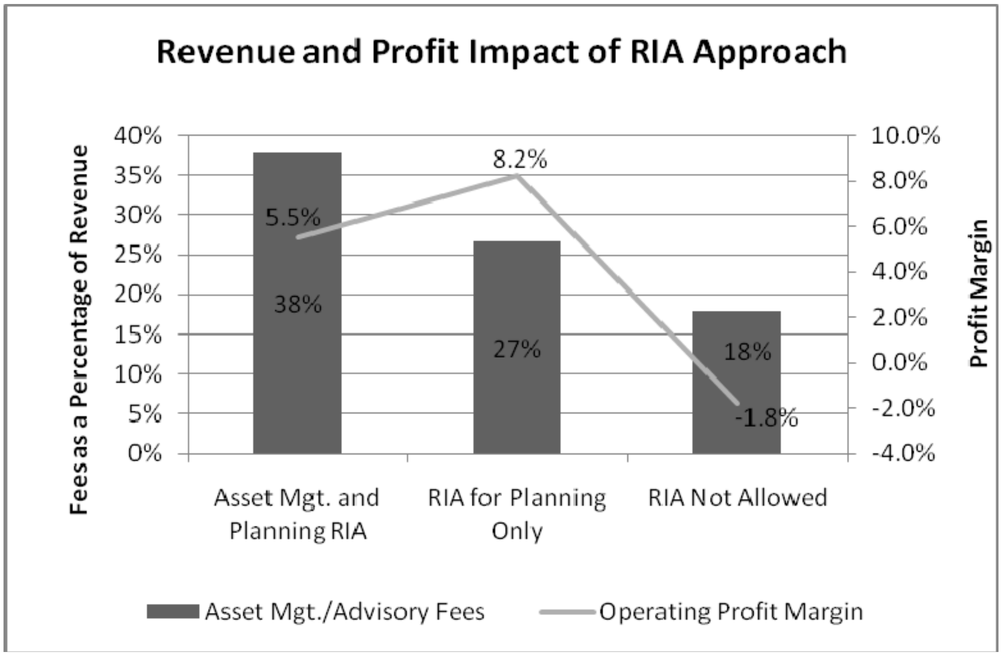
Figure 22 illustrates the more liberal policy independent broker-dealers have toward advisors maintaining their own RIAs. It is now quite commonplace for independent firms to allow advisor-owned RIAs for financial planning as well as asset management. Insurance-affiliated firms, while lagging behind their independent peers, have nonetheless increased their flexibility toward advisor-owned RIAs as well in recent years.

Figure 22: Approach to Advisor-Owned RIAs by Broker-Dealer Ownership Type



Operating data presents a strong case for broker-dealers to embrace asset management and advisory business. In Figure 23, broker-dealers are grouped according to their approach toward advisor-owned RIAs. Firms that did not allow advisor-owned RIAs had the lowest proportion of fee revenue and earned a negative operating profit of 1.8%. The highest profit margins were achieved by firms that allowed advisor RIAs for financial planning only.

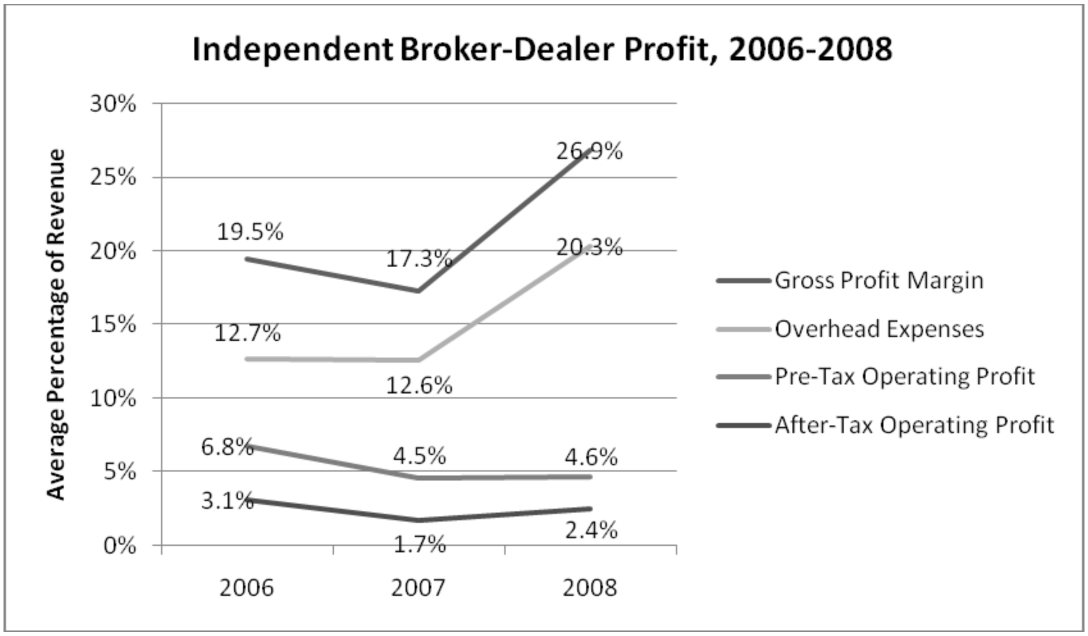
Figure 23: Fee Revenue and Profit Impact by Approach to Advisor-Owned RIAs



Independent Broker-Dealers

Independent broker-dealers comprised 44% of the respondents in this year's study. The "independent" group consists of any broker-dealer that is not operated as a subsidiary of an insurance company. As Figure 24 shows, independent broker-dealers experienced nearly the same average pre-tax operating profit margin, increasing slightly from 4.5% in 2007 to 4.6% in 2008. Despite proportionately greater overhead expenses, independents still managed to easily out-perform insurance-affiliated broker-dealers in terms of average operating profit margin. (Overhead expenses almost doubled as a percentage of revenue for independent firms, increasing from 12.6% in 2007 to 20.3% in 2008.)

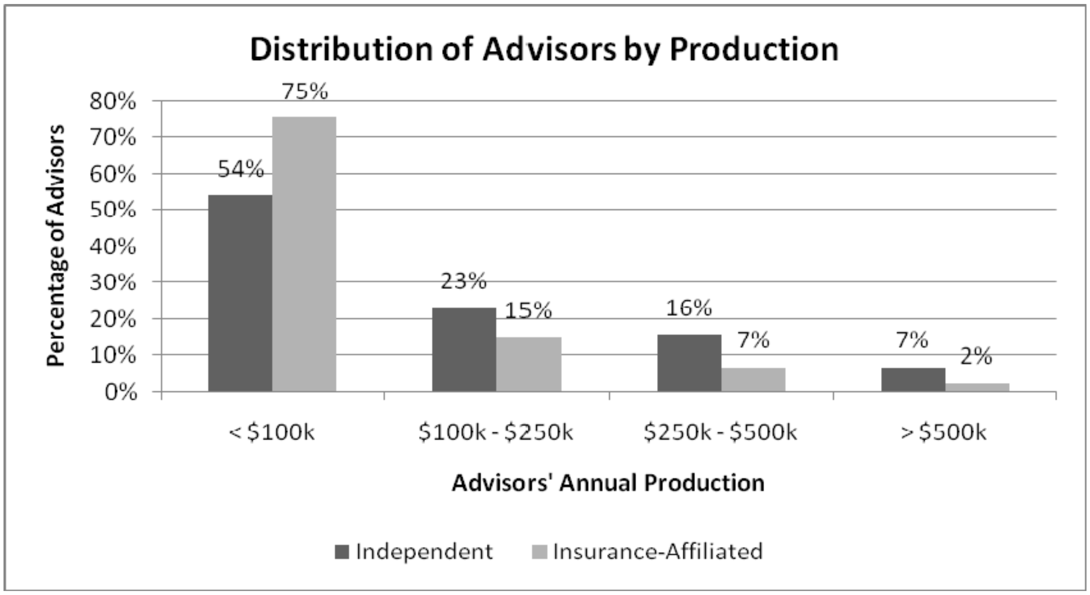
Figure 24: Average Independent Broker-Dealer Profit Margins, 2006–2008



Unlike last year, independent broker-dealers experienced higher overhead expenses compared with their insurance-affiliated counterparts. In 2008, overhead as a percentage of revenue was 20.3% percent for independent firms and 19% for insurance-affiliated firms. For independent broker-dealers, staff salaries were the biggest area of increase for overhead expenses—rising from 6.3% of revenue in 2007 to 8.5% in 2008. Two other areas with significant increases were marketing expenses and depreciation.

In a trend consistent with recent years, advisors that affiliate with independent broker-dealers maintained higher levels of production than those tied to insurance-affiliated broker-dealers. Median revenue per advisor at an independent broker-dealer was $182,321 in 2008. This represented a small increase of about $3,000 from 2007 per capita production. The figure was significantly higher than the 2008 revenue per advisor median for insurance-affiliated firms. Figure 25 further details the differences in production across independent and insurance-affiliated advisor networks.

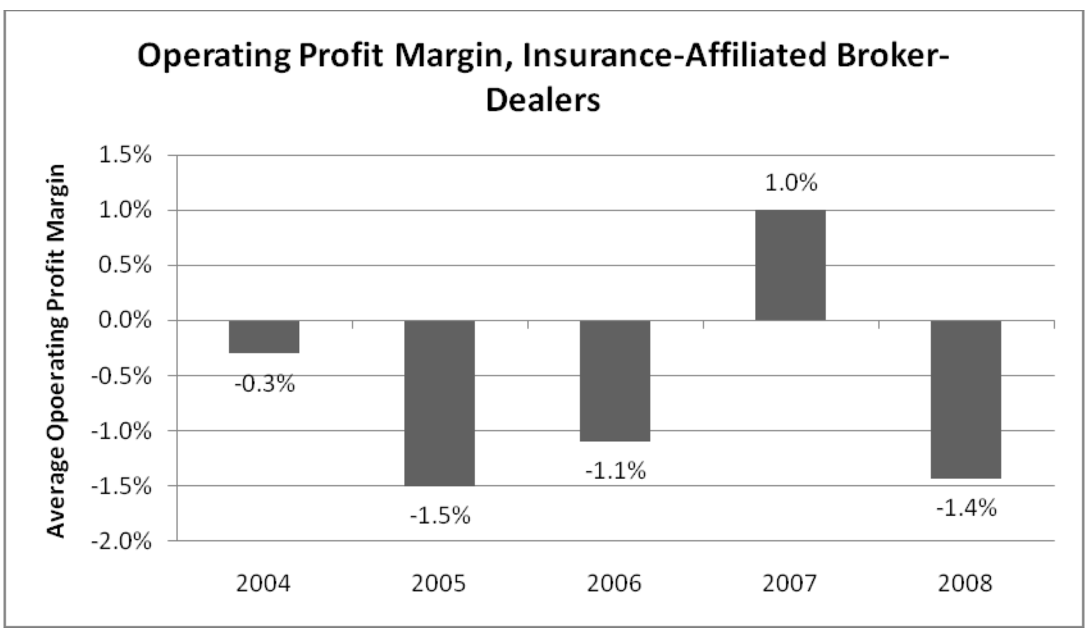
Figure 25: Distribution of Advisors by Production, Independent and Insurance-Affiliated Firms



Insurance-Affiliated Broker-Dealers

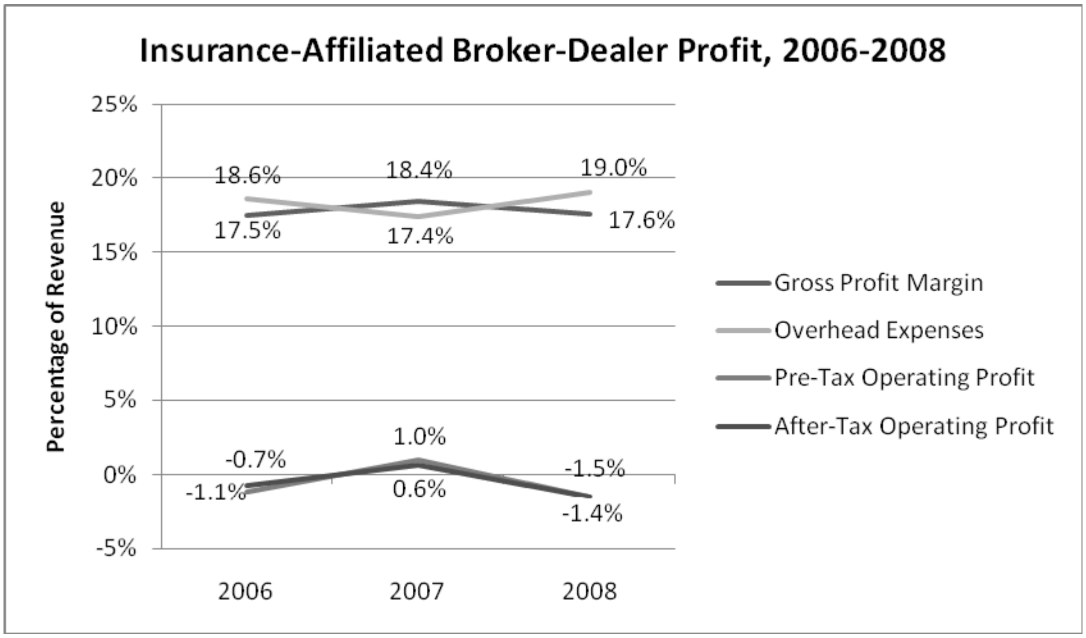
Broker-dealers, operating as a subsidiary of an insurance company, comprised 56% of respondents in this year's study. In 2007, for the first time in recent years, the average insurance-affiliated broker-dealer turned a positive operating profit. As shown in Figure 26, this positive trend was short-lived. Facing a challenging economic climate, insurance-affiliated firms averaged a negative 1.4% profit margin in 2008.

Figure 26: Average Operating Profit Margin for Insurance-Affiliated Broker-Dealers, 2004–2008



In 2008, more than half of insurance-affiliated broker-dealers survey participants (53%) failed to earn a profit. Firms operating at a loss increased from 30% estimated in each of the past two previous years' studies. As Figure 27 displays, higher overhead expenses on top of lower gross profit margins both contributed to the negative pre- and after-tax profit margins experienced by insurance-affiliated broker-dealers in 2008.

Figure 27: Average Insurance-Affiliated Broker-Dealer Profit Margins, 2006–2008



Reader's Guide

Report Organization

The *2009 FSI Broker-Dealer Financial Performance Study* reviews in detail the financial as well as operating practices of FSI broker-dealer members. Results are typically presented by size of firm, type of broker-dealer and profitability. In addition to this reader's guide, there are two other major sections of the report:

- Results Analysis
- Detailed Data Tables

2009 Results Analysis

This summary offers a detailed review and interpretation of the survey findings, including a perspective on this year's trends as they relate to recent history.

Detailed Data Tables

Detailed data tables are presented at the back of this report. These financial and operating statistics begin on Page 31. Survey results are provided based on all participating firms. Additionally, the data is typically broken out by firm profitability, size and ownership type. Figures are provided for a total of up to nine sub-groups in all.

Methodology

Data Collection

Survey data collected from 54 FSI broker-dealer member firms formed the basis for this study. Participation in the study was voluntary and restricted to members of FSI. The survey fielded in 2009, from February 20 to May 11, with firms reporting data as of year-end 2008.

All surveys were submitted directly to FA Insight. All firm-specific information provided is strictly confidential. No persons other than FA Insight project team members were, or will be, granted access to individual company data.

FSI study task force members, representatives from FSI and FA Insight designed the survey form for this year's study. To preserve historical comparability, the survey form borrows heavily from the form developed by FSI and Moss Adams for previous studies.

Data Compilation

The data for each participant was reviewed separately following submission and all ratios were calculated for individual participants. While FA Insight did not verify the accuracy of the information submitted, respondents were frequently contacted to clear up any discrepancies noted in their submission.

A number of participants provided their financial information in the firm's original chart of accounts rather than the one used in the survey form. To make statements comparable across companies, FA Insight translated firms' existing charts of accounts to the survey form's chart of accounts, consulting with participants when clarification was needed.

In order to present on as much of the reported data as possible, compiled data was based on all responses regardless of whether a firm completed all parts of a question. When data groupings yielded fewer than three responses, however, no estimates were published. In these cases "N/A" is used in the data tables to indicate an insufficient sample size.

Common-Sized Financial Statements

Fifty-four broker-dealers completed detailed income statement and balance sheet forms using 2008 financial data. Respondent surveys not containing sufficient detail were excluded from the calculation of the common-sized financial statements. For example, if commission revenue was not detailed by product type, the survey data was not used in calculating the common-sized income statements. To calculate the common-sized financial statements for all respondents, a simple average was used.

Averages, Medians and Quartiles

The bulk of presented data in this report is composed of averages or medians. While averages are often the best representation for the industry or a group as a whole, medians tend to better represent the experience of the typical broker-dealer firm.

The median is the halfway point in a data group, where half the survey results have greater value and half have lesser value. Because extreme outliers in the sample have less influence, medians are more helpful than averages for depicting the typical value in a group of values.

If the group contains an odd number of values, the median is the value precisely in the middle when the values are ranked in order of magnitude. When the group has an even number of values, the median is defined as half the distance between the two values in the middle.

Median ratios are often a common source of confusion. Median revenue per advisor, for example, is correctly calculated by first calculating revenue per advisors for all the firms in the survey. Next, the median is derived from this group of firm ratios. While median revenue for all firms divided into median number of advisors produces a benchmark ratio as well, this calculation cannot be considered a true median.

Quartiles are a natural extension of a median. An upper quartile is used to distinguish a group of high-profit firms in the results analysis and the detailed data tables. The upper-quartile dividing line is a value such that 75% of the values in the sample are below it. Similarly, the lower quartile begins with the value such that 75% of the values in the group are above it.

Reporting Groups

In addition to presenting survey results for all participating broker-dealers, this report groups survey data according to firm profitability, size and ownership. Estimates are provided for a total of nine sub-groups.

Profitability

Results for high-profit firms are distinguished from "all others" based on operating profit margin. High-profit firms are defined as any firm in the top 25% or upper quartile of respondents. For this year's report, respondents with an operating profit margin of 4.47% or higher were designated high-profit. Firms with lower profitability made up the "all other" group.

Firm Size

Participants were grouped by size based on reported 2008 total annual revenue. Revenue categories are as follows: Under $17 million, $17 million to $54 million, $54 million to $100 million, $100 million to $250 million and greater than $250 million. Firms over $250 million in revenue are a new category introduced this year.

Ownership

Respondents were asked whether their firm was independently owned or a subsidiary of a parent organization. The question formed the basis for distinguishing between "Insurance-Affiliated" and "Independent" firms. Note that in previous years' reports, the "Insurance-Affiliated" group included a small share of other parent-owned firms that were not insurance-affiliated. This year, the "Insurance-Affiliated" group only includes those firms owned by an insurance company. The small number of firms in the survey sample not insurance-affiliated but owned by a holding company or parent other than an insurance company are now included in the "Independent" group.

Explanation of Financial Information

Liquidity	Liquidity ratios measure a company's ability to meet its short-term obligations.
Current Ratio *Formula:* *Total Current Assets* */Total Current Liabilities*	The current ratio shows a company's ability to pay obligations due within 12 months with assets that are expected to turn to cash within 12 months. A higher current ratio indicates better liquidity, and a lower current ratio may indicate that the company will have difficulty meeting short-term obligations. The key factors that influence this ratio are accounts receivable, commissions, payables and turnover.

Working Capital *Formula:* *Total Current Assets—* *Total Current Liabilities*	Working capital is the capital a company needs on a day-to-day basis to produce revenue. For a broker-dealer operation, the working capital typically consists of commissions receivable and securities held for resale less the commissions payable to the advisors and the amounts payable to vendors. A high-dollar number for working capital may indicate either very good financial health (if the cash balance is high) or problems with managing the receivables (if the cash balance is low).
Sales-to-Working Capital Ratio *Formula:* *Total Revenue/Working Capital*	The sales-to-working capital ratio measures how much revenue a company produces for a dollar of working capital. The higher the ratio, the more effective the company is in managing its working capital.

Safety	Safety ratios measure a company's ability to withstand adversity.
Debt-to-Equity *Formula:* *Total Liabilities/Total Equity*	Debt-to-equity, also known as leverage or debt-to-net-worth, compares the amount of funds invested by creditors with the amount of funds invested by owners. The higher the debt-to-equity ratio, the more at-risk the business is in the event of an economic downturn. A heavy debt load increases a company's ability to grow during good times; however, a heavy debt load decreases a company's ability to withstand a downturn in profitability. The key factors that influence the debt-to-equity ratio are the company's borrowing, profitability and capital (i.e., sources of funds other than debt).

Profitability	Profitability ratios measure a company's profitability at various levels.
Gross Profit Margin % *Formula:* *(Gross Profit/* *Total Revenue) x 100*	The gross profit margin equals gross profit divided by revenue. It represents the percentage of each revenue dollar available for operating expenses.

Operating Profit Margin % *Formula:* *(Operating Profit/ Total Revenue) x 100*	The operating profit margin is the percentage return on revenue after all operating expenses and before other income and expense.
Pre-Tax Profit Margin % *Formula:* *(Pre-Tax Profit/ Total Revenue) x 100*	The pre-tax profit margin is the percentage profit on revenue after all expenses except income taxes.
Net Profit Margin % *Formula:* *(Net Profit/ Total Revenue) x 100*	The net profit margin is the percentage return on revenue after all expenses, including income taxes.
Employee / Office Productivity	Employee productivity ratios measure a company's employees' productivity using different measures of efficiency.
Revenue per Employee (FTE) *Formula:* *Total Revenue/ Number of full-time equivalent employees*	The revenue per employee provides a measure of the productivity of employees.
Commission per Advisor *Formula:* *Total Commission Revenue/ Number of Advisors*	The commission per advisor measures the productivity of the typical advisor.
Revenue per Advisor *Formula:* *Total Revenue/ Number of Advisors*	The revenue per advisor is another measure of productivity. Compared with commission per advisor, revenue per advisor also includes assets under management and other non-commissionable production.

Commission Analysis	Commission analysis looks at how many times a year commissions are paid, as well as by number of days and what the commission payout percentage is based on, financial statement values for commissions received and commissions paid during the year.
Commission per Transaction *Formula:* *Total Commission Revenue/ Transactions*	The commission per transaction measures the typical dollar amount of commission for every transaction that occurs. Transactions included in the calculation are mail-in, with clearing firm, trails and all other transactions.
Commission Payable Turnover *Formula:* *Commissions Paid/ Commissions Payable*	This is a modified version of accounts payable turnover using commissions paid and total commissions payable at end of the year.
Commission Payable—Days *Formula:* *365/(Commissions Paid/ Commissions Payable)*	The median commission payable in days.
Payout Ratio *Formula:* *Commissions Paid/ Commissions Received*	The payout ratio is simply the ratio of commissions paid to commissions received based on financial statement data.
Cash Flow Analysis	Cash flow analysis looks at a broker-dealer's ability to generate operating cash flow from revenues and profits and the relationship of cash flow to assets and equity. Cash flow is a critical measure of a firm's ability to withstand an economic downturn, as well as measuring debt serviceability.
Cash Conversion Efficiency *Formula:* *Operating Cash Flow/ Total Revenue*	The cash conversion efficiency ratio measures the ability of revenue to generate operating cash flow. It indicates how much operating cash flow each dollar of revenue generates.
Operating Cash Flow to Profit *Formula:* *Operating Cash Flow/ Net Income*	Operating cash flow to profit indicates how much operating cash flow each dollar of profit (net income) generates.

Operating Cash Flow Return on Assets (ROA) *Formula:* *Operating Cash Flow/ Total Assets*	Operating cash flow ROA measures the return on assets generated by operating cash flow.
Operating Cash Flow Return on Equity (ROE) *Formula:* *Operating Cash Flow/ Total Equity*	Operating cash flow ROE measures the return on equity generated by operating cash flow.
Common-Sized Statements	Common-sized financial statements express each account as a percentage of either revenue (for the income statement) or total assets (for the balance sheet). The common-sized statements allow for a consistent comparison between firms and different historic periods and establish a relationship between revenue and expenses or between the items on the balance sheet. The common-sized financial statements for broker-dealers were calculated by taking the average value for all accounts and expressing them as a percentage of the average total.

Common-Sized Income Statements

Common-Sized Income Statement - All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
REVENUES						
Commission Received						
Mutual Funds	$ 52,130,142	26.9%	$ 149,662,366	35.9%	$ 17,993,863	15.6%
Equities	5,209,115	2.7%	10,440,523	2.5%	3,378,122	2.9%
Annuities	4,060,747	2.1%	4,075,414	1.0%	4,055,614	3.5%
Variable Annuities	22,170,277	11.5%	17,459,207	4.2%	23,819,151	20.7%
Bonds	1,286,011	0.7%	2,491,710	0.6%	864,016	0.7%
Life Insurance	12,142,156	6.3%	19,400,225	4.7%	9,601,833	8.3%
Partnerships	3,219,808	1.7%	1,689,483	0.4%	3,755,422	3.3%
Trail Commissions	18,727,782	9.7%	23,132,567	5.5%	17,186,107	14.9%
Other	4,882,205	2.5%	5,913,699	1.4%	4,521,181	3.9%
Total Commission Received	$ 123,828,243	64.0%	$ 234,265,195	56.2%	$ 85,175,310	73.9%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 34,386,757	17.8%	$ 101,475,553	24.3%	$ 10,905,679	9.5%
Broker-Dealer Directed Accounts	2,048,086	1.1%	1,764,550	0.4%	2,147,324	1.9%
Third-Party Directed Accounts	4,049,112	2.1%	9,066,197	2.2%	2,293,133	2.0%
Other	18,951,138	9.8%	54,758,205	13.1%	6,418,665	5.6%
Total Asset Management/Advisory Fees	$ 59,435,094	30.7%	$ 167,064,506	40.1%	$ 21,764,800	18.9%
Other Revenue Paid Out to Advisors	$ 344,546	0.2%	$ 47,391	0.0%	$ 448,551	0.4%
Total Revenue Paid Out	$ 183,607,884	94.9%	$ 401,377,092	96.2%	$ 107,388,661	93.2%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 1,335,426	0.7%	$ 2,788,298	0.7%	$ 826,921	0.7%
Interest and Dividends	1,104,247	0.6%	3,304,325	0.8%	334,220	0.3%
Transfer Fees/Clearing Services	420,728	0.2%	348,009	0.1%	446,180	0.4%
Underwriting	100,438	0.1%	-	0.0%	135,592	0.1%
Net Dealer Inventory Gains	11,803	0.0%	(9,715)	0.0%	19,334	0.0%
Marketing/Due Diligence Fees/Soft Dollars	2,251,338	1.2%	1,965,178	0.5%	2,351,494	2.0%
Other Non-Commissionable Revenue	4,658,878	2.4%	7,299,286	1.8%	3,734,735	3.2%
Total Revenue Not Paid Out	$ 9,882,858	5.1%	$ 15,695,380	3.8%	$ 7,848,475	6.8%
Total Revenue	**$ 193,490,741**	**100.0%**	**$ 417,072,472**	**100.0%**	**$ 115,237,136**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 142,549,680	73.7%	$ 295,929,040	71.0%	$ 88,866,904	77.1%
Clearance Fees	2,699,954	1.4%	6,762,651	1.6%	1,278,010	1.1%
Other	3,455,716	1.8%	818,269	0.2%	4,378,823	3.8%
Total Direct Expense	$ 148,705,351	76.9%	$ 303,509,960	72.8%	$ 94,523,738	82.0%
Gross Profit	**$ 44,785,390**	**23.1%**	**$ 113,562,512**	**27.2%**	**$ 20,713,398**	**18.0%**
OPERATING EXPENSES						
Accounting/Consulting	$ 1,020,340	0.5%	$ 2,828,795	0.7%	$ 387,380	0.3%
Business Property/Casualty Insurance	222,885	0.1%	121,948	0.0%	258,212	0.2%
Business Taxes/Licenses	174,872	0.1%	129,036	0.0%	190,915	0.2%
Computer (hardware, software, maintenance)	1,268,776	0.7%	886,526	0.2%	1,402,563	1.2%
Depreciation Expense	2,132,344	1.1%	7,494,688	1.8%	255,524	0.2%
Equipment Lease	387,082	0.2%	1,376,979	0.3%	40,618	0.0%
Employee Benefits/Insurance/Pension/401k	1,494,005	0.8%	1,278,143	0.3%	1,569,556	1.4%
Legal/Litigation/Customer Settlement	1,204,591	0.6%	271,889	0.1%	1,531,036	1.3%
Marketing Expense	2,898,418	1.5%	9,585,478	2.3%	557,947	0.5%
Office Expense	275,955	0.1%	266,259	0.1%	279,348	0.2%
Parent/Third-Party Administrative Fee	5,042,533	2.6%	7,198,750	1.7%	4,287,857	3.7%
Phone/Fax/Communications	963,803	0.5%	3,119,514	0.7%	209,305	0.2%
Registration Fees	667,471	0.3%	1,970,376	0.5%	211,455	0.2%
Rent and Other Facility Expense	1,793,044	0.9%	4,902,241	1.2%	704,825	0.6%
Salaries/Wages and Payroll Taxes	14,923,408	7.7%	33,347,135	8.0%	8,475,104	7.4%
Travel, Lodging, Meals, and Entertainment	785,455	0.4%	1,430,492	0.3%	559,692	0.5%
Miscellaneous General and Administrative Expense	3,075,573	1.6%	6,984,932	1.7%	1,707,298	1.5%
Total Operating Expense	$ 38,330,555	19.8%	$ 83,193,180	19.9%	$ 22,628,636	19.6%
Operating Profit	**$ 6,454,836**	**3.3%**	**$ 30,369,332**	**7.3%**	**$ (1,915,238)**	**-1.7%**
OTHER INCOME AND EXPENSES						
Other Income	$ 42,534	0.0%	$ 137,865	0.0%	$ 9,169	0.0%
Other Expenses (-)	(121,926)	-0.1%	(268,605)	-0.1%	(70,589)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	(20,950)	0.0%	(55,786)	0.0%	(8,757)	0.0%
Other Interest Expense (-)	(2,154,482)	-1.1%	(8,269,795)	-2.0%	(14,123)	0.0%
Goodwill Amortization (-)	(8,843)	0.0%	-	0.0%	(11,938)	0.0%
Total Other Income and Expenses	$ (2,263,667)	-1.2%	$ (8,456,321)	-2.0%	$ (96,238)	-0.1%
Pre-Tax Profit	**$ 4,191,169**	**2.2%**	**$ 21,913,011**	**5.3%**	**$ (2,011,476)**	**-1.7%**
Income Taxes (-)	$ (2,468,358)	-1.3%	$ (10,157,753)	-2.4%	$ 222,930	0.2%
Net Income	**$ 1,722,810**	**0.9%**	**$ 11,755,258**	**2.8%**	**$ (1,788,547)**	**-1.6%**
Count	54		14		40	

Common-Sized Income Statement - Broker-Dealers by Revenue Size

	Less Than $17M		*$17M - $54M*		*$54M - $100M*	
REVENUES						
Commission Received						
Mutual Funds	$ 1,797,400	20.4%	$ 4,667,648	14.0%	$ 10,337,907	13 9%
Equities	1,013,138	11.5%	1,869,908	5.6%	4,810,523	6 5%
Annuities	176,600	2.0%	706,265	2.1%	2,339,585	3.1%
Variable Annuities	750,855	8.5%	6,533,687	19.6%	15,975,246	21 5%
Bonds	75,154	0.9%	968,488	2.9%	1,070,607	1.4%
Life Insurance	15,777	0.2%	1,662,625	5.0%	3,683,584	5 0%
Partnerships	592,188	6.7%	1,545,816	4 6%	4,778,351	6.4%
Trail Commissions	532,940	6.1%	3,740,710	11 2%	9,098,928	12 2%
Other	162,779	1.8%	3,417,210	10.2%	2,381,274	3 2%
Total Commission Received	$ 5,116,832	58.1%	$ 25,112,357	75.2%	$ 54,476,004	73 2%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 875,258	9.9%	$ 3,648,587	10 9%	$ 5,624,049	7 6%
Broker-Dealer Directed Accounts	570,985	6.5%	557,083	1.7%	1,423,014	1 9%
Third-Party Directed Accounts	1,042,477	11.8%	945,765	2 8%	386,914	0 5%
Other	151,730	1.7%	838,695	2 5%	6,842,950	9 2%
Total Asset Management/Advisory Fees	$ 2,640,450	30.0%	$ 5,990,131	17 9%	$ 14,276,927	19 2%
Other Revenue Paid Out to Advisors	$ 431,352	4.9%	$ 1,005,997	3 0%	$ 312,627	0.4%
Total Revenue Paid Out	$ 8,188,634	93.0%	$ 32,108,485	96 2%	$ 69,065,558	92 9%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 52,306	0.6%	$ 191,353	0 6%	$ 871,203	1 2%
Interest and Dividends	15,211	0.2%	255,505	0 8%	770,142	1 0%
Transfer Fees/Clearing Services	24,404	0.3%	218,100	0.7%	848,948	1.1%
Underwriting	-	0.0%	62,500	0 2%	10,690	0 0%
Net Dealer Inventory Gains	-	0.0%	-	0 0%	109,025	0.1%
Marketing/Due Diligence Fees/Soft Dollars	102,365	1.2%	334,561	1 0%	989,203	1 3%
Other Non-Commissionable Revenue	422,804	4.8%	218,394	0.7%	1,706,762	2 3%
Total Revenue Not Paid Out	$ 617,090	7.0%	$ 1,280,413	3.8%	$ 5,305,973	7.1%
Total Revenue	**$ 8,805,725**	**100.0%**	**$ 33,388,898**	**100.0%**	**$ 74,371,531**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 6,460,838	73.4%	$ 23,191,603	69.5%	$ 57,300,369	77 0%
Clearance Fees	67,724	0.8%	492,481	1.5%	1,239,964	1.7%
Other	297,929	3.4%	2,027,073	6.1%	913,353	1 2%
Total Direct Expense	$ 6,826,491	77.5%	$ 25,711,156	77.0%	$ 59,453,686	79 9%
Gross Profit	**$ 1,979,233**	**22.5%**	**$ 7,677,741**	**23.0%**	**$ 14,917,845**	**20.1%**
OPERATING EXPENSES						
Accounting/Consulting	$ 198,509	2.3%	$ 123,602	0.4%	$ 398,104	0 5%
Business Property/Casualty Insurance	53,193	0.6%	172,117	0.5%	44,604	0.1%
Business Taxes/Licenses	9,301	0.1%	73,033	0 2%	126,630	0 2%
Computer (hardware, software, maintenance)	64,627	0.7%	225,992	0.7%	1,036,843	1.4%
Depreciation Expense	13,662	0.2%	80,538	0 2%	154,863	0 2%
Equipment Lease	3,100	0.0%	53,199	0 2%	77,700	0.1%
Employee Benefits/Insurance/Pension/401k	87,686	1.0%	359,327	1.1%	823,076	1.1%
Legal/Litigation/Customer Settlement	34,545	0.4%	230,827	0.7%	815,234	1.1%
Marketing Expense	43,131	0.5%	150,016	0.4%	611,167	0.8%
Office Expense	26,422	0.3%	106,723	0 3%	236,796	0.3%
Parent/Third-Party Administrative Fee	204,633	2.3%	91,703	0 3%	1,260,131	1.7%
Phone/Fax/Communications	28,255	0.3%	134,433	0.4%	177,045	0.2%
Registration Fees	30,554	0.3%	101,345	0 3%	154,960	0.2%
Rent and Other Facility Expense	61,766	0.7%	301,900	0 9%	465,820	0.6%
Salaries/Wages and Payroll Taxes	879,633	10.0%	3,549,935	10 6%	6,024,636	8.1%
Travel, Lodging, Meals, and Entertainment	31,936	0.4%	195,402	0 6%	360,070	0.5%
Miscellaneous General and Administrative Expense	185,195	2.1%	470,067	1.4%	1,615,549	2.2%
Total Operating Expense	$ 1,956,146	22.2%	$ 6,420,159	19.2%	$ 14,383,227	19 3%
Operating Profit	**$ 23,087**	**0.3%**	**$ 1,257,582**	**3.8%**	**$ 534,618**	**0.7%**
OTHER INCOME AND EXPENSES						
Other Income	$ -	0.0%	$ -	0.0%	$ 26,197	0 0%
Other Expenses (-)	(18,771)	-0.2%	(118,479)	-0.4%	(75,849)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	-	0.0%	-	0.0%	-	0 0%
Other Interest Expense (-)	(620)	0.0%	(13)	0.0%	(6,877)	0 0%
Goodwill Amortization (-)	-	0.0%	(14,993)	0.0%	-	0 0%
Total Other Income and Expenses	$ (19,391)	-0.2%	$ (133,484)	-0.4%	$ (56,529)	-0.1%
Pre-Tax Profit	**$ 3,696**	**0.0%**	**$ 1,124,098**	**3.4%**	**$ 478,089**	**0.6%**
Income Taxes (-)	$ (2,426)	0.0%	$ (189,654)	-0.6%	$ (9,089)	0 0%
Net Income	**$ 1,270**	**0.0%**	**$ 934,445**	**2.8%**	**$ 469,000**	**0.6%**
Count	5		12		14	

Common-Sized Income Statement - Broker-Dealers by Revenue Size

	$100M - $250M		More Than $250M	
REVENUES				
Commission Received				
Mutual Funds	$ 15,343,849	9.8%	$ 220,106,544	34 2%
Equities	2,780,687	1.8%	13,915,643	2 2%
Annuities	4,291,320	2.7%	11,424,740	1 8%
Variable Annuities	32,144,412	20.6%	45,968,187	7.1%
Bonds	1,296,524	0.8%	2,445,472	0.4%
Life Insurance	15,172,741	9.7%	36,545,726	5.7%
Partnerships	2,982,471	1.9%	4,515,667	0.7%
Trail Commissions	24,780,948	15.9%	48,999,148	7 6%
Other	9,061,552	5.8%	7,249,289	1.1%
Total Commission Received	$ 107,854,503	69.0%	$ 391,170,417	60.7%
Asset Management/Advisory Fees				
Advisor Directed Accounts	$ 16,981,905	10.9%	$ 138,746,001	21 5%
Broker-Dealer Directed Accounts	3,284,154	2.1%	3,793,155	0 6%
Third-Party Directed Accounts	10,546,517	6.7%	6,374,136	1 0%
Other	7,217,445	4.6%	75,466,167	11.7%
Total Asset Management/Advisory Fees	$ 38,030,021	24.3%	$ 224,379,458	34 8%
Other Revenue Paid Out to Advisors	$ -	0.0%	$ -	0 0%
Total Revenue Paid Out	$ 145,884,524	93.3%	$ 615,549,875	95 5%
REVENUE NOT PAID OUT TO ADVISORS:				
Fees Charged to Advisors	$ 2,205,566	1.4%	$ 2,808,327	0.4%
Interest and Dividends	477,229	0.3%	3,634,407	0 6%
Transfer Fees/Clearing Services	349,634	0.2%	354,474	0.1%
Underwriting	377,000	0.2%	-	0 0%
Net Dealer Inventory Gains	(74,083)	0.0%	-	0 0%
Marketing/Due Diligence Fees/Soft Dollars	1,887,514	1.2%	7,322,425	1.1%
Other Non-Commissionable Revenue	5,231,226	3.3%	14,561,390	2 3%
Total Revenue Not Paid Out	$ 10,454,086	6.7%	$ 28,681,023	4 5%
Total Revenue	**$ 156,338,610**	**100.0%**	**$ 644,230,899**	**100.0%**
DIRECT EXPENSES				
Commissions Paid	$ 124,180,941	79.4%	$ 463,154,806	71 9%
Clearance Fees	1,442,314	0.9%	9,534,715	1 5%
Other	568,703	0.4%	12,834,799	2 0%
Total Direct Expense	$ 126,191,958	80.7%	$ 485,524,320	75.4%
Gross Profit	**$ 30,146,652**	**19.3%**	**$ 158,706,579**	**24.6%**
OPERATING EXPENSES				
Accounting/Consulting	$ 562,750	0.4%	$ 3,663,284	0 6%
Business Property/Casualty Insurance	102,557	0.1%	713,569	0.1%
Business Taxes/Licenses	305,542	0.2%	280,079	0 0%
Computer (hardware, software, maintenance)	1,755,444	1.1%	2,717,974	0.4%
Depreciation Expense	319,903	0.2%	9,827,719	1 5%
Equipment Lease	35,091	0.0%	1,703,603	0 3%
Employee Benefits/Insurance/Pension/401k	1,392,879	0.9%	4,335,299	0.7%
Legal/Litigation/Customer Settlement	2,347,327	1.5%	2,047,641	0 3%
Marketing Expense	848,105	0.5%	12,342,286	1 9%
Office Expense	412,254	0.3%	475,144	0.1%
Parent/Third-Party Administrative Fee	5,474,229	3.5%	16,985,510	2 6%
Phone/Fax/Communications	202,349	0.1%	4,125,827	0 6%
Registration Fees	253,097	0.2%	2,678,904	0.4%
Rent and Other Facility Expense	864,240	0.6%	6,909,126	1.1%
Salaries/Wages and Payroll Taxes	10,592,049	6.8%	49,765,198	7.7%
Travel, Lodging, Meals, and Entertainment	614,694	0.4%	2,499,342	0.4%
Miscellaneous General and Administrative Expense	1,887,231	1.2%	10,386,339	1 6%
Total Operating Expense	$ 27,969,739	17.9%	$ 131,456,843	20.4%
Operating Profit	**$ 2,176,913**	**1.4%**	**$ 27,249,736**	**4.2%**
OTHER INCOME AND EXPENSES				
Other Income	$ 160,842	0.1%	$ -	0 0%
Other Expenses (-)	(10,474)	0.0%	(352,805)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	(101)	0.0%	(102,734)	0 0%
Other Interest Expense (-)	(17,005)	0.0%	(10,548,951)	-1 6%
Goodwill Amortization (-)	(24,802)	0.0%	-	0 0%
Total Other Income and Expenses	$ 108,462	0.1%	$ (11,004,490)	-1.7%
Pre-Tax Profit	**$ 2,285,374**	**1.5%**	**$ 16,245,246**	**2.5%**
Income Taxes (-)	$ (290,056)	-0.2%	$ (11,581,405)	-1 8%
Net Income	**$ 1,995,318**	**1.3%**	**$ 4,663,841**	**0.7%**
Count	12		11	

Common-Sized Income Statement - Independent and Insurance-Affiliated Broker-Dealers

	Independent		*Insurance-Affliated*	
REVENUES				
Commission Received				
Mutual Funds	$ 87,255,969	33.4%	$ 24,029,480	17.3%
Equities	7,819,413	3 0%	3,120,877	2.2%
Annuities	1,662,582	0 6%	5,979,279	4.3%
Variable Annuities	12,896,369	4 9%	29,589,403	21.3%
Bonds	1,676,563	0 6%	973,570	0.7%
Life Insurance	12,072,214	4 6%	12,198,110	8.8%
Partnerships	3,863,560	1 5%	2,704,807	1.9%
Trail Commissions	13,444,076	5.1%	22,954,746	16.5%
Other	8,207,727	3.1%	2,221,786	1.6%
Total Commission Received	$ 148,898,473	57.0%	$ 103,772,059	74.5%
Asset Management/Advisory Fees				
Advisor Directed Accounts	$ 66,397,990	25.4%	$ 8,777,771	6.3%
Broker-Dealer Directed Accounts	1,486,651	0 6%	2,497,235	1.8%
Third-Party Directed Accounts	4,252,527	1 6%	3,886,381	2.8%
Other	30,350,108	11 6%	9,831,962	7.1%
Total Asset Management/Advisory Fees	$ 102,487,276	39 2%	$ 24,993,348	18.0%
Other Revenue Paid Out to Advisors	$ 234,080	0.1%	$ 432,919	0.3%
Total Revenue Paid Out	$ 251,619,829	96.3%	$ 129,198,327	92.8%
REVENUE NOT PAID OUT TO ADVISORS:				
Fees Charged to Advisors	$ 1,474,863	0 6%	$ 1,223,876	0.9%
Interest and Dividends	1,856,822	0.7%	502,187	0.4%
Transfer Fees/Clearing Services	512,172	0 2%	347,573	0.2%
Underwriting	31,250	0 0%	155,789	0.1%
Net Dealer Inventory Gains	57,931	0 0%	(25,100)	0.0%
Marketing/Due Diligence Fees/Soft Dollars	844,384	0 3%	3,376,901	2.4%
Other Non-Commissionable Revenue	4,937,273	1 9%	4,436,162	3.2%
Total Revenue Not Paid Out	$ 9,714,695	3.7%	$ 10,017,388	7.2%
Total Revenue	**$ 261,334,525**	**100.0%**	**$ 139,215,715**	**100.0%**
DIRECT EXPENSES				
Commissions Paid	$ 180,926,106	69 2%	$ 111,848,540	80.3%
Clearance Fees	4,239,958	1 6%	1,467,952	1.1%
Other	5,993,908	2 3%	1,425,163	1.0%
Total Direct Expense	$ 191,159,971	73.1%	$ 114,741,655	82.4%
Gross Profit	**$ 70,174,553**	**26.9%**	**$ 24,474,060**	**17.6%**
OPERATING EXPENSES				
Accounting/Consulting	$ 1,682,605	0 6%	$ 490,528	0.4%
Business Property/Casualty Insurance	469,550	0 2%	25,552	0.0%
Business Taxes/Licenses	150,660	0.1%	194,242	0.1%
Computer (hardware, software, maintenance)	543,251	0 2%	1,849,195	1.3%
Depreciation Expense	4,659,350	1 8%	110,740	0.1%
Equipment Lease	854,568	0 3%	13,093	0.0%
Employee Benefits/Insurance/Pension/401k	893,634	0 3%	1,974,301	1.4%
Legal/Litigation/Customer Settlement	537,647	0 2%	1,738,146	1.2%
Marketing Expense	5,731,922	2 2%	631,615	0.5%
Office Expense	250,434	0.1%	296,371	0.2%
Parent/Third-Party Administrative Fee	2,370,891	0 9%	7,179,847	5.2%
Phone/Fax/Communications	1,957,574	0.7%	168,787	0.1%
Registration Fees	1,218,288	0 5%	226,818	0.2%
Rent and Other Facility Expense	3,222,157	1 2%	649,753	0.5%
Salaries/Wages and Payroll Taxes	22,277,972	8 5%	9,039,758	6.5%
Travel, Lodging, Meals, and Entertainment	1,042,694	0.4%	579,664	0.4%
Miscellaneous General and Administrative Expense	5,290,697	2 0%	1,303,474	0.9%
Total Operating Expense	$ 53,153,895	20 3%	$ 26,471,883	19.0%
Operating Profit	**$ 17,020,659**	**6.5%**	**$ (1,997,823)**	**-1.4%**
OTHER INCOME AND EXPENSES				
Other Income	$ 84,149	0 0%	$ 9,243	0.0%
Other Expenses (-)	(204,654)	-0.1%	(55,744)	0.0%
Interest on Financing Related to Business Acquisitions (-)	(47,137)	0 0%	-	0.0%
Other Interest Expense (-)	(4,845,053)	-1 9%	(2,025)	0.0%
Goodwill Amortization (-)	-	0 0%	(15,918)	0.0%
Total Other Income and Expenses	$ (5,012,695)	-1 9%	$ (64,444)	0.0%
Pre-Tax Profit	**$ 12,007,964**	**4.6%**	**$ (2,062,267)**	**-1.5%**
Income Taxes (-)	$ (5,609,045)	-2.1%	$ 44,191	0.0%
Net Income	**$ 6,398,918**	**2.4%**	**$ (2,018,076)**	**-1.4%**
Count	24		30	

Common-Sized Income Statement - All Broker-Dealers by Year

	2006		2007		2008	
REVENUES						
Commission Received						
Mutual Funds	$ 20,107,228	18.2%	$ 25,850,360	18 6%	$ 52,130,142	26.9%
Equities	3,367,685	3.0%	4,241,196	3 0%	5,209,115	2.7%
Annuities	3,208,270	2.9%	1,936,268	1.4%	4,060,747	2.1%
Variable Annuities	22,955,401	20.7%	29,683,610	21 3%	22,170,277	11.5%
Bonds	716,091	0.6%	749,047	0 5%	1,286,011	0.7%
Life Insurance	13,078,239	11.8%	11,572,022	8 3%	12,142,156	6.3%
Partnerships	2,685,532	2.4%	5,582,692	4 0%	3,219,808	1.7%
Trail Commissions	17,108,649	15.5%	21,417,976	15.4%	18,727,782	9.7%
Other	1,346,801	1.2%	2,676,591	1 9%	4,882,205	2.5%
Total Commission Received	$ 84,573,897	76.4%	$ 103,709,762	74 6%	$ 123,828,243	64.0%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 4,580,117	4.1%	$ 12,806,584	9 2%	$ 34,386,757	17.8%
Broker-Dealer Directed Accounts	6,878,658	6.2%	2,925,656	2.1%	2,048,086	1.1%
Third-Party Directed Accounts	2,656,257	2.4%	3,844,305	2 8%	4,049,112	2.1%
Other	4,661,278	4.2%	6,086,540	4.4%	18,951,138	9.8%
Total Asset Management/Advisory Fees	$ 18,776,310	17.0%	$ 25,663,085	18 5%	$ 59,435,094	30.7%
Other Revenue Paid Out to Advisors	$ 321,505	0.3%	$ 228,786	0 2%	$ 344,546	0.2%
Total Revenue Paid Out	$ 103,671,713	93.7%	$ 129,601,633	93 2%	$ 183,607,884	94.9%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 478,396	0.4%	$ 958,638	0.7%	$ 1,335,426	0.7%
Interest and Dividends	573,249	0.5%	645,243	0 5%	1,104,247	0.6%
Transfer Fees/Clearing Services	549,345	0.5%	748,222	0 5%	420,728	0.2%
Underwriting	143,498	0.1%	103,508	0.1%	100,438	0.1%
Net Dealer Inventory Gains	56,551	0.1%	111,593	0.1%	11,803	0.0%
Marketing/Due Diligence Fees/Soft Dollars	1,542,214	1.4%	1,962,777	1.4%	2,251,338	1.2%
Other Non-Commissionable Revenue	3,615,878	3.3%	4,951,154	3 6%	4,658,878	2.4%
Total Revenue Not Paid Out	$ 6,959,131	6.3%	$ 9,481,135	6 8%	$ 9,882,858	5.1%
Total Revenue	**$ 110,630,844**	**100.0%**	**$ 139,082,769**	**100.0%**	**$ 193,490,741**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 88,407,285	79.9%	$ 109,425,258	78.7%	$ 142,549,680	73.7%
Clearance Fees	1,239,468	1.1%	1,253,620	0 9%	2,699,954	1.4%
Other	1,033,781	0.9%	3,220,045	2 3%	3,455,716	1.8%
Total Direct Expense	$ 90,680,535	82.0%	$ 113,898,922	81 9%	$ 148,705,351	76.9%
Gross Profit	**$ 19,950,309**	**18.0%**	**$ 25,183,846**	**18.1%**	**$ 44,785,390**	**23.1%**
OPERATING EXPENSES						
Accounting/Consulting	$ 1,207,430	1.1%	$ 1,749,188	1 3%	$ 1,020,340	0.5%
Business Property/Casualty Insurance	156,408	0.1%	171,414	0.1%	222,885	0.1%
Business Taxes/Licenses	100,495	0.1%	107,929	0.1%	174,872	0.1%
Computer (hardware, software, maintenance)	1,375,180	1.2%	1,532,293	1.1%	1,268,776	0.7%
Depreciation Expense	161,856	0.1%	291,299	0 2%	2,132,344	1.1%
Equipment Lease	57,596	0.1%	47,515	0 0%	387,082	0.2%
Employee Benefits/Insurance/Pension/401k	1,504,754	1.4%	1,400,275	1 0%	1,494,005	0.8%
Legal/Litigation/Customer Settlement	-	-	-	-	1,204,591	0.6%
Marketing Expense	471,095	0.4%	672,529	0 5%	2,898,418	1.5%
Office Expense	308,987	0.3%	253,778	0 2%	275,955	0.1%
Parent/Third-Party Administrative Fee	3,350,686	3.0%	3,737,297	2.7%	5,042,533	2.6%
Phone/Fax/Communications	141,273	0.1%	297,510	0 2%	963,803	0.5%
Registration Fees	185,530	0.2%	301,276	0 2%	667,471	0.3%
Rent and Other Facility Expense	470,517	0.4%	658,178	0.5%	1,793,044	0.9%
Salaries/Wages and Payroll Taxes	7,604,900	6.9%	8,561,007	6.2%	14,923,408	7.7%
Travel, Lodging, Meals, and Entertainment	456,034	0.4%	572,976	0.4%	785,455	0.4%
Miscellaneous General and Administrative Expense	1,377,806	1.2%	1,994,800	1.4%	3,075,573	1.6%
Total Operating Expense	$ 18,930,547	17.1%	$ 22,349,264	16.1%	$ 38,330,555	19.8%
Operating Profit	**$ 1,019,762**	**0.9%**	**$ 2,834,582**	**2.0%**	**$ 6,454,836**	**3.3%**
OTHER INCOME AND EXPENSES						
Other Income	$ 551,517	0.5%	$ 38,860	0 0%	$ 42,534	0.0%
Other Expenses (-)	(38,398)	0.0%	(114,011)	-0.1%	(121,926)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	-	0.0%	(194)	0 0%	(20,950)	0.0%
Other Interest Expense (-)	(13,580)	0.0%	(3,182)	0 0%	(2,154,482)	-1.1%
Goodwill Amortization (-)	(3,828)	0.0%	(3,528)	0 0%	(8,843)	0.0%
Total Other Income and Expenses	$ 495,711	0.4%	$ (82,055)	-0.1%	$ (2,263,667)	-1.2%
Pre-Tax Profit	**$ 1,515,473**	**1.4%**	**$ 2,752,528**	**2.0%**	**$ 4,191,169**	**2.2%**
Income Taxes (-)	$ (1,223,173)	-1.1%	$ (1,457,401)	-1 0%	$ (2,468,358)	-1.3%
Net Income	**$ 292,300**	**0.3%**	**$ 1,295,127**	**0.9%**	**$ 1,722,810**	**0.9%**
Count	47		51		54	

Common-Sized Income Statement - Independent Broker-Dealers by Year

	2006		2007		2008	
REVENUES						
Commission Received						
Mutual Funds	$ 9,947,945	12.6%	$ 16,068,728	16 9%	$ 87,255,969	33.4%
Equities	4,970,462	6.3%	5,137,967	5.4%	7,819,413	3.0%
Annuities	1,815,368	2.3%	904,121	0 9%	1,662,582	0.6%
Variable Annuities	12,682,936	16.1%	17,011,141	17 9%	12,896,369	4.9%
Bonds	751,906	1.0%	805,735	0 8%	1,676,563	0.6%
Life Insurance	12,953,210	16.4%	10,811,318	11 3%	12,072,214	4.6%
Partnerships	4,832,296	6.1%	5,585,399	5 9%	3,863,560	1.5%
Trail Commissions	6,087,874	7.7%	7,793,317	8 2%	13,444,076	5.1%
Other	1,816,691	2.3%	2,255,918	2.4%	8,207,727	3.1%
Total Commission Received	$ 55,858,687	70.9%	$ 66,373,643	69.7%	$ 148,898,473	57.0%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 2,791,313	3.5%	$ 13,382,090	14 0%	$ 66,397,990	25.4%
Broker-Dealer Directed Accounts	7,698,232	9.8%	3,959,454	4 2%	1,486,651	0.6%
Third-Party Directed Accounts	4,929,079	6.3%	2,663,330	2 8%	4,252,527	1.6%
Other	2,516,605	3.2%	2,776,943	2 9%	30,350,108	11.6%
Total Asset Management/Advisory Fees	$ 17,935,229	22.8%	$ 22,781,817	23 9%	$ 102,487,276	39.2%
Other Revenue Paid Out to Advisors	$ -	0.0%				
Total Revenue Paid Out	$ 73,793,916	93.6%	$ 89,467,088	93 9%	$ 251,619,829	96.3%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 479,195	0.6%	$ 1,067,510	1.1%	$ 1,474,863	0.6%
Interest and Dividends	674,306	0.9%	469,188	0 5%	1,856,822	0.7%
Transfer Fees/Clearing Services	901,166	1.1%	550,964	0 6%	512,172	0.2%
Underwriting	4,059	0.0%	12,089	0 0%	31,250	0.0%
Net Dealer Inventory Gains	78,768	0.1%	85,936	0.1%	57,931	0.0%
Marketing/Due Diligence Fees/Soft Dollars	1,045,543	1.3%	1,598,534	1.7%	844,384	0.3%
Other Non-Commissionable Revenue	1,844,849	2.3%	2,028,340	2.1%	4,937,273	1.9%
Total Revenue Not Paid Out	$ 5,027,887	6.4%	$ 5,812,561	6.1%	$ 9,714,695	3.7%
Total Revenue	**$ 78,821,803**	**100.0%**	**$ 95,279,649**	**100.0%**	**$ 261,334,525**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 60,846,963	77.2%	$ 77,373,869	81 2%	$ 180,926,106	69.2%
Clearance Fees	1,057,016	1.3%	981,569	1 0%	4,239,958	1.6%
Other	1,510,092	1.9%	449,667	0 5%	5,993,908	2.3%
Total Direct Expense	$ 63,414,070	80.5%	$ 78,805,106	82.7%	$ 191,159,971	73.1%
Gross Profit	**$ 15,407,732**	**19.5%**	**$ 16,474,543**	**17.3%**	**$ 70,174,553**	**26.9%**
OPERATING EXPENSES						
Accounting/Consulting	$ 589,873	0.7%	$ 760,907	0 8%	$ 1,682,605	0.6%
Business Property/Casualty Insurance	132,705	0.2%	82,872	0.1%	469,550	0.2%
Business Taxes/Licenses	111,047	0.1%	99,663	0.1%	150,660	0.1%
Computer (hardware, software, maintenance)	314,046	0.4%	598,007	0 6%	543,251	0.2%
Depreciation Expense	214,376	0.3%	215,993	0 2%	4,659,350	1.8%
Equipment Lease	57,931	0.1%	53,616	0.1%	854,568	0.3%
Employee Benefits/Insurance/Pension/401k	516,361	0.7%	673,377	0.7%	893,634	0.3%
Legal/Litigation/Customer Settlement	-	-	-	-	537,647	0.2%
Marketing Expense	424,560	0.5%	551,966	0 6%	5,731,922	2.2%
Office Expense	218,008	0.3%	229,350	0 2%	250,434	0.1%
Parent/Third-Party Administrative Fee	912,029	1.2%	759,792	0.8%	2,370,891	0.9%
Phone/Fax/Communications	92,326	0.1%	203,396	0 2%	1,957,574	0.7%
Registration Fees	101,809	0.1%	125,126	0.1%	1,218,288	0.5%
Rent and Other Facility Expense	336,734	0.4%	442,915	0 5%	3,222,157	1.2%
Salaries/Wages and Payroll Taxes	4,614,690	5.9%	5,970,981	6 3%	22,277,972	8.5%
Travel, Lodging, Meals, and Entertainment	207,753	0.3%	317,855	0 3%	1,042,694	0.4%
Miscellaneous General and Administrative Expense	1,196,418	1.5%	936,242	1 0%	5,290,697	2.0%
Total Operating Expense	$ 10,040,664	12.7%	$ 12,022,058	12 6%	$ 53,153,895	20.3%
Operating Profit	**$ 5,367,069**	**6.8%**	**$ 4,452,485**	**4.7%**	**$ 17,020,659**	**6.5%**
OTHER INCOME AND EXPENSES						
Other Income	$ 155,273	0.2%	$ 56,929	0.1%	$ 84,149	0.0%
Other Expenses (-)	(46,294)	-0.1%	(169,155)	-0 2%	(204,654)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	-	0.0%	(471)	0 0%	(47,137)	0.0%
Other Interest Expense (-)	(14,019)	0.0%	(6,308)	0 0%	(4,845,053)	-1.9%
Goodwill Amortization (-)	(10,583)	0.0%	-	0 0%	-	0.0%
Total Other Income and Expenses	$ 84,378	0.1%	$ (119,005)	-0.1%	$ (5,012,695)	-1.9%
Pre-Tax Profit	**$ 5,451,446**	**6.9%**	**$ 4,333,480**	**4.5%**	**$ 12,007,964**	**4.6%**
Income Taxes (-)	$ (3,021,882)	-3.8%	$ (2,723,356)	-2 9%	$ (5,609,045)	-2.1%
Net Income	**$ 2,429,564**	**3.1%**	**$ 1,610,123**	**1.7%**	**$ 6,398,918**	**2.4%**
Count	17		21		24	

Common-Sized Income Statement - Insurance-Affiliated Broker-Dealers by Year

	2006		2007		2008	
REVENUES						
Commission Received						
Mutual Funds	$ 25,864,155	20.1%	$ 32,697,502	19 3%	$ 24,029,480	17.3%
Equities	2,459,445	1.9%	3,613,457	2.1%	3,120,877	2.2%
Annuities	3,997,581	3.1%	2,658,770	1 6%	5,979,279	4.3%
Variable Annuities	28,776,464	22.4%	38,554,338	22.7%	29,589,403	21.3%
Bonds	695,797	0.5%	709,365	0.4%	973,570	0.7%
Life Insurance	13,149,090	10.2%	12,104,515	7.1%	12,198,110	8.8%
Partnerships	1,469,033	1.1%	5,580,797	3 3%	2,704,807	1.9%
Trail Commissions	23,353,755	18.2%	30,955,238	18 2%	22,954,746	16.5%
Other	1,080,531	0.8%	2,971,063	1 8%	2,221,786	1.6%
Total Commission Received	$ 100,845,850	78.4%	$ 129,845,045	76 5%	$ 103,772,059	74.5%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 5,593,772	4.3%	$ 12,403,730	7 3%	$ 8,777,771	6.3%
Broker-Dealer Directed Accounts	6,414,233	5.0%	2,201,997	1 3%	2,497,235	1.8%
Third-Party Directed Accounts	1,368,324	1.1%	4,670,987	2 8%	3,886,381	2.8%
Other	5,876,593	4.6%	8,403,258	5 0%	9,831,962	7.1%
Total Asset Management/Advisory Fees	$ 19,252,923	15.0%	$ 27,679,973	16 3%	$ 24,993,348	18.0%
Other Revenue Paid Out to Advisors	$ 503,691	0.4%				
Total Revenue Paid Out	$ 120,602,464	93.7%	$ 157,695,815	92 9%	$ 129,198,327	92.8%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 477,943	0.4%	$ 882,427	0 5%	$ 1,223,876	0.9%
Interest and Dividends	515,984	0.4%	768,481	0 5%	502,187	0.4%
Transfer Fees/Clearing Services	349,980	0.3%	886,303	0.5%	347,573	0.2%
Underwriting	222,513	0.2%	167,502	0.1%	155,789	0.1%
Net Dealer Inventory Gains	43,961	0.0%	129,553	0.1%	(25,100)	0.0%
Marketing/Due Diligence Fees/Soft Dollars	1,823,661	1.4%	2,217,746	1.3%	3,376,901	2.4%
Other Non-Commissionable Revenue	4,619,461	3.6%	6,997,124	4.1%	4,436,162	3.2%
Total Revenue Not Paid Out	$ 8,053,503	6.3%	$ 12,049,137	7.1%	$ 10,017,388	7.2%
Total Revenue	**$ 128,655,967**	**100.0%**	**$ 169,744,952**	**100.0%**	**$ 139,215,715**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 104,024,800	80.9%	$ 131,861,230	77.7%	$ 111,848,540	80.3%
Clearance Fees	1,342,858	1.0%	1,444,056	0 9%	1,467,952	1.1%
Other	763,872	0.6%	5,159,309	3 0%	1,425,163	1.0%
Total Direct Expense	$ 106,131,531	82.5%	$ 138,464,594	81 6%	$ 114,741,655	82.4%
Gross Profit	**$ 22,524,436**	**17.5%**	**$ 31,280,358**	**18.4%**	**$ 24,474,060**	**17.6%**
OPERATING EXPENSES						
Accounting/Consulting	$ 1,557,379	1.2%	$ 2,440,984	1.4%	$ 490,528	0.4%
Business Property/Casualty Insurance	169,839	0.1%	233,393	0.1%	25,552	0.0%
Business Taxes/Licenses	94,516	0.1%	113,714	0.1%	194,242	0.1%
Computer (hardware, software, maintenance)	1,976,490	1.5%	2,186,293	1 3%	1,849,195	1.3%
Depreciation Expense	132,094	0.1%	344,013	0 2%	110,740	0.1%
Equipment Lease	57,406	0.0%	43,245	0 0%	13,093	0.0%
Employee Benefits/Insurance/Pension/401k	2,064,844	1.6%	1,909,104	1.1%	1,974,301	1.4%
Legal/Litigation/Customer Settlement	-	-	-	-	1,738,146	1.2%
Marketing Expense	497,465	0.4%	756,922	0.4%	631,615	0.5%
Office Expense	360,542	0.3%	270,877	0 2%	296,371	0.2%
Parent/Third-Party Administrative Fee	4,732,592	3.7%	5,821,551	3.4%	7,179,847	5.2%
Phone/Fax/Communications	169,010	0.1%	363,390	0.2%	168,787	0.1%
Registration Fees	232,972	0.2%	424,582	0.3%	226,818	0.2%
Rent and Other Facility Expense	546,328	0.4%	808,863	0.5%	649,753	0.5%
Salaries/Wages and Payroll Taxes	9,299,353	7.2%	10,374,025	6.1%	9,039,758	6.5%
Travel, Lodging, Meals, and Entertainment	596,726	0.5%	751,560	0.4%	579,664	0.4%
Miscellaneous General and Administrative Expense	1,480,592	1.2%	2,735,791	1.6%	1,303,474	0.9%
Total Operating Expense	$ 23,968,147	18.6%	$ 29,578,308	17.4%	$ 26,471,883	19.0%
Operating Profit	**$ (1,443,711)**	**-1.1%**	**$ 1,702,050**	**1.0%**	**$ (1,997,823)**	**-1.4%**
OTHER INCOME AND EXPENSES						
Other Income	$ 776,056	0.6%	$ 26,211	0 0%	$ 9,243	0.0%
Other Expenses (-)	(33,924)	0.0%	(75,410)	0 0%	(55,744)	0.0%
Interest on Financing Related to Business Acquisitions (-)	-	0.0%	-	0 0%	-	0.0%
Other Interest Expense (-)	(13,332)	0.0%	(994)	0 0%	(2,025)	0.0%
Goodwill Amortization (-)	-	0.0%	(5,997)	0 0%	(15,918)	0.0%
Total Other Income and Expenses	$ 728,800	0.6%	$ (56,189)	0 0%	$ (64,444)	0.0%
Pre-Tax Profit	**$ (714,911)**	**-0.6%**	**$ 1,645,861**	**1.0%**	**$ (2,062,267)**	**-1.5%**
Income Taxes (-)	$ (203,905)	-0.2%	$ (571,232)	-0 3%	$ 44,191	0.0%
Net Income	**$ (918,816)**	**-0.7%**	**$ 1,074,629**	**0.6%**	**$ (2,018,076)**	**-1.4%**
Count	30		30		30	

Common-Sized Balance Sheet

Common-Sized Balance Sheet - All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
ASSETS						
Cash	$ 14,219,349	14.0%	$ 34,898,189	11 6%	$ 6,981,755	22.5%
Cash Equivalents and Securities	11,985,563	11.8%	32,173,450	10.7%	4,919,802	15.8%
Accounts Receivable	8,754,825	8.6%	26,232,137	8.7%	2,637,766	8.5%
Commissions Receivable	8,565,728	8.5%	25,138,679	8 3%	2,765,196	8.9%
Securities Held for Resale	3,036,068	3.0%	1,937,549	0 6%	3,420,550	11.0%
Prepaid Expenses	529,204	0.5%	718,537	0 2%	462,938	1.5%
Income Tax Receivable	1,055,336	1.0%	2,013,581	0.7%	719,951	2.3%
Other Current Assets	2,653,073	2.6%	6,038,264	2 0%	1,468,256	4.7%
Total Current Assets	**$ 50,799,148**	**50.1%**	**$ 129,150,385**	**42.8%**	**$ 23,376,215**	**75.2%**
Gross Fixed Assets	$ 8,582,306	8.5%	$ 26,716,426	8 8%	$ 2,235,363	7.2%
Less Accumulated Depreciation (-)	**(4,587,282)**	**-4.5%**	**(14,065,358)**	**-4.7%**	**(1,269,955)**	**-4.1%**
Total Net Fixed Assets	$ 3,995,024	3.9%	$ 12,651,068	4 2%	$ 965,409	3.1%
Net Intangible Assets	$ 40,812,125	40.3%	$ 150,911,968	50 0%	$ 2,277,181	7.3%
Other Non-Current Assets	5,688,361	5.6%	9,230,033	3.1%	4,448,776	14.3%
Total Assets	**$ 101,294,659**	**100.0%**	**$ 301,943,454**	**100.0%**	**$ 31,067,580**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 14,839,106	14.6%	$ 52,157,473	17 3%	$ 1,777,678	5.7%
Accounts Payable	3,744,917	3.7%	9,312,581	3.1%	1,796,234	5.8%
Commissions Payable	6,529,422	6.4%	14,973,412	5 0%	3,574,025	11.5%
Current Portion Long-Term Debt	27,692	0.0%	106,811	0 0%	-	0.0%
Deposits	161,569	0.2%	580,317	0 2%	15,008	0.0%
Deferred Revenue	992,073	1.0%	2,929,299	1 0%	314,043	1.0%
Accrued Expenses	1,726,728	1.7%	3,318,232	1.1%	1,169,702	3.8%
Income Taxes Payable	452,316	0.4%	1,474,790	0 5%	94,451	0.3%
Other Current Liabilities	4,735,919	4.7%	11,878,871	3 9%	2,235,885	7.2%
Total Current Liabilities	**$ 33,209,742**	**32.8%**	**$ 96,731,786**	**32.0%**	**$ 10,977,026**	**35.3%**
Long-Term Debt	$ 25,708,517	25.4%	$ 99,114,561	32 8%	$ 16,401	0.1%
Shareholder Debt/Notes Due to Affiliate	1,025,919	1.0%	395,838	0.1%	1,246,447	4.0%
Other Non-Current Liabilities	3,997,160	3.9%	12,337,416	4.1%	1,078,070	3.5%
Total Long-Term Liabilities	**$ 30,731,595**	**30.3%**	**$ 111,847,815**	**37.0%**	**$ 2,340,919**	**7.5%**
Total Liabilities	**$ 63,914,017**	**63.1%**	**$ 208,474,222**	**69.0%**	**$ 13,317,945**	**42.9%**
EQUITY						
Common Stock/Paid-In Surplus	$ 39,503,172	39.0%	$ 62,853,750	20 8%	$ 31,330,470	100.8%
Retained Earnings	(572,958)	-0.6%	30,594,603	10.1%	(11,481,604)	-37.0%
Treasury Stock (-)	(1,546,875)	-1.5%	31,282	0 0%	(2,099,231)	-6.8%
Total Equity	**$ 37,353,321**	**36.9%**	**$ 93,363,853**	**30.9%**	**$ 17,749,635**	**57.1%**
Total Liabilities and Equity	**$ 101,294,659**	**100.0%**	**$ 301,943,454**	**100.0%**	**$ 31,067,580**	**100.0%**
Count	54		14		40	

Common-Sized Balance Sheet - Broker-Dealers by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
ASSETS						
Cash	$ 739,100	48.0%	$ 1,772,469	32.1%	$ 3,418,125	21.2%
Cash Equivalents and Securities	55,000	3.6%	1,583,594	28.7%	3,931,272	24.4%
Accounts Receivable	63,074	4.1%	363,727	6 6%	935,605	5.8%
Commissions Receivable	242,568	15.7%	649,845	11 8%	3,015,321	18.7%
Securities Held for Resale	12,355	0.8%	1,276	0 0%	498,173	3.1%
Prepaid Expenses	102,103	6.6%	139,732	2 5%	283,488	1.8%
Income Tax Receivable	-	0.0%	94,983	1.7%	313,980	2.0%
Other Current Assets	29,371	1.9%	60,841	1.1%	918,536	5.7%
Total Current Assets	**$ 1,243,571**	**80.7%**	**$ 4,666,467**	**84.6%**	**$ 13,314,499**	**82.7%**
Gross Fixed Assets	$ 440,565	28.6%	$ 404,019	7 3%	$ 1,658,697	10.3%
Less Accumulated Depreciation (-)	**(167,402)**	**-10.9%**	**(197,538)**	**-3.6%**	**(1,182,474)**	**-7.3%**
Total Net Fixed Assets	$ 273,163	17.7%	$ 206,481	3.7%	$ 476,224	3.0%
Net Intangible Assets	$ -	0.0%	$ 522,687	9 5%	$ 1,476,313	9.2%
Other Non-Current Assets	23,666	1.5%	118,550	2.1%	828,192	5.1%
Total Assets	**$ 1,540,400**	**100.0%**	**$ 5,514,185**	**100.0%**	**$ 16,095,227**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 27,173	1.8%	$ 10,417	0 2%	$ 50,178	0.3%
Accounts Payable	42,622	2.8%	192,605	3 5%	1,081,592	6.7%
Commissions Payable	304,677	19.8%	992,914	18 0%	2,813,892	17.5%
Current Portion Long-Term Debt	193,482	12.6%	23,003	0.4%	-	0.0%
Deposits	-	0.0%	-	0 0%	-	0.0%
Deferred Revenue	6,800	0.4%	48,881	0 9%	65,423	0.4%
Accrued Expenses	73,052	4.7%	319,618	5 8%	892,280	5.5%
Income Taxes Payable	-	0.0%	172,980	3.1%	107,245	0.7%
Other Current Liabilities	-	0.0%	172,878	3.1%	463,014	2.9%
Total Current Liabilities	**$ 647,806**	**42.1%**	**$ 1,933,295**	**35.1%**	**$ 5,473,624**	**34.0%**
Long-Term Debt	$ -	0.0%	$ -	0 0%	$ 46,861	0.3%
Shareholder Debt/Notes Due to Affiliate	38,072	2.5%	24,333	0.4%	-	0.0%
Other Non-Current Liabilities	1,132	0.1%	15,974	0 3%	549,437	3.4%
Total Long-Term Liabilities	**$ 39,204**	**2.5%**	**$ 40,308**	**0.7%**	**$ 596,297**	**3.7%**
Total Liabilities	**$ 391,951**	**25.4%**	**$ 1,973,603**	**35.8%**	**$ 6,069,921**	**37.7%**
EQUITY						
Common Stock/Paid-In Surplus	$ 2,183,205	141.7%	$ 2,552,481	46 3%	$ 2,861,309	17.8%
Retained Earnings	(1,298,624)	-84.3%	611,566	11.1%	11,334,259	70.4%
Treasury Stock (-)	293,000	19.0%	376,535	6 8%	(4,170,262)	-25.9%
Total Equity	**$ 853,389**	**55.4%**	**$ 3,540,581**	**64.2%**	**$ 10,025,306**	**62.3%**
Total Liabilities and Equity	**$ 1,540,400**	**100.0%**	**$ 5,514,185**	**100.0%**	**$ 16,095,227**	**100.0%**
Count	5		12		14	

Common-Sized Balance Sheet - Broker-Dealers by Revenue Size

	$100M - $250M		More Than $250M	
ASSETS				
Cash	$ 11,304,519	26.6%	$ 50,851,979	12.0%
Cash Equivalents and Securities	8,624,781	20.3%	42,673,372	10.1%
Accounts Receivable	4,000,228	9.4%	36,998,113	8.7%
Commissions Receivable	5,660,536	13.3%	31,217,947	7.4%
Securities Held for Resale	586,515	1.4%	13,623,455	3.2%
Prepaid Expenses	852,176	2.0%	1,108,618	0.3%
Income Tax Receivable	1,126,885	2.7%	3,448,185	0.8%
Other Current Assets	5,842,031	13.8%	5,402,285	1.3%
Total Current Assets	**$ 37,997,671**	**89.5%**	**$ 185,323,953**	**43.7%**
Gross Fixed Assets	$ 2,608,029	6.1%	$ 36,534,122	8.6%
Less Accumulated Depreciation (-)	**(1,392,274)**	**-3.3%**	**(19,203,984)**	**-4.5%**
Total Net Fixed Assets	$ 1,215,755	2.9%	$ 17,330,138	4.1%
Net Intangible Assets	$ 1,262,126	3.0%	$ 196,524,423	46.4%
Other Non-Current Assets	1,959,848	4.6%	24,592,520	5.8%
Total Assets	**$ 42,435,400**	**100.0%**	**$ 423,771,034**	**100.0%**
LIABILITIES				
Notes Payable, Bank	$ 82,449	0.2%	$ 72,669,000	17.1%
Accounts Payable	3,481,415	8.2%	12,980,170	3.1%
Commissions Payable	5,572,733	13.1%	21,171,196	5.0%
Current Portion Long-Term Debt	20,993	0.0%	-	0.0%
Deposits	-	0.0%	793,159	0.2%
Deferred Revenue	229,021	0.5%	4,480,652	1.1%
Accrued Expenses	2,295,654	5.4%	4,454,807	1.1%
Income Taxes Payable	16,401	0.0%	1,877,371	0.4%
Other Current Liabilities	6,623,754	15.6%	15,245,257	3.6%
Total Current Liabilities	**$ 18,322,419**	**43.2%**	**$ 133,671,612**	**31.5%**
Long-Term Debt	$ 829,737	2.0%	$ 125,240,636	29.6%
Shareholder Debt/Notes Due to Affiliate	2,855,122	6.7%	1,877,800	0.4%
Other Non-Current Liabilities	(119,437)	-0.3%	19,035,492	4.5%
Total Long-Term Liabilities	**$ 3,565,422**	**8.4%**	**$ 146,153,928**	**34.5%**
Total Liabilities	**$ 21,887,840**	**51.6%**	**$ 279,825,540**	**66.0%**
EQUITY				
Common Stock/Paid-In Surplus	$ 31,808,147	75.0%	$ 151,806,309	35.8%
Retained Earnings	(10,933,590)	-25.8%	(5,387,447)	-1.3%
Treasury Stock (-)	(326,997)	-0.8%	(2,473,369)	-0.6%
Total Equity	**$ 20,547,560**	**48.4%**	**$ 143,945,493**	**34.0%**
Total Liabilities and Equity	**$ 42,435,400**	**100.0%**	**$ 423,771,034**	**100.0%**
Count	12		11	

Common-Sized Balance Sheet - Independent and Insurance-Affiliated Broker-Dealers

	Independent			Insurance-Affiliated		
ASSETS						
Cash	$	19,240,480	10.9%	$	10,202,445	25.1%
Cash Equivalents and Securities		18,690,952	10.6%		6,621,252	16.3%
Accounts Receivable		16,611,386	9.4%		2,469,576	6.1%
Commissions Receivable		15,317,400	8.7%		3,164,391	7.8%
Securities Held for Resale		989,863	0.6%		4,673,033	11.5%
Prepaid Expenses		496,699	0.3%		555,209	1.4%
Income Tax Receivable		1,165,567	0.7%		967,152	2.4%
Other Current Assets		2,323,549	1.3%		2,916,693	7.2%
Total Current Assets	**$**	**74,835,894**	**42.3%**	**$**	**31,569,750**	**77.5%**
Gross Fixed Assets	$	18,132,762	10.2%	$	941,941	2.3%
Less Accumulated Depreciation (-)		**(9,428,809)**	**-5.3%**		**(714,060)**	**-1.8%**
Total Net Fixed Assets	$	8,703,953	4.9%	$	227,881	0.6%
Net Intangible Assets	$	89,581,799	50.6%	$	1,796,387	4.4%
Other Non-Current Assets		3,892,540	2.2%		7,125,018	17.5%
Total Assets	**$**	**177,014,186**	**100.0%**	**$**	**40,719,037**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$	30,430,854	17.2%	$	2,365,709	5.8%
Accounts Payable		6,004,196	3.4%		1,937,493	4.8%
Commissions Payable		8,827,729	5.0%		4,690,777	11.5%
Current Portion Long-Term Debt		62,307	0.0%		-	0.0%
Deposits		342,698	0.2%		16,667	0.0%
Deferred Revenue		1,740,696	1.0%		393,174	1.0%
Accrued Expenses		2,101,919	1.2%		1,426,575	3.5%
Income Taxes Payable		876,932	0.5%		112,624	0.3%
Other Current Liabilities		4,277,857	2.4%		5,102,368	12.5%
Total Current Liabilities	**$**	**54,665,187**	**30.9%**	**$**	**16,045,386**	**39.4%**
Long-Term Debt	$	57,844,162	32.7%	$	-	0.0%
Shareholder Debt/Notes Due to Affiliate		879,007	0.5%		1,143,449	2.8%
Other Non-Current Liabilities		9,103,465	5.1%		(87,884)	-0.2%
Total Long-Term Liabilities	**$**	**67,826,634**	**38.3%**	**$**	**1,055,565**	**2.6%**
Total Liabilities	**$**	**122,430,350**	**69.2%**	**$**	**17,100,950**	**42.0%**
EQUITY						
Common Stock/Paid-In Surplus	$	32,576,547	18.4%	$	45,044,472	110.6%
Retained Earnings		22,053,633	12.5%		(18,674,230)	-45.9%
Treasury Stock (-)		(40,275)	0.0%		(2,752,156)	-6.8%
Total Equity	**$**	**54,522,365**	**30.8%**	**$**	**23,618,087**	**58.0%**
Total Liabilities and Equity	**$**	**177,014,186**	**100.0%**	**$**	**40,719,037**	**100.0%**
Count		24			30	

Common-Sized Balance Sheet - All Broker-Dealers by Year

	2006		2007		2008	
ASSETS						
Cash	$ 8,035,507	26.5%	$ 11,390,822	27.7%	$ 14,219,349	14.0%
Cash Equivalents and Securities	7,719,861	25.5%	5,988,479	14 6%	11,985,563	11.8%
Accounts Receivable	1,784,493	5.9%	1,851,099	4 5%	8,754,825	8.6%
Commissions Receivable	4,189,120	13.8%	4,912,202	12 0%	8,565,728	8.5%
Securities Held for Resale	229,564	0.8%	1,003,739	2.4%	3,036,068	3.0%
Prepaid Expenses	773,873	2.6%	663,890	1 6%	529,204	0.5%
Income Tax Receivable	701,694	2.3%	702,919	1.7%	1,055,336	1.0%
Other Current Assets	1,675,859	5.5%	1,515,407	3.7%	2,653,073	2.6%
Total Current Assets	**$ 25,109,971**	**82.8%**	**$ 28,028,557**	**68.2%**	**$ 50,799,148**	**50.1%**
Gross Fixed Assets	$ 1,470,197	4.8%	$ 2,338,628	5.7%	$ 8,582,306	8.5%
Less Accumulated Depreciation (-)	**(1,037,799)**	**-3.4%**	**(1,542,554)**	**-3.8%**	**(4,587,282)**	**-4.5%**
Total Net Fixed Assets	$ 432,398	1.4%	$ 816,536	2 0%	$ 3,995,024	3.9%
Net Intangible Assets	$ 685,801	2.3%	$ 5,061,653	12 3%	$ 40,812,125	40.3%
Other Non-Current Assets	4,102,247	13.5%	7,169,426	17 5%	5,688,361	5.6%
Total Assets	**$ 30,330,416**	**100.0%**	**$ 41,076,171**	**100.0%**	**$ 101,294,659**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 318,065	1.0%	$ 336,180	0 8%	$ 14,839,106	14.6%
Accounts Payable	3,190,740	10.5%	2,671,333	6 5%	3,744,917	3.7%
Commissions Payable	4,732,022	15.6%	5,642,504	13.7%	6,529,422	6.4%
Current Portion Long-Term Debt	33,929	0.1%	70,957	0 2%	27,692	0.0%
Deposits	155,682	0.5%	12,966	0 0%	161,569	0.2%
Deferred Revenue	135,994	0.4%	185,372	0 5%	992,073	1.0%
Accrued Expenses	1,655,154	5.5%	2,030,409	4 9%	1,726,728	1.7%
Income Taxes Payable	406,875	1.3%	602,954	1 5%	452,316	0.4%
Other Current Liabilities	2,927,168	9.7%	5,338,702	13 0%	4,735,919	4.7%
Total Current Liabilities	**$ 13,555,628**	**44.7%**	**$ 16,891,377**	**41.1%**	**$ 33,209,742**	**32.8%**
Long-Term Debt	$ 97,207	0.3%	$ 72,972	0 2%	$ 25,708,517	25.4%
Shareholder Debt/Notes Due to Affiliate	1,400,969	4.6%	451,396	1.1%	1,025,919	1.0%
Other Non-Current Liabilities	45,857	0.2%	159,120	0.4%	3,997,160	3.9%
Total Long-Term Liabilities	**$ 1,544,034**	**5.1%**	**$ 683,488**	**1.7%**	**$ 30,731,595**	**30.3%**
Total Liabilities	**$ 15,099,662**	**49.8%**	**$ 17,574,865**	**42.8%**	**$ 63,914,017**	**63.1%**
EQUITY						
Common Stock/Paid-In Surplus	$ 19,278,362	63.6%	$ 31,717,422	77 2%	$ 39,503,172	39.0%
Retained Earnings	(3,984,599)	-13.1%	(8,318,313)	-20 3%	(572,958)	-0.6%
Treasury Stock (-)	(63,006)	-0.2%	102,197	0 2%	(1,546,875)	-1.5%
Total Equity	**$ 15,230,756**	**50.2%**	**$ 23,501,306**	**57.2%**	**$ 37,353,321**	**36.9%**
Total Liabilities and Equity	**$ 30,330,418**	**100.0%**	**$ 41,076,171**	**100.0%**	**$ 101,294,659**	**100.0%**
Count	47		51		54	

Common-Sized Balance Sheet - Independent Broker-Dealers by Year

	2006		*2007*		*2008*	
ASSETS						
Cash	$ 8,656,319	55.8%	$ 9,527,299	53.1%	$ 19,240,480	10.9%
Cash Equivalents and Securities	1,840,281	11.9%	2,161,027	12 0%	18,690,952	10.6%
Accounts Receivable	905,786	5.8%	1,201,459	6.7%	16,611,386	9.4%
Commissions Receivable	2,109,633	13.6%	2,785,920	15 5%	15,317,400	8.7%
Securities Held for Resale	53,722	0.3%	144,246	0 8%	989,863	0.6%
Prepaid Expenses	338,667	2.2%	327,502	1 8%	496,699	0.3%
Income Tax Receivable	52,096	0.3%	118,313	0.7%	1,165,567	0.7%
Other Current Assets	417,713	2.7%	482,988	2.7%	2,323,549	1.3%
Total Current Assets	**$ 14,374,218**	**92.6%**	**$ 16,748,752**	**93.4%**	**$ 74,835,894**	**42.3%**
Gross Fixed Assets	$ 1,177,045	7.6%	$ 995,832	5 6%	$ 18,132,762	10.2%
Less Accumulated Depreciation (-)	**(527,350)**	**-3.4%**	**(394,359)**	**-2.2%**	**(9,428,809)**	**-5.3%**
Total Net Fixed Assets	$ 649,695	4.2%	$ 651,166	3 6%	$ 8,703,953	4.9%
Net Intangible Assets	$ 336,277	2.2%	$ 246,587	1.4%	$ 89,581,799	50.6%
Other Non-Current Assets	164,644	1.1%	295,206	1 6%	3,892,540	2.2%
Total Assets	**$ 15,524,834**	**100.0%**	**$ 17,941,710**	**100.0%**	**$ 177,014,186**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 34,335	0.2%	$ 443,913	2 5%	$ 30,430,854	17.2%
Accounts Payable	4,672,313	30.1%	991,179	5 5%	6,004,196	3.4%
Commissions Payable	2,778,142	17.9%	3,292,088	18 3%	8,827,729	5.0%
Current Portion Long-Term Debt	57,978	0.4%	65,143	0.4%	62,307	0.0%
Deposits	-	0.0%	21,488	0.1%	342,698	0.2%
Deferred Revenue	119,368	0.8%	45,394	0 3%	1,740,696	1.0%
Accrued Expenses	660,565	4.3%	1,011,039	5 6%	2,101,919	1.2%
Income Taxes Payable	7,988	0.1%	57,544	0 3%	876,932	0.5%
Other Current Liabilities	284,114	1.8%	4,066,680	22.7%	4,277,857	2.4%
Total Current Liabilities	**$ 8,614,804**	**55.5%**	**$ 9,994,469**	**55.7%**	**$ 54,665,187**	**30.9%**
Long-Term Debt	$ 268,750	1.7%	$ 174,333	1 0%	$ 57,844,162	32.7%
Shareholder Debt/Notes Due to Affiliate	-	0.0%	26,554	0.1%	879,007	0.5%
Other Non-Current Liabilities	-	0.0%	8,516	0 0%	9,103,465	5.1%
Total Long-Term Liabilities	**$ 268,750**	**1.7%**	**$ 209,402**	**1.2%**	**$ 67,826,634**	**38.3%**
Total Liabilities	**$ 8,883,554**	**57.2%**	**$ 10,203,871**	**56.9%**	**$ 122,430,350**	**69.2%**
EQUITY						
Common Stock/Paid-In Surplus	$ 551,675	3.6%	$ 3,693,865	20 6%	$ 32,576,547	18.4%
Retained Earnings	6,266,739	40.4%	3,879,303	21 6%	22,053,633	12.5%
Treasury Stock (-)	(177,134)	-1.1%	164,672	0 9%	(40,275)	0.0%
Total Equity	**$ 6,641,280**	**42.8%**	**$ 7,737,839**	**43.1%**	**$ 54,522,365**	**30.8%**
Total Liabilities and Equity	**$ 15,524,834**	**100.0%**	**$ 17,941,710**	**100.0%**	**$ 177,014,186**	**100.0%**
Count	17		21		24	

Common-Sized Balance Sheet - Insurance-Affiliated Broker-Dealers by Year

	2006		2007		2008	
ASSETS						
Cash	$ 7,683,713	19.8%	$ 12,695,288	22 2%	$ 10,202,445	25.1%
Cash Equivalents and Securities	11,051,623	28.5%	8,667,696	15.1%	6,621,252	16.3%
Accounts Receivable	2,282,426	5.9%	2,305,847	4 0%	2,469,576	6.1%
Commissions Receivable	5,367,496	13.9%	6,400,599	11 2%	3,164,391	7.8%
Securities Held for Resale	329,207	0.9%	1,605,385	2 8%	4,673,033	11.5%
Prepaid Expenses	1,020,489	2.6%	899,362	1 6%	555,209	1.4%
Income Tax Receivable	1,069,800	2.8%	1,112,144	1 9%	967,152	2.4%
Other Current Assets	2,388,809	6.2%	2,238,101	3 9%	2,916,693	7.2%
Total Current Assets	**$ 31,193,564**	**80.6%**	**$ 35,924,421**	**62.7%**	**$ 31,569,750**	**77.5%**
Gross Fixed Assets	$ 1,636,315	4.2%	$ 3,278,586	5.7%	$ 941,941	2.3%
Less Accumulated Depreciation (-)	**(1,327,053)**	**-3.4%**	**(2,346,291)**	**-4.1%**	**(714,060)**	**-1.8%**
Total Net Fixed Assets	$ 309,262	0.8%	$ 932,295	1 6%	$ 227,881	0.6%
Net Intangible Assets	$ 883,864	2.3%	$ 8,432,199	14.7%	$ 1,796,387	4.4%
Other Non-Current Assets	6,333,555	16.4%	11,981,379	20 9%	7,125,018	17.5%
Total Assets	**$ 38,720,246**	**100.0%**	**$ 57,270,294**	**100.0%**	**$ 40,719,037**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 478,845	1.2%	$ 260,767	0 5%	$ 2,365,709	5.8%
Accounts Payable	2,351,182	6.1%	3,847,440	6.7%	1,937,493	4.8%
Commissions Payable	5,839,221	15.1%	7,287,796	12.7%	4,690,777	11.5%
Current Portion Long-Term Debt	20,301	0.1%	75,026	0.1%	-	0.0%
Deposits	243,902	0.6%	7,000	0 0%	16,667	0.0%
Deferred Revenue	145,415	0.4%	283,357	0 5%	393,174	1.0%
Accrued Expenses	2,218,755	5.7%	2,743,968	4 8%	1,426,575	3.5%
Income Taxes Payable	632,911	1.6%	984,741	1.7%	112,624	0.3%
Other Current Liabilities	4,424,898	11.4%	6,229,117	10 9%	5,102,368	12.5%
Total Current Liabilities	**$ 16,355,429**	**42.2%**	**$ 21,719,212**	**37.9%**	**$ 16,045,386**	**39.4%**
Long-Term Debt	$ -	0.0%	$ 2,019	0 0%	$ -	0.0%
Shareholder Debt/Notes Due to Affiliate	2,194,852	5.7%	748,786	1 3%	1,143,449	2.8%
Other Non-Current Liabilities	71,843	0.2%	264,543	0 5%	(87,884)	-0.2%
Total Long-Term Liabilities	**$ 2,266,694**	**5.9%**	**$ 1,015,348**	**1.8%**	**$ 1,055,565**	**2.6%**
Total Liabilities	**$ 18,622,123**	**48.1%**	**$ 22,734,561**	**39.7%**	**$ 17,100,950**	**42.0%**
EQUITY						
Common Stock/Paid-In Surplus	$ 29,890,151	77.2%	$ 51,333,913	89 6%	$ 45,044,472	110.6%
Retained Earnings	(9,793,691)	-25.3%	(16,856,644)	-29.4%	(18,674,230)	-45.9%
Treasury Stock (-)	1,667	0.0%	58,465	0.1%	(2,752,156)	-6.8%
Total Equity	**$ 20,098,126**	**51.9%**	**$ 34,535,733**	**60.3%**	**$ 23,618,087**	**58.0%**
Total Liabilities and Equity	**$ 38,720,249**	**100.0%**	**$ 57,270,294**	**100.0%**	**$ 40,719,037**	**100.0%**
Count	30		30		30	

Staffing

Number of Employees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category						
Administration/Operations	95	25	232	80	47	24
Commissions/Accounting	13	8	24	13	10	7
Compliance/Licensing	27	14	45	23	21	13
Due Diligence	4	1	10	1	2	1
Executive Management	6	5	13	6	4	4
Life Insurance	2	0	5	1	1	0
Marketing Department (except recruiting)	11	5	20	6	8	5
MIS Department	30	4	77	14	13	3
Recruiting	6	3	8	6	5	2
Trading Room	7	5	10	5	6	4
Total Employees	**201**	**84**	**444**	**209**	**116**	**76**

Number of Employees
Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category						
Administration/Operations	4	3	11	9	40	24
Commissions/Accounting	2	2	5	3	9	8
Compliance/Licensing	3	2	7	7	14	14
Due Diligence	0	0	2	1	3	2
Executive Management	2	1	4	5	5	5
Life Insurance	0	0	0	0	3	0
Marketing Department (except recruiting)	1	2	4	2	8	6
MIS Department	1	1	2	1	14	6
Recruiting	1	0	2	1	4	4
Trading Room	1	1	3	3	8	6
Total Employees	**15**	**15**	**41**	**36**	**108**	**76**

Number of Employees
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category				
Administration/Operations	65	57	329	121
Commissions/Accounting	13	14	34	21
Compliance/Licensing	28	23	74	39
Due Diligence	1	1	14	2
Executive Management	5	5	14	5
Life Insurance	2	0	5	0
Marketing Department (except recruiting)	12	8	26	22
MIS Department	9	5	115	35
Recruiting	5	4	15	7
Trading Room	8	6	14	9
Total Employees	**147**	**125**	**639**	**293**

Number of Employees

Independent and Insurance-Affiliated Broker-Dealers

	Independent		Insurance-Affiliated	
	Average	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category				
Administration/Operations	152	22	49	31
Commissions/Accounting	17	8	10	9
Compliance/Licensing	31	10	23	16
Due Diligence	7	1	2	1
Executive Management	10	5	4	4
Life Insurance	5	1	0	0
Marketing Department (except recruiting)	14	5	9	6
MIS Department	53	6	11	3
Recruiting	7	2	5	3
Trading Room	8	5	7	4
Total Employees	**304**	**78**	**120**	**92**

Financial and Operating Ratios

Financial and Operational Ratios - All, High-Profit, and Non-High-Profit Broker-Dealers by Year

Median Values	*All Broker-Dealers*		*High-Profit: Top 25%*		*Non-High-Profit*	
	2007	2008	2007	2008	2007	2008
Liquidity						
Current Ratio	1.85	2.13	1.96	1.96	1.83	2.23
Safety						
Debt to Equity	0.89	0.82	0.78	0.98	0.91	0.80
Working Capital						
Sales to Working Capital	12.68	10.69	5.25	10.70	14.81	10.54
Working Capital ($)	$5,646,465	$8,424,333	$9,715,157	$13,433,876	$4,530,837	$6,664,556
*Profitability**						
Gross Profit	17.8%	19.4%	24.0%	31.4%	17.1%	19.0%
Operating Profit	2.8%	2.1%	8.1%	7.5%	1.7%	0.2%
Pre-Tax Profit	2.7%	1.8%	8.1%	7.7%	1.4%	0.2%
Net Profit	1.8%	1.1%	7.4%	5.6%	0.9%	0.1%
Employee/Office Productivity						
Revenue per Employee (FTE)	$1,055,509	$952,518	$1,052,985	$929,518	$1,056,426	$994,657
Revenue per Advisor	$133,030	$130,864	$204,303	$152,726	$125,481	$121,401
Commission per Advisor	$105,652	$94,414	$114,252	$96,733	$105,652	$92,500
Commission Analysis						
Commission Payable Turnover	20.28	21.88	17.41	19.45	20.58	23.45
Commission Payable - Days	18	17	21	19	18	16
Payout Ratio *	81.3%	77.3%	76.0%	67.5%	81.8%	79.7%
Cash Flow Analysis						
Cash Conversion Efficiency	2.8%	2.1%	8.3%	9.1%	1.9%	0.4%
Operating Cash Flow to Profit	120.7%	145.8%	103.9%	136.0%	147.1%	145.8%
Operating Cash Flow ROA	15.2%	11.1%	33.2%	35.4%	9.9%	2.6%
Operating Cash Flow ROE	28.0%	19.0%	70.8%	69.8%	18.0%	4.7%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - Broker-Dealers by Revenue Size and Year

Median Values	Less Than $17M		$17M - $54M		$54M - $100M	
	2007	2008	2007	2008	2007	2008
Liquidity						
Current Ratio	3.13	2.73	1.82	2.12	1.90	2.45
Safety						
Debt to Equity	0.47	0.68	0.73	0.76	0.98	0.69
Working Capital						
Sales to Working Capital	8.99	11.20	17.08	14.35	13.64	8.61
Working Capital ($)	$623,340	$493,066	$1,803,000	$1,941,601	$4,530,837	$6,219,562
*Profitability**						
Gross Profit	25.0%	20.4%	19.0%	21.5%	18.0%	18.1%
Operating Profit	4.8%	-0.4%	2.2%	2.3%	3.5%	1.6%
Pre-Tax Profit	4.8%	-0.5%	2.2%	2.0%	3.3%	1.6%
Net Profit	4.7%	-0.4%	2.2%	1.4%	2.4%	1.3%
Employee/Office Productivity						
Revenue per Employee (FTE)	$502,755	$556,797	$803,424	$972,532	$1,147,957	$973,587
Revenue per Advisor	$188,123	$105,618	$123,599	$130,905	$186,885	$166,945
Commission per Advisor	$105,432	$81,539	$106,679	$100,760	$127,766	$106,285
Commission Analysis						
Commission Payable Turnover	35.07	19.48	19.91	22.13	22.56	22.31
Commission Payable - Days	12	19	18	17	16	16
Payout Ratio *	74.1%	79.6%	80.7%	74.6%	79.9%	78.3%
Cash Flow Analysis						
Cash Conversion Efficiency	5.2%	-0.2%	2.2%	2.4%	3.6%	1.6%
Operating Cash Flow to Profit	105.3%	95.2%	115.8%	149.2%	124.6%	111.4%
Operating Cash Flow ROA	33.3%	-1.1%	21.4%	13.9%	21.3%	11.5%
Operating Cash Flow ROE	40.3%	-2.0%	43.8%	21.1%	50.8%	18.1%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - Broker-Dealers by Revenue Size and Year

Median Values	*$100M - $250M*		*More Than $250M*	
	2007	*2008*	*2007***	*2008*
Liquidity				
Current Ratio	1.79	2.04	1.79	1.89
Safety				
Debt to Equity	0.98	1.09	0.98	0.78
Working Capital				
Sales to Working Capital	12.40	7.68	12.40	11.85
Working Capital ($)	$15,674,973	$14,231,457	$15,674,973	$34,152,627
*Profitability**				
Gross Profit	16.8%	18.1%	16.8%	19.4%
Operating Profit	2.3%	0.6%	2.3%	3.1%
Pre-Tax Profit	1.8%	0.6%	1.8%	2.9%
Net Profit	1.0%	0.2%	1.0%	1.2%
Employee/Office Productivity				
Revenue per Employee (FTE)	$1,165,668	$1,032,204	$1,165,668	$1,129,395
Revenue per Advisor	$121,007	$118,890	$121,007	$122,153
Commission per Advisor	$94,605	$78,607	$94,605	$94,693
Commission Analysis				
Commission Payable Turnover	18.61	22.98	18.61	21.25
Commission Payable - Days	20	16	20	17
Payout Ratio *	82.3%	80.7%	82.3%	76.2%
Cash Flow Analysis				
Cash Conversion Efficiency	2.5%	0.6%	2.5%	4.3%
Operating Cash Flow to Profit	146.9%	150.0%	146.9%	147.7%
Operating Cash Flow ROA	10.8%	5.4%	10.8%	9.2%
Operating Cash Flow ROE	17.4%	6.9%	17.4%	17.5%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized*

** Data from 2007 "More Than $100M" was used since the "More Than $250M" category is new for 2008

Financial and Operational Ratios - Independent and Insurance-Affiliated Broker-Dealers by Year

Median Values	*Independent*		*Insurance-Affiliated*	
	2007	2008	2007	2008
Liquidity				
Current Ratio	1.96	2.13	1.81	2.08
Safety				
Debt to Equity	0.97	0.82	0.81	0.74
Working Capital				
Sales to Working Capital	15.04	11.69	9.62	8.96
Working Capital ($)	$4,626,300	$4,861,891	$6,736,115	$10,554,818
*Profitability**				
Gross Profit	17.9%	21.0%	17.6%	16.7%
Operating Profit	3.2%	4.1%	2.0%	-0.8%
Pre-Tax Profit	2.7%	3.0%	2.0%	-0.8%
Net Profit	1.9%	2.5%	1.5%	-0.6%
Employee/Office Productivity				
Revenue per Employee (FTE)	$1,122,447	$933,565	$1,045,147	$996,182
Revenue per Advisor	$179,611	$182,321	$111,844	$98,953
Commission per Advisor	$125,515	$113,244	$94,605	$80,691
Commission Analysis				
Commission Payable Turnover	22.09	21.47	18.61	22.39
Commission Payable - Days	17	17	20	16
Payout Ratio*	81.3%	75.0%	81.2%	80.1%
Cash Flow Analysis				
Cash Conversion Efficiency	3.4%	4.6%	2.0%	-0.7%
Operating Cash Flow to Profit	122.1%	118.1%	119.4%	145.8%
Operating Cash Flow ROA	22.5%	20.5%	10.6%	-4.8%
Operating Cash Flow ROE	55.7%	40.1%	17.4%	-9.6%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - All Broker-Dealers by Year

Median Values	***2005***	***2006***	***2007***	***2008***
Liquidity				
Current Ratio	2.05	2.00	1.85	2.13
Safety				
Debt to Equity	0.88	0.99	0.89	0.82
Working Capital				
Sales to Working Capital	14.13	10.93	12.68	10.69
Working Capital ($)	$5,995,446	$5,157,275	$5,646,465	$8,424,333
*Profitability**				
Gross Profit	17.5%	17.3%	17.8%	19.4%
Operating Profit	2.1%	2.2%	2.8%	2.1%
Pre-Tax Profit	2.1%	2.2%	2.7%	1.8%
Net Profit	1.5%	1.8%	1.8%	1.1%
Employee/Office Productivity				
Revenue per Employee (FTE)	$933,593	$1,158,096	$1,055,509	$952,518
Revenue per Advisor	$108,733	$126,527	$133,030	$130,864
Commission per Advisor	$83,057	$93,188	$105,652	$94,414
Commission Analysis				
Commission Payable Turnover	21.92	19.90	20.28	21.88
Commission Payable - Days	16	18	18	17
Payout Ratio *	79.2%	79.7%	81.3%	77.3%
Cash Flow Analysis				
Cash Conversion Efficiency	2.1%	2.3%	2.8%	2.1%
Operating Cash Flow to Profit	125.2%	114.3%	120.7%	145.8%
Operating Cash Flow ROA	8.7%	13.0%	15.2%	11.1%
Operating Cash Flow ROE	16.3%	22.7%	28.0%	19.0%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Advisor Network by Production

Advisor Network by Production

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
	Average	Median	Average	Median	Average	Median
Total Number of Advisors	4,108	713	2,136	1,459	4,797	658
Total Number of OSJs	159	49	409	13	71	54
Advisors Producing in a Range as a Percentage of All Advisors in the Network						
$0 - $25,000	37.3%		39.3%		36.6%	
$25,001 - $50,000	13 0%		11.7%		13.4%	
$50,001 - $75,000	8.8%		7.6%		9.2%	
$75,001 - $100,000	6.9%		6.5%		7.0%	
$100,001 - $150,000	9.2%		8.9%		9.4%	
$150,001 - $250,000	9.5%		10.0%		9.3%	
$250,001 - $350,000	6.7%		5.4%		7.2%	
$350,001 - $500,000	4.1%		4.5%		4.0%	
$500,001 - $750,000	2.5%		3.3%		2.2%	
$750,000 - $1,000,000	1.0%		1.4%		0.9%	
Greater than $1,000,000	1.0%		1.5%		0.8%	

Advisor Network by Production

Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
	Average	Median	Average	Median	Average	Median
Total Number of Advisors	147	71	991	308	592	424
Total Number of OSJs	15	7	42	15	44	43
Advisors Producing in a Range as a Percent of All Advisors in the Network						
$0 - $25,000	44.6%		38.5%		27.3%	
$25,001 - $50,000	10.8%		11.0%		15.3%	
$50,001 - $75,000	7.8%		8.1%		11.2%	
$75,001 - $100,000	5.9%		8 0%		8.3%	
$100,001 - $150,000	9.0%		9.4%		11.1%	
$150,001 - $250,000	10.5%		8 3%		11.7%	
$250,001 - $350,000	2.8%		6 2%		5.3%	
$350,001 - $500,000	5.0%		4.7%		4.9%	
$500,001 - $750,000	1.8%		2 9%		2.9%	
$750,000 - $1,000,000	0.9%		1.7%		1.0%	
Greater than $1,000,000	1.1%		1 2%		1.0%	

Advisor Network by Production
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	*Median*	*Average*	*Median*
Total Number of Advisors	1,849	1,365	16,246	3,083
Total Number of OSJs	89	64	573	114
Advisors Producing in a Range as a Percent of All Advisors in the Network				
$0 - $25,000	45.9%		36.1%	
$25,001 - $50,000	14.0%		12.0%	
$50,001 - $75,000	8.4%		7.3%	
$75,001 - $100,000	5.6%		5.8%	
$100,001 - $150,000	7.6%		8.6%	
$150,001 - $250,000	8.3%		8.9%	
$250,001 - $350,000	4.3%		13.6%	
$350,001 - $500,000	2.9%		3.5%	
$500,001 - $750,000	1.9%		2.4%	
$750,000 - $1,000,000	0.5%		0.8%	
Greater than $1,000,000	0.6%		1.1%	

Advisor Network by Production
Independent and Insurance-Affiliated Broker-Dealers

	Independent		Insurance-Affiliated	
	Average	*Median*	*Average*	*Median*
Total Number of Advisors	6,949	336	1,834	1,067
Total Number of OSJs	274	18	66	59
Advisors Producing in a Range as a Percent of All Advisors in the Network				
$0 - $25,000	26.0%		46.4%	
$25,001 - $50,000	11.5%		14.1%	
$50,001 - $75,000	8.8%		8.8%	
$75,001 - $100,000	7.8%		6.2%	
$100,001 - $150,000	10.8%		8.0%	
$150,001 - $250,000	12.4%		7.2%	
$250,001 - $350,000	10.3%		3.9%	
$350,001 - $500,000	5.5%		3.0%	
$500,001 - $750,000	3.7%		1.5%	
$750,000 - $1,000,000	1.5%		0.6%	
Greater than $1,000,000	1.7%		0.4%	

Advisor Payout by Production

Advisor Payout Percentage by Production

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers			*High-Profit: Top 25%*			*Non-High-Profit*		
	Lower Quartile	*Median*	*Upper Quartile*	*Lower Quartile*	*Median*	*Upper Quartile*	*Lower Quartile*	*Median*	*Upper Quartile*
Advisors' Payout for Producing the Following Amount									
$25,000	55%	69%	75%	70%	74%	89%	55%	65%	73%
$50,000	65%	75%	81%	70%	86%	89%	60%	73%	80%
$75,000	70%	75%	85%	76%	86%	89%	70%	75%	80%
$100,000	75%	80%	88%	80%	84%	90%	75%	80%	85%
$150,000	79%	85%	88%	85%	86%	90%	75%	85%	88%
$250,000	84%	88%	90%	88%	90%	90%	80%	87%	90%
$350,000	85%	90%	90%	89%	90%	91%	83%	88%	90%
$500,000	87%	90%	91%	90%	90%	91%	85%	90%	90%
$750,000	87%	90%	91%	90%	90%	92%	85%	90%	90%
$1,000,000	87%	90%	92%	90%	91%	93%	85%	90%	92%
Percentage of Firms Offering Production Bonuses to Branch Offices		44%			64%			38%	

Advisor Payout Percentage by Production

Independent Broker-Dealer by Revenue Size

	Less Than $17M			*$17M - $54M*			*$54M - $100M*		
	Lower Quartile	*Median*	*Upper Quartile*	*Lower Quartile*	*Median*	*Upper Quartile*	*Lower Quartile*	*Median*	*Upper Quartile*
Advisors' Payout for Producing the Following Amount									
$25,000	N/A	N/A	N/A	55%	65%	72%	53%	70%	84%
$50,000	N/A	N/A	N/A	73%	80%	83%	55%	70%	84%
$75,000	N/A	N/A	N/A	75%	85%	86%	55%	70%	84%
$100,000	N/A	N/A	N/A	78%	84%	90%	70%	83%	88%
$150,000	N/A	N/A	N/A	85%	88%	90%	70%	83%	88%
$250,000	N/A	N/A	N/A	86%	90%	90%	74%	88%	92%
$350,000	N/A	N/A	N/A	87%	90%	90%	75%	89%	92%
$500,000	N/A	N/A	N/A	90%	90%	91%	78%	90%	92%
$750,000	N/A	N/A	N/A	90%	90%	92%	78%	91%	93%
$1,000,000	N/A	N/A	N/A	91%	91%	93%	79%	92%	93%
Percentage of Firms Offering Production Bonuses to Branch Offices		33%			57%			17%	

Advisor Payout Percentage by Production

Independent Broker-Dealer by Revenue Size

	$100M - $250M			More Than $250M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount						
$25,000	59%	63%	66%	84%	90%	91%
$50,000	69%	74%	78%	84%	90%	91%
$75,000	74%	78%	81%	87%	90%	91%
$100,000	81%	83%	84%	87%	90%	91%
$150,000	85%	85%	86%	88%	90%	91%
$250,000	89%	90%	90%	90%	91%	92%
$350,000	89%	90%	90%	91%	91%	92%
$500,000	89%	90%	90%	91%	92%	92%
$750,000	90%	90%	90%	91%	93%	93%
$1,000,000	91%	91%	91%	92%	93%	93%
Percentage of Firms Offering Production Bonuses to Branch Offices		67%			80%	

Advisor Payout Percentage by Production

Insurance-Affiliated Broker-Dealer by Revenue Size

	Less Than $17M			$17M - $54M			$54M - $100M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount									
$25,000	N/A	N/A	N/A	63%	70%	73%	52%	65%	69%
$50,000	N/A	N/A	N/A	68%	75%	75%	61%	73%	75%
$75,000	N/A	N/A	N/A	70%	75%	78%	71%	75%	79%
$100,000	N/A	N/A	N/A	75%	80%	85%	77%	80%	81%
$150,000	N/A	N/A	N/A	80%	85%	88%	79%	85%	85%
$250,000	N/A	N/A	N/A	84%	88%	89%	78%	85%	89%
$350,000	N/A	N/A	N/A	85%	90%	90%	83%	88%	90%
$500,000	N/A	N/A	N/A	85%	90%	90%	86%	89%	90%
$750,000	N/A	N/A	N/A	85%	90%	90%	86%	89%	90%
$1,000,000	N/A	N/A	N/A	85%	90%	90%	86%	89%	90%
Percentage of Firms Offering Production Bonuses to Branch Offices		N/A			60%			13%	

Advisor Payout Percentage by Production

Insurance-Affiliated Broker-Dealer by Revenue Size

	$100M - $250M			More Than $250M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount						
$25,000	49%	70%	79%	55%	60%	88%
$50,000	52%	70%	74%	70%	70%	88%
$75,000	57%	75%	80%	75%	75%	88%
$100,000	61%	79%	82%	80%	80%	88%
$150,000	67%	82%	86%	80%	80%	88%
$250,000	75%	86%	88%	85%	88%	90%
$350,000	77%	88%	89%	85%	88%	90%
$500,000	78%	88%	90%	85%	88%	90%
$750,000	78%	89%	90%	85%	88%	90%
$1,000,000	78%	89%	92%	88%	90%	93%
Percentage of Firms Offering Production Bonuses to Branch Offices		44%			50%	

Advisor Payout Percentage by Production

Independent and Insurance-Affiliated Broker-Dealers

	Independent			Insurance-Affiliated		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount						
$25,000	60%	70%	80%	54%	65%	71%
$50,000	70%	80%	86%	60%	70%	75%
$75,000	75%	83%	87%	70%	75%	80%
$100,000	80%	85%	90%	73%	80%	83%
$150,000	85%	87%	90%	75%	82%	85%
$250,000	87%	90%	90%	80%	85%	89%
$350,000	88%	90%	90%	82%	88%	90%
$500,000	90%	90%	91%	84%	88%	90%
$750,000	90%	90%	92%	84%	88%	90%
$1,000,000	90%	92%	93%	84%	90%	91%
Percentage of Firms Offering Production Bonuses to Branch Offices		50%			40%	

Independent Broker-Dealer Payout Percentage by Level Grid Is Applied

Payout at Branch Office/OSJ and Individual Advisor Level

	Independent - Payout at Branch Office/OSJ			Independent - Payout at Individual Advisor		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount						
$25,000	60%	67%	78%	58%	70%	80%
$50,000	75%	83%	87%	70%	80%	84%
$75,000	80%	87%	88%	75%	80%	85%
$100,000	83%	84%	89%	80%	85%	90%
$150,000	84%	85%	89%	85%	88%	90%
$250,000	89%	90%	90%	87%	90%	90%
$350,000	89%	90%	90%	87%	90%	91%
$500,000	90%	90%	90%	90%	91%	92%
$750,000	90%	90%	91%	90%	91%	93%
$1,000,000	90%	92%	92%	90%	92%	93%
Percentage of Firms Offering Production Bonuses to Branch Offices		38%			56%	

Insurance-Affiliated Broker-Dealer Payout Percentage by Level Grid Is Applied

Payout at Branch Office and Individual Advisor Level

	Insurance-Affiliated - Payout at Branch Office			Insurance-Affiliated - Payout at Individual Advisor		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount						
$25,000	58%	70%	81%	50%	65%	70%
$50,000	63%	70%	81%	59%	71%	75%
$75,000	70%	75%	83%	61%	75%	79%
$100,000	77%	80%	85%	66%	80%	80%
$150,000	79%	85%	86%	75%	80%	85%
$250,000	81%	87%	90%	77%	85%	88%
$350,000	84%	88%	90%	82%	85%	90%
$500,000	88%	90%	91%	84%	87%	90%
$750,000	88%	90%	91%	83%	87%	90%
$1,000,000	88%	92%	92%	84%	88%	90%
Percentage of Firms Offering Production Bonuses to Branch Offices		42%			35%	

Total Field Payout Including Overrides by Production

Independent and Insurance-Affilliated Broker-Dealers

	Independent Broker-Dealers			Insurance-Affiliated Broker-Dealers			
	Advisor Payout	OSJ Override	Total Field Payout	Advisor Payout	General Agent Override	Other Field Mgmt Override	Total Field Payout
Median Payout Percentage by Production Level							
$25,000	70.0%	2.5%	70.0%	54.4%	20.5%	5.0%	90.0%
$50,000	80.0%	2.5%	80.0%	60.0%	16.5%	5.0%	90.0%
$75,000	82.5%	2.5%	82.5%	70.0%	10.5%	5.0%	90.0%
$100,000	85.0%	2.5%	85.0%	73.4%	8.0%	5.0%	90.0%
$150,000	87.0%	2.5%	87.5%	75.0%	7.0%	5.0%	90.0%
$250,000	90.0%	2.5%	90.0%	80.0%	5.0%	5.0%	90.0%
$350,000	90.0%	2.5%	90.0%	82.4%	5.0%	5.0%	91.0%
$500,000	90.0%	2.5%	90.0%	84.1%	5.0%	5.0%	91.3%
$750,000	90.0%	2.5%	90.0%	83.8%	4.3%	5.0%	91.3%
$1,000,000	91.5%	2.5%	91.5%	84.2%	5.0%	5.0%	92.0%

Recruiting

Recruiting
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Number of Advisors at the End of 2007	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
< $50,000	751	375	964	572	681	370
$50,000 - $100,000	200	150	194	183	202	146
$100,000 - $250,000	210	158	304	226	178	149
$250,000 - $500,000	100	61	171	116	77	60
$500,000 - $750,000	29	19	50	26	22	17
> $750,000	25	10	41	19	18	7
New Advisors Added in 2008						
< $50,000	149	56	169	122	143	56
$50,000 - $100,000	16	10	27	11	14	10
$100,000 - $250,000	19	7	31	7	16	8
$250,000 - $500,000	12	5	25	8	8	5
$500,000 - $750,000	9	4	19	16	6	4
> $750,000	5	1	10	13	3	1
Advisors Who Left During 2008						
< $50,000	171	95	163	106	174	92
$50,000 - $100,000	13	10	17	9	12	10
$100,000 - $250,000	12	8	19	10	10	8
$250,000 - $500,000	8	5	11	6	7	5
$500,000 - $750,000	3	2	2	2	3	2
> $750,000	3	2	2	2	4	2
Cost of Recruiting in 2008	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Industry Advertising (company-wide)	$203,370	$114,297	$185,252	$124,550	$211,897	$114,297
Direct Mail	$103,626	$47,235	$159,315	$58,241	$61,859	$34,735
Retained or Internal Recruiter	$371,283	$215,041	$657,595	$290,000	$259,940	$167,521
Average outside recruiting firm costs (per advisor)	$7,461	$4,000	N/A	N/A	$7,200	$1,500
Average recruiting trips to headquarters (per advisor)	$991	$980	$628	$625	$1,094	$1,000
Average account transition assistance (per advisor)	$13,242	$7,500	$14,200	$10,000	$12,874	$2,500
Transaction Assistance to Newly Recruited Advisors						
Direct Financing	29.6%		9.3%		20.4%	
Loans	50.0%		14.8%		35.2%	
Remote Staff Assistance	75.9%		22.2%		53.7%	
Onsite Staff Assistance	57.4%		20.4%		37.0%	
Compliance Set-up	53.7%		18.5%		35.2%	
Automated Customer Account Transfer (ACAT) Services	72.2%		18.5%		53.7%	
Other						
If Parent-Owned, Parent Contribution to Recruiting Costs						
Yes	30.4%		9.1%		37.1%	
No	69.6%		90.9%		62.9%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% of Costs Contributed	93.1%	100.0%	N/A	N/A	92.4%	100.0%
Pay Recruiting Bonuses						
No	49.0%		38.5%		52.6%	
Yes, a flat amount	5.9%		7.7%		5.3%	
Yes, based on recruited advisor's trailing 12 months prod	45.1%		53.8%		42.1%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Percent of Advisor Production	6.1%	6.1%	N/A	N/A	4.8%	4.8%
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	18.2	3.0	7.9	3.0	22.2	3.0
External (Contractor)	7.4	2.5	N/A	N/A	7.3	2.5
Recruiter Salary	$111,830	$75,000	$88,467	$75,000	$122,613	$75,000
Recruiter Flat Fee per Recruited Advisor	$2,583	$2,000	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	2.1%	1.4%	N/A	N/A	2.1%	1.4%
2009 Advisors	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Expected to Add	275	100	158	100	317	100
Expected to Drop	164	35	100	35	186	35
Expected to Leave	134	28	53	28	172	28
Expected Total Production from Advisors Added	$14,151,530	$10,000,000	$17,600,000	$10,000,000	$12,858,354	$10,000,000
Expected Total Production from Advisors Dropped	$1,607,000	$450,000	$497,500	$450,000	$2,023,063	$450,000
Expected Total Production from Advisors Leaving	$3,050,619	$1,313,000	$3,271,429	$1,313,000	$2,940,214	$1,313,000
Retention Bonus for Advisors						
Yes	6%		8%		6%	
No	94%		92%		94%	
Advisors Coming From	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Wirehouses	12%	10%	11%	8%	12%	10%
Other Broker-Dealers	68%	80%	58%	60%	71%	80%
Banks	6%	0%	5%	0%	6%	0%
Other	15%	0%	26%	0%	11%	0%

Recruiting
Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
Number of Advisors at the End of 2007	Average	Median	Average	Median	Average	Median
< $50,000	137	30	197	111	328	278
$50,000 - $100,000	15	12	60	78	125	126
$100,000 - $250,000	12	14	54	51	112	108
$250,000 - $500,000	9	9	26	24	47	44
$500,000 - $750,000	4	4	7	6	16	14
> $750,000	3	3	9	5	8	6
New Advisors Added in 2008						
< $50,000	39	10	58	51	111	34
$50,000 - $100,000	2	2	5	5	14	12
$100,000 - $250,000	2	2	11	9	14	8
$250,000 - $500,000	2	2	7	8	8	4
$500,000 - $750,000	1	1	5	5	7	2
> $750,000	N/A	N/A	1	1	3	1
Advisors Who Left During 2008						
< $50,000	43	13	66	45	115	49
$50,000 - $100,000	2	2	5	5	13	10
$100,000 - $250,000	1	1	5	5	10	8
$250,000 - $500,000	N/A	N/A	5	5	7	4
$500,000 - $750,000	2	2	2	2	4	2
> $750,000	N/A	N/A	N/A	N/A	3	2
Cost of Recruiting in 2008	Average	Median	Average	Median	Average	Median
Industry Advertising (company-wide)	N/A	N/A	$112,605	$49,100	$266,669	$223,414
Direct Mail	N/A	N/A	N/A	N/A	$86,118	$69,735
Retained or Internal Recruiter	N/A	N/A	$183,340	$142,500	$303,171	$300,000
Average outside recruiting firm costs (per advisor)	N/A	N/A	$9,625	$10,000	N/A	N/A
Average recruiting trips to headquarters (per advisor)	N/A	N/A	$1,275	$1,000	$830	$650
Average account transition assistance (per advisor)	N/A	N/A	$14,700	$10,000	$21,285	$10,000
Transaction Assistance to Newly Recruited Advisors						
Direct Financing	0.0%		25.0%		28.6%	
Loans	0.0%		66.7%		57.1%	
Remote Staff Assistance	60.0%		83.3%		85.7%	
Onsite Staff Assistance	40.0%		66.7%		57.1%	
Compliance Set-up	80.0%		41.7%		42.9%	
Automated Customer Account Transfer (ACAT) Services	80.0%		83.3%		78.6%	
Other						
If Parent-Owned, Parent Contribution to Recruiting Costs						
Yes	40.0%		22.2%		23.1%	
No	60.0%		77.8%		76.9%	
	Average	Median	Average	Median	Average	Median
% of Costs Contributed	N/A	N/A	N/A	N/A	84.7%	100.0%
Pay Recruiting Bonuses						
No	80.0%		36.4%		46.2%	
Yes, a flat amount	0.0%		0.0%		7.7%	
Yes, based on recruited advisor's trailing 12 months prod	20.0%		63.6%		46.2%	
	Average	Median	Average	Median	Average	Median
If Yes, Percent of Advisor Production	N/A	N/A	N/A	N/A	6.3%	6.3%
Full-Time Recruiters at the Broker-Dealer	Average	Median	Average	Median	Average	Median
Internal (Employee)	0.7	1.0	10.8	1.5	3.1	3.0
External (Contractor)	N/A	0.0	5.0	4.0	15.0	3.0
Recruiter Salary	N/A	N/A	$61,001	$70,000	$148,750	$94,500
Recruiter Flat Fee per Recruited Advisor	N/A	N/A	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	N/A	N/A	2.2%	1.5%	1.5%	1.4%
2008 Advisors	Average	Median	Average	Median	Average	Median
Expected to Add	30	30	193	45	153	126
Expected to Drop	N/A	N/A	302	20	23	10
Expected to Leave	7	10	12	5	37	30
Expected Total Production from Advisors Added	$3,166,667	$2,000,000	$10,283,389	$5,000,000	$15,094,444	$15,000,000
Expected Total Production from Advisors Dropped	N/A	$300,000	$314,167	$225,000	$338,429	$200,000
Expected Total Production from Advisors Leaving	$233,333	$100,000	$2,187,500	$275,000	$2,035,500	$1,750,000
Retention Bonus for Advisors						
Yes	0%		0%		14%	
No	100%		100%		86%	
Advisors Coming From	Average	Median	Average	Median	Average	Median
Wirehouses	18%	20%	19%	15%	7%	5%
Other Broker-Dealers	45%	50%	59%	70%	75%	90%
Banks	0%	0%	4%	0%	8%	0%
Other	38%	25%	18%	0%	10%	0%

Recruiting
Broker-Dealer by Revenue Size

	$100M - $250M			More Than $250M		
Number of Advisors at the End of 2007	Average		Median	Average		Median
< $50,000	1,130		700	1,520		835
$50,000 - $100,000	300		191	356		394
$100,000 - $250,000	237		188	514		458
$250,000 - $500,000	88		85	261		221
$500,000 - $750,000	23		19	74		61
> $750,000	13		6	77		50
New Advisors Added in 2008						
< $50,000	182		54	281		196
$50,000 - $100,000	13		9	36		17
$100,000 - $250,000	9		5	54		59
$250,000 - $500,000	5		3	32		21
$500,000 - $750,000	2		2	16		5
> $750,000	1		1	8		9
Advisors Who Left During 2008						
< $50,000	245		136	323		260
$50,000 - $100,000	16		11	22		17
$100,000 - $250,000	11		10	30		22
$250,000 - $500,000	7		4	13		10
$500,000 - $750,000	2		2	3		1
> $750,000	1		1	5		4
Cost of Recruiting in 2008	Average		Median	Average		Median
Industry Advertising (company-wide)	$279,333		$265,500	N/A		N/A
Direct Mail	$48,696		$55,000	$249,270		$30,000
Retained or Internal Recruiter	$722,183		$330,000	N/A		N/A
Average outside recruiting firm costs (per advisor)	N/A		N/A	N/A		N/A
Average recruiting trips to headquarters (per advisor)	$955		$980	N/A		N/A
Average account transition assistance (per advisor)	$4,525		$2,250	N/A		N/A
Transaction Assistance to Newly Recruited Advisors						
Direct Financing		25.0%			54.5%	
Loans		33.3%			63.6%	
Remote Staff Assistance		58.3%			81.8%	
Onsite Staff Assistance		41.7%			72.7%	
Compliance Set-up		50.0%			72.7%	
Automated Customer Account Transfer (ACAT) Services		66.7%			54.5%	
Other						
If Parent-Owned, Parent Contribution to Recruiting Costs						
Yes		40.0%			33.3%	
No		60.0%			66.7%	
	Average		Median	Average		Median
% of Costs Contributed	90.0%		100.0%	N/A		N/A
Pay Recruiting Bonuses						
No		50.0%			50.0%	
Yes, a flat amount		16.7%			0.0%	
Yes, based on recruited advisor's trailing 12 months prod		33.3%			50.0%	
	Average		Median	Average		Median
If Yes, Percent of Advisor Production	N/A		N/A	N/A		N/A
Full-Time Recruiters at the Broker-Dealer	Average		Median	Average		Median
Internal (Employee)	51.2		3.0	9.8		7.5
External (Contractor)	4.0		2.0	N/A		N/A
Recruiter Salary	$119,954		$80,800	N/A		N/A
Recruiter Flat Fee per Recruited Advisor	$2,583		$2,000	N/A		N/A
% of GDC of Recruited Advisor	N/A		N/A	N/A		N/A
2008 Advisors	Average		Median	Average		Median
Expected to Add	573		200	321		260
Expected to Drop	149		88	250		250
Expected to Leave	446		75	84		75
Expected Total Production from Advisors Added	$16,450,000		$9,500,000	$24,375,000		$25,000,000
Expected Total Production from Advisors Dropped	$880,000		$500,000	$8,800,000		$1,000,000
Expected Total Production from Advisors Leaving	$3,380,000		$1,300,000	$8,500,000		$7,500,000
Retention Bonus for Advisors						
Yes		0%			11%	
No		100%			89%	
Advisors Coming From	Average		Median	Average		Median
Wirehouses	10%		5%	8%		10%
Other Broker-Dealers	79%		90%	66%		70%
Banks	3%		3%	10%		5%
Other	8%		0%	16%		0%

Recruiting

Independent and Insurance-Affiliated Broker-Dealers

	Independent		*Insurance-Affiliated*	
Number of Advisors at the End of 2007	*Average*	*Median*	*Average*	*Median*
< $50,000	493	197	963	564
$50,000 - $100,000	129	94	259	171
$100,000 - $250,000	185	84	230	181
$250,000 - $500,000	112	47	91	62
$500,000 - $750,000	35	21	24	16
> $750,000	32	12	18	6
New Advisors Added in 2008				
< $50,000	105	38	186	119
$50,000 - $100,000	12	8	20	10
$100,000 - $250,000	17	6	22	10
$250,000 - $500,000	11	3	12	9
$500,000 - $750,000	8	4	10	5
> $750,000	4	1	5	2
Advisors Who Left During 2008				
< $50,000	87	45	246	166
$50,000 - $100,000	12	7	14	10
$100,000 - $250,000	13	5	12	12
$250,000 - $500,000	8	4	8	5
$500,000 - $750,000	3	2	3	2
> $750,000	3	1	4	4
Cost of Recruiting in 2008	*Average*	*Median*	*Average*	*Median*
Industry Advertising (company-wide)	$189,084	$200,000	$224,800	$94,000
Direct Mail	$143,756	$61,482	$63,496	$39,470
Retained or Internal Recruiter	$431,739	$185,000	$280,600	$295,000
Average outside recruiting firm costs (per advisor)	$6,038	$2,750	N/A	N/A
Average recruiting trips to headquarters (per advisor)	$720	$600	$1,261	$1,200
Average account transition assistance (per advisor)	$18,651	$10,000	$4,743	$2,000
Transaction Assistance to Newly Recruited Advisors				
Direct Financing	16.7%		13.0%	
Loans	24.1%		25.9%	
Remote Staff Assistance	38.9%		37.0%	
Onsite Staff Assistance	33.3%		24.1%	
Compliance Set-up	27.8%		25.9%	
Automated Customer Account Transfer (ACAT) Services	35.2%		37.0%	
Other				
If Parent-Owned, Parent Contribution to Recruiting Costs				
Yes	11.8%		41.4%	
No	88.2%		58.6%	
	Average	*Median*	*Average*	*Median*
% of Costs Contributed	N/A	N/A	97.0%	100.0%
Pay Recruiting Bonuses				
No	40.9%		55.2%	
Yes, a flat amount	9.1%		3.4%	
Yes, based on recruited advisor's trailing 12 months prod	50.0%		41.4%	
	Average	*Median*	*Average*	*Median*
If Yes, Percent of Advisor Production	6 0%	3.5%	6 3%	6.0%
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	5.9	3.0	31.2	3.0
External (Contractor)	4.3	2.5	9.0	2.5
Recruiter Salary	$137,252	$75,000	$76,875	$75,000
Recruiter Flat Fee per Recruited Advisor	$2,583	$2,000	N/A	N/A
% of GDC of Recruited Advisor	2 8%	1.4%	1 3%	1.4%
2008 Advisors	*Average*	*Median*	*Average*	*Median*
Expected to Add	111	100	479	100
Expected to Drop	57	35	271	35
Expected to Leave	39	28	238	28
Expected Total Production from Advisors Added	$13,521,053	$10,000,000	$15,007,179	$10,000,000
Expected Total Production from Advisors Dropped	$398,750	$450,000	$3,056,900	$450,000
Expected Total Production from Advisors Leaving	$3,609,091	$1,313,000	$2,436,300	$1,313,000
Retention Bonus for Advisors				
Yes	4%		8%	
No	96%		92%	
Advisors Coming From	*Average*	*Median*	*Average*	*Median*
Wirehouses	14%	10%	9%	8%
Other Broker-Dealers	63%	73%	73%	90%
Banks	7%	0%	4%	2%
Other	16%	0%	14%	0%

Ownership Succession

Ownership Succession
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Advisor Age Ranges	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
35 or less	11%	10%	10%	10%	12%	10%
36 - 45	22%	21%	24%	23%	21%	21%
46 - 55	33%	31%	37%	34%	32%	28%
56 - 65	24%	25%	21%	25%	25%	25%
Greater than 65	10%	10%	8%	7%	10%	10%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Actual 2008:	$71,156	$10,000	$178,333	$180,000	$48,189	$7,000
Budgeted 2009:	$89,267	$10,000	$195,000	$225,000	$62,833	$7,500
Offer Succession Education to Advisors						
Yes	65.4%		69.2%		64.1%	
No	34.6%		30.8%		35.9%	
If Yes, Education Format						
Seminars	70.6%		66.7%		72.0%	
Presentations	73.5%		77.8%		72.0%	
Workshops	50.0%		55.6%		48.0%	
Guidebooks and/or manuals	44.1%		44.4%		44.0%	
Other	26.5%		44.4%		20.0%	
Succession Program Matching Buyers and Sellers						
Formal	20.8%		21.4%		20.5%	
Informal	41.5%		35.7%		43.6%	
None	37.7%		42.9%		35.9%	
Offer Transaction Assistance to Advisors						
Yes	41.2%		50.0%		37.8%	
No	58.8%		50.0%		62.2%	
If Yes, Type of Assistance for Sellers						
Recommended network of prof. service providers	61.9%		71.4%		57.1%	
Preferred Pricing	23.8%		14.3%		28.6%	
Access to BD internal consultants	38.1%		57.1%		28.6%	
Access to BD external consultants	23.8%		14.3%		28.6%	
Access to valuation services	28.6%		28.6%		28.6%	
Other						
If Yes, Type of Assistance for Buyers						
Recommended network of prof. service providers	52.4%		71.4%		42.9%	
Preferred Pricing	33.3%		28.6%		35.7%	
Access to BD internal consultants	33.3%		42.9%		28.6%	
Access to BD external consultants	28.6%		28.6%		28.6%	
Access to valuation services	28.6%		28.6%		28.6%	
Loan application assistance	9.5%		14.3%		7.1%	
Access to direct financing from BD	42.9%		42.9%		42.9%	
Access to third-party financing	19.0%		14.3%		21.4%	
Other	33.3%		57.1%		21.4%	
Offer a Financing Program for Practice Purchases						
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Number of Deals Financed Last Year	2	2	N/A	N/A	1	1
Purchases Subject to Broker-Dealer Approval						
Yes	58.5%		46.2%		64.3%	
No	41.5%		53.8%		35.7%	

Ownership Succession
Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
Advisor Age Ranges	Average	Median	Average	Median	Average	Median
35 or less	10%	10%	10%	10%	12%	9%
36 - 45	25%	22%	22%	19%	23%	21%
46 - 55	23%	25%	38%	34%	35%	31%
56 - 65	25%	27%	21%	20%	22%	22%
Greater than 65	17%	22%	10%	9%	8%	9%
Spending on Successon Related Programs	Average	Median	Average	Median	Average	Median
Actual 2007:	N/A	N/A	$2,600	$2,600	$43,800	$15,000
Budgeted 2008:	N/A	N/A	$4,000	$4,000	$46,750	$10,000
Offer Succession Education to Advisors						
Yes	20.0%		50.0%		64.3%	
No	80.0%		50.0%		35.7%	
If Yes, Education Format						
Seminars	N/A		50.0%		66.7%	
Presentations	0.0%		83.3%		66.7%	
Workshops	0.0%		33.3%		33.3%	
Guidebooks and/or manuals	N/A		0.0%		44.4%	
Other	N/A		16.7%		22.2%	
Succession Program Matching Buyers and Sellers						
Formal	0.0%		16.7%		30.8%	
Informal	60.0%		25.0%		30.8%	
None	40.0%		58.3%		38.5%	
Offer Transaction Assistance to Advisors						
Yes	0.0%		33.3%		33.3%	
No	100.0%		66.7%		66.7%	
If Yes, Type of Assistance for Sellers						
Recommended network of prof. service providers	N/A		50.0%		75.0%	
Preferred Pricing	N/A		50.0%		25.0%	
Access to BD internal consultants	N/A		0.0%		25.0%	
Access to BD external consultants	N/A		0.0%		0.0%	
Access to valuation services	N/A		0.0%		25.0%	
If Yes, Type of Assistance for Buyers						
Recommended network of prof. service providers	N/A		25.0%		50.0%	
Preferred Pricing	N/A		75.0%		25.0%	
Access to BD internal consultants	N/A		0.0%		25.0%	
Access to BD external consultants	N/A		0.0%		0.0%	
Access to valuation services	N/A		0.0%		25.0%	
Loan application assistance	N/A		0.0%		0.0%	
Access to direct financing from BD	N/A		25.0%		50.0%	
Access to third-party financing	N/A		25.0%		25.0%	
	N/A		25.0%		25.0%	
Offer a Financing Program for Practice Purchases	Average	Median	Average	Median	Average	Median
If Yes, Number of Deals Financed Last Year	N/A	N/A	N/A	N/A	N/A	N/A
Purchases Subject to Broker-Dealer Approval						
Yes	50.0%		75.0%		50.0%	
No	50.0%		25.0%		50.0%	

Ownership Succession
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Advisor Age Ranges	*Average*	*Median*	*Average*	*Median*
35 or less	12%	10%	14%	11%
36 - 45	20%	21%	22%	22%
46 - 55	31%	31%	29%	30%
56 - 65	28%	27%	26%	26%
Greater than 65	10%	8%	9%	10%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*
Actual 2007:	$53,113	$15,000	$154,200	$26,000
Budgeted 2008:	$65,000	$15,000	$177,200	$26,000
Offer Succession Education to Advisors				
Yes	80.0%		90.9%	
No	20.0%		9.1%	
If Yes, Education Format				
Seminars	87.5%		70.0%	
Presentations	62.5%		90.0%	
Workshops	62.5%		70.0%	
Guidebooks and/or manuals	37.5%		80.0%	
Other	25.0%		40.0%	
Succession Program Matching Buyers and Sellers				
Formal	16.7%		27.3%	
Informal	50.0%		54.5%	
None	33.3%		18.2%	
Offer Transaction Assistance to Advisors				
Yes	36.4%		81.8%	
No	63.6%		18.2%	
If Yes, Type of Assistance for Sellers				
Recommended network of prof. service providers	75.0%		55.6%	
Preferred Pricing	25.0%		11.1%	
Access to BD internal consultants	25.0%		66.7%	
Access to BD external consultants	50.0%		33.3%	
Access to valuation services	25.0%		44.4%	
If Yes, Type of Assistance for Buyers				
Recommended network of prof. service providers	75.0%		55.6%	
Preferred Pricing	50.0%		11.1%	
Access to BD internal consultants	25.0%		55.6%	
Access to BD external consultants	50.0%		44.4%	
Access to valuation services	25.0%		44.4%	
Loan application assistance	0.0%		22.2%	
Access to direct financing from BD	50.0%		44.4%	
Access to third-party financing	0.0%		22.2%	
	0.0%		55.6%	
Offer a Financing Program for Practice Purchases				
	Average	*Median*	*Average*	*Median*
If Yes, Number of Deals Financed Last Year	N/A	N/A	N/A	N/A
Purchases Subject to Broker-Dealer Approval				
Yes	50.0%		63.6%	
No	50.0%		36.4%	

Ownership Succession

Independent and Insurance-Affiliated Broker-Dealers

	Independent		Insurance-Affiliated	
Advisor Age Ranges	*Average*	*Median*	*Average*	*Median*
35 or less	10%	9%	13%	10%
36 - 45	23%	23%	21%	21%
46 - 55	35%	34%	31%	28%
56 - 65	22%	25%	25%	25%
Greater than 65	9%	9%	10%	10%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*
Actual 2007:	$79,779	$5,000	$65,120	$15,000
Budgeted 2008:	$101,000	$12,500	$81,444	$10,000
Offer Succession Education to Advisors				
Yes	66.7%		64.3%	
No	33.3%		35.7%	
If Yes, Education Format				
Seminars	68.8%		72.2%	
Presentations	81.3%		66.7%	
Workshops	62.5%		38.9%	
Guidebooks and/or manuals	43.8%		44.4%	
Other	37.5%		16.7%	
Succession Program Matching Buyers and Sellers				
Formal	25.0%		17.2%	
Informal	37.5%		44.8%	
None	37.5%		37.9%	
Offer Transaction Assistance to Advisors				
Yes	45.8%		37.0%	
No	54.2%		63.0%	
If Yes, Type of Assistance for Sellers				
Recommended network of prof. service providers	63.6%		60.0%	
Preferred Pricing	18.2%		30.0%	
Access to BD internal consultants	45.5%		30.0%	
Access to BD external consultants	9.1%		40.0%	
Access to valuation services	9.1%		50.0%	
If Yes, Type of Assistance for Buyers				
Recommended network of prof. service providers	45.5%		60.0%	
Preferred Pricing	36.4%		30.0%	
Access to BD internal consultants	36.4%		30.0%	
Access to BD external consultants	18.2%		40.0%	
Access to valuation services	9.1%		50.0%	
Loan application assistance	18.2%		0.0%	
Access to direct financing from BD	36.4%		50.0%	
Access to third-party financing	27.3%		10.0%	
	45.5%		20.0%	
Offer a Financing Program for Practice Purchases				
	Average	*Median*	*Average*	*Median*
If Yes, Number of Deals Financed Last Year	N/A	N/A	1	2
Purchases Subject to Broker-Dealer Approval				
Yes	50.0%		66.7%	
No	50.0%		33.3%	

Advisor Fees

Advisor Fees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	High-Profit: Top 25%	Non-High-Profit
Affiliation Fee			
Covered 100% by Broker-Dealer	15.6%	10.0%	18.2%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	84.4%	90.0%	81.8%
Required	82.8%	80.0%	84.2%
Optional	0.0%	0.0%	0.0%
Not Available	17.2%	20.0%	15.8%
Included in Other Fees	0.0%	0.0%	0.0%
Compliance Fee			
Covered 100% by Broker-Dealer	65.2%	50.0%	70.6%
Shared by Broker-Dealer and Advisor	8.7%	16.7%	5.9%
Paid 100% by Advisor	26.1%	33.3%	23.5%
Required	30.0%	28.6%	30.8%
Optional	0.0%	0.0%	0.0%
Not Available	40.0%	28.6%	46.2%
Included in Other Fees	30.0%	42.9%	23.1%
Fidelity Bond Coverage Charge			
Covered 100% by Broker-Dealer	35.7%	20.0%	44.4%
Shared by Broker-Dealer and Advisor	10.7%	10.0%	11.1%
Paid 100% by Advisor	53.6%	70.0%	44.4%
Required	78.3%	90.0%	69.2%
Optional	0.0%	0.0%	0.0%
Not Available	8.7%	10.0%	7.7%
Included in Other Fees	13.0%	0.0%	23.1%
Non-Producing License Fee			
Covered 100% by Broker-Dealer	21.7%	28.6%	18.8%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	78.3%	71.4%	81.3%
Required	50.0%	44.4%	53.8%
Optional	4.5%	0.0%	7.7%
Not Available	45.5%	55.6%	38.5%
Included in Other Fees	0.0%	0.0%	0.0%
Home Office OSJ Fee			
Covered 100% by Broker-Dealer	70.0%	50.0%	78.6%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	30.0%	50.0%	21.4%
Required	40.9%	44.4%	38.5%
Optional	0.0%	0.0%	0.0%
Not Available	50.0%	44.4%	53.8%
Included in Other Fees	9.1%	11.1%	7.7%
State/FINRA Licensing Fee			
Covered 100% by Broker-Dealer	2.9%	0.0%	4.0%
Shared by Broker-Dealer and Advisor	17.1%	10.0%	20.0%
Paid 100% by Advisor	80.0%	90.0%	76.0%
Required	92.6%	90.0%	94.1%
Optional	3.7%	10.0%	0.0%
Not Available	3.7%	0.0%	5.9%
Included in Other Fees	0.0%	0.0%	0.0%
SIPC Fee			
Covered 100% by Broker-Dealer	66.7%	50.0%	71.4%
Shared by Broker-Dealer and Advisor	3.7%	16.7%	0.0%
Paid 100% by Advisor	29.6%	33.3%	28.6%
Required	61.1%	71.4%	54.5%
Optional	5.6%	0.0%	9.1%
Not Available	22.2%	14.3%	27.3%
Included in Other Fees	11.1%	14.3%	9.1%

Advisor Fees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	High-Profit: Top 25%	Non-High-Profit
Overall Technology Fee			
Covered 100% by Broker-Dealer	38.5%	14.3%	47.4%
Shared by Broker-Dealer and Advisor	3.8%	0.0%	5.3%
Paid 100% by Advisor	57.7%	85.7%	47.4%
Required	36.4%	42.9%	33.3%
Optional	18.2%	14.3%	20.0%
Not Available	36.4%	28.6%	40.0%
Included in Other Fees	9.1%	14.3%	6.7%
Quotes, Real-Time			
Covered 100% by Broker-Dealer	7.3%	0.0%	11.1%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	92.7%	100.0%	88.9%
Required	3.7%	0.0%	6.3%
Optional	92.6%	90.9%	93.8%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	3.7%	9.1%	0.0%
Quotes, Delayed			
Covered 100% by Broker-Dealer	52.9%	40.0%	58.3%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	47.1%	60.0%	41.7%
Required	8.7%	0.0%	13.3%
Optional	56.5%	62.5%	53.3%
Not Available	13.0%	0.0%	20.0%
Included in Other Fees	21.7%	37.5%	13.3%
Portfolio Management			
Covered 100% by Broker-Dealer	24.2%	20.0%	26.1%
Shared by Broker-Dealer and Advisor	9.1%	20.0%	4.3%
Paid 100% by Advisor	66.7%	60.0%	69.6%
Required	4.0%	0.0%	6.3%
Optional	64.0%	77.8%	56.3%
Not Available	8.0%	0.0%	12.5%
Included in Other Fees	24.0%	22.2%	25.0%
Website for Advisor			
Covered 100% by Broker-Dealer	15.6%	9.1%	19.0%
Shared by Broker-Dealer and Advisor	3.1%	9.1%	0.0%
Paid 100% by Advisor	84.4%	81.8%	85.7%
Required	4.3%	0.0%	6.7%
Optional	82.6%	100.0%	73.3%
Not Available	8.7%	0.0%	13.3%
Included in Other Fees	4.3%	0.0%	6.7%
Investment Research			
Covered 100% by Broker-Dealer	17.9%	0.0%	25.0%
Shared by Broker-Dealer and Advisor	3.6%	12.5%	0.0%
Paid 100% by Advisor	78.6%	87.5%	75.0%
Required	4.3%	0.0%	6.7%
Optional	78.3%	75.0%	80.0%
Not Available	17.4%	25.0%	13.3%
Included in Other Fees	0.0%	0.0%	0.0%
Client Account Access			
Covered 100% by Broker-Dealer	50.0%	62.5%	46.2%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	50.0%	37.5%	53.8%
Required	13.0%	12.5%	13.3%
Optional	56.5%	37.5%	66.7%
Not Available	13.0%	25.0%	6.7%
Included in Other Fees	17.4%	25.0%	13.3%
Client Relationship Management			
Covered 100% by Broker-Dealer	36.0%	33.3%	36.8%
Shared by Broker-Dealer and Advisor	8.0%	16.7%	5.3%
Paid 100% by Advisor	56.0%	50.0%	57.9%
Required	4.5%	11.1%	0.0%
Optional	59.1%	33.3%	76.9%
Not Available	27.3%	33.3%	23.1%
Included in Other Fees	9.1%	22.2%	0.0%
Data Mining			
Covered 100% by Broker-Dealer	45.0%	33.3%	50.0%
Shared by Broker-Dealer and Advisor	10.0%	16.7%	7.1%
Paid 100% by Advisor	45.0%	50.0%	42.9%
Required	10.0%	12.5%	8.3%
Optional	50.0%	37.5%	58.3%
Not Available	30.0%	37.5%	25.0%
Included in Other Fees	10.0%	12.5%	8.3%
Help Desk			
Covered 100% by Broker-Dealer	81.8%	75.0%	83.3%
Shared by Broker-Dealer and Advisor	4.5%	25.0%	0.0%
Paid 100% by Advisor	13.6%	0.0%	16.7%
Required	22.7%	25.0%	21.4%
Optional	22.7%	12.5%	28.6%
Not Available	36.4%	50.0%	28.6%
Included in Other Fees	18.2%	12.5%	21.4%

Advisor Fees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Ticket Charges Cleared Through Clearing Firm						
Mutual Funds	$16.45	$15.83	$19.77	$20.00	$15.34	$15.00
General Securities	$22.86	$21.75	$24.91	$25.00	$22.22	$21.00
Unit Investment Trusts (UIT)	$32.20	$30.00	$35.32	$30.00	$31.16	$30.00
Fixed Income	$31.98	$30.00	$32.41	$30.00	$31.84	$30.00
Ticket Charges Cleared Through Clearing Firm						
Passed Straight Through	22.9%		8.3%		27.8%	
Marked-Up	77.1%		91.7%		72.2%	
Mark-up Amount	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Mutual Funds	68%	50%	85%	62%	62%	50%
General Securities	107%	63%	103%	75%	108%	50%
Unit Investment Trusts	53%	50%	54%	47%	53%	50%
Fixed Income	75%	50%	94%	63%	69%	50%
Offer Account Aggregation Technology to Advisors						
Yes	88.7%		85.7%		89.7%	
No	11.3%		14.3%		10.3%	
Allow Client Access to Consolidated Statements						
Yes	83.0%		92.9%		79.5%	
No	17.0%		7.1%		20.5%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% of Advisors Participating	43%	37%	54%	45%	40%	30%
Charge per Year	$1,803	$1,800	$1,598	$1,800	$1,881	$1,770
Offer Differentiated Services to Best Advisors						
Yes	44.9%		46.2%		44.4%	
No	55.1%		53.8%		55.6%	
Charge for Compliance Audits						
Yes	13.2%		35.7%		5.1%	
No	86.8%		64.3%		94.9%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% Cost Paid by Advisor	93%	93%	95%	100%	N/A	N/A
Typical Advisor Charge per Audit	$339	$329	$316	$307	N/A	N/A
Pass Along Any Costs for Business Compliance Visits						
Yes	7.5%		21.4%		2.6%	
No	92.5%		78.6%		97.4%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Typical Advisor Charge per Visit	$358	$200	$358	$200	N/A	N/A
Provide Branch Offices With Compliance Subsidy						
Yes	5.9%		0.0%		7.9%	
No	94.1%		100.0%		92.1%	
Percentage of B-Ds With Outsourced Advisor Services						
Clearing	72.2%		71.4%		72.5%	
Commission Processing	5.6%		14.3%		2.5%	
Compliance	7.4%		21.4%		2.5%	
Portfolio Reporting/Statements	44.4%		50.0%		42.5%	
Other	24.1%		42.9%		17.5%	

Advisor Fees
Broker-Dealer by Revenue Size

	Less Than $17M	$17M - $54M	$54M - $100M
Affiliation Fee			
Covered 100% by Broker-Dealer	0.0%	25.0%	37.5%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	100.0%	75.0%	62.5%
Required	75.0%	100.0%	100.0%
Optional	0.0%	0.0%	0.0%
Not Available	25.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
Compliance Fee			
Covered 100% by Broker-Dealer	N/A	60.0%	100.0%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	40.0%	0.0%
Required	33.3%	50.0%	N/A
Optional	0.0%	0.0%	N/A
Not Available	66.7%	25.0%	N/A
Included in Other Fees	0.0%	25.0%	N/A
Fidelity Bond Coverage Charge			
Covered 100% by Broker-Dealer	50.0%	33.3%	20.0%
Shared by Broker-Dealer and Advisor	50.0%	0.0%	0.0%
Paid 100% by Advisor	0.0%	66.7%	80.0%
Required	N/A	100.0%	50.0%
Optional	N/A	0.0%	0.0%
Not Available	N/A	0.0%	0.0%
Included in Other Fees	N/A	0.0%	50.0%
Non-Producing License Fee			
Covered 100% by Broker-Dealer	0.0%	16.7%	25.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	100.0%	83.3%	75.0%
Required	N/A	100.0%	N/A
Optional	N/A	0.0%	N/A
Not Available	N/A	0.0%	N/A
Included in Other Fees	N/A	0.0%	N/A
Home Office OSJ Fee			
Covered 100% by Broker-Dealer	N/A	50.0%	66.7%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	50.0%	33.3%
Required	33.3%	100.0%	N/A
Optional	0.0%	0.0%	N/A
Not Available	33.3%	0.0%	N/A
Included in Other Fees	33.3%	0.0%	N/A
State/FINRA Licensing Fee			
Covered 100% by Broker-Dealer	0.0%	10.0%	0.0%
Shared by Broker-Dealer and Advisor	0.0%	10.0%	37.5%
Paid 100% by Advisor	100.0%	80.0%	62.5%
Required	100.0%	85.7%	100.0%
Optional	0.0%	14.3%	0.0%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
SIPC Fee			
Covered 100% by Broker-Dealer	66.7%	60.0%	71.4%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	33.3%	40.0%	28.6%
Required	66.7%	N/A	N/A
Optional	0.0%	N/A	N/A
Not Available	0.0%	N/A	N/A
Included in Other Fees	33.3%	N/A	N/A

Advisor Fees
Broker-Dealer by Revenue Size

	Less Than $17M	$17M - $54M	$54M - $100M
Overall Technology Fee			
Covered 100% by Broker-Dealer	N/A	25.0%	71.4%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	75.0%	28.6%
Required	50.0%	0.0%	N/A
Optional	0.0%	66.7%	N/A
Not Available	50.0%	33.3%	N/A
Included in Other Fees	0.0%	0.0%	N/A
Quotes, Real-Time			
Covered 100% by Broker-Dealer	0.0%	0.0%	22.2%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	100.0%	100.0%	77.8%
Required	0.0%	0.0%	0.0%
Optional	100.0%	100.0%	100.0%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
Quotes, Delayed			
Covered 100% by Broker-Dealer	0.0%	16.7%	62.5%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	100.0%	83.3%	37.5%
Required	0.0%	0.0%	N/A
Optional	75.0%	75.0%	N/A
Not Available	25.0%	25.0%	N/A
Included in Other Fees	0.0%	0.0%	N/A
Portfolio Management			
Covered 100% by Broker-Dealer	0.0%	0.0%	14.3%
Shared by Broker-Dealer and Advisor	20.0%	0.0%	0.0%
Paid 100% by Advisor	80.0%	100.0%	85.7%
Required	0.0%	0.0%	0.0%
Optional	66.7%	80.0%	80.0%
Not Available	0.0%	20.0%	0.0%
Included in Other Fees	33.3%	0.0%	20.0%
Web site for Advisor			
Covered 100% by Broker-Dealer	33.3%	0.0%	14.3%
Shared by Broker-Dealer and Advisor	33.3%	0.0%	0.0%
Paid 100% by Advisor	66.7%	100.0%	85.7%
Required	0.0%	0.0%	0.0%
Optional	33.3%	75.0%	100.0%
Not Available	33.3%	25.0%	0.0%
Included in Other Fees	33.3%	0.0%	0.0%
Investment Research			
Covered 100% by Broker-Dealer	0.0%	0.0%	33.3%
Shared by Broker-Dealer and Advisor	33.3%	0.0%	0.0%
Paid 100% by Advisor	66.7%	100.0%	66.7%
Required	0.0%	0.0%	0.0%
Optional	66.7%	75.0%	100.0%
Not Available	33.3%	25.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
Client Account Access			
Covered 100% by Broker-Dealer	0.0%	40.0%	44.4%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	100.0%	60.0%	55.6%
Required	0.0%	0.0%	0.0%
Optional	66.7%	50.0%	100.0%
Not Available	0.0%	50.0%	0.0%
Included in Other Fees	33.3%	0.0%	0.0%
Client Relationship Management			
Covered 100% by Broker-Dealer	N/A	20.0%	33.3%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	80.0%	66.7%
Required	0.0%	0.0%	N/A
Optional	66.7%	50.0%	N/A
Not Available	33.3%	50.0%	N/A
Included in Other Fees	0.0%	0.0%	N/A
Data Mining			
Covered 100% by Broker-Dealer	N/A	0.0%	66.7%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	100.0%	33.3%
Required	0.0%	0.0%	N/A
Optional	33.3%	50.0%	N/A
Not Available	66.7%	50.0%	N/A
Included in Other Fees	0.0%	0.0%	N/A
Help Desk			
Covered 100% by Broker-Dealer	N/A	50.0%	80.0%
Shared by Broker-Dealer and Advisor	N/A	0.0%	20.0%
Paid 100% by Advisor	N/A	50.0%	0.0%
Required	0.0%	0.0%	N/A
Optional	0.0%	33.3%	N/A
Not Available	50.0%	66.7%	N/A
Included in Other Fees	50.0%	0.0%	N/A

Advisor Fees

Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
	Average	Median	Average	Median	Average	Median
Mutual Funds	$21.88	$17.50	$18.00	$18.50	$14.58	$15.00
General Securities	$22.10	$18.00	$19.10	$20.00	$25.70	$25.00
Unit Investment Trusts (UIT)	$26.38	$26.40	$28.85	$26.75	$33.05	$35.00
Fixed Income	$27.50	$25.00	$30.85	$31.75	$34.83	$35.00
Ticket Charges Cleared Through Clearing Firm						
Passed Straight Through	40.0%		18.2%		30.8%	
Marked-Up	60.0%		81.8%		69.2%	
Mark-up Amount	Average	Median	Average	Median	Average	Median
Mutual Funds	N/A	N/A	61%	50%	75%	50%
General Securities	N/A	N/A	93%	80%	131%	63%
Unit Investment Trusts	N/A	N/A	51%	50%	74%	50%
Fixed Income	N/A	N/A	59%	50%	76%	63%
Offer Account Aggregation Technology to Advisors						
Yes	60.0%		91.7%		85.7%	
No	40.0%		8.3%		14.3%	
Allow Client Access to Consolidated Statements						
Yes	40.0%		58.3%		92.9%	
No	60.0%		41.7%		7.1%	
	Average	Median	Average	Median	Average	Median
% of Advisors Participating	75%	75%	37%	41%	31%	20%
Charge per Year	N/A	N/A	$2,286	$1,800	$1,959	$1,800
Offer Differentiated Services to Best Advisors						
Yes	66.7%		25.0%		25.0%	
No	33.3%		75.0%		75.0%	
Charge for Compliance Audits						
Yes	0.0%		8.3%		7.1%	
No	100.0%		91.7%		92.9%	
	Average	Median	Average	Median	Average	Median
% Cost Paid by Advisor	N/A	N/A	N/A	N/A	N/A	N/A
Typical Advisor Charge per Audit	N/A	N/A	N/A	N/A	N/A	N/A
Pass Along Any Costs for Business Compliance Visits						
Yes	20.0%		8.3%		0.0%	
No	80.0%		91.7%		100.0%	
	Average	Median	Average	Median	Average	Median
Typical Advisor Charge per Visit	N/A	N/A	N/A	N/A	N/A	N/A
Provide Branch Offices With Compliance Subsidy						
Yes	0.0%		0.0%		15.4%	
No	100.0%		100.0%		84.6%	
Percentage of B-Ds With Outsourced Advisor Services						
Clearing	40.0%		91.7%		71.4%	
Commission Processing	20.0%		8.3%		0.0%	
Compliance	20.0%		16.7%		0.0%	
Portfolio Reporting/Statements	40.0%		58.3%		42.9%	
Other	40.0%		8.3%		14.3%	

Advisor Fees
Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Affiliation Fee		
Covered 100% by Broker-Dealer	0.0%	0.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	100.0%	100.0%
Required	60.0%	100.0%
Optional	0.0%	0.0%
Not Available	40.0%	0.0%
Included in Other Fees	0.0%	0.0%
Compliance Fee		
Covered 100% by Broker-Dealer	60.0%	60.0%
Shared by Broker-Dealer and Advisor	20.0%	0.0%
Paid 100% by Advisor	20.0%	40.0%
Required	22.2%	25.0%
Optional	0.0%	0.0%
Not Available	55.6%	0.0%
Included in Other Fees	22.2%	75.0%
Fidelity Bond Coverage Charge		
Covered 100% by Broker-Dealer	50.0%	25.0%
Shared by Broker-Dealer and Advisor	16.7%	0.0%
Paid 100% by Advisor	33.3%	75.0%
Required	75.0%	75.0%
Optional	0.0%	0.0%
Not Available	12.5%	25.0%
Included in Other Fees	12.5%	0.0%
Non-Producing License Fee		
Covered 100% by Broker-Dealer	0.0%	66.7%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	100.0%	33.3%
Required	40.0%	25.0%
Optional	0.0%	0.0%
Not Available	60.0%	75.0%
Included in Other Fees	0.0%	0.0%
Home Office OSJ Fee		
Covered 100% by Broker-Dealer	N/A	66.7%
Shared by Broker-Dealer and Advisor	N/A	0.0%
Paid 100% by Advisor	N/A	33.3%
Required	10.0%	60.0%
Optional	0.0%	0.0%
Not Available	80.0%	40.0%
Included in Other Fees	10.0%	0.0%
State/FINRA Licensing Fee		
Covered 100% by Broker-Dealer	0.0%	0.0%
Shared by Broker-Dealer and Advisor	14.3%	16.7%
Paid 100% by Advisor	85.7%	83.3%
Required	87.5%	100.0%
Optional	0.0%	0.0%
Not Available	12.5%	0.0%
Included in Other Fees	0.0%	0.0%
SIPC Fee		
Covered 100% by Broker-Dealer	75.0%	50.0%
Shared by Broker-Dealer and Advisor	12.5%	0.0%
Paid 100% by Advisor	12.5%	50.0%
Required	50.0%	50.0%
Optional	12.5%	0.0%
Not Available	25.0%	50.0%
Included in Other Fees	12.5%	0.0%

Advisor Fees

Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Overall Technology Fee		
Covered 100% by Broker-Dealer	33.3%	28.6%
Shared by Broker-Dealer and Advisor	0.0%	14.3%
Paid 100% by Advisor	66.7%	57.1%
Required	37.5%	50.0%
Optional	12.5%	16.7%
Not Available	37.5%	33.3%
Included in Other Fees	12.5%	0.0%
Quotes, Real-Time		
Covered 100% by Broker-Dealer	10.0%	0.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	90.0%	100.0%
Required	11.1%	0.0%
Optional	77.8%	100.0%
Not Available	0.0%	0.0%
Included in Other Fees	11.1%	0.0%
Quotes, Delayed		
Covered 100% by Broker-Dealer	88.9%	57.1%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	11.1%	42.9%
Required	22.2%	0.0%
Optional	33.3%	50.0%
Not Available	11.1%	0.0%
Included in Other Fees	33.3%	50.0%
Portfolio Management		
Covered 100% by Broker-Dealer	42.9%	57.1%
Shared by Broker-Dealer and Advisor	28.6%	0.0%
Paid 100% by Advisor	28.6%	42.9%
Required	12.5%	0.0%
Optional	50.0%	50.0%
Not Available	12.5%	0.0%
Included in Other Fees	25.0%	50.0%
Web site for Advisor		
Covered 100% by Broker-Dealer	22.2%	12.5%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	77.8%	87.5%
Required	11.1%	0.0%
Optional	88.9%	100.0%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	0.0%
Investment Research		
Covered 100% by Broker-Dealer	22.2%	25.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	77.8%	75.0%
Required	14.3%	0.0%
Optional	85.7%	66.7%
Not Available	0.0%	33.3%
Included in Other Fees	0.0%	0.0%
Client Account Access		
Covered 100% by Broker-Dealer	55.6%	85.7%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	44.4%	14.3%
Required	25.0%	16.7%
Optional	50.0%	33.3%
Not Available	0.0%	33.3%
Included in Other Fees	25.0%	16.7%
Client Relationship Management		
Covered 100% by Broker-Dealer	37.5%	75.0%
Shared by Broker-Dealer and Advisor	25.0%	0.0%
Paid 100% by Advisor	37.5%	25.0%
Required	12.5%	0.0%
Optional	50.0%	60.0%
Not Available	12.5%	40.0%
Included in Other Fees	25.0%	0.0%
Data Mining		
Covered 100% by Broker-Dealer	44.4%	100.0%
Shared by Broker-Dealer and Advisor	22.2%	0.0%
Paid 100% by Advisor	33.3%	0.0%
Required	28.6%	0.0%
Optional	57.1%	50.0%
Not Available	0.0%	50.0%
Included in Other Fees	14.3%	0.0%
Help Desk		
Covered 100% by Broker-Dealer	100.0%	100.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	0.0%	0.0%
Required	37.5%	40.0%
Optional	25.0%	20.0%
Not Available	25.0%	40.0%
Included in Other Fees	12.5%	0.0%

Advisor Fees
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	Median	Average	Median
Mutual Funds	$15.68	$15.65	$15.56	$12.00
General Securities	$24.24	$19.50	$22.35	$22.50
Unit Investment Trusts (UIT)	$37.22	$35.00	$33.11	$30.00
Fixed Income	$34.33	$34.50	$29.56	$30.00
Ticket Charges Cleared Through Clearing Firm				
Passed Straight Through	11.1%		20.0%	
Marked-Up	88.9%		80.0%	
Mark-up Amount	Average	Median	Average	Median
Mutual Funds	100%	70%	40%	42%
General Securities	143%	138%	75%	50%
Unit Investment Trusts	39%	43%	N/A	N/A
Fixed Income	126%	127%	N/A	N/A
Offer Account Aggregation Technology to Advisors				
Yes	100.0%		90.9%	
No	0.0%		9.1%	
Allow Client Access to Consolidated Statements				
Yes	100.0%		100.0%	
No	0.0%		0.0%	
	Average	Median	Average	Median
% of Advisors Participating	56%	50%	47%	35%
Charge per Year	$1,731	$1,740	$1,276	$1,092
Offer Differentiated Services to Best Advisors				
Yes	66.7%		60.0%	
No	33.3%		40.0%	
Charge for Compliance Audits				
Yes	9.1%		36.4%	
No	90.9%		63.6%	
	Average	Median	Average	Median
% Cost Paid by Advisor	N/A	N/A	N/A	N/A
Typical Advisor Charge per Audit	N/A	N/A	$319	$307
Pass Along Any Costs for Business Compliance Visits				
Yes	0.0%		18.2%	
No	100.0%		81.8%	
	Average	Median	Average	Median
Typical Advisor Charge per Visit	N/A	N/A	N/A	N/A
Provide Branch Offices With Compliance Subsidy				
Yes	0.0%		9.1%	
No	100.0%		90.9%	
Percentage of B-Ds With Outsourced Advisor Services				
Clearing	58.3%		81.8%	
Commission Processing	0.0%		9.1%	
Compliance	8.3%		0.0%	
Portfolio Reporting/Statements	33.3%		45.5%	
Other	25.0%		45.5%	

Advisor Fees

Independent and Insurance-Affiliated Broker-Dealers

	Independent	Insurance-Affiliated
Affiliation Fee		
Covered 100% by Broker-Dealer	18.8%	12.5%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	81.3%	87.5%
Required	92.3%	75.0%
Optional	0.0%	0.0%
Not Available	7.7%	25.0%
Included in Other Fees	0.0%	0.0%
Compliance Fee		
Covered 100% by Broker-Dealer	45.5%	83.3%
Shared by Broker-Dealer and Advisor	9.1%	8.3%
Paid 100% by Advisor	45.5%	8.3%
Required	33.3%	27.3%
Optional	0.0%	0.0%
Not Available	44.4%	36.4%
Included in Other Fees	22.2%	36.4%
Fidelity Bond Coverage Charge		
Covered 100% by Broker-Dealer	28.6%	42.9%
Shared by Broker-Dealer and Advisor	14.3%	7.1%
Paid 100% by Advisor	57.1%	50.0%
Required	81.8%	75.0%
Optional	0.0%	0.0%
Not Available	9.1%	8.3%
Included in Other Fees	9.1%	16.7%
Non-Producing License Fee		
Covered 100% by Broker-Dealer	21.4%	22.2%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	78.6%	77.8%
Required	66.7%	38.5%
Optional	0.0%	7.7%
Not Available	33.3%	53.8%
Included in Other Fees	0.0%	0.0%
Home Office OSJ Fee		
Covered 100% by Broker-Dealer	50.0%	90.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	50.0%	10.0%
Required	50.0%	33.3%
Optional	0.0%	0.0%
Not Available	40.0%	58.3%
Included in Other Fees	10.0%	8.3%
State/FINRA Licensing Fee		
Covered 100% by Broker-Dealer	6.3%	0.0%
Shared by Broker-Dealer and Advisor	0.0%	31.6%
Paid 100% by Advisor	93.8%	68.4%
Required	92.3%	92.9%
Optional	7.7%	0.0%
Not Available	0.0%	7.1%
Included in Other Fees	0.0%	0.0%
SIPC Fee		
Covered 100% by Broker-Dealer	60.0%	70.6%
Shared by Broker-Dealer and Advisor	10.0%	0.0%
Paid 100% by Advisor	30.0%	29.4%
Required	85.7%	45.5%
Optional	0.0%	9.1%
Not Available	0.0%	36.4%
Included in Other Fees	14.3%	9.1%

Advisor Fees

Independent and Insurance-Affiliated Broker-Dealers

	Independent	Insurance-Affiliated
Overall Technology Fee		
Covered 100% by Broker-Dealer	16.7%	57.1%
Shared by Broker-Dealer and Advisor	0.0%	7.1%
Paid 100% by Advisor	83.3%	35.7%
Required	33.3%	38.5%
Optional	44.4%	0.0%
Not Available	22.2%	46.2%
Included in Other Fees	0.0%	15.4%
Quotes, Real-Time		
Covered 100% by Broker-Dealer	5.6%	8.7%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	94.4%	91.3%
Required	0.0%	6.3%
Optional	100.0%	87.5%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	6.3%
Quotes, Delayed		
Covered 100% by Broker-Dealer	38.5%	61.9%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	61.5%	38.1%
Required	0.0%	14.3%
Optional	88.9%	35.7%
Not Available	11.1%	14.3%
Included in Other Fees	0.0%	35.7%
Portfolio Management		
Covered 100% by Broker-Dealer	6.7%	38.9%
Shared by Broker-Dealer and Advisor	20.0%	0.0%
Paid 100% by Advisor	73.3%	61.1%
Required	0.0%	6.7%
Optional	100.0%	40.0%
Not Available	0.0%	13.3%
Included in Other Fees	0.0%	40.0%
Web site for Advisor		
Covered 100% by Broker-Dealer	21.4%	11.1%
Shared by Broker-Dealer and Advisor	7.1%	0.0%
Paid 100% by Advisor	78.6%	88.9%
Required	0.0%	7.1%
Optional	100.0%	71.4%
Not Available	0.0%	14.3%
Included in Other Fees	0.0%	7.1%
Investment Research		
Covered 100% by Broker-Dealer	0.0%	26.3%
Shared by Broker-Dealer and Advisor	11.1%	0.0%
Paid 100% by Advisor	88.9%	73.7%
Required	0.0%	7.7%
Optional	70.0%	84.6%
Not Available	30.0%	7.7%
Included in Other Fees	0.0%	0.0%
Client Account Access		
Covered 100% by Broker-Dealer	38.5%	57.1%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	61.5%	42.9%
Required	0.0%	21.4%
Optional	77.8%	42.9%
Not Available	22.2%	7.1%
Included in Other Fees	0.0%	28.6%
Client Relationship Management		
Covered 100% by Broker-Dealer	25.0%	41.2%
Shared by Broker-Dealer and Advisor	25.0%	0.0%
Paid 100% by Advisor	50.0%	58.8%
Required	10.0%	0.0%
Optional	50.0%	66.7%
Not Available	40.0%	16.7%
Included in Other Fees	0.0%	16.7%
Data Mining		
Covered 100% by Broker-Dealer	28.6%	53.8%
Shared by Broker-Dealer and Advisor	28.6%	0.0%
Paid 100% by Advisor	42.9%	46.2%
Required	11.1%	9.1%
Optional	44.4%	54.5%
Not Available	44.4%	18.2%
Included in Other Fees	0.0%	18.2%
Help Desk		
Covered 100% by Broker-Dealer	75.0%	85.7%
Shared by Broker-Dealer and Advisor	12.5%	0.0%
Paid 100% by Advisor	12.5%	14.3%
Required	11.1%	30.8%
Optional	33.3%	15.4%
Not Available	44.4%	30.8%
Included in Other Fees	11.1%	23.1%

Advisor Fees

Independent and Insurance-Affiliated Broker-Dealers

	Independent		*Insurance-Affiliated*	
	Average	*Median*	*Average*	*Median*
Mutual Funds	$18.70	$17.50	$14.39	$15.00
General Securities	$22.36	$21.00	$23.28	$24.00
Unit Investment Trusts (UIT)	$30.57	$28.50	$33.70	$35.00
Fixed Income	$30.48	$30.00	$33.29	$33.50
Ticket Charges Cleared Through Clearing Firm				
Passed Straight Through	9.1%		34.6%	
Marked-Up	90.9%		65.4%	
Mark-up Amount	*Average*	*Median*	*Average*	*Median*
Mutual Funds	69%	50%	67%	50%
General Securities	95%	50%	118%	100%
Unit Investment Trusts	66%	50%	35%	42%
Fixed Income	61%	50%	96%	50%
Offer Account Aggregation Technology to Advisors				
Yes	83.3%		93.1%	
No	16.7%		6.9%	
Allow Client Access to Consolidated Statements				
Yes	79.2%		86.2%	
No	20.8%		13.8%	
	Average	*Median*	*Average*	*Median*
% of Advisors Participating	44%	45%	43%	30%
Charge per Year	$1,912	$1,860	$1,733	$1,450
Offer Differentiated Services to Best Advisors				
Yes	28.6%		57.1%	
No	71.4%		42.9%	
Charge for Compliance Audits				
Yes	25.0%		3.4%	
No	75.0%		96.6%	
	Average	*Median*	*Average*	*Median*
% Cost Paid by Advisor	95%	100%	N/A	N/A
Typical Advisor Charge per Audit	$316	$307	N/A	N/A
Pass Along Any Costs for Business Compliance Visits				
Yes	16.7%		0.0%	
No	83.3%		100.0%	
	Average	*Median*	*Average*	*Median*
Typical Advisor Charge per Visit	$358	$200	N/A	N/A
Provide Branch Offices With Compliance Subsidy				
Yes	4.3%		7.1%	
No	95.7%		92.9%	
Percentage of B-Ds With Outsourced Advisor Services				
Clearing	66.7%		76.7%	
Commission Processing	8.3%		3.3%	
Compliance	8.3%		6.7%	
Portfolio Reporting/Statements	45.8%		43.3%	
Other	20.8%		26.7%	

Production and E&O Requirements

Production and E & O Requirements

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Have a Minimum Production Requirement for Advisors						
Yes	52.8%		35.7%		59.0%	
No	47.2%		64.3%		41.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Production Minimum	$122,354	$50,000	$92,400	$50,000	$128,865	$40,000
If Parent-Owned, Production Req. for Proprietary Products						
Yes	8.9%		0.0%		12.1%	
No	91.1%		100.0%		87.9%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Production Minimum	$31,250	$30,500	N/A	N/A	$31,250	$30,500
If Yes, Percent of Advisors Not Meeting Minimum Requirement	23.1%	13.3%	N/A	N/A	22.7%	13.4%
Have Firm Low Production Fee						
Yes	26.7%		27.3%		26.5%	
No	73.3%		72.7%		73.5%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Implementation Level	$40,125	$30,000	N/A	N/A	$41,833	$27,500
Average Annual Production Per Advisor	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2006	$128,294	$105,321	$142,735	$133,000	$124,101	$100,000
2007	$144,039	$116,050	$167,649	$167,600	$136,169	$108,000
2008	$134,654	$112,500	$157,378	$158,212	$127,079	$109,828
Advisors Required to Take E&O Insurance						
Yes	96.3%		85.7%		100.0%	
No	3.7%		14.3%		0.0%	
Mandatory E & O Coverage						
Yes	98.1%		92.3%		100.0%	
No	1.9%		7.7%		0.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$3,212,909	$1,250,000	$4,142,883	$2,000,000	$2,941,667	$1,000,000
If Yes, Specific Requirements						
Advisors Purchase Own Plan	10.4%		0.0%		13.9%	
Mandatory Plan	89.6%		100.0%		86.1%	
Parameters of Mandatory Plan	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$3,515,152	$2,000,000	$4,100,000	$2,000,000	$3,260,870	$1,500,000
Deductible	$10,696	$5,000	$6,944	$5,000	$11,902	$5,000
Policy Limit	$6,794,872	$5,000,000	$7,909,091	$8,000,000	$6,357,143	$4,500,000
Average Cost of Plan per Advisor	$2,323	$1,825	$3,631	$1,680	$1,747	$1,900
% of E&O Cost, if any, Paid by BD	48%	28%	N/A	N/A	38%	25%
E&O Carrier Offering Segregated Pricing for Advisors						
Yes	23.5%		23.1%		23.7%	
No	76.5%		76.9%		76.3%	
Changes in E&O Insurance during 2008	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
% Change in Advisor's Policy	0.1%	0.0%	-0.2%	0.0%	0.2%	0.0%
% Change in Advisor's Deductible	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% Change in Firm's Policy	1.1%	3.8%	10.4%	-1.0%	-3.1%	4.0%
% Change in Firm's Deductible	1.5%	0.0%	0.0%	0.0%	2.0%	0.0%

Production and E & O Requirements

Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
Have a Minimum Production Requirement for Advisors						
Yes	60.0%		66.7%		64.3%	
No	40.0%		33.3%		35.7%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Production Minimum	$67,467	$50,000	$100,375	$75,000	$229,167	$40,000
If Parent-Owned, Production Req. for Proprietary Products						
Yes	20.0%		14.3%		7.7%	
No	80.0%		85.7%		92.3%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Production Minimum	N/A	N/A	N/A	N/A	N/A	N/A
If Yes, Percent of Advisors Not Meeting Minimum Requirement	N/A	N/A	N/A	N/A	N/A	N/A
Have Firm Low Production Fee						
Yes	40.0%		27.3%		33.3%	
No	60.0%		72.7%		66.7%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Implementation Level	N/A	N/A	N/A	N/A	$55,000	$40,000
Average Annual Production Per Advisor	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2006	$118,932	$131,000	$100,289	$105,642	$172,908	$110,000
2007	$140,313	$160,000	$114,361	$123,500	$194,339	$140,000
2008	$136,706	$159,500	$109,832	$124,000	$181,814	$129,000
Advisors Required to Take E&O Insurance						
Yes	80.0%		100.0%		100.0%	
No	20.0%		0.0%		0.0%	
Mandatory E & O Coverage						
Yes	100.0%		100.0%		100.0%	
No	0.0%		0.0%		0.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$1,312,500	$1,125,000	$1,166,697	$1,000,000	$1,293,750	$1,125,000
If Yes, Specific Requirements						
Advisors Purchase Own Plan	0.0%		8.3%		7.7%	
Mandatory Plan	100.0%		91.7%		92.3%	
Parameters of Mandatory Plan	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$1,375,000	$1,250,000	$1,857,143	$1,000,000	$1,777,778	$2,000,000
Deductible	$19,333	$5,000	$8,600	$5,000	$15,850	$5,000
Policy Limit	$3,125,000	$2,750,000	$4,727,273	$5,000,000	$4,272,727	$3,000,000
Average Cost of Plan per Advisor	$2,075	$2,200	$4,375	$1,750	$1,528	$1,636
% of E&O Cost, if any, Paid by BD	N/A	N/A	N/A	N/A	45%	25%
E&O Carrier Offering Segregated Pricing for Advisors						
Yes	20.0%		16.7%		30.8%	
No	80.0%		83.3%		69.2%	
Changes in E&O Insurance during 2008	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
% Change in Advisor's Policy	8.3%	0.0%	2.7%	0.0%	1.0%	0.0%
% Change in Advisor's Deductible	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% Change in Firm's Policy	N/A	N/A	-1.3%	0.0%	2.7%	5.9%
% Change in Firm's Deductible	N/A	N/A	5.7%	0.0%	0.0%	0.0%

Production and E & O Requirements
Broker-Dealer by Revenue Size

	$100M - $250M			More Than $250M		
Have a Minimum Production Requirement for Advisors						
Yes		33.3%			40.0%	
No		66.7%			60.0%	
	Average		*Median*	*Average*		*Median*
If Yes, Production Minimum	$46,000		$24,500	$43,500		$45,000
If Parent-Owned, Production Req. for Proprietary Products						
Yes		9.1%			0.0%	
No		90.9%			100.0%	
	Average		*Median*	*Average*		*Median*
If Yes, Production Minimum	N/A		N/A	N/A		N/A
If Yes, Percent of Advisors Not Meeting Minimum Requirement	N/A		N/A	N/A		N/A
Have Firm Low Production Fee						
Yes		10.0%			28.6%	
No		90.0%			71.4%	
	Average		*Median*	*Average*		*Median*
If Yes, Implementation Level	N/A		N/A	N/A		N/A
Average Annual Production Per Advisor	*Average*		*Median*	*Average*		*Median*
2006	$99,984		$88,900	$135,940		$105,000
2007	$103,084		$82,000	$154,870		$128,050
2008	$87,181		$71,903	$151,833		$126,900
Advisors Required to Take E&O Insurance						
Yes		100.0%			90.9%	
No		0.0%			9.1%	
Mandatory E & O Coverage						
Yes		100.0%			90.0%	
No		0.0%			10.0%	
	Average		*Median*	*Average*		*Median*
If Yes, Minimum Required Coverage	$3,666,667		$2,000,000	$11,000,000		$11,000,000
If Yes, Specific Requirements						
Advisors Purchase Own Plan		20.0%			11.1%	
Mandatory Plan		80.0%			88.9%	
Parameters of Mandatory Plan	*Average*		*Median*	*Average*		*Median*
Coverage Obtained	$4,928,571		$2,000,000	$7,833,333		$2,000,000
Deductible	$6,607		$5,000	$6,714		$5,000
Policy Limit	$13,642,857		$10,000,000	$9,666,667		$10,000,000
Average Cost of Plan per Advisor	$1,832		$1,940	$1,201		$1,065
% of E&O Cost, if any, Paid by BD	N/A		N/A	N/A		N/A
E&O Carrier Offering Segregated Pricing for Advisors						
Yes		33.3%			11.1%	
No		66.7%			88.9%	
Changes in E&O Insurance during 2008	*Average*		*Median*	*Average*		*Median*
% Change in Advisor's Policy	-1.8%		0.0%	-5.0%		-5.8%
% Change in Advisor's Deductible	0.0%		0.0%	0.0%		0.0%
% Change in Firm's Policy	-3.4%		-2.1%	N/A		N/A
% Change in Firm's Deductible	0.0%		0.0%	N/A		N/A

Production and E & O Requirements

Independent and Insurance-Affiliated Broker-Dealers

	Independent		Insurance-Affiliated	
Have a Minimum Production Requirement for Advisors				
Yes	50.0%		55.2%	
No	50.0%		44.8%	
	Average	*Median*	*Average*	*Median*
If Yes, Production Minimum	$239,750	$112,500	$34,306	$24,500
If Parent-Owned, Production Req. for Proprietary Products				
Yes	0.0%		14.3%	
No	100.0%		85.7%	
	Average	*Median*	*Average*	*Median*
If Yes, Production Minimum	N/A	N/A	$31,250	$30,500
If Yes, Percent of Advisors Not Meeting Minimum Requirement	N/A	N/A	17.7%	13.3%
Have Firm Low Production Fee				
Yes	25.0%		28.0%	
No	75.0%		72.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Implementation Level	$61,250	$57,500	$19,000	$21,500
Average Annual Production Per Advisor	*Average*	*Median*	*Average*	*Median*
2006	$182,495	$141,937	$83,947	$89,450
2007	$211,890	$176,850	$95,574	$94,651
2008	$206,858	$180,647	$87,348	$90,000
Advisors Required to Take E&O Insurance				
Yes	91.7%		100.0%	
No	8.3%		0.0%	
Mandatory E & O Coverage				
Yes	95.5%		100.0%	
No	4.5%		0.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$1,545,471	$2,000,000	$4,130,000	$1,125,000
If Yes, Specific Requirements				
Advisors Purchase Own Plan	0.0%		18.5%	
Mandatory Plan	100.0%		81.5%	
Parameters of Mandatory Plan	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$1,875,000	$2,000,000	$5,058,824	$2,000,000
Deductible	$17,971	$5,000	$4,513	$5,000
Policy Limit	$5,842,105	$5,000,000	$7,700,000	$4,500,000
Average Cost of Plan per Advisor	$2,892	$1,715	$1,753	$1,900
% of E&O Cost, if any, Paid by BD	45%	28%	N/A	N/A
E&O Carrier Offering Segregated Pricing for Advisors				
Yes	13.0%		32.1%	
No	87.0%		67.9%	
Changes in E&O Insurance during 2008	*Average*	*Median*	*Average*	*Median*
% Change in Advisor's Policy	2.9%	0.0%	-1.7%	0.0%
% Change in Advisor's Deductible	0.0%	0.0%	0.0%	0.0%
% Change in Firm's Policy	1.8%	3.9%	0.0%	0.0%
% Change in Firm's Deductible	2.6%	0.0%	0.0%	0.0%

Advisor-Owned RIA

Advisor-Owned RIA
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Allow Advisors to Have Own RIA for Financial Planning						
Yes	61.1%		78 6%		55.0%	
No, but considering allowing within 12 months	7.4%		7.1%		7 5%	
No, and no plans to allow within next 12 months	31 5%		14 3%			
Allow Advisors to Have Own RIA for Asset Management						
Yes	53.7%		64 3%		50.0%	
No, but considering allowing within 12 months	11.1%		14 3%		10.0%	
No, and no plans to allow within next 12 months	35 2%		21.4%		40.0%	
Choosing a Custody for Own RIA						
Mandate Custody	38 9%		66.7%		25.0%	
Advisor's Choice	61.1%		33 3%		75.0%	
Advisor-Owned RIAs *	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2006	69	15	188	45	15	12
2007	70	16	180	51	25	13
2008	109	14	329	224	21	13
AUM in Advisor-Owned RIAs*	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2006	$2,915,331,432	$443,000,000	$8,375,122,357	$10,848,329,658	$575,421,035	$250,000,000
2007	$3,173,359,765	$455,000,000	$9,302,147,280	$11,877,822,893	$875,064,447	$300,000,000
2008	$2,081,753,475	$350,000,000	$5,376,029,313	$4,737,058,626	$764,043,140	$125,267,639
Take a Payout on Financial Planning Fees						
Yes	47.1%		36.4%		52.2%	
No	52 9%		63 6%		47.8%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	6%	5%	8%	5%	6%	5%
If Yes, Maximum Percent of Payout	10%	10%	11%	10%	9%	10%
Take a Payout on AUM						
Yes	63 6%		72.7%		59.1%	
No	36.4%		27 3%		40.9%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	14%	5%	24%	5%	11%	5%
If Yes, Maximum Percent of Payout	13%	8%	25%	14%	7%	7%
Charge Audit Fees for Own RIA						
Yes	20 6%		45 5%		8.7%	
No	79.4%		54 5%		91.3%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Charge for Audit	$271	$304	$271	$304	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Advisor-Owned RIA
Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
Allow Advisors to Have Own RIA for Financial Planning						
Yes	60.0%		58.3%		78.6%	
No, but considering allowing within 12 months	20.0%		8.3%		0.0%	
No, and no plans to allow within next 12 months	20.0%		33.3%		21.4%	
Allow Advissors to Have Own RIA for Asset Management						
Yes	60.0%		66.7%		64.3%	
No, but considering allowing within 12 months	20.0%		0.0%		7.1%	
No, and no plans to allow within next 12 months	20.0%		33.3%		28.6%	
Choosing a Custody for Own RIA						
Mandate Custody	0.0%		33.3%		18.2%	
Advisor's Choice	100.0%		66.7%		81.8%	
Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2006	N/A	N/A	9	9	17	10
2007	N/A	N/A	10	10	17	10
2008	N/A	N/A	11	9	15	12
AUM in Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2006	N/A	N/A	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A	N/A	N/A
2008	N/A	N/A	$185,666,667	$30,000,000	$283,511,759	$50,535,277
Take a Payout on Financial Planning Fees						
Yes	100.0%		85.7%		36.4%	
No	0.0%		14.3%		63.6%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	6%	5%	8%	7%	5%	5%
If Yes, Maximum Percent of Payout	9%	10%	10%	10%	8%	8%
Take a Payout on AUM						
Yes	66.7%		87.5%		50.0%	
No	33.3%		12.5%		50.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	N/A	N/A	18%	4%	4%	5%
If Yes, Maximum Percent of Payout	N/A	N/A	7%	9%	7%	6%
Charge Audit Fees for Own RIA						
Yes	0.0%		0.0%		10.0%	
No	100.0%		100.0%		90.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Charge for Audit	N/A	N/A	N/A	N/A	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Advisor-Owned RIA
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Allow Advisors to Have Own RIA for Financial Planning				
Yes	58.3%		45.5%	
No, but considering allowing within 12 months	8.3%		9.1%	
No, and no plans to allow within next 12 months	33.3%		45.5%	
Allow Advissors to Have Own RIA for Asset Management				
Yes	41.7%		36.4%	
No, but considering allowing within 12 months	25.0%		9.1%	
No, and no plans to allow within next 12 months	33.3%		54.5%	
Choosing a Custody for Own RIA				
Mandate Custody	57.1%		83.3%	
Advisor's Choice	42.9%		16.7%	
Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2006	120	44	N/A	N/A
2007	123	51	N/A	N/A
2008	110	43	N/A	N/A
AUM in Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2006	$4,787,906,396	$2,738,352,118	N/A	N/A
2007	$4,582,844,772	$3,126,778,098	N/A	N/A
2008	$3,141,202,675	$750,000,000	N/A	N/A
Take a Payout on Financial Planning Fees				
Yes	14.3%		33.3%	
No	85.7%		66.7%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	N/A	N/A	N/A	N/A
If Yes, Maximum Percent of Payout	N/A	N/A	N/A	N/A
Take a Payout on AUM				
Yes	50.0%		66.7%	
No	50.0%		33.3%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	3%	5%	N/A	N/A
If Yes, Maximum Percent of Payout	9%	9%	40%	30%
Charge Audit Fees for Own RIA				
Yes	42.9%		50.0%	
No	57.1%		50.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Charge for Audit	N/A	N/A	$319	$307

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Advisor-Owned RIA

Independent and Insurance-Affiliated Broker-Dealers

	Independent		Insurance-Affiliated	
Allow Advisors to Have Own RIA for Financial Planning				
Yes	75.0%		50.0%	
No, but considering allowing within 12 months	8.3%		6.7%	
No, and no plans to allow within next 12 months	16.7%		43.3%	
Allow Advisors to Have Own RIA for Asset Management				
Yes	70.8%		40.0%	
No, but considering allowing within 12 months	4.2%		16.7%	
No, and no plans to allow within next 12 months	25.0%		43.3%	
Choosing a Custody for Own RIA				
Mandate Custody	40.0%		37.5%	
Advisor's Choice	60.0%		62.5%	
Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2006	95	16	12	12
2007	92	20	31	12
2008	140	13	30	16
AUM in Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2006	$4,098,388,455	$777,037,412	$154,865,043	$108,595,130
2007	$4,885,911,298	$1,028,618,946	$176,394,582	$125,289,163
2008	$2,811,701,338	$530,864,253	$256,883,819	$125,267,639
Take a Payout on Financial Planning Fees				
Yes	57.9%		33.3%	
No	42.1%		66.7%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	7%	5%	N/A	N/A
If Yes, Maximum Percent of Payout	10%	10%	N/A	N/A
Take a Payout on AUM				
Yes	83.3%		40.0%	
No	16.7%		60.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	19%	5%	N/A	N/A
If Yes, Maximum Percent of Payout	17%	10%	N/A	N/A
Charge Audit Fees for Own RIA				
Yes	33.3%		6.3%	
No	66.7%		93.8%	
	Average	*Median*	*Average*	*Median*
If Yes, Charge for Audit	$271	$304	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Asset Management

Asset Management
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Corporate RIA AUM (only if all 3 years reported) as of:	Average	Median	Average	Median	Average	Median
December 31, 2006	$2,484,839,149	$1,318,604,904	$4,230,550,190	$3,122,000,000	$1,884,750,979	$1,081,779,784
December 31, 2007	$3,289,759,669	$1,900,000,000	$5,348,479,717	$4,038,502,387	$2,582,074,652	$1,630,083,718
December 31, 2008	$2,804,814,195	$1,426,717,779	$4,366,019,956	$3,141,574,646	$2,268,149,715	$1,188,985,596
Offer Asset Management Accounts						
Advisor Directed	92.6%		100.0%		90.0%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$49,405	$50,000	$40,909	$30,000	$52,419	$50,000
Broker-Dealer Directed	42.6%		50.0%		40.0%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$47,500	$50,000	$50,714	$50,000	$45,769	$50,000
Third-Party Turnkey Asset Management Programs	79.6%		85.7%		77.5%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$47,000	$50,000	$58,889	$50,000	$42,885	$50,000
Third Party Separately Managed Accounts	88.9%		24.1%		64.8%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$141,974	$100,000	$127,000	$100,000	$147,321	$100,000
Payout Fees Generated through AUM*						
Part of Overall Production	92.5%		85.7%		94.9%	
Fixed Percent, Regardless of the Total	7.5%		7.1%		7.7%	
Different Schedule Than GDC	5.7%		14.3%		2.6%	
One-Time Referral Payment to Advisor	0.0%		0.0%		0.0%	
No Payout	0.0%		0.0%		0.0%	
*Answers are independent of each other						
Cost of Corporate RIA's Fee-Based Program	Average	Median	Average	Median	Average	Median
Number of Full-Time Employees	19	5	5	3	23	5
Payroll	$2,028,885	$350,740	N/A	N/A	$2,270,337	$350,740
Technology Budget	$594,195	$150,000	N/A	N/A	$623,310	$125,000
Marketing Budget	$115,669	$52,500	N/A	N/A	$115,520	$46,322
Compliance Budget	$634,210	$202,920	N/A	N/A	$634,210	$202,920
Other Expenses	$959,275	$205,650	N/A	N/A	$1,032,211	$127,825
No specific budget available for corporate RIA	35.3%		50.0%		30.8%	
Revenue Sharing from Asset Mgrs on Corporate RIA						
Yes	37.7%		42.9%		35.9%	
No	62.3%		57.1%		64.1%	
If Yes, Number of Basis Points	Average	Median	Average	Median	Average	Median
Turnkey Asset Management Program	16	18	N/A	N/A	15	10
Separate Account Managers	28	10	25	5	29	10
Mutual Funds	8	9	N/A	N/A	8	9

Asset Management
Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
Corporate RIA AUM as of:	Average	Median	Average	Median	Average	Median
December 31, 2006	$410,000,000	$598,000,000	$822,084,799	$325,000,000	$2,682,661,648	$992,882,677
December 31, 2007	$486,333,333	$705,000,000	$1,032,498,096	$362,000,000	$2,527,351,904	$1,200,000,000
December 31, 2008	$210,600,000	$27,000,000	$657,504,790	$279,083,154	$2,062,141,514	$1,188,985,596
Offer Fee-Based Accounts						
Fee-Based Brokerage Accounts	9.3%		18.5%		24.1%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$59,000	$50,000	$53,125	$50,000	$55,000	$37,500
Third-Party Separate Accounts Program	0.0%		7.4%		11.1%	
	Average	Median	Average	Median	Average	Median
Account Minimum	N/A	N/A	$36,250	$37,500	$60,000	$50,000
In-House Money Managers	7.4%		18.5%		22.2%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$48,750	$37,500	$78,125	$50,000	$32,222	$25,000
Wrap Accounts	9.3%		18.5%		24.1%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$54,000	$50,000	$156,250	$100,000	$66,667	$50,000
Payout Fees Generated through AUM*						
Part of Overall Production	100.0%		100.0%		85.7%	
Fixed Percent, Regardless of the Total	0.0%		9.1%		7.1%	
Different Schedule Than GDC	0.0%		0.0%		7.1%	
One-Time Referral Payment to Advisor	0.0%		0.0%		0.0%	
No Payout	0.0%		0.0%		0.0%	
*Answers are independent of each other						
Cost of Corporate RIA's Fee-Based Program	Average	Median	Average	Median	Average	Median
Number of Full-Time Employees	N/A	N/A	2	2	8	5
Payroll	N/A	N/A	N/A	N/A	$489,352	$350,740
Technology Budget	N/A	N/A	N/A	N/A	$216,637	$125,000
Marketing Budget	N/A	N/A	N/A	N/A	$47,426	$38,750
Compliance Budget	N/A	N/A	N/A	N/A	N/A	N/A
Other Expenses	N/A	N/A	N/A	N/A	$140,090	$37,500
No specific budget available for corporate RIA	50.0%		42.9%		33.3%	
Revenue Sharing from Asset Mgrs on Corporate RIA						
Yes	40.0%		0.0%		42.9%	
No	60.0%		100.0%		57.1%	
If yes, number of basis points	Average	Median	Average	Median	Average	Median
Turnkey Asset Management Program	N/A	N/A	N/A	N/A	13	10
Separate Account Managers	N/A	N/A	N/A	N/A	8	9
Mutual Funds	N/A	N/A	N/A	N/A	8	8

Asset Management
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Corporate RIA AUM as of	*Average*	*Median*	*Average*	*Median*
December 31, 2006	$2,102,587,796	$1,850,989,236	$5,129,072,244	$4,564,961,658
December 31, 2007	$2,794,242,384	$2,500,499,049	$12,499,223,728	$7,405,109,942
December 31, 2008	$2,217,249,634	$2,135,767,185	$10,683,784,723	$6,675,110,691
Offer Fee-Based Accounts				
Fee-Based Brokerage Accounts	22.2%		18.5%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$43,636	$50,000	$40,625	$25,000
Third-Party Separate Accounts Program	13.0%		11.1%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$41,429	$30,000	$53,750	$50,000
In-House Money Managers	18.5%		13.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$37,222	$50,000	$40,000	$50,000
Wrap Accounts	16.7%		20.4%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$196,875	$100,000	$212,500	$100,000
Payout Fees Generated through AUM*				
Part of Overall Production	83.3%		100.0%	
Fixed Percent, Regardless of the Total	8.3%		9.1%	
Different Schedule Than GDC	8.3%		9.1%	
One-Time Referral Payment to Advisor	0.0%		0.0%	
No Payout	0.0%		0.0%	
*Answers are independent of each other				
Cost of Corporate RIA's Fee-Based Program	*Average*	*Median*	*Average*	*Median*
Number of Full-Time Employees	11	9	70	9
Payroll	$663,229	$675,248	N/A	N/A
Technology Budget	$134,093	$58,887	N/A	N/A
Marketing Budget	$74,881	$40,143	N/A	N/A
Compliance Budget	N/A	N/A	N/A	N/A
Other Expenses	N/A	N/A	N/A	N/A
No specific budget available for corporate RIA	37.5%		20.0%	
Revenue Sharing from Asset Mgrs on Corporate RIA				
Yes	58.3%		45.5%	
No	41.7%		54.5%	
If yes, number of basis points	*Average*	*Median*	*Average*	*Median*
Turnkey Asset Management Program	20	19	13	18
Separate Account Managers	32	9	N/A	N/A
Mutual Funds	10	10	N/A	N/A

Asset Management

Independent and Insurance-Affiliated Broker-Dealers

	Independent		Insurance-Affiliated	
Corporate RIA AUM as of	*Average*	*Median*	*Average*	*Median*
December 31, 2006	$3,472,086,470	$1,164,799,915	$1,774,021,078	$1,500,000,000
December 31, 2007	$6,860,830,626	$1,465,467,435	$2,613,036,448	$1,968,315,622
December 31, 2008	$4,964,857,983	$922,279,153	$2,092,835,822	$1,313,358,890
Offer Fee-Based Accounts				
Fee-Based Brokerage Accounts	40.7%		51.9%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$50,000	$50,000	$49,000	$50,000
Third-Party Separate Accounts Program	13.0%		29.6%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$50,714	$50,000	$45,769	$50,000
In-House Money Managers	35.2%		44.4%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$55,333	$50,000	$40,750	$50,000
Wrap Accounts	38.9%		50.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$102,813	$100,000	$170,455	$100,000
Payout Fees Generated through AUM*				
Part of Overall Production	87.5%		96.6%	
Fixed Percent, Regardless of the Total	4.2%		10.3%	
Different Schedule Than GDC	12.5%		0.0%	
One-Time Referral Payment to Advisor	0.0%		0.0%	
No Payout	0.0%		0.0%	
*Answers are independent of each other				
Cost of Corporate RIA's Fee-Based Program	*Average*	*Median*	*Average*	*Median*
Number of Full-Time Employees	7	5	32	5
Payroll	$488,889	$333,748	$3,788,880	$350,740
Technology Budget	$137,350	$150,000	$974,899	$220,720
Marketing Budget	$66,678	$69,777	$143,663	$40,143
Compliance Budget	N/A	N/A	$634,210	$202,920
Other Expenses	$211,398	$206,645	$1,557,578	$205,650
No specific budget available for corporate RIA	36.8%		33.3%	
Revenue Sharing from Asset Mgrs on Corporate RIA				
Yes	37.5%		37.9%	
No	62.5%		62.1%	
If yes, number of basis points	*Average*	*Median*	*Average*	*Median*
Turnkey Asset Management Program	23	20	13	14
Separate Account Managers	24	5	30	10
Mutual Funds	7	5	10	10

Insurance Products

Treatment of Fixed and Proprietary Variable Insurance Products

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?						
Fully included in the overall grid for production through the broker-dealer	27 8%		21.4%		30.0%	
Production counts toward the overall grid, but payout is determined separately	33 3%		57.1%		25.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Minimum Payout	83%	90%	75%	75%	90%	90%
Maximum Payout	92%	92%	88%	92%	96%	98%
There are no arrangements for Fixed Products	7.4%		0.0%		10.0%	
Processed through the parent insurance company	13 0%		0.0%		17.5%	
Other	18 5%		21.4%		17.5%	
How do you treat Proprietary Variable Insurance Products?						
Fully included in the overall grid for production through the broker-dealer	34.7%		42.9%		31.4%	
Production counts toward the overall grid, but payout is determined separately	14 3%		7.1%		17.1%	
There are no arrangements for Proprietary Variable Products	32.7%		50.0%		25.7%	
Processed through the parent insurance company	18.4%		0.0%		25.7%	

Treatment of Fixed and Proprietary Variable Insurance Products

Broker-Dealer by Revenue Size

	Less Than $17M		*$17M - $54M*		*$54M - $100M*	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?						
Fully included in the overall grid for production through the broker-dealer	40 0%		16.7%		21.4%	
Production counts toward the overall grid, but payout is determined separately	20 0%		41.7%		35.7%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Minimum Payout	N/A	N/A	81%	92%	86%	90%
Maximum Payout	N/A	N/A	N/A	N/A	96%	96%
There are no arrangements for Fixed Products	0.0%		0.0%		14.3%	
Processed through the parent insurance company	20 0%		16.7%		7.1%	
Other	20 0%		25.0%		21.4%	
How do you treat Proprietary Variable Insurance Products?						
Fully included in the overall grid for production through the broker-dealer	25 0%		18.2%		25.0%	
Production counts toward the overall grid, but payout is determined separately	0.0%		9.1%		16.7%	
There are no arrangements for Proprietary Variable Products	50 0%		54.5%		41.7%	
Processed through the parent insurance company	25 0%		18.2%		16.7%	

Treatment of Fixed and Proprietary Variable Insurance Products

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?				
Fully included in the overall grid for production through the broker-dealer	33.3%		36.4%	
Production counts toward the overall grid, but payout is determined separately	33.3%		27.3%	
	Average	*Median*	*Average*	*Median*
Minimum Payout	82%	81%	N/A	N/A
Maximum Payout	96%	96%	N/A	N/A
There are no arrangements for Fixed Products	8.3%		9.1%	
Processed through the parent insurance company	16.7%		9.1%	
Other	8.3%		18.2%	
How do you treat Proprietary Variable Insurance Products?				
Fully included in the overall grid for production through the broker-dealer	54.5%		45.5%	
Production counts toward the overall grid, but payout is determined separately	9.1%		27.3%	
There are no arrangements for Proprietary Variable Products	18.2%		9.1%	
Processed through the parent insurance company	18.2%		18.2%	

Treatment of Fixed and Proprietary Variable Insurance Products

Independent and Insurance-Affiliated Broker-Dealers

	Independent		Insurance-Affiliated	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?				
Fully included in the overall grid for production through the broker-dealer	33.3%		23.3%	
Production counts toward the overall grid, but payout is determined separately	50.0%		20.0%	
	Average	*Median*	*Average*	*Median*
Minimum Payout	80%	83%	90%	90%
Maximum Payout	89%	93%	95%	92%
There are no arrangements for Fixed Products	0.0%		13.3%	
Processed through the parent insurance company	4.2%		20.0%	
Other	12.5%		23.3%	
How do you treat Proprietary Variable Insurance Products?				
Fully included in the overall grid for production through the broker-dealer	33.3%		35.7%	
Production counts toward the overall grid, but payout is determined separately	9.5%		17.9%	
There are no arrangements for Proprietary Variable Products	57.1%		14.3%	
Processed through the parent insurance company	0.0%		32.1%	

Direct Business

Direct Business
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Direct Business						
Not allowed	17%		14%		18%	
Allowed, but require a network account	6%		7%		5%	
Allowed with no restric ions	77%		79%		77%	
If Allowed, Typical Trade Per Advisor						
Firm does not charge for direct business	76.7%		58.3%		83.9%	
Percentage Payout	9.3%		25.0%		3.2%	
% Payout	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	96.3%	96.3%	96.3%	96.3%	N/A	N/A
Flat Charge Per Trade Only	7.0%		0.0%		7.0%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	$24	$21	N/A	N/A	$24	$21
Combination of Percentage Payout Plus Flat Charge	2.3%		2.3%		0.0%	
Other	4.7%		2.3%		2.3%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Number of Trades	66.2%	73.0%	51.5%	54.0%	72.4%	80.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	54.7%	62.4%	38.3%	35.0%	62.8%	68.5%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	53.5%	60.0%	52.0%	50.0%	54.2%	60.0%

Direct Business
Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
Direct Business						
Not allowed	0%		25%		21%	
Allowed, but require a network account	20%		0%		0%	
Allowed with no restric ions	80%		75%		79%	
If Allowed, Typical Trade Per Advisor						
Firm does not charge for direct business	60.0%		100.0%		81.8%	
Percentage Payout	20.0%		0.0%		18.2%	
% Payout	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A	N/A	N/A
Flat Charge Per Trade Only	2.3%		0.0%		0.0%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A	N/A	N/A
Combination of Percentage Payout Plus Flat Charge	0.0%		0.0%		0.0%	
Other	0.0%		0.0%		0.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Number of Trades	N/A	N/A	79.3%	80.5%	67.8%	78.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	N/A	N/A	77.3%	84.5%	56.8%	60.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	N/A	N/A	64.3%	80.0%	53.6%	64.5%

Direct Business

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Direct Business				
Not allowed	9%		18%	
Allowed, but require a network account	0%		18%	
Allowed with no restrictions	91%		64%	
If Allowed, Typical Trade Per Advisor				
Firm does not charge for direct business	77.8%		50.0%	
Percentage Payout	0.0%		12.5%	
% Payout	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A
Flat Charge Per Trade Only	2.3%		2.3%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A
Combination of Percentage Payout Plus Flat Charge	0.0%		2.3%	
Other	2.3%		2.3%	
	Average	*Median*	*Average*	*Median*
Percentage of Number of Trades	63.0%	65.0%	52.1%	58.0%
	Average	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	43.8%	60.0%	N/A	N/A
	Average	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	44.9%	40.0%	41.0%	30.0%

Direct Business

Independent and Insurance-Affiliated Broker-Dealers

	Independent		*Insurance-Affiliated*	
Direct Business				
Not allowed	17%		17%	
Allowed, but require a network account	4%		7%	
Allowed with no restrictions	79%		76%	
If Allowed, Typical Trade Per Advisor				
Firm does not charge for direct business	71.4%		81.8%	
Percentage Payout	19.0%		0.0%	
% Payout	*Average*	*Median*	*Average*	*Median*
	96.3%	96.3%	N/A	N/A
Flat Charge Per Trade Only	0.0%		7.0%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	$24	$21
Combination of Percentage Payout Plus Flat Charge	2.3%		0.0%	
Other	2.3%		2.3%	
	Average	*Median*	*Average*	*Median*
Percentage of Number of Trades	51.8%	57.0%	76.1%	81.5%
	Average	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	52.3%	57.5%	56.5%	68.5%
	Average	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	57.3%	57.5%	50.5%	60.0%

Trades

Trades
All, High-Profit, and Non-High-Profit Broker-Dealers

Trades Completed in 2008	All Broker-Dealers Average	All Broker-Dealers Median	High-Profit: Top 25% Average	High-Profit: Top 25% Median	Non-High-Profit Average	Non-High-Profit Median
Total Trades	**1,207,365**	**336,973**	**2,417,439**	**637,504**	**715,772**	**308,978**
Mail-In	58,727	**0**	88,558	0	46,609	0
Electronic	830,844	209,723	1,974,833	584,224	366,098	195,181
Trail Transactions	317,794	0	354,049	0	303,065	0

Trades
All, High-Profit, and Non-High-Profit Broker-Dealers

Trades Completed in 2008	All Broker-Dealers Average	All Broker-Dealers Median	High-Profit: Top 25% Average	High-Profit: Top 25% Median	Non-High-Profit Average	Non-High-Profit Median
First Clearing Firm	401,956	224,586	309,040	105,819	439,703	232,524
Second Clearing Firm	57,693	0	71,085	0	52,253	0
Third Clearing Firm	871	0	0	0	1,225	0
Self Cleared	746,844	0	2,037,314	0	222,591	0

Trades
Broker-Dealer by Revenue Size

Trades Completed in 2008	Less Than \$17M Average	Less Than \$17M Median	\$17M - \$54M Average	\$17M - \$54M Median	\$54M - \$100M Average	\$54M - \$100M Median
Total Trades	**42,854**	**7,050**	**84,252**	**39,625**	**553,574**	**336,973**
Mail-In	2,650	1,950	3,438	0	86,291	0
Electronic	39,954	2,600	71,474	28,125	301,546	148,412
Trail Transactions	250	0	9,340	0	165,737	0

Trades
Broker-Dealer by Revenue Size

Trades Completed in 2008	Less Than \$17M Average	Less Than \$17M Median	\$17M - \$54M Average	\$17M - \$54M Median	\$54M - \$100M Average	\$54M - \$100M Median
First Clearing Firm	12,830	7,050	78,466	30,625	467,980	224,990
Second Clearing Firm	25,666	0	4,473	0	84,052	0
Third Clearing Firm	3,708	0	50	0	1,542	0
Self Cleared	650	0	1,264	0	0	0

Trades
Broker-Dealer by Revenue Size

Trades Completed in 2008	$100M - $250M Average	$100M - $250M Median	More Than $250M Average	More Than $250M Median
Total Trades	**1,229,580**	**369,999**	**3,509,765**	**1,493,718**
Mail-In	122,058	0	38,010	0
Electronic	351,396	261,164	2,947,070	868,752
Trail Transactions	756,126	165	524,686	0

Trades
Broker-Dealer by Revenue Size

Trades Completed in 2008	$100M - $250M Average	$100M - $250M Median	More Than $250M Average	More Than $250M Median
First Clearing Firm	362,573	326,455	791,798	627,972
Second Clearing Firm	103,360	0	45,156	0
Third Clearing Firm	837	0	0	0
Self Cleared	762,810	0	2,672,811	0

Trades
Independent and Insurance-Affiliated Broker-Dealers

Trades Completed in 2008	Independent Average	Independent Median	Insurance-Affiliated Average	Insurance-Affiliated Median
Total Trades	**1,487,062**	**291,500**	**962,629**	**361,788**
Mail-In	28,822	0	84,894	0
Electronic	1,339,275	116,961	385,966	250,611
Trail Transactions	118,965	0	491,769	0

Trades
Independent and Insurance-Affiliated Broker-Dealers

Trades Completed in 2008	Independent Average	Independent Median	Insurance-Affiliated Average	Insurance-Affiliated Median
First Clearing Firm	377,111	48,234	423,695	253,529
Second Clearing Firm	85,440	0	33,415	0
Third Clearing Firm	1,508	0	314	0
Self Cleared	1,023,003	0	505,206	0

Complaints and Litigation

Complaints/Litigation
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Number of New Complaints in 2008	Average	Median	Average	Median	Average	Median
	57	27	55	42	58	25
Nature of Complaints	Average	Median	Average	Median	Average	Median
Supervision	10.6%	0.0%	14.6%	0.0%	9.2%	0.0%
Suitability	30.6%	23.0%	31.8%	37.5%	30.2%	22.5%
Churning	1.0%	0.0%	0.9%	0.0%	1.0%	0.0%
Investment Performance	18.5%	10.0%	9.5%	10.0%	21.6%	10.0%
Other	39.3%	45.0%	43.2%	50.0%	38.0%	44.5%
Total Complaints as of 12/31/08	Average	Median	Average	Median	Average	Median
	37	14	35	5	37	18
Total Cost to Defend Complaints in 2008	Average	Median	Average	Median	Average	Median
(excluding settlement dollars)	$374,115	$142,657	$190,175	$130,241	$432,975	$150,000
Total Settlement Dollars Paid in 2008	Average	Median	Average	Median	Average	Median
	$604,659	$110,369	$170,222	$145,207	$755,768	$110,369
Regulatory Inquiries (Sweeps) in 2008						
Yes	25.6%		41.7%		19.4%	
No	74.4%		58.3%		80.6%	
	Average	Median	Average	Median	Average	Median
If Yes, Number of Inquiries	6	2	13	3	1	1
Trigger of Regulatory Inquiries in 2008						
1031s	0.0%		0.0%		0.0%	
Late Filings	41.7%		40.0%		42.9%	
Soft Dollar and/or Marketing Dollar Inquiry	0.0%		0.0%		0.0%	
Auction Rate Security Sales	33.3%		60.0%		14.3%	
Variable Annuity Sales Practices	41.7%		40.0%		42.9%	
Investment Advisor Activities	8.3%		0.0%		14.3%	
Other	41.7%		40.0%		42.9%	

Complaints/Litigation
Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
Number of New Complaints in 2008	Average	Median	Average	Median	Average	Median
	7	7	15	7	55	28
Nature of Complaints	Average	Median	Average	Median	Average	Median
Supervision	0.0%	0.0%	19.8%	4.0%	5.0%	0.0%
Suitability	16.7%	10.0%	34.8%	27.5%	40.0%	38.0%
Churning	0.0%	0.0%	0.5%	0.0%	0.3%	0.0%
Investment Performance	30.0%	10.0%	23.3%	11.5%	13.2%	10.0%
Other	53.3%	70.0%	21.6%	0.0%	41.5%	44.0%
Total Complaints as of 12/31/08	Average	Median	Average	Median	Average	Median
	16	5	9	5	35	14
Total Cost to Defend Complaints in 2008	Average	Median	Average	Median	Average	Median
(excluding settlement dollars)	$75,333	$100,000	$134,737	$73,000	$370,793	$150,000
Total Settlement Dollars Paid in 2008	Average	Median	Average	Median	Average	Median
	$20,496	$13,488	$88,394	$75,000	$381,945	$101,400
Regulatory Inquiries (Sweeps) in 2008						
Yes	0.0%		25.0%		15.4%	
No	100.0%		75.0%		84.6%	
	Average	Median	Average	Median	Average	Median
If Yes, Number of Inquiries	N/A	N/A	2	2	2	2
Trigger of Regulatory Inquiries in 2008						
1031s	N/A		0.0%		0.0%	
Late Filings	N/A		33.3%		33.3%	
Soft Dollar and/or Marketing Dollar Inquiry	N/A		0.0%		0.0%	
Auction Rate Security Sales	N/A		33.3%		0.0%	
Variable Annuity Sales Practices	N/A		66.7%		N/A	
Investment Advisor Activities	N/A		0.0%		N/A	
Other	N/A		33.3%		N/A	

Complaints/Litigation
Broker-Dealer by Revenue Size

	$100M - $250M		*More Than $250M*	
Number of New Complaints in 2008	*Average*	*Median*	*Average*	*Median*
	88	64	152	151
Nature of Complaints	*Average*	*Median*	*Average*	*Median*
Supervision	2 9%	0.0%	24.3%	16.0%
Suitability	21.6%	18.0%	20.5%	17.0%
Churning	2 6%	1.0%	1 8%	1.0%
Investment Performance	18.9%	10.0%	11.8%	11.0%
Other	54.0%	67.0%	41.8%	41.5%
Total Complaints as of 12/31/08	*Average*	*Median*	*Average*	*Median*
	52	33	103	68
Total Cost to Defend Complaints in 2008	*Average*	*Median*	*Average*	*Median*
(excluding settlement dollars)	$287,022	$209,000	$1,314,647	$1,187,735
Total Settlement Dollars Paid in 2008	*Average*	*Median*	*Average*	*Median*
	$235,738	$215,414	$4,070,879	$3,759,254
Regulatory Inquiries (Sweeps) in 2008				
Yes	50.0%		40.0%	
No	50.0%		60.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Number of Inquiries	3	1	N/A	N/A
Trigger of Regulatory Inquiries in 2008				
1031s	0 0%		N/A	
Late Filings	50.0%		N/A	
Soft Dollar and/or Marketing Dollar Inquiry	0 0%		N/A	
Auction Rate Security Sales	50.0%		N/A	
Variable Annuity Sales Practices	0 0%		N/A	
Investment Advisor Activities	0 0%		N/A	
Other	0 0%		N/A	

Complaints/Litigation
Independent and Insurance-Affiliated Broker-Dealers

	Independent		*Insurance-Affiliated*	
Number of New Complaints in 2008	*Average*	*Median*	*Average*	*Median*
	53	8	61	32
Nature of Complaints	*Average*	*Median*	*Average*	*Median*
Supervision	17.1%	0.0%	4.4%	0.0%
Suitability	32.5%	25.0%	28.9%	22.5%
Churning	0 6%	0.0%	1 3%	0.0%
Investment Performance	17.5%	10.0%	19.5%	10.0%
Other	32.3%	30.0%	46.0%	48.5%
Total Complaints as of 12/31/08	*Average*	*Median*	*Average*	*Median*
	31	5	41	25
Total Cost to Defend Complaints in 2008	*Average*	*Median*	*Average*	*Median*
(excluding settlement dollars)	$300,158	$125,000	$435,745	$179,500
Total Settlement Dollars Paid in 2008	*Average*	*Median*	*Average*	*Median*
	$763,798	$88,200	$473,604	$183,061
Regulatory Inquiries (Sweeps) in 2008				
Yes	25.0%		26.1%	
No	75.0%		73.9%	
	Average	*Median*	*Average*	*Median*
If Yes, Number of Inquiries	2	2	10	2
Trigger of Regulatory Inquiries in 2008				
1031s	0 0%		0 0%	
Late Filings	20.0%		57.1%	
Soft Dollar and/or Marketing Dollar Inquiry	0 0%		0 0%	
Auction Rate Security Sales	40.0%		28.6%	
Variable Annuity Sales Practices	60.0%		28.6%	
Investment Advisor Activities	0 0%		14.3%	
Other	40.0%		42.9%	

Technology

Investment in Technology
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Investment in Technology	Average	Median	Average	Median	Average	Median
Home Office - 2007	$4,735,024	$400,000	$13,059,955	$535,781	$2,071,046	$400,000
Home Office - 2008	$4,392,381	$442,000	$14,301,027	$426,013	$1,658,961	$442,000
Home Office - 2009 (Budgeted)	$4,835,992	$500,000	$17,057,251	$699,100	$1,116,478	$500,000
Field Services - 2007	$1,871,828	$350,000	N/A	N/A	$1,782,500	$182,500
Field Services - 2008	$2,085,991	$475,000	N/A	N/A	$2,063,084	$405,000
Field Services - 2009 (Budgeted)	$1,926,995	$400,000	$1,935,312	$2,500,000	$1,924,500	$250,000
Assist Advisors in Web Page Development						
Yes	68.8%		75.0%		66.7%	
No	31.3%		25.0%		33.3%	
Web Page Development Assistance						
Outsource	76.5%		77.8%		76.0%	
Internal	23.5%		22.2%		24.0%	
Offer Web Page Development Assistance in the Future						
Yes	38.9%		20.0%		46.2%	
No	61.1%		80.0%		53.8%	

Investment in Technology
Broker-Dealer by Revenue Size

	Less Than $17M		$17M - $54M		$54M - $100M	
Investment in Technology	Average	Median	Average	Median	Average	Median
Home Office - 2007	N/A	N/A	$230,390	$224,382	$663,689	$190,000
Home Office - 2008	N/A	N/A	$208,722	$150,000	$739,662	$371,000
Home Office - 2009 (Budgeted)	N/A	N/A	$210,500	$228,500	$775,000	$500,000
Field Services - 2007	N/A	N/A	N/A	N/A	$4,596,667	$115,000
Field Services - 2008	N/A	N/A	N/A	N/A	$4,307,500	$1,140,000
Field Services - 2009 (Budgeted)	N/A	N/A	$54,050	$50,000	$5,075,000	$100,000
Assist Advisors in Web Page Development						
Yes	60.0%		40.0%		71.4%	
No	40.0%		60.0%		28.6%	
Web Page Development Assistance						
Outsource	66.7%		80.0%		70.0%	
Internal	33.3%		20.0%		30.0%	
Offer Web Page Development Assistance in the Future						
Yes	33.3%		25.0%		50.0%	
No	66.7%		75.0%		50.0%	

Investment in Technology
Broker-Dealer by Revenue Size

	$100M - $250M		*More Than $250M*	
Investment in Technology	*Average*	*Median*	*Average*	*Median*
Home Office - 2007	$1,764,401	$974,049	$26,795,600	$8,500,000
Home Office - 2008	$1,942,702	$1,400,000	$27,275,082	$4,500,000
Home Office - 2009 (Budgeted)	$2,078,037	$1,400,000	$40,066,667	$3,800,000
Field Services - 2007	$799,233	$505,000	N/A	N/A
Field Services - 2008	$1,320,776	$500,000	N/A	N/A
Field Services - 2009 (Budgeted)	$1,160,947	$475,000	N/A	N/A
Assist Advisors in Web Page Development				
Yes	81.8%		87.5%	
No	18.2%		12.5%	
Web Page Development Assistance				
Outsource	100.0%		57.1%	
Internal	0.0%		42.9%	
Offer Web Page Development Assistance in the Future				
Yes	66.7%		N/A	
No	33.3%		N/A	

Investment in Technology
Independent and Insurance-Affiliated Broker-Dealers

	Independent		*Parent-Owned*	
Investment in Technology	*Average*	*Median*	*Average*	*Median*
Home Office - 2007	$6,304,963	$384,318	$2,604,394	$500,000
Home Office - 2008	$6,311,205	$426,013	$2,134,941	$442,000
Home Office - 2009 (Budgeted)	$7,442,397	$500,000	$1,427,615	$500,000
Field Services - 2007	$2,723,133	$560,000	$680,000	$250,000
Field Services - 2008	$3,331,145	$1,253,436	$1,152,126	$475,000
Field Services - 2009 (Budgeted)	$3,072,277	$400,000	$590,833	$250,000
Assist Advisors in Web Page Development				
Yes	72.7%		65.4%	
No	27.3%		34.6%	
Web Page Development Assistance				
Outsource	66.7%		87.5%	
Internal	33.3%		12.5%	
Offer Web Page Development Assistance in the Future				
Yes	30.0%		50.0%	
No	70.0%		50.0%	

Parent Company

Parent Company Cost
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	High-Profit: Top 25%	Non-High-Profit
Have a Parent Company			
Yes	72.2%	57.1%	77.5%
No	27.8%	42.9%	22.5%
Parent Company Charges Administrative, Overhead Allocation, or Management Fee			
Yes	78.9%	87.5%	76.7%
No	21.1%	12.5%	23.3%
Occupy Space in Parent Company's Facility			
Yes	71.1%	37.5%	80.0%
No	28.9%	62.5%	20.0%
Report Net Profit Before or After Parent Company Fees			
Before	8.6%	0.0%	11.1%
After	91.4%	100.0%	88.9%
If Parent Company Charges Fees, Are They Marked Up?			
Yes	6.1%	12.5%	4.0%
No	93.9%	87.5%	96.0%
Handle Proprietary Products			
Yes	73.0%	62.5%	75.9%
No	27.0%	37.5%	24.1%
If Yes, Are You Credited for Distribution Costs?			
Yes	40.0%	25.0%	42.9%
No	60.0%	75.0%	57.1%

Parent Company Cost
Broker-Dealer by Revenue Size

	Less Than $17M	$17M - $54M	$54M - $100M
Have a Parent Company			
Yes	80.0%	58.3%	64.3%
No	20.0%	41.7%	35.7%
Parent Company Charges Administrative, Overhead Allocation, or Management Fee			
Yes	75.0%	42.9%	88.9%
No	25.0%	57.1%	11.1%
Occupy Space in Parent Company's Facility			
Yes	100.0%	57.1%	77.8%
No	0.0%	42.9%	22.2%
Report Net Profit Before or After Parent Company Fees			
Before	33.3%	16.7%	0.0%
After	66.7%	83.3%	100.0%
If Parent Company Charges Fees, Are They Marked Up?			
Yes	0.0%	0.0%	12.5%
No	100.0%	100.0%	87.5%
Handle Proprietary Products			
Yes	33.3%	57.1%	55.6%
No	66.7%	42.9%	44.4%
If Yes, Are You Credited for Distribution Costs?			
Yes	N/A	25.0%	25.0%
No	N/A	75.0%	75.0%

Parent Company Cost
Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Have a Parent Company		
Yes	75.0%	90.9%
No	25.0%	9.1%
Parent Company Charges Administrative, Overhead Allocation, or Management Fee		
Yes	100.0%	77.8%
No	0.0%	22.2%
Occupy Space in Parent Company's Facility		
Yes	77.8%	55.6%
No	22.2%	44.4%
Report Net Profit Before or After Parent Company Fees		
Before	0.0%	11.1%
After	100.0%	88.9%
If Parent Company Charges Fees, Are They Marked Up?		
Yes	0.0%	12.5%
No	100.0%	87.5%
Handle Proprietary Products		
Yes	100.0%	88.9%
No	0.0%	11.1%
If Yes, Are You Credited for Distribution Costs?		
Yes	33.3%	57.1%
No	66.7%	42.9%

Parent Company Cost

Insurance-Affiliated Broker-Dealers

	Insurance-Affiliated
Have a Parent Company	
Yes	100.0%
No	0.0%
Parent Company Charges Administrative, Overhead Allocation, or Management Fee	
Yes	82.8%
No	17.2%
Occupy Space in Parent Company's Facility	
Yes	75.9%
No	24.1%
Report Net Profit Before or After Parent Company Fees	
Before	7.4%
After	92.6%
If Parent Company Charges Fees, Are They Marked Up?	
Yes	4.2%
No	95.8%
Handle Proprietary Products	
Yes	85.7%
No	14.3%
If Yes, Are You Credited for Distribution Costs?	
Yes	34.8%
No	65.2%

2010 Broker-Dealer Financial Performance Study

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Formed in January 2004, the Financial Services Institute's (FSI) mission is to create a healthier regulatory environment for independent broker-dealers and their affiliated independent financial advisors through aggressive and effective advocacy, education and public awareness. FSI is a tax-exempt, non-profit association formed under section 501(c)(6) of the Internal Revenue Code. Our members are independent broker-dealers who do business with the public and independent financial advisors affiliated with broker-dealers.

We are pleased to offer the *2010 FSI Broker-Dealer Financial Performance Study* as an exclusive benefit to FSI broker-dealer members and wish to thank all of the participating firms who contributed to the success of this annual project. We encourage you to take advantage of all the exclusive benefits of your firm's membership and look forward to your participation again next year. For more information, please visit our Web site at http://www.financialservices.org.

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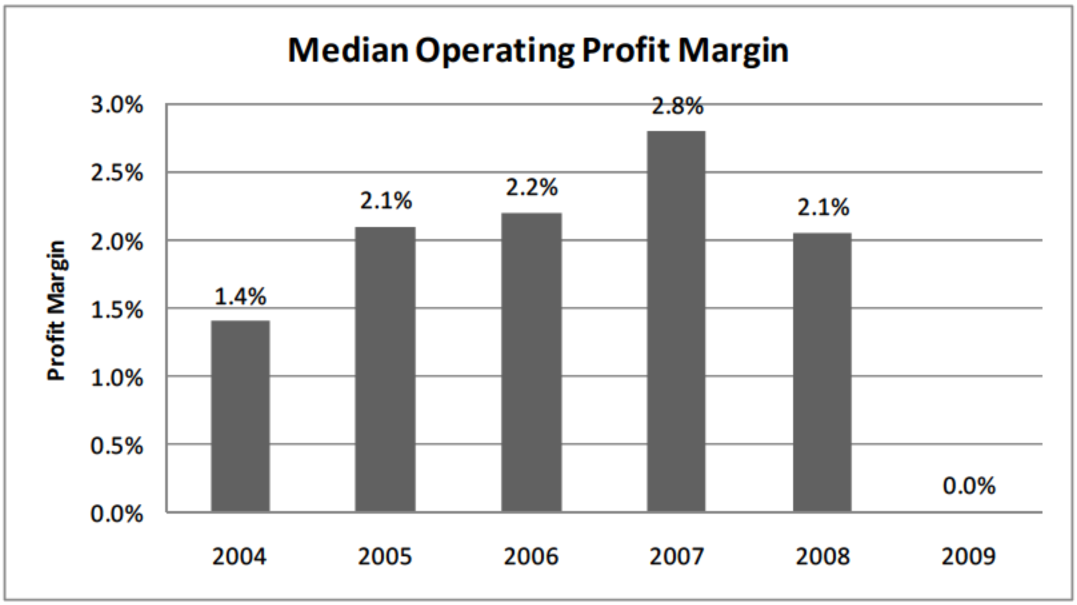
2010 Financial Performance Study Analysis of Results

Overview/Executive Summary

The sudden and sharp downturn of financial markets in late 2008 continued to plague broker-dealers in 2009. The combination of greatly decreased revenue and an inability to adequately reduce expenses resulted in the operating profit margin dropping significantly for the typical broker-dealer in our survey. The median margin fell from 2.1% in 2008 to 0.01% in 2009 (Figure 1).

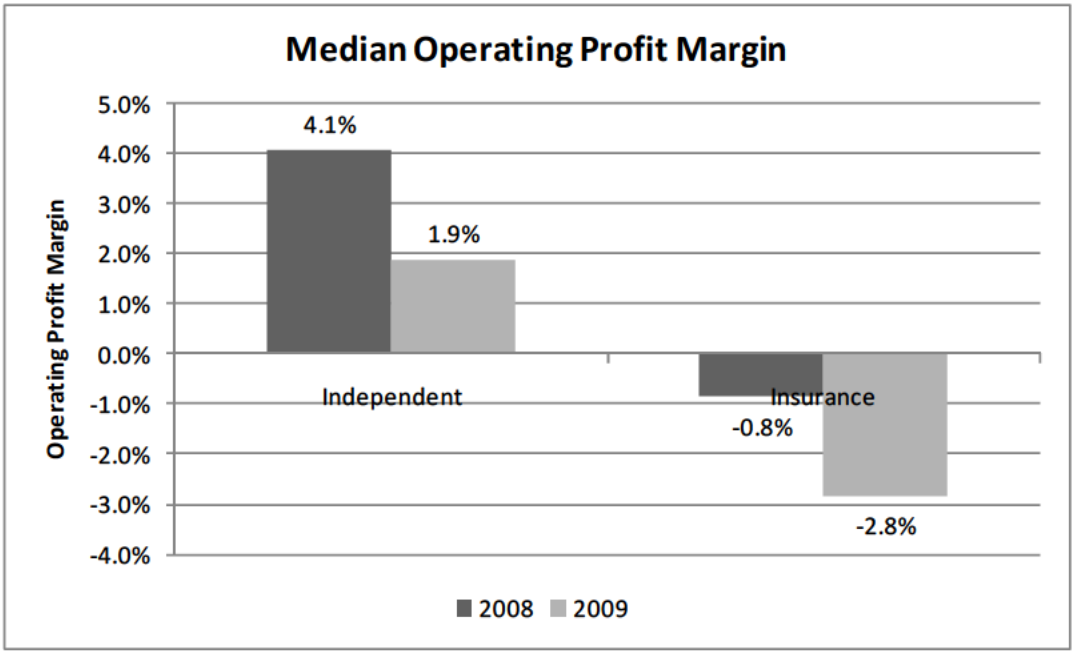
Figure 1: Median Operating Profit Margin, 2004–2009



The industry average profit margin of .05% for 2009 was only marginally higher than median profit, and much less than the average operating profit margin of 3.3% experienced by last year's participating broker-dealers. Even the largest firms were barely profitable, reporting an average operating profit margin of just 0.2%.

Reviewing the different types of broker-dealers discloses a wide disparity in profitability between independent firms and those affiliated with an insurance company. Both firm types experienced declines in operating profit margin between 2008 and 2009 of about two percentage points. Similar to past years, however, the typical independent firms maintained profitability with a 1.9% margin while insurance affiliates, on median, registered a 2.8% operating loss.

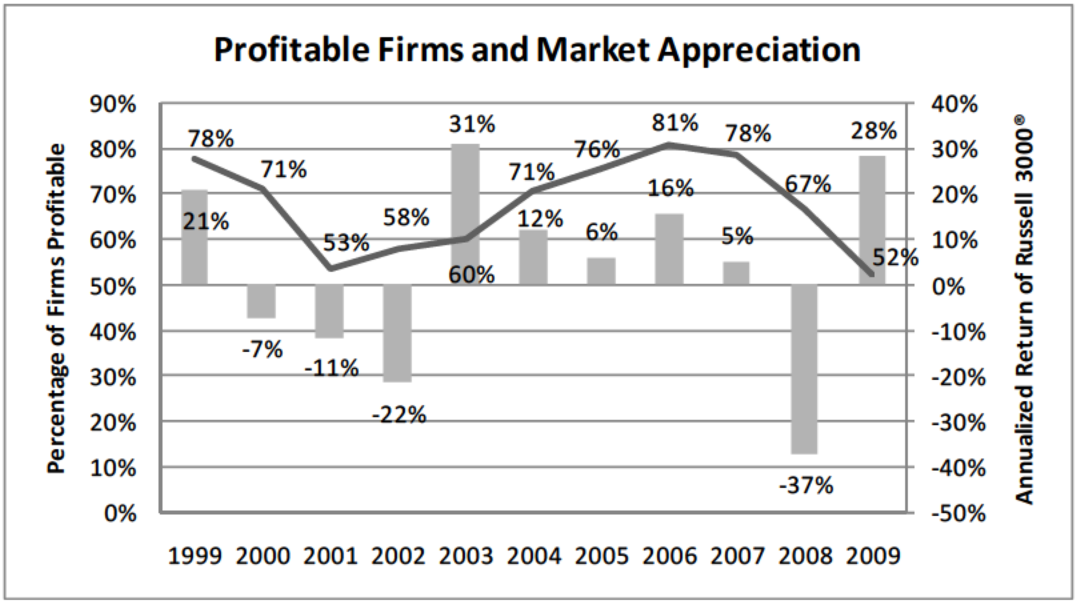
Figure 2: Median Operating Profit Margin for Independent and Insurance Firms, 2008–2009



Regardless of whether an insurance broker-dealer is run as a profit center (71% of insurance firms) or a cost center, most of them failed to earn a positive operating profit in 2009. Insurance firms with a goal to maximize profit earned a median of -1.3% operating profit margin. Those operating with a goal to just break even fared even worse, with a median operating profit margin of -5.2%.

Barely half of all firms earned a positive operating profit in 2009, the lowest percentage of firms with positive income in the survey in more than a decade. Figure 3 details the percentage share of participating firms making a positive operating profit as well as the market return over the last decade. The Russell 3000® broad market securities index is used as a proxy for financial market performance.

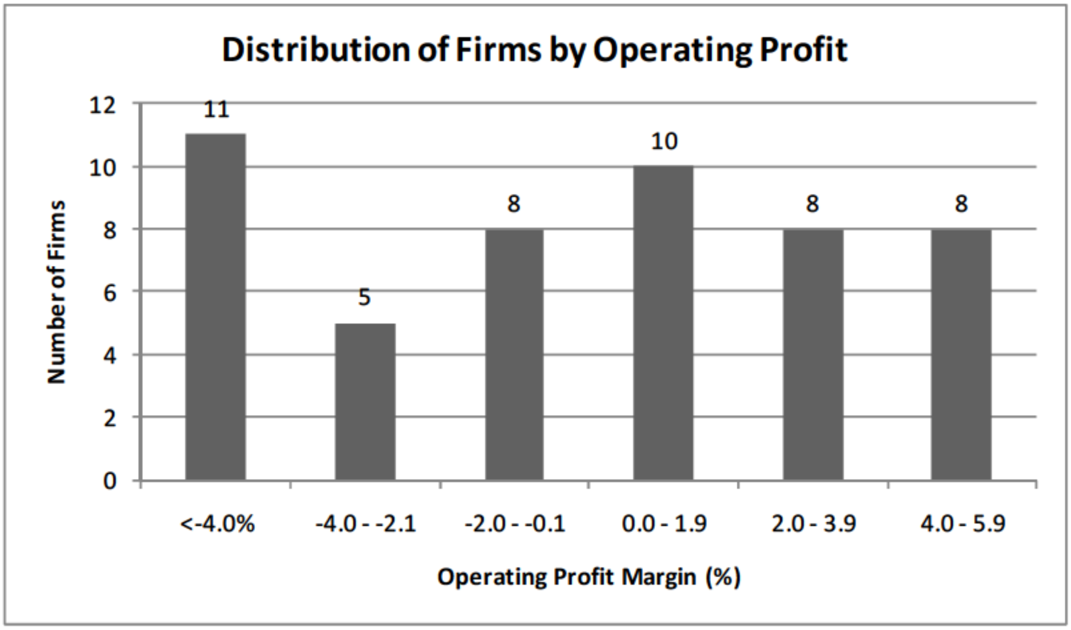
Figure 3: Percentage of Profitable Firms and US Equity Market Return, 1999–2009



While annual market return was 28% by the end of 2009, a notable increase from the prior year, this recovery did not get underway until the spring of 2009 and broker-dealers' revenue clearly lagged further behind. As a result of the presently improving economic picture, next year's study results for 2010 should show a significantly higher proportion of profitable firms. This pattern could very well mimic what the industry experienced after coming out of the last bear market in 2003.

Figure 4 further demonstrates the disparity of profitability achieved by this year's participating firms. More firms had a profit margin below negative 4.0% than firms exceeding positive 4.0%. Only 16% of firms reported an operating profit margin greater than 4.0%, compared with 28% of firms last year.

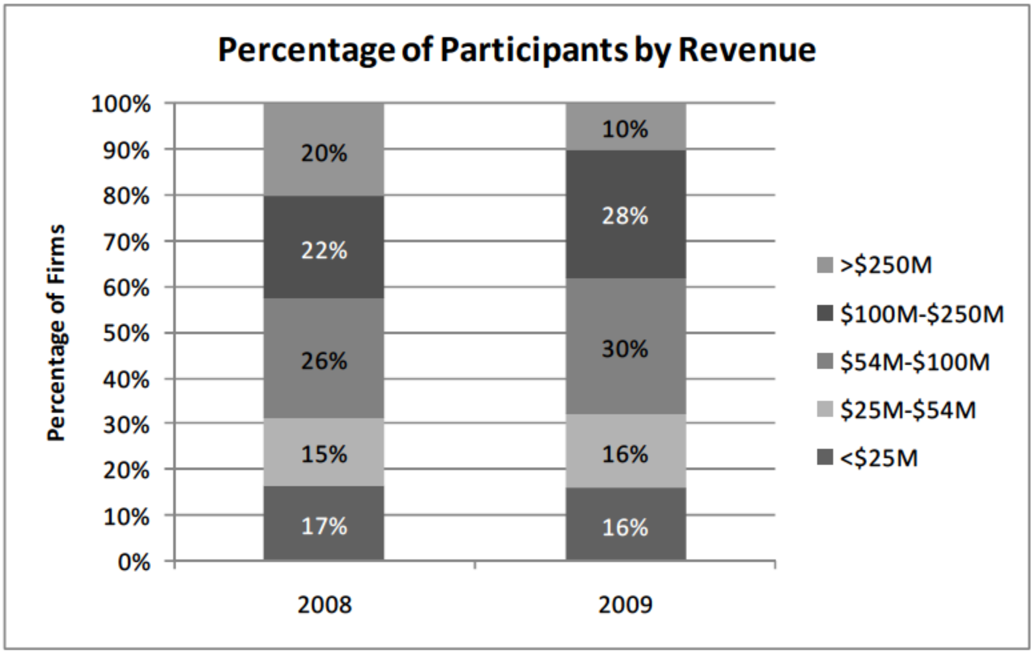
Figure 4: Number of Firms by Operating Profit Margin



Like operating profits, gross profit (revenue less direct expenses) decreased both in median and average terms this year. Average gross profit margin showed the biggest drop, decreasing from 23.1% in 2008 to 20.9% in 2009. Declining revenues acted as a powerful catalyst to compress profit margins. Reviewing financials for just the group of 43 firms that participated in both this year's and last year's studies, the typical drop in firm revenue was 14%.

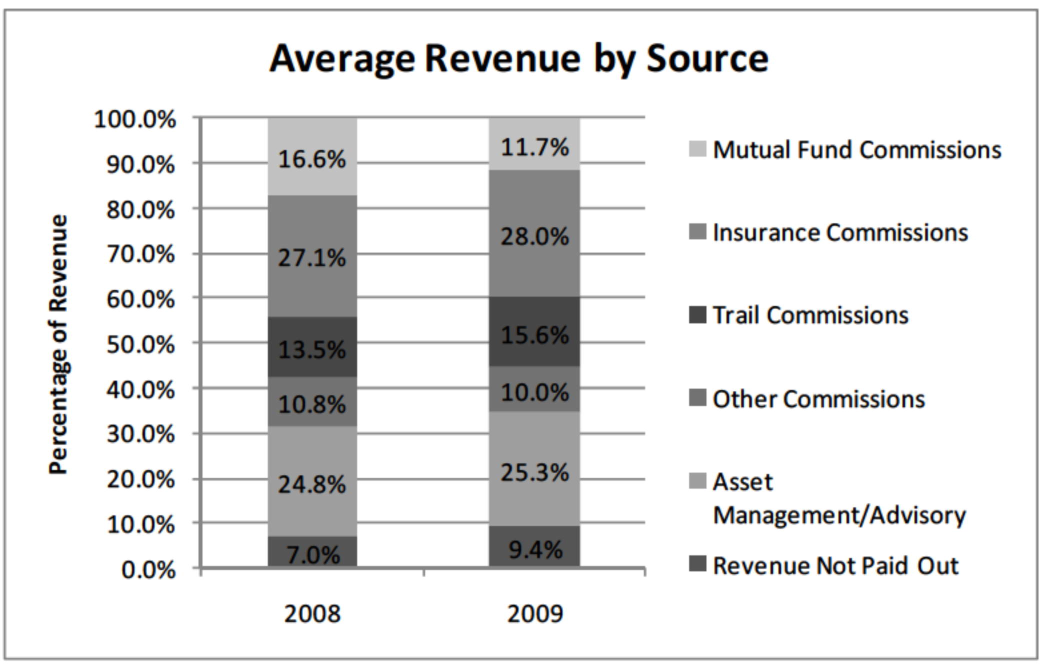
Shrinking revenue also served to shift the composition of participating firms when grouped by level of revenue. The study's largest firms, those with more than $250 million in revenue, accounted for 20% of participants last year but just 10% of firms this year. Figure 5 further details the change in overall survey participants by revenue size between 2008 and 2009.

Figure 5: Percentage of Study Participants by Revenue, 2008–2009



While revenue dropped dramatically for broker-dealers, their composition of revenue changed less so, particularly when we look at the firms that participated in both this year's and last year's studies (Figure 6). The share of revenues generated from mutual fund commissions registered the biggest changes, dropping from 16.6% of revenues to 11.7% from 2008 to 2009. Revenue not paid out grew from 7.0% to 9.4%.

Figure 6: Distribution of Firm Revenue for Repeat Survey Participants, 2008–2009



On the expense side, firms continued to struggle as well. For the survey's group of 43 repeat participants, average operating expenses jumped from 17.9% in 2008 to 20.4%. Reviewing changes in both overall firms' expenses and those of the repeat participant firms, the biggest increases came in the form of parent/third-party administrative fees, computer expenses and employee benefits. For repeating firms, expenses related to salaries and wages grew 0.6% between 2008 and 2009. Firms have not had either the interest or flexibility to adjust staffing levels in response to the economic climate, as the revenue per employee fell again, from $952,518 in 2008 to $859,186 in 2009.

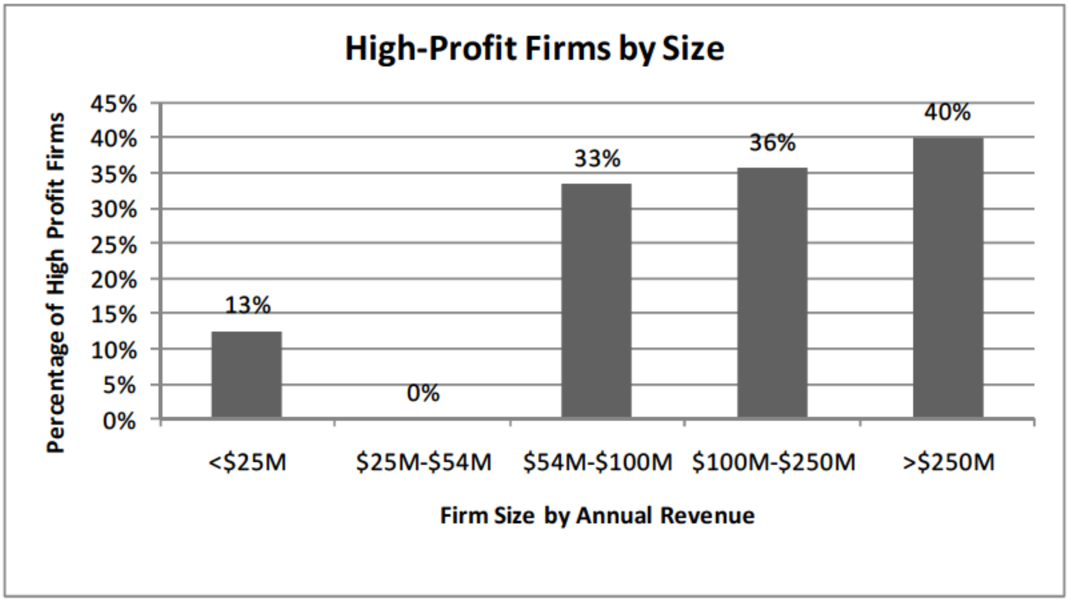
High-Profit Firms

Despite the struggles with revenue and expenses that plagued many firms in 2009, a select group of firms were able to achieve a respectable level of profitability. Review of the common practices among these more successful firms can help other firms identify ways to improve their own profitability.

The top-performing firms are distinguished on the basis of profitability and are referred to in the study results as "high-profit" firms. High-profit firms are defined as any firm in the top 25% or upper quartile of respondents in terms of operating profit margin. Results for high-profit firms are separated from "other" firms. For this year's report, respondents with an operating profit margin of 3.0% or higher were designated high-profit. In 2008, the high profitability barometer was set at 4.5%, indicating even the industry's better-performing firms are not immune to the effects of the economic climate.

The typical high-profit firm earned a profit margin of 5.5% in 2009, compared with their lower-earning peers who operated at a loss with a median margin of -1.4%. This year the distribution of high-profit firms shifted more toward the larger firms. In 2008, 71% of high-profit firms made at least $54 million in annual revenue. This year, nearly all of the firms, 91%, achieved that revenue level and higher. As shown in Figure 7, 40% of all firms grossing more than $250 million in revenue were deemed high-profit.

Figure 7: Distribution of High-Profit Firms by Revenue Size



While small firms have tended to demonstrate lower profitability in past years, the weak economic climate appears to have exacerbated the performance imbalance between larger and smaller broker-dealers.

Whether the high-profit firm is small or large, there are several themes that are common among high-profit firms compared with others. Most noteworthy are the following:

- Greater productivity per advisor
- Higher payouts for mid-range producers
- Greater acceptance and reliance on fee business
- Greater productivity per employee
- Lower operating expenses

All of these factors interact to drive greater profitability but perhaps the most important distinguishing characteristic of high-profit firms is their ability to get more productivity out of advisors as well as their home-office employees.

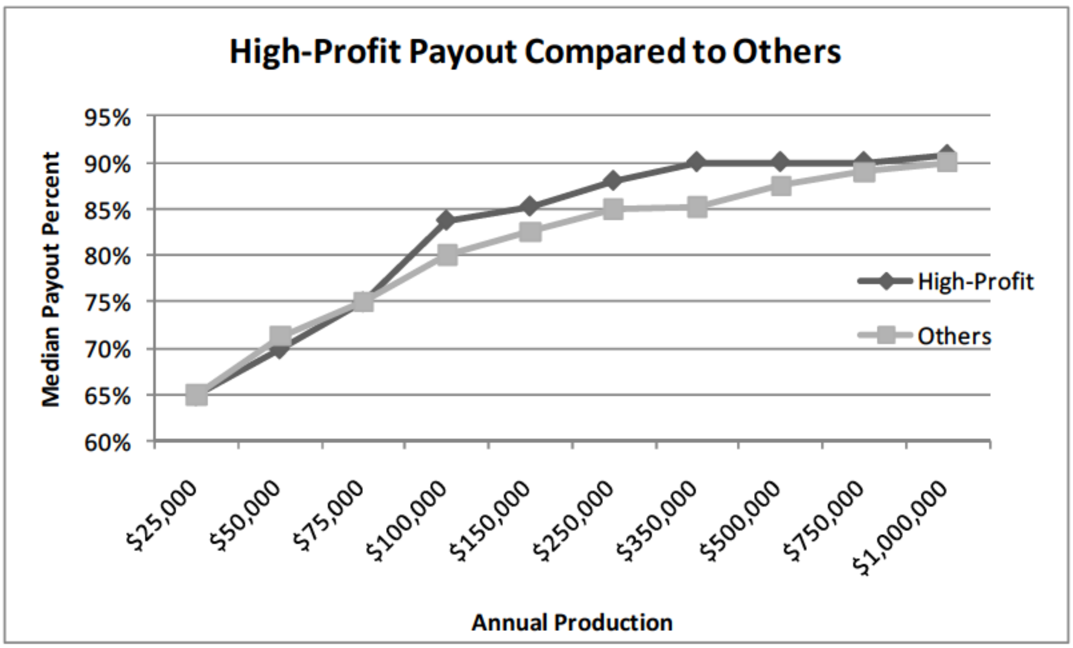
The advantage in revenue per advisor is most significant. At high-profit firms in 2009, a typical advisor generated $225,198 in revenue, which is 34% greater than the $167,714 generated per advisor at other firms. At high-profit firms the majority of advisors, 56%, are above $75,000 in production. In contrast, a similar share of advisors, 57%, are at or *below* $75,000 in production at other firms.

High-profit firms managed to extend this advantage in 2009. Across the industry, firms increased their average revenue per advisor during the year largely due to net depletion of smaller-producing advisors. High-profit firms appeared to be more aggressive in pruning and refining their advisor base, however. Relative to the typical high-profit firm in 2008, per advisor revenue for high-profits in 2009 was 48% greater. This compares to a 30% increase for other firms.

Bigger producing advisors have consistently been a hallmark of high-profit firms for several years running. These firms prosper by avoiding the tremendous cost drag associated with a larger stable of small producers given that a certain minimum level of fixed costs is associated with servicing any advisor, regardless of size.

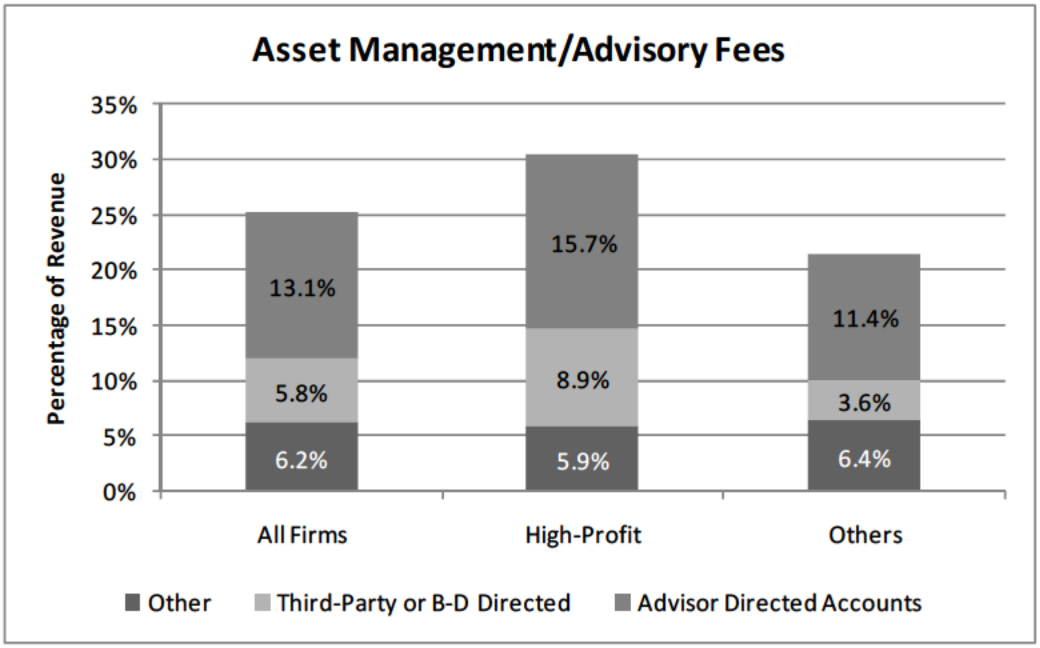
Two other distinctive traits related to high-profit firms support their ability to attract and retain higher-producing advisors: payout structure and openness toward fee business. Consistent with their greater share of $75,000 plus producers, high-profit firms offer a payout structure that, relative to other firms, becomes more favorable once an advisor gets beyond $75,000 in production (Figure 8). Between $100,000 and $500,000 in production the gap in payout is greatest. This is the production range that is likely the most profitable to serve—these advisors are big enough for the broker-dealer to sufficiently cover fixed costs, yet not so big that advisors demand a greater and more costly level of ongoing service.

Figure 8: Median Advisor Payout by Production Level, High-Profit Firms and Others



A greater acceptance and reliance on fees as related to asset management and advice is also a common theme and a factor that tends to attract bigger-producing advisors. As noted in Figure 9, fees averaged 30% of revenue for high-profit firms, a share that is much higher than the 22% of revenue found in other firms.

Figure 9: Average Distribution of Fees by Revenue Source, High-Profit Firms and Others



In addition to more frequent use of fee business in their corporate RIA, high-profit broker-dealers are also more likely to allow advisor-owned RIAs. This is particularly true for "planning-only" RIAs. Advisors are allowed to have their own RIA for planning purposes in 77% of high-profit firms compared with 60% of other firms.

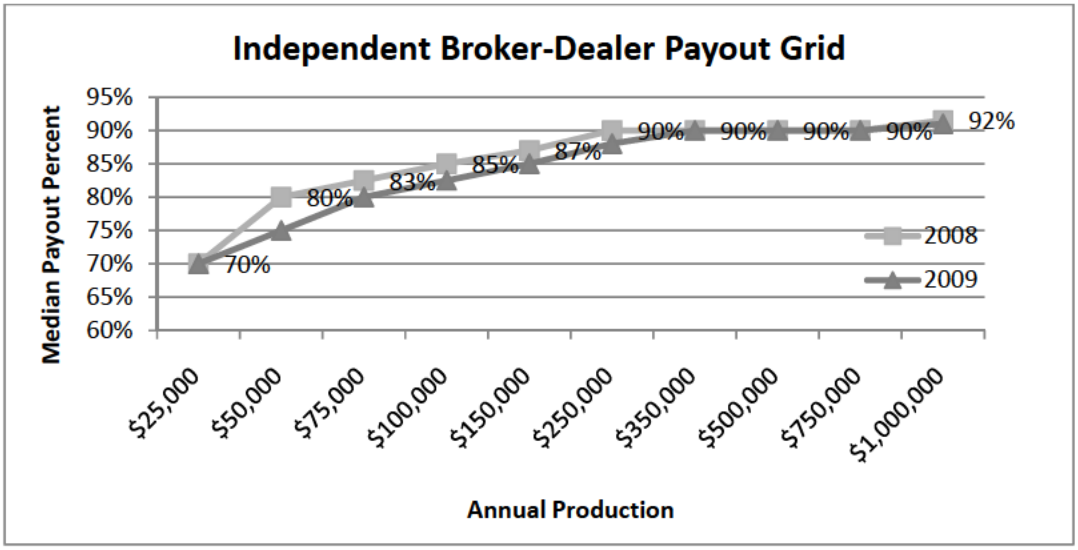
Greater revenue per advisor, in turn, contributes to greater revenue per home office employee, lower expenses, and ultimately a more profitable broker-dealer. In 2009 high-profit firms generated 8% more revenue per employee than other firms. While high-profit firms experienced a 3% decline in revenue per employee from 2008 to 2009, the drop was not as severe as the 19% decline experienced by other firms. This finding suggests that among other measures high-profit firms may be quicker than others to preserve profitability by more assertively trimming back home-office employees.

High-profit firms also have significantly lower operating expenses as a percentage of their revenues, with total expenses being 6.5 percentage points lower than other firms. The major component of that difference is the amount spent on staff salaries. High-profit firms pay out 5.5% of revenue in salaries and wages compared with 8.3% of revenue spent in other firms. This does not necessarily mean they are skimping on their compensation levels to employees, however. These firms may simply be applying better processes and management techniques to achieve more with lower-cost or more productive employees.

Advisor Compensation

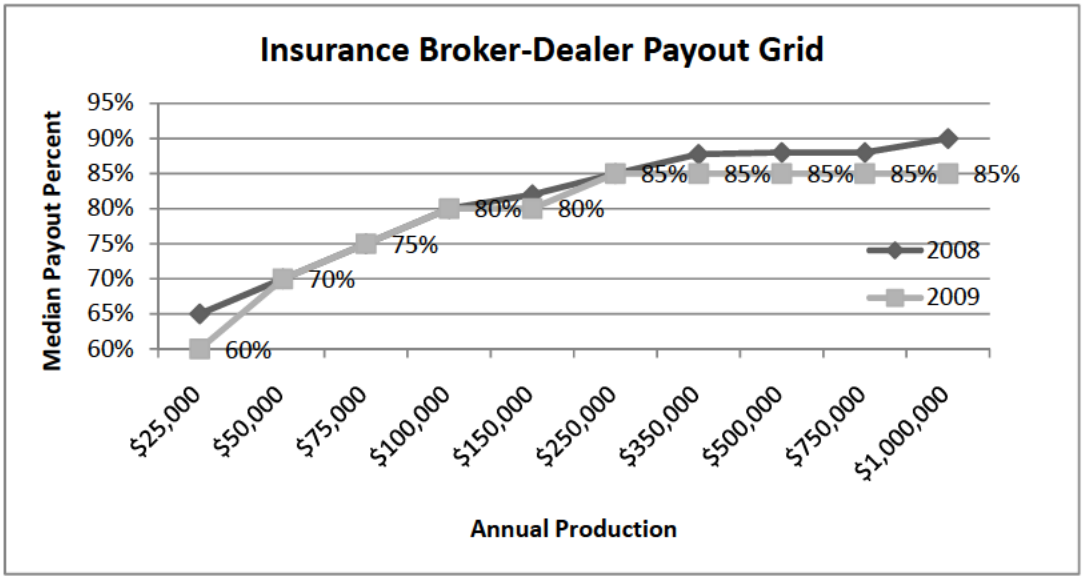
Both independent and insurance firms made noticeable changes to their payout grids this year (Figures 10 and 11). These revisions are significant in light of payout schedules having been left largely unchanged in previous years. A tough economic climate provided the likely motivation and confidence for both firm types to generally adjust payout percentages downward. The production ranges where adjustments were applied differed, however, according to firm type.

Figure 10: Median Advisor Payout in Independent Firms, 2008–2009



Decreases for the typical independent firm targeted the lower end of the production scale. For advisors between $50,000 and $250,000 in production, payout decreases ranged from two to five percentage points. Insurance firms dropped payouts most notably at the low and high ends of the production spectrum. The $25,000 producer suffered the largest decline, dropping to a 60% payout compared with 65% last year for the typical firm. Payouts dropped two to three percentage points for insurance-affiliated advisors with $350,000 or more in production.

Figure 11: Median Advisor Payout in Insurance Firms, 2008–2009



Relative to independent firms, insurance payouts are lower at every production level—a five-percentage-point gap is typical with the widest differences at the lower and higher ends of the production spectrum. As a result, the average amount of commissions paid out as a percentage of revenue for an insurance broker-dealer is 73.6%, more than a percentage point lower than the 74.8% average for independent broker-dealers.

While the insurance broker-dealer may be paying out less in commissions, these firms tend to pay out more for advisor services. Insurance broker-dealers are more apt to cover 100% of the cost for most all major advisor service items, ranging from stock quotes to client relationship management software. Factoring in the tendency to provide these services narrows the cost gap for advisors who affiliate with an insurance broker-dealer. This is especially true for large producers who tend to rely more heavily on these services.

Figure 12: Propensity to Cover Various Service Costs

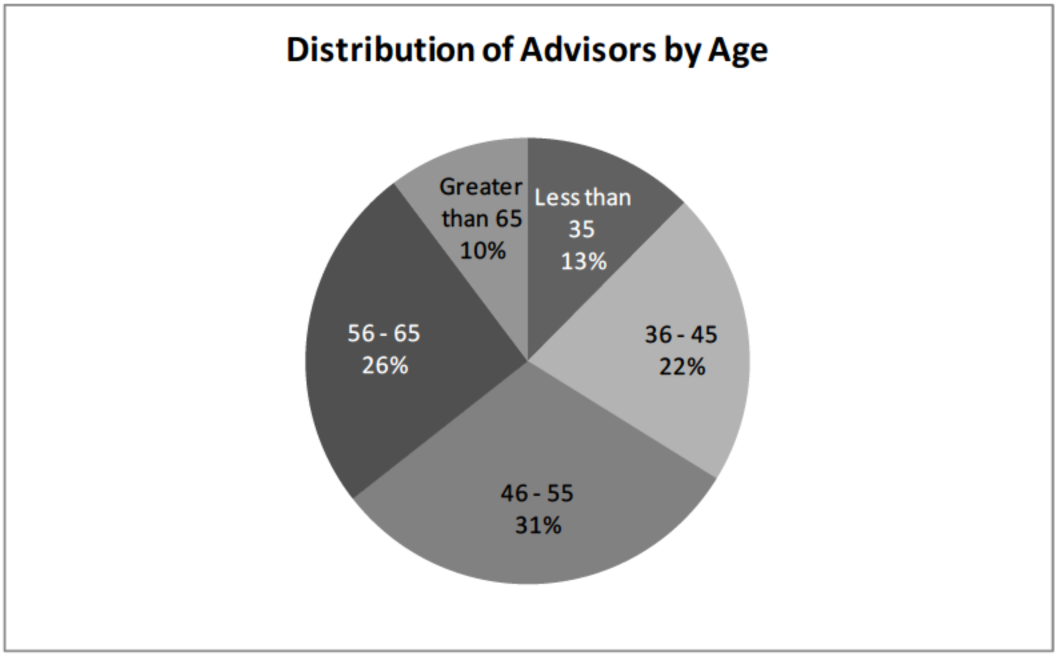
Service Item	Percentage of Firms Covering 100% of Cost	
	Independent	Insurance
Technology Fee	25%	46%
Delayed Quotes	33%	77%
Portfolio Management Software	14%	57%
Investment Research	0%	31%
Client Account Access	39%	87%
CRM Software	38%	58%
Help Desk	56%	82%

Recruiting and Retention

According to industry trade press, many independent broker-dealers experienced a banner recruiting year in 2009, picking up new advisors in particular who had become disenchanted with the wirehouse system. But how accurately do these reports reflect the independent broker-dealer's ability to expand its talent base? In many respects, with regard to recruiting and retention, the challenges for independent broker-dealers grow more serious each year.

Recruiting success is only part of the equation for growing a broker-dealer's talent base. The average advisor continues to age but broker-dealers are making limited progress in offering succession solutions, grooming less-experienced advisors from within and improving overall retention of talent. As noted in past FSI benchmarking studies, a good share of advisors is approaching retirement age. This proportion gets larger every year. Just two years ago, 32% of advisors were age 55 or older. Today this share has grown to 36% (Figure 13).

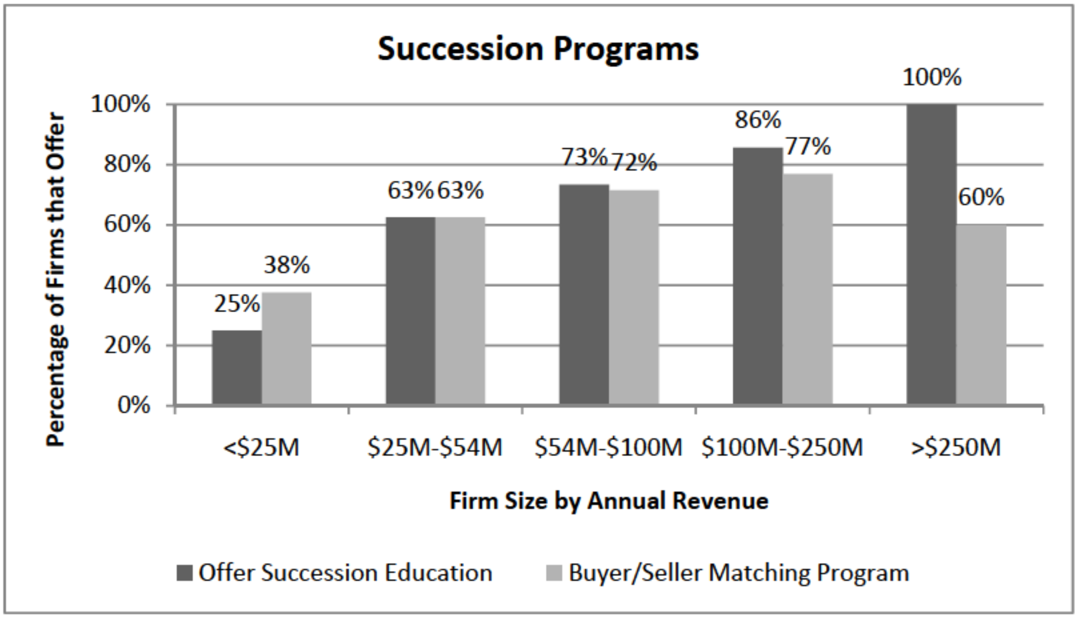
Figure 13: Distribution of Advisors by Age



Despite the large numbers of advisors trending toward retirement, broker-dealers are making only limited investments in providing solutions for these advisors to succeed out of their practices. Offering succession solutions can be a key means for a broker-dealer to retain client accounts, remain attractive for experienced advisors and establish career path opportunities for less-experienced advisors.

The good news is more broker-dealers are making educational assistance available with regard to succession. Succession education is now offered by 70% of firms, up from 65% last year. All of the survey's largest firms offered succession education (Figure 14). Less encouraging is the fact that only the largest firms tend to have dedicated budgets for succession assistance, which are minimal at best. For firms with more than $250 million in revenue the typical budget in 2009 for succession programs was $60,000 with no increase in budget planned for 2010.

Figure 14: Use of Succession Programs by Firm Size



Independent and insurance firms are both very likely to offer succession education programs. However, the insurance firms fall behind the independents when it comes to offering buyer/seller matching programs. Seventy-three percent of independent firms offer a formal or informal matching program compared with only 57% of insurance firms. Similarly, more than half of independent firms offer advisors some type of transaction assistance, such as access to a recommended network of service providers, or preferred pricing on professional services. Only 37% of independent firms offer this type of assistance to their advisors. It is conceivable, however, that the parent of the insurance broker-dealer is providing assistance related to buying and selling a practice, which was not captured in the survey. If this is the case the current survey data may underestimate the extent to which insurance-affiliated advisors have access to assistance.

While there may be lack of focus concerning succession, this is not the case with firms' emphasis on recruiting. The typical firm directly spends nearly half of a million dollars annually on recruiting. Proportionately, recruiting effort is heaviest for small firms, as demonstrated in Figure 15.

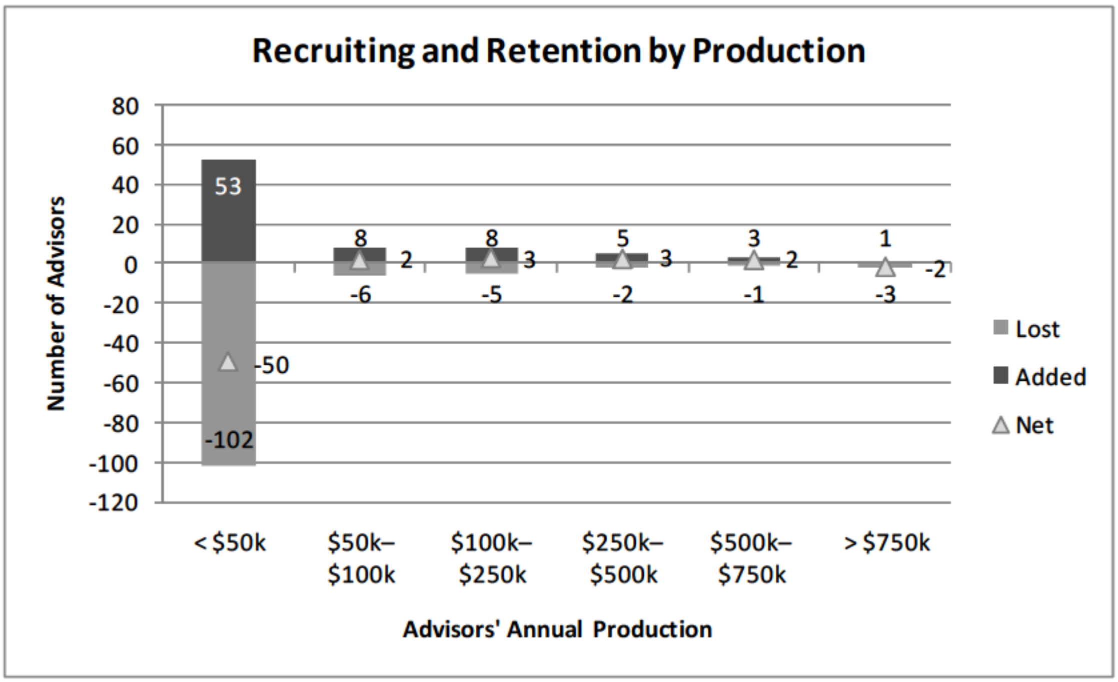
Figure 15: Proportional Recruiting Effort, Smallest and Largest Firms

Ratio	Firm Size in Annual Revenue	
	Less than $25 Million	Greater than $250 Million
Recruiting Budget as a Share of Revenue (Average)	1.5%	0.3%
Advisors Per Internal Recruiter (Median)	78	274

Through recruiting efforts, the number of new advisors firms added during 2009 represented, on average, a 13% increase compared with the number of advisors they started with at the end of 2008. Despite firms' best efforts, however, the recruitment of new advisors has not kept pace with firms' ability to retain advisors. Over the course of 2009, for every five advisors a firm recruited, another six on average were lost.

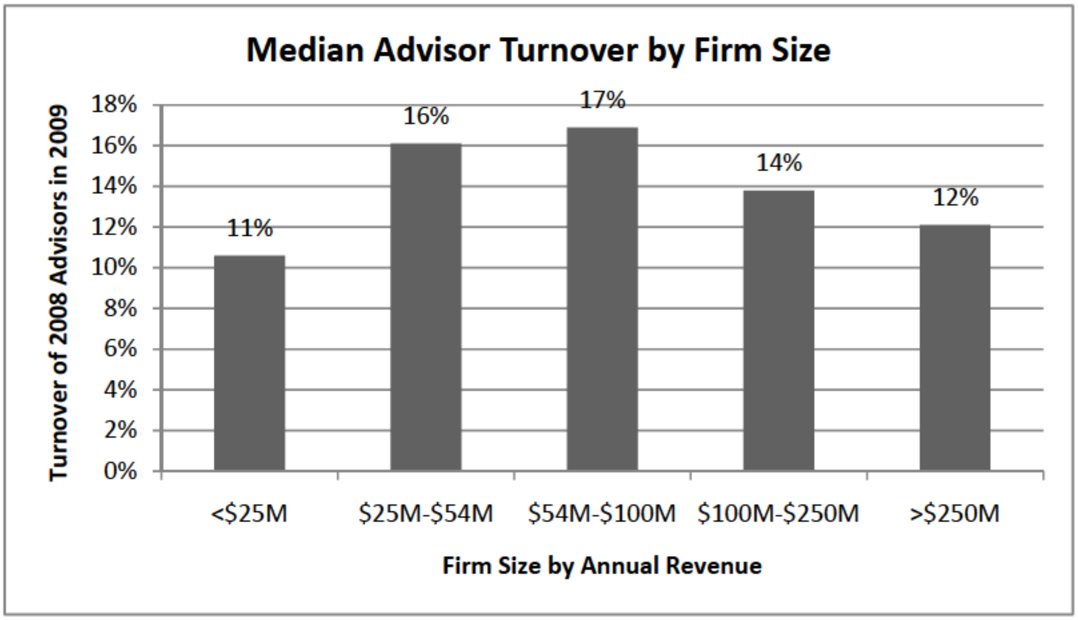
Figure 16 further details the dynamics of advisor gains and losses according to ranges of advisor production. The figure demonstrates that much of the movement into and out of a broker-dealer is relegated to advisors producing less than $50,000 in revenue. Additionally, it is this group that is largely responsible for the net outflow in advisors, which can be interpreted as a positive in that, on net, firms are shedding their least productive advisors. This is a second-best solution, however, compared with growing weaker producers into stronger and profitable advisors.

Figure 16: Median Advisors Lost and Added by Level of Production



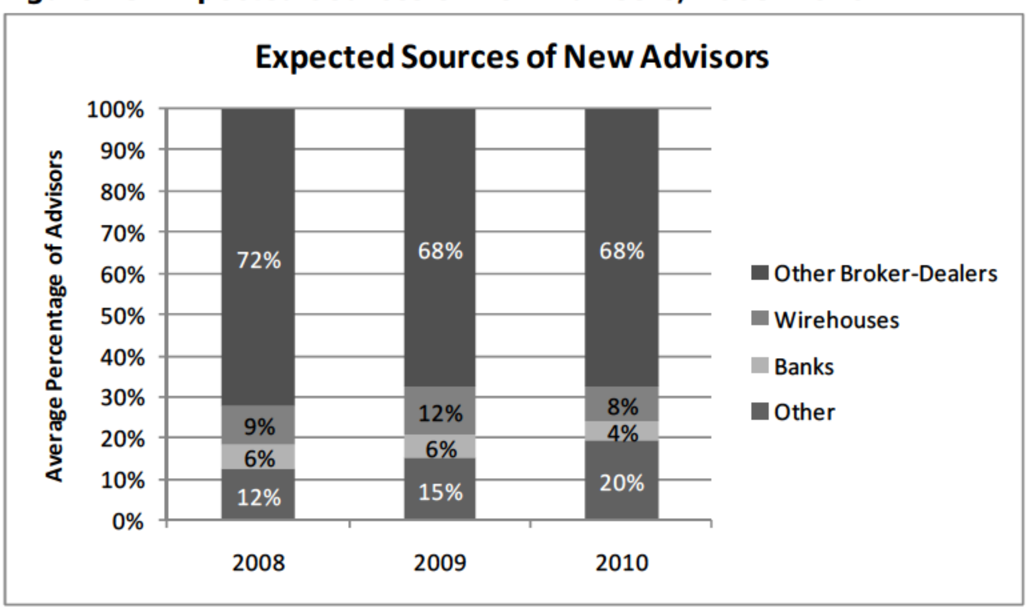
A certain amount of turnover is healthy for any organization in terms of weeding out stagnant performers and bringing in new energy and fresh thinking to the firm. High turnover, however, is costly in terms of the inability of the firm to recoup start-up costs related to getting an advisor up to speed. Extraordinary turnover also places a drag on the firm's ability to foster a sense of community and shared culture within its advisor base. During 2009 advisor turnover across all firms, at 15%, remained unchanged from 2008. The industry's smallest, as well as largest, firms experienced the lowest turnover (Figure 17).

Figure 17: Median Advisor Turnover by Firm Size



While aging advisors may also be a contributor, the high broker-dealer turnover rates are largely a result of independent broker-dealers being heavily reliant on other independent broker-dealers as a source of new recruits (Figure 18). Firms expect more than two-thirds of recruits to come from their direct competitors in 2010. This dominant share is down from the expectation of 72%, however, in 2008. Relative to 2009, firms also expect to be less reliant on wirehouses for recruits, now that these firms appear to have stabilized compared with the tumult experienced in late in 2008 and early 2009. An encouraging sign is the strong growth in "Other" or non-traditional sources, increasing from 12% in 2008 to 20% in 2010. Much of the "Other" share in 2010, 13% of all recruits, is expected to be individuals new to the industry.

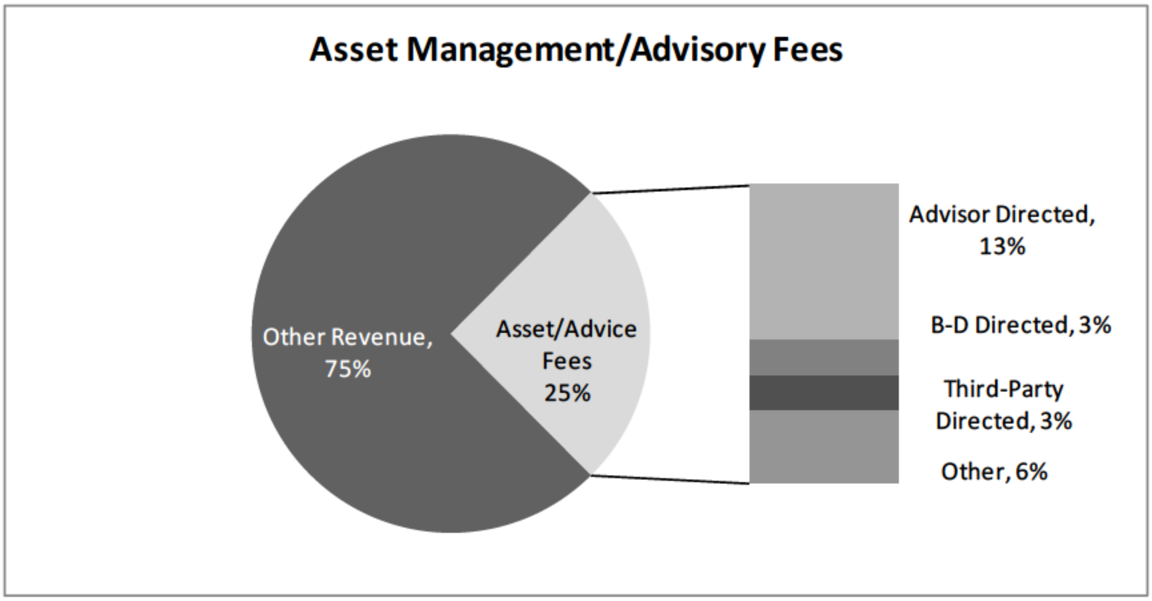
Figure 18: Expected Sources of New Advisors, 2008–2010



Asset Management and Advisory Fees

Based on all participating firms both this year and last, it would appear that asset management and advisory fees as a percentage of revenue decreased from 2008 to 2009. The trend appears to result simply from a different mix of firms participating in this year's study, however. When we isolate the group of 43 firms who participated in both last year's and this year's studies, asset management and advisory fees averaged 25.3% of all firm revenue in 2009, up slightly from the 24.8% this same firm group reported last year. The bulk of broker-dealer fee revenue, slightly more than half, originates from advisor directed accounts (Figure 19).

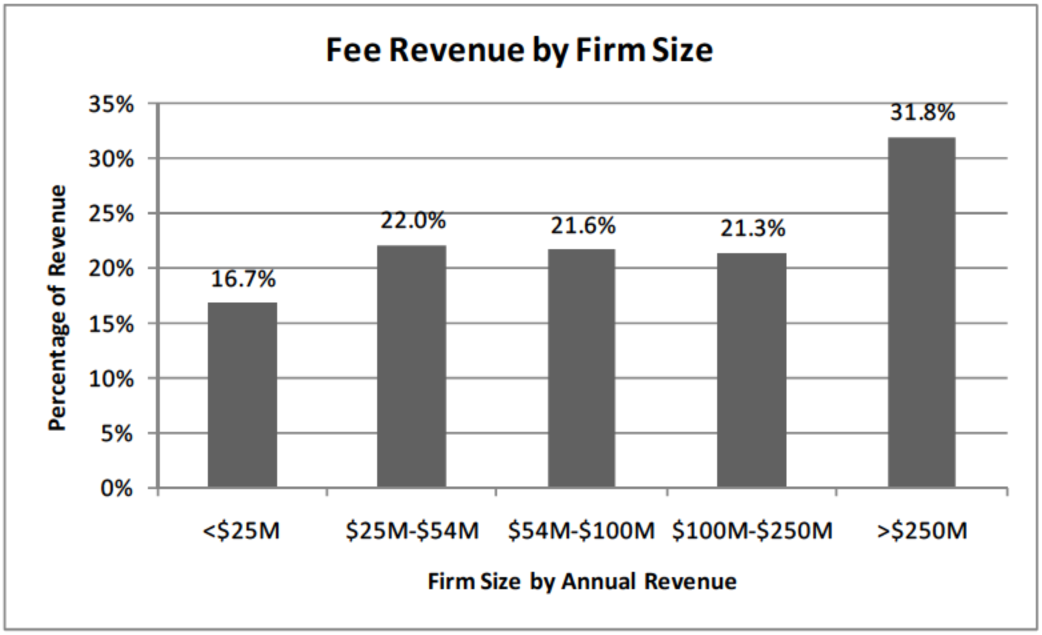
Figure 19: Composition of Asset Management and Advisory Fee Revenue



The industry's largest firms, as well as independent firms, are most reliant on fee business. As illustrated in Figure 20, firms with revenue greater than $250 million are nearly twice as dependent on fees relative to the industry's smallest broker-dealers, those firms with revenues less than $25 million.

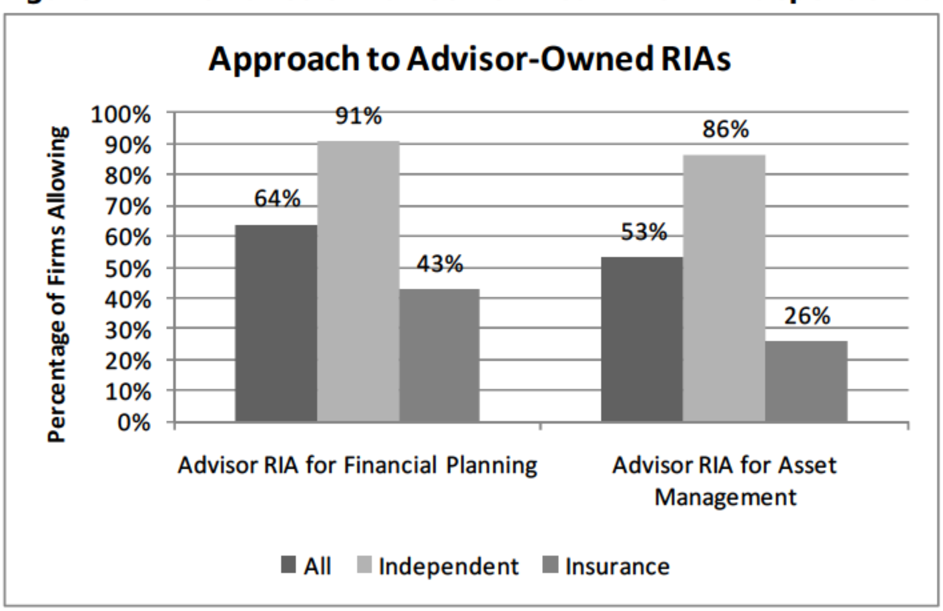
Valid arguments exist either way with regard to whether firms conduct more fee business because they are large or whether firms become large because they accommodate fee business. In support of the former, certain economies of scale may better equip larger firms in accommodating and profiting from fee business. For example, larger firms may have the ability to more cost-effectively provide infrastructure and monitor compliance required for advisors to conduct fee business. In support of the latter argument, fee-friendly firms tend to have an advantage in attracting and retaining larger producing and more profitable advisors, which facilitates growth of the broker-dealer.

Figure 20: Percentage of Revenue Derived from Fees by Firm Size



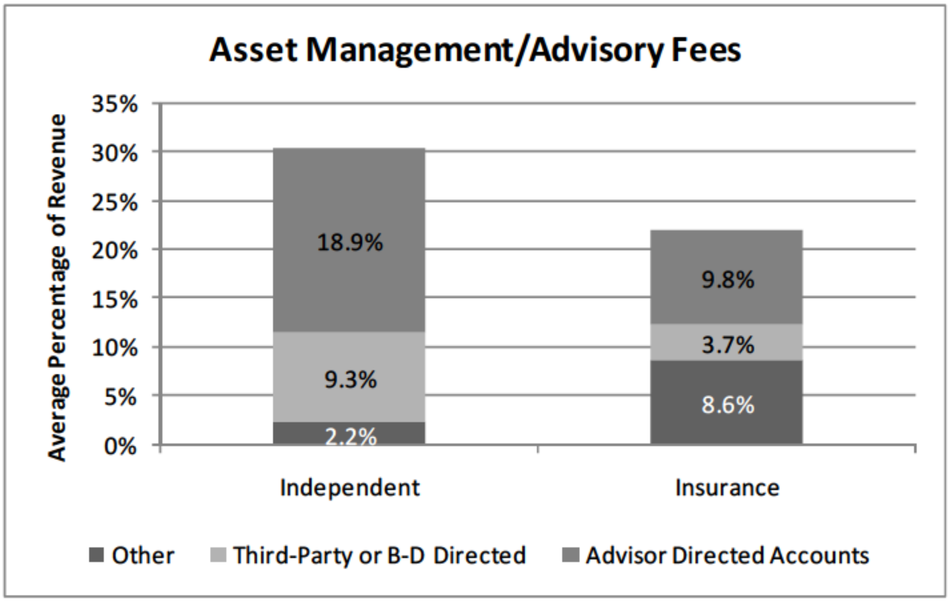
Relative to insurance firms, independent firms have long applied more liberal policies with their advisors concerning conduct of fee business. The great majority of independent broker-dealers tend to allow advisors to maintain their own RIAs for both financial planning as well as asset management (Figure 21) and the share has increased in recent years. In contrast, the share of insurance firms allowing advisor-owned RIAs for either purpose has declined over the year.

Figure 21: Allowance of Advisor-Owned RIAs in Independent and Insurance Firms



As a result, the independent firms have a history of generating more fee revenue. The most recent year was no exception when independents garnered 30% of revenue from fees compared with just 22% for insurance broker-dealers (Figure 22).

Figure 22: Average Fees as a Percentage of Revenue in Independent and Insurance Firms

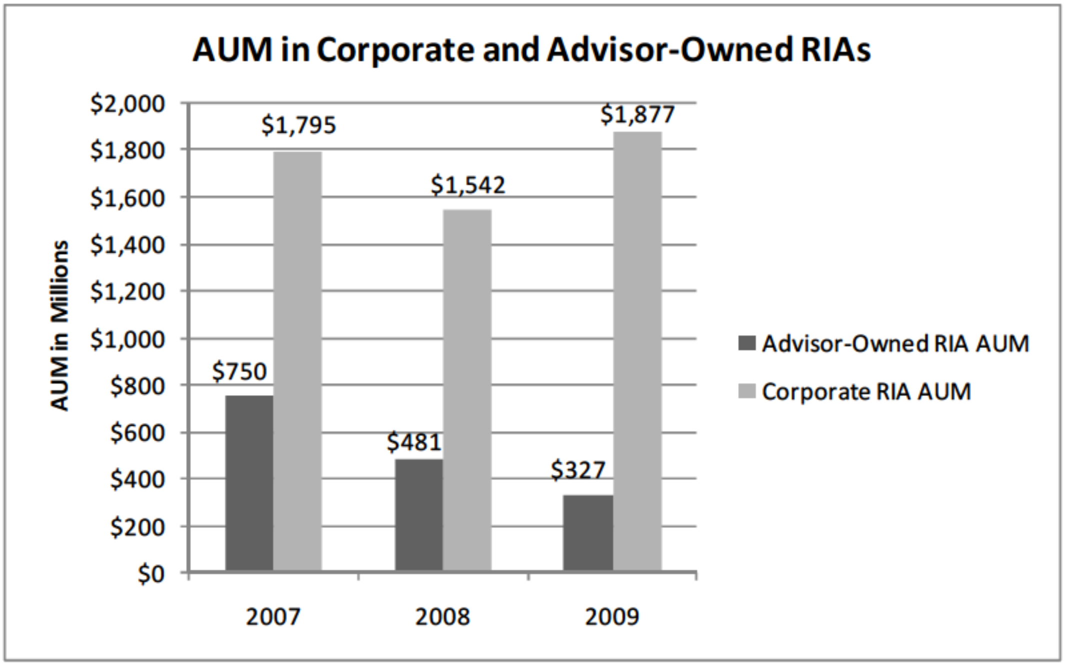


Additionally, as we have observed in years past, fee business is also associated with broker-dealer profits. High-profit firms generate a much greater share of revenue from asset management and advisory fees than other firms. Fees average 30% of revenue for firms in the highest quartile of profitability compared with 22% of revenues for other firms.

Another recurring observation is that those broker-dealers that allow advisor-owned RIAs are more profitable that those that do not. Further, those firms that allow planning-only RIAs are the most profitable of all firms, generating a typical profit margin of 3.9% compared with a negative 3.0% margin for those firms that do not allow advisors to maintain any type of RIA.

These results may help to explain why the proportion of firms that allow an RIA for financial planning has held steady in recent years, yet firms appear less interested in having advisors manage assets through an advisor-owned RIA. While 63% of broker-dealers allowed their advisors to oversee assets through their own RIA in 2007, in 2009 just 53% allow this. Related, the typical firm reported declining AUM relative to their advisors' own RIA, with advisor RIA AUM in 2009 at less than half of what was managed in 2007 (Figure 23). In contrast corporate RIA assets have increased.

Figure 23: AUM in Corporate and Advisor-Owned RIAs, 2007–2009



Compliance and Litigation

Increasing regulations imposed upon the financial industry and the costs associated with complying with them are an important issue for all broker-dealer firms. The good news is that based on some of the trends we saw this year, broker-dealers seem to be better equipped to handle the regulations.

Comparing the same 43 firms that participated in studies for the past two years, the overall expenses paid toward legal fees, litigation and customer settlements as a percentage of revenue decreased slightly, from 0.9% to 0.8%. The typical number of new complaints throughout the year is also down slightly, from 30 in 2008 to 29 this year. The typical broker-dealer's cost to defend complaints is down 17% from 2008, and the typical amount of total settlement dollars paid is down 32% from last year.

Perhaps one reason for the decrease in complaints and litigation could be an increased focus in staffing compliance and licensing positions. The total number of FTE dedicated to compliance and licensing in a typical firm grew one position this year to 15 employees. Looking at our group of repeat participants, the number of compliance/licensing FTE in the typical firm grew from 15 in 2008 to 17 in 2009.

Understandably, the number of FTE dedicated to compliance and licensing varies depending on the size and type of broker-dealer. As broker-dealers grow and take on more advisors and clients, the need for additional compliance staff increases. On a per advisor basis, however, more compliance and licensing staff is required by the industry's smallest firms. For example, the typical less than $25 million firm employs 1 compliance or licensing staff member for every 18 affiliated advisors. This ratio ranges from 27 to 29 for larger firms.

A distinction also arises between the numbers of staff in independent firms compared with insurance firms. Due to the amount and type of products they offer, insurance firms require more oversight and therefore, more staff members dedicated to those tasks. The typical insurance firm in this year's study employed 21 compliance and licensing personnel, compared with only 8 in independent firms. Because of their need for additional oversight, they typically employ one compliance/licensing staff member for every 28 advisors. Compliance/licensing staff at independent firms handle 31 advisors per staff member.

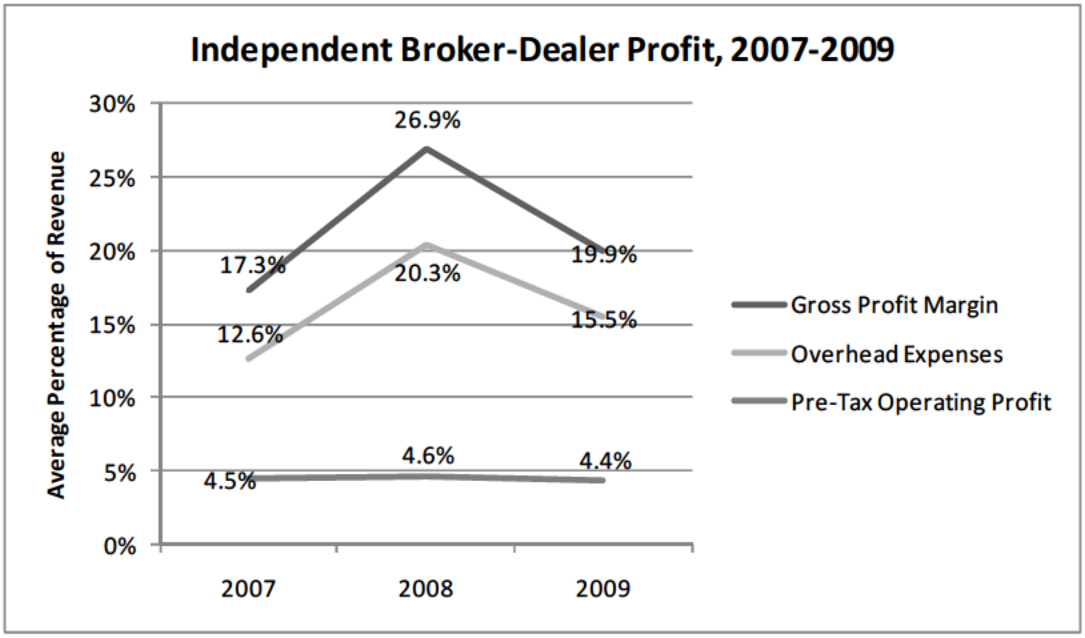
A sign of stepped up enforcement, one area that did not decrease this year is regulatory inquiries. Among repeat participants, about a quarter of firms experienced inquiries in 2008. That percentage nearly doubled in 2009. The triggers for regulatory inquiries varied depending on firm but included late filings, variable annuity sales practices and REIT-related issues.

While it is an encouraging sign that the financial burden of compliance appears to be holding fairly constant as of late, it is critical for firms to remain focused on the importance of compliance. The potential cost of failing to conform to regulations far outweighs the cost of hiring a few additional staff members dedicated to the firm's oversight.

Independent Broker-Dealers

Independent broker-dealers comprised 44% of the respondents in this year's study, which is the same proportion that participated in 2008. In this study, the "independent" group consists of any broker-dealer that does not have a parent company in the business of insurance. As Figure 24 shows, average pre-tax operating profit margin for independent broker-dealers has changed little in recent years. Despite the challenging economic climate margins declined only slightly, from 4.6% in 2008 to 4.4% in 2009. Compared with 2008, independents became much stronger at managing their expenses in 2009. Overhead as a percentage of revenue for independent firms dropped from 20.3% in 2008 to 15.5% this year. As they did last year, independents easily outperformed insurance broker-dealers in terms of average operating profit margin.

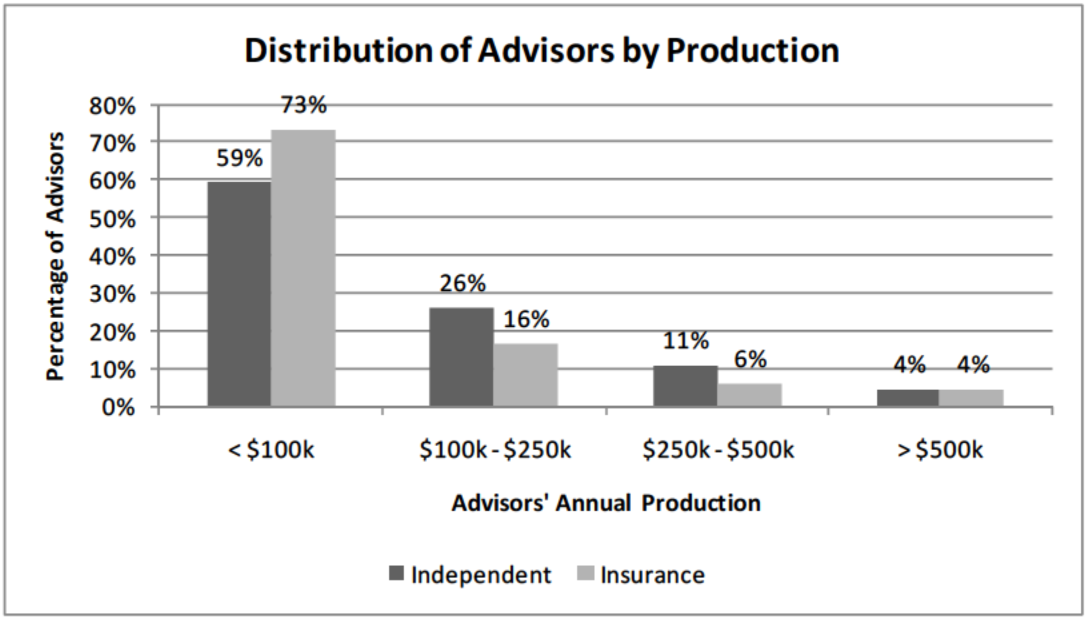
Figure 24: Average Independent Broker-Dealer Profit Margins, 2007–2009



For independent broker-dealers, staff salaries were the biggest area of decrease for overhead expenses—decreasing from 8.5% of revenue in 2008 to 5.9% in 2009. In a trend similar to what we see with high-profit versus other firms, independents tend to have higher revenue per staff member than insurance firms.

As we have seen in the last few years, advisors that affiliate with independent broker-dealers maintained higher levels of production than those tied to insurance broker-dealers. Smaller-producing advisors who generated less than $100,000 last year comprise only 59% of all advisors in independent firms, compared with 73% of advisors in insurance firms. Figure 25 details the distribution of advisors by production in the independent and insurance advisor networks.

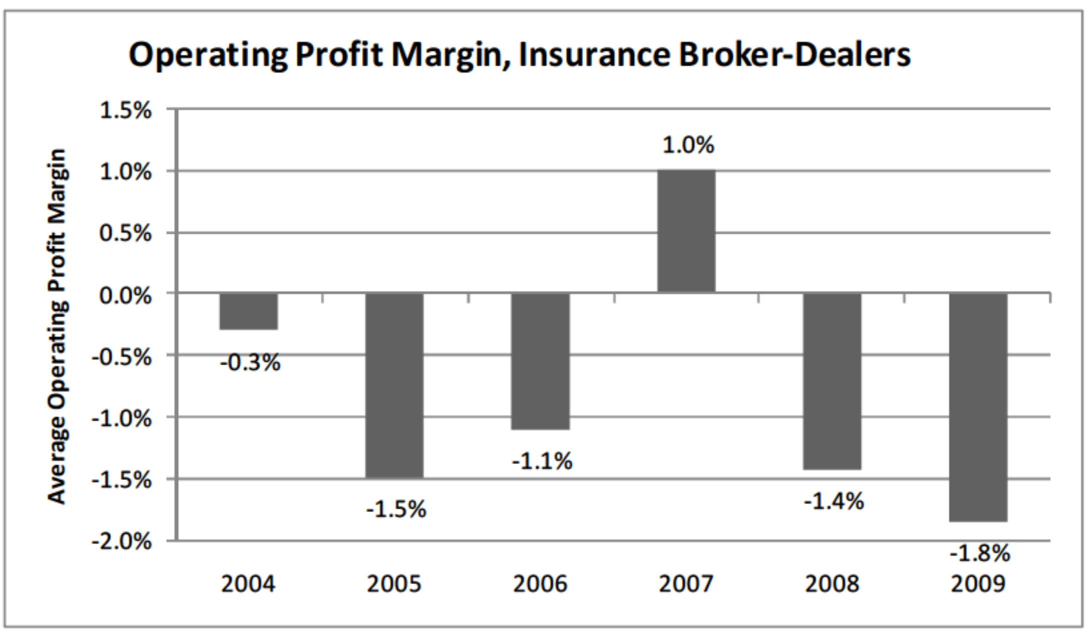
Figure 25: Distribution of Advisors by Production, Independent and Insurance Firms



Insurance Broker-Dealers

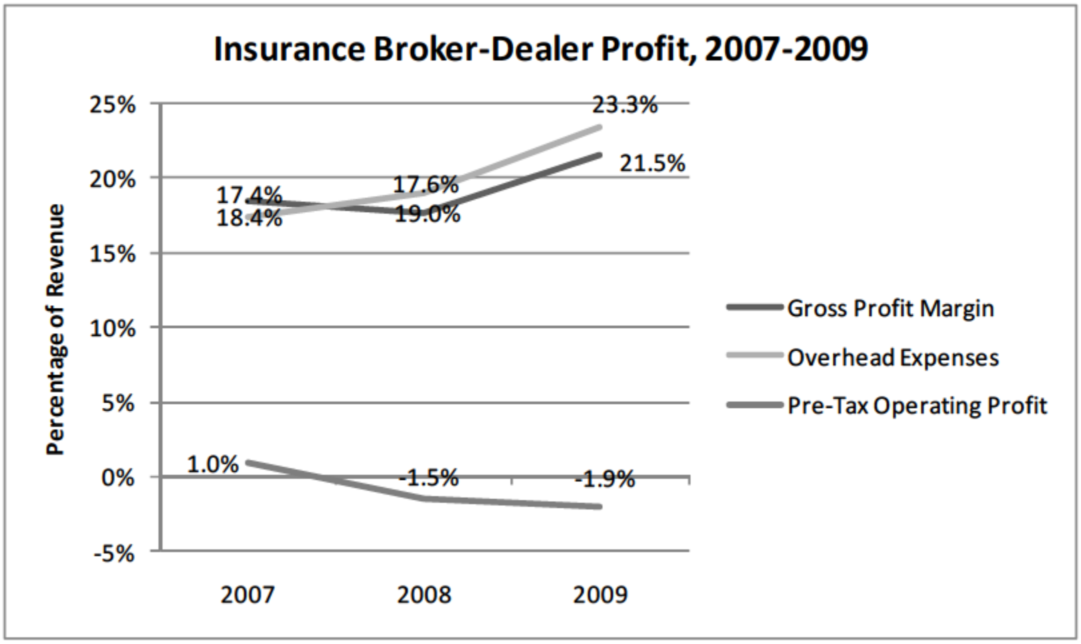
Broker-dealers with a parent in the business of insurance comprised 56% of respondents in this year's study. As insurance firms struggled with the challenging economic climate, the downward trend of operating profits continued in 2009. As Figure 26 displays, insurance firms averaged a negative 1.8% profit margin in 2009.

Figure 26: Average Operating Profit Margin for Insurance Broker-Dealers, 2004–2009



The 2009 fiscal year was another tough one for insurance broker-dealers, with two-thirds of insurance broker-dealer participants failing to earn a profit, the highest percentage of insurance firms with negative operating profit margins in recent years. Figure 27 demonstrates that higher overhead expenses on top of lower gross profit margins both contributed to the negative pre-tax profit margins experienced by insurance broker-dealers in 2009.

Figure 27: Average Insurance Broker-Dealer Profit Margins, 2007–2009



Insurance broker-dealers are showing signs of improvement in their performance, however, in other areas. In particular, their advisor productivity is up sharply. Revenue per advisor is up 78% from 2008 and commission per advisor is up 52%. The productivity figures are now very similar to their independent counterparts, which is a major change from last year when they generated less than half the revenue per advisor of independent firms.

Reader's Guide

Report Organization

The *2010 FSI Broker-Dealer Financial Performance Study* reviews in detail the financial as well as operating practices of FSI broker-dealer members. Results are typically presented by size of firm, type of broker-dealer and profitability. In addition to this reader's guide, this report has two other major sections:

- Results Analysis
- Detailed Data Tables

2010 Results Analysis

This summary offers a detailed review and interpretation of the survey findings, including a perspective on this year's trends as they relate to recent history.

Detailed Data Tables

Detailed data tables are presented at the back of this report. These financial and operating statistics begin on page 32. Survey results are provided based on all participating firms. Additionally, the data is typically broken out by firm profitability, size and ownership type. Figures are provided for a total of up to nine sub-groups in all.

Methodology

Data Collection

Survey data collected from 51 FSI broker-dealer member firms formed the basis for this study. Participation in the study was voluntary and restricted to members of FSI. The survey fielded in 2010, from February 12 to May 7, with firms reporting data as of year-end 2009.

All surveys were submitted directly to FA Insight. All firm-specific information provided is strictly confidential. No persons other than FA Insight project team members were, or will be, granted access to individual company data.

FSI study task force members, representatives from FSI and FA Insight designed the survey form for this year's study.

Data Compilation

The data for each participant were reviewed separately following submission and all ratios were calculated for individual participants. While FA Insight did not verify the accuracy of the information submitted, respondents were frequently contacted to clear up any discrepancies noted in their submission.

A number of participants provided their financial information in the firm's original chart of accounts rather than the one used in the survey form. To make statements comparable across companies, FA Insight translated firms' existing charts of accounts to the survey form's chart of accounts, consulting with participants when clarification was needed.

In order to present on as much of the reported data as possible, compiled data was based on all responses regardless of whether a firm completed all parts of a question. When data groupings yielded fewer than three responses, however, no estimates were published. In these cases “N/A” is used in the data tables to indicate an insufficient sample size.

Common-Sized Financial Statements

Fifty broker-dealers completed detailed income statement and balance sheet forms using 2009 financial data. Respondent surveys not containing sufficient detail were excluded from the calculation of the common-sized financial statements. For example, if commission revenue was not detailed by product type, the survey data was not used in calculating the common-sized income statements. To calculate the common-sized financial statements for all respondents, a simple average was used.

Averages, Medians and Quartiles

The bulk of presented data in this report is composed of averages or medians. While averages are often the best representation for the industry or a group as a whole, medians tend to better represent the experience of the typical broker-dealer firm.

The median is the halfway point in a data group, where half the survey results have greater value and half have lesser value. Because extreme outliers in the sample have less influence, medians are more helpful than averages for depicting the typical value in a group of values.

If the group contains an odd number of values, the median is the value precisely in the middle when the values are ranked in order of magnitude. When the group has an even number of values, the median is defined as half the distance between the two values in the middle.

Median ratios are often a common source of confusion. Median revenue per advisor, for example, is correctly calculated by first calculating revenue per advisors for all the firms in the survey. Next, the median is derived from this group of firm ratios. While median revenue for all firms divided into median number of advisors produces a benchmark ratio as well, this calculation cannot be considered a true median.

Quartiles are a natural extension of a median. An upper quartile is used to distinguish a group of high-profit firms in the results analysis and the detailed data tables. The upper-quartile dividing line is a value such that 75% of the values in the sample are below it. Similarly, the lower quartile begins with the value such that 75% of the values in the group are above it.

Reporting Groups

In addition to presenting survey results for all participating broker-dealers, this report groups survey data according to firm profitability, size and ownership. Estimates are provided for a total of nine sub-groups.

Profitability

Results for high-profit firms are distinguished from "all others" based on operating profit margin. High-profit firms are defined as any firm in the top 25% or upper quartile of respondents. For this year's report, respondents with an operating profit margin of 3.0% or higher were designated high-profit. Firms with lower profitability made up the "all other" group.

Firm Size

Participants were grouped by size based on reported 2009 total annual revenue. Revenue categories are as follows: Under $25 million, $25 million to $54 million, $54 million to $100 million, $100 million to $250 million and greater than $250 million. In previous years, the smallest group comprised firms under $17 million in revenue. However, due to the low number of participants in this group last year, this category was expanded to under $25 million. This allows for data to be reported in more categories than last year for this revenue group.

Ownership

This year, we modified the ownership-related questions in the survey to better distinguish the "Insurance" and "Independent" groups. Respondents were asked if they were owned by a parent company and, if so, if the parent was in the business of insurance. Those who said yes to both of those questions comprise the "Insurance" group of firms. The firms that are either not parent-owned or owned by a holding company or parent other than an insurance company are included in the "Independent" group.

Explanation of Financial Information

Liquidity	Liquidity ratios measure a company's ability to meet its short-term obligations.
Current Ratio *Formula:* *Total Current Assets/* *Total Current Liabilities*	The current ratio shows a company's ability to pay obligations due within 12 months with assets that are expected to turn to cash within 12 months. A higher current ratio indicates better liquidity, and a lower current ratio may indicate that the company will have difficulty meeting short-term obligations. The key factors that influence this ratio are accounts receivable, commissions, payables and turnover.

Working Capital *Formula:* *Total Current Assets—* *Total Current Liabilities*	Working capital is the capital a company needs on a day-to-day basis to produce revenue. For a broker-dealer operation, the working capital typically consists of commissions receivable and securities held for resale less the commissions payable to the advisors and the amounts payable to vendors. A high-dollar number for working capital may indicate either very good financial health (if the cash balance is high) or problems with managing the receivables (if the cash balance is low).
Sales-to-Working Capital Ratio *Formula:* *Total Revenue/Working Capital*	The sales-to-working capital ratio measures how much revenue a company produces for a dollar of working capital. The higher the ratio, the more effective the company is in managing its working capital.
Safety	Safety ratios measure a company's ability to withstand adversity.
Debt-to-Equity *Formula:* *Total Liabilities/Total Equity*	Debt-to-equity, also known as leverage or debt-to-net-worth, compares the amount of funds invested by creditors with the amount of funds invested by owners. The higher the debt-to-equity ratio, the more at-risk the business is in the event of an economic downturn. A heavy debt load increases a company's ability to grow during good times; however, a heavy debt load decreases a company's ability to withstand a downturn in profitability. The key factors that influence the debt-to-equity ratio are the company's borrowing, profitability and capital (i.e., sources of funds other than debt).
Profitability	Profitability ratios measure a company's profitability at various levels.
Gross Profit Margin % *Formula:* *(Gross Profit/* *Total Revenue) x 100*	The gross profit margin equals gross profit divided by revenue. It represents the percentage of each revenue dollar available for operating expenses.

Operating Profit Margin % *Formula:* *(Operating Profit/* *Total Revenue) x 100*	The operating profit margin is the percentage return on revenue after all operating expenses and before other income and expense.
Pre-Tax Profit Margin % *Formula:* *(Pre-Tax Profit/* *Total Revenue) x 100*	The pre-tax profit margin is the percentage profit on revenue after all expenses except income taxes.
Net Profit Margin % *Formula:* *(Net Profit/* *Total Revenue) x 100*	The net profit margin is the percentage return on revenue after all expenses, including income taxes.
Employee/Office Productivity	Employee productivity ratios measure a company's employees' productivity using different measures of efficiency.
Revenue per Employee (FTE) *Formula:* *Total Revenue/* *Number of Full-time Equivalent Employees*	The revenue per employee provides a measure of the productivity of employees.
Commission per Advisor *Formula:* *Total Commission Revenue/* *Number of Advisors*	The commission per advisor measures the productivity of the typical advisor.
Revenue per Advisor *Formula:* *Total Revenue/* *Number of Advisors*	The revenue per advisor is another measure of productivity. Compared with commission per advisor, revenue per advisor also includes assets under management and other non-commissionable production.

Commission Analysis	Commission analysis looks at how many times a year commissions are paid, as well as by number of days and what the commission payout percentage is based on, financial statement values for commissions received and commissions paid during the year.
Commission Payable Turnover *Formula:* *Commissions Paid/* *Commissions Payable*	This is a modified version of accounts payable turnover using commissions paid and total commissions payable at end of the year.
Commission Payable—Days *Formula:* *365/(Commissions Paid/* *Commissions Payable)*	The median commission payable in days.
Payout Ratio *Formula:* *Commissions Paid/* *Commissions Received*	The payout ratio is simply the ratio of commissions paid to commissions received based on financial statement data.
Cash Flow Analysis	Cash flow analysis looks at a broker-dealer's ability to generate operating cash flow from revenues and profits and the relationship of cash flow to assets and equity. Cash flow is a critical measure of a firm's ability to withstand an economic downturn, as well as measuring debt serviceability.
Cash Conversion Efficiency *Formula:* *Operating Cash Flow/* *Total Revenue*	The cash conversion efficiency ratio measures the ability of revenue to generate operating cash flow. It indicates how much operating cash flow each dollar of revenue generates.
Operating Cash Flow to Profit *Formula:* *Operating Cash Flow/* *Net Income*	Operating cash flow to profit indicates how much operating cash flow each dollar of profit (net income) generates.
Operating Cash Flow Return on Assets (ROA) *Formula:* *Operating Cash Flow/* *Total Assets*	Operating cash flow ROA measures the return on assets generated by operating cash flow.

Operating Cash Flow Return on Equity (ROE) *Formula:* *Operating Cash Flow/ Total Equity*	Operating cash flow ROE measures the return on equity generated by operating cash flow.
Common-Sized Statements	Common-sized financial statements express each account as a percentage of either revenue (for the income statement) or total assets (for the balance sheet). The common-sized statements allow for a consistent comparison between firms and different historic periods and establish a relationship between revenue and expenses or between the items on the balance sheet. The common-sized financial statements for broker-dealers were calculated by taking the average value for all accounts and expressing them as a percentage of the average total.

Common-Sized Income Statements

Common-Sized Income Statement - All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers			High-Profit: Top 25%			Non-High-Profit		
REVENUES									
Commission Received									
Mutual Funds	$	13,762,612	11.6%	$	18,731,507	9.9%	$	12,016,784	12.8%
Equities		4,774,985	4.0%		10,806,879	5.7%		2,655,670	2.8%
Annuities		3,764,550	3.2%		8,501,469	4.5%		2,100,226	2.2%
Variable Annuities		23,274,272	19.6%		27,350,538	14.5%		21,842,070	23.2%
Bonds		1,840,356	1.5%		4,147,963	2.2%		1,029,575	1.1%
Life Insurance		6,942,802	5.8%		7,068,453	3.7%		6,898,654	7.3%
Partnerships		2,117,017	1.8%		3,333,328	1.8%		1,689,664	1.8%
Trail Commissions		18,193,260	15.3%		29,905,881	15.8%		14,078,015	14.9%
Other		3,402,805	2.9%		3,631,267	1.9%		3,322,534	3.5%
Total Commission Received	$	78,072,657	65.7%	$	113,477,286	60.0%	$	65,633,193	69.7%
Asset Management/Advisory Fees									
Advisor Directed Accounts	$	15,625,740	13.1%	$	29,608,839	15.7%	$	10,712,759	11.4%
Broker-Dealer Directed Accounts		3,554,122	3.0%		8,464,064	4.5%		1,829,007	1.9%
Third-Party Directed Accounts		3,351,234	2.8%		8,332,219	4.4%		1,601,158	1.7%
Other		7,368,588	6.2%		11,077,923	5.9%		6,065,308	6.4%
Total Asset Management/Advisory Fees	$	29,899,684	25.1%	$	57,483,045	30.4%	$	20,208,233	21.5%
Other Revenue Paid Out to Advisors	$	68,244	0.1%	$	54,609	0.0%	$	73,035	0.1%
Total Revenue Paid Out	$	108,040,585	90.9%	$	171,014,940	90.4%	$	85,914,461	91.2%
REVENUE NOT PAID OUT TO ADVISORS:									
Fees Charged to Advisors	$	2,220,734	1.9%	$	5,471,862	2.9%	$	1,078,445	1.1%
Marketing/Due Diligence Fees/Soft Dollars		2,126,579	1.8%		3,128,742	1.7%		1,774,468	1.9%
Other Non-Commissionable Revenue		6,514,298	5.5%		9,576,699	5.1%		5,438,319	5.8%
Total Revenue Not Paid Out	$	10,861,610	9.1%	$	18,177,303	9.6%	$	8,291,232	8.8%
Total Revenue	**$**	**118,902,196**	**100.0%**	**$**	**189,192,242**	**100.0%**	**$**	**94,205,693**	**100.0%**
DIRECT EXPENSES									
Commissions Paid	$	87,996,100	74.0%	$	137,570,715	72.7%	$	70,577,992	74.9%
Clearance Fees		2,838,028	2.4%		7,763,177	4.1%		1,107,570	1.2%
Other		3,219,047	2.7%		620,318	0.3%		4,132,115	4.4%
Total Direct Expense	$	94,053,175	79.1%	$	145,954,210	77.1%	$	75,817,677	80.5%
Gross Profit	**$**	**24,849,020**	**20.9%**	**$**	**43,238,033**	**22.9%**	**$**	**18,388,016**	**19.5%**
OPERATING EXPENSES									
Accounting/Consulting	$	329,927	0.3%	$	482,288	0.3%	$	276,395	0.3%
Computer (hardware, software, maintenance)		1,439,522	1.2%		2,177,539	1.2%		1,180,219	1.3%
Depreciation Expense		399,703	0.3%		448,671	0.2%		382,498	0.4%
Equipment Lease		41,180	0.0%		130,367	0.1%		9,844	0.0%
Employee Benefits/Insurance/Pension/401k		1,681,686	1.4%		1,637,405	0.9%		1,697,244	1.8%
Legal/Litigation/Customer Settlement		969,641	0.8%		785,470	0.4%		1,034,350	1.1%
Marketing Expense		893,776	0.8%		2,328,586	1.2%		389,653	0.4%
Parent/Third-Party Administrative Fee		5,699,287	4.8%		8,536,085	4.5%		4,702,574	5.0%
Phone/Fax/Communications		188,770	0.2%		305,446	0.2%		147,776	0.2%
Registration Fees		435,747	0.4%		520,656	0.3%		405,914	0.4%
Rent and Other Facility Expense		916,272	0.8%		1,453,776	0.8%		727,419	0.8%
Salaries/Wages and Payroll Taxes		8,524,746	7.2%		10,474,374	5.5%		7,839,741	8.3%
Travel, Lodging, Meals, and Entertainment		365,249	0.3%		317,550	0.2%		382,008	0.4%
Miscellaneous General and Administrative Expense		2,087,126	1.8%		1,812,208	1.0%		2,183,719	2.3%
Total Operating Expense	$	24,283,877	20.4%	$	31,410,421	16.6%	$	21,779,956	23.1%
Operating Profit	**$**	**565,143**	**0.5%**	**$**	**11,827,612**	**6.3%**	**$**	**(3,391,941)**	**-3.6%**
OTHER INCOME AND EXPENSES									
Other Income	$	435,587	0.4%	$	109,000	0.1%	$	550,334	0.6%
Other Expenses (-)		(76,086)	-0.1%		(10,026)	0.0%		(99,296)	-0.1%
Interest on Financing Related to Business Acquisitions (-)		-	0.0%		-	0.0%		-	0.0%
Other Interest Expense (-)		(13,517)	0.0%		(34,799)	0.0%		(6,040)	0.0%
Goodwill Amortization (-)		(410,996)	-0.3%		-	0.0%		(555,399)	-0.6%
Total Other Income and Expenses	$	(65,012)	-0.1%	$	64,175	0.0%	$	(110,401)	-0.1%
Pre-Tax Profit	**$**	**500,132**	**0.4%**	**$**	**11,891,787**	**6.3%**	**$**	**(3,502,342)**	**-3.7%**
Income Taxes (-)	$	(1,238,424)	-1.0%	$	(6,139,430)	-3.2%	$	483,551	0.5%
Net Income	**$**	**(738,292)**	**-0.6%**	**$**	**5,752,358**	**3.0%**	**$**	**(3,018,791)**	**-3.2%**
Count		50			13			37	

Common-Sized Income Statement - Broker-Dealers by Revenue Size

	Less Than $25M			*$25M - $54M*			*$54M - $100M*		
REVENUES									
Commission Received									
Mutual Funds	$	2,376,603	16.7%	$	4,880,566	13.6%	$	8,339,864	12.0%
Equities		563,030	4.0%		1,841,694	5.1%		3,895,932	5.6%
Annuities		121,967	0.9%		1,087,381	3.0%		2,690,128	3.9%
Variable Annuities		2,001,173	14.1%		7,800,082	21.7%		16,474,137	23.7%
Bonds		399,475	2.8%		831,693	2.3%		1,917,332	2.8%
Life Insurance		1,340,435	9.4%		1,160,134	3.2%		2,966,981	4.3%
Partnerships		242,906	1.7%		1,295,716	3.6%		3,604,428	5.2%
Trail Commissions		2,104,204	14.8%		4,457,145	12.4%		7,645,295	11.0%
Other		414,220	2.9%		2,926,564	8.1%		1,214,783	1.8%
Total Commission Received	$	9,564,012	67.2%	$	26,280,974	73.0%	$	48,748,881	70.3%
Asset Management/Advisory Fees									
Advisor Directed Accounts	$	1,272,290	8.9%	$	2,576,161	7.2%	$	5,586,826	8.1%
Broker-Dealer Directed Accounts		-	0.0%		2,090,672	5.8%		1,236,275	1.8%
Third-Party Directed Accounts		933,715	6.6%		897,457	2.5%		3,593,325	5.2%
Other		177,170	1.2%		2,360,731	6.6%		4,555,434	6.6%
Total Asset Management/Advisory Fees	$	2,383,175	16.7%	$	7,925,021	22.0%	$	14,971,859	21.6%
Other Revenue Paid Out to Advisors	$	426,525	3.0%	$	-	0.0%	$	-	0.0%
Total Revenue Paid Out	$	12,373,711	86.9%	$	34,205,995	95.1%	$	63,720,740	91.9%
REVENUE NOT PAID OUT TO ADVISORS:									
Fees Charged to Advisors	$	48,984	0.3%	$	398,449	1.1%	$	1,515,540	2.2%
Marketing/Due Diligence Fees/Soft Dollars		1,297,961	9.1%		474,408	1.3%		768,016	1.1%
Other Non-Commissionable Revenue		516,770	3.6%		902,370	2.5%		3,364,634	4.9%
Total Revenue Not Paid Out	$	1,863,715	13.1%	$	1,775,227	4.9%	$	5,648,190	8.1%
Total Revenue	**$**	**14,237,426**	**100.0%**	**$**	**35,981,222**	**100.0%**	**$**	**69,368,930**	**100.0%**
DIRECT EXPENSES									
Commissions Paid	$	8,426,615	59.2%	$	26,585,788	73.9%	$	52,325,987	75.4%
Clearance Fees		149,951	1.1%		714,698	2.0%		1,108,404	1.6%
Other		1,376,985	9.7%		1,378,644	3.8%		925,432	1.3%
Total Direct Expense	$	9,953,551	69.9%	$	28,679,129	79.7%	$	54,359,824	78.4%
Gross Profit	**$**	**4,283,875**	**30.1%**	**$**	**7,302,093**	**20.3%**	**$**	**15,009,107**	**21.6%**
OPERATING EXPENSES									
Accounting/Consulting	$	166,211	1.2%	$	55,107	0.2%	$	341,278	0.5%
Computer (hardware, software, maintenance)		156,456	1.1%		592,071	1.6%		768,420	1.1%
Depreciation Expense		36,946	0.3%		115,150	0.3%		117,009	0.2%
Equipment Lease		31,687	0.2%		8,807	0.0%		67,074	0.1%
Employee Benefits/Insurance/Pension/401k		407,535	2.9%		463,420	1.3%		806,836	1.2%
Legal/Litigation/Customer Settlement		104,395	0.7%		649,174	1.8%		956,120	1.4%
Marketing Expense		88,212	0.6%		191,293	0.5%		436,975	0.6%
Parent/Third-Party Administrative Fee		250,269	1.8%		2,178,226	6.1%		1,500,823	2.2%
Phone/Fax/Communications		72,598	0.5%		48,819	0.1%		150,205	0.2%
Registration Fees		88,818	0.6%		181,433	0.5%		257,078	0.4%
Rent and Other Facility Expense		173,390	1.2%		784,671	2.2%		833,753	1.2%
Salaries/Wages and Payroll Taxes		2,271,729	16.0%		2,352,951	6.5%		6,367,526	9.2%
Travel, Lodging, Meals, and Entertainment		120,928	0.8%		184,613	0.5%		408,054	0.6%
Miscellaneous General and Administrative Expense		353,728	2.5%		851,274	2.4%		2,001,590	2.9%
Total Operating Expense	$	4,322,903	30.4%	$	8,657,009	24.1%	$	15,012,740	21.6%
Operating Profit	**$**	**(39,028)**	**-0.3%**	**$**	**(1,354,916)**	**-3.8%**	**$**	**(3,633)**	**0.0%**
OTHER INCOME AND EXPENSES									
Other Income	$	201,150	1.4%	$	15,480	0.0%	$	156,460	0.2%
Other Expenses (-)		(262,589)	-1.8%		(69,423)	-0.2%		(30,740)	0.0%
Interest on Financing Related to Business Acquisitions (-)		-	0.0%		-	0.0%		-	0.0%
Other Interest Expense (-)		(390)	0.0%		-	0.0%		(4,749)	0.0%
Goodwill Amortization (-)		-	0.0%		-	0.0%		(1,346,176)	-1.9%
Total Other Income and Expenses	$	(61,829)	-0.4%	$	(53,943)	-0.1%	$	(1,225,205)	-1.8%
Pre-Tax Profit	**$**	**(100,858)**	**-0.7%**	**$**	**(1,408,859)**	**-3.9%**	**$**	**(1,228,839)**	**-1.8%**
Income Taxes (-)	$	(67,928)	-0.5%	$	482,483	1.3%	$	133,139	0.2%
Net Income	**$**	**(168,786)**	**-1.2%**	**$**	**(926,376)**	**-2.6%**	**$**	**(1,095,699)**	**-1.6%**
Count		8			8			15	

Common-Sized Income Statement - Broker-Dealers by Revenue Size

	$100M - $250M			More Than $250M		
REVENUES						
Commission Received						
Mutual Funds	$	22,574,384	13.7%	$	37,786,784	8.6%
Equities		3,429,230	2.1%		22,612,648	5.2%
Annuities		5,389,156	3.3%		12,550,518	2.9%
Variable Annuities		39,714,052	24.0%		56,438,956	12.9%
Bonds		1,309,773	0.8%		7,014,328	1.6%
Life Insurance		15,169,195	9.2%		14,052,423	3.2%
Partnerships		1,535,143	0.9%		3,596,685	0.8%
Trail Commissions		22,861,816	13.8%		84,485,477	19.3%
Other		3,315,888	2.0%		15,753,956	3.6%
Total Commission Received	$	115,298,637	69.8%	$	254,291,773	58.0%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$	20,926,418	12.7%	$	74,745,430	17.1%
Broker-Dealer Directed Accounts		2,496,090	1.5%		21,498,267	4.9%
Third-Party Directed Accounts		7,038,031	4.3%		96,000	0.0%
Other		4,637,188	2.8%		42,974,814	9.8%
Total Asset Management/Advisory Fees	$	35,097,728	21.3%	$	139,314,511	31.8%
Other Revenue Paid Out to Advisors	$	-	0.0%	$	-	0.0%
Total Revenue Paid Out	$	150,396,365	91.1%	$	393,606,284	89.8%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$	2,198,778	1.3%	$	10,788,242	2.5%
Marketing/Due Diligence Fees/Soft Dollars		3,747,810	2.3%		5,632,084	1.3%
Other Non-Commissionable Revenue		8,788,271	5.3%		28,171,292	6.4%
Total Revenue Not Paid Out	$	14,734,860	8.9%	$	44,591,618	10.2%
Total Revenue	**$**	**165,131,224**	**100.0%**	**$**	**438,197,902**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$	126,777,132	76.8%	$	311,987,225	71.2%
Clearance Fees		1,865,136	1.1%		18,449,245	4.2%
Other		588,172	0.4%		23,358,291	5.3%
Total Direct Expense	$	129,230,441	78.3%	$	353,794,761	80.7%
Gross Profit	**$**	**35,900,783**	**21.7%**	**$**	**84,403,141**	**19.3%**
OPERATING EXPENSES						
Accounting/Consulting	$	632,458	0.4%	$	150,446	0.0%
Computer (hardware, software, maintenance)		1,368,812	0.8%		7,059,645	1.6%
Depreciation Expense		481,235	0.3%		2,055,194	0.5%
Equipment Lease		49,995	0.0%		5,800	0.0%
Employee Benefits/Insurance/Pension/401k		2,439,325	1.5%		6,172,718	1.4%
Legal/Litigation/Customer Settlement		966,306	0.6%		2,916,685	0.7%
Marketing Expense		918,799	0.6%		4,606,992	1.1%
Parent/Third-Party Administrative Fee		9,725,577	5.9%		21,373,195	4.9%
Phone/Fax/Communications		292,996	0.2%		422,433	0.1%
Registration Fees		712,237	0.4%		1,159,568	0.3%
Rent and Other Facility Expense		1,160,346	0.7%		1,879,592	0.4%
Salaries/Wages and Payroll Taxes		11,823,786	7.2%		25,638,792	5.9%
Travel, Lodging, Meals, and Entertainment		443,480	0.3%		697,715	0.2%
Miscellaneous General and Administrative Expense		1,194,208	0.7%		9,594,701	2.2%
Total Operating Expense	$	33,321,149	20.2%	$	83,733,476	19.1%
Operating Profit	**$**	**2,579,634**	**1.6%**	**$**	**669,666**	**0.2%**
OTHER INCOME AND EXPENSES						
Other Income	$	1,169,387	0.7%	$	265,602	0.1%
Other Expenses (-)		(49,078)	0.0%		-	0.0%
Interest on Financing Related to Business Acquisitions (-)		-	0.0%		-	0.0%
Other Interest Expense (-)		(29,972)	0.0%		(36,382)	0.0%
Goodwill Amortization (-)		(25,510)	0.0%		-	0.0%
Total Other Income and Expenses	$	1,064,827	0.6%	$	229,221	0.1%
Pre-Tax Profit	**$**	**3,644,461**	**2.2%**	**$**	**898,887**	**0.2%**
Income Taxes (-)	$	(3,677,384)	-2.2%	$	(3,150,270)	-0.7%
Net Income	**$**	**(32,923)**	**0.0%**	**$**	**(2,251,384)**	**-0.5%**
Count		14			5	

Common-Sized Income Statement - Independent and Insurance Broker-Dealers

	Independent			Insurance		
REVENUES						
Commission Received						
Mutual Funds	$	10,465,454	10.4%	$	16,353,236	12.3%
Equities		7,643,049	7.6%		2,521,505	1.9%
Annuities		2,442,190	2.4%		4,803,547	3.6%
Variable Annuities		16,440,701	16.4%		28,643,507	21.5%
Bonds		2,805,783	2.8%		1,081,806	0.8%
Life Insurance		3,493,752	3.5%		9,652,770	7.2%
Partnerships		2,674,710	2.7%		1,678,829	1.3%
Trail Commissions		12,383,940	12.3%		22,757,727	17.1%
Other		3,422,894	3.4%		3,387,020	2.5%
Total Commission Received	$	61,772,471	61.5%	$	90,879,946	68.1%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$	18,938,313	18.9%	$	13,023,004	9.8%
Broker-Dealer Directed Accounts		5,003,481	5.0%		2,415,340	1.8%
Third-Party Directed Accounts		4,384,605	4.4%		2,539,299	1.9%
Other		2,202,985	2.2%		11,427,277	8.6%
Total Asset Management/Advisory Fees	$	30,529,383	30.4%	$	29,404,920	22.0%
Other Revenue Paid Out to Advisors	$	80,985	0.1%	$	58,233	0.0%
Total Revenue Paid Out	$	92,382,839	92.0%	$	120,343,100	90.2%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$	2,916,877	2.9%	$	1,673,764	1.3%
Marketing/Due Diligence Fees/Soft Dollars		1,587,472	1.6%		2,550,163	1.9%
Other Non-Commissionable Revenue		3,546,536	3.5%		8,846,111	6.6%
Total Revenue Not Paid Out	$	8,050,884	8.0%	$	13,070,038	9.8%
Total Revenue	**$**	**100,433,723**	**100.0%**	**$**	**133,413,139**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$	75,085,613	74.8%	$	98,140,055	73.6%
Clearance Fees		4,809,751	4.8%		1,288,817	1 0%
Other		544,250	0.5%		5,320,674	4 0%
Total Direct Expense	$	80,439,614	80.1%	$	104,749,545	78.5%
Gross Profit	**$**	**19,994,109**	**19.9%**	**$**	**28,663,593**	**21.5%**
OPERATING EXPENSES						
Accounting/Consulting	$	220,045	0.2%	$	416,263	0 3%
Computer (hardware, software, maintenance)		1,187,629	1.2%		1,637,439	1 2%
Depreciation Expense		295,877	0.3%		481,281	0.4%
Equipment Lease		63,842	0.1%		23,374	0.0%
Employee Benefits/Insurance/Pension/401k		696,273	0.7%		2,455,939	1.8%
Legal/Litigation/Customer Settlement		521,089	0.5%		1,322,075	1.0%
Marketing Expense		1,320,094	1.3%		558,812	0.4%
Parent/Third-Party Administrative Fee		2,470,636	2.5%		8,236,084	6.2%
Phone/Fax/Communications		157,485	0.2%		213,352	0.2%
Registration Fees		141,810	0.1%		666,697	0.5%
Rent and Other Facility Expense		815,790	0.8%		995,222	0.7%
Salaries/Wages and Payroll Taxes		5,973,450	5.9%		10,529,336	7.9%
Travel, Lodging, Meals, and Entertainment		179,412	0.2%		511,263	0.4%
Miscellaneous General and Administrative Expense		1,531,064	1.5%		2,524,031	1.9%
Total Operating Expense	$	15,574,495	15.5%	$	31,126,963	23.3%
Operating Profit	**$**	**4,419,614**	**4.4%**	**$**	**(2,463,370)**	**-1.8%**
OTHER INCOME AND EXPENSES						
Other Income	$	230,852	0.2%	$	596,451	0.4%
Other Expenses (-)		(139,248)	-0.1%		(26,459)	0.0%
Interest on Financing Related to Business Acquisitions (-)		-	0.0%		-	0 0%
Other Interest Expense (-)		(21,622)	0.0%		(7,150)	0.0%
Goodwill Amortization (-)		(49,877)	0.0%		(694,732)	-0.5%
Total Other Income and Expenses	$	20,106	0.0%	$	(131,890)	-0.1%
Pre-Tax Profit	**$**	**4,439,720**	**4.4%**	**$**	**(2,595,259)**	**-1.9%**
Income Taxes (-)	$	(2,763,221)	-2.8%	$	(40,369)	0.0%
Net Income	**$**	**1,676,499**	**1.7%**	**$**	**(2,635,628)**	**-2.0%**
Count		22			28	

Common-Sized Income Statement - All Broker-Dealers by Year

	2007		2008		2009	
REVENUES						
Commission Received						
Mutual Funds	$ 25,850,360	18.6%	$ 52,130,142	26.9%	$ 13,762,612	11.6%
Equities	4,241,196	3.0%	5,209,115	2.7%	4,774,985	4.0%
Annuities	1,936,268	1.4%	4,060,747	2.1%	3,764,550	3.2%
Variable Annuities	29,683,610	21.3%	22,170,277	11.5%	23,274,272	19.6%
Bonds	749,047	0.5%	1,286,011	0.7%	1,840,356	1.5%
Life Insurance	11,572,022	8.3%	12,142,156	6.3%	6,942,802	5.8%
Partnerships	5,582,692	4.0%	3,219,808	1.7%	2,117,017	1.8%
Trail Commissions	21,417,976	15.4%	18,727,782	9.7%	18,193,260	15.3%
Other	2,676,591	1.9%	4,882,205	2.5%	3,402,805	2.9%
Total Commission Received	$ 103,709,762	74.6%	$ 123,828,243	64.0%	$ 78,072,657	65.7%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 12,806,584	9.2%	$ 34,386,757	17.8%	$ 15,625,740	13.1%
Broker-Dealer Directed Accounts	2,925,656	2.1%	2,048,086	1.1%	3,554,122	3.0%
Third-Party Directed Accounts	3,844,305	2.8%	4,049,112	2.1%	3,351,234	2.8%
Other	6,086,540	4.4%	18,951,138	9.8%	7,368,588	6.2%
Total Asset Management/Advisory Fees	$ 25,663,085	18.5%	$ 59,435,094	30.7%	$ 29,899,684	25.1%
Other Revenue Paid Out to Advisors	$ 228,786	0.2%	$ 344,546	0.2%	$ 68,244	0.1%
Total Revenue Paid Out	$ 129,601,633	93.2%	$ 183,607,884	94.9%	$ 108,040,585	90.9%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 958,638	0.7%	$ 1,335,426	0.7%	$ 2,220,734	1.9%
Marketing/Due Diligence Fees/Soft Dollars	1,962,777	1.4%	2,251,338	1.2%	2,126,579	1.8%
Other Non-Commissionable Revenue	6,559,721	4.7%	6,296,094	3.3%	6,514,298	5.5%
Total Revenue Not Paid Out	$ 9,481,135	6.8%	$ 9,882,858	5.1%	$ 10,861,610	9.1%
Total Revenue	**$ 139,082,769**	**100.0%**	**$ 193,490,741**	**100.0%**	**$ 118,902,196**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 109,425,258	78.7%	$ 142,549,680	73.7%	$ 87,996,100	74.0%
Clearance Fees	1,253,620	0.9%	2,699,954	1.4%	2,838,028	2.4%
Other	3,220,045	2.3%	3,455,716	1.8%	3,219,047	2.7%
Total Direct Expense	$ 113,898,922	81.9%	$ 148,705,351	76.9%	$ 94,053,175	79.1%
Gross Profit	**$ 25,183,846**	**18.1%**	**$ 44,785,390**	**23.1%**	**$ 24,849,020**	**20.9%**
OPERATING EXPENSES						
Accounting/Consulting	$ 1,749,188	1.3%	$ 1,020,340	0.5%	$ 329,927	0.3%
Computer (hardware, software, maintenance)	1,532,293	1.1%	1,268,776	0.7%	1,439,522	1.2%
Depreciation Expense	291,299	0.2%	2,132,344	1.1%	399,703	0.3%
Equipment Lease	47,515	0.0%	387,082	0.2%	41,180	0.0%
Employee Benefits/Insurance/Pension/401k	1,400,275	1.0%	1,494,005	0.8%	1,681,686	1.4%
Legal/Litigation/Customer Settlement	-	-	1,204,591	0.6%	969,641	0.8%
Marketing Expense	672,529	0.5%	2,898,418	1.5%	893,776	0.8%
Parent/Third-Party Administrative Fee	3,737,297	2.7%	5,042,533	2.6%	5,699,287	4.8%
Phone/Fax/Communications	297,510	0.2%	963,803	0.5%	188,770	0.2%
Registration Fees	301,276	0.2%	667,471	0.3%	435,747	0.4%
Rent and Other Facility Expense	658,178	0.5%	1,793,044	0.9%	916,272	0.8%
Salaries/Wages and Payroll Taxes	8,561,007	6.2%	14,923,408	7.7%	8,524,746	7.2%
Travel, Lodging, Meals, and Entertainment	572,976	0.4%	785,455	0.4%	365,249	0.3%
Miscellaneous General and Administrative Expense	2,527,920	1.8%	3,749,285	1.9%	2,087,126	1.8%
Total Operating Expense	$ 22,349,264	16.1%	$ 38,330,555	19.8%	$ 24,283,877	20.4%
Operating Profit	**$ 2,834,582**	**2.0%**	**$ 6,454,836**	**3.3%**	**$ 565,143**	**0.5%**
OTHER INCOME AND EXPENSES						
Other Income	$ 38,860	0.0%	$ 42,534	0.0%	$ 435,587	0.4%
Other Expenses (-)	(114,011)	-0.1%	(121,926)	-0.1%	(76,086)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	(194)	0.0%	(20,950)	0.0%	-	0.0%
Other Interest Expense (-)	(3,182)	0.0%	(2,154,482)	-1.1%	(13,517)	0.0%
Goodwill Amortization (-)	(3,528)	0.0%	(8,843)	0.0%	(410,996)	-0.3%
Total Other Income and Expenses	$ (82,055)	-0.1%	$ (2,263,667)	-1.2%	$ (65,012)	-0.1%
Pre-Tax Profit	**$ 2,752,528**	**2.0%**	**$ 4,191,169**	**2.2%**	**$ 500,132**	**0.4%**
Income Taxes (-)	$ (1,457,401)	-1.0%	$ (2,468,358)	-1.3%	$ (1,238,424)	-1.0%
Net Income	**$ 1,295,127**	**0.9%**	**$ 1,722,810**	**0.9%**	**$ (738,292)**	**-0.6%**
Count	51		54		50	

Common-Sized Income Statement - High-Profit Broker-Dealers by Year

	2007		2008		2009	
REVENUES						
Commission Received						
Mutual Funds	$ 17,513,818	14.3%	$ 149,662,366	35.9%	$ 18,731,507	9.9%
Equities	6,169,773	5.0%	10,440,523	2.5%	10,806,879	5.7%
Annuities	3,130,468	2.5%	4,075,414	1.0%	8,501,469	4.5%
Variable Annuities	21,412,880	17.4%	17,459,207	4.2%	27,350,538	14.5%
Bonds	673,510	0.5%	2,491,710	0.6%	4,147,963	2.2%
Life Insurance	16,696,218	13.6%	19,400,225	4.7%	7,068,453	3.7%
Partnerships	1,949,697	1.6%	1,689,483	0.4%	3,333,328	1.8%
Trail Commissions	13,791,173	11.2%	23,132,567	5.5%	29,905,881	15.8%
Other	2,363,646	1.9%	5,913,699	1.4%	3,631,267	1.9%
Total Commission Received	$ 83,701,182	68.2%	$ 234,265,195	56.2%	$ 113,477,286	60.0%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 22,853,551	18.6%	$ 101,475,553	24.3%	$ 29,608,839	15.7%
Broker-Dealer Directed Accounts	2,310,232	1.9%	1,764,550	0.4%	8,464,064	4.5%
Third-Party Directed Accounts	3,502,625	2.9%	9,066,197	2.2%	8,332,219	4.4%
Other	718,541	0.6%	54,758,205	13.1%	11,077,923	5.9%
Total Asset Management/Advisory Fees	$ 29,384,948	23.9%	$ 167,064,506	40.1%	$ 57,483,045	30.4%
Other Revenue Paid Out to Advisors						
Total Revenue Paid Out	$ 113,160,787	92.2%	$ 401,377,092	96.2%	$ 171,014,940	90.4%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 1,264,170	1.0%	$ 2,788,298	0.7%	5,471,862	2.9%
Marketing/Due Diligence Fees/Soft Dollars	921,752	0.8%	1,965,178	0.5%	3,128,742	1.7%
Other Non-Commissionable Revenue	7,443,656	6.1%	10,941,904	2.6%	9,576,699	5.1%
Total Revenue Not Paid Out	$ 9,629,578	7.8%	$ 15,695,380	3.8%	$ 18,177,303	9.6%
Total Revenue	**$ 122,790,366**	**100.0%**	**$ 122,790,366**	**100.0%**	**$ 189,192,242**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 94,595,010	77.0%	$ 94,595,010	77.0%	$ 137,570,715	72.7%
Clearance Fees	1,303,779	1.1%	1,303,779	1.1%	7,763,177	4.1%
Other	367,737	0.3%	367,737	0.3%	620,318	0.3%
Total Direct Expense	$ 96,266,526	78.4%	$ 96,266,526	78.4%	$ 145,954,210	77.1%
Gross Profit	**$ 26,523,840**	**21.6%**	**$ 26,523,840**	**21.6%**	**$ 43,238,033**	**22.9%**
OPERATING EXPENSES						
Accounting/Consulting	$ 685,598	0.6%	$ 2,828,795	0.7%	$ 482,288	0.3%
Computer (hardware, software, maintenance)	871,150	0.7%	886,526	0.2%	2,177,539	1.2%
Depreciation Expense	275,738	0.2%	7,494,688	1.8%	448,671	0.2%
Equipment Lease	61,422	0.1%	1,376,979	0.3%	130,367	0.1%
Employee Benefits/Insurance/Pension/401k	1,231,632	1.0%	1,278,143	0.3%	1,637,405	0.9%
Legal/Litigation/Customer Settlement	-	-	271,889	0.1%	785,470	0.4%
Marketing Expense	610,340	0.5%	9,585,478	2.3%	2,328,586	1.2%
Parent/Third-Party Administrative Fee	1,743,860	1.4%	7,198,750	1.7%	8,536,085	4.5%
Phone/Fax/Communications	289,426	0.2%	3,119,514	0.7%	305,446	0.2%
Registration Fees	392,295	0.3%	1,970,376	0.5%	520,656	0.3%
Rent and Other Facility Expense	664,406	0.5%	4,902,241	1.2%	1,453,776	0.8%
Salaries/Wages and Payroll Taxes	7,451,149	6.1%	33,347,135	8.0%	10,474,374	5.5%
Travel, Lodging, Meals, and Entertainment	340,320	0.3%	1,430,492	0.3%	317,550	0.2%
Miscellaneous General and Administrative Expense	948,847	0.8%	7,502,175	1.8%	1,812,208	1.0%
Total Operating Expense	$ 15,566,182	12.7%	$ 83,193,180	19.9%	$ 31,410,421	16.6%
Operating Profit	**$ 10,957,658**	**8.9%**	**$ 30,369,332**	**7.3%**	**$ 11,827,612**	**6.3%**
OTHER INCOME AND EXPENSES						
Other Income	$ 91,455	0.1%	$ 137,865	0.0%	$ 109,000	0.1%
Other Expenses (-)	(4,821)	0.0%	(268,605)	-0.1%	(10,026)	0.0%
Interest on Financing Related to Business Acquisitions (-)	(760)	0.0%	(55,786)	0.0%	-	0.0%
Other Interest Expense (-)	(8,840)	0.0%	(8,269,795)	-2.0%	(34,799)	0.0%
Goodwill Amortization (-)	-	0.0%	-	0.0%	-	0.0%
Total Other Income and Expenses	$ 77,034	0.1%	$ (8,456,321)	-2.0%	$ 64,175	0.0%
Pre-Tax Profit	**$ 11,034,692**	**9.0%**	**$ 21,913,011**	**5.3%**	**$ 11,891,787**	**6.3%**
Income Taxes (-)	$ (4,620,139)	-3.8%	$ (10,157,753)	-2.4%	$ (6,139,430)	-3.2%
Net Income	**$ 6,414,552**	**5.2%**	**$ 11,755,258**	**2.8%**	**$ 5,752,358**	**3.0%**
Count	13		14		13	

Common-Sized Income Statement - Non-High-Profit Broker-Dealers by Year

	2007		2008		2009	
REVENUES						
Commission Received						
Mutual Funds	$ 28,702,335	19.8%	$ 28,702,335	19.8%	$ 12,016,784	12.8%
Equities	3,581,420	2.5%	3,581,420	2.5%	2,655,670	2.8%
Annuities	1,527,725	1.1%	1,527,725	1.1%	2,100,226	2.2%
Variable Annuities	32,513,070	22.5%	32,513,070	22.5%	21,842,070	23.2%
Bonds	774,888	0.5%	774,888	0.5%	1,029,575	1.1%
Life Insurance	9,819,008	6.8%	9,819,008	6.8%	6,898,654	7.3%
Partnerships	6,825,559	4.7%	6,825,559	4.7%	1,689,664	1.8%
Trail Commissions	24,027,146	16.6%	24,027,146	16.6%	14,078,015	14.9%
Other	2,783,652	1.9%	2,783,652	1.9%	3,322,534	3.5%
Total Commission Received	$ 110,554,802	76.4%	$ 110,554,802	76.4%	$ 65,633,193	69.7%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 9,369,464	6.5%	$ 9,369,464	6.5%	$ 10,712,759	11.4%
Broker-Dealer Directed Accounts	3,136,196	2.2%	3,136,196	2.2%	1,829,007	1.9%
Third-Party Directed Accounts	3,961,195	2.7%	3,961,195	2.7%	1,601,158	1.7%
Other	7,922,961	5.5%	7,922,961	5.5%	6,065,308	6.4%
Total Asset Management/Advisory Fees	$ 24,389,816	16.9%	$ 24,389,816	16.9%	$ 20,208,233	21.5%
Other Revenue Paid Out to Advisors						
Total Revenue Paid Out	$ 135,226,133	93.5%	$ 135,226,133	93.5%	$ 85,914,461	91.2%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 854,113	0.6%	$ 826,921	0.7%	$ 1,078,445	1.1%
Marketing/Due Diligence Fees/Soft Dollars	2,318,917	1.6%	2,351,494	2.0%	1,774,468	1.9%
Other Non-Commissionable Revenue	6,257,322	4.3%	4,670,061	4.1%	5,438,319	5.8%
Total Revenue Not Paid Out	$ 9,430,352	6.5%	$ 7,848,475	6.8%	$ 8,291,232	8.8%
Total Revenue	**$ 144,656,485**	**100.0%**	**$ 115,237,136**	**100.0%**	**$ 94,205,693**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 114,498,763	79.2%	$ 88,866,904	77.1%	$ 70,577,992	74.9%
Clearance Fees	1,236,461	0.9%	1,278,010	1.1%	1,107,570	1.2%
Other	4,195,834	2.9%	4,378,823	3.8%	4,132,115	4.4%
Total Direct Expense	$ 119,931,058	82.9%	$ 94,523,738	82.0%	$ 75,817,677	80.5%
Gross Profit	**$ 24,725,427**	**17.1%**	**$ 20,713,398**	**18.0%**	**$ 18,388,016**	**19.5%**
OPERATING EXPENSES						
Accounting/Consulting	$ 2,113,048	1.5%	$ 387,380	0.3%	$ 276,395	0.3%
Computer (hardware, software, maintenance)	1,758,474	1.2%	1,402,563	1.2%	1,180,219	1.3%
Depreciation Expense	296,622	0.2%	255,524	0.2%	382,498	0.4%
Equipment Lease	42,758	0.0%	40,618	0.0%	9,844	0.0%
Employee Benefits/Insurance/Pension/401k	1,457,969	1.0%	1,569,556	1.4%	1,697,244	1.8%
Legal/Litigation/Customer Settlement	-	-	1,531,036	1.3%	1,034,350	1.1%
Marketing Expense	693,804	0.5%	557,947	0.5%	389,653	0.4%
Parent/Third-Party Administrative Fee	4,419,263	3.1%	4,287,857	3.7%	4,702,574	5.0%
Phone/Fax/Communications	300,276	0.2%	209,305	0.2%	147,776	0.2%
Registration Fees	270,138	0.2%	211,455	0.2%	405,914	0.4%
Rent and Other Facility Expense	656,048	0.5%	704,825	0.6%	727,419	0.8%
Salaries/Wages and Payroll Taxes	8,940,695	6.2%	8,475,104	7.4%	7,839,741	8.3%
Travel, Lodging, Meals, and Entertainment	652,568	0.5%	559,692	0.5%	382,008	0.4%
Miscellaneous General and Administrative Expense	3,068,129	2.1%	2,435,773	2.1%	2,183,719	2.3%
Total Operating Expense	$ 24,669,792	17.1%	$ 22,628,636	19.6%	$ 21,779,956	23.1%
Operating Profit	**$ 55,635**	**0.0%**	**$ (1,915,238)**	**-1.7%**	**$ (3,391,941)**	**-3.6%**
OTHER INCOME AND EXPENSES						
Other Income	$ 20,867	0.0%	$ 9,169	0.0%	$ 550,334	0.6%
Other Expenses (-)	(151,365)	-0.1%	(70,589)	-0.1%	(99,296)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	-	0.0%	(8,757)	0.0%	-	0.0%
Other Interest Expense (-)	(1,247)	0.0%	(14,123)	0.0%	(6,040)	0.0%
Goodwill Amortization (-)	(4,734)	0.0%	(11,938)	0.0%	(555,399)	-0.6%
Total Other Income and Expenses	$ (136,480)	-0.1%	$ (96,238)	-0.1%	$ (110,401)	-0.1%
Pre-Tax Profit	**$ (80,844)**	**-0.1%**	**$ (2,011,476)**	**-1.7%**	**$ (3,502,342)**	**-3.7%**
Income Taxes (-)	$ (375,411)	-0.3%	$ 222,930	0.2%	$ 483,551	0.5%
Net Income	**$ (456,256)**	**-0.3%**	**$ (1,788,547)**	**-1.6%**	**$ (3,018,791)**	**-3.2%**
Count	38		40		37	

Common-Sized Income Statement - Independent Broker-Dealers by Year

	2007		2008		2009	
REVENUES						
Commission Received						
Mutual Funds	$ 16,068,728	16.9%	$ 87,255,969	33.4%	$ 10,465,454	10.4%
Equities	5,137,967	5.4%	7,819,413	3.0%	7,643,049	7.6%
Annuities	904,121	0.9%	1,662,582	0.6%	2,442,190	2.4%
Variable Annuities	17,011,141	17.9%	12,896,369	4.9%	16,440,701	16.4%
Bonds	805,735	0.8%	1,676,563	0.6%	2,805,783	2.8%
Life Insurance	10,811,318	11.3%	12,072,214	4.6%	3,493,752	3.5%
Partnerships	5,585,399	5.9%	3,863,560	1.5%	2,674,710	2.7%
Trail Commissions	7,793,317	8.2%	13,444,076	5.1%	12,383,940	12.3%
Other	2,255,918	2.4%	8,207,727	3.1%	3,422,894	3.4%
Total Commission Received	$ 66,373,643	69.7%	$ 148,898,473	57.0%	$ 61,772,471	61.5%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 13,382,090	14.0%	$ 66,397,990	25.4%	$ 18,938,313	18.9%
Broker-Dealer Directed Accounts	3,959,454	4.2%	1,486,651	0.6%	5,003,481	5.0%
Third-Party Directed Accounts	2,663,330	2.8%	4,252,527	1.6%	4,384,605	4.4%
Other	2,776,943	2.9%	30,350,108	11.6%	2,202,985	2.2%
Total Asset Management/Advisory Fees	$ 22,781,817	23.9%	$ 102,487,276	39.2%	$ 30,529,383	30.4%
Other Revenue Paid Out to Advisors						
Total Revenue Paid Out	$ 89,467,088	93.9%	$ 251,619,829	96.3%	$ 92,382,839	92.0%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 1,067,510	1.1%	$ 1,474,863	0.6%	$ 2,916,877	2.9%
Marketing/Due Diligence Fees/Soft Dollars	1,598,534	1.7%	844,384	0.3%	1,587,472	1.6%
Other Non-Commissionable Revenue	3,146,517	3.3%	7,395,448	2.8%	3,546,536	3.5%
Total Revenue Not Paid Out	$ 5,812,561	6.1%	$ 9,714,695	3.7%	$ 8,050,884	8.0%
				3.7%		
Total Revenue	**$ 95,279,649**	**100.0%**	**$ 261,334,525**	**100.0%**	**$ 100,433,723**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 77,373,869	81.2%	$ 180,926,106	69.2%	$ 75,085,613	74.8%
Clearance Fees	981,569	1.0%	4,239,958	1.6%	4,809,751	4.8%
Other	449,667	0.5%	5,993,908	2.3%	544,250	0.5%
Total Direct Expense	$ 78,805,106	82.7%	$ 191,159,971	73.1%	$ 80,439,614	80.1%
Gross Profit	**$ 16,474,543**	**17.3%**	**$ 70,174,553**	**26.9%**	**$ 19,994,109**	**19.9%**
OPERATING EXPENSES						
Accounting/Consulting	$ 760,907	0.8%	$ 1,682,605	0.6%	$ 220,045	0.2%
Computer (hardware, software, maintenance)	598,007	0.6%	543,251	0.2%	1,187,629	1.2%
Depreciation Expense	215,993	0.2%	4,659,350	1.8%	295,877	0.3%
Equipment Lease	53,616	0.1%	854,568	0.3%	63,842	0.1%
Employee Benefits/Insurance/Pension/401k	673,377	0.7%	893,634	0.3%	696,273	0.7%
Legal/Litigation/Customer Settlement	-	-	537,647	0.2%	521,089	0.5%
Marketing Expense	551,966	0.6%	5,731,922	2.2%	1,320,094	1.3%
Parent/Third-Party Administrative Fee	759,792	0.8%	2,370,891	0.9%	2,470,636	2.5%
Phone/Fax/Communications	203,396	0.2%	1,957,574	0.7%	157,485	0.2%
Registration Fees	125,126	0.1%	1,218,288	0.5%	141,810	0.1%
Rent and Other Facility Expense	442,915	0.5%	3,222,157	1.2%	815,790	0.8%
Salaries/Wages and Payroll Taxes	5,970,981	6.3%	22,277,972	8.5%	5,973,450	5.9%
Travel, Lodging, Meals, and Entertainment	317,855	0.3%	1,042,694	0.4%	179,412	0.2%
Miscellaneous General and Administrative Expense	1,348,126	1.4%	6,161,342	2.4%	1,531,064	1.5%
Total Operating Expense	$ 12,022,058	12.6%	$ 53,153,895	20.3%	$ 15,574,495	15.5%
Operating Profit	**$ 4,452,485**	**4.7%**	**$ 17,020,659**	**6.5%**	**$ 4,419,614**	**4.4%**
OTHER INCOME AND EXPENSES						
Other Income	$ 56,929	0.1%	$ 84,149	0.0%	$ 230,852	0.2%
Other Expenses (-)	(169,155)	-0.2%	(204,654)	-0.1%	(139,248)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	(471)	0.0%	(47,137)	0.0%	-	0.0%
Other Interest Expense (-)	(6,308)	0.0%	(4,845,053)	-1.9%	(21,622)	0.0%
Goodwill Amortization (-)	-	0.0%	-	0.0%	(49,877)	0.0%
Total Other Income and Expenses	$ (119,005)	-0.1%	$ (5,012,695)	-1.9%	$ 20,106	0.0%
Pre-Tax Profit	**$ 4,333,480**	**4.5%**	**$ 12,007,964**	**4.6%**	**$ 4,439,720**	**4.4%**
Income Taxes (-)	$ (2,723,356)	-2.9%	$ (5,609,045)	-2.1%	$ (2,763,221)	-2.8%
Net Income	**$ 1,610,123**	**1.7%**	**$ 6,398,918**	**2.4%**	**$ 1,676,499**	**1.7%**
Count	21		24		22	

Common-Sized Income Statement - Insurance Broker-Dealers by Year

	2007		2008		2009	
REVENUES						
Commission Received						
Mutual Funds	$ 32,697,502	19.3%	$ 24,029,480	17.3%	$ 16,353,236	12.3%
Equities	3,613,457	2.1%	3,120,877	2.2%	2,521,505	1.9%
Annuities	2,658,770	1.6%	5,979,279	4.3%	4,803,547	3.6%
Variable Annuities	38,554,338	22.7%	29,589,403	21.3%	28,643,507	21.5%
Bonds	709,365	0.4%	973,570	0.7%	1,081,806	0.8%
Life Insurance	12,104,515	7.1%	12,198,110	8.8%	9,652,770	7.2%
Partnerships	5,580,797	3.3%	2,704,807	1.9%	1,678,829	1.3%
Trail Commissions	30,955,238	18.2%	22,954,746	16.5%	22,757,727	17.1%
Other	2,971,063	1.8%	2,221,786	1.6%	3,387,020	2.5%
Total Commission Received	$ 129,845,045	76.5%	$ 103,772,059	74.5%	$ 90,879,946	68.1%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 12,403,730	7.3%	$ 8,777,771	6.3%	$ 13,023,004	9.8%
Broker-Dealer Directed Accounts	2,201,997	1.3%	2,497,235	1.8%	2,415,340	1.8%
Third-Party Directed Accounts	4,670,987	2.8%	3,886,381	2.8%	2,539,299	1.9%
Other	8,403,258	5.0%	9,831,962	7.1%	11,427,277	8.6%
Total Asset Management/Advisory Fees	$ 27,679,973	16.3%	$ 24,993,348	18.0%	$ 29,404,920	22.0%
Other Revenue Paid Out to Advisors						
Total Revenue Paid Out	$ 157,695,815	92.9%	$ 129,198,327	92.8%	$ 120,343,100	90.2%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$ 882,427	0.5%	$ 1,223,876	0.9%	$ 1,673,764	1.3%
Marketing/Due Diligence Fees/Soft Dollars	2,217,746	1.3%	3,376,901	2.4%	2,550,163	1.9%
Other Non-Commissionable Revenue	8,948,963	5.3%	5,416,611	3.9%	8,846,111	6.6%
Total Revenue Not Paid Out	$ 12,049,137	7.1%	$ 10,017,388	7.2%	$ 13,070,038	9.8%
Total Revenue	**$ 169,744,952**	**100.0%**	**$ 139,215,715**	**100.0%**	**$ 133,413,139**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 131,861,230	77.7%	$ 111,848,540	80.3%	$ 98,140,055	73.6%
Clearance Fees	1,444,056	0.9%	1,467,952	1.1%	1,288,817	1.0%
Other	5,159,309	3.0%	1,425,163	1.0%	5,320,674	4.0%
Total Direct Expense	$ 138,464,594	81.6%	$ 114,741,655	82.4%	$ 104,749,545	78.5%
Gross Profit	**$ 31,280,358**	**18.4%**	**$ 24,474,060**	**17.6%**	**$ 28,663,593**	**21.5%**
OPERATING EXPENSES						
Accounting/Consulting	$ 2,440,984	1.4%	$ 490,528	0.4%	$ 416,263	0.3%
Computer (hardware, software, maintenance)	2,186,293	1.3%	1,849,195	1.3%	1,637,439	1.2%
Depreciation Expense	344,013	0.2%	110,740	0.1%	481,281	0.4%
Equipment Lease	43,245	0.0%	13,093	0.0%	23,374	0.0%
Employee Benefits/Insurance/Pension/401k	1,909,104	1.1%	1,974,301	1.4%	2,455,939	1.8%
Legal/Litigation/Customer Settlement	-	-	1,738,146	1.2%	1,322,075	1.0%
Marketing Expense	756,922	0.4%	631,615	0.5%	558,812	0.4%
Parent/Third-Party Administrative Fee	5,821,551	3.4%	7,179,847	5.2%	8,236,084	6.2%
Phone/Fax/Communications	363,390	0.2%	168,787	0.1%	213,352	0.2%
Registration Fees	424,582	0.3%	226,818	0.2%	666,697	0.5%
Rent and Other Facility Expense	808,863	0.5%	649,753	0.5%	995,222	0.7%
Salaries/Wages and Payroll Taxes	10,374,025	6.1%	9,039,758	6.5%	10,529,336	7.9%
Travel, Lodging, Meals, and Entertainment	751,560	0.4%	579,664	0.4%	511,263	0.4%
Miscellaneous General and Administrative Expense	3,353,775	2.0%	1,819,639	1.3%	2,524,031	1.9%
Total Operating Expense	$ 29,578,308	17.4%	$ 26,471,883	19.0%	$ 31,126,963	23.3%
Operating Profit	**$ 1,702,050**	**1.0%**	**$ (1,997,823)**	**-1.4%**	**$ (2,463,370)**	**-1.8%**
OTHER INCOME AND EXPENSES						
Other Income	$ 26,211	0.0%	$ 9,243	0.0%	$ 596,451	0.4%
Other Expenses (-)	(75,410)	0.0%	(55,744)	0.0%	(26,459)	0.0%
Interest on Financing Related to Business Acquisitions (-)	-	0.0%	-	0.0%	-	0.0%
Other Interest Expense (-)	(994)	0.0%	(2,025)	0.0%	(7,150)	0.0%
Goodwill Amortization (-)	(5,997)	0.0%	(15,918)	0.0%	(694,732)	-0.5%
Total Other Income and Expenses	$ (56,189)	0.0%	$ (64,444)	0.0%	$ (131,890)	-0.1%
Pre-Tax Profit	**$ 1,645,861**	**1.0%**	**$ (2,062,267)**	**-1.5%**	**$ (2,595,259)**	**-1.9%**
Income Taxes (-)	$ (571,232)	-0.3%	$ 44,191	0.0%	$ (40,369)	0.0%
Net Income	**$ 1,074,629**	**0.6%**	**$ (2,018,076)**	**-1.4%**	**$ (2,635,628)**	**-2.0%**
Count	30		30		28	

Common-Sized Balance Sheet

Common-Sized Balance Sheet - All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers			*High-Profit: Top 25%*			*Non-High-Profit*	
ASSETS								
Cash	$	9,711,167	9.0%	$	19,327,461	27.6%	$	6,332,469	5.2%
Cash Equivalents and Securities		6,881,898	6.4%		10,241,648	14.6%		5,701,446	4.7%
Accounts Receivable		4,460,980	4.1%		9,779,522	14.0%		2,592,303	2.1%
Commissions Receivable		3,257,071	3.0%		5,049,964	7.2%		2,627,135	2.2%
Securities Held for Resale		2,800,595	2.6%		309,842	0.4%		3,675,724	3.0%
Prepaid Expenses		470,119	0.4%		705,225	1.0%		387,514	0.3%
Income Tax Receivable		965,773	0.9%		1,947,177	2.8%		620,956	0.5%
Other Current Assets		1,385,931	1.3%		2,548,514	3.6%		977,455	0.8%
Total Current Assets	**$**	**53,946,023**	**49.9%**	**$**	**49,909,354**	**71.3%**	**$**	**55,364,313**	**45.6%**
Gross Fixed Assets	$	2,444,035	2.3%	$	3,603,668	5.1%	$	2,036,596	1.7%
Less Accumulated Depreciation (-)		**(1,515,732)**	**-1.4%**		**(1,909,700)**	**-2.7%**		**(1,377,311)**	**-1.1%**
Total Net Fixed Assets	$	4,185,727	3.9%	$	1,693,968	2.4%	$	5,061,210	4.2%
Net Intangible Assets	$	5,259,305	4.9%	$	12,656,740	18.1%	$	2,660,206	2.2%
Other Non-Current Assets		4,371,604	4.0%		5,717,241	8.2%		3,898,813	3.2%
Total Assets	**$**	**108,082,816**	**100.0%**	**$**	**69,977,303**	**100.0%**	**$**	**121,471,240**	**100.0%**
LIABILITIES									
Notes Payable, Bank	$	660,255	0.6%	$	201,349	0.3%	$	821,492	0.7%
Accounts Payable		2,415,489	2.2%		1,888,049	2.7%		2,600,806	2.1%
Commissions Payable		5,144,633	4.8%		8,674,934	12.4%		3,904,257	3.2%
Current Portion Long-Term Debt		134,448	0.1%		136,989	0.2%		133,555	0.1%
Deposits		23,943	0.0%		49,347	0.1%		15,018	0.0%
Deferred Revenue		214,735	0.2%		371,474	0.5%		159,664	0.1%
Accrued Expenses		1,734,967	1.6%		3,688,453	5.3%		1,048,607	0.9%
Income Taxes Payable		431,756	0.4%		924,188	1.3%		258,739	0.2%
Other Current Liabilities		3,657,440	3.4%		9,843,853	14.1%		1,483,836	1.2%
Total Current Liabilities	**$**	**34,991,324**	**32.4%**	**$**	**25,778,636**	**36.8%**	**$**	**38,228,215**	**31.5%**
Long-Term Debt	$	254,927	0.2%	$	976,372	1.4%	$	1,447	0.0%
Shareholder Debt/Notes Due to Affiliate		325,200	0.3%		-	0.0%		439,460	0.4%
Other Non-Current Liabilities		619,039	0.6%		(565,525)	-0.8%		1,035,237	0.9%
Total Long-Term Liabilities	**$**	**32,456,161**	**30.0%**	**$**	**410,847**	**0.6%**	**$**	**43,715,326**	**36.0%**
Total Liabilities	**$**	**67,417,980**	**62.4%**	**$**	**26,189,483**	**37.4%**	**$**	**81,903,668**	**67.4%**
EQUITY									
Common Stock/Paid-In Surplus	$	30,119,497	27.9%	$	23,249,226	33.2%	$	32,533,377	26.8%
Retained Earnings		(5,304,707)	-4.9%		20,939,977	29.9%		(14,525,812)	-12.0%
Treasury Stock (-)		61,124	0.1%		(401,382)	-0.6%		223,625	0.2%
Total Equity	**$**	**40,635,331**	**37.6%**	**$**	**43,787,821**	**62.6%**	**$**	**39,527,699**	**32.5%**
Total Liabilities and Equity	**$**	**108,082,816**	**100.0%**	**$**	**69,977,303**	**100.0%**	**$**	**121,471,240**	**100.0%**
Count		50			13			37	

Common-Sized Balance Sheet - Broker-Dealers by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
ASSETS						
Cash	$ 785,279	0.2%	$ 874,242	12.3%	$ 5,110,801	24.9%
Cash Equivalents and Securities	1,654,345	0.4%	2,035,291	28.6%	4,493,825	21.9%
Accounts Receivable	152,880	0.0%	832,406	11.7%	1,595,009	7.8%
Commissions Receivable	371,148	0.1%	1,416,646	19.9%	2,910,917	14.2%
Securities Held for Resale	1,487	0.0%	373,545	5.3%	629,132	3.1%
Prepaid Expenses	70,376	0.0%	218,530	3.1%	325,104	1.6%
Income Tax Receivable	14,689	0.0%	155,729	2.2%	509,775	2.5%
Other Current Assets	42,178	0.0%	446,049	6.3%	1,459,685	7.1%
Total Current Assets	**$ 153,509,200**	**36.0%**	**$ 6,013,677**	**84.6%**	**$ 17,034,248**	**83.1%**
Gross Fixed Assets	$ 112,250	0.0%	$ 978,735	13.8%	$ 1,117,520	5.4%
Less Accumulated Depreciation (-)	**(62,361)**	**0.0%**	**(598,224)**	**-8.4%**	**(863,461)**	**-4.2%**
Total Net Fixed Assets	$ 20,269,889	4.8%	$ 519,412	7.3%	$ 254,059	1.2%
Net Intangible Assets	$ 700,194	0.2%	$ 33,722	0.5%	$ 2,224,737	10.8%
Other Non-Current Assets	61,927	0.0%	531,709	7.5%	997,441	4.9%
Total Assets	**$ 426,532,335**	**100.0%**	**$ 7,108,373**	**100.0%**	**$ 20,510,484**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 18,026	0.0%	$ -	0.0%	$ -	0.0%
Accounts Payable	257,624	0.1%	384,157	5.4%	1,354,579	6.6%
Commissions Payable	336,039	0.1%	1,307,214	18.4%	3,645,950	17.8%
Current Portion Long-Term Debt	4,257	0.0%	39,176	0.6%	301,102	1.5%
Deposits	-	0.0%	-	0.0%	4,337	0.0%
Deferred Revenue	11,970	0.0%	21,071	0.3%	207,113	1.0%
Accrued Expenses	144,547	0.0%	598,721	8.4%	499,809	2.4%
Income Taxes Payable	104,432	0.0%	308,179	4.3%	148,258	0.7%
Other Current Liabilities	132,992	0.0%	34,025	0.5%	513,034	2.5%
Total Current Liabilities	**$ 129,570,518**	**30.4%**	**$ 2,717,277**	**38.2%**	**$ 6,674,182**	**32.5%**
Long-Term Debt	$ -	0.0%	$ -	0.0%	$ 3,569	0.0%
Shareholder Debt/Notes Due to Affiliate	-	0.0%	-	0.0%	-	0.0%
Other Non-Current Liabilities	30,961	0.0%	3,250	0.0%	964,951	4.7%
Total Long-Term Liabilities	**$ 195,382,961**	**45.8%**	**$ 7,469**	**0.1%**	**$ 968,519**	**4.7%**
Total Liabilities	**$ 324,953,479**	**76.2%**	**$ 2,540,334**	**35.7%**	**$ 7,642,701**	**37.3%**
EQUITY						
Common Stock/Paid-In Surplus	$ 2,903,213	0.7%	$ 2,542,335	35.8%	$ 11,677,909	56.9%
Retained Earnings	(20,859)	0.0%	997,667	14.0%	1,266,541	6.2%
Treasury Stock (-)	(18,812)	0.0%	1,062,586	14.9%	(76,667)	-0.4%
Total Equity	**$ 101,578,856**	**23.8%**	**$ 4,383,627**	**61.7%**	**$ 12,867,783**	**62.7%**
Total Liabilities and Equity	**$ 426,532,335**	**100.0%**	**$ 7,108,373**	**100.0%**	**$ 20,510,484**	**100.0%**
Count	8		8		15	

Common-Sized Balance Sheet - Broker-Dealers by Revenue Size

	$100M - $250M			More Than $250M		
ASSETS						
Cash	$	14,962,098	21.7%	$	37,230,157	28.0%
Cash Equivalents and Securities		16,683,037	24.2%		2,721,588	2.0%
Accounts Receivable		6,861,715	10.0%		19,035,517	14.3%
Commissions Receivable		5,388,293	7.8%		5,890,262	4.4%
Securities Held for Resale		216,181	0.3%		24,913,200	18.8%
Prepaid Expenses		629,316	0.9%		1,501,540	1.1%
Income Tax Receivable		1,723,265	2.5%		3,030,597	2.3%
Other Current Assets		1,858,212	2.7%		3,496,096	2.6%
Total Current Assets	**$**	**48,322,118**	**70.2%**	**$**	**97,818,957**	**73.7%**
Gross Fixed Assets	$	3,738,056	5.4%	$	8,875,657	6.7%
Less Accumulated Depreciation (-)		**(2,206,913)**	**-3.2%**		**(5,330,642)**	**-4.0%**
Total Net Fixed Assets	$	1,531,143	2.2%	$	3,545,015	2.7%
Net Intangible Assets	$	11,417,245	16.6%	$	12,776,287	9.6%
Other Non-Current Assets		7,549,613	11.0%		18,634,986	14.0%
Total Assets	**$**	**68,820,119**	**100.0%**	**$**	**132,775,244**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$	78,528	0.1%	$	6,353,830	4.8%
Accounts Payable		5,356,487	7.8%		4,066,138	3.1%
Commissions Payable		6,739,543	9.8%		19,008,554	14.3%
Current Portion Long-Term Debt		132,743	0.2%		-	0.0%
Deposits		45,151	0.1%		100,000	0.1%
Deferred Revenue		502,837	0.7%		65,200	0.0%
Accrued Expenses		3,697,321	5.4%		4,308,519	3.2%
Income Taxes Payable		923,768	1.3%		626,058	0.5%
Other Current Liabilities		7,387,713	10.7%		14,082,477	10.6%
Total Current Liabilities	**$**	**24,864,090**	**36.1%**	**$**	**48,610,775**	**36.6%**
Long-Term Debt	$	906,631	1.3%	$	-	0.0%
Shareholder Debt/Notes Due to Affiliate		-	0.0%		3,252,001	2.4%
Other Non-Current Liabilities		(416,017)	-0.6%		4,405,645	3.3%
Total Long-Term Liabilities	**$**	**490,614**	**0.7%**	**$**	**7,657,647**	**5.8%**
Total Liabilities	**$**	**25,354,704**	**36.8%**	**$**	**56,268,422**	**42.4%**
EQUITY						
Common Stock/Paid-In Surplus	$	57,094,581	83.0%	$	97,583,544	73.5%
Retained Earnings		(13,338,597)	-19.4%		(21,061,510)	-15.9%
Treasury Stock (-)		(290,569)	-0.4%		(15,211)	0.0%
Total Equity	**$**	**43,465,415**	**63.2%**	**$**	**76,506,822**	**57.6%**
Total Liabilities and Equity	**$**	**68,820,119**	**100.0%**	**$**	**132,775,244**	**100.0%**
Count		14			5	

Common-Sized Balance Sheet - Independent and Insurance Broker-Dealers

	Independent			Insurance		
ASSETS						
Cash	$	8,986,730	5.1%	$	10,280,368	18.6%
Cash Equivalents and Securities		1,842,453	1.0%		10,841,462	19.7%
Accounts Receivable		3,874,775	2.2%		4,921,570	8.9%
Commissions Receivable		2,546,991	1.5%		3,814,990	6.9%
Securities Held for Resale		52,080	0.0%		4,960,142	9.0%
Prepaid Expenses		373,719	0.2%		545,862	1.0%
Income Tax Receivable		763,213	0.4%		1,124,928	2.0%
Other Current Assets		913,274	0.5%		1,757,304	3.2%
Total Current Assets	**$**	**73,927,074**	**42.1%**	**$**	**38,246,626**	**69.4%**
Gross Fixed Assets	$	2,038,307	1.2%	$	2,762,821	5.0%
Less Accumulated Depreciation (-)		**(991,623)**	**-0.6%**		**(1,927,532)**	**-3.5%**
Total Net Fixed Assets	$	8,449,921	4.8%	$	835,290	1.5%
Net Intangible Assets	$	959,219	0.5%	$	8,637,943	15.7%
Other Non-Current Assets		505,239	0.3%		7,409,463	13.4%
Total Assets	**$**	**175,478,172**	**100.0%**	**$**	**55,129,322**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$	125,534	0.1%	$	1,080,393	2.0%
Accounts Payable		593,561	0.3%		3,847,003	7.0%
Commissions Payable		4,378,405	2.5%		5,746,669	10.4%
Current Portion Long-Term Debt		289,770	0.2%		12,409	0.0%
Deposits		31,404	0.0%		18,082	0.0%
Deferred Revenue		213,373	0.1%		215,804	0.4%
Accrued Expenses		1,215,532	0.7%		2,143,095	3.9%
Income Taxes Payable		80,370	0.0%		707,844	1.3%
Other Current Liabilities		3,110,689	1.8%		4,087,030	7.4%
Total Current Liabilities	**$**	**56,796,953**	**32.4%**	**$**	**17,858,331**	**32.4%**
Long-Term Debt	$	579,380	0.3%	$	-	0.0%
Shareholder Debt/Notes Due to Affiliate		-	0.0%		580,715	1.1%
Other Non-Current Liabilities		354,874	0.2%		826,597	1.5%
Total Long-Term Liabilities	**$**	**71,972,879**	**41.0%**	**$**	**1,407,311**	**2.6%**
Total Liabilities	**$**	**128,702,773**	**73.3%**	**$**	**19,265,642**	**34.9%**
EQUITY						
Common Stock/Paid-In Surplus	$	4,200,484	2.4%	$	50,484,437	91.6%
Retained Earnings		6,942,045	4.0%		(14,927,154)	-27.1%
Treasury Stock (-)		(251,044)	-0.1%		306,398	0.6%
Total Equity	**$**	**46,708,340**	**26.6%**	**$**	**35,863,680**	**65.1%**
Total Liabilities and Equity	**$**	**175,478,172**	**100.0%**	**$**	**55,129,322**	**100.0%**
Count		22			28	

Common-Sized Balance Sheet - All Broker-Dealers by Year

	2007			2008			2009		
ASSETS									
Cash	$	11,390,822	27.7%	$	14,219,349	14.0%	$	9,711,167	9.0%
Cash Equivalents and Securities		5,988,479	14.6%		11,985,563	11.8%		6,881,898	6.4%
Accounts Receivable		1,851,099	4.5%		8,754,825	8.6%		4,460,980	4.1%
Commissions Receivable		4,912,202	12.0%		8,565,728	8.5%		3,257,071	3.0%
Securities Held for Resale		1,003,739	2.4%		3,036,068	3.0%		2,800,595	2.6%
Prepaid Expenses		663,890	1.6%		529,204	0.5%		470,119	0.4%
Income Tax Receivable		702,919	1.7%		1,055,336	1.0%		965,773	0.9%
Other Current Assets		1,515,407	3.7%		2,653,073	2.6%		1,385,931	1.3%
Total Current Assets	**$**	**28,028,557**	**68.2%**	**$**	**50,799,148**	**50.1%**	**$**	**53,946,023**	**49.9%**
Gross Fixed Assets	$	2,338,628	5.7%	$	8,582,306	8.5%	$	2,444,035	2.3%
Less Accumulated Depreciation (-)		**(1,542,554)**	**-3.8%**		**(4,587,282)**	**-4.5%**		**(1,515,732)**	**-1.4%**
Total Net Fixed Assets	$	816,536	2.0%	$	3,995,024	3.9%	$	4,185,727	3.9%
Net Intangible Assets	$	5,061,653	12.3%	$	40,812,125	40.3%	$	5,259,305	4.9%
Other Non-Current Assets		7,169,426	17.5%		5,688,361	5.6%		4,371,604	4.0%
Total Assets	**$**	**41,076,171**	**100.0%**	**$**	**101,294,659**	**100.0%**	**$**	**108,082,816**	**100.0%**
LIABILITIES									
Notes Payable, Bank	$	336,180	0.8%	$	14,839,106	14.6%	$	660,255	0.6%
Accounts Payable		2,671,333	6.5%		3,744,917	3.7%		2,415,489	2.2%
Commissions Payable		5,642,504	13.7%		6,529,422	6.4%		5,144,633	4.8%
Current Portion Long-Term Debt		70,957	0.2%		27,692	0.0%		134,448	0.1%
Deposits		12,966	0.0%		161,569	0.2%		23,943	0.0%
Deferred Revenue		185,372	0.5%		992,073	1.0%		214,735	0.2%
Accrued Expenses		2,030,409	4.9%		1,726,728	1.7%		1,734,967	1.6%
Income Taxes Payable		602,954	1.5%		452,316	0.4%		431,756	0.4%
Other Current Liabilities		5,338,702	13.0%		4,735,919	4.7%		3,657,440	3.4%
Total Current Liabilities	**$**	**16,891,377**	**41.1%**	**$**	**33,209,742**	**32.8%**	**$**	**34,991,324**	**32.4%**
Long-Term Debt	$	72,972	0.2%	$	25,708,517	25.4%	$	254,927	0.2%
Shareholder Debt/Notes Due to Affiliate		451,396	1.1%		1,025,919	1.0%		325,200	0.3%
Other Non-Current Liabilities		159,120	0.4%		3,997,160	3.9%		619,039	0.6%
Total Long-Term Liabilities	**$**	**683,488**	**1.7%**	**$**	**30,731,595**	**30.3%**	**$**	**32,456,161**	**30.0%**
Total Liabilities	**$**	**17,574,865**	**42.8%**	**$**	**63,914,017**	**63.1%**	**$**	**67,417,980**	**62.4%**
EQUITY									
Common Stock/Paid-In Surplus	$	31,717,422	77.2%	$	39,503,172	39.0%	$	30,119,497	27.9%
Retained Earnings		(8,318,313)	-20.3%		(572,958)	-0.6%		(5,304,707)	-4.9%
Treasury Stock (-)		102,197	0.2%		(1,546,875)	-1.5%		61,124	0.1%
Total Equity	**$**	**23,501,306**	**57.2%**	**$**	**37,353,321**	**36.9%**	**$**	**40,635,331**	**37.6%**
Total Liabilities and Equity	**$**	**41,076,171**	**100.0%**	**$**	**101,294,659**	**100.0%**	**$**	**108,082,816**	**100.0%**
Count		51			54			50	

Common-Sized Balance Sheet - Independent Broker-Dealers by Year

	2007		2008		2009	
ASSETS						
Cash	$ 9,527,299	53.1%	$ 19,240,480	10.9%	$ 8,986,730	5.1%
Cash Equivalents and Securities	2,161,027	12.0%	18,690,952	10.6%	1,842,453	1.0%
Accounts Receivable	1,201,459	6.7%	16,611,386	9.4%	3,874,775	2.2%
Commissions Receivable	2,785,920	15.5%	15,317,400	8.7%	2,546,991	1.5%
Securities Held for Resale	144,246	0.8%	989,863	0.6%	52,080	0.0%
Prepaid Expenses	327,502	1.8%	496,699	0.3%	373,719	0.2%
Income Tax Receivable	118,313	0.7%	1,165,567	0.7%	763,213	0.4%
Other Current Assets	482,988	2.7%	2,323,549	1.3%	913,274	0.5%
Total Current Assets	**$ 16,748,752**	**93.4%**	**$ 74,835,894**	**42.3%**	**$ 73,927,074**	**42.1%**
Gross Fixed Assets	$ 995,832	5.6%	$ 18,132,762	10.2%	$ 2,038,307	1.2%
Less Accumulated Depreciation (-)	**(394,359)**	**-2.2%**	**(9,428,809)**	**-5.3%**	**(991,623)**	**-0.6%**
Total Net Fixed Assets	$ 651,166	3.6%	$ 8,703,953	4.9%	$ 8,449,921	4.8%
Net Intangible Assets	$ 246,587	1.4%	$ 89,581,799	50.6%	$ 959,219	0.5%
Other Non-Current Assets	295,206	1.6%	3,892,540	2.2%	505,239	0.3%
Total Assets	**$ 17,941,710**	**100.0%**	**$ 177,014,186**	**100.0%**	**$ 175,478,172**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 443,913	2.5%	$ 30,430,854	17.2%	$ 125,534	0.1%
Accounts Payable	991,179	5.5%	6,004,196	3.4%	593,561	0.3%
Commissions Payable	3,292,088	18.3%	8,827,729	5.0%	4,378,405	2.5%
Current Portion Long-Term Debt	65,143	0.4%	62,307	0.0%	289,770	0.2%
Deposits	21,488	0.1%	342,698	0.2%	31,404	0.0%
Deferred Revenue	45,394	0.3%	1,740,696	1.0%	213,373	0.1%
Accrued Expenses	1,011,039	5.6%	2,101,919	1.2%	1,215,532	0.7%
Income Taxes Payable	57,544	0.3%	876,932	0.5%	80,370	0.0%
Other Current Liabilities	4,066,680	22.7%	4,277,857	2.4%	3,110,689	1.8%
Total Current Liabilities	**$ 9,994,469**	**55.7%**	**$ 54,665,187**	**30.9%**	**$ 56,796,953**	**32.4%**
Long-Term Debt	$ 174,333	1.0%	$ 57,844,162	32.7%	$ 579,380	0.3%
Shareholder Debt/Notes Due to Affiliate	26,554	0.1%	879,007	0.5%	-	0.0%
Other Non-Current Liabilities	8,516	0.0%	9,103,465	5.1%	354,874	0.2%
Total Long-Term Liabilities	**$ 209,402**	**1.2%**	**$ 67,826,634**	**38.3%**	**$ 71,972,879**	**41.0%**
Total Liabilities	**$ 10,203,871**	**56.9%**	**$ 122,430,350**	**69.2%**	**$ 128,702,773**	**73.3%**
EQUITY						
Common Stock/Paid-In Surplus	$ 3,693,865	20.6%	$ 32,576,547	18.4%	$ 4,200,484	2.4%
Retained Earnings	3,879,303	21.6%	22,053,633	12.5%	6,942,045	4.0%
Treasury Stock (-)	164,672	0.9%	(40,275)	0.0%	(251,044)	-0.1%
Total Equity	**$ 7,737,839**	**43.1%**	**$ 54,522,365**	**30.8%**	**$ 46,708,340**	**26.6%**
Total Liabilities and Equity	**$ 17,941,710**	**100.0%**	**$ 177,014,186**	**100.0%**	**$ 175,478,172**	**100.0%**
Count	21		24		22	

Common-Sized Balance Sheet - Insurance Broker-Dealers by Year

	2007		2008		2009	
ASSETS						
Cash	$ 12,695,288	22.2%	$ 10,202,445	25.1%	$ 10,280,368	18.6%
Cash Equivalents and Securities	8,667,696	15.1%	6,621,252	16.3%	10,841,462	19.7%
Accounts Receivable	2,305,847	4.0%	2,469,576	6.1%	4,921,570	8.9%
Commissions Receivable	6,400,599	11.2%	3,164,391	7.8%	3,814,990	6.9%
Securities Held for Resale	1,605,385	2.8%	4,673,033	11.5%	4,960,142	9.0%
Prepaid Expenses	899,362	1.6%	555,209	1.4%	545,862	1.0%
Income Tax Receivable	1,112,144	1.9%	967,152	2.4%	1,124,928	2.0%
Other Current Assets	2,238,101	3.9%	2,916,693	7.2%	1,757,304	3.2%
Total Current Assets	**$ 35,924,421**	**62.7%**	**$ 31,569,750**	**77.5%**	**$ 38,246,626**	**69.4%**
Gross Fixed Assets	$ 3,278,586	5.7%	$ 941,941	2.3%	$ 2,762,821	5.0%
Less Accumulated Depreciation (-)	**(2,346,291)**	**-4.1%**	**(714,060)**	**-1.8%**	**(1,927,532)**	**-3.5%**
Total Net Fixed Assets	$ 932,295	1.6%	$ 227,881	0.6%	$ 835,290	1.5%
Net Intangible Assets	$ 8,432,199	14.7%	$ 1,796,387	4.4%	$ 8,637,943	15.7%
Other Non-Current Assets	11,981,379	20.9%	7,125,018	17.5%	7,409,463	13.4%
Total Assets	**$ 57,270,294**	**100.0%**	**$ 40,719,037**	**100.0%**	**$ 55,129,322**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 260,767	0.5%	$ 2,365,709	5.8%	$ 1,080,393	2.0%
Accounts Payable	3,847,440	6.7%	1,937,493	4.8%	3,847,003	7.0%
Commissions Payable	7,287,796	12.7%	4,690,777	11.5%	5,746,669	10.4%
Current Portion Long-Term Debt	75,026	0.1%	-	0.0%	12,409	0.0%
Deposits	7,000	0.0%	16,667	0.0%	18,082	0.0%
Deferred Revenue	283,357	0.5%	393,174	1.0%	215,804	0.4%
Accrued Expenses	2,743,968	4.8%	1,426,575	3.5%	2,143,095	3.9%
Income Taxes Payable	984,741	1.7%	112,624	0.3%	707,844	1.3%
Other Current Liabilities	6,229,117	10.9%	5,102,368	12.5%	4,087,030	7.4%
Total Current Liabilities	**$ 21,719,212**	**37.9%**	**$ 16,045,386**	**39.4%**	**$ 17,858,331**	**32.4%**
Long-Term Debt	$ 2,019	0.0%	$ -	0.0%	$ -	0.0%
Shareholder Debt/Notes Due to Affiliate	748,786	1.3%	1,143,449	2.8%	580,715	1.1%
Other Non-Current Liabilities	264,543	0.5%	(87,884)	-0.2%	826,597	1.5%
Total Long-Term Liabilities	**$ 1,015,348**	**1.8%**	**$ 1,055,565**	**2.6%**	**$ 1,407,311**	**2.6%**
Total Liabilities	**$ 22,734,561**	**39.7%**	**$ 17,100,950**	**42.0%**	**$ 19,265,642**	**34.9%**
EQUITY						
Common Stock/Paid-In Surplus	$ 51,333,913	89.6%	$ 45,044,472	110.6%	$ 50,484,437	91.6%
Retained Earnings	(16,856,644)	-29.4%	(18,674,230)	-45.9%	(14,927,154)	-27.1%
Treasury Stock (-)	58,465	0.1%	(2,752,156)	-6.8%	306,398	0.6%
Total Equity	**$ 34,535,733**	**60.3%**	**$ 23,618,087**	**58.0%**	**$ 35,863,680**	**65.1%**
Total Liabilities and Equity	**$ 57,270,294**	**100.0%**	**$ 40,719,037**	**100.0%**	**$ 55,129,322**	**100.0%**
Count	30		30		28	

Staffing

Number of Employees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
	Average	Median	Average	Median	Average	Median
Full-Time Equivalent Employees by Category						
Administration/Operations	46	23	64	59	39	21
Commissions/Accounting	11	7	12	9	11	7
Compliance/Licensing	24	15	27	17	23	15
Executive Management	5	4	6	6	4	3
Investment/Retirement	3	0	5	2	2	0
Marketing Department (except recruiting)	8	4	13	5	7	3
MIS Department	13	5	17	10	11	3
Practice Management	4	1	8	3	2	1
Recruiting	5	2	8	5	4	2
Trading Room	6	4	8	8	5	4
Total Employees	**124**	**84**	**167**	**171**	**109**	**73**

Number of Employees
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
	Average	Median	Average	Median	Average	Median
Full-Time Equivalent Employees by Category						
Administration/Operations	7	7	13	13	35	22
Commissions/Accounting	3	3	11	5	9	7
Compliance/Licensing	8	3	8	8	16	14
Executive Management	3	3	3	4	5	5
Investment/Retirement	1	0	1	0	3	1
Marketing Department (except recruiting)	2	1	4	2	7	4
MIS Department	1	0	4	3	12	5
Practice Management	1	0	1	1	3	1
Recruiting	0	0	2	1	4	3
Trading Room	1	1	5	3	6	4
Total Employees	**25**	**20**	**52**	**47**	**100**	**77**

Number of Employees
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	Median	Average	Median
Full-Time Equivalent Employees by Category				
Administration/Operations	70	58	120	128
Commissions/Accounting	17	17	18	18
Compliance/Licensing	33	29	68	91
Executive Management	6	5	7	3
Investment/Retirement	2	0	10	11
Marketing Department (except recruiting)	14	6	13	13
MIS Department	17	18	38	25
Practice Management	4	3	16	9
Recruiting	9	6	10	5
Trading Room	8	8	5	4
Total Employees	**179**	**172**	**304**	**298**

Number of Employees

Independent and Insurance Broker-Dealers

	Independent		Insurance	
	Average	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category				
Administration/Operations	31	17	58	35
Commissions/Accounting	9	6	13	12
Compliance/Licensing	15	8	31	21
Executive Management	4	4	5	4
Investment/Retirement	2	0	3	0
Marketing Department (except recruiting)	6	4	10	4
MIS Department	8	5	17	3
Practice Management	4	1	4	2
Recruiting	4	2	6	3
Trading Room	6	5	5	4
Total Employees	**89**	**56**	**153**	**106**

Financial and Operational Ratios

Financial and Operational Ratios - All, High-Profit, and Non-High-Profit Broker-Dealers by Year

Median Values	*All Broker-Dealers*		*High-Profit: Top 25%*		*Non-High-Profit*	
	2008	2009	2008	2009	2008	2009
Liquidity						
Current Ratio	2.13	2.11	1.96	2.12	2.23	2.10
Safety						
Debt to Equity	0 82	0.70	0.98	0.63	0.80	0.74
Working Capital						
Sales to Working Capital	10 69	7.56	10.70	6.89	10 54	7 80
Working Capital ($)	$8,424,333	$8,164,956	$13,433,876	$15,291,840	$6,664,556	$6,937,875
*Profitability**						
Gross Profit	19.4%	19.1%	31.4%	23.4%	19.0%	18.3%
Operating Profit	2.1%	0.0%	7 5%	5.5%	0.2%	-1.4%
Pre-Tax Profit	1.8%	0.1%	7.7%	5.5%	0.2%	-1.3%
Net Profit	1.1%	-0.1%	5 6%	4.0%	0.1%	-1.0%
Employee/Office Productivity						
Revenue per Employee (FTE)	$952,518	$859,186	$929,518	$903,336	$994,657	$834,342
Revenue per Advisor	$142,863	$175,577	$152,726	$225,198	$129,016	$167,716
Commission per Advisor	$96,399	$125,758	$96,733	$141,827	$96,399	$122,242
Commission Analysis						
Commission Payable Turnover	21 88	17.53	19.45	16 56	23.45	18.38
Commission Payable - Days	17	21	19	22	16	20
Payout Ratio *	77.3%	76.6%	67.5%	72.4%	79.7%	78.2%
Cash Flow Analysis						
Cash Conversion Efficiency	2.1%	0 2%	9.1%	5.8%	0.4%	-1.3%
Operating Cash Flow to Profit	145.8%	144 3%	136 0%	142.0%	145.8%	148.7%
Operating Cash Flow ROA	11.1%	0.1%	35.4%	23.1%	2.6%	-6.8%
Operating Cash Flow ROE	19.0%	0 2%	69.8%	33.7%	4.7%	-11.6%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - Broker-Dealers by Revenue Size and Year

Median Values	*Less Than $25M*		*$25M - $54M*		*$54M - $100M*	
	*2008***	*2009*	*2008***	*2009*	*2008*	*2009*
Liquidity						
Current Ratio	2.17	2.22	2.22	2.20	2.45	2 33
Safety						
Debt to Equity	0 87	0.67	0.64	0.66	0.69	0.70
Working Capital						
Sales to Working Capital	11 86	3.15	14.35	10 37	8.61	7 00
Working Capital ($)	$1,015,801	$1,140,156	$2,479,375	$2,967,998	$6,219,562	$6,597,497
*Profitability**						
Gross Profit	21.0%	24.6%	20.7%	19.4%	18.1%	18.9%
Operating Profit	2.7%	-1.6%	2 2%	-0.7%	1.6%	0.5%
Pre-Tax Profit	2.2%	-3.3%	1 8%	-0.5%	1.6%	0.5%
Net Profit	1.7%	-2.2%	0 9%	-0.5%	1.3%	0.5%
Employee/Office Productivity						
Revenue per Employee (FTE)	$926,954	$624,618	$944,812	$759,064	$973,587	$955,007
Revenue per Advisor	$105,618	$174,929	$130,905	$147,143	$186,885	$175,577
Commission per Advisor	$81,539	$124,461	$100,760	$116,540	$127,766	$131,436
Commission Analysis						
Commission Payable Turnover	15 99	13.90	25.76	22 82	22 31	16.03
Commission Payable - Days	23	26	14	16	16	23
Payout Ratio *	76.8%	71.4%	71.5%	75 2%	78 3%	78.2%
Cash Flow Analysis						
Cash Conversion Efficiency	2.7%	-1.4%	2 3%	-0.6%	1.6%	1.0%
Operating Cash Flow to Profit	100.0%	105.7%	129.7%	161.6%	111.4%	157.1%
Operating Cash Flow ROA	20.2%	-6.2%	12.0%	-9.4%	11 5%	2.5%
Operating Cash Flow ROE	39.6%	-10.0%	20.7%	-16 5%	18.1%	3.4%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

*** - Data from 2008 was recalculated using the new revenue groups of <$25 million and $25-54 million. Due to this change, ratios may not match those published in the 2009 Study.*

Financial and Operational Ratios - Broker-Dealers by Revenue Size and Year

Median Values	***$100M - $250M***		***More Than $250M***	
	2008	*2009*	*2008*	*2009*
Liquidity				
Current Ratio	2.04	1.87	1.89	1.95
Safety				
Debt to Equity	1.09	0.91	0.78	0.70
Working Capital				
Sales to Working Capital	7.68	7.37	11.85	9.33
Working Capital ($)	$14,231,457	$20,601,468	$34,152,627	$48,657,122
*Profitability**				
Gross Profit	18.1%	18.9%	19.4%	17.4%
Operating Profit	0.6%	-0.6%	3.1%	0.3%
Pre-Tax Profit	0.6%	0.5%	2.9%	0.3%
Net Profit	0.2%	-0.9%	1.2%	0.4%
Employee/Office Productivity				
Revenue per Employee (FTE)	$1,032,204	$883,084	$1,129,395	$1,402,510
Revenue per Advisor	$118,890	$181,893	$122,153	$240,524
Commission per Advisor	$78,607	$137,689	$94,693	$147,850
Commission Analysis				
Commission Payable Turnover	22.98	17.55	21.25	17.53
Commission Payable - Days	16	21	17	21
Payout Ratio *	80.7%	80.6%	76.2%	72.4%
Cash Flow Analysis				
Cash Conversion Efficiency	0.6%	-0.5%	4.3%	1.9%
Operating Cash Flow to Profit	150.0%	142.0%	147.7%	154.5%
Operating Cash Flow ROA	5.4%	-1.8%	9.2%	4.5%
Operating Cash Flow ROE	6.9%	-2.6%	17.5%	7.6%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - Independent and Insurance Broker-Dealers by Year

Median Values	*Independent*		*Insurance*	
	2008	2009	2008	2009
Liquidity				
Current Ratio	2.13	2.05	2.08	2.13
Safety				
Debt to Equity	0.82	0.74	0.74	0.67
Working Capital				
Sales to Working Capital	11.69	9.90	8.96	4.77
Working Capital ($)	$4,861,891	$4,946,153	$10,554,818	$13,691,821
*Profitability**				
Gross Profit	21.0%	18.6%	16.7%	19.9%
Operating Profit	4.1%	1.9%	-0.8%	-2.8%
Pre-Tax Profit	3.0%	1.3%	-0.8%	-1.9%
Net Profit	2.5%	0.6%	-0.6%	-1.5%
Employee/Office Productivity				
Revenue per Employee (FTE)	$933,565	$944,456	$996,182	$822,482
Revenue per Advisor	$192,538	$173,423	$98,953	$176,251
Commission per Advisor	$116,496	$128,597	$80,691	$122,809
Commission Analysis				
Commission Payable Turnover	21.47	17.98	22.39	17.53
Commission Payable - Days	17	20	16	21
Payout Ratio*	75.0%	77.4%	80.1%	76.4%
Cash Flow Analysis				
Cash Conversion Efficiency	4.6%	2.1%	-0.7%	-2.6%
Operating Cash Flow to Profit	118.1%	131.5%	145.8%	144.5%
Operating Cash Flow ROA	20.5%	9.6%	-4.8%	-10.7%
Operating Cash Flow ROE	40.1%	14.8%	-9.6%	-17.6%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - All Broker-Dealers by Year

Median Values	***2006***	***2007***	***2008***	***2009***
Liquidity				
Current Ratio	2.00	1.85	2.13	2.11
Safety				
Debt to Equity	0.99	0.89	0.82	0.70
Working Capital				
Sales to Working Capital	10.93	12.68	10.69	7.56
Working Capital ($)	$5,157,275	$5,646,465	$8,424,333	$8,164,956
*Profitability**				
Gross Profit	17.3%	17.8%	19.4%	19.1%
Operating Profit	2.2%	2.8%	2.1%	0.0%
Pre-Tax Profit	2.2%	2.7%	1.8%	0.1%
Net Profit	1.8%	1.8%	1.1%	-0.1%
Employee/Office Productivity				
Revenue per Employee (FTE)	$1,158,096	$1,055,509	$952,518	$859,186
Revenue per Advisor	$126,527	$133,030	$142,863	$175,577
Commission per Advisor	$93,188	$105,652	$96,399	$125,758
Commission Analysis				
Commission Payable Turnover	19.90	20.28	21.88	17.53
Commission Payable - Days	18	18	17	21
Payout Ratio *	79.7%	81.3%	77.3%	76.6%
Cash Flow Analysis				
Cash Conversion Efficiency	2.3%	2.8%	2.1%	0.2%
Operating Cash Flow to Profit	114.3%	120.7%	145.8%	144.3%
Operating Cash Flow ROA	13.0%	15.2%	11.1%	0.1%
Operating Cash Flow ROE	22.7%	28.0%	19.0%	0.2%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Advisor Network by Production

Advisor Network by Production
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Total Number of Advisors	599	420	836	685	514	348
Total Number of OSJs	88	45	155	2	64	52
Advisors Producing in a Range as a Percentage of All Advisors in the Network						
$0 - $25,000	26.9%		20.3%		29.2%	
$25,001 - $50,000	15.6%		13.1%		16.5%	
$50,001 - $75,000	11.4%		10.6%		11.7%	
$75,001 - $100,000	13.1%		13.7%		12.9%	
$100,001 - $150,000	13.7%		17.7%		12.3%	
$150,001 - $250,000	6.9%		9.3%		6.1%	
$250,001 - $350,000	5.0%		7.0%		4.3%	
$350,001 - $500,000	3.0%		4.8%		2.3%	
$500,001 - $750,000	1.0%		1.4%		0.9%	
$750,001 - $1,000,000	0.9%		1.5%		0.7%	
Greater than $1,000,000	2.5%		0.7%		3.2%	

Advisor Network by Production
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Total Number of Advisors	71	59	233	231	384	369
Total Number of OSJs	16	5	9	10	49	47
Advisors Producing in a Range as a Percent of All Advisors in the Network						
$0 - $25,000	27.1%		23.6%		27.3%	
$25,001 - $50,000	14.6%		14.2%		16.7%	
$50,001 - $75,000	10.0%		12.4%		11.7%	
$75,001 - $100,000	9 9%		12.9%		13.1%	
$100,001 - $150,000	11.9%		12.1%		14.2%	
$150,001 - $250,000	8.4%		6 5%		6.7%	
$250,001 - $350,000	4 6%		6.7%		5.1%	
$350,001 - $500,000	3.2%		3 8%		2.8%	
$500,001 - $750,000	0.4%		2 2%		0.9%	
$750,001 - $1,000,000	0 6%		1 5%		0.8%	
Greater than $1,000,000	9.2%		4.1%		0.6%	

Advisor Network by Production
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	Median	Average	Median
Total Number of Advisors	875	876	1,831	1,491
Total Number of OSJs	88	59	431	188
Advisors Producing in a Range as a Percent of All Advisors in the Network				
$0 - $25,000	28.2%		26.1%	
$25,001 - $50,000	16.0%		14.6%	
$50,001 - $75,000	11.5%		10.6%	
$75,001 - $100,000	14.7%		13.9%	
$100,001 - $150,000	14.6%		15.2%	
$150,001 - $250,000	6.4%		7.3%	
$250,001 - $350,000	4.1%		5.5%	
$350,001 - $500,000	2.4%		3.5%	
$500,001 - $750,000	0.6%		1.5%	
$750,001 - $1,000,000	0.6%		1.4%	
Greater than $1,000,000	0.8%		0.3%	

Advisor Network by Production
Independent and Insurance Broker-Dealers

	Independent		Insurance	
	Average	Median	Average	Median
Total Number of Advisors	460	268	713	607
Total Number of OSJs	115	13	66	55
Advisors Producing in a Range as a Percent of All Advisors in the Network				
$0 - $25,000	19.2%		33.1%	
$25,001 - $50,000	13.9%		17.0%	
$50,001 - $75,000	11.2%		11.5%	
$75,001 - $100,000	14.9%		11.6%	
$100,001 - $150,000	16.6%		11.4%	
$150,001 - $250,000	9.2%		5.1%	
$250,001 - $350,000	6.7%		3.6%	
$350,001 - $500,000	3.9%		2.2%	
$500,001 - $750,000	1.2%		0.8%	
$750,001 - $1,000,000	1.2%		0.7%	
Greater than $1,000,000	2.1%		2.9%	

Advisor Payout by Production

Advisor Payout Percentage by Production

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers			High-Profit: Top 25%			Non-High-Profit		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount									
$25,000	53%	65%	80%	58%	65%	89%	51%	65%	76%
$50,000	65%	71%	82%	65%	70%	89%	63%	71%	81%
$75,000	70%	75%	84%	70%	75%	89%	70%	75%	83%
$100,000	79%	80%	85%	80%	84%	88%	75%	80%	83%
$150,000	80%	85%	86%	85%	85%	88%	80%	83%	85%
$250,000	83%	85%	90%	87%	88%	90%	81%	85%	89%
$350,000	83%	88%	90%	88%	90%	90%	82%	85%	90%
$500,000	85%	89%	90%	89%	90%	90%	83%	88%	90%
$750,000	85%	90%	90%	89%	90%	90%	83%	89%	90%
$1,000,000	85%	90%	92%	89%	91%	92%	84%	90%	92%
Percentage of Firms Offering Production Bonuses to Branch Offices		37%			54%			31%	

Advisor Payout Percentage by Production

Independent Broker-Dealer by Revenue Size

	Less Than $25M			$25M - $54M			$54M - $100M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount									
$25,000	61%	65%	70%	60%	60%	70%	70%	80%	83%
$50,000	61%	68%	74%	70%	75%	80%	71%	80%	84%
$75,000	74%	75%	77%	75%	75%	83%	78%	80%	86%
$100,000	79%	82%	84%	80%	80%	83%	80%	81%	86%
$150,000	84%	85%	85%	83%	85%	88%	82%	85%	88%
$250,000	86%	87%	89%	90%	90%	90%	85%	85%	90%
$350,000	89%	90%	90%	90%	90%	90%	86%	89%	90%
$500,000	90%	90%	91%	90%	90%	91%	87%	90%	90%
$750,000	90%	90%	91%	90%	90%	92%	88%	90%	90%
$1,000,000	91%	92%	92%	90%	91%	92%	89%	90%	92%
Percentage of Firms Offering Production Bonuses to Branch Offices		25%			0%			25%	

Advisor Payout Percentage by Production

Independent Broker-Dealer by Revenue Size

	$100M - $250M			More Than $250M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount						
$25,000	60%	65%	71%	N/A	N/A	N/A
$50,000	65%	65%	75%	N/A	N/A	N/A
$75,000	68%	70%	78%	N/A	N/A	N/A
$100,000	82%	84%	86%	N/A	N/A	N/A
$150,000	85%	85%	86%	N/A	N/A	N/A
$250,000	87%	88%	89%	N/A	N/A	N/A
$350,000	89%	90%	90%	N/A	N/A	N/A
$500,000	90%	90%	91%	N/A	N/A	N/A
$750,000	90%	90%	91%	N/A	N/A	N/A
$1,000,000	91%	91%	92%	N/A	N/A	N/A
Percentage of Firms Offering Production Bonuses to Branch Offices		75%			N/A	

Advisor Payout Percentage by Production

Insurance Broker-Dealer by Revenue Size

	Less Than $25M			$25M - $54M			$54M - $100M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount									
$25,000	51%	63%	68%	N/A	N/A	N/A	61%	68%	70%
$50,000	60%	73%	N/A	N/A	N/A	N/A	70%	73%	75%
$75,000	64%	75%	78%	N/A	N/A	N/A	75%	75%	79%
$100,000	64%	78%	N/A	N/A	N/A	N/A	80%	80%	80%
$150,000	64%	78%	N/A	N/A	N/A	N/A	81%	85%	85%
$250,000	64%	78%	N/A	N/A	N/A	N/A	85%	85%	87%
$350,000	65%	78%	N/A	N/A	N/A	N/A	85%	87%	90%
$500,000	66%	78%	N/A	N/A	N/A	N/A	85%	88%	90%
$750,000	66%	78%	N/A	N/A	N/A	N/A	85%	88%	90%
$1,000,000	66%	78%	N/A	N/A	N/A	N/A	85%	88%	90%
Percentage of Firms Offering Production Bonuses to Branch Offices		75%			0%			17%	

Advisor Payout Percentage by Production

Insurance Broker-Dealer by Revenue Size

	$100M - $250M			More Than $250M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount						
$25,000	47%	53%	60%	39%	64%	89%
$50,000	53%	70%	70%	51%	72%	89%
$75,000	53%	75%	75%	58%	74%	89%
$100,000	60%	80%	80%	63%	77%	89%
$150,000	67%	80%	83%	75%	84%	89%
$250,000	75%	83%	86%	79%	85%	89%
$350,000	82%	85%	88%	81%	85%	89%
$500,000	85%	88%	88%	81%	85%	89%
$750,000	85%	89%	90%	82%	85%	89%
$1,000,000	85%	89%	91%	84%	87%	89%
Percentage of Firms Offering Production Bonuses to Branch Offices		50%			50%	

Advisor Payout Percentage by Production

Independent and Insurance Broker-Dealers

	Independent			Insurance		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Advisors' Payout for Producing the Following Amount						
$25,000	60%	70%	80%	47%	60%	74%
$50,000	65%	75%	83%	55%	70%	76%
$75,000	70%	80%	85%	60%	75%	80%
$100,000	80%	83%	85%	65%	80%	81%
$150,000	83%	85%	87%	75%	80%	85%
$250,000	85%	88%	90%	76%	85%	87%
$350,000	87%	90%	90%	80%	85%	88%
$500,000	89%	90%	91%	81%	85%	90%
$750,000	90%	90%	91%	81%	85%	90%
$1,000,000	90%	91%	92%	83%	85%	90%
Percentage of Firms Offering Production Bonuses to Branch Offices		32%			41%	

Independent Broker-Dealer Payout Percentage by Level Grid Is Applied

Payout at Branch Office/OSJ and Individual Advisor Level

	Independent - Payout at Branch Office/OSJ			*Independent - Payout at Individual Advisor*		
	Lower Quartile	*Median*	*Upper Quartile*	*Lower Quartile*	*Median*	*Upper Quartile*
Advisors' Payout for Producing the Following Amount						
$25,000	60%	80%	84%	58%	68%	77%
$50,000	65%	80%	84%	65%	72%	81%
$75,000	75%	84%	87%	70%	75%	81%
$100,000	80%	83%	88%	80%	81%	85%
$150,000	84%	85%	88%	83%	85%	87%
$250,000	87%	90%	90%	85%	87%	90%
$350,000	88%	90%	90%	87%	90%	90%
$500,000	89%	90%	90%	89%	90%	92%
$750,000	89%	90%	90%	90%	90%	92%
$1,000,000	89%	91%	92%	90%	91%	92%
Percentage of Firms Offering Production Bonuses to Branch Offices		50%			17%	

Insurance Broker-Dealer Payout Percentage by Level Grid Is Applied

Payout at Branch Office and Individual Advisor Level

	Insurance - Payout at Branch Office			*Insurance - Payout at Individual Advisor*		
	Lower Quartile	*Median*	*Upper Quartile*	*Lower Quartile*	*Median*	*Upper Quartile*
Advisors' Payout for Producing the Following Amount						
$25,000	65%	70%	78%	44%	60%	67%
$50,000	70%	75%	79%	51%	70%	75%
$75,000	75%	78%	81%	53%	75%	75%
$100,000	80%	80%	82%	62%	78%	80%
$150,000	80%	82%	84%	75%	80%	85%
$250,000	81%	83%	85%	75%	85%	88%
$350,000	81%	85%	87%	80%	85%	88%
$500,000	83%	88%	90%	81%	85%	88%
$750,000	83%	90%	90%	81%	85%	90%
$1,000,000	83%	90%	92%	83%	85%	90%
Percentage of Firms Offering Production Bonuses to Branch Offices		43%			37%	

Total Field Payout Including Overrides by Production

Independent and Insurance Broker-Dealers

	Independent Broker-Dealers			Insurance Broker-Dealers			
	Advisor Payout	*OSJ Override*	*Total Field Payout*	*Advisor Payout*	*General Agent Override*	*Other Field Mgmt Override*	*Total Field Payout*
Median Payout Percentage by Production Level							
$25,000	70.0%	5.0%	73.0%	46.5%	23.3%	7.0%	91.5%
$50,000	75.0%	8.0%	80.0%	54.4%	18.3%	7.0%	91.5%
$75,000	80.0%	8.0%	81.5%	58.1%	13.3%	7.0%	91.5%
$100,000	82.5%	5.0%	85.0%	64.0%	9.3%	7.0%	91.5%
$150,000	85.0%	3.0%	85.5%	75.1%	7.5%	7.0%	92.0%
$250,000	88.0%	3.0%	89.5%	75.7%	6.8%	7.0%	92.3%
$350,000	90.0%	2.0%	90.0%	79.9%	6.8%	6.2%	92.3%
$500,000	90.0%	3.0%	90.0%	80.8%	5.0%	5.0%	93.0%
$750,000	90.0%	4.0%	90.0%	80.5%	5.0%	5.0%	93.0%
$1,000,000	91.0%	4.0%	91.5%	82.1%	5.0%	5.0%	93.0%

Recruiting

Recruiting
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Number of Advisors at the End of 2008	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
< $50,000	858	360	994	557	810	291
$50,000 - $100,000	181	136	216	192	169	95
$100,000 - $250,000	192	162	342	252	139	85
$250,000 - $500,000	85	51	167	88	55	42
$500,000 - $750,000	26	16	52	24	15	12
> $750,000	20	9	44	9	8	8
New Advisors Added in 2009						
< $50,000	131	53	152	114	125	48
$50,000 - $100,000	14	8	14	7	15	10
$100,000 - $250,000	13	8	13	8	13	7
$250,000 - $500,000	8	5	8	8	8	3
$500,000 - $750,000	4	3	4	5	4	3
> $750,000	2	1	2	1	2	1
Advisors Who Left During 2009						
< $50,000	169	102	199	121	158	94
$50,000 - $100,000	14	6	25	9	10	4
$100,000 - $250,000	16	5	28	6	9	4
$250,000 - $500,000	7	2	11	3	5	2
$500,000 - $750,000	3	1	3	2	3	1
> $750,000	4	3	5	4	3	3
Cost of Recruiting in 2009	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Total Costs	$805,212	$482,500	$1,423,422	$1,125,500	$516,714	$445,398
Industry Advertising (company-wide)	$174,682	$168,157	$243,371	$242,336	$137,215	$137,000
Direct Mail	$78,582	$25,000	$152,380	$60,000	$17,083	$17,500
Retained or Internal Recruiter	$377,834	$181,021	$598,622	$367,975	$201,203	$125,521
Recruiting Bonuses	$151,105	$57,916	$106,688	$50,851	$195,523	$77,579
Average outside recruiting firm costs (per advisor)	$15,975	$9,873	N/A	N/A	$20,433	$10,000
Average recruiting trips to headquarters (per advisor)	$2,888	$683	$6,343	$716	$968	$650
Average account transition assistance (per advisor)	$13,042	$7,500	$8,681	$8,000	$14,496	$5,500
Transaction Assistance to Newly Recruited Advisors						
Direct Financing	24.0%		6.0%		18.0%	
Loans	50.0%		12.0%		38.0%	
Remote Staff Assistance	78.0%		24.0%		54.0%	
Onsite Staff Assistance	64.0%		22.0%		42.0%	
Compliance Set-up	54.0%		16.0%		38.0%	
Automated Customer Account Transfer (ACAT) Svcs.	74.0%		22.0%		52.0%	
Other	34.0%		6.0%		28.0%	
If Parent-Owned, Parent Contrib. to Recruiting Costs						
Yes	24.4%		9.1%		29.4%	
No	75.6%		90.9%		70.6%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% of Costs Contributed	92.4%	100.0%	N/A	N/A	91.6%	100.0%
Pay Recruiting Bonuses						
No	48.9%		53.8%		47.1%	
Yes, a flat amount	4.3%		7.7%		2.9%	
Yes, based on recruited advisor's trailing 12 mo. prod.	38.3%		30.8%		41.2%	
Other	8.5%		16.7%		16.7%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Percent of Advisor Production	8.2%	8.2%	9.0%	9.0%	7.7%	7.7%
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	3.1	2.0	4.5	2.0	2.5	2.0
Salary	$92,302	$75,000	$116,667	$75,000	$87,430	$75,000
Flat Fee per Recruited Advisor	$1,867	$500	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	1.7%	1.3%	N/A	N/A	1.5%	1.3%
External (Field Employee)	10.3	6.5	3.3	6.5	13.3	6.5
Salary	$75,000	$80,000	N/A	N/A	$65,000	$80,000
Flat Fee per Recruited Advisor	$1,250	$1,250	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	1.3%	1.0%	N/A	N/A	1.3%	1.0%
External (Contractor)	2.0	2.0	N/A	N/A	2.0	2.0
% of GDC of Recruited Advisor	3.8%	4.5%	N/A	N/A	4.4%	4.5%
2010 Advisors	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Expected to Add	260	105	186	105	284	105
Expected to Drop	95	30	122	30	87	30
Expected to Leave	164	42	83	42	192	42
Expected Total Production from Advisors Added	$24,863,704	$10,000,000	$20,750,000	$10,000,000	$26,039,048	$10,000,000
Expected Total Production from Advisors Dropped	$1,857,250	$425,000	$950,000	$425,000	$2,084,063	$425,000
Expected Total Production from Advisors Leaving	$1,939,706	$500,000	$2,600,000	$500,000	$1,664,583	$500,000
Retention Bonus for Advisors						
Yes	7%		17%		3%	
No	93%		83%		97%	
Pay Retention Bonus Beyond 2010						
Yes	20%		N/A		33%	
No	80%		N/A		67%	
New Advisors Coming From	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Wirehouses	8.5%	3%	16%	10%	6%	1%
Other Broker-Dealers	67.6%	80%	48%	50%	74%	80%
Banks	4.4%	0%	11%	0%	2%	0%
New to Industry	13.1%	0%	23%	0%	10%	0%
RIA Firms	1.0%	0%	3%	0%	0%	0%
Other	5.4%	0%	0%	0%	7%	0%

Recruiting

Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Number of Advisors at the End of 2008	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
< $50,000	965	19	245	177	401	200
$50,000 - $100,000	21	12	70	61	124	136
$100,000 - $250,000	19	21	70	68	125	128
$250,000 - $500,000	9	9	25	20	50	51
$500,000 - $750,000	4	4	8	8	17	16
> $750,000	2	2	6	7	7	8
New Advisors Added in 2009						
< $50,000	100	44	26	24	58	42
$50,000 - $100,000	4	4	6	5	12	11
$100,000 - $250,000	3	3	6	6	15	9
$250,000 - $500,000	3	3	3	3	7	7
$500,000 - $750,000	3	3	3	3	4	5
> $750,000	N/A	N/A	1	1	2	1
Advisors Who Left During 2009						
< $50,000	142	60	47	42	103	52
$50,000 - $100,000	3	3	4	3	7	6
$100,000 - $250,000	2	2	4	3	4	4
$250,000 - $500,000	1	1	1	1	2	2
$500,000 - $750,000	1	1	N/A	N/A	1	1
> $750,000	N/A	N/A	N/A	N/A	1	1
Cost of Recruiting in 2009	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Total Costs	N/A	N/A	$219,431	$254,000	$550,310	$495,000
Industry Advertising (company-wide)	N/A	N/A	$97,579	$97,579	$144,936	$166,999
Direct Mail	N/A	N/A	N/A	N/A	$35,167	$25,000
Retained or Internal Recruiter	N/A	N/A	$84,680	$89,000	$293,233	$245,000
Recruiting Bonuses	N/A	N/A	$43,829	$43,829	$141,683	$100,000
Average outside recruiting firm costs (per advisor)	N/A	N/A	$1,300	$1,300	N/A	N/A
Average recruiting trips to headquarters (per advisor)	N/A	N/A	$1,167	$1,500	$5,384	$500
Average account transition assistance (per advisor)	N/A	N/A	$3,125	$3,125	$23,342	$8,000
Transaction Assistance to Newly Recruited Advisors						
Direct Financing	12.5%		37.5%		13.3%	
Loans	25.0%		75.0%		60.0%	
Remote Staff Assistance	87.5%		87.5%		86.7%	
Onsite Staff Assistance	50.0%		75.0%		66.7%	
Compliance Set-up	62.5%		62.5%		40.0%	
Automated Customer Account Transfer (ACAT) Svcs.	75.0%		75.0%		73.3%	
Other	25.0%		25.0%		20.0%	
If Parent-Owned, Parent Contrib. to Recruiting Costs						
Yes	42.9%		14.3%		28.6%	
No	57.1%		85.7%		71.4%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% of Costs Contributed	100.0%	100.0%	N/A	N/A	74.7%	70.0%
Pay Recruiting Bonuses						
No	75.0%		42.9%		40.0%	
Yes, a flat amount	0.0%		0.0%		6.7%	
Yes, based on recruited advisor's trailing 12 mo. prod.	12.5%		57.1%		40.0%	
Other	12.5%		0.0%		13.3%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Percent of Advisor Production	N/A	N/A	N/A	N/A	5.3%	5.3%
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	N/A	N/A	1.8	2.0	2.3	2.0
Salary	N/A	N/A	$80,250	$75,000	$96,333	$100,000
Flat Fee per Recruited Advisor	N/A	N/A	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	N/A	N/A	N/A	N/A	1.8%	1.5%
External (Field Employee)	N/A	N/A	N/A	N/A	2.5	1.5
Salary	N/A	N/A	N/A	N/A	N/A	N/A
Flat Fee per Recruited Advisor	N/A	N/A	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	N/A	N/A	N/A	N/A	N/A	N/A
External (Contractor)	N/A	N/A	N/A	N/A	2.3	3.0
% of GDC of Recruited Advisor	N/A	N/A	N/A	N/A	N/A	N/A
2010 Advisors	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Expected to Add	142	83	50	55	131	115
Expected to Drop	22	15	23	20	59	36
Expected to Leave	126	125	5	3	78	34
Expected Total Production from Advisors Added	$2,106,667	$1,000,000	$7,000,000	$5,000,000	$13,000,000	$15,000,000
Expected Total Production from Advisors Dropped	N/A	N/A	$483,333	$375,000	$723,750	$345,000
Expected Total Production from Advisors Leaving	N/A	N/A	$225,000	$150,000	$1,478,571	$1,500,000
Retention Bonus for Advisors						
Yes	0%		0%		13%	
No	100%		100%		87%	
Pay Retention Bonus Beyond 2010						
Yes	N/A		N/A		33%	
No	N/A		N/A		67%	
New Advisors Coming From	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Wirehouses	4%	0%	9%	10%	11%	5%
Other Broker-Dealers	53%	75%	85%	90%	71%	88%
Banks	1%	0%	3%	0%	8%	0%
New to Industry	14%	0%	2%	0%	9%	0%
RIA Firms	0%	0%	1%	0%	2%	0%
Other	28%	0%	0%	0%	0%	0%

Recruiting
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Number of Advisors at the End of 2008	*Average*	*Median*	*Average*	*Median*
< $50,000	1,353	746	1,575	831
$50,000 - $100,000	318	206	417	428
$100,000 - $250,000	286	224	690	641
$250,000 - $500,000	111	104	383	285
$500,000 - $750,000	26	25	114	95
> $750,000	14	10	118	95
New Advisors Added in 2009				
< $50,000	244	113	242	161
$50,000 - $100,000	21	10	20	21
$100,000 - $250,000	13	6	34	29
$250,000 - $500,000	8	8	25	25
$500,000 - $750,000	2	1	9	9
> $750,000	1	1	6	6
Advisors Who Left During 2009				
< $50,000	330	166	256	234
$50,000 - $100,000	18	10	51	41
$100,000 - $250,000	15	17	73	74
$250,000 - $500,000	8	8	28	31
$500,000 - $750,000	3	1	6	7
> $750,000	3	2	7	6
Cost of Recruiting in 2009	*Average*	*Median*	*Average*	*Median*
Total Costs	$2,006,713	$1,783,808	N/A	N/A
Industry Advertising (company-wide)	$328,770	$347,263	N/A	N/A
Direct Mail	$160,850	$54,060	N/A	N/A
Retained or Internal Recruiter	$822,220	$1,035,178	N/A	N/A
Recruiting Bonuses	$50,851	$50,851	N/A	N/A
Average outside recruiting firm costs (per advisor)	N/A	N/A	N/A	N/A
Average recruiting trips to headquarters (per advisor)	$656	$683	N/A	N/A
Average account transition assistance (per advisor)	$5,887	$5,751	N/A	N/A
Transaction Assistance to Newly Recruited Advisors				
Direct Financing	21.4%		60.0%	
Loans	42.9%		40.0%	
Remote Staff Assistance	64.3%		60.0%	
Onsite Staff Assistance	64.3%		60.0%	
Compliance Set-up	57.1%		60.0%	
Automated Customer Account Transfer (ACAT) Svcs.	78.6%		60.0%	
Other	57.1%		40.0%	
If Parent-Owned, Parent Contrib. to Recruiting Costs				
Yes	15.4%		25.0%	
No	84.6%		75.0%	
	Average	*Median*	*Average*	*Median*
% of Costs Contributed	N/A	N/A	N/A	N/A
Pay Recruiting Bonuses				
No	58.3%		20.0%	
Yes, a flat amount	8.3%		0.0%	
Yes, based on recruited advisor's trailing 12 mo. prod.	33.3%		60.0%	
Other	0.0%		20.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Percent of Advisor Production	N/A	N/A	N/A	N/A
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	3.6	2.0	7.7	9.0
Salary	$127,181	$75,000	N/A	N/A
Flat Fee per Recruited Advisor	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	N/A	N/A	N/A	N/A
External (Field Employee)	21.3	20.0	N/A	N/A
Salary	N/A	N/A	N/A	N/A
Flat Fee per Recruited Advisor	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	N/A	N/A	N/A	N/A
External (Contractor)	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	N/A	N/A	N/A	N/A
2010 Advisors	*Average*	*Median*	*Average*	*Median*
Expected to Add	649	300	N/A	N/A
Expected to Drop	277	275	N/A	N/A
Expected to Leave	450	75	N/A	N/A
Expected Total Production from Advisors Added	$35,000,000	$31,000,000	N/A	N/A
Expected Total Production from Advisors Dropped	$7,100,000	$1,450,000	N/A	N/A
Expected Total Production from Advisors Leaving	$5,300,000	$6,600,000	N/A	N/A
Retention Bonus for Advisors				
Yes	0%		25%	
No	100%		75%	
Pay Retention Bonus Beyond 2010				
Yes	N/A		N/A	
No	N/A		N/A	
New Advisors Coming From	*Average*	*Median*	*Average*	*Median*
Wirehouses	9%	10%	N/A	N/A
Other Broker-Dealers	61%	70%	N/A	N/A
Banks	2%	0%	N/A	N/A
New to Industry	26%	10%	N/A	N/A
RIA Firms	1%	0%	N/A	N/A
Other	0%	0%	N/A	N/A

Recruiting

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Number of Advisors at the End of 2008	*Average*	*Median*	*Average*	*Median*
< $50,000	187	146	1,376	728
$50,000 - $100,000	99	67	241	173
$100,000 - $250,000	173	87	206	195
$250,000 - $500,000	89	41	83	68
$500,000 - $750,000	30	15	22	18
> $750,000	24	9	16	10
New Advisors Added in 2009				
< $50,000	55	23	185	116
$50,000 - $100,000	11	9	17	8
$100,000 - $250,000	10	8	16	6
$250,000 - $500,000	6	3	14	9
$500,000 - $750,000	4	3	4	3
> $750,000	2	1	3	2
Advisors Who Left During 2009				
< $50,000	63	35	270	169
$50,000 - $100,000	9	4	19	7
$100,000 - $250,000	12	4	19	9
$250,000 - $500,000	5	2	9	6
$500,000 - $750,000	3	2	3	1
> $750,000	4	1	4	4
Cost of Recruiting in 2009	*Average*	*Median*	*Average*	*Median*
Total Costs	$741,499	$441,157	$941,739	$1,125,500
Industry Advertising (company-wide)	$245,905	$240,000	$72,936	$54,552
Direct Mail	$50,624	$48,120	$101,880	$20,000
Retained or Internal Recruiter	$356,147	$148,921	$421,207	$412,975
Recruiting Bonuses	$97,872	$55,158	$239,828	$100,000
Average outside recruiting firm costs (per advisor)	$7,468	$9,287	N/A	N/A
Average recruiting trips to headquarters (per advisor)	$907	$716	$10,150	$650
Average account transition assistance (per advisor)	$7,311	$8,000	$30,237	$1,000
Transaction Assistance to Newly Recruited Advisors				
Direct Financing	14.0%		10.0%	
Loans	26.0%		24.0%	
Remote Staff Assistance	44.0%		34.0%	
Onsite Staff Assistance	36.0%		28.0%	
Compliance Set-up	28.0%		26.0%	
Automated Customer Account Transfer (ACAT) Svcs.	40.0%		34.0%	
Other	10.0%		24.0%	
If Parent-Owned, Parent Contrib. to Recruiting Costs				
Yes	5.6%		37.0%	
No	94.4%		63.0%	
	Average	*Median*	*Average*	*Median*
% of Costs Contributed	N/A	N/A	92.4%	100.0%
Pay Recruiting Bonuses				
No	35.0%		59.3%	
Yes, a flat amount	5.0%		3.7%	
Yes, based on recruited advisor's trailing 12 mo. prod.	50.0%		29.6%	
Other	10.0%		7.4%	
	Average	*Median*	*Average*	*Median*
If Yes, Percent of Advisor Production	7.8%	6.5%	N/A	N/A
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	2.8	2.0	3.4	2.0
Salary	$96,754	$75,000	$86,738	$75,000
Flat Fee per Recruited Advisor	$1,867	$500	N/A	N/A
% of GDC of Recruited Advisor	1.9%	1.3%	N/A	N/A
External (Field Employee)	4.3	6.5	14.3	6.5
Salary	$71,250	$80,000	N/A	N/A
Flat Fee per Recruited Advisor	N/A	N/A	N/A	N/A
% of GDC of Recruited Advisor	N/A	N/A	N/A	N/A
External (Contractor)	2.0	2.0	N/A	N/A
% of GDC of Recruited Advisor	4.1%	4.5%	N/A	N/A
2010 Advisors	*Average*	*Median*	*Average*	*Median*
Expected to Add	81	105	476	105
Expected to Drop	43	30	180	30
Expected to Leave	29	42	279	42
Expected Total Production from Advisors Added	$13,460,000	$10,000,000	$44,250,000	$10,000,000
Expected Total Production from Advisors Dropped	$748,214	$425,000	$4,445,000	$425,000
Expected Total Production from Advisors Leaving	$1,482,500	$500,000	$2,592,857	$500,000
Retention Bonus for Advisors				
Yes	5%		8%	
No	95%		92%	
Pay Retention Bonus Beyond 2010				
Yes	25%		N/A	
No	75%		N/A	
New Advisors Coming From	*Average*	*Median*	*Average*	*Median*
Wirehouses	13%	10%	3%	0%
Other Broker-Dealers	70%	80%	65%	80%
Banks	6%	0%	2%	0%
New to Industry	5%	0%	24%	2%
RIA Firms	2%	0%	0%	0%
Other	5%	0%	6%	0%

Ownership Succession

Ownership Succession
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Advisor Age Ranges	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
35 or less	13%	10%	9%	8%	14%	10%
36 - 45	22%	21%	23%	22%	21%	20%
46 - 55	31%	30%	33%	32%	30%	29%
56 - 65	26%	26%	25%	26%	26%	26%
Greater than 65	10%	10%	10%	10%	11%	10%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Actual 2009:	$31,664	$0	$74,336	$0	$22,388	$0
Budgeted 2010:	$24,426	$0	$24,000	$0	$24,523	$0
Offer Succession Education to Advisors						
Yes	70.0%		76.9%		67.6%	
No	30.0%		23.1%		32.4%	
If Yes, Education Format						
Seminars	62.9%		70.0%		60.0%	
Presentations	71.4%		80.0%		68.0%	
Workshops	42.9%		50.0%		40.0%	
Guidebooks and/or manuals	54.3%		50.0%		56.0%	
Other	37.1%		40.0%		36.0%	
Succession Program Matching Buyers and Sellers						
Formal	14.6%		15.4%		14.3%	
Informal	50.0%		53.8%		48.6%	
None	35.4%		30.8%		37.1%	
Offer Transaction Assistance to Advisors						
Yes	44.0%		53.8%		40.5%	
No	56.0%		46.2%		59.5%	
If Yes, Type of Assistance for Sellers						
Recommended network of prof. service providers	59.1%		85.7%		46.7%	
Preferred Pricing	18.2%		14.3%		20.0%	
Access to BD internal consultants	45.5%		57.1%		40.0%	
Access to BD external consultants	27.3%		14.3%		33.3%	
Access to valuation services	40.9%		28.6%		46.7%	
Other						
If Yes, Type of Assistance for Buyers						
Recommended network of prof. service providers	50.0%		71.4%		40.0%	
Preferred Pricing	22.7%		28.6%		20.0%	
Access to BD internal consultants	31.8%		42.9%		26.7%	
Access to BD external consultants	27.3%		14.3%		33.3%	
Access to valuation services	36.4%		28.6%		40.0%	
Loan application assistance	4.5%		0.0%		6.7%	
Access to direct financing from BD	54.5%		42.9%		60.0%	
Access to third-party financing	13.6%		0.0%		20.0%	
Other	18.2%		14.3%		20.0%	
Offer a Financing Program for Practice Purchases	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Number of Deals Financed Last Year	1	0	N/A	N/A	1	0
Purchases Subject to Broker-Dealer Approval						
Yes	52.3%		38.5%		58.1%	
No	47.7%		61.5%		41.9%	

Ownership Succession

Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Advisor Age Ranges	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
35 or less	13%	14%	11%	8%	10%	9%
36 - 45	29%	28%	18%	19%	20%	19%
46 - 55	28%	28%	34%	34%	32%	28%
56 - 65	22%	22%	28%	25%	27%	28%
Greater than 65	9%	6%	13%	13%	11%	11%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Actual 2009:	$700	$0	$5,236	$0	$1,556	$0
Budgeted 2010:	$700	$0	$5,000	$0	$2,111	$0
Offer Succession Education to Advisors						
Yes	25.0%		62.5%		73.3%	
No	75.0%		37.5%		26.7%	
If Yes, Education Format						
Seminars	N/A		60.0%		63.6%	
Presentations	N/A		80.0%		63.6%	
Workshops	N/A		60.0%		27.3%	
Guidebooks and/or manuals	N/A		40.0%		27.3%	
Other	N/A		20.0%		18.2%	
Succession Program Matching Buyers and Sellers						
Formal	0.0%		12.5%		28.6%	
Informal	37.5%		50.0%		42.9%	
None	62.5%		37.5%		28.6%	
Offer Transaction Assistance to Advisors						
Yes	12.5%		37.5%		40.0%	
No	87.5%		62.5%		60.0%	
If Yes, Type of Assistance for Sellers						
Recommended network of prof. service providers	N/A		66.7%		50.0%	
Preferred Pricing	N/A		33.3%		0.0%	
Access to BD internal consultants	N/A		33.3%		16.7%	
Access to BD external consultants	N/A		0.0%		16.7%	
Access to valuation services	N/A		33.3%		33.3%	
If Yes, Type of Assistance for Buyers						
Recommended network of prof. service providers	N/A		66.7%		33.3%	
Preferred Pricing	N/A		33.3%		0.0%	
Access to BD internal consultants	N/A		33.3%		16.7%	
Access to BD external consultants	N/A		0.0%		16.7%	
Access to valuation services	N/A		33.3%		33.3%	
Loan application assistance	N/A		0.0%		0.0%	
Access to direct financing from BD	N/A		33.3%		50.0%	
Access to third-party financing	N/A		33.3%		16.7%	
	N/A		33.3%		16.7%	
Offer a Financing Program for Practice Purchases	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Number of Deals Financed Last Year	N/A	N/A	0	0	1	0
Purchases Subject to Broker-Dealer Approval						
Yes	37.5%		100.0%		30.8%	
No	62.5%		0.0%		69.2%	

Ownership Succession

Broker-Dealer by Revenue Size

	$100M - $250M		***More Than $250M***	
Advisor Age Ranges	*Average*	*Median*	*Average*	*Median*
35 or less	15%	11%	16%	10%
36 - 45	21%	22%	23%	22%
46 - 55	29%	30%	29%	32%
56 - 65	26%	26%	23%	23%
Greater than 65	9%	10%	9%	9%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*
Actual 2009:	$79,536	$10,000	$146,667	$60,000
Budgeted 2010:	$36,750	$23,500	$153,333	$60,000
Offer Succession Education to Advisors				
Yes	85.7%		100.0%	
No	14.3%		0.0%	
If Yes, Educa ion Format				
Seminars	66.7%		60.0%	
Presenta ions	75.0%		80.0%	
Workshops	50.0%		40.0%	
Guidebooks and/or manuals	83.3%		80.0%	
O her	58.3%		40.0%	
Succession Program Matching Buyers and Sellers				
Formal	7.7%		20.0%	
Informal	69.2%		40.0%	
None	23.1%		40.0%	
Offer Transaction Assistance to Advisors				
Yes	64.3%		60.0%	
No	35.7%		40.0%	
If Yes, Type of Assistance for Sellers				
Recommended network of prof. service providers	55.6%		66.7%	
Preferred Pricing	11.1%		33.3%	
Access to BD internal consultants	66.7%		66.7%	
Access to BD external consultants	33.3%		66.7%	
Access to valua ion services	44.4%		66.7%	
If Yes, Type of Assistance for Buyers				
Recommended network of prof. service providers	44.4%		66.7%	
Preferred Pricing	22.2%		33.3%	
Access to BD internal consultants	33.3%		66.7%	
Access to BD external consultants	33.3%		66.7%	
Access to valua ion services	33.3%		66.7%	
Loan application assistance	0.0%		33.3%	
Access to direct financing from BD	55.6%		66.7%	
Access to third-party financing	0.0%		33.3%	
	11.1%		33.3%	
Offer a Financing Program for Practice Purchases				
	Average	*Median*	*Average*	*Median*
If Yes, Number of Deals Financed Last Year	3	3	N/A	N/A
Purchases Subject to Broker-Dealer Approval				
Yes	46.2%		100.0%	
No	53.8%		0.0%	

Ownership Succession

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Advisor Age Ranges	*Average*	*Median*	*Average*	*Median*
35 or less	9%	9%	16%	14%
36 - 45	21%	19%	22%	22%
46 - 55	33%	34%	29%	28%
56 - 65	28%	27%	24%	24%
Greater than 65	11%	10%	10%	10%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*
Actual 2009:	$37,418	$0	$28,468	$0
Budgeted 2010:	$11,750	$0	$31,882	$0
Offer Succession Education to Advisors				
Yes	72.7%		67.9%	
No	27.3%		32.1%	
If Yes, Educa ion Format				
Seminars	50.0%		73.7%	
Presenta ions	68.8%		73.7%	
Workshops	50.0%		36.8%	
Guidebooks and/or manuals	37.5%		68.4%	
O her	50.0%		26.3%	
Succession Program Matching Buyers and Sellers				
Formal	18.2%		11.5%	
Informal	54.5%		46.2%	
None	27.3%		42.3%	
Offer Transaction Assistance to Advisors				
Yes	54.5%		35.7%	
No	45.5%		64.3%	
If Yes, Type of Assistance for Sellers				
Recommended network of prof. service providers	75.0%		40.0%	
Preferred Pricing	25.0%		10.0%	
Access to BD internal consultants	41.7%		50.0%	
Access to BD external consultants	8.3%		50.0%	
Access to valua ion services	25.0%		60.0%	
If Yes, Type of Assistance for Buyers				
Recommended network of prof. service providers	66.7%		30.0%	
Preferred Pricing	33.3%		10.0%	
Access to BD internal consultants	33.3%		30.0%	
Access to BD external consultants	8.3%		50.0%	
Access to valua ion services	25.0%		50.0%	
Loan application assistance	0.0%		10.0%	
Access to direct financing from BD	50.0%		60.0%	
Access to third-party financing	8.3%		20.0%	
	25.0%		10.0%	
Offer a Financing Program for Practice Purchases	*Average*	*Median*	*Average*	*Median*
If Yes, Number of Deals Financed Last Year	1	0	2	2
Purchases Subject to Broker-Dealer Approval				
Yes	50.0%		54.2%	
No	50.0%		45.8%	

Advisor Fees

Advisor Fees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	*High-Profit: Top 25%*	*Non-High-Profit*
Affiliation Fee			
Covered 100% by Broker-Dealer	11.1%	11.1%	11.1%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	88.9%	88.9%	88.9%
Required	72.4%	66.7%	75.0%
Optional	0.0%	0.0%	0.0%
Not Available	24.1%	33.3%	20.0%
Included in Other Fees	3.4%	0.0%	5.0%
Compliance Fee			
Covered 100% by Broker-Dealer	66.7%	50.0%	80.0%
Shared by Broker-Dealer and Advisor	5.6%	12.5%	0.0%
Paid 100% by Advisor	33.3%	50.0%	20.0%
Required	38.9%	57.1%	27.3%
Optional	5.6%	0.0%	9.1%
Not Available	38.9%	14.3%	54.5%
Included in Other Fees	16.7%	28.6%	9.1%
Fidelity Bond Coverage Charge			
Covered 100% by Broker-Dealer	50.0%	33.3%	66.7%
Shared by Broker-Dealer and Advisor	16.7%	33.3%	0.0%
Paid 100% by Advisor	33.3%	33.3%	33.3%
Required	63.2%	88.9%	40.0%
Optional	0.0%	0.0%	0.0%
Not Available	21.1%	11.1%	30.0%
Included in Other Fees	15.8%	0.0%	30.0%
Non-Producing License Fee			
Covered 100% by Broker-Dealer	29.4%	50.0%	23.1%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	76.5%	75.0%	76.9%
Required	55.6%	16.7%	75.0%
Optional	0.0%	0.0%	0.0%
Not Available	44.4%	83.3%	25.0%
Included in Other Fees	0.0%	0.0%	0.0%
Home Office OSJ Fee			
Covered 100% by Broker-Dealer	73.3%	50.0%	81.8%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	26.7%	50.0%	18.2%
Required	27.8%	37.5%	20.0%
Optional	11.1%	12.5%	10.0%
Not Available	50.0%	37.5%	60.0%
Included in Other Fees	11.1%	12.5%	10.0%
State/FINRA Licensing Fee			
Covered 100% by Broker-Dealer	2.8%	0.0%	3.8%
Shared by Broker-Dealer and Advisor	16.7%	10.0%	19.2%
Paid 100% by Advisor	83.3%	90.0%	80.8%
Required	92.6%	88.9%	94.4%
Optional	7.4%	11.1%	5.6%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
SIPC Fee			
Covered 100% by Broker-Dealer	75.0%	55.6%	84.2%
Shared by Broker-Dealer and Advisor	3.6%	11.1%	0.0%
Paid 100% by Advisor	21.4%	33.3%	15.8%
Required	77.3%	75.0%	78.6%
Optional	0.0%	0.0%	0.0%
Not Available	4.5%	12.5%	0.0%
Included in Other Fees	18.2%	12.5%	21.4%

Advisor Fees

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	High-Profit: Top 25%	Non-High-Profit
Overall Technology Fee			
Covered 100% by Broker-Dealer	34.8%	25.0%	40.0%
Shared by Broker-Dealer and Advisor	8.7%	0.0%	13.3%
Paid 100% by Advisor	56.5%	75.0%	46.7%
Required	44.4%	57.1%	36.4%
Optional	11.1%	0.0%	18.2%
Not Available	27.8%	28.6%	27.3%
Included in Other Fees	16.7%	14.3%	18.2%
Quotes, Real-Time			
Covered 100% by Broker-Dealer	8.6%	0.0%	12.5%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	91.4%	100.0%	87.5%
Required	7.4%	0.0%	11.1%
Optional	85.2%	77.8%	88.9%
Not Available	3.7%	11.1%	0.0%
Included in Other Fees	3.7%	11.1%	0.0%
Quotes, Delayed			
Covered 100% by Broker-Dealer	58.6%	42.9%	63.6%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	41.4%	57.1%	36.4%
Required	17.4%	0.0%	26.7%
Optional	56.5%	50.0%	60.0%
Not Available	8.7%	0.0%	13.3%
Included in Other Fees	17.4%	50.0%	0.0%
Portfolio Management			
Covered 100% by Broker-Dealer	35.7%	14.3%	42.9%
Shared by Broker-Dealer and Advisor	3.6%	0.0%	4.8%
Paid 100% by Advisor	60.7%	85.7%	52.4%
Required	4.5%	0.0%	7.1%
Optional	77.3%	75.0%	78.6%
Not Available	4.5%	0.0%	7.1%
Included in Other Fees	13.6%	25.0%	7.1%
Website for Advisor			
Covered 100% by Broker-Dealer	20.7%	11.1%	25.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	79.3%	88.9%	75.0%
Required	4.5%	0.0%	7.1%
Optional	86.4%	87.5%	85.7%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	9.1%	12.5%	7.1%
Investment Research			
Covered 100% by Broker-Dealer	17.9%	0.0%	23.8%
Shared by Broker-Dealer and Advisor	3.6%	0.0%	4.8%
Paid 100% by Advisor	78.6%	100.0%	71.4%
Required	8.3%	0.0%	12.5%
Optional	75.0%	75.0%	75.0%
Not Available	12.5%	25.0%	6.3%
Included in Other Fees	4.2%	0.0%	6.3%
Client Account Access			
Covered 100% by Broker-Dealer	64.3%	71.4%	61.9%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	39.3%	28.6%	42.9%
Required	10.0%	14.3%	7.7%
Optional	65.0%	42.9%	76.9%
Not Available	5.0%	14.3%	0.0%
Included in Other Fees	20.0%	28.6%	15.4%
Client Relationship Management			
Covered 100% by Broker-Dealer	50.0%	33.3%	57.1%
Shared by Broker-Dealer and Advisor	10.0%	16.7%	7.1%
Paid 100% by Advisor	40.0%	50.0%	35.7%
Required	0.0%	0.0%	0.0%
Optional	47.1%	50.0%	44.4%
Not Available	29.4%	12.5%	44.4%
Included in Other Fees	23.5%	37.5%	11.1%
Data Mining			
Covered 100% by Broker-Dealer	52.6%	33.3%	61.5%
Shared by Broker-Dealer and Advisor	5.3%	16.7%	0.0%
Paid 100% by Advisor	42.1%	50.0%	38.5%
Required	6.7%	0.0%	12.5%
Optional	40.0%	57.1%	25.0%
Not Available	33.3%	14.3%	50.0%
Included in Other Fees	20.0%	28.6%	12.5%
Help Desk			
Covered 100% by Broker-Dealer	70.0%	60.0%	73.3%
Shared by Broker-Dealer and Advisor	5.0%	0.0%	6.7%
Paid 100% by Advisor	25.0%	40.0%	20.0%
Required	25.0%	28.6%	22.2%
Optional	18.8%	14.3%	22.2%
Not Available	25.0%	28.6%	22.2%
Included in Other Fees	31.3%	28.6%	33.3%

Advisor Fees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
	Average	Median	Average	Median	Average	Median
Ticket Charges						
Mutual Funds	$15.38	$15.00	$14.86	$14.50	$15.57	$15.50
General Securities	$22.62	$21.75	$22.09	$23.00	$22.80	$21.00
Unit Investment Trusts (UIT)	$33.11	$30.00	$37.36	$35.00	$31.55	$30.00
Fixed Income	$32.79	$32.50	$34.45	$34.50	$32.14	$31.25
Ticket Charges Cleared Through Clearing Firm						
Passed Straight Through	29.5%		18.2%		33.3%	
Marked-Up	70.5%		81.8%		66.7%	
Mark-up Amount	Average	Median	Average	Median	Average	Median
Mutual Funds	78%	50%	79%	58%	78%	50%
General Securities	110%	75%	97%	75%	114%	85%
Unit Investment Trusts	76%	43%	116%	50%	62%	38%
Fixed Income	89%	50%	89%	75%	89%	50%
Offer Account Aggregation Technology to Advisors						
Yes	84.0%		92.3%		81.1%	
No	16.0%		7.7%		18.9%	
Allow Client Access to Consolidated Statements						
Yes	78.0%		92.3%		73.0%	
No	22.0%		7.7%		27.0%	
	Average	Median	Average	Median	Average	Median
% of Advisors Participating	53%	44%	56%	45%	52%	35%
Charge per Year	$1,623	$1,699	$1,663	$1,800	$1,608	$1,657
Account Aggregation Technology Vendor						
Albridge	63.0%		61.5%		63.6%	
Investigo	17.4%		15.4%		18.2%	
Proprietary Product	13.0%		15.4%		12.1%	
Other	6.5%		7.7%		6.1%	
Offer Differentiated Services to Best Advisors						
Yes	34.7%		38.5%		33.3%	
No	65.3%		61.5%		66.7%	
Charge for Compliance Audits						
Yes	12.5%		16.7%		11.1%	
No	87.5%		83.3%		88.9%	
	Average	Median	Average	Median	Average	Median
% Cost Paid by Advisor	90%	92%	N/A	N/A	86%	84%
Typical Advisor Charge per Audit	$358	$400	N/A	N/A	$450	$450
Pass Along Any Costs for Business Compliance Visits						
Yes	4.2%		8.3%		2.8%	
No	95.8%		91.7%		97.2%	
Provide Branch Offices With Compliance Subsidy						
Yes	8.5%		0.0%		11.4%	
No	91.5%		100.0%		88.6%	
Percentage of B-Ds With Outsourced Advisor Services						
Clearing	76.0%		76.9%		75.7%	
Commission Processing	2.0%		0.0%		2.7%	
Compliance	2.0%		7.7%		0.0%	
Portfolio Reporting/Statements	46.0%		46.2%		45.9%	
Other	18.0%		30.8%		13.5%	

Advisor Fees
Broker-Dealer by Revenue Size

	Less Than $25M	$25M - $54M	$54M - $100M
Affiliation Fee			
Covered 100% by Broker-Dealer	0.0%	0.0%	28.6%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	100.0%	100.0%	71.4%
Required	100.0%	75.0%	60.0%
Optional	0.0%	0.0%	0.0%
Not Available	0.0%	25.0%	30.0%
Included in Other Fees	0.0%	0.0%	10.0%
Compliance Fee			
Covered 100% by Broker-Dealer	N/A	N/A	50.0%
Shared by Broker-Dealer and Advisor	N/A	N/A	16.7%
Paid 100% by Advisor	N/A	N/A	50.0%
Required	N/A	N/A	80.0%
Optional	N/A	N/A	0.0%
Not Available	N/A	N/A	20.0%
Included in Other Fees	N/A	N/A	0.0%
Fidelity Bond Coverage Charge			
Covered 100% by Broker-Dealer	100.0%	N/A	N/A
Shared by Broker-Dealer and Advisor	0.0%	N/A	N/A
Paid 100% by Advisor	0.0%	N/A	N/A
Required	N/A	N/A	75.0%
Optional	N/A	N/A	0.0%
Not Available	N/A	N/A	12.5%
Included in Other Fees	N/A	N/A	12.5%
Non-Producing License Fee			
Covered 100% by Broker-Dealer	N/A	0.0%	20.0%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	100.0%	80.0%
Required	N/A	N/A	60.0%
Optional	N/A	N/A	0.0%
Not Available	N/A	N/A	40.0%
Included in Other Fees	N/A	N/A	0.0%
Home Office OSJ Fee			
Covered 100% by Broker-Dealer	N/A	66.7%	50.0%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	33.3%	50.0%
Required	N/A	N/A	33.3%
Optional	N/A	N/A	16.7%
Not Available	N/A	N/A	50.0%
Included in Other Fees	N/A	N/A	0.0%
State/FINRA Licensing Fee			
Covered 100% by Broker-Dealer	0.0%	12.5%	0.0%
Shared by Broker-Dealer and Advisor	16.7%	25.0%	10.0%
Paid 100% by Advisor	83.3%	75.0%	90.0%
Required	80.0%	100.0%	100.0%
Optional	20.0%	0.0%	0.0%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
SIPC Fee			
Covered 100% by Broker-Dealer	83.3%	80.0%	57.1%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	16.7%	20.0%	42.9%
Required	100.0%	N/A	87.5%
Optional	0.0%	N/A	0.0%
Not Available	0.0%	N/A	0.0%
Included in Other Fees	0.0%	N/A	12.5%

Advisor Fees

Broker-Dealer by Revenue Size

	Less Than $25M	$25M - $54M	$54M - $100M
Overall Technology Fee			
Covered 100% by Broker-Dealer	N/A	33.3%	50.0%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	66.7%	50.0%
Required	33.3%	N/A	66.7%
Optional	33.3%	N/A	0.0%
Not Available	33.3%	N/A	0.0%
Included in Other Fees	0.0%	N/A	33.3%
Quotes, Real-Time			
Covered 100% by Broker-Dealer	0.0%	20.0%	0.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	100.0%	80.0%	100.0%
Required	16.7%	0.0%	0.0%
Optional	83.3%	100.0%	71.4%
Not Available	0.0%	0.0%	14.3%
Included in Other Fees	0.0%	0.0%	14.3%
Quotes, Delayed			
Covered 100% by Broker-Dealer	20.0%	50.0%	57.1%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	80.0%	50.0%	42.9%
Required	20.0%	N/A	14.3%
Optional	60.0%	N/A	57.1%
Not Available	20.0%	N/A	0.0%
Included in Other Fees	0.0%	N/A	28.6%
Portfolio Management			
Covered 100% by Broker-Dealer	20.0%	25.0%	0.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	80.0%	75.0%	100.0%
Required	0.0%	N/A	0.0%
Optional	75.0%	N/A	100.0%
Not Available	0.0%	N/A	0.0%
Included in Other Fees	25.0%	N/A	0.0%
Web site for Advisor			
Covered 100% by Broker-Dealer	0.0%	40.0%	0.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	100.0%	60.0%	100.0%
Required	0.0%	N/A	0.0%
Optional	66.7%	N/A	100.0%
Not Available	0.0%	N/A	0.0%
Included in Other Fees	33.3%	N/A	0.0%
Investment Research			
Covered 100% by Broker-Dealer	0.0%	20.0%	0.0%
Shared by Broker-Dealer and Advisor	20.0%	0.0%	0.0%
Paid 100% by Advisor	80.0%	80.0%	100.0%
Required	20.0%	N/A	0.0%
Optional	60.0%	N/A	83.3%
Not Available	0.0%	N/A	16.7%
Included in Other Fees	20.0%	N/A	0.0%
Client Account Access			
Covered 100% by Broker-Dealer	33.3%	50.0%	71.4%
Shared by Broker-Dealer and Advisor	0.0%	0.0%	0.0%
Paid 100% by Advisor	66.7%	75.0%	28.6%
Required	N/A	N/A	0.0%
Optional	N/A	N/A	85.7%
Not Available	N/A	N/A	0.0%
Included in Other Fees	N/A	N/A	14.3%
Client Relationship Management			
Covered 100% by Broker-Dealer	N/A	33.3%	25.0%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	66.7%	75.0%
Required	N/A	N/A	0.0%
Optional	N/A	N/A	40.0%
Not Available	N/A	N/A	20.0%
Included in Other Fees	N/A	N/A	40.0%
Data Mining			
Covered 100% by Broker-Dealer	N/A	33.3%	25.0%
Shared by Broker-Dealer and Advisor	N/A	0.0%	0.0%
Paid 100% by Advisor	N/A	66.7%	75.0%
Required	N/A	N/A	0.0%
Optional	N/A	N/A	40.0%
Not Available	N/A	N/A	20.0%
Included in Other Fees	N/A	N/A	40.0%
Help Desk			
Covered 100% by Broker-Dealer	33.3%	N/A	75.0%
Shared by Broker-Dealer and Advisor	33.3%	N/A	0.0%
Paid 100% by Advisor	33.3%	N/A	25.0%
Required	33.3%	N/A	0.0%
Optional	0.0%	N/A	25.0%
Not Available	33.3%	N/A	50.0%
Included in Other Fees	33.3%	N/A	25.0%

Advisor Fees
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Ticket Charges						
Mutual Funds	$16.58	$15.00	$15.71	$18.00	$15.38	$15.00
General Securities	$19.64	$21.00	$21.56	$19.95	$23.25	$22.00
Unit Investment Trusts (UIT)	$30.50	$28.50	$31.67	$35.00	$34.00	$34.00
Fixed Income	$30.50	$28.50	$36.41	$35.00	$33.00	$30.00
Ticket Charges Cleared Through Clearing Firm						
Passed Straight Through	28.6%		50.0%		15.4%	
Marked-Up	71.4%		50.0%		84.6%	
Mark-up Amount	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Mutual Funds	65%	68%	23%	14%	135%	106%
General Securities	75%	77%	51%	45%	178%	113%
Unit Investment Trusts	75%	78%	23%	23%	134%	50%
Fixed Income	89%	90%	47%	17%	133%	143%
Offer Account Aggregation Technology to Advisors						
Yes	62.5%		100.0%		80.0%	
No	37.5%		0.0%		20.0%	
Allow Client Access to Consolidated Statements						
Yes	50.0%		62.5%		86.7%	
No	50.0%		37.5%		13.3%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% of Advisors Participating	46%	38%	74%	88%	46%	27%
Charge per Year	$1,393	$1,350	$1,050	$1,050	$1,839	$1,800
Account Aggregation Technology Vendor						
Albridge	50.0%		62.5%		64.3%	
Investigo	50.0%		12.5%		21.4%	
Proprietary Product	0.0%		25.0%		7.1%	
Other	0.0%		0.0%		7.1%	
Offer Differentiated Services to Best Advisors						
Yes	14.3%		12.5%		33.3%	
No	85.7%		87.5%		66.7%	
Charge for Compliance Audits						
Yes	0.0%		25.0%		13.3%	
No	100.0%		75.0%		86.7%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% Cost Paid by Advisor	N/A	N/A	N/A	N/A	N/A	N/A
Typical Advisor Charge per Audit	N/A	N/A	N/A	N/A	N/A	N/A
Pass Along Any Costs for Business Compliance Visits						
Yes	0.0%		0.0%		0.0%	
No	100.0%		100.0%		100.0%	
Provide Branch Offices With Compliance Subsidy						
Yes	0.0%		14.3%		13.3%	
No	100.0%		85.7%		86.7%	
Percentage of B-Ds With Outsourced Advisor Services						
Clearing	62.5%		75.0%		80.0%	
Commission Processing	0.0%		12.5%		0.0%	
Compliance	0.0%		0.0%		6.7%	
Portfolio Reporting/Statements	50.0%		50.0%		46.7%	
Other	12.5%		0.0%		20.0%	

Advisor Fees
Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Affiliation Fee		
Covered 100% by Broker-Dealer	12.5%	N/A
Shared by Broker-Dealer and Advisor	0.0%	N/A
Paid 100% by Advisor	87.5%	N/A
Required	71.4%	N/A
Optional	0.0%	N/A
Not Available	28.6%	N/A
Included in Other Fees	0.0%	N/A
Compliance Fee		
Covered 100% by Broker-Dealer	71.4%	N/A
Shared by Broker-Dealer and Advisor	0.0%	N/A
Paid 100% by Advisor	28.6%	N/A
Required	28.6%	N/A
Optional	14.3%	N/A
Not Available	28.6%	N/A
Included in Other Fees	28.6%	N/A
Fidelity Bond Coverage Charge		
Covered 100% by Broker-Dealer	25.0%	N/A
Shared by Broker-Dealer and Advisor	25.0%	N/A
Paid 100% by Advisor	50.0%	N/A
Required	60.0%	N/A
Optional	0.0%	N/A
Not Available	40.0%	N/A
Included in Other Fees	0.0%	N/A
Non-Producing License Fee		
Covered 100% by Broker-Dealer	40.0%	N/A
Shared by Broker-Dealer and Advisor	0.0%	N/A
Paid 100% by Advisor	60.0%	N/A
Required	42.9%	N/A
Optional	0.0%	N/A
Not Available	57.1%	N/A
Included in Other Fees	0.0%	N/A
Home Office OSJ Fee		
Covered 100% by Broker-Dealer	100.0%	N/A
Shared by Broker-Dealer and Advisor	0.0%	N/A
Paid 100% by Advisor	0.0%	N/A
Required	N/A	N/A
Optional	N/A	N/A
Not Available	N/A	N/A
Included in Other Fees	N/A	N/A
State/FINRA Licensing Fee		
Covered 100% by Broker-Dealer	0.0%	0.0%
Shared by Broker-Dealer and Advisor	22.2%	0.0%
Paid 100% by Advisor	77.8%	100.0%
Required	83.3%	N/A
Optional	16.7%	N/A
Not Available	0.0%	N/A
Included in Other Fees	0.0%	N/A
SIPC Fee		
Covered 100% by Broker-Dealer	87.5%	N/A
Shared by Broker-Dealer and Advisor	12.5%	N/A
Paid 100% by Advisor	0.0%	N/A
Required	60.0%	N/A
Optional	0.0%	N/A
Not Available	0.0%	N/A
Included in Other Fees	40.0%	N/A

Advisor Fees
Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Overall Technology Fee		
Covered 100% by Broker-Dealer	33.3%	33.3%
Shared by Broker-Dealer and Advisor	22.2%	0.0%
Paid 100% by Advisor	44.4%	66.7%
Required	50.0%	33.3%
Optional	12.5%	0.0%
Not Available	12.5%	66.7%
Included in Other Fees	25.0%	0.0%
Quotes, Real-Time		
Covered 100% by Broker-Dealer	15.4%	0.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	84.6%	100.0%
Required	11.1%	0.0%
Optional	88.9%	100.0%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	0.0%
Quotes, Delayed		
Covered 100% by Broker-Dealer	75.0%	N/A
Shared by Broker-Dealer and Advisor	0.0%	N/A
Paid 100% by Advisor	25.0%	N/A
Required	28.6%	N/A
Optional	42.9%	N/A
Not Available	14.3%	N/A
Included in Other Fees	14.3%	N/A
Portfolio Management		
Covered 100% by Broker-Dealer	54.5%	N/A
Shared by Broker-Dealer and Advisor	9.1%	N/A
Paid 100% by Advisor	36.4%	N/A
Required	14.3%	N/A
Optional	57.1%	N/A
Not Available	14.3%	N/A
Included in Other Fees	14.3%	N/A
Web site for Advisor		
Covered 100% by Broker-Dealer	18.2%	66.7%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	81.8%	33.3%
Required	12.5%	N/A
Optional	75.0%	N/A
Not Available	0.0%	N/A
Included in Other Fees	12.5%	N/A
Investment Research		
Covered 100% by Broker-Dealer	27.3%	33.3%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	72.7%	66.7%
Required	12.5%	0.0%
Optional	62.5%	100.0%
Not Available	25.0%	0.0%
Included in Other Fees	0.0%	0.0%
Client Account Access		
Covered 100% by Broker-Dealer	63.6%	100.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	36.4%	0.0%
Required	14.3%	N/A
Optional	42.9%	N/A
Not Available	14.3%	N/A
Included in Other Fees	28.6%	N/A
Client Relationship Management		
Covered 100% by Broker-Dealer	50.0%	100.0%
Shared by Broker-Dealer and Advisor	25.0%	0.0%
Paid 100% by Advisor	25.0%	0.0%
Required	0.0%	N/A
Optional	33.3%	N/A
Not Available	33.3%	N/A
Included in Other Fees	33.3%	N/A
Data Mining		
Covered 100% by Broker-Dealer	50.0%	100.0%
Shared by Broker-Dealer and Advisor	12.5%	0.0%
Paid 100% by Advisor	37.5%	0.0%
Required	16.7%	N/A
Optional	33.3%	N/A
Not Available	33.3%	N/A
Included in Other Fees	16.7%	N/A
Help Desk		
Covered 100% by Broker-Dealer	88.9%	66.7%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	11.1%	33.3%
Required	33.3%	N/A
Optional	16.7%	N/A
Not Available	16.7%	N/A
Included in Other Fees	33.3%	N/A

Advisor Fees

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	Median	Average	Median
Ticket Charges				
Mutual Funds	$13.95	$12.00	$16.60	$15.00
General Securities	$23.86	$23.50	$24.00	$26.00
Unit Investment Trusts (UIT)	$32.09	$30.00	$38.60	$35.00
Fixed Income	$34.40	$34.75	$28.00	$30.00
Ticket Charges Cleared Through Clearing Firm				
Passed Straight Through	18.2%		60.0%	
Marked-Up	81.8%		40.0%	
Mark-up Amount	Average	Median	Average	Median
Mutual Funds	43%	43%	N/A	N/A
General Securities	85%	48%	N/A	N/A
Unit Investment Trusts	30%	32%	N/A	N/A
Fixed Income	65%	10%	N/A	N/A
Offer Account Aggregation Technology to Advisors				
Yes	100.0%		60.0%	
No	0.0%		40.0%	
Allow Client Access to Consolidated Statements				
Yes	92.9%		80.0%	
No	7.1%		20.0%	
	Average	Median	Average	Median
% of Advisors Participating	60%	44%	14%	14%
Charge per Year	$1,564	$1,200	$1,950	$1,950
Account Aggregation Technology Vendor				
Albridge	57.1%		100.0%	
Investigo	7.1%		0.0%	
Proprietary Product	21.4%		0.0%	
Other	14.3%		0.0%	
Offer Differentiated Services to Best Advisors				
Yes	42.9%		80.0%	
No	57.1%		20.0%	
Charge for Compliance Audits				
Yes	15.4%		0.0%	
No	84.6%		100.0%	
	Average	Median	Average	Median
% Cost Paid by Advisor	N/A	N/A	N/A	N/A
Typical Advisor Charge per Audit	N/A	N/A	N/A	N/A
Pass Along Any Costs for Business Compliance Visits				
Yes	0.0%		40.0%	
No	100.0%		60.0%	
Provide Branch Offices With Compliance Subsidy				
Yes	0.0%		20.0%	
No	100.0%		80.0%	
Percentage of B-Ds With Outsourced Advisor Services				
Clearing	78.6%		80.0%	
Commission Processing	0.0%		0.0%	
Compliance	0.0%		0.0%	
Portfolio Reporting/Statements	42.9%		40.0%	
Other	21.4%		40.0%	

Advisor Fees

Independent and Insurance Broker-Dealers

	Independent	Insurance
Affiliation Fee		
Covered 100% by Broker-Dealer	14.3%	7.7%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	85.7%	92.3%
Required	69.2%	75.0%
Optional	0.0%	0.0%
Not Available	30.8%	18.8%
Included in Other Fees	0.0%	6.3%
Compliance Fee		
Covered 100% by Broker-Dealer	55.6%	77.8%
Shared by Broker-Dealer and Advisor	0.0%	11.1%
Paid 100% by Advisor	55.6%	11.1%
Required	37.5%	40.0%
Optional	12.5%	0.0%
Not Available	50.0%	30.0%
Included in Other Fees	0.0%	30.0%
Fidelity Bond Coverage Charge		
Covered 100% by Broker-Dealer	50.0%	50.0%
Shared by Broker-Dealer and Advisor	25.0%	12.5%
Paid 100% by Advisor	25.0%	37.5%
Required	66.7%	60.0%
Optional	0.0%	0.0%
Not Available	0.0%	40.0%
Included in Other Fees	33.3%	0.0%
Non-Producing License Fee		
Covered 100% by Broker-Dealer	20.0%	42.9%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	80.0%	71.4%
Required	85.7%	36.4%
Optional	0.0%	0.0%
Not Available	14.3%	63.6%
Included in Other Fees	0.0%	0.0%
Home Office OSJ Fee		
Covered 100% by Broker-Dealer	42.9%	100.0%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	57.1%	0.0%
Required	37.5%	20.0%
Optional	25.0%	0.0%
Not Available	25.0%	70.0%
Included in Other Fees	12.5%	10.0%
State/FINRA Licensing Fee		
Covered 100% by Broker-Dealer	0.0%	5.3%
Shared by Broker-Dealer and Advisor	11.8%	21.1%
Paid 100% by Advisor	94.1%	73.7%
Required	100.0%	87.5%
Optional	0.0%	12.5%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	0.0%
SIPC Fee		
Covered 100% by Broker-Dealer	53.3%	100.0%
Shared by Broker-Dealer and Advisor	6.7%	0.0%
Paid 100% by Advisor	40.0%	0.0%
Required	83.3%	70.0%
Optional	0.0%	0.0%
Not Available	0.0%	10.0%
Included in Other Fees	16.7%	20.0%

Advisor Fees

Independent and Insurance Broker-Dealers

	Independent	Insurance
Overall Technology Fee		
Covered 100% by Broker-Dealer	25.0%	45.5%
Shared by Broker-Dealer and Advisor	0.0%	18.2%
Paid 100% by Advisor	75.0%	36.4%
Required	37.5%	50.0%
Optional	25.0%	0.0%
Not Available	37.5%	20.0%
Included in Other Fees	0.0%	30.0%
Quotes, Real-Time		
Covered 100% by Broker-Dealer	0.0%	16.7%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	100.0%	83.3%
Required	0.0%	13.3%
Optional	91.7%	80.0%
Not Available	8.3%	0.0%
Included in Other Fees	0.0%	6.7%
Quotes, Delayed		
Covered 100% by Broker-Dealer	33.3%	76.5%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	66.7%	23.5%
Required	9.1%	25.0%
Optional	72.7%	41.7%
Not Available	9.1%	8.3%
Included in Other Fees	9.1%	25.0%
Portfolio Management		
Covered 100% by Broker-Dealer	14.3%	57.1%
Shared by Broker-Dealer and Advisor	7.1%	0.0%
Paid 100% by Advisor	78.6%	42.9%
Required	0.0%	8.3%
Optional	90.0%	66.7%
Not Available	0.0%	8.3%
Included in Other Fees	10.0%	16.7%
Web site for Advisor		
Covered 100% by Broker-Dealer	20.0%	21.4%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	80.0%	78.6%
Required	0.0%	10.0%
Optional	91.7%	80.0%
Not Available	0.0%	0.0%
Included in Other Fees	8.3%	10.0%
Investment Research		
Covered 100% by Broker-Dealer	0.0%	31.3%
Shared by Broker-Dealer and Advisor	8.3%	0.0%
Paid 100% by Advisor	91.7%	68.8%
Required	9.1%	7.7%
Optional	72.7%	76.9%
Not Available	9.1%	15.4%
Included in Other Fees	9.1%	0.0%
Client Account Access		
Covered 100% by Broker-Dealer	38.5%	86.7%
Shared by Broker-Dealer and Advisor	0.0%	0.0%
Paid 100% by Advisor	69.2%	13.3%
Required	0.0%	20.0%
Optional	90.0%	40.0%
Not Available	0.0%	10.0%
Included in Other Fees	10.0%	30.0%
Client Relationship Management		
Covered 100% by Broker-Dealer	37.5%	58.3%
Shared by Broker-Dealer and Advisor	25.0%	0.0%
Paid 100% by Advisor	37.5%	41.7%
Required	0.0%	0.0%
Optional	50.0%	44.4%
Not Available	37.5%	22.2%
Included in Other Fees	12.5%	33.3%
Data Mining		
Covered 100% by Broker-Dealer	42.9%	58.3%
Shared by Broker-Dealer and Advisor	14.3%	0.0%
Paid 100% by Advisor	42.9%	41.7%
Required	0.0%	14.3%
Optional	37.5%	42.9%
Not Available	50.0%	14.3%
Included in Other Fees	12.5%	28.6%
Help Desk		
Covered 100% by Broker-Dealer	55.6%	81.8%
Shared by Broker-Dealer and Advisor	0.0%	9.1%
Paid 100% by Advisor	44.4%	9.1%
Required	12.5%	37.5%
Optional	25.0%	12.5%
Not Available	25.0%	25.0%
Included in Other Fees	37.5%	25.0%

Advisor Fees

Independent and Insurance Broker-Dealers

	Independent		Insurance	
	Average	*Median*	*Average*	*Median*
Ticket Charges				
Mutual Funds	$16.58	$15.00	$14.34	$15.00
General Securities	$21.52	$22.50	$23.52	$21.00
Unit Investment Trusts (UIT)	$30.34	$30.00	$35.50	$35.00
Fixed Income	$30.26	$30.00	$35.20	$35.00
Ticket Charges Cleared Through Clearing Firm				
Passed Straight Through	22.7%		36.4%	
Marked-Up	77.3%		63.6%	
Mark-up Amount	*Average*	*Median*	*Average*	*Median*
Mutual Funds	80%	36%	75%	55%
General Securities	115%	90%	103%	60%
Unit Investment Trusts	92%	36%	41%	43%
Fixed Income	89%	55%	87%	50%
Offer Account Aggregation Technology to Advisors				
Yes	90.9%		78.6%	
No	9.1%		21.4%	
Allow Client Access to Consolidated Statements				
Yes	81.8%		75.0%	
No	18.2%		25.0%	
	Average	*Median*	*Average*	*Median*
% of Advisors Participating	60%	50%	47%	26%
Charge per Year	$1,730	$1,800	$1,566	$1,657
Account Aggregation Technology Vendor				
Albridge	61.9%		64.0%	
Investigo	19.0%		16.0%	
Proprietary Product	9.5%		16.0%	
Other	9.5%		4.0%	
Offer Differentiated Services to Best Advisors				
Yes	19.0%		46.4%	
No	81.0%		53.6%	
Charge for Compliance Audits				
Yes	20.0%		7.1%	
No	80.0%		92.9%	
	Average	*Median*	*Average*	*Median*
% Cost Paid by Advisor	90%	92%	N/A	N/A
Typical Advisor Charge per Audit	$369	$425	N/A	N/A
Pass Along Any Costs for Business Compliance Visits				
Yes	5.0%		3.6%	
No	95.0%		96.4%	
Provide Branch Offices With Compliance Subsidy				
Yes	5.3%		10.7%	
No	94.7%		89.3%	
Percentage of B-Ds With Outsourced Advisor Services				
Clearing	63.6%		85.7%	
Commission Processing	4.5%		0.0%	
Compliance	0.0%		3.6%	
Portfolio Reporting/Statements	50.0%		42.9%	
Other	13.6%		21.4%	

Production, E&O and D&O Requirements

Production, E & O and D & O Requirements

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Have a Minimum Production Requirement for Advisors						
Yes	58.0%		30.8%		67.6%	
No	42.0%		69.2%		32.4%	
	Average	Median	Average	Median	Average	Median
If Yes, Production Minimum	$58,593	$45,000	$85,000	$50,000	$54,192	$25,000
If Parent-Owned, Production Req. for Proprietary Products						
Yes	6.5%		0.0%		9.1%	
No	93.5%		100.0%		90.9%	
	Average	Median	Average	Median	Average	Median
If Yes, Production Minimum	$33,333	$33,000	N/A	N/A	$33,333	$33,000
If Yes, Percent of Advisors Not Meeting Minimum Requirement	40.7%	29.7%	N/A	N/A	43.0%	32.5%
Have Firm Low Production Fee						
Yes	31.1%		30.0%		31.4%	
No	68.9%		70.0%		68.6%	
	Average	Median	Average	Median	Average	Median
If Yes, Implementation Level	$36,833	$33,500	N/A	N/A	$30,200	$26,000
Average Annual Production Per Advisor	Average	Median	Average	Median	Average	Median
2007	$1,209,567	$127,339	$184,315	$167,600	$1,594,036	$102,950
2008	$1,099,543	$119,500	$178,917	$180,647	$1,462,214	$108,655
2009	$863,086	$90,809	$154,980	$149,526	$1,142,037	$84,111
Advisors Required to Take E&O Insurance						
Yes	98.0%		92.3%		100.0%	
No	2.0%		7.7%		0.0%	
	Average	Median	Average	Median	Average	Median
If Yes, Minimum Required Coverage	$2,389,706	$1,250,000	$6,166,667	$2,000,000	$1,580,357	$1,000,000
Require Particular E&O Provider						
Yes	82.2%		91.7%		78.8%	
No	17.8%		8.3%		21.2%	
Require Particular E&O Plan						
Yes	76.7%		90.9%		71.9%	
No	23.3%		9.1%		28.1%	
If Required Plan, Specific Parameters	Average	Median	Average	Median	Average	Median
Coverage Obtained	$3,064,815	$2,000,000	$4,111,111	$2,000,000	$2,541,667	$1,125,000
Deductible	$12,533	$5,000	$12,083	$7,500	$12,726	$5,000
Policy Limit	$5,782,258	$5,000,000	$8,300,000	$7,500,000	$4,583,333	$4,000,000
% of E&O Cost, if any, Paid by BD	36%	23%	100%	100%	15%	10%
E&O Carrier Offering Segregated Pricing for Advisors						
Yes	19.6%		15.4%		21.2%	
No	80.4%		84.6%		78.8%	
E&O Carrier						
AIG	17.4%		30.8%		12.1%	
Arch Insurance Company	10.9%		15.4%		9.1%	
Lloyds of London	2.2%		0.0%		3.0%	
National Union Fire Insurance Company	13.0%		15.4%		12.1%	
Zurich Steadfast Insurance Company	17.4%		7.7%		21.2%	
Other	39.1%		30.8%		42.4%	
Changes in E&O Insurance during 2009	Average	Median	Average	Median	Average	Median
% Change in Advisor's Policy	49.3%	3.6%	-1.4%	0.0%	65.2%	5.0%
% Change in Advisor's Deductible	7.1%	0.0%	0.0%	0.0%	9.5%	0.0%
% Change in Firm's Policy	0.1%	2.1%	-1.2%	9.4%	0.5%	1.9%
% Change in Firm's Deductible	2.0%	0.0%	0.0%	0.0%	2.9%	0.0%
Maintain D&O Liability Insurance						
Yes	48.8%		60.0%		45.5%	
No	51.2%		40.0%		54.5%	
If Yes, Specific Parameters	Average	Median	Average	Median	Average	Median
Coverage Obtained	$30,333,333	$2,000,000	$1,666,667	$2,000,000	$44,666,667	$15,000,000
Deductible	$1,992,500	$125,000	$341,250	$175,000	$2,653,000	$100,000
Policy Limit	$42,714,286	$7,500,000	$23,500,000	$3,500,000	$50,400,000	$17,500,000
Cost of Plan Per Director	$7,848	$4,346	$13,431	$4,292	$4,498	$4,400
Total Cost of Policy	$277,333	$35,350	$622,365	$98,230	$80,171	$35,350
% of D&O Cost, if any, Paid by BD	100%	100%	100%	100%	100%	100%
Coverage for All Officers and Directors						
Yes	100.0%		100.0%		100.0%	
No	0.0%		0.0%		0.0%	

Production, E & O and D & O Requirements
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Have a Minimum Production Requirement for Advisors						
Yes	75.0%		75.0%		66.7%	
No	25.0%		25.0%		33.3%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Production Minimum	$55,067	$13,700	$56,250	$50,000	$80,000	$50,000
If Parent-Owned, Production Req. for Proprietary Products						
Yes	12.5%		16.7%		0.0%	
No	87.5%		83.3%		100.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Production Minimum	N/A	N/A	N/A	N/A	N/A	N/A
Have Firm Low Production Fee						
Yes	25.0%		33.3%		40.0%	
No	75.0%		66.7%		60.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Implementation Level	N/A	N/A	N/A	N/A	$43,500	$45,000
Average Annual Production Per Advisor	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2007	$116,419	$115,839	$207,535	$137,927	$139,720	$99,000
2008	$112,072	$128,416	$188,229	$110,000	$139,091	$119,500
2009	$91,384	$84,760	$159,567	$90,000	$122,957	$115,000
Advisors Required to Take E&O Insurance						
Yes	100.0%		100.0%		100.0%	
No	0.0%		0.0%		0.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$1,050,000	$1,000,000	$1,906,250	$1,125,000	$2,500,000	$2,000,000
Require Particular E&O Provider						
Yes	71.4%		100.0%		83.3%	
No	28.6%		0.0%		16.7%	
Require Particular E&O Plan						
Yes	71.4%		87.5%		91.7%	
No	28.6%		12.5%		8.3%	
If Required Plan, Specific Parameters	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$1,083,333	$1,000,000	$1,200,000	$1,000,000	$1,650,000	$2,000,000
Deductible	$3,875	$5,000	$23,857	$5,000	$11,125	$5,625
Policy Limit	$2,050,000	$1,250,000	$3,833,333	$4,000,000	$5,600,000	$4,000,000
% of E&O Cost, if any, Paid by BD	N/A	N/A	N/A	N/A	N/A	N/A
E&O Carrier Offering Segregated Pricing for Advisors						
Yes	25.0%		25.0%		15.4%	
No	75.0%		75.0%		84.6%	
E&O Carrier						
AIG	12.5%		25.0%		30.8%	
Arch Insurance Company	12.5%		25.0%		0.0%	
Lloyds of London	12.5%		0.0%		0.0%	
National Union Fire Insurance Company	0.0%		0.0%		0.0%	
Zurich Steadfast Insurance Company	12.5%		12.5%		23.1%	
Other	50.0%		37.5%		46.2%	
Changes in E&O Insurance during 2009	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
% Change in Advisor's Policy	0.3%	0.0%	138.4%	5.0%	69.0%	6.9%
% Change in Advisor's Deductible	16.7%	0.0%	-9.2%	0.0%	22.7%	0.0%
% Change in Firm's Policy	11.7%	15.2%	0.2%	0.0%	11.6%	11.4%
% Change in Firm's Deductible	25.0%	0.0%	0.0%	0.0%	-7.1%	0.0%
Maintain D&O Liability Insurance						
Yes	12.5%		57.1%		61.5%	
No	87.5%		42.9%		38.5%	
If Yes, Specific Parameters	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	N/A	N/A	N/A	N/A	$1,750,000	$2,000,000
Deductible	N/A	N/A	$43,750	$50,000	$143,000	$150,000
Policy Limit	N/A	N/A	$1,000,000	$1,000,000	$7,500,000	$3,500,000
Cost of Plan Per Director	N/A	N/A	N/A	N/A	$9,938	$4,400
Total Cost of Policy	N/A	N/A	$29,962	$18,538	$59,762	$35,350
% of D&O Cost, if any, Paid by BD	N/A	N/A	N/A	N/A	100%	100%
Coverage for All Officers and Directors						
Yes	100.0%		100.0%		100.0%	
No	0.0%		0.0%		0.0%	

Production, E & O and D & O Requirements
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Have a Minimum Production Requirement for Advisors				
Yes	50.0%		0.0%	
No	50.0%		100.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Production Minimum	$36,100	$12,000	N/A	N/A
If Parent-Owned, Production Req. for Proprietary Products				
Yes	7.7%		0.0%	
No	92.3%		100.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Production Minimum	N/A	N/A	N/A	N/A
If Yes, Percent of Advisors Not Meeting Minimum Requirement	N/A	N/A	N/A	N/A
Have Firm Low Production Fee				
Yes	27.3%		20.0%	
No	72.7%		80.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Implementation Level	N/A	N/A	N/A	N/A
Average Annual Production Per Advisor	*Average*	*Median*	*Average*	*Median*
2007	$130,059	$108,000	$11,884,312	$237,548
2008	$119,665	$109,828	$11,232,611	$235,119
2009	$99,994	$80,890	$8,715,152	$205,391
Advisors Required to Take E&O Insurance				
Yes	92.9%		100.0%	
No	7.1%		0.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$1,659,091	$2,000,000	$20,000,000	$20,000,000
Require Particular E&O Provider				
Yes	71.4%		100.0%	
No	28.6%		0.0%	
Require Particular E&O Plan				
Yes	50.0%		100.0%	
No	50.0%		0.0%	
If Required Plan, Specific Parameters	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$5,500,000	$3,000,000	$8,000,000	$2,000,000
Deductible	$7,250	$7,500	$11,500	$7,500
Policy Limit	$10,666,667	$10,000,000	$6,500,000	$7,000,000
% of E&O Cost, if any, Paid by BD	N/A	N/A	N/A	N/A
E&O Carrier Offering Segregated Pricing for Advisors				
Yes	15.4%		25.0%	
No	84.6%		75.0%	
E&O Carrier				
AIG	8.3%		0.0%	
Arch Insurance Company	16.7%		0.0%	
Lloyds of London	0.0%		0.0%	
National Union Fire Insurance Company	33.3%		40.0%	
Zurich Steadfast Insurance Company	8.3%		40.0%	
Other	33.3%		20.0%	
Changes in E&O Insurance during 2009	*Average*	*Median*	*Average*	*Median*
% Change in Advisor's Policy	5.6%	0.0%	1.2%	0.0%
% Change in Advisor's Deductible	0.0%	0.0%	0.0%	0.0%
% Change in Firm's Policy	-25.9%	-14.4%	N/A	N/A
% Change in Firm's Deductible	0.0%	0.0%	N/A	N/A
Maintain D&O Liability Insurance				
Yes	45.5%		75.0%	
No	54.5%		25.0%	
If Yes, Specific Parameters	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	N/A	N/A	N/A	N/A
Deductible	$7,000,000	$10,000,000	N/A	N/A
Policy Limit	$158,333,333	$185,000,000	N/A	N/A
Cost of Plan Per Director	N/A	N/A	N/A	N/A
Total Cost of Policy	N/A	N/A	N/A	N/A
% of D&O Cost, if any, Paid by BD	N/A	N/A	N/A	N/A
Coverage for All Officers and Directors				
Yes	100.0%		100.0%	
No	0.0%		0.0%	

Production, E & O and D & O Requirements

Independent and Insurance Broker-Dealers

	Independent		*Insurance*	
Have a Minimum Production Requirement for Advisors				
Yes	72.7%		46.4%	
No	27.3%		53.6%	
	Average	*Median*	*Average*	*Median*
If Yes, Production Minimum	$93,125	$62,500	$12,550	$10,000
If Parent-Owned, Production Req. for Proprietary Products				
Yes	0 0%		10.7%	
No	100.0%		89.3%	
	Average	*Median*	*Average*	*Median*
If Yes, Production Minimum	N/A	N/A	$33,333	$33,000
Have Firm Low Production Fee				
Yes	36.8%		26.9%	
No	63.2%		73.1%	
	Average	*Median*	*Average*	*Median*
If Yes, Implementation Level	$52,500	$50,000	$21,167	$22,500
Average Annual Production Per Advisor	*Average*	*Median*	*Average*	*Median*
2007	$224,703	$175,700	$1,958,063	$66,697
2008	$206,927	$170,324	$1,786,171	$70,931
2009	$179,079	$149,763	$1,389,245	$59,490
Advisors Required to Take E&O Insurance				
Yes	100.0%		96.4%	
No	0 0%		3.6%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$1,733,333	$1,000,000	$2,907,895	$1,250,000
Require Particular E&O Provider				
Yes	95.0%		72.0%	
No	5 0%		28.0%	
Require Particular E&O Plan				
Yes	94.4%		64.0%	
No	5 6%		36.0%	
If Required Plan, Specific Parameters	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$1,566,667	$2,000,000	$4,937,500	$2,000,000
Deductible	$16,838	$6,250	$6,904	$5,000
Policy Limit	$6,375,000	$5,000,000	$5,150,000	$4,000,000
% of E&O Cost, if any, Paid by BD	N/A	N/A	48%	35%
E&O Carrier Offering Segregated Pricing for Advisors				
Yes	4 5%		33.3%	
No	95.5%		66.7%	
E&O Carrier				
AIG	27.3%		8.3%	
Arch Insurance Company	9.1%		12.5%	
Lloyds of London	4 5%		0.0%	
National Union Fire Insurance Company	4 5%		20.8%	
Zurich Steadfast Insurance Company	4 5%		29.2%	
Other	50.0%		29.2%	
Changes in E&O Insurance during 2009	*Average*	*Median*	*Average*	*Median*
% Change in Advisor's Policy	48.6%	3 6%	50.0%	3.3%
% Change in Advisor's Deductible	8.8%	0 0%	5.3%	0.0%
% Change in Firm's Policy	10.2%	13.4%	-14.5%	-0.1%
% Change in Firm's Deductible	-3.1%	0 0%	11.1%	0.0%
Maintain D&O Liability Insurance				
Yes	42.9%		54.5%	
No	57.1%		45.5%	
If Yes, Specific Parameters	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$2,166,667	$2,000,000	$86,666,667	$50,000,000
Deductible	$187,778	$50,000	$5,241,000	$6,000,000
Policy Limit	$12,250,000	$1,500,000	$83,333,333	$37,500,000
Cost of Plan Per Director	$9,267	$4,346	N/A	N/A
Total Cost of Policy	$293,851	$21,460	N/A	N/A
% of D&O Cost, if any, Paid by BD	100%	100%	100%	100%
Coverage for All Officers and Directors				
Yes	100.0%		100 0%	
No	0 0%		0.0%	

Advisor-Owned RIA

Advisor-Owned RIA

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Allow Advisors to Have Own RIA for Financial Planning						
Yes	64.0%		76.9%		59.5%	
No, but considering allowing within 12 months	4.0%		0.0%		5.4%	
No, and no plans to allow within next 12 months	32.0%		23.1%		35.1%	
Allow Advisors to Have Own RIA for Asset Management						
Yes	53.1%		53.8%		52 8%	
No, but considering allowing within 12 months	8.2%		7.7%		8.3%	
No, and no plans to allow within next 12 months	38.8%		38.5%		38 9%	
Choosing a Custody for Own RIA						
Mandate Custody	39.4%		60.0%		30.4%	
Advisor's Choice	60.6%		40.0%		69 6%	
Advisor-Owned RIAs *	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2007	326	27	926	211	26	13
2008	93	30	230	233	24	14
2009	89	25	180	59	44	18
AUM in Advisor-Owned RIAs*	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2007	$3,328,943,554	$750,000,000	$7,164,110,460	$6,453,220,920	$1,137,419,607	$350,000,000
2008	$2,472,167,781	$480,864,253	$5,534,529,313	$4,788,194,373	$940,987,016	$235,000,000
2009	$2,818,600,782	$327,169,541	$6,650,031,716	$4,563,245,253	$1,286,028,409	$250,000,000
Take a Payout on Financial Planning Fees						
Yes	50.0%		30.0%		59.1%	
No	50.0%		70.0%		40.9%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	6%	5%	5%	5%	6%	5%
If Yes, Maximum Percent of Payout	13%	10%	8%	5%	15%	10%
Take a Payout on AUM						
Yes	67.7%		80.0%		61.9%	
No	32.3%		20.0%		38.1%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	15%	5%	N/A	N/A	12%	5%
If Yes, Maximum Percent of Payout	19%	10%	22%	10%	18%	10%
Charge Audit Fees for Own RIA						
Yes	25.8%		55.6%		13.6%	
No	74.2%		44.4%		86.4%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Charge for Audit	$220	$220	N/A	N/A	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Advisor-Owned RIA
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Allow Advisors to Have Own RIA for Financial Planning						
Yes	50.0%		87.5%		73.3%	
No, but considering allowing within 12 months	0.0%		12.5%		0.0%	
No, and no plans to allow within next 12 months	50.0%		0.0%		26.7%	
Allow Advisors to Have Own RIA for Asset Management						
Yes	50.0%		85.7%		53.3%	
No, but considering allowing within 12 months	0.0%		14.3%		6.7%	
No, and no plans to allow within next 12 months	50.0%		0.0%		40.0%	
Choosing a Custody for Own RIA						
Mandate Custody	50.0%		12.5%		40.0%	
Advisor's Choice	50.0%		87.5%		60.0%	
Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2007	2	2	19	17	120	31
2008	N/A	N/A	19	14	99	19
2009	4	2	17	10	114	25
AUM in Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2007	N/A	N/A	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A	$671,333,333	$664,000,000
2009	$128,333,333	$50,000,000	$261,113,027	$301,339,081	$830,233,333	$975,000,000
Take a Payout on Financial Planning Fees						
Yes	75.0%		42.9%		45.5%	
No	25.0%		57.1%		54.5%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	N/A	N/A	6%	5%	N/A	N/A
If Yes, Maximum Percent of Payout	N/A	N/A	17%	10%	12%	10%
Take a Payout on AUM						
Yes	25.0%		42.9%		70.0%	
No	75.0%		57.1%		30.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	N/A	N/A	6%	5%	25%	5%
If Yes, Maximum Percent of Payout	N/A	N/A	17%	10%	22%	10%
Charge Audit Fees for Own RIA						
Yes	0.0%		14.3%		20.0%	
No	100.0%		85.7%		80.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Charge for Audit	N/A	N/A	N/A	N/A	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Advisor-Owned RIA

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Allow Advisors to Have Own RIA for Financial Planning				
Yes	50.0%		60.0%	
No, but considering allowing within 12 months	7.1%		0.0%	
No, and no plans to allow within next 12 months	42.9%		40.0%	
Allow Advisors to Have Own RIA for Asset Management				
Yes	35.7%		60.0%	
No, but considering allowing within 12 months	14.3%		0.0%	
No, and no plans to allow within next 12 months	50.0%		40.0%	
Choosing a Custody for Own RIA				
Mandate Custody	42.9%		75.0%	
Advisor's Choice	57.1%		25.0%	
Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2007	151	93	N/A	N/A
2008	156	73	N/A	N/A
2009	158	67	N/A	N/A
AUM in Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2007	$4,582,844,772	$3,126,778,098	N/A	N/A
2008	$3,739,003,344	$2,921,812,315	N/A	N/A
2009	$4,700,342,968	$4,312,563,432	N/A	N/A
Take a Payout on Financial Planning Fees				
Yes	57.1%		33.3%	
No	42.9%		66.7%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	N/A	N/A	N/A	N/A
If Yes, Maximum Percent of Payout	N/A	N/A	N/A	N/A
Take a Payout on AUM				
Yes	100.0%		100.0%	
No	0.0%		0.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	N/A	N/A	N/A	N/A
If Yes, Maximum Percent of Payout	7%	5%	N/A	N/A
Charge Audit Fees for Own RIA				
Yes	71.4%		0.0%	
No	28.6%		100.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Charge for Audit	N/A	N/A	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Advisor-Owned RIA

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Allow Advisors to Have Own RIA for Financial Planning				
Yes	90.9%		42.9%	
No, but considering allowing wi hin 12 mon hs	4.5%		3.6%	
No, and no plans to allow within next 12 months	4.5%		53.6%	
Allow Advisors to Have Own RIA for Asset Management				
Yes	86.4%		25.9%	
No, but considering allowing wi hin 12 mon hs	4.5%		11.1%	
No, and no plans to allow within next 12 months	9.1%		63.0%	
Choosing a Custody for Own RIA				
Mandate Custody	33.3%		50.0%	
Advisor's Choice	66.7%		50.0%	
Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2007	404	26	55	35
2008	105	29	49	40
2009	106	33	36	25
AUM in Advisor-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2007	$3,995,931,010	$1,028,618,946	N/A	N/A
2008	$2,919,601,338	$612,864,253	N/A	N/A
2009	$3,509,642,897	$473,636,358	$284,779,694	$301,339,081
Take a Payout on Financial Planning Fees				
Yes	60.0%		33.3%	
No	40.0%		66.7%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	6%	5%	N/A	N/A
If Yes, Maximum Percent of Payout	12%	10%	N/A	N/A
Take a Payout on AUM				
Yes	70.0%		63.6%	
No	30.0%		36.4%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	20%	5%	N/A	N/A
If Yes, Maximum Percent of Payout	23%	11%	N/A	N/A
Charge Audit Fees for Own RIA				
Yes	26.3%		25.0%	
No	73.7%		75.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Charge for Audit	$125	$125	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Asset Management

Asset Management
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Corporate RIA AUM (only if all 3 years reported) as of:	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
December 31, 2007	$3,396,364,791	$1,794,700,000	$5,129,720,132	$3,178,991,891	$2,766,053,758	$1,425,125,384
December 31, 2008	$2,810,817,856	$1,541,663,324	$4,615,160,303	$2,647,046,378	$2,154,693,329	$1,265,116,604
December 31, 2009	$3,572,940,285	$1,876,759,483	$5,701,388,183	$3,253,588,801	$2,798,959,231	$1,331,000,000
Offer Asset Management Accounts						
Advisor Directed	90.0%		100.0%		86.5%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Account Minimum	$48,000	$50,000	$45,909	$30,000	$48,958	$50,000
Broker-Dealer Directed	39.2%		46.2%		37.8%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Account Minimum	$49,000	$50,000	$52,500	$40,000	$46,667	$50,000
Third-Party Turnkey Asset Management Programs	78.4%		84.6%		78.4%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Account Minimum	$47,879	$50,000	$52,000	$25,000	$46,087	$50,000
Third Party Separately Managed Accounts	90.0%		24.0%		66.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Account Minimum	$172,917	$100,000	$192,500	$100,000	$165,385	$100,000
Payout Fees Generated through AUM*						
Part of Overall Production	85.1%		76.9%		88.2%	
Fixed Percent, Regardless of the Total	10.6%		7.7%		11.8%	
Different Schedule Than GDC	8.5%		30.8%		0.0%	
*Answers are independent of each other						
Cost of Corporate RIA's Fee-Based Program	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Number of Full-Time Employees	21	8	5	5	28	9
Payroll	$2,141,515	$577,185	$382,382	$325,000	$2,845,168	$614,685
Technology Budget	$550,534	$172,376	$107,459	$100,000	$772,072	$222,375
Marketing Budget	$95,875	$61,300	$77,920	$80,159	$103,570	$30,150
Compliance Budget	$515,773	$200,000	N/A	N/A	$515,773	$200,000
Other Expenses	$1,021,448	$105,500	$116,746	$40,250	$1,409,177	$111,000
No specific budget available for corporate RIA	68.3%		60.0%		71.0%	
Advisor Assistance from Corporate RIA						
On-site Training	69.4%		75.0%		67.9%	
Webinars	83.3%		75.0%		85.7%	
Workshops	75.0%		87.5%		71.4%	
Revenue Sharing from Asset Mgrs on Corporate RIA						
Yes	43.8%		46.2%		42.9%	
No	56.3%		53.8%		57.1%	
If Yes, Number of Basis Points	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Turnkey Asset Management Program	16	10	N/A	N/A	16	10
Separate Account Managers	27	8	25	5	28	10
Mutual Funds	8	8	N/A	N/A	8	8

Asset Management
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Corporate RIA AUM as of:	Average	Median	Average	Median	Average	Median
December 31, 2007	$477,228,990	$273,298,269	$1,041,965,614	$901,186,325	$2,695,337,948	$975,000,000
December 31, 2008	$376,046,140	$245,275,580	$870,177,409	$822,993,407	$1,725,030,158	$664,000,000
December 31, 2009	$341,694,635	$149,814,981	$1,065,255,192	$1,001,000,000	$2,311,767,577	$975,000,000
Offer Fee-Based Accounts						
Fee-Based Brokerage Accounts	14.0%		16.0%		26.0%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$50,000	$50,000	$40,000	$50,000	$50,000	$37,500
Third-Party Separate Accounts Program	2.0%		12.0%		10.0%	
	Average	Median	Average	Median	Average	Median
Account Minimum	N/A	N/A	$55,000	$50,000	$58,333	$50,000
In-House Money Managers	12.0%		16.0%		22.0%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$79,167	$37,500	$50,000	$50,000	$37,222	$50,000
Wrap Accounts	14.0%		14.0%		26.0%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$132,143	$100,000	$115,000	$100,000	$158,333	$100,000
Payout Fees Generated through AUM*						
Part of Overall Production	100.0%		75.0%		78.6%	
Fixed Percent, Regardless of the Total	0.0%		25.0%		14.3%	
Different Schedule Than GDC	0.0%		0.0%		14.3%	
*Answers are independent of each other						
Cost of Corporate RIA's Fee-Based Program	Average	Median	Average	Median	Average	Median
Number of Full-Time Employees	N/A	N/A	N/A	N/A	8	5
Payroll	N/A	N/A	N/A	N/A	$585,895	$425,000
Technology Budget	N/A	N/A	N/A	N/A	$115,688	$75,000
Marketing Budget	N/A	N/A	N/A	N/A	$50,938	$41,875
Compliance Budget	N/A	N/A	N/A	N/A	N/A	N/A
Other Expenses	N/A	N/A	N/A	N/A	$50,083	$40,250
No specific budget available for corporate RIA	80.0%		85.7%		66.7%	
Advisor Assistance from Corporate RIA						
On-site Training	N/A		N/A		N/A	
Webinars	N/A		N/A		N/A	
Workshops	N/A		N/A		N/A	
Revenue Sharing from Asset Mgrs on Corporate RIA						
Yes	14.3%		37.5%		40.0%	
No	85.7%		62.5%		60.0%	
If yes, number of basis points	Average	Median	Average	Median	Average	Median
Turnkey Asset Management Program	N/A	N/A	N/A	N/A	10	10
Separate Account Managers	N/A	N/A	N/A	N/A	8	10
Mutual Funds	N/A	N/A	N/A	N/A	8	8

Asset Management

Broker-Dealer by Revenue Size

	$100M - $250M		*More Than $250M*	
Corporate RIA AUM as of:	*Average*	*Median*	*Average*	*Median*
December 31, 2007	$3,458,848,561	$2,845,510,660	$12,173,876,305	$11,342,932,301
December 31, 2008	$3,214,453,524	$2,261,010,927	$9,619,387,136	$9,678,375,142
December 31, 2009	$3,925,720,549	$2,698,753,029	$12,847,607,356	$13,641,006,000
Offer Fee-Based Accounts				
Fee-Based Brokerage Accounts	26.0%		8.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$48,333	$50,000	$50,000	$25,000
Third-Party Separate Accounts Program	12.0%		4.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$43,000	$30,000	N/A	N/A
In-House Money Managers	24.0%		6.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$41,000	$37,500	$36,667	$35,000
Wrap Accounts	26.0%		10.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$188,636	$100,000	$306,250	$100,000
Payout Fees Generated through AUM*				
Part of Overall Production	85.7%		100.0%	
Fixed Percent, Regardless of he Total	7.1%		0.0%	
Different Schedule Than GDC	7.1%		20.0%	
*Answers are independent of each other				
Cost of Corporate RIA's Fee-Based Program	*Average*	*Median*	*Average*	*Median*
Number of Full-Time Employees	10	10	N/A	N/A
Payroll	$987,295	$995,814	N/A	N/A
Technology Budget	N/A	N/A	N/A	N/A
Marketing Budget	$67,042	$80,159	N/A	N/A
Compliance Budget	N/A	N/A	N/A	N/A
Other Expenses	$1,638,729	$694,582	N/A	N/A
No specific budget available for corporate RIA	60.0%		50.0%	
Advisor Assistance from Corporate RIA				
On-site Training	77.8%		N/A	
Webinars	88.9%		N/A	
Workshops	77.8%		N/A	
Revenue Sharing from Asset Mgrs on Corporate RIA				
Yes	61.5%		60.0%	
No	38.5%		40.0%	
If yes, number of basis points	*Average*	*Median*	*Average*	*Median*
Turnkey Asset Management Program	18	18	N/A	N/A
Separate Account Managers	43	36	N/A	N/A
Mutual Funds	9	9	N/A	N/A

Asset Management

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Corporate RIA AUM as of:	*Average*	*Median*	*Average*	*Median*
December 31, 2007	$2,410,767,569	$820,500,000	$4,184,842,569	$2,500,000,000
December 31, 2008	$2,208,287,797	$770,000,000	$3,061,926,999	$1,750,000,000
December 31, 2009	$2,854,224,308	$987,500,000	$3,777,615,086	$2,117,412,579
Offer Fee-Based Accounts				
Fee-Based Brokerage Accounts	44.0%		46.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$40,000	$30,000	$55,556	$50,000
Third-Party Separate Accounts Program	14.0%		26.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$44,167	$40,000	$52,222	$50,000
In-House Money Managers	40.0%		40.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$36,471	$25,000	$60,000	$50,000
Wrap Accounts	40.0%		50.0%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$126,563	$100,000	$210,000	$100,000
Payout Fees Generated through AUM*				
Part of Overall Production	90.5%		80.8%	
Fixed Percent, Regardless of he Total	0.0%		19.2%	
Different Schedule Than GDC	14.3%		3.8%	
*Answers are independent of each other				
Cost of Corporate RIA's Fee-Based Program	*Average*	*Median*	*Average*	*Median*
Number of Full-Time Employees	6	6	32	10
Payroll	$363,000	$350,000	$3,129,579	$789,527
Technology Budget	$95,500	$75,000	$914,561	$262,750
Marketing Budget	$60,650	$61,300	$119,359	$55,155
Compliance Budget	N/A	N/A	$787,955	$403,260
Other Expenses	$65,313	$70,125	$1,658,872	$497,286
No specific budget available for corporate RIA	72.2%		65.2%	
Advisor Assistance from Corporate RIA				
On-site Training	70.6%		68.4%	
Webinars	82.4%		84.2%	
Workshops	76.5%		73.7%	
Revenue Sharing from Asset Mgrs on Corporate RIA				
Yes	50.0%		38.5%	
No	50.0%		61.5%	
If yes, number of basis points	*Average*	*Median*	*Average*	*Median*
Turnkey Asset Management Program	23	15	10	10
Separate Account Managers	28	5	27	10
Mutual Funds	8	7	8	8

Insurance Products

Treatment of Fixed and Proprietary Variable Insurance Products
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?						
Fully included in the overall grid for production through the broker-dealer	34.0%		30.8%		35.1%	
Production counts toward the overall grid, but payout is determined separately	32.0%		46.2%		27.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Minimum Payout	82%	90%	75%	80%	88%	92%
Maximum Payout	89%	92%	86%	91%	92%	95%
There are no arrangements for Fixed Products	6.0%		0.0%		8.1%	
Processed through the parent insurance company	18.0%		0.0%		24.3%	
Other	10.0%		23.1%		5.4%	
How do you treat Proprietary Variable Insurance Products?						
Fully included in the overall grid for production through the broker-dealer	42.2%		33.3%		45.5%	
Production counts toward the overall grid, but payout is determined separately	6.7%		8.3%		6.1%	
There are no arrangements for Proprietary Variable Products	33.3%		58.3%		24.2%	
Processed through the parent insurance company	17.8%		0.0%		24.2%	

Treatment of Fixed and Proprietary Variable Insurance Products
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?						
Fully included in the overall grid for production through the broker-dealer	37.5%		37.5%		46.7%	
Production counts toward the overall grid, but payout is determined separately	37.5%		37.5%		26.7%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Minimum Payout	68%	58%	N/A	N/A	91%	90%
Maximum Payout	73%	73%	N/A	N/A	94%	94%
There are no arrangements for Fixed Products	0.0%		12.5%		13.3%	
Processed through the parent insurance company	25.0%		12.5%		6.7%	
Other	0.0%		0.0%		6.7%	
How do you treat Proprietary Variable Insurance Products?						
Fully included in the overall grid for production through the broker-dealer	14.3%		50.0%		50.0%	
Production counts toward the overall grid, but payout is determined separately	14.3%		0.0%		0.0%	
There are no arrangements for Proprietary Variable Products	42.9%		33.3%		42.9%	
Processed through the parent insurance company	28.6%		16.7%		7.1%	

Treatment of Fixed and Proprietary Variable Insurance Products

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?				
Fully included in the overall grid for production through the broker-dealer	21.4%		20.0%	
Production counts toward the overall grid, but payout is determined separately	28.6%		40.0%	
	Average	*Median*	*Average*	*Median*
Minimum Payout	83%	81%	N/A	N/A
Maximum Payout	96%	96%	N/A	N/A
There are no arrangements for Fixed Products	0.0%		0.0%	
Processed through the parent insurance company	28.6%		20.0%	
Other	21.4%		20.0%	
How do you treat Proprietary Variable Insurance Products?				
Fully included in the overall grid for production through the broker-dealer	50.0%		25.0%	
Production counts toward the overall grid, but payout is determined separately	7.1%		25.0%	
There are no arrangements for Proprietary Variable Products	21.4%		25.0%	
Processed through the parent insurance company	21.4%		25.0%	

Treatment of Fixed and Proprietary Variable Insurance Products

Independent and Insurance Broker-Dealers

	Independent		Insurance	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?				
Fully included in the overall grid for production through the broker-dealer	45.5%		25.0%	
Production counts toward the overall grid, but payout is determined separately	36.4%		28.6%	
	Average	*Median*	*Average*	*Median*
Minimum Payout	90%	90%	76%	75%
Maximum Payout	94%	95%	85%	92%
There are no arrangements for Fixed Products	0.0%		10.7%	
Processed through the parent insurance company	4.5%		28.6%	
Other	13.6%		7.1%	
How do you treat Proprietary Variable Insurance Products?				
Fully included in the overall grid for production through the broker-dealer	33.3%		48.1%	
Production counts toward the overall grid, but payout is determined separately	0.0%		11.1%	
There are no arrangements for Proprietary Variable Products	66.7%		11.1%	
Processed through the parent insurance company	0.0%		29.6%	

Direct Business

Direct Business
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Direct Business						
Not allowed	8%		0%		11%	
Allowed, but require a network account	6%		8%		5%	
Allowed with no restric ions	86%		92%		84%	
If Allowed, Typical Trade Per Advisor						
Firm does not charge for direct business	76.1%		76.9%		75.8%	
Percentage Payout	6.5%		7.7%		6.1%	
% Payout	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	92.5%	92.5%	N/A	N/A	N/A	N/A
Flat Charge Per Trade Only	10.9%		0.0%		15.2%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	$21	$18	N/A	N/A	$21	$18
Other	6.5%		15.4%		3.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Number of Trades	62.2%	66.0%	46.9%	61.5%	66.9%	70.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	54.3%	50.0%	40.6%	43.3%	58.7%	65.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	62.4%	64.0%	55.4%	62.0%	64.8%	65.0%

Direct Business

Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Direct Business						
Not allowed	0%		13%		7%	
Allowed, but require a network account	13%		0%		7%	
Allowed with no restric ions	88%		88%		87%	
If Allowed, Typical Trade Per Advisor						
Firm does not charge for direct business	75.0%		100.0%		71.4%	
Percentage Payout	0.0%		0.0%		21.4%	
% Payout	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A	N/A	N/A
Flat Charge Per Trade Only	25.0%		0.0%		7.1%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A	N/A	N/A
Other	0.0%		0.0%		0.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Number of Trades	75.8%	76.0%	65.7%	58.5%	63.0%	64.5%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	73.3%	80.0%	60.2%	50.0%	46.8%	43.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	77.3%	85.0%	67.8%	69.0%	56.9%	60.0%

Direct Business

Broker-Dealer by Revenue Size

	$100M - $250M		*More Than $250M*	
Direct Business				
Not allowed	7%		20%	
Allowed, but require a network account	0%		20%	
Allowed with no restrictions	93%		60%	
If Allowed, Typical Trade Per Advisor				
Firm does not charge for direct business	69.2%		75.0%	
Percentage Payout	0.0%		0.0%	
% Payout	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A
Flat Charge Per Trade Only	15.4%		0.0%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A
Other	15.4%		25.0%	
	Average	*Median*	*Average*	*Median*
Percentage of Number of Trades	46.8%	36.5%	N/A	N/A
	Average	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	54.8%	73.3%	N/A	N/A
	Average	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	55.5%	61.5%	N/A	N/A

Direct Business

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Direct Business				
Not allowed	5%		11%	
Allowed, but require a network account	9%		4%	
Allowed with no restrictions	86%		86%	
If Allowed, Typical Trade Per Advisor				
Firm does not charge for direct business	66.7%		84.0%	
Percentage Payout	14.3%		0.0%	
% Payout	*Average*	*Median*	*Average*	*Median*
	92.5%	92.5%	N/A	N/A
Flat Charge Per Trade Only	9.5%		12.0%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	$16	$15
Other	9.5%		4.0%	
	Average	*Median*	*Average*	*Median*
Percentage of Number of Trades	50.8%	50.0%	71.2%	80.0%
	Average	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	51.5%	50.0%	58.0%	70.0%
	Average	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	55.5%	56.5%	69.7%	80.0%

Trades

Trades
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Trades Completed in 2009	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
# Direct Transactions	813,451	326,858	485,089	377,893	892,258	326,858
# Clearing Transactions	1,215,940	192,809	3,512,252	495,462	503,292	180,000
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% Using Straight Through Processing Technology	60%	70%	92%	97%	51%	60%
Clearing Firm(s) Used						
Self-cleared	4.1%		7.7%		2.8%	
First Clearing	6.1%		7.7%		5.6%	
JP Morgan	0.0%		0.0%		0.0%	
National Financial Services LLC	34.7%		38.5%		33.3%	
Pershing	61.2%		53.8%		63.9%	
Schwab	2.0%		7.7%		0.0%	
TD Ameritrade	2.0%		7.7%		0.0%	
Other	18.4%		23.1%		16.7%	

Trades
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Trades Completed in 2009	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
# Direct Transactions	140,007	102,500	342,110	262,306	680,003	500,000
# Clearing Transactions	36,055	20,514	187,423	79,990	2,397,911	180,000
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% Using Straight Through Processing Technology	N/A	N/A	44%	60%	71%	73%
Clearing Firm(s) Used						
Self-cleared	0.0%		12.5%		0.0%	
First Clearing	12.5%		12.5%		7.1%	
JP Morgan	0.0%		0.0%		0.0%	
National Financial Services LLC	12.5%		25.0%		42.9%	
Pershing	37.5%		87.5%		71.4%	
Schwab	0.0%		0.0%		0.0%	
TD Ameritrade	0.0%		0.0%		0.0%	
Other	25.0%		25.0%		14.3%	

Trades
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Trades Completed in 2009	*Average*	*Median*	*Average*	*Median*
# Direct Transactions	1,012,138	827,710	N/A	N/A
# Clearing Transactions	1,081,293	495,462	1,398,569	1,209,502
	Average	*Median*	*Average*	*Median*
% Using Straight Through Processing Technology	64%	70%	N/A	N/A
Clearing Firm(s) Used				
Self-cleared	7.1%		0.0%	
First Clearing	0.0%		0.0%	
JP Morgan	0.0%		0.0%	
National Financial Services LLC	42.9%		40.0%	
Pershing	50.0%		60.0%	
Schwab	7.1%		0.0%	
TD Ameritrade	7.1%		0.0%	
Other	14.3%		20.0%	

Trades

Independent and Insurance Broker-Dealers

	Independent		*Insurance*	
Trades Completed in 2009	*Average*	*Median*	*Average*	*Median*
# Direct Transactions	364,147	244,806	1,183,467	685,000
# Clearing Transactions	1,704,365	180,000	727,515	199,588
	Average	*Median*	*Average*	*Median*
% Using Straight Through Processing Technology	59%	69%	61%	70%
Clearing Firm(s) Used				
Self-cleared	4.5%		3.7%	
First Clearing	13.6%		0.0%	
JP Morgan	0.0%		0.0%	
National Financial Services LLC	40.9%		29.6%	
Pershing	59.1%		63.0%	
Schwab	4.5%		0.0%	
TD Ameritrade	4.5%		0.0%	
Other	22.7%		14.8%	

Complaints and Litigation

Complaints/Litigation
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Number of New Complaints in 2009	Average	Median	Average	Median	Average	Median
	65	27	67	82	64	21
Nature of Complaints	Average	Median	Average	Median	Average	Median
Supervision	3.9%	0.0%	1.7%	0.0%	4.8%	0.0%
Suitability	25.2%	20.0%	34.0%	30.0%	21.7%	20.0%
Churning	1.2%	0.0%	0.6%	0.0%	1.4%	0.0%
Investment Performance	14.2%	9.0%	14.2%	10.0%	14.1%	8.0%
Failure to Follow Instructions	11.9%	10.0%	9.6%	8.0%	12.9%	10.0%
Other	43.6%	50.0%	40.0%	43.0%	45.0%	59.0%
Total Complaints as of 12/31/09	Average	Median	Average	Median	Average	Median
	33	17	32	35	33	15
Total Cost to Defend Complaints in 2009	Average	Median	Average	Median	Average	Median
(excluding settlement dollars)	$214,984	$124,594	$215,584	$137,167	$214,875	$124,594
Total Settlement Dollars Paid in 2009	Average	Median	Average	Median	Average	Median
	$315,129	$140,161	$395,624	$222,604	$285,858	$127,386
Regulatory Inquiries (Sweeps) in 2009						
Yes	42.5%		50.0%		39.3%	
No	57.5%		50.0%		60.7%	
	Average	Median	Average	Median	Average	Median
If Yes, Number of Inquiries	20	2	41	2	13	2
Trigger of Regulatory Inquiries in 2009						
1031s	23.1%		33.3%		20.0%	
Late Filings	23.1%		0.0%		30.0%	
Soft Dollar and/or Marketing Dollar Inquiry	0.0%		0.0%		0.0%	
Auction Rate Security Sales	0.0%		0.0%		0.0%	
Variable Annuity Sales Practices	23.1%		0.0%		30.0%	
Investment Advisor Activities	15.4%		0.0%		20.0%	
Other	61.5%		66.7%		60.0%	

Complaints/Litigation
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Number of New Complaints in 2009	Average	Median	Average	Median	Average	Median
	10	9	14	18	72	33
Nature of Complaints	Average	Median	Average	Median	Average	Median
Supervision	3.3%	0.0%	12.5%	0.0%	4.4%	0.0%
Suitability	27.8%	29.5%	27.8%	24.0%	27.1%	23.5%
Churning	0.0%	0.0%	1.5%	0.0%	1.7%	0.0%
Investment Performance	22.7%	9.5%	18.8%	21.0%	9.4%	8.0%
Failure to Follow Instructions	6.0%	4.0%	24.3%	18.5%	10.2%	9.5%
Other	40.2%	56.0%	15.3%	0.0%	47.3%	50.5%
Total Complaints as of 12/31/09	Average	Median	Average	Median	Average	Median
	10	8	12	12	38	14
Total Cost to Defend Complaints in 2009	Average	Median	Average	Median	Average	Median
(excluding settlement dollars)	$145,345	$48,000	$327,271	$250,000	$157,846	$100,000
Total Settlement Dollars Paid in 2009	Average	Median	Average	Median	Average	Median
	$259,922	$25,000	$130,112	$120,627	$302,575	$310,996
Regulatory Inquiries (Sweeps) in 2009						
Yes	12.5%		33.3%		28.6%	
No	87.5%		66.7%		71.4%	
	Average	Median	Average	Median	Average	Median
If Yes, Number of Inquiries	N/A	N/A	N/A	N/A	40	31
Trigger of Regulatory Inquiries in 2009						
1031s	0.0%		50.0%		66.7%	
Late Filings	0.0%		0.0%		33.3%	
Soft Dollar and/or Marketing Dollar Inquiry	0.0%		0.0%		0.0%	
Auction Rate Security Sales	0.0%		0.0%		0.0%	
Variable Annuity Sales Practices	100.0%		0.0%		N/A	
Investment Advisor Activities	0.0%		0.0%		N/A	
Other	0.0%		50.0%		66.7%	

Complaints/Litigation

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Number of New Complaints in 2009	Average	Median	Average	Median
	107	78	N/A	N/A
Nature of Complaints	Average	Median	Average	Median
Supervision	0.3%	0.0%	N/A	N/A
Suitability	19.7%	20.0%	N/A	N/A
Churning	0.6%	0.0%	N/A	N/A
Investment Performance	11.4%	8.0%	N/A	N/A
Failure to Follow Instructions	12.3%	12.0%	N/A	N/A
Other	55.7%	59.0%	N/A	N/A
Total Complaints as of 12/31/09	Average	Median	Average	Median
	60	78	53	40
Total Cost to Defend Complaints in 2009	Average	Median	Average	Median
(excluding settlement dollars)	$235,270	$230,627	N/A	N/A
Total Settlement Dollars Paid in 2009	Average	Median	Average	Median
	$395,535	$240,259	N/A	N/A
Regulatory Inquiries (Sweeps) in 2009				
Yes	80.0%		N/A	
No	20.0%		N/A	
	Average	Median	Average	Median
If Yes, Number of Inquiries	1	1	N/A	N/A
Trigger of Regulatory Inquiries in 2009				
1031s	0.0%		N/A	
Late Filings	33.3%		N/A	
Soft Dollar and/or Marketing Dollar Inquiry	0.0%		N/A	
Auction Rate Security Sales	0.0%		N/A	
Variable Annuity Sales Practices	16.7%		N/A	
Investment Advisor Activities	16.7%		N/A	
Other	66.7%		N/A	

Complaints/Litigation

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Number of New Complaints in 2009	Average	Median	Average	Median
	47	15	86	72
Nature of Complaints	Average	Median	Average	Median
Supervision	5.3%	0.0%	2.5%	0 0%
Suitability	30.4%	28.5%	19 9%	20.0%
Churning	0.3%	0.0%	2.1%	0 0%
Investment Performance	18.9%	15.0%	9.4%	7 0%
Failure to Follow Instructions	9 6%	4.5%	14 3%	14.0%
Other	35.4%	41.5%	51 8%	60.5%
Total Complaints as of 12/31/09	Average	Median	Average	Median
	16	5	49	27
Total Cost to Defend Complaints in 2009	Average	Median	Average	Median
(excluding settlement dollars)	$160,362	$100,000	$302,379	$127,826
Total Settlement Dollars Paid in 2009	Average	Median	Average	Median
	$290,750	$140,161	$342,992	$132,759
Regulatory Inquiries (Sweeps) in 2009				
Yes	25.0%		60 0%	
No	75.0%		40 0%	
	Average	Median	Average	Median
If Yes, Number of Inquiries	3	2	25	2
Trigger of Regulatory Inquiries in 2009				
1031s	66.7%		10 0%	
Late Filings	0.0%		30 0%	
Soft Dollar and/or Marketing Dollar Inquiry	0.0%		0.0%	
Auction Rate Security Sales	0.0%		0.0%	
Variable Annuity Sales Practices	0.0%		30 0%	
Investment Advisor Activities	0.0%		20 0%	
Other	33.3%		70 0%	

Technology

Investment in Technology
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Investment in Technology	Average	Median	Average	Median	Average	Median
Home Office - 2008	$4,509,943	$442,000	$11,793,097	$1,025,561	$1,812,478	$397,645
Home Office - 2009	$4,387,119	$665,840	$12,609,116	$698,263	$1,551,947	$550,000
Home Office - 2010 (Budgeted)	$1,029,670	$500,000	$782,879	$500,000	$1,122,216	$572,500
Field Services - 2008	$2,002,268	$820,000	$1,532,631	$1,576,283	$2,263,178	$375,000
Field Services - 2009	$1,632,551	$875,000	$1,472,834	$1,553,625	$1,705,150	$500,000
Field Services - 2010 (Budgeted)	$1,608,583	$900,000	$1,640,000	$1,600,000	$1,592,875	$425,000
Assist Advisors in Web Page Development						
Yes	63.3%		83.3%		56.8%	
No	36.7%		16.7%		43.2%	
Web Page Development Assistance						
Outsource	72.7%		70.0%		73.9%	
Internal	27.3%		30.0%		26.1%	
Offer Web Page Development Assistance in the Future						
Yes	27.3%		42.9%		20.0%	
No	72.7%		57.1%		80.0%	

Investment in Technology
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Investment in Technology	Average	Median	Average	Median	Average	Median
Home Office - 2008	$72,558	$25,000	$83,276	$54,500	$920,009	$596,561
Home Office - 2009	$114,425	$117,125	$470,269	$172,000	$791,452	$640,343
Home Office - 2010 (Budgeted)	$114,000	$50,000	$319,229	$72,000	$892,917	$622,500
Field Services - 2008	N/A	N/A	N/A	N/A	$3,069,381	$820,000
Field Services - 2009	N/A	N/A	$752,917	$500,000	$2,593,424	$875,000
Field Services - 2010 (Budgeted)	N/A	N/A	$1,187,917	$291,750	$2,116,667	$1,000,000
Assist Advisors in Web Page Development						
Yes	50.0%		62.5%		60.0%	
No	50.0%		37.5%		40.0%	
Web Page Development Assistance						
Outsource	100.0%		60.0%		60.0%	
Internal	0.0%		40.0%		40.0%	
Offer Web Page Development Assistance in the Future						
Yes	0.0%		20.0%		50.0%	
No	100.0%		80.0%		50.0%	

Investment in Technology

Broker-Dealer by Revenue Size

	$100M - $250M		*More Than $250M*	
Investment in Technology	*Average*	*Median*	*Average*	*Median*
Home Office - 2008	$2,162,088	$1,450,000	$33,957,154	$10,664,308
Home Office - 2009	$2,062,827	$1,360,630	$34,795,106	$8,586,712
Home Office - 2010 (Budgeted)	$2,425,711	$1,187,458	N/A	N/A
Field Services - 2008	$1,614,374	$2,146,872	N/A	N/A
Field Services - 2009	$1,476,725	$1,553,625	N/A	N/A
Field Services - 2010 (Budgeted)	$1,570,000	$2,100,000	N/A	N/A
Assist Advisors in Web Page Development				
Yes	69.2%		80.0%	
No	30.8%		20.0%	
Web Page Development Assistance				
Outsource	100.0%		25.0%	
Internal	0.0%		75.0%	
Offer Web Page Development Assistance in the Future				
Yes	33.3%		N/A	
No	66.7%		N/A	

Investment in Technology

Independent and Insurance Broker-Dealers

	Independent		*Insurance*	
Investment in Technology	*Average*	*Median*	*Average*	*Median*
Home Office - 2008	$6,258,939	$250,000	$2,663,781	$1,200,000
Home Office - 2009	$6,386,192	$250,000	$2,282,832	$1,321,260
Home Office - 2010 (Budgeted)	$497,407	$325,000	$1,530,623	$1,000,000
Field Services - 2008	$1,082,058	$800,000	$2,922,479	$840,000
Field Services - 2009	$962,865	$700,000	$2,302,237	$875,448
Field Services - 2010 (Budgeted)	$1,155,964	$1,100,000	$2,004,625	$750,000
Assist Advisors in Web Page Development				
Yes	72.7%		55.6%	
No	27.3%		44.4%	
Web Page Development Assistance				
Outsource	64.7%		81.3%	
Internal	35.3%		18.8%	
Offer Web Page Development Assistance in the Future				
Yes	40.0%		16.7%	
No	60.0%		83.3%	

Ownership

Ownership
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	High-Profit: Top 25%	Non-High-Profit
Have a Parent Company			
Yes	80.0%	61.5%	86.5%
No	20.0%	38.5%	13.5%
Broker-Dealer's Primary Objective in Parent			
Operates as a profit center (goal to maximize profit)	70.7%	87.5%	66.7%
Operates as a cost center (goal to break-even)	29.3%	12.5%	33.3%
If Parent Owned, in Business of Insurance			
Yes	66.7%	55.6%	69.7%
No	33.3%	44.4%	30.3%
If Insurance, Type of Advisors Served			
B-D primarily services agents of parent insurance company	44.0%	33.3%	45.5%
B-D primarily services advisors not closely affiliated w/ parent	24.0%	66.7%	18.2%
B-D services combination of both types of advisors	32.0%	0.0%	36.4%
Occupy Space in Parent Company's Facility			
Yes	70.7%	37.5%	78.8%
No	29.3%	62.5%	21.2%
Report Net Profit Before or After Parent Company Fees			
Before	15.4%	12.5%	16.1%
After	84.6%	87.5%	83.9%
If Parent Company Charges Fees, Fees Are Marked Up			
Yes	0.0%	0.0%	0.0%
No	100.0%	100.0%	100.0%
Handle Proprietary Products			
Yes	52.5%	25.0%	59.4%
No	47.5%	75.0%	40.6%
If Yes, B-D Credited for Distribution Costs			
Yes	44.4%	N/A	47.1%
No	55.6%	N/A	52.9%

Ownership
Broker-Dealer by Revenue Size

	Less Than $25M	$25M - $54M	$54M - $100M
Have a Parent Company			
Yes	87.5%	87.5%	66.7%
No	12.5%	12.5%	33.3%
Broker-Dealer's Primary Objective in Parent			
Operates as a profit center (goal to maximize profit)	42.9%	85.7%	81.8%
Operates as a cost center (goal to break-even)	57.1%	14.3%	18.2%
If Parent Owned, in Business of Insurance			
Yes	57.1%	42.9%	58.3%
No	42.9%	57.1%	41.7%
If Insurance, Type of Advisors Served			
B-D primarily services agents of parent insurance company	100.0%	33.3%	28.6%
B-D primarily services advisors not closely affiliated w/ parent	0.0%	33.3%	28.6%
B-D services combination of both types of advisors	0.0%	33.3%	42.9%
Occupy Space in Parent Company's Facility			
Yes	85.7%	100.0%	54.5%
No	14.3%	0.0%	45.5%
Report Net Profit Before or After Parent Company Fees			
Before	14.3%	16.7%	18.2%
After	85.7%	83.3%	81.8%
If Parent Company Charges Fees, Fees Are Marked Up			
Yes	0.0%	0.0%	0.0%
No	100.0%	100.0%	100.0%
Handle Proprietary Products			
Yes	42.9%	16.7%	54.5%
No	57.1%	83.3%	45.5%
If Yes, B-D Credited for Distribution Costs			
Yes	66.7%	N/A	33.3%
No	33.3%	N/A	66.7%

Ownership
Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Have a Parent Company		
Yes	78.6%	100.0%
No	21.4%	0.0%
Broker-Dealer's Primary Objective in Parent		
Operates as a profit center (goal to maximize profit)	63.6%	80.0%
Operates as a cost center (goal to break-even)	36.4%	20.0%
If Parent Owned, in Business of Insurance		
Yes	90.9%	80.0%
No	9.1%	20.0%
If Insurance, Type of Advisors Served		
B-D primarily services agents of parent insurance company	25.0%	66.7%
B-D primarily services advisors not closely affiliated w/ parent	25.0%	33.3%
B-D services combination of both types of advisors	50.0%	0.0%
Occupy Space in Parent Company's Facility		
Yes	54.5%	80.0%
No	45.5%	20.0%
Report Net Profit Before or After Parent Company Fees		
Before	10.0%	20.0%
After	90.0%	80.0%
If Parent Company Charges Fees, Fees Are Marked Up		
Yes	0.0%	0.0%
No	100.0%	100.0%
Handle Proprietary Products		
Yes	72.7%	60.0%
No	27.3%	40.0%
If Yes, B-D Credited for Distribution Costs		
Yes	20.0%	100.0%
No	80.0%	0.0%

Ownership
Independent and Insurance Broker-Dealers

	Independent	Insurance
Have a Parent Company		
Yes	54.5%	100.0%
No	45.5%	0.0%
Broker-Dealer's Primary Objective in Parent		
Operates as a profit center (goal to maximize profit)	100.0%	57.1%
Operates as a cost center (goal to break-even)	0.0%	42.9%
If Parent Owned, in Business of Insurance		
Yes	0.0%	100.0%
No	100.0%	0.0%
If Insurance, Type of Advisors Served		
B-D primarily services agents of parent insurance company	N/A	44.0%
B-D primarily services advisors not closely affiliated w/ parent	N/A	24.0%
B-D services combination of both types of advisors	N/A	32.0%
Occupy Space in Parent Company's Facility		
Yes	61.5%	75.0%
No	38.5%	25.0%
Report Net Profit Before or After Parent Company Fees		
Before	30.8%	7.7%
After	69.2%	92.3%
If Parent Company Charges Fees, Fees Are Marked Up		
Yes	0.0%	0.0%
No	100.0%	100.0%
Handle Proprietary Products		
Yes	0.0%	77.8%
No	100.0%	22.2%
If Yes, B-D Credited for Distribution Costs		
Yes	N/A	44.4%
No	N/A	55.6%

2011 Broker-Dealer Financial Performance Study

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Formed in January 2004, the Financial Services Institute's (FSI) mission is to create a healthier regulatory environment for independent broker-dealers and their affiliated independent financial advisors through aggressive and effective advocacy, education, and public awareness. FSI is a tax-exempt, non-profit association formed under section 501(c)(6) of the Internal Revenue Code. Our members are independent broker-dealers who do business with the public and independent financial advisors affiliated with broker-dealers.

We are pleased to offer the *2011 FSI Broker-Dealer Financial Performance Study* as an exclusive benefit to FSI broker-dealer members and wish to thank all of the participating firms who contributed to the success of this annual project. We encourage you to take advantage of all the exclusive benefits of your firm's membership and look forward to your participation again next year. For more information, please visit our Web site at http://www.financialservices.org.

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Acknowledgments

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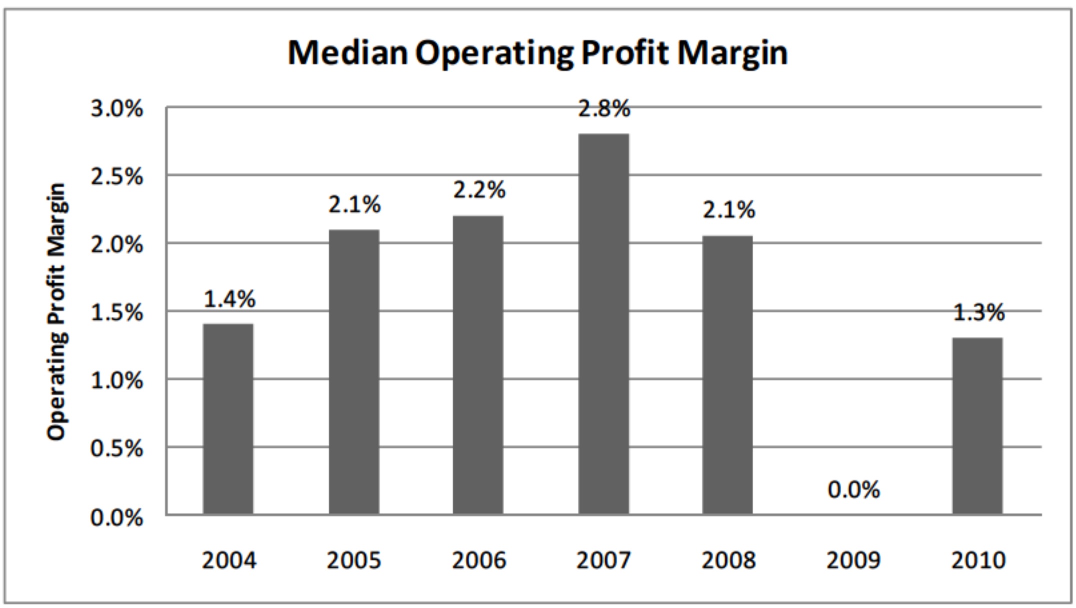
Overview/Executive Summary

Profitability

The market recovery that took hold in late 2009 continued through 2010, leading to increased revenues for most broker-dealers. Overall, average revenue grew 18% based on the same group of 42 broker-dealers who participated in the study both this year and last year. Concurrently in 2010, firms pared back and better managed operating expenses following weak profit performance in 2009. Total operating expense as a percentage of revenue fell to 16.7%, down from 20.4% in 2009. Much of the expense drop related to salaries, wages, and payroll taxes in addition to declining parent or third-party administrative fees.

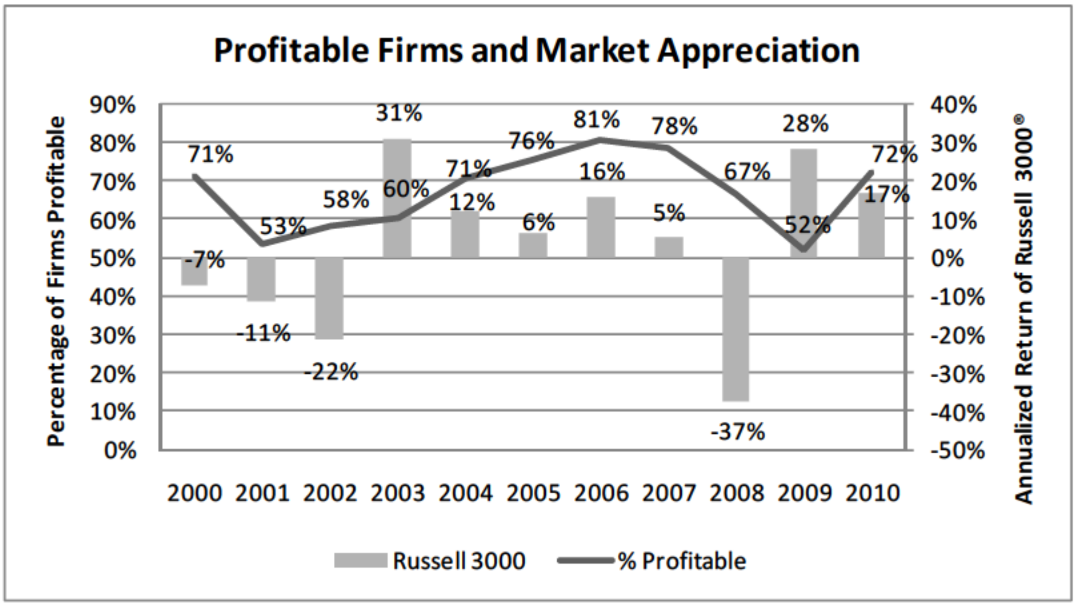
Greater revenue and a lower overhead expense margin combined for an improved median operating profit margin of 1.3% in 2010. While this is markedly higher than the median operating profit margin of 0.0% experienced in 2009, it is still far off the peak margin of 2.8% achieved in 2007 (Figure 1).

Figure 1: Median Operating Profit Margin, 2004–2010



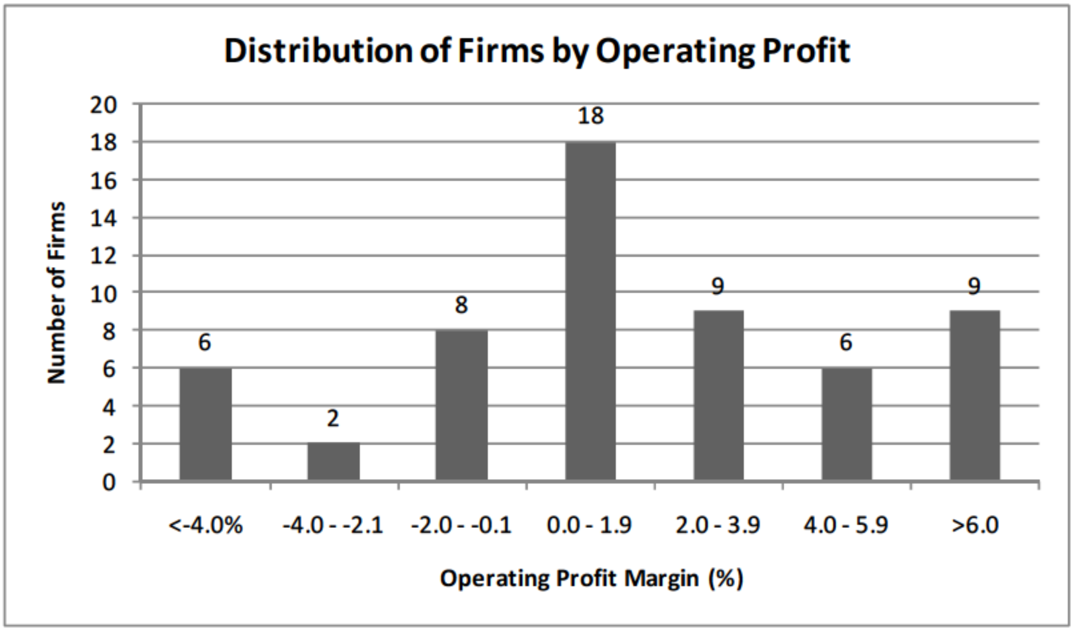
A healthier economic environment is also reflected in the percentage of profitable respondents participating in the survey. More than 70% of firms realized profits in 2010, the highest share over the last three years and up sharply from the barely half of all firms that achieved positive profitability just one year prior. Despite the significantly more profitable firms in 2010 relative to 2009, the year's share was far short of the high percentages of profitable firms in 2006 and 2007. Figure 2 details the percentage share of participating firms making a positive operating profit as well as the market return over the last decade. The Russell 3000® broad market securities index is used as a proxy for financial market performance.

Figure 2: Percentage of Profitable Firms and U.S. Equity Market Return, 2000–2010



Consistent with an increase in profitable firms, the distribution of participating firms by operating profit margin shifted in 2010. In 2009, more firms had a profit margin below negative 4.0% than those with a profit margin above positive 4.0%. One year later, more than twice the number of firms experienced a 4.0% or better profit margin than those firms that were below negative 4% (Figure 3). Overall, 26% of firms enjoyed a margin of 4.0% or better, compared with only 16% of firms last year.

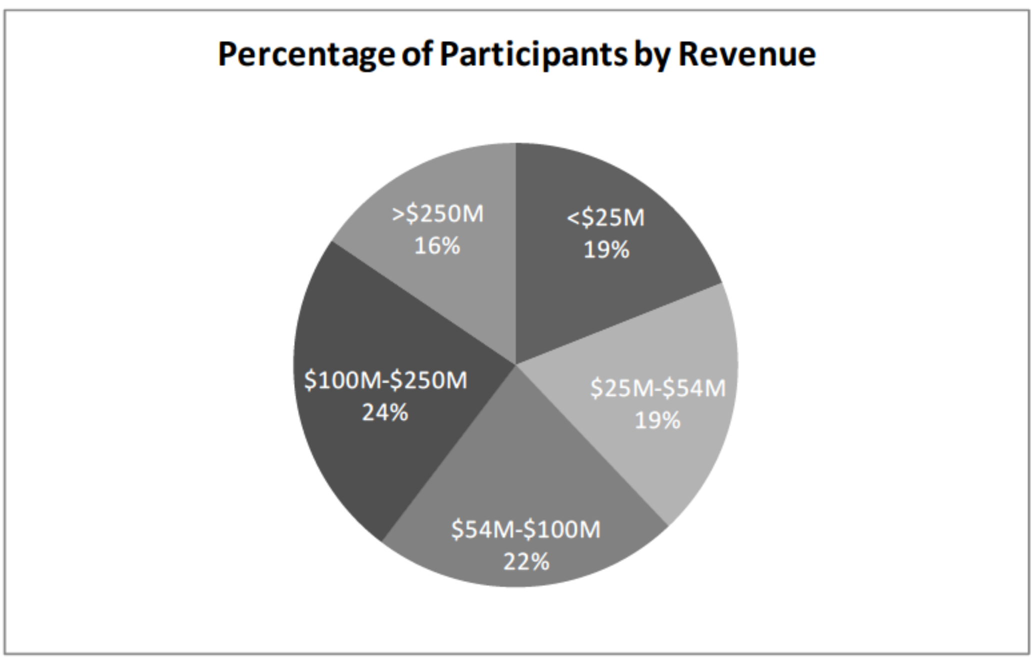
Figure 3: Number of Firms by Operating Profit Margin



Revenue

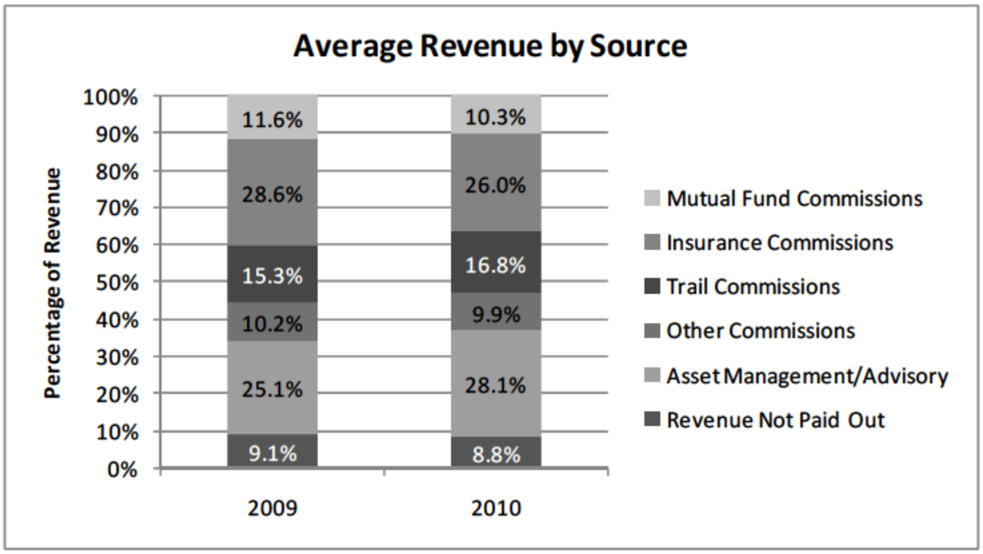
The revenue distribution of all the firms participating in the study has shifted since last year as well. Of this year's participants, about 16% of firms were in the largest revenue size category with more than $250 million in revenue; whereas only 10% of firms participating in last year's study were in that category. Figure 4 shows the percentage share of current participants by total revenue.

Figure 4: Participating Firms by Revenue



In terms of revenue sources, as is often the case as security markets recover, the distribution of revenues shifted from commissions to fees (Figure 5). In particular, the combined revenues of mutual fund and insurance commissions fell from 40.2% of broker-dealer revenue in 2009 to 36.3% in 2010. As commission revenue cooled, asset management and advisory fees as a percentage of revenue grew more predominant—up to 28.1% in 2010 compared with 25.1% the year before. Because fees are often linked to the amount of assets managed, the 2010 increase is likely fueled most by market recovery as opposed to changing rep business practices.

Figure 5: Distribution of Firm Revenue, 2009–2010



Independent and Insurance Broker-Dealers

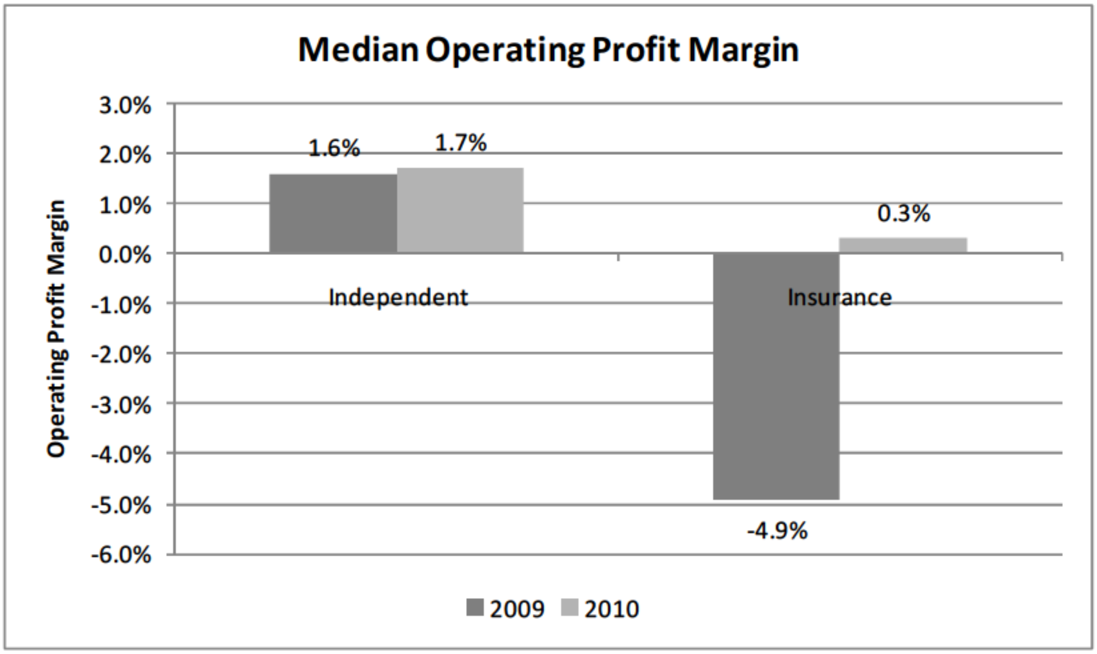
As in prior years' studies, participating firms are also distinguished based on the extent to which a broker-dealer has ties to an insurance parent. This provides another useful perspective for analysis as insurance-affiliated broker-dealers often have different business goals and practices relative to other broker-dealers. In recent years our methodology for distinguishing "Insurance" firms from "Independent" firms has become increasingly tighter.

In the 2010 report, a broker-dealer was classed as insurance if the firm was owned by a parent that was in the business of insurance. In 2011 the standard narrowed, requiring that an insurance broker-dealer must not only be insurance-owned but the broker-dealer must also service agents of the insurance parent. All other firms, including those who are owned by an insurance-related parent but not catering to agents of the parent, were classified as "Independent."[1]

[1]The revised methodology has been applied throughout this report. This includes all historical data where insurance and independent firms are distinguished, which were re-calculated to preserve comparability.

This year independent firms comprised approximately two-thirds of all firms in the study. As observed in recent years, independent firms continue to be more profitable, with a median operating profit margin of 1.7% in 2010 compared with 0.3% for their insurance-affiliated counterparts. The performance gap has narrowed considerably relative to 2009, however. While the median profit margin for independent firms only increased by a tenth of a percentage point since last year, insurance firms experienced a substantial increase (Figure 6).

Figure 6: Median Operating Profit Margin, Independent vs. Insurance Broker-Dealers, 2009–2010



Operating profits for insurance broker-dealers improved significantly from 2009 despite the fact that their gross profit margin (total revenue minus direct expenses) is actually down from that same year. The improved operating profit margin appears to be due solely to reduced operating expenses. In particular, the amount of revenue spent on parent or third-party administrative fees and salaries, wages, and payroll taxes is off substantially from 2009.

High-Profit Firms

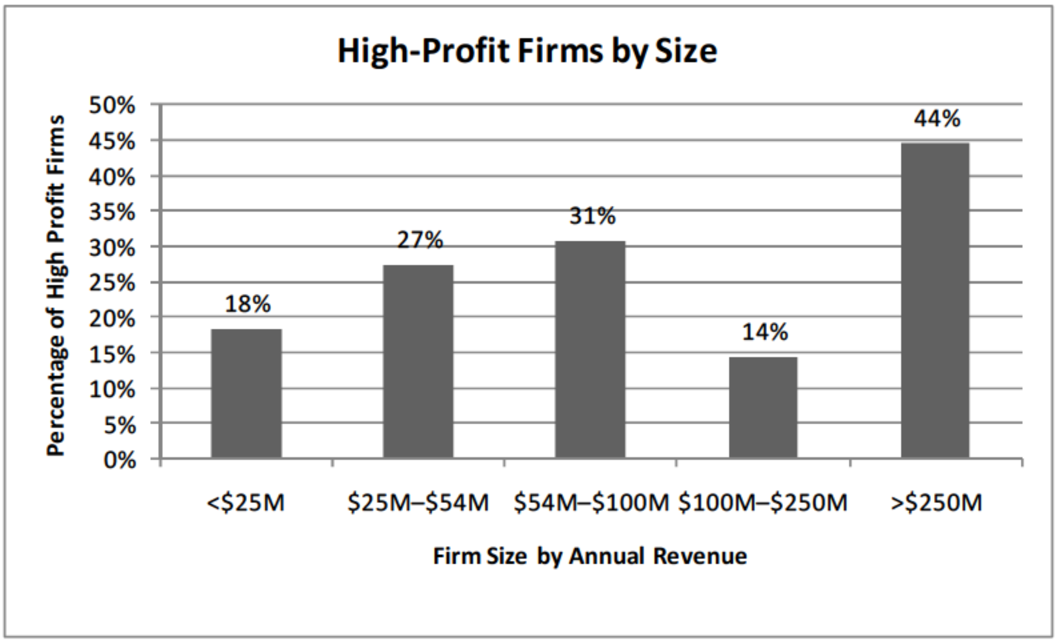
While the majority of firms this year were able to achieve some level of profitability, a select group of firms did exceedingly well in this area. Consideration of the common practices of these firms can help other firms identify ways to improve their own profitability.

Similar to past studies, the top-performing firms this year are distinguished based on their operating profit margin. Throughout the study they are referred to as "high-profit" firms, defined as any firm in the top 25% (or upper quartile) of respondents in terms of operating profit margin. Results of this high-profit group are separated from "other" firms in order to better gauge their performance and practices. This year respondents with an operating profit margin of 4.5% were considered high-profit, which is up from last year's profitability barometer of 3.0% and equal to the level set in 2008.

In 2010 the typical high-profit firm achieved a 9.5% profit margin, up sharply from the median of 5.5% for high-profit firms in 2009. This 2010 jump served to further widen the profitability gap between high-profit firms and others. Other firms also experienced a profit margin increase, but at nowhere near the level of improvement achieved by high-profits. In 2009 other firms operated at a median loss of 1.4%; in 2010 they were marginally profitable, achieving a 0.5% profit.

In 2009 profitability was closely correlated with firm size, with all but one of that year's high-profit firms earning at least $54 million in annual revenue. In 2010 the industry's biggest firms still had a greater propensity to be high-profit, but firms of all sizes were able to achieve impressive levels of profitability. Figure 7 specifies the proportion of high-profit firms in the current study within each revenue size band.

Figure 7: Distribution of High-Profit Firms by Revenue Size



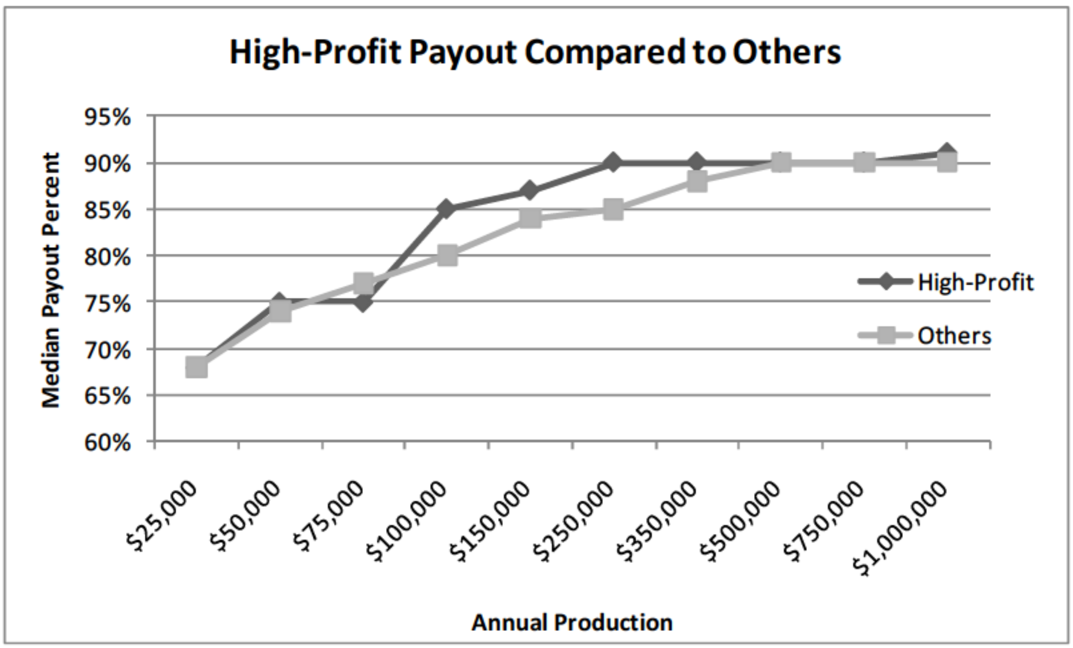
Better management of operating expenses surfaces as a key financial characteristic driving profitability for high-profit firms. The operating expense ratio for high-profit firms is 5.4 percentage points lower relative to other firms. The key areas for savings include employee benefits, parent administrative fees, and legal fees.

Consistent with lower legal fees, the typical high-profit firm had fewer new and total complaints than other firms, paid less toward legal defense and settlements, and also had fewer regulatory inquiries in 2010 than other firms. Surprisingly, high-profit firms achieve these results with proportionately less compliance/licensing staff. This suggests that either better processes and systems are in place to make compliance staff more effective, or high-profit firms are simply attracting high-quality reps who are less prone to be compliance risks.

Without question, superior-producing representatives are one major key to the success of high-profit firms in 2010 and in years past. The typical high-profit firm generates 63% more revenue per rep and 20% more commission per rep than other firms. Nearly one-third of reps with high-profit firms (32%) produce more than $150,000 per year while 13% of reps in high-profit firms produce more than $350,000 per year. In comparison, 23% of reps with other firms are over $150,000 in production and just 8% are beyond $350,000.

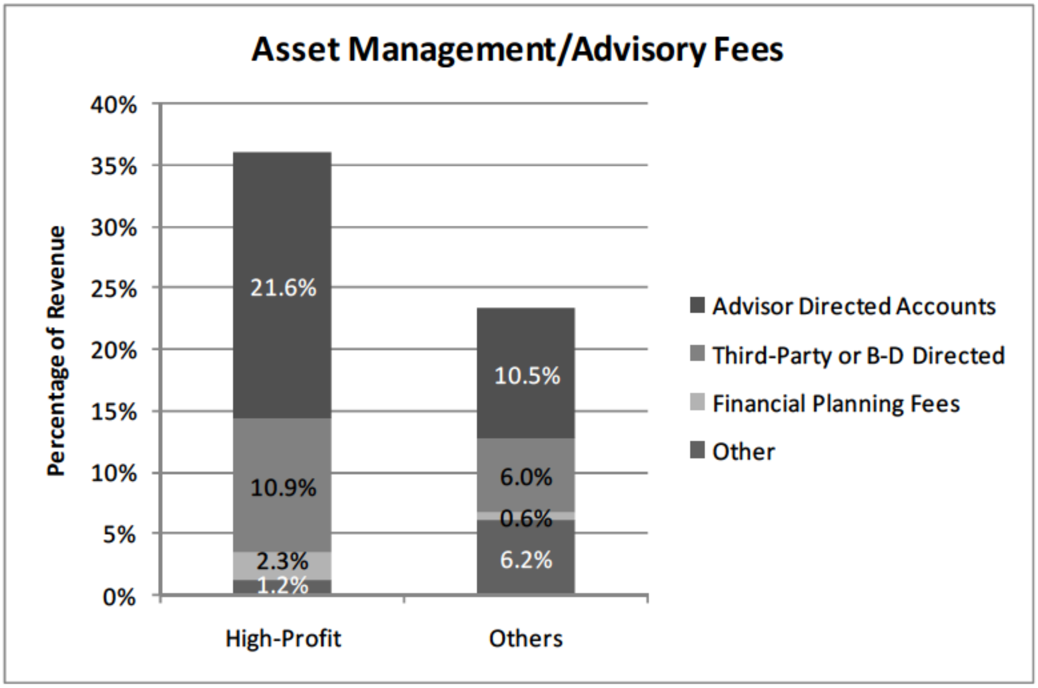
Payout structure helps to support the ability of high-profit firms to attract and retain higher producing reps. As shown in Figure 8, high-profit firms tend to have better payouts in the $100,000–$350,000 production range. This range incidentally can be an overlooked sweet spot for many firms in the sense that reps of this size are big enough to be profitable but not big enough that they are expecting or needing expensive servicing options.

Figure 8: Median Payout Rate, High-Profit Firms and Others



Another factor behind the ability of high-profit broker-dealers to attract and retain bigger-producing representatives is the broker-dealers' openness to fee business and rep-owned RIAs. This is a common theme for high-profit firms that has been observed for several years running. High-profit firms earn more than one-third of their revenue through asset management and advisory fees, as opposed to only 23% in other firms (Figure 9).

Figure 9: Average Distribution of Fees by Revenue Source, High-Profit Firms and Others



High-profit firms are also more likely to allow representatives to have their own RIA for financial planning and/or asset management. Despite a lower median number of reps, the typical high-profit broker-dealer has nearly three times as many rep-owned RIAs as other firms and about five times the amount of assets in those RIAs. Assets in high-profit firm rep-owned RIAs, however, have dropped 12% on average since 2009. At the same time, AUM in the average high-profit's corporate RIA has increased about 18% and is nearly twice as much as corporate RIA assets with other firms

This increase in corporate RIA AUM and decrease in rep-owned RIA assets suggests that broker-dealers are making their corporate RIA programs more attractive to reps. High-profit broker-dealers are more apt to allow reps to utilize third-party accounts such as turnkey asset management programs and separately managed accounts. They are also far more likely to pay out fees generated through assets on a different schedule than commission business, providing the opportunity for an increased payout in order to entice reps to utilize the corporate RIA for their fee business.

Another source of advantage for the high-profit broker-dealer is retention. Their overall median turnover rate is 10.5%, compared with 15.8% in other firms, and is superior at almost all production levels. While other firms on average lost five reps for every four new recruits, high-profit firms recruited almost the same amount of reps that they lost in 2010. The lower turnover for high-profit firms reduces total costs for transition assistance and onboarding. Additionally, better retention enables high-profit recruiters to be more focused on the quality of the representative recruited and be less concerned about the quantity of recruits, an approach which helps to perpetuate strong retention.

An aid for recruiting and retention alike, succession and practice management assistance seems to be a higher priority for high-profits than other firms. While other firms seem to be decreasing the succession education offered to reps, more high-profit firms offer it. High-profit firms are also more likely to offer a succession program to help match buyers and sellers. Additionally, they are more likely to offer transaction assistance to their reps, on both the sell side and the buy side. Even though high-profit firms and other firms have roughly the same amount of full-time staff members, the high-profit firms dedicate two full-time equivalents (FTE) to practice management compared with one in other firms. The additional employee may enable high-profit firms to dedicate more time assisting each rep, as they are supporting 265 reps per FTE, compared with 416 reps per FTE in other firms.

A final key observation concerning high-profit firms is their propensity to apply rep fees in order to better reflect cost of service. Although they are less likely to have a minimum production requirement for reps, they are much more likely to charge a low production fee for reps who are low producers. The typical implementation level for the fee is at $40,000. Further, high-profit firms are far less likely to cover the full cost of many rep-related fees. Figure 10 provides an example of many services offered where the tendency to cover the full cost is vastly different between high-profit and non-high-profit firms. While offering these services is important for attracting reps, high-profit firms support their higher level of profitability by charging reps who actually want those particular services, rather than offering them for free to everyone.

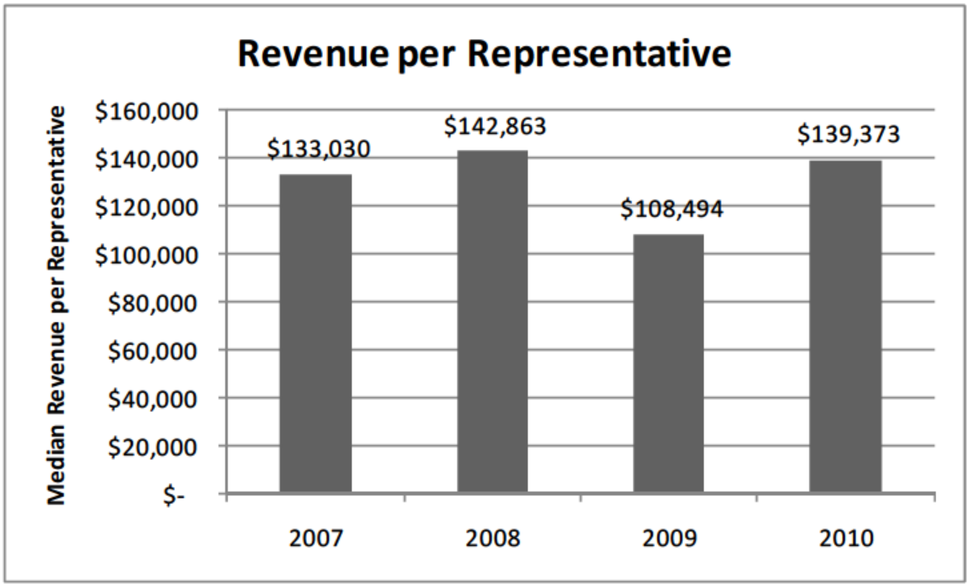
Figure 10: Propensity to Cover Various Service Costs

Service Item	Percentage of Firms Covering 100% of the Cost	
	High-Profit Firms	Other Firms
Compliance Fee	16.7%	72.7%
Overall Technology Fee	0.0%	40.0%
Client Account Access	40.0%	60.0%
Client Relationship Management	16.7%	41.7%
Data Mining	0.0%	63.2%
Help Desk	50.0%	87.0%

Representative Production and Compensation

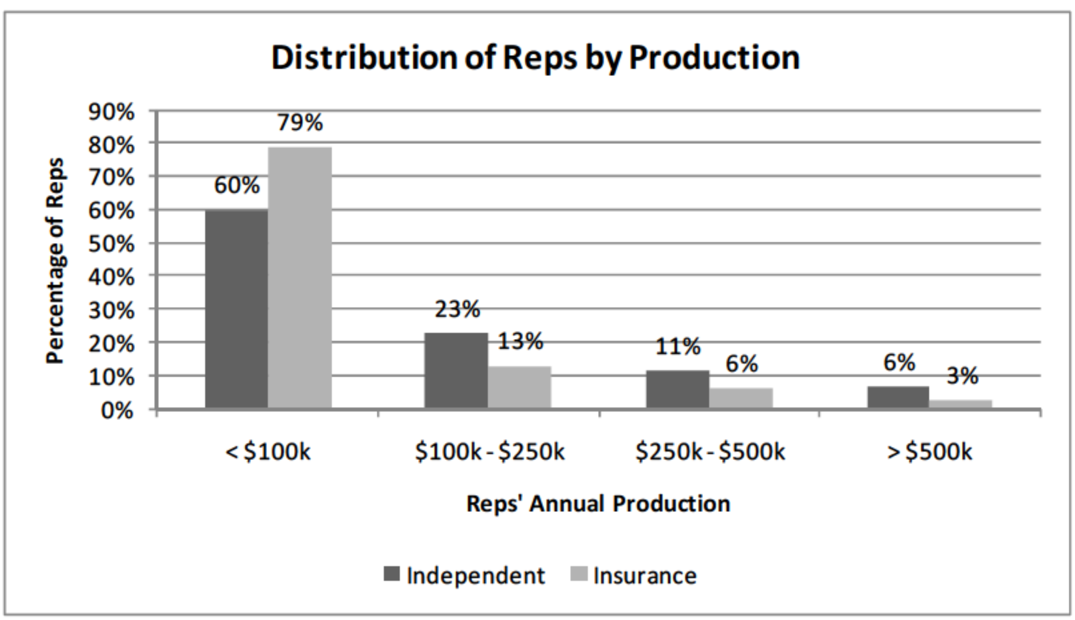
After a dramatic decrease in 2009, median revenue per rep increased sharply in 2010, rising 28% (Figure 11). Improving security markets and a rebounding economy helped to fuel this improvement. Other important contributing factors behind the rise, as will be discussed in the section ahead, include broker-dealer efforts to “prune” lower producers and rely on an increasingly concentrated, gradually aging but more experienced, base of reps.

Figure 11: Median Revenue Per Representative, 2007–2010



Similar to past years, production as measured by median revenue per rep in 2010 was much higher among independents relative to insurance broker-dealers—$150,931 versus $80,823. About 18% of independent reps are producing $250,000 or more, compared with only 9% of insurance-affiliated representatives. Both of these percentages are improvements over last year. Insurance firms have also reduced their percentage of lowest producing reps, those with $25,000 or less in annual production. Last year they comprised about 60% of the total reps in the broker-dealer; this year the lowest producers make up about 55% of all reps. For independent firms the smallest producers made up 31% of all reps in the firm, which was unchanged from last year.

Figure 12: Distribution of Representatives by Production



The typical representative payout among independent broker-dealers remained virtually unchanged since 2009, except for minor increases at the $100,000 and $250,000 levels, as demonstrated in Figure 13. In contrast, insurance-affiliated broker-dealers made substantial increases in payout at nearly every level. Insurance broker-dealers may be reacting to pressure to more effectively compete with the more superior payouts of independent firms. Although insurance payouts are still lower than independent broker-dealers at all levels, they have increased substantially over the last year, with the biggest increases found at the $25,000 and $100,000 levels (Figure 14).

Figure 13: Median Representative Payout in Independent Firms, 2009–2010

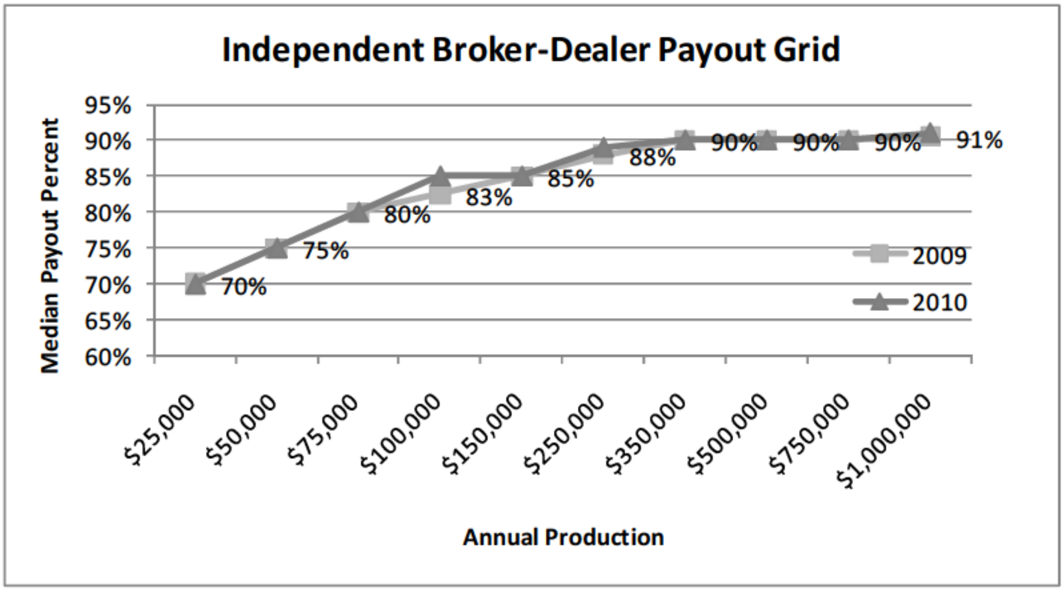
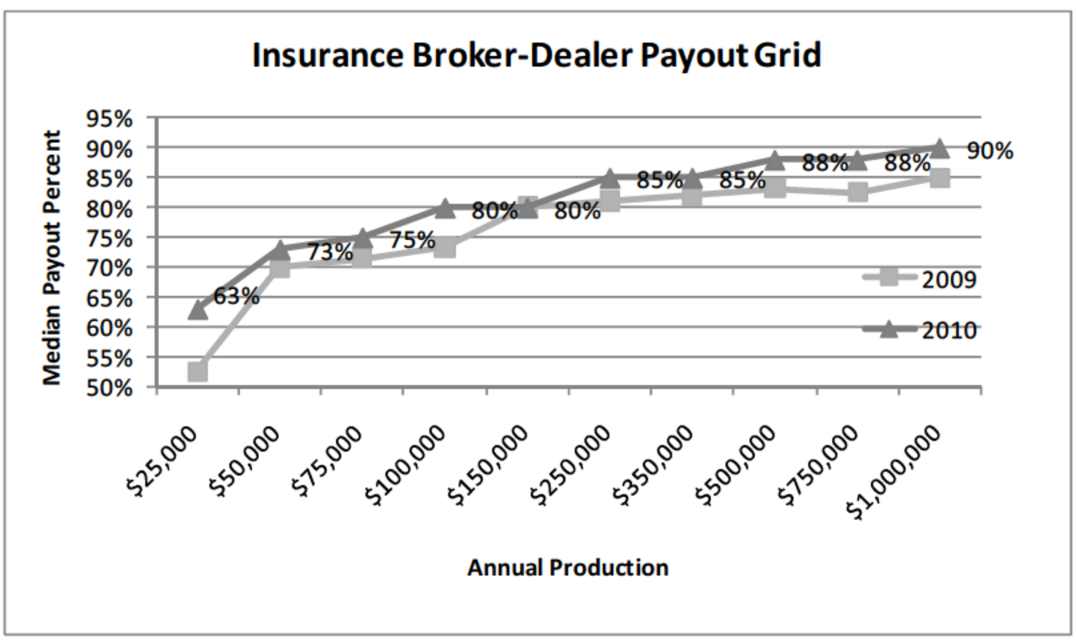


Figure 14: Median Representative Payout in Insurance Firms, 2009–2010



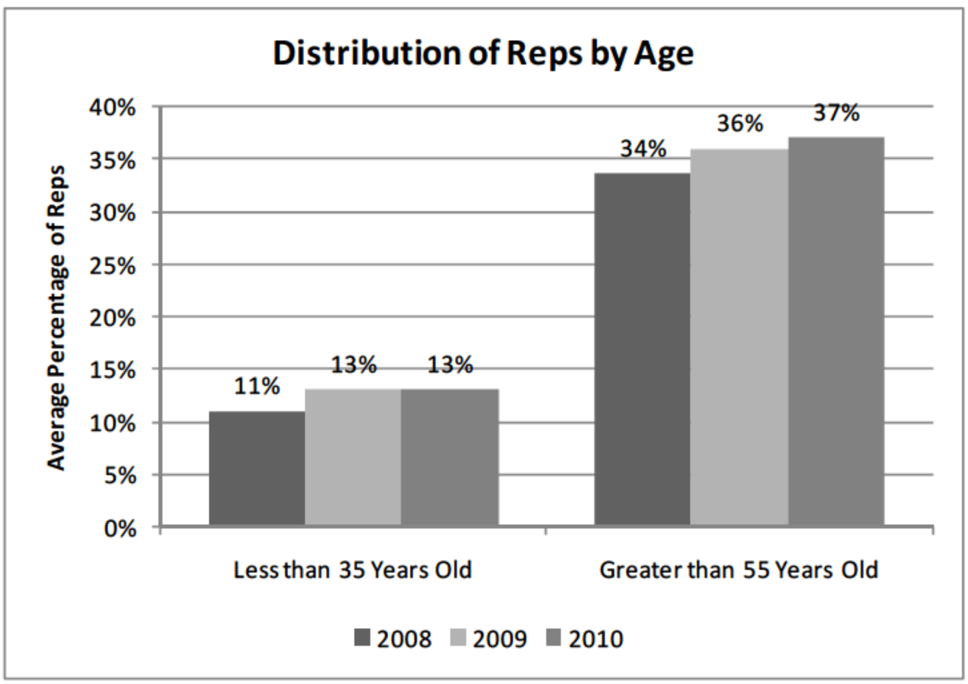
In addition to providing reps with higher payouts, independent firms are also more likely to offer additional services, such as account aggregation technology, to their reps and allow client access to consolidated statements. Further, independents are more likely to offer special services to their best representatives. The most common benefits offered by independent firms to their top-performing reps are specialized customer service and reduced pricing or fees. These benefits are also the most common offered by insurance firms, along with providing reps with various technology upgrades.

As noted in last year's study, insurance-affiliated broker-dealers are more likely to cover 100% of the costs of many rep fees or services compared with independent broker-dealers. However, the gap in willingness to pay across firm types is narrowing and it appears that independent firms have stepped up their contribution coverage over the last year. Several fee types, such as help desk support, client relationship management software, and overall technology fees, are now more likely to be 100% covered by independent broker-dealers.

Recruiting and Retention

For the past few years it has been all too clear that broker-dealers across the industry are facing a diminishing workforce of experienced representatives as reps continue to age and get closer to retirement while the percentage of younger representatives stagnates, as indicated in Figure 15.

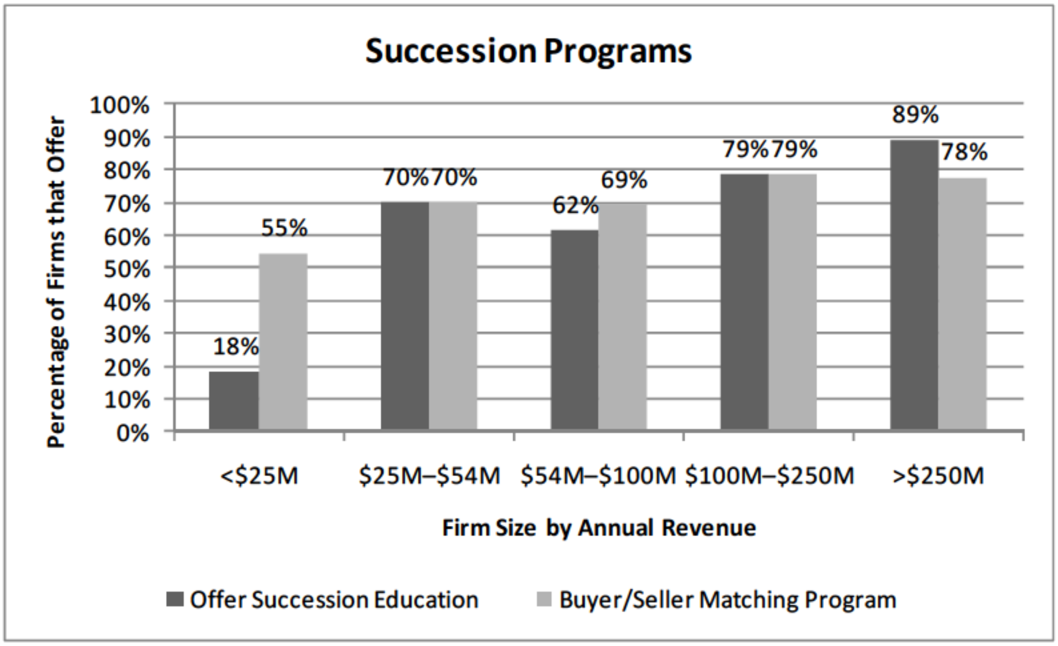
Figure 15: Distribution of Youngest and Oldest Representatives, 2008–2010



In the face of an aging rep base and a growing need to groom a younger generation of representatives in the industry, succession planning does not seem to be an area of importance for all firms. The percentage of firms offering succession education for representatives fell in 2010, from 70% to 63% of broker-dealers. The most common form of education is a conference presentation or breakout session dedicated to succession.

Very few firms indicated that they have a budget specific to succession-related programs. The budget for the few that do have one is small, with the average firm spending only about $73,000 on programs in 2010. Their expected spending for 2011 is only marginally higher, at $79,000. The propensity to offer succession programs increases in larger firms as shown in Figure 16; however, even the industry's largest firms tend to have little or no money set aside for succession programs.

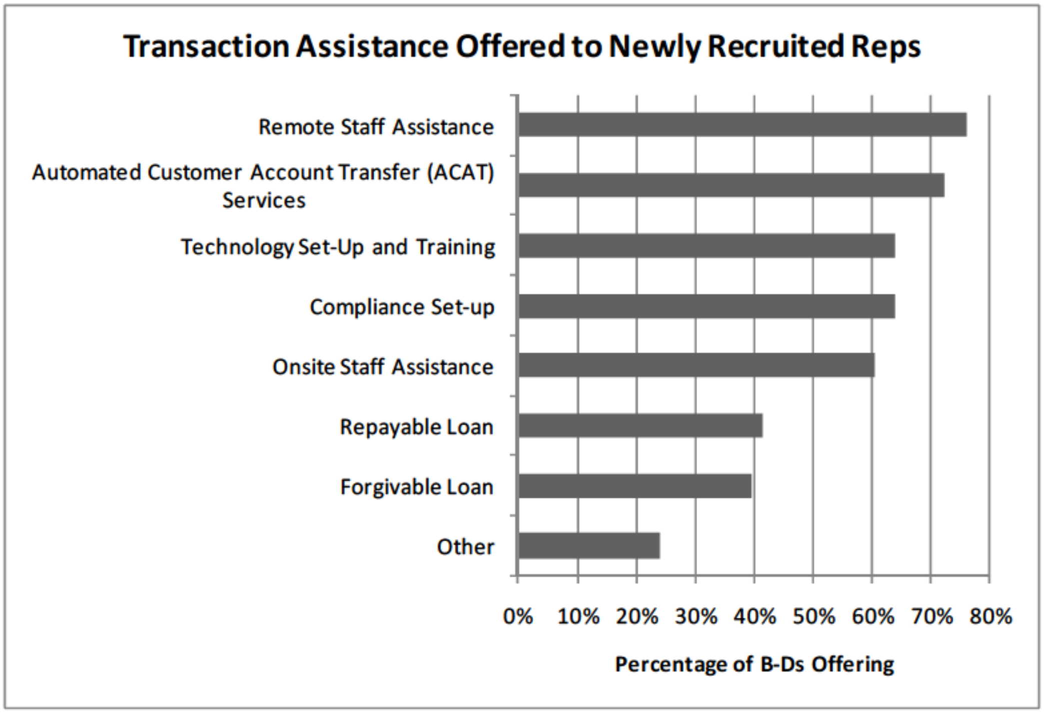
Figure 16: Utilization of Succession Programs by Firm Size



Succession education is much less common in insurance firms, as only 44% of firms offer them compared with 72% of independent firms. Insurance firms are also less likely to offer their representatives a buyer/seller matching program or transaction assistance, such as a recommended network of professional service providers or preferred pricing.

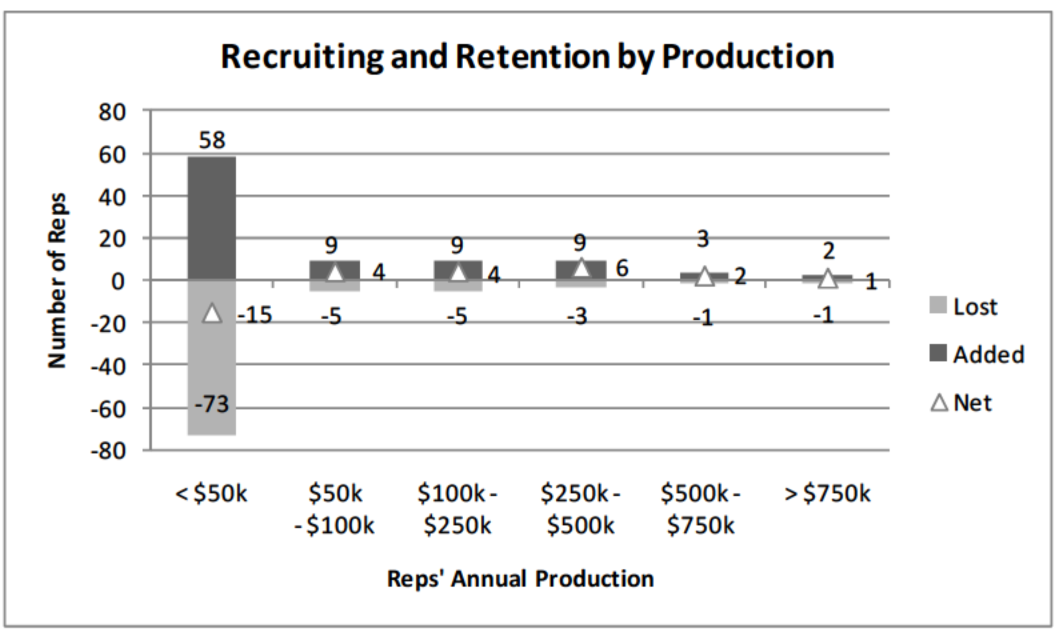
While emphasis on succession programs is minimal for most firms, total recruiting expenditures have increased about 18% for the typical firm since last year. A rise of recruiter costs and recruiting bonuses had the most impact on the increase in spending. About one-third of firms pay their new recruits a signing bonus and two-thirds offer a referral bonus to reps that refer new recruits. Most firms offer a variety of forms of transaction assistance to help newly recruited reps set up with their new broker-dealer, as shown in Figure 17.

Figure 17: Most Common Transaction Assistance Offered to Newly Recruited Reps



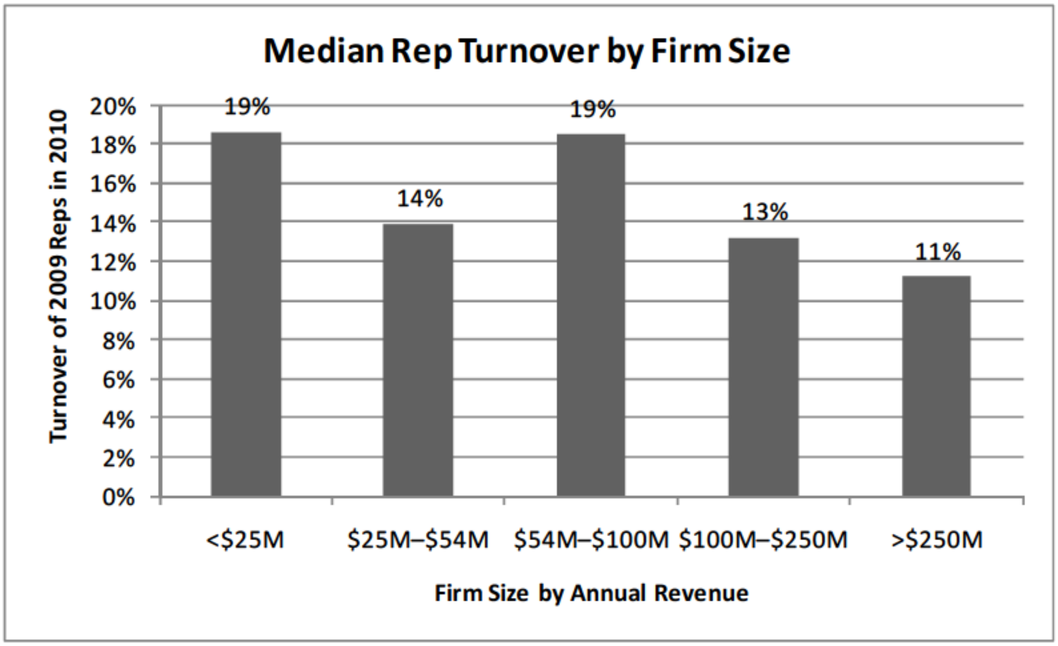
On average, firms recruited 13% more reps in 2010 than they had at the end of 2009. Yet, firms are still losing more reps than they are gaining. The ratio has not improved from last year—for every five reps recruited, another six on average were lost. Not surprisingly the majority of movement was among the lowest producers (Figure 18).

Figure 18: Median Representatives Lost and Added by Level of Production



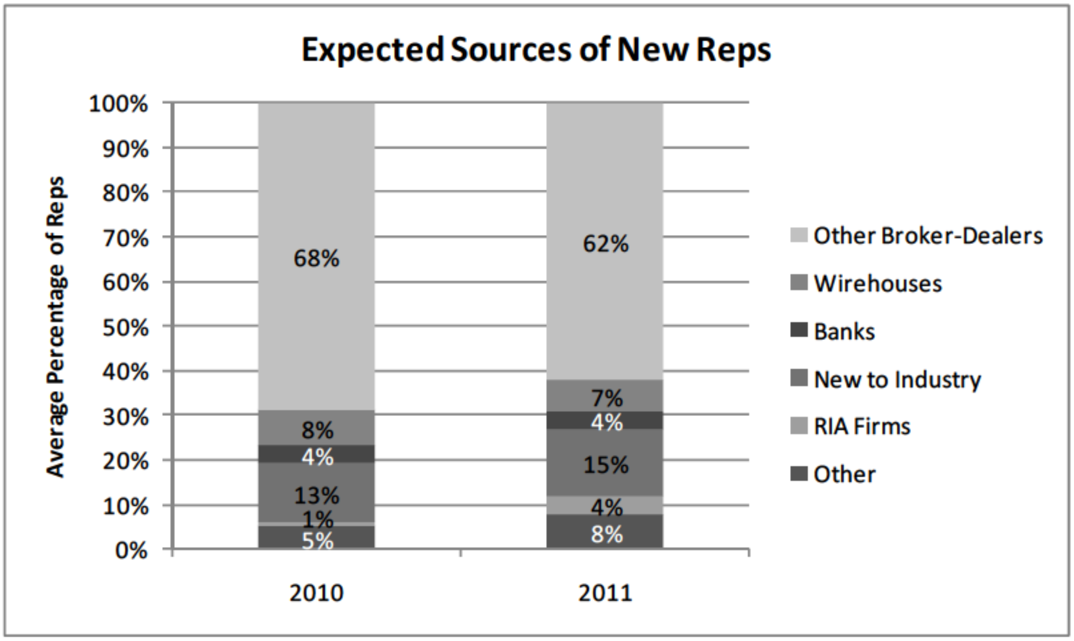
The median turnover rate for all firms, 15%, was virtually unchanged from last year. The highest turnover rates were observed in the smallest and middle revenue categories, as demonstrated in Figure 19.

Figure 19: Typical Representative Turnover by Firm Size



It has been clear over the last few years that firms have become less reliant on other broker-dealers as a source of new recruits. While this is still the most common source of their new reps, firms estimated filling 62% of their positions in 2011 with reps from other broker-dealers, which is down from 68% in 2010. As reliance on other broker-dealers decreases, hiring individuals who are new to the industry or from RIA firms has become more prevalent (Figure 20).

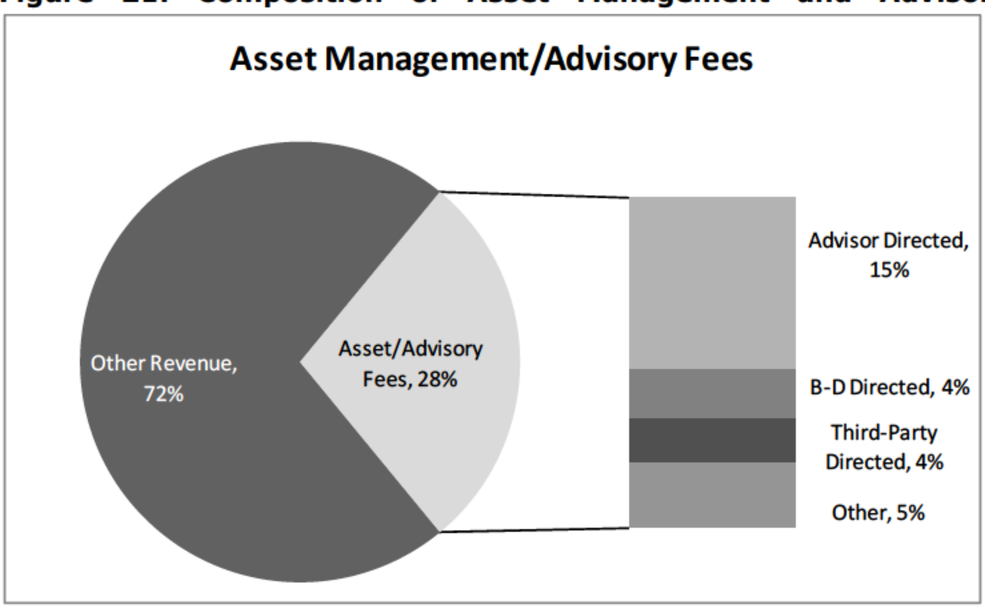
Figure 20: Expected Sources of New Hires, 2010 vs. 2011



Asset Management and Advisory Fees

Over the last few years a clear trend has emerged of broker-dealers increasing the percentage of their revenue that is derived from asset management and advisory fees. As mentioned earlier, fee-related revenue continued to increase slightly in 2010. Similarly the group of 42 firms who participated in this year and last year's studies also increased their percentage of revenue from fees by about 2 percentage points. Across all firms, the bulk of this revenue is from advisor-directed accounts, which makes up a little over half of the fees (Figure 21). This is unchanged from 2009.

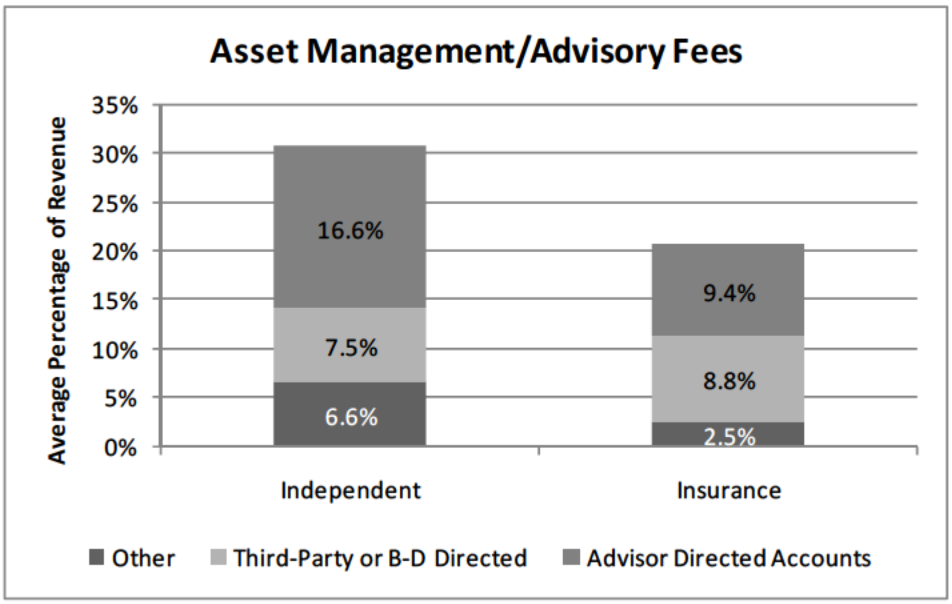
Figure 21: Composition of Asset Management and Advisory Fee Revenue



The industry's largest firms are also the most reliant on fee business, with 35.1% of their revenue derived from fees. In contrast, the smallest broker-dealers (less than $25 million) derive only 15.5% of revenue from fees.

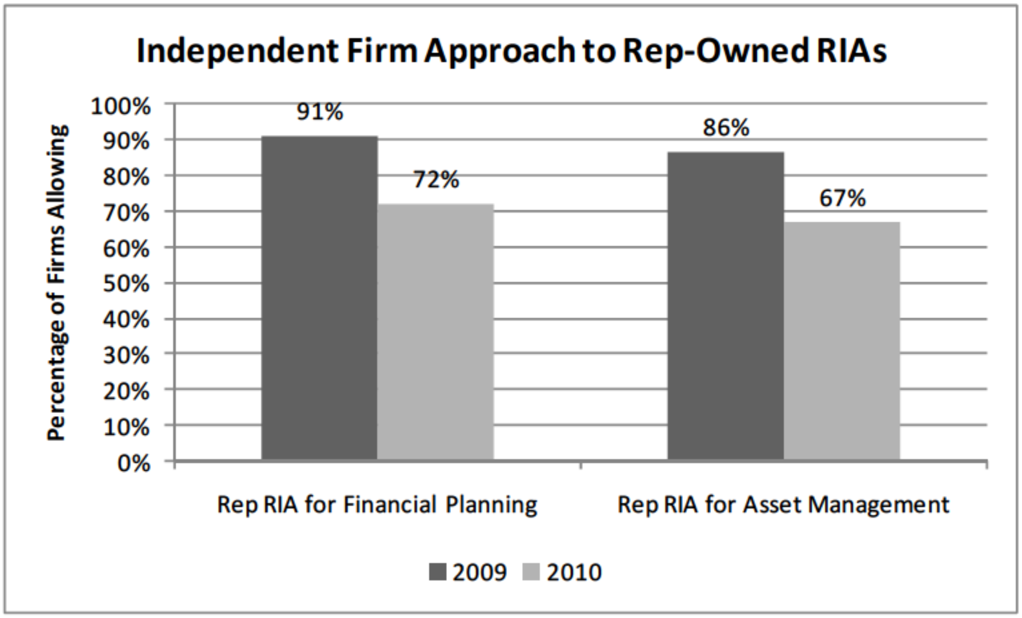
A similar distinction arises in the use of fee business for independent versus insurance broker-dealers. As shown in Figure 22, independent firms took in about 31% of their revenue through fees, compared with only 21% in insurance firms. The biggest difference between the two firm types is in advisor-directed accounts, which account for much more revenue in independent firms.

Figure 22: Average Fees as a Percentage of Revenue in Independent and Insurance Broker-Dealers



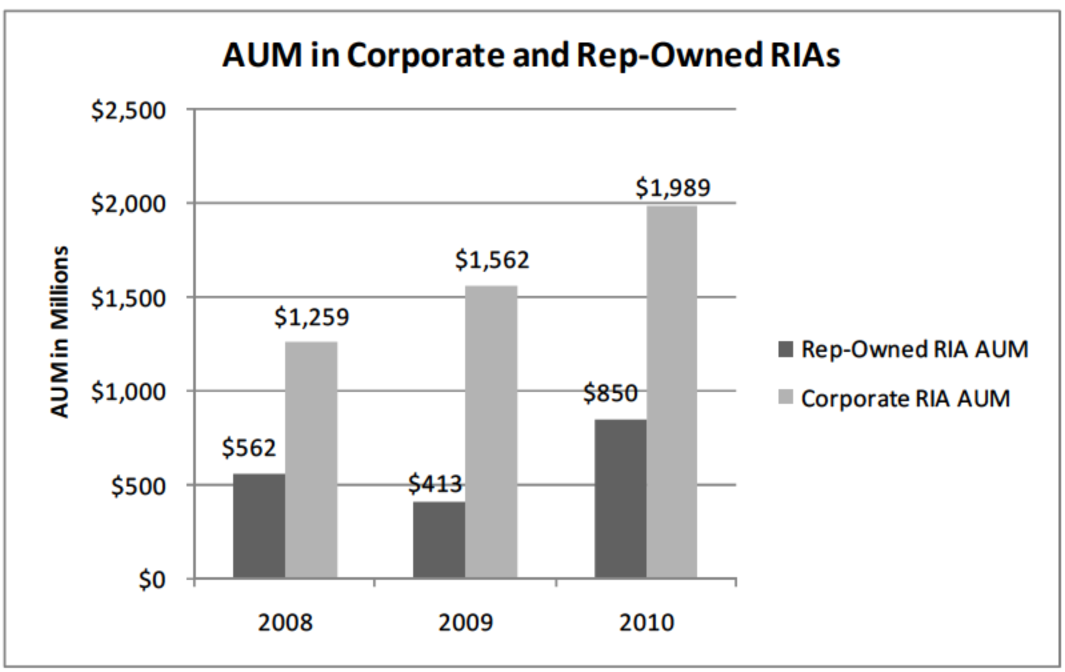
As in years past, independent firms are much more likely to allow reps to have their own RIA for financial planning and/or asset management. However, the practice of allowing an advisor-owned RIA has decreased since last year, even among independent firms (Figure 23). Further, few firms anticipate making a change to allow advisor-owned RIAs for financial planning or asset management in the next year.

Figure 23: Independent Firms' Approach to Advisor-Owned RIAs, 2009 vs. 2010



Despite the fact that fewer firms allow reps to have their own RIA, those that do appear to be successfully growing their assets under management. From 2009 to 2010 the typical AUM in a rep-owned RIA grew 51% while the typical AUM in corporate RIAs increased 27%.

Figure 24: AUM in Corporate and Rep-Owned RIAs, 2008–2010



Compliance and Litigation

As industry regulations have increased over the last several years, compliance continues to be an important focus for all broker-dealers. Review of the 42 firms that participated in both this year and last year's studies indicates that the percentage of revenue firms spent on legal, litigation, and customer settlement fees is virtually unchanged this year. Further, the number of new complaints and total complaints at the end of the year is down for the typical repeat participant firm.

However, for those that do have complaints, they are more expensive than in the past. Repeat study participants typically spent about $128,000 to defend complaints in 2009, compared with nearly $250,000 in 2010. Similarly the total settlement dollars paid out by the typical firm has increased from $141,000 in 2009 to $183,000 in 2010.

The percentage of firms experiencing regulatory inquiries in 2010 was down from 47% to 39% among repeat participants. However, those that did have inquiries had more of them—the typical firm only had two in 2009 compared with 15 in 2010. The most common triggers of inquiries were related to variable annuity sales practices and investment advisor activities.

When reviewing the results of all this year's participants, it appears that the typical firm actually has one fewer full-time equivalent dedicated to compliance and licensing compared with last year. However among repeat participants, the numbers have actually increased by 2 FTEs, from 17 last year to 19 this year.

Reader's Guide

Report Organization

The *2011 FSI Broker-Dealer Financial Performance Study* reviews in detail the financial as well as operating practices of FSI broker-dealer members. Results are typically presented by size of firm, type of broker-dealer, and profitability. In addition to this reader's guide, this report has two other major sections:

- Results Analysis
- Detailed Data Tables

2011 Results Analysis

This summary offers a detailed review and interpretation of the survey findings, including a perspective on this year's trends as they relate to recent history.

Detailed Data Tables

Detailed data tables are presented at the back of this report. These financial and operating statistics begin on page 27. Survey results are provided based on all participating firms. Additionally, the data is typically broken out by firm profitability, size, and ownership type. Figures are provided for a total of up to nine sub-groups in all.

Methodology

Data Collection

Survey data collected from 58 FSI broker-dealer member firms formed the basis for this study. Participation in the study was voluntary and restricted to members of FSI. The survey fielded in 2011, from February 11 to May 6, with firms reporting data as of year-end 2010.

All surveys were submitted directly to FA Insight. All firm-specific information provided is strictly confidential. No persons other than FA Insight project team members were, or will be, granted access to individual company data, other than a few general data points that firms gave permission to provide to FSI.

FSI study task force members, representatives from FSI, and FA Insight designed the survey form for this year's study.

Data Compilation

The data for each participant was reviewed separately following submission and all ratios were calculated for individual participants. While FA Insight did not verify the accuracy of the information submitted, respondents were frequently contacted to clear up any discrepancies noted in their submission.

A few participants provided their financial information in the firm's original chart of accounts rather than the one used in the survey form. To make statements comparable across companies, FA Insight translated firms' existing charts of accounts to the survey form's chart of accounts, consulting with participants when clarification was needed.

In order to present on as much of the reported data as possible, compiled data was based on all responses regardless of whether a firm completed all parts of a question. When data groupings yielded fewer than three responses, however, no estimates were published. In these cases "N/A" is used in the data tables to indicate an insufficient sample size.

Common-Sized Financial Statements

Fifty-eight broker-dealers completed detailed income statement and balance sheet forms using 2010 financial data. To calculate the common-sized financial statements for all respondents, a simple average was used.

Averages, Medians, and Quartiles

The bulk of presented data in this report is composed of averages or medians. While averages are often the best representation for the industry or a group as a whole, medians tend to better represent the experience of the typical broker-dealer firm.

The median is the halfway point in a data group, where half the survey results have greater value and half have lesser value. Because extreme outliers in the sample have less influence, medians are more helpful than averages for depicting the typical value in a group of values.

If the group contains an odd number of values, the median is the value precisely in the middle when the values are ranked in order of magnitude. When the group has an even number of values, the median is defined as half the distance between the two values in the middle.

Median ratios are often a common source of confusion. Median revenue per rep, for example, is correctly calculated by first calculating revenue per rep for all the firms in the survey. Next, the median is derived from this group of firm ratios. While median revenue for all firms divided into median number of reps produces a benchmark ratio as well, this calculation cannot be considered a true median.

Quartiles are a natural extension of a median. An upper quartile is used to distinguish a group of high-profit firms in the results analysis and the detailed data tables. The upper-quartile dividing line is a value such that 75% of the values in the sample are below it. Similarly, the lower quartile begins with the value such that 75% of the values in the group are above it.

Reporting Groups

In addition to presenting survey results for all participating broker-dealers, this report groups survey data according to firm profitability, size, and ownership. Estimates are provided for a total of nine sub-groups.

Profitability

Results for high-profit firms are distinguished from "all others" based on operating profit margin. High-profit firms are defined as any firm in the top 25% or upper quartile of respondents. For this year's report, respondents with an operating profit margin of 4.5% or higher were designated high-profit. Firms with lower profitability made up the "all other" group.

Firm Size

Participants were grouped by size based on reported 2010 total annual revenue. Revenue categories are as follows: Less than $25 million, $25 million to $54 million, $54 million to $100 million, $100 million to $250 million, and greater than $250 million.

Ownership

This year a new methodology was utilized to form the "Insurance" and "Independent" groups. Last year, respondents were asked if they were owned by a parent company and, if so, if the parent was in the business of insurance. Those who said yes to both of those questions comprised the "Insurance" group of firms. The firms that were either not parent-owned or owned by a holding company or parent other than an insurance company were included in the "Independent" group.

In this year's survey, participants were asked if they were owned by a parent and, if so, if the parent was in the business of insurance. If they answered yes to those questions, they were asked whether they primarily service agents of the parent insurance company, representatives not closely affiliated with the parent, or a hybrid of both types of representatives. If they answered that they primarily service agents of the parent or a hybrid of representative types, they were classified as "Insurance." All other firms, including those that are not parent-owned, were classified as "Independent."

Because of this change in methodology, last year's results have been recalculated utilizing the new definitions. All historical data including "Insurance" and "Independent" comparisons in this report is based off the calculations resulting from the new methodology.

Explanation of Financial Information

Liquidity	Liquidity ratios measure a company's ability to meet its short-term obligations.
Current Ratio *Formula:* *Total Current Assets/ Total Current Liabilities*	The current ratio shows a company's ability to pay obligations due within 12 months with assets that are expected to turn to cash within 12 months. A higher current ratio indicates better liquidity, and a lower current ratio may indicate that the company will have difficulty meeting short-term obligations. The key factors that influence this ratio are accounts receivable, commissions, payables, and turnover.

Working Capital *Formula:* *Total Current Assets– Total Current Liabilities*	Working capital is the capital a company needs on a day-to-day basis to produce revenue. For a broker-dealer operation, the working capital typically consists of commissions receivable and securities held for resale less the commissions payable to the reps and the amounts payable to vendors. A high-dollar number for working capital may indicate either very good financial health (if the cash balance is high) or problems with managing the receivables (if the cash balance is low).
Sales-to-Working Capital Ratio *Formula:* *Total Revenue/Working Capital*	The sales-to-working capital ratio measures how much revenue a company produces for a dollar of working capital. The higher the ratio, the more effective the company is in managing its working capital.
Safety	Safety ratios measure a company's ability to withstand adversity.
Debt-to-Equity *Formula:* *Total Liabilities/Total Equity*	Debt-to-equity, also known as leverage or debt-to-net-worth, compares the amount of funds invested by creditors with the amount of funds invested by owners. The higher the debt-to-equity ratio, the more the business is at risk in the event of an economic downturn. A heavy debt load increases a company's ability to grow during good times; however, a heavy debt load decreases a company's ability to withstand a downturn in profitability. The key factors that influence the debt-to-equity ratio are the company's borrowing, profitability, and capital (i.e., sources of funds other than debt).

Profitability	Profitability ratios measure a company's profitability at various levels.
Gross Profit Margin % *Formula:* *(Gross Profit/* *Total Revenue) x 100*	The gross profit margin equals gross profit divided by revenue. It represents the percentage of each revenue dollar available for operating expenses.
Operating Profit Margin % *Formula:* *(Operating Profit/* *Total Revenue) x 100*	The operating profit margin is the percentage return on revenue after all operating expenses and before other income and expense.
Pre-Tax Profit Margin % *Formula:* *(Pre-Tax Profit/* *Total Revenue) x 100*	The pre-tax profit margin is the percentage profit on revenue after all expenses except income taxes.
Net Profit Margin % *Formula:* *(Net Profit/* *Total Revenue) x 100*	The net profit margin is the percentage return on revenue after all expenses, including income taxes.

Employee / Office Productivity	Employee productivity ratios measure a company's employees' productivity using different measures of efficiency.
Revenue per Employee (FTE) *Formula:* *Total Revenue/* *Number of Full-time* *Equivalent Employees*	The revenue per employee provides a measure of the productivity of employees.
Commission per Rep *Formula:* *Total Commission* *Revenue/Number of Reps*	The commission per rep measures the productivity of the typical rep.

Revenue per Rep *Formula:* *Total Revenue/* *Number of Reps*	The revenue per rep is another measure of productivity. Compared with commission per rep, revenue per rep also includes assets under management and other non-commissionable production.
Commission Analysis	Commission analysis looks at how many times a year commissions are paid, as well as by number of days and what the commission payout percentage is based on, financial statement values for commissions received, and commissions paid during the year.
Commission Payable Turnover *Formula:* *Commissions Paid/* *Commissions Payable*	This is a modified version of accounts payable turnover using commissions paid and total commissions payable at the end of the year.
Commission Payable—Days *Formula:* *365/(Commissions Paid/* *Commissions Payable)*	The median commission payable in days.
Payout Ratio *Formula:* *Commissions Paid/* *Commissions Received*	The payout ratio is simply the ratio of commissions paid to commissions received based on financial statement data.
Cash Flow Analysis	Cash flow analysis looks at a broker-dealer's ability to generate operating cash flow from revenues and profits and the relationship of cash flow to assets and equity. Cash flow is a critical measure of a firm's ability to withstand an economic downturn, as well as measuring debt serviceability.
Cash Conversion Efficiency *Formula:* *Operating Cash Flow/* *Total Revenue*	The cash conversion efficiency ratio measures the ability of revenue to generate operating cash flow. It indicates how much operating cash flow each dollar of revenue generates.

Operating Cash Flow to Profit *Formula:* *Operating Cash Flow/* *Net Income*	Operating cash flow to profit indicates how much operating cash flow each dollar of profit (net income) generates.
Operating Cash Flow Return on Assets (ROA) *Formula:* *Operating Cash Flow/* *Total Assets*	Operating cash flow ROA measures the return on assets generated by operating cash flow.
Operating Cash Flow Return on Equity (ROE) *Formula:* *Operating Cash Flow/* *Total Equity*	Operating cash flow ROE measures the return on equity generated by operating cash flow.

Common-Sized Statements	Common-sized financial statements express each account as a percentage of either revenue (for the income statement) or total assets (for the balance sheet). The common-sized statements allow for a consistent comparison between firms and different historic periods and establish a relationship between revenue and expenses or between the items on the balance sheet. The common-sized financial statements for broker-dealers were calculated by taking the average value for all accounts and expressing them as a percentage of the average total.

Common-Sized Income Statements

Common-Sized Income Statement - All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
REVENUES						
Commission Received						
Mutual Funds	$ 13,810,198	10.3%	$ 18,236,801	9.3%	$ 12,266,034	10.9%
Equities	5,535,898	4.1%	9,788,132	5.0%	4,052,560	3.6%
Annuities	2,443,755	1.8%	3,975,449	2.0%	1,909,443	1.7%
Variable Annuities	24,034,683	17.9%	28,546,624	14.6%	22,460,750	20.0%
Bonds	1,775,293	1.3%	3,682,172	1.9%	1,110,102	1.0%
Life Insurance	9,081,388	6.8%	6,525,479	3.3%	9,972,984	8.9%
Partnerships	2,457,820	1.8%	2,125,436	1.1%	2,573,768	2.3%
Trail Commissions	22,556,329	16.8%	29,425,841	15.0%	20,159,987	17.9%
Other	2,885,956	2.2%	3,479,594	1.8%	2,678,873	2.4%
Total Commission Received	$ 84,581,319	63.1%	$ 105,785,528	54.0%	$ 77,184,502	68.7%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 19,686,717	14.7%	$ 42,408,362	21.6%	$ 11,760,562	10.5%
Broker-Dealer Directed Accounts	5,586,907	4.2%	12,927,259	6.6%	3,026,319	2.7%
Third-Party Directed Accounts	4,927,884	3.7%	8,462,585	4.3%	3,694,849	3.3%
Financial Planning Fees	1,657,990	1.2%	4,421,757	2.3%	693,886	0.6%
Other	5,743,820	4.3%	2,269,992	1.2%	6,955,621	6.2%
Total Asset Management/Advisory Fees	$ 37,603,319	28.1%	$ 70,489,954	36.0%	$ 26,131,236	23.2%
Other Revenue Subject to Rep Payout	$ 32,470	0.0%	$ 5,215	0.0%	$ 41,977	0.0%
Total Revenue Subject to Rep Payout	$ 122,217,107	91.2%	$ 176,280,697	90.0%	$ 103,357,715	92.0%
REVENUE NOT SUBJECT TO REP PAYOUT						
Fees Charged to Reps	$ 3,240,396	2.4%	$ 8,181,185	4.2%	$ 1,516,864	1.3%
Marketing/Due Diligence Fees/Soft Dollars	2,185,415	1.6%	2,574,232	1.3%	2,049,781	1.8%
Other Non-Commissionable Revenue	6,353,918	4.7%	8,886,847	4.5%	5,470,339	4.9%
Total Revenue Not Subject to Rep Payout	$ 11,779,729	8 8%	$ 19,642,264	10.0%	$ 9,036,984	8.0%
Total Revenue	**$ 133,996,836**	**100.0%**	**$ 195,922,961**	**100.0%**	**$ 112,394,699**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 102,088,629	76.2%	$ 144,493,463	73.8%	$ 87,296,245	77.7%
Clearance Fees	2,578,249	1.9%	7,304,854	3.7%	929,433	0.8%
Other	2,369,366	1.8%	135,171	0.1%	3,148,736	2.8%
Total Direct Expense	$ 107,036,244	79.9%	$ 151,933,488	77.5%	$ 91,374,414	81.3%
Gross Profit	**$ 26,960,592**	**20.1%**	**$ 43,989,473**	**22.5%**	**$ 21,020,285**	**18.7%**
OPERATING EXPENSES						
Accounting/Consulting	$ 519,746	0.4%	$ 356,022	0.2%	$ 576,858	0.5%
Computer (hardware, software, maintenance)	1,550,040	1.2%	1,736,266	0.9%	1,485,078	1.3%
Depreciation Expense	347,320	0.3%	586,396	0.3%	263,922	0.2%
Equipment Lease	47,782	0.0%	74,296	0.0%	38,532	0.0%
Employee Benefits/Insurance/Pension/401k	1,734,552	1.3%	1,711,557	0.9%	1,742,574	1.6%
Legal/Litigation/Customer Settlement	1,308,611	1.0%	1,058,909	0.5%	1,395,716	1.2%
Marketing Expense	883,094	0.7%	2,222,186	1.1%	415,969	0.4%
Parent/Third-Party Administrative Fee	3,169,270	2.4%	1,843,338	0.9%	3,631,805	3.2%
Phone/Fax/Communications	171,952	0.1%	286,800	0.1%	131,889	0.1%
Registration Fees	458,755	0.3%	633,121	0.3%	397,930	0.4%
Rent and Other Facility Expense	700,321	0.5%	1,028,262	0.5%	585,923	0.5%
Salaries/Wages and Payroll Taxes	8,716,311	6.5%	12,100,984	6.2%	7,535,612	6.7%
Travel, Lodging, Meals, and Entertainment	402,753	0.3%	516,711	0.3%	362,999	0.3%
Miscellaneous General and Administrative Expense	2,333,202	1.7%	1,918,552	1.0%	2,477,848	2.2%
Total Operating Expense	$ 22,343,710	16.7%	$ 26,073,400	13.3%	$ 21,042,655	18.7%
Operating Profit	**$ 4,616,882**	**3.4%**	**$ 17,916,073**	**9.1%**	**$ (22,370)**	**0.0%**
OTHER INCOME AND EXPENSES						
Other Income	$ 10,780,720	8.0%	$ 41,078,272	21.0%	$ 211,806	0.2%
Other Expenses (-)	(10,106,234)	-7.5%	(38,801,512)	-19.8%	(96,254)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	(16,720)	0.0%	(64,649)	0.0%	-	0.0%
Other Interest Expense (-)	(52,875)	0.0%	(194,010)	-0.1%	(3,642)	0.0%
Goodwill Amortization (-)	(27,722)	0.0%	-	0.0%	(37,392)	0.0%
Total Other Income and Expenses	$ 577,169	0.4%	$ 2,018,101	1.0%	$ 74,518	0.1%
Pre-Tax Profit	**$ 5,194,051**	**3.9%**	**$ 19,934,174**	**10.2%**	**$ 52,148**	**0.0%**
Income Taxes (-)	$ (1,374,513)	-1.0%	$ (5,442,702)	-2.8%	$ 44,622	0.0%
Net Income	**$ 3,819,538**	**2.9%**	**$ 14,491,472**	**7.4%**	**$ 96,770**	**0.1%**
Count	58		15		43	

Common-Sized Income Statement - Broker-Dealers by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
REVENUES						
Commission Received						
Mutual Funds	$ 2,087,427	17.9%	$ 4,691,926	11.6%	$ 6,674,850	8.3%
Equities	137,273	1.2%	2,497,458	6.2%	7,617,499	9.5%
Annuities	264,468	2.3%	1,310,831	3.2%	3,530,081	4.4%
Variable Annuities	2,058,109	17.6%	8,232,433	20.3%	16,539,725	20.6%
Bonds	191,188	1.6%	1,419,061	3.5%	2,319,941	2.9%
Life Insurance	189,744	1.6%	2,800,109	6.9%	1,358,415	1.7%
Partnerships	1,326,677	11.4%	1,255,566	3.1%	3,609,551	4.5%
Trail Commissions	1,508,583	12.9%	5,005,336	12.4%	11,751,189	14.6%
Other	887,611	7.6%	2,042,939	5.0%	1,689,933	2.1%
Total Commission Received	$ 8,651,080	74.1%	$ 29,255,659	72.2%	$ 55,091,185	68.5%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 733,479	6.3%	$ 2,025,887	5.0%	$ 8,366,619	10.4%
Broker-Dealer Directed Accounts	17,596	0.2%	1,435,599	3.5%	5,971,654	7.4%
Third-Party Directed Accounts	992,045	8.5%	1,550,765	3.8%	3,004,822	3.7%
Financial Planning Fees	60,501	0.5%	321,014	0.8%	653,068	0 8%
Other	-	0.0%	2,768,503	6.8%	1,376,692	1.7%
Total Asset Management/Advisory Fees	$ 1,803,621	15.5%	$ 8,101,768	20.0%	$ 19,372,855	24.1%
Other Revenue Subject to Rep Payout	$ 169,655	1.5%	$ 1,549	0.0%	$ -	0 0%
Total Revenue Subject to Rep Payout	$ 10,624,356	91.0%	$ 37,358,977	92.2%	$ 74,464,039	92.6%
REVENUE NOT SUBJECT TO REP PAYOUT						
Fees Charged to Reps	$ 213,416	1.8%	$ 694,459	1.7%	$ 1,720,027	2.1%
Marketing/Due Diligence Fees/Soft Dollars	302,506	2.6%	1,585,090	3.9%	994,144	1 2%
Other Non-Commissionable Revenue	532,026	4.6%	889,856	2.2%	3,221,391	4.0%
Total Revenue Not Subject to Rep Payout	$ 1,047,949	9.0%	$ 3,169,405	7.8%	$ 5,935,562	7.4%
Total Revenue	**$ 11,672,305**	**100.0%**	**$ 40,528,382**	**100.0%**	**$ 80,399,601**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 7,713,723	66.1%	$ 29,794,762	73.5%	$ 62,380,441	77 6%
Clearance Fees	127,046	1.1%	558,693	1.4%	1,015,768	1 3%
Other	144,560	1.2%	2,578,449	6.4%	420,055	0 5%
Total Direct Expense	$ 7,985,329	68.4%	$ 32,931,904	81.3%	$ 63,816,264	79.4%
Gross Profit	**$ 3,686,976**	**31.6%**	**$ 7,596,478**	**18.7%**	**$ 16,583,337**	**20.6%**
OPERATING EXPENSES						
Accounting/Consulting	$ 102,945	0.9%	$ 148,451	0.4%	$ 411,204	0 5%
Computer (hardware, software, maintenance)	222,161	1.9%	429,129	1.1%	975,458	1 2%
Depreciation Expense	30,262	0.3%	94,634	0.2%	238,970	0 3%
Equipment Lease	17,270	0.1%	14,322	0.0%	63,073	0.1%
Employee Benefits/Insurance/Pension/401k	219,616	1.9%	493,322	1.2%	992,153	1 2%
Legal/Litigation/Customer Settlement	171,868	1.5%	621,458	1.5%	949,739	1.2%
Marketing Expense	80,595	0.7%	109,162	0.3%	708,994	0.9%
Parent/Third-Party Administrative Fee	665,353	5.7%	179,111	0.4%	1,477,778	1.8%
Phone/Fax/Communications	32,871	0.3%	54,472	0.1%	230,788	0.3%
Registration Fees	84,183	0.7%	229,449	0.6%	228,226	0.3%
Rent and Other Facility Expense	160,013	1.4%	244,397	0.6%	519,211	0.6%
Salaries/Wages and Payroll Taxes	1,733,387	14.9%	3,018,527	7.4%	7,165,769	8.9%
Travel, Lodging, Meals, and Entertainment	99,024	0.8%	132,513	0.3%	311,907	0.4%
Miscellaneous General and Administrative Expense	(71,351)	-0.6%	1,486,018	3.7%	1,591,328	2.0%
Total Operating Expense	$ 3,548,196	30.4%	$ 7,254,964	17.9%	$ 15,864,598	19.7%
Operating Profit	**$ 138,780**	**1.2%**	**$ 341,514**	**0.8%**	**$ 718,738**	**0.9%**
OTHER INCOME AND EXPENSES						
Other Income	$ 335,344	2.9%	$ 28,561	0.1%	$ 410,226	0.5%
Other Expenses (-)	(6,268)	-0.1%	(618,001)	-1.5%	(104,643)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	-	0.0%	-	0.0%	(74,595)	-0.1%
Other Interest Expense (-)	(1,331)	0.0%	(8,908)	0.0%	(6,907)	0 0%
Goodwill Amortization (-)	-	0.0%	-	0.0%	(14,138)	0 0%
Total Other Income and Expenses	$ 327,744	2.8%	$ (598,348)	-1.5%	$ 209,943	0 3%
Pre-Tax Profit	**$ 466,525**	**4.0%**	**$ (256,834)**	**-0.6%**	**$ 928,681**	**1.2%**
Income Taxes (-)	$ (242,828)	-2.1%	$ 144,826	0.4%	$ 220,251	0 3%
Net Income	**$ 223,697**	**1.9%**	**$ (112,008)**	**-0.3%**	**$ 1,148,932**	**1.4%**
Count	11		11		13	

Common-Sized Income Statement - Broker-Dealers by Revenue Size

		$100M - $250M			*More Than $250M*	
REVENUES						
Commission Received						
Mutual Funds	$	21,484,822	14.0%	$	37,650,893	8.5%
Equities		4,378,850	2.8%		14,640,959	3.3%
Annuities		1,798,728	1.2%		5,926,252	1.3%
Variable Annuities		36,698,563	23.8%		61,335,481	13.8%
Bonds		866,946	0.6%		4,773,084	1.1%
Life Insurance		15,343,672	10.0%		29,040,145	6.5%
Partnerships		1,827,442	1.2%		4,626,728	1.0%
Trail Commissions		29,319,537	19.1%		74,819,442	16.8%
Other		1,362,329	0.9%		10,456,407	2.4%
Total Commission Received	$	113,080,889	73.5%	$	243,269,392	54.8%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$	11,633,487	7.6%	$	93,315,744	21.0%
Broker-Dealer Directed Accounts		2,669,004	1.7%		21,450,877	4.8%
Third-Party Directed Accounts		10,085,794	6.6%		8,620,286	1.9%
Financial Planning Fees		243,004	0.2%		8,897,204	2.0%
Other		5,078,545	3.3%		23,743,489	5.3%
Total Asset Management/Advisory Fees	$	29,709,835	19.3%	$	156,027,600	35.1%
Other Revenue Paid Out to Advisors	$	-	0.0%	$	-	0.0%
Total Revenue Paid Out	$	142,790,723	92.8%	$	399,296,991	89.9%
REVENUE NOT PAID OUT TO ADVISORS:						
Fees Charged to Advisors	$	1,416,610	0.9%	$	15,084,825	3.4%
Marketing/Due Diligence Fees/Soft Dollars		1,903,502	1.2%		7,379,732	1.7%
Other Non-Commissionable Revenue		7,789,216	5.1%		22,439,940	5.1%
Total Revenue Not Paid Out	$	11,109,328	7.2%	$	44,904,497	10.1%
Total Revenue	**$**	**153,900,051**	**100.0%**	**$**	**444,201,489**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$	120,527,550	78.3%	$	334,468,410	75.3%
Clearance Fees		1,226,334	0.8%		12,402,408	2.8%
Other		343,897	0.2%		10,799,427	2.4%
Total Direct Expense	$	122,097,782	79.3%	$	357,670,245	80.5%
Gross Profit	**$**	**31,802,270**	**20.7%**	**$**	**86,531,244**	**19.5%**
OPERATING EXPENSES						
Accounting/Consulting	$	596,493	0.4%	$	1,520,369	0.3%
Computer (hardware, software, maintenance)		2,703,409	1.8%		3,578,829	0 8%
Depreciation Expense		212,452	0.1%		1,409,974	0.3%
Equipment Lease		16,770	0.0%		152,123	0.0%
Employee Benefits/Insurance/Pension/401k		2,579,136	1.7%		4,861,758	1.1%
Legal/Litigation/Customer Settlement		1,302,000	0.8%		4,066,471	0.9%
Marketing Expense		732,637	0.5%		3,295,366	0.7%
Parent/Third-Party Administrative Fee		4,569,620	3.0%		10,149,198	2.3%
Phone/Fax/Communications		164,141	0.1%		412,693	0.1%
Registration Fees		682,280	0.4%		1,182,112	0.3%
Rent and Other Facility Expense		1,038,621	0.7%		1,653,297	0.4%
Salaries/Wages and Payroll Taxes		10,245,580	6.7%		24,075,765	5.4%
Travel, Lodging, Meals, and Entertainment		537,316	0.3%		1,026,170	0.2%
Miscellaneous General and Administrative Expense		1,824,598	1.2%		8,170,307	1.8%
Total Operating Expense	$	27,205,053	17.7%	$	65,554,432	14.8%
Operating Profit	**$**	**4,597,217**	**3.0%**	**$**	**20,976,812**	**4.7%**
OTHER INCOME AND EXPENSES						
Other Income	$	35,832	0.0%	$	68,382,691	15.4%
Other Expenses (-)		(157,320)	-0.1%		(63,970,199)	-14.4%
Interest on Financing Related to Business Acquisitions (-)		-	0.0%		-	0.0%
Other Interest Expense (-)		(92)	0.0%		(318,118)	-0.1%
Goodwill Amortization (-)		(25,500)	0.0%		(118,561)	0.0%
Total Other Income and Expenses	$	(147,080)	-0.1%	$	3,975,812	0.9%
Pre-Tax Profit	**$**	**4,450,136**	**2.9%**	**$**	**24,952,624**	**5.6%**
Income Taxes (-)	$	(1,345,754)	-0.9%	$	(6,962,939)	-1.6%
Net Income	**$**	**3,104,382**	**2.0%**	**$**	**17,989,685**	**4.0%**
Count		14			9	

Common-Sized Income Statement - Independent and Insurance Broker-Dealers

	Independent			Insurance		
REVENUES						
Commission Received						
Mutual Funds	$	13,367,680	9.1%	$	14,718,525	13.7%
Equities		7,526,545	5.1%		1,449,832	1.3%
Annuities		2,249,857	1.5%		2,841,757	2.6%
Variable Annuities		24,679,520	16.8%		22,711,070	21.1%
Bonds		2,340,987	1.6%		614,130	0.6%
Life Insurance		5,493,911	3.7%		16,445,155	15.3%
Partnerships		2,966,766	2.0%		1,413,142	1.3%
Trail Commissions		26,015,618	17.7%		15,455,682	14.4%
Other		3,588,407	2.4%		1,444,083	1.3%
Total Commission Received	$	88,229,291	60.1%	$	77,093,376	71.7%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$	24,365,883	16.6%	$	10,082,113	9.4%
Broker-Dealer Directed Accounts		5,877,667	4.0%		4,990,084	4.6%
Third-Party Directed Accounts		5,126,626	3.5%		4,519,940	4.2%
Financial Planning Fees		2,140,605	1.5%		667,360	0.6%
Other		7,522,811	5.1%		2,092,208	1.9%
Total Asset Management/Advisory Fees	$	45,033,592	30.7%	$	22,351,705	20.8%
Other Revenue Subject to Rep Payout	$	2,006	0.0%	$	95,001	0.1%
Total Revenue Subject to Rep Payout	$	133,264,889	90.7%	$	99,540,082	92.5%
REVENUE NOT SUBJECT TO REP PAYOUT						
Fees Charged to Reps	$	4,448,438	3.0%	$	760,731	0.7%
Marketing/Due Diligence Fees/Soft Dollars		1,892,027	1.3%		2,787,631	2.6%
Other Non-Commissionable Revenue		7,254,996	4.9%		4,504,339	4.2%
Total Revenue Not Subject to Rep Payout	$	13,595,460	9.3%	$	8,052,701	7.5%
Total Revenue	**$**	**146,860,349**	**100.0%**	**$**	**107,592,782**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$	110,057,650	74.9%	$	85,731,164	79.7%
Clearance Fees		3,357,897	2.3%		977,919	0.9%
Other		2,854,312	1.9%		1,373,950	1.3%
Total Direct Expense	$	116,269,859	79.2%	$	88,083,033	81.9%
Gross Profit	**$**	**30,590,490**	**20.8%**	**$**	**19,509,749**	**18.1%**
OPERATING EXPENSES						
Accounting/Consulting	$	585,787	0.4%	$	384,187	0.4%
Computer (hardware, software, maintenance)		1,527,799	1.0%		1,595,693	1.5%
Depreciation Expense		481,661	0.3%		71,569	0.1%
Equipment Lease		69,364	0.0%		3,480	0.0%
Employee Benefits/Insurance/Pension/401k		1,322,446	0.9%		2,580,454	2.4%
Legal/Litigation/Customer Settlement		1,503,361	1.0%		908,861	0.8%
Marketing Expense		1,113,253	0.8%		410,663	0.4%
Parent/Third-Party Administrative Fee		3,239,102	2.2%		3,025,933	2.8%
Phone/Fax/Communications		189,711	0.1%		135,500	0.1%
Registration Fees		535,716	0.4%		300,783	0.3%
Rent and Other Facility Expense		772,057	0.5%		553,072	0.5%
Salaries/Wages and Payroll Taxes		8,967,836	6.1%		8,200,025	7.6%
Travel, Lodging, Meals, and Entertainment		442,849	0.3%		320,449	0.3%
Miscellaneous General and Administrative Expense		2,982,326	2.0%		1,000,789	0.9%
Total Operating Expense	$	23,733,268	16.2%	$	19,491,458	18.1%
Operating Profit	**$**	**6,857,222**	**4.7%**	**$**	**18,291**	**0.0%**
OTHER INCOME AND EXPENSES						
Other Income	$	15,861,069	10.8%	$	352,634	0.3%
Other Expenses (-)		(14,967,166)	-10.2%		(128,533)	-0.1%
Interest on Financing Related to Business Acquisitions (-)		(24,865)	0.0%		-	0.0%
Other Interest Expense (-)		(77,340)	-0.1%		(2,658)	0.0%
Goodwill Amortization (-)		(27,360)	0.0%		(28,463)	0.0%
Total Other Income and Expenses	$	764,338	0.5%	$	192,980	0.2%
Pre-Tax Profit	**$**	**7,621,559**	**5.2%**	**$**	**211,271**	**0.2%**
Income Taxes (-)	$	(2,062,568)	-1.4%	$	37,809	0.0%
Net Income	**$**	**5,558,992**	**3.8%**	**$**	**249,080**	**0.2%**
Count		39			19	

Common-Sized Income Statement - All Broker-Dealers by Year

	2008		2009		2010	
REVENUES						
Commission Received						
Mutual Funds	$ 52,130,142	26.9%	$ 13,762,612	11.6%	$ 13,810,198	10.3%
Equities	5,209,115	2.7%	4,774,985	4.0%	5,535,898	4.1%
Annuities	4,060,747	2.1%	3,764,550	3.2%	2,443,755	1.8%
Variable Annuities	22,170,277	11.5%	23,274,272	19.6%	24,034,683	17.9%
Bonds	1,286,011	0.7%	1,840,356	1.5%	1,775,293	1.3%
Life Insurance	12,142,156	6.3%	6,942,802	5.8%	9,081,388	6.8%
Partnerships	3,219,808	1.7%	2,117,017	1.8%	2,457,820	1.8%
Trail Commissions	18,727,782	9.7%	18,193,260	15.3%	22,556,329	16.8%
Other	4,882,205	2.5%	3,402,805	2.9%	2,885,956	2.2%
Total Commission Received	$ 123,828,243	64.0%	$ 78,072,657	65.7%	$ 84,581,319	63.1%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$ 34,386,757	17.8%	$ 15,625,740	13.1%	$ 19,686,717	14.7%
Broker-Dealer Directed Accounts	2,048,086	1.1%	3,554,122	3.0%	5,586,907	4.2%
Third-Party Directed Accounts	4,049,112	2.1%	3,351,234	2.8%	4,927,884	3.7%
Financial Planning Fees	N/A		N/A			
Other	18,951,138	9.8%	7,368,588	6.2%	5,743,820	4.3%
Total Asset Management/Advisory Fees	$ 59,435,094	30.7%	$ 29,899,684	25.1%	$ 37,603,319	28.1%
Other Revenue Subject to Rep Payout	$ 344,546	0.2%	$ 68,244	0.1%	$ 32,470	0.0%
Total Revenue Subject to Rep Payout	$ 183,607,884	94.9%	$ 108,040,585	90.9%	$ 122,217,107	91.2%
REVENUE NOT SUBJECT TO REP PAYOUT						
Fees Charged to Reps	$ 1,335,426	0.7%	$ 2,220,734	1.9%	$ 3,240,396	2.4%
Marketing/Due Diligence Fees/Soft Dollars	2,251,338	1.2%	2,126,579	1.8%	2,185,415	1.6%
Other Non-Commissionable Revenue	6,296,094	3.3%	6,514,298	5.5%	6,353,918	4.7%
Total Revenue Not Subject to Rep Payout	$ 9,882,858	5.1%	$ 10,861,610	9.1%	$ 11,779,729	8.8%
Total Revenue	**$ 193,490,741**	**100.0%**	**$ 118,902,196**	**100.0%**	**$ 133,996,836**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 142,549,680	73.7%	$ 87,996,100	74.0%	$ 102,088,629	76.2%
Clearance Fees	2,699,954	1.4%	2,838,028	2.4%	2,578,249	1.9%
Other	3,455,716	1.8%	3,219,047	2.7%	2,369,366	1.8%
Total Direct Expense	$ 148,705,351	76.9%	$ 94,053,175	79.1%	$ 107,036,244	79.9%
Gross Profit	**$ 44,785,390**	**23.1%**	**$ 24,849,020**	**20.9%**	**$ 26,960,592**	**20.1%**
OPERATING EXPENSES						
Accounting/Consulting	$ 1,020,340	0.5%	$ 329,927	0.3%	$ 519,746	0.4%
Computer (hardware, software, maintenance)	1,268,776	0.7%	1,439,522	1.2%	1,550,040	1.2%
Depreciation Expense	2,132,344	1.1%	399,703	0.3%	347,320	0.3%
Equipment Lease	387,082	0.2%	41,180	0.0%	47,782	0.0%
Employee Benefits/Insurance/Pension/401k	1,494,005	0.8%	1,681,686	1.4%	1,734,552	1.3%
Legal/Litigation/Customer Settlement	1,204,591	0.6%	969,641	0.8%	1,308,611	1.0%
Marketing Expense	2,898,418	1.5%	893,776	0.8%	883,094	0.7%
Parent/Third-Party Administrative Fee	5,042,533	2.6%	5,699,287	4.8%	3,169,270	2.4%
Phone/Fax/Communications	963,803	0.5%	188,770	0.2%	171,952	0.1%
Registration Fees	667,471	0.3%	435,747	0.4%	458,755	0.3%
Rent and Other Facility Expense	1,793,044	0.9%	916,272	0.8%	700,321	0.5%
Salaries/Wages and Payroll Taxes	14,923,408	7.7%	8,524,746	7.2%	8,716,311	6.5%
Travel, Lodging, Meals, and Entertainment	785,455	0.4%	365,249	0.3%	402,753	0.3%
Miscellaneous General and Administrative Expense	3,749,285	1.9%	2,087,126	1.8%	2,333,202	1.7%
Total Operating Expense	$ 38,330,555	19.8%	$ 24,283,877	20.4%	$ 22,343,710	16.7%
Operating Profit	**$ 6,454,836**	**3.3%**	**$ 565,143**	**0.5%**	**$ 4,616,882**	**3.4%**
OTHER INCOME AND EXPENSES						
Other Income	$ 42,534	0.0%	$ 435,587	0.4%	$ 10,780,720	8.0%
Other Expenses (-)	(121,926)	-0.1%	(76,086)	-0.1%	(10,106,234)	-7.5%
Interest on Financing Related to Business Acquisitions (-)	(20,950)	0.0%	-	0.0%	(16,720)	0.0%
Other Interest Expense (-)	(2,154,482)	-1.1%	(13,517)	0.0%	(52,875)	0.0%
Goodwill Amortization (-)	(8,843)	0.0%	(410,996)	-0.3%	(27,722)	0.0%
Total Other Income and Expenses	$ (2,263,667)	-1.2%	$ (65,012)	-0.1%	$ 577,169	0.4%
Pre-Tax Profit	**$ 4,191,169**	**2.2%**	**$ 500,132**	**0.4%**	**$ 5,194,051**	**3.9%**
Income Taxes (-)	$ (2,468,358)	-1.3%	$ (1,238,424)	-1.0%	$ (1,374,513)	-1.0%
Net Income	**$ 1,722,810**	**0.9%**	**$ (738,292)**	**-0.6%**	**$ 3,819,538**	**2.9%**
Count	54		50		58	

Common-Sized Income Statement - High-Profit Broker-Dealers by Year

	2008			2009			2010		
REVENUES									
Commission Received									
Mutual Funds	$	149,662,366	35.9%	$	18,731,507	9.9%	$	18,236,801	9.3%
Equities		10,440,523	2.5%		10,806,879	5.7%		9,788,132	5.0%
Annuities		4,075,414	1.0%		8,501,469	4.5%		3,975,449	2.0%
Variable Annuities		17,459,207	4.2%		27,350,538	14.5%		28,546,624	14.6%
Bonds		2,491,710	0.6%		4,147,963	2.2%		3,682,172	1.9%
Life Insurance		19,400,225	4.7%		7,068,453	3.7%		6,525,479	3.3%
Partnerships		1,689,483	0.4%		3,333,328	1.8%		2,125,436	1.1%
Trail Commissions		23,132,567	5.5%		29,905,881	15.8%		29,425,841	15.0%
Other		5,913,699	1.4%		3,631,267	1.9%		3,479,594	1.8%
Total Commission Received	$	234,265,195	56.2%	$	113,477,286	60.0%	$	105,785,528	54.0%
Asset Management/Advisory Fees									
Advisor Directed Accounts	$	101,475,553	24.3%	$	29,608,839	15.7%	$	42,408,362	21.6%
Broker-Dealer Directed Accounts		1,764,550	0.4%		8,464,064	4.5%		12,927,259	6.6%
Third-Party Directed Accounts		9,066,197	2.2%		8,332,219	4.4%		8,462,585	4.3%
Financial Planning Fees		N/A			N/A				
Other		54,758,205	13.1%		11,077,923	5.9%		2,269,992	1.2%
Total Asset Management/Advisory Fees	$	167,064,506	40.1%	$	57,483,045	30.4%	$	70,489,954	36.0%
Other Revenue Subject to Rep Payout		$47,391	0.0%		$54,609	0.0%	$	5,215	0.0%
Total Revenue Subject to Rep Payout	$	401,377,092	96.2%	$	171,014,940	90.4%	$	176,280,697	90.0%
REVENUE NOT SUBJECT TO REP PAYOUT									
Fees Charged to Reps	$	2,788,298	0.7%	$	5,471,862	2.9%		8,181,185	4.2%
Marketing/Due Diligence Fees/Soft Dollars		1,965,178	0.5%		3,128,742	1.7%		2,574,232	1.3%
Other Non-Commissionable Revenue		10,941,904	2.6%		9,576,699	5.1%		8,886,847	4.5%
Total Revenue Not Subject to Rep Payout	$	15,695,380	3.8%	$	18,177,303	9.6%	$	19,642,264	10.0%
Total Revenue	**$**	**122,790,366**	**100.0%**	**$**	**189,192,242**	**100.0%**	**$**	**195,922,961**	**100.0%**
DIRECT EXPENSES									
Commissions Paid	$	94,595,010	77.0%	$	137,570,715	72.7%	$	144,493,463	73.8%
Clearance Fees		1,303,779	1.1%		7,763,177	4.1%		7,304,854	3.7%
Other		367,737	0.3%		620,318	0.3%		135,171	0.1%
Total Direct Expense	$	96,266,526	78.4%	$	145,954,210	77.1%	$	151,933,488	77.5%
Gross Profit	**$**	**26,523,840**	**21.6%**	**$**	**43,238,033**	**22.9%**	**$**	**43,989,473**	**22.5%**
OPERATING EXPENSES									
Accounting/Consulting	$	2,828,795	0.7%	$	482,288	0.3%	$	356,022	0.2%
Computer (hardware, software, maintenance)		886,526	0.2%		2,177,539	1.2%		1,736,266	0.9%
Depreciation Expense		7,494,688	1.8%		448,671	0.2%		586,396	0.3%
Equipment Lease		1,376,979	0.3%		130,367	0.1%		74,296	0.0%
Employee Benefits/Insurance/Pension/401k		1,278,143	0.3%		1,637,405	0.9%		1,711,557	0.9%
Legal/Litigation/Customer Settlement		271,889	0.1%		785,470	0.4%		1,058,909	0.5%
Marketing Expense		9,585,478	2.3%		2,328,586	1.2%		2,222,186	1.1%
Parent/Third-Party Administrative Fee		7,198,750	1.7%		8,536,085	4.5%		1,843,338	0.9%
Phone/Fax/Communications		3,119,514	0.7%		305,446	0.2%		286,800	0.1%
Registration Fees		1,970,376	0.5%		520,656	0.3%		633,121	0.3%
Rent and Other Facility Expense		4,902,241	1.2%		1,453,776	0.8%		1,028,262	0.5%
Salaries/Wages and Payroll Taxes		33,347,135	8.0%		10,474,374	5.5%		12,100,984	6.2%
Travel, Lodging, Meals, and Entertainment		1,430,492	0.3%		317,550	0.2%		516,711	0.3%
Miscellaneous General and Administrative Expense		7,502,175	1.8%		1,812,208	1.0%		1,918,552	1.0%
Total Operating Expense	$	83,193,180	19.9%	$	31,410,421	16.6%	$	26,073,400	13.3%
Operating Profit	**$**	**30,369,332**	**7.3%**	**$**	**11,827,612**	**6.3%**	**$**	**17,916,073**	**9.1%**
OTHER INCOME AND EXPENSES									
Other Income	$	137,865	0.0%	$	109,000	0.1%	$	41,078,272	21.0%
Other Expenses (-)		(268,605)	-0.1%		(10,026)	0.0%		(38,801,512)	-19.8%
Interest on Financing Related to Business Acquisitions (-)		(55,786)	0.0%		-	0.0%		(64,649)	0.0%
Other Interest Expense (-)		(8,269,795)	-2.0%		(34,799)	0.0%		(194,010)	-0.1%
Goodwill Amortization (-)		-	0.0%		-	0.0%		-	0.0%
Total Other Income and Expenses	$	(8,456,321)	-2.0%	$	64,175	0.0%	$	2,018,101	1.0%
Pre-Tax Profit	**$**	**21,913,011**	**5.3%**	**$**	**11,891,787**	**6.3%**	**$**	**19,934,174**	**10.2%**
Income Taxes (-)	$	(10,157,753)	-2.4%	$	(6,139,430)	-3.2%	$	(5,442,702)	-2.8%
Net Income	**$**	**11,755,258**	**2.8%**	**$**	**5,752,358**	**3.0%**	**$**	**14,491,472**	**7.4%**
Count		14			13			15	

Common-Sized Income Statement - Non-High-Profit Broker-Dealers by Year

	2008			2009			2010		
REVENUES									
Commission Received									
Mutual Funds	$	28,702,335	19.8%	$	12,016,784	12.8%	$	12,266,034	10.9%
Equities		3,581,420	2.5%		2,655,670	2.8%		4,052,560	3.6%
Annuities		1,527,725	1.1%		2,100,226	2.2%		1,909,443	1.7%
Variable Annuities		32,513,070	22.5%		21,842,070	23.2%		22,460,750	20.0%
Bonds		774,888	0.5%		1,029,575	1.1%		1,110,102	1.0%
Life Insurance		9,819,008	6.8%		6,898,654	7.3%		9,972,984	8.9%
Partnerships		6,825,559	4.7%		1,689,664	1.8%		2,573,768	2.3%
Trail Commissions		24,027,146	16.6%		14,078,015	14.9%		20,159,987	17.9%
Other		2,783,652	1.9%		3,322,534	3.5%		2,678,873	2.4%
Total Commission Received	$	110,554,802	76.4%	$	65,633,193	69.7%	$	77,184,502	68.7%
Asset Management/Advisory Fees									
Advisor Directed Accounts	$	9,369,464	6.5%	$	10,712,759	11.4%	$	11,760,562	10.5%
Broker-Dealer Directed Accounts		3,136,196	2.2%		1,829,007	1.9%		3,026,319	2.7%
Third-Party Directed Accounts		3,961,195	2.7%		1,601,158	1.7%		3,694,849	3.3%
Financial Planning Fees		N/A			N/A			693,886	0.6%
Other		7,922,961	5.5%		6,065,308	6.4%		6,955,621	6.2%
Total Asset Management/Advisory Fees	$	24,389,816	16.9%	$	20,208,233	21.5%	$	26,131,236	23.2%
Other Revenue Paid Out to Advisors		$448,551	0.4%		$73,035	0.1%	$	41,977	0.0%
Total Revenue Paid Out	$	135,226,133	93.5%	$	85,914,461	91.2%	$	103,357,715	92.0%
REVENUE NOT PAID OUT TO ADVISORS:									
Fees Charged to Advisors	$	826,921	0.7%	$	1,078,445	1.1%	$	1,516,864	1.3%
Marketing/Due Diligence Fees/Soft Dollars		2,351,494	2.0%		1,774,468	1.9%		2,049,781	1.8%
Other Non-Commissionable Revenue		4,670,061	4.1%		5,438,319	5.8%		5,470,339	4.9%
Total Revenue Not Paid Out	$	7,848,475	6.8%	$	8,291,232	8.8%	$	9,036,984	8.0%
Total Revenue	**$**	**115,237,136**	**100.0%**	**$**	**94,205,693**	**100.0%**	**$**	**112,394,699**	**100.0%**
DIRECT EXPENSES									
Commissions Paid	$	88,866,904	77.1%	$	70,577,992	74.9%	$	87,296,245	77.7%
Clearance Fees		1,278,010	1.1%		1,107,570	1.2%		929,433	0.8%
Other		4,378,823	3.8%		4,132,115	4.4%		3,148,736	2.8%
Total Direct Expense	$	94,523,738	82.0%	$	75,817,677	80.5%	$	91,374,414	81.3%
Gross Profit	**$**	**20,713,398**	**18.0%**	**$**	**18,388,016**	**19.5%**	**$**	**21,020,285**	**18.7%**
OPERATING EXPENSES									
Accounting/Consulting	$	387,380	0.3%	$	276,395	0.3%	$	576,858	0.5%
Computer (hardware, software, maintenance)		1,402,563	1.2%		1,180,219	1.3%		1,485,078	1.3%
Depreciation Expense		255,524	0.2%		382,498	0.4%		263,922	0.2%
Equipment Lease		40,618	0.0%		9,844	0.0%		38,532	0.0%
Employee Benefits/Insurance/Pension/401k		1,569,556	1.4%		1,697,244	1.8%		1,742,574	1.6%
Legal/Litigation/Customer Settlement		1,531,036	1.3%		1,034,350	1.1%		1,395,716	1.2%
Marketing Expense		557,947	0.5%		389,653	0.4%		415,969	0.4%
Parent/Third-Party Administrative Fee		4,287,857	3.7%		4,702,574	5.0%		3,631,805	3.2%
Phone/Fax/Communications		209,305	0.2%		147,776	0.2%		131,889	0.1%
Registration Fees		211,455	0.2%		405,914	0.4%		397,930	0.4%
Rent and Other Facility Expense		704,825	0.6%		727,419	0.8%		585,923	0.5%
Salaries/Wages and Payroll Taxes		8,475,104	7.4%		7,839,741	8.3%		7,535,612	6.7%
Travel, Lodging, Meals, and Entertainment		559,692	0.5%		382,008	0.4%		362,999	0.3%
Miscellaneous General and Administrative Expense		2,435,773	2.1%		2,183,719	2.3%		2,477,848	2.2%
Total Operating Expense	$	22,628,636	19.6%	$	21,779,956	23.1%	$	21,042,655	18.7%
Operating Profit	**$**	**(1,915,238)**	**-1.7%**	**$**	**(3,391,941)**	**-3.6%**	**$**	**(22,370)**	**0.0%**
OTHER INCOME AND EXPENSES									
Other Income	$	9,169	0.0%	$	550,334	0.6%	$	211,806	0.2%
Other Expenses (-)		(70,589)	-0.1%		(99,296)	-0.1%		(96,254)	-0.1%
Interest on Financing Related to Business Acquisitions (-)		(8,757)	0.0%		-	0.0%		-	0.0%
Other Interest Expense (-)		(14,123)	0.0%		(6,040)	0.0%		(3,642)	0.0%
Goodwill Amortization (-)		(11,938)	0.0%		(555,399)	-0.6%		(37,392)	0.0%
Total Other Income and Expenses	$	(96,238)	-0.1%	$	(110,401)	-0.1%	$	74,518	0.1%
Pre-Tax Profit	**$**	**(2,011,476)**	**-1.7%**	**$**	**(3,502,342)**	**-3.7%**	**$**	**52,148**	**0.0%**
Income Taxes (-)	$	222,930	0.2%	$	483,551	0.5%	$	44,622	0.0%
Net Income	**$**	**(1,788,547)**	**-1.6%**	**$**	**(3,018,791)**	**-3.2%**	**$**	**96,770**	**0.1%**
Count		40			37			43	

Common-Sized Income Statement - Independent Broker-Dealers by Year

	2008		2009		2010	
REVENUES						
Commission Received						
Mutual Funds	$62,321,047	28.4%	$ 12,341,558	9.9%	$ 13,367,680	9.1%
Equities	6,860,969	3.1%	6,863,241	5.5%	7,526,545	5.1%
Annuities	2,549,441	1.2%	4,021,200	3.2%	2,249,857	1.5%
Variable Annuities	20,539,098	9.3%	21,180,521	17.0%	24,679,520	16.8%
Bonds	1,676,087	0.8%	2,514,219	2.0%	2,340,987	1.6%
Life Insurance	12,434,444	5.7%	5,135,527	4.1%	5,493,911	3.7%
Partnerships	3,809,897	1.7%	2,888,095	2.3%	2,966,766	2.0%
Trail Commissions	18,216,999	8.3%	20,700,022	16.6%	26,015,618	17.7%
Other	5,689,583	2.6%	2,898,854	2.3%	3,588,407	2.4%
Total Commission Received	$134,097,564	61.0%	$ 78,543,236	63.0%	$ 88,229,291	60.1%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$44,625,894	20.3%	$ 19,639,980	15.8%	$ 24,365,883	16.6%
Broker-Dealer Directed Accounts	1,285,243	0.6%	3,951,898	3.2%	5,877,667	4.0%
Third-Party Directed Accounts	5,242,078	2.4%	4,628,908	3.7%	5,126,626	3.5%
Financial Planning Fees	N/A		N/A		2,140,605	1.5%
Other	24,601,739	11.2%	6,461,811	5.2%	7,522,811	5.1%
Total Asset Management/Advisory Fees	$ 75,754,955	34.5%	$ 34,682,597	27.8%	$ 45,033,592	30.7%
Other Revenue Subject to Rep Payout	$ 154,268	0.1%	$57,473	0.0%	$ 2,006	0.0%
Total Revenue Subject to Rep Payout	$ 210,006,787	95.6%	$ 113,283,306	90.9%	$ 133,264,889	90.7%
REVENUE NOT SUBJECT TO REP PAYOUT						
Fees Charged to Reps	$ 1,793,446	0.8%	$ 2,995,333	2.4%	$ 4,448,438	3.0%
Marketing/Due Diligence Fees/Soft Dollars	1,991,543	0.9%	2,378,048	1.9%	1,892,027	1.3%
Other Non-Commissionable Revenue	5,975,407	2.7%	5,980,184	4.8%	7,254,996	4.9%
Total Revenue Not Subject to Rep Payout	$ 9,760,396	4.4%	$ 11,353,565	9.1%	$ 13,595,460	9.3%
Total Revenue	**$ 95,279,649**	**100.0%**	**$ 124,636,872**	**100.0%**	**$ 146,860,349**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 159,351,886	72.5%	$ 93,945,420	75.4%	$ 110,057,650	74.9%
Clearance Fees	3,016,872	1.4%	3,638,615	2.9%	3,357,897	2.3%
Other	3,963,649	1.8%	814,847	0.7%	2,854,312	1.9%
Total Direct Expense	$ 166,332,407	75.7%	$ 98,398,883	78.9%	$ 116,269,859	79.2%
Gross Profit	**$ 53,434,776**	**24.3%**	**$ 26,237,989**	**21.1%**	**$ 30,590,490**	**20.8%**
OPERATING EXPENSES						
Accounting/Consulting	$ 1,287,401	0.6%	$ 325,245	0.3%	$ 585,787	0.4%
Computer (hardware, software, maintenance)	915,704	0.4%	1,172,231	0.9%	1,527,799	1.0%
Depreciation Expense	3,037,803	1.4%	455,165	0.4%	481,661	0.3%
Equipment Lease	558,901	0.3%	60,159	0.0%	69,364	0.0%
Employee Benefits/Insurance/Pension/401k	1,008,376	0.5%	1,183,851	0.9%	1,322,446	0.9%
Legal/Litigation/Customer Settlement	534,297	0.2%	806,183	0.6%	1,503,361	1.0%
Marketing Expense	3,905,833	1.8%	1,121,701	0.9%	1,113,253	0.8%
Parent/Third-Party Administrative Fee	3,866,230	1.8%	5,343,986	4.3%	3,239,102	2.2%
Phone/Fax/Communications	1,329,947	0.6%	216,993	0.2%	189,711	0.1%
Registration Fees	858,755	0.4%	372,590	0.3%	535,716	0.4%
Rent and Other Facility Expense	2,270,260	1.0%	971,089	0.8%	772,057	0.5%
Salaries/Wages and Payroll Taxes	16,882,628	7.7%	7,430,924	6.0%	8,967,836	6.1%
Travel, Lodging, Meals, and Entertainment	944,579	0.4%	329,961	0.3%	442,849	0.3%
Miscellaneous General and Administrative Expense	4,273,909	2.0%	1,661,603	1.3%	2,982,326	2.0%
Total Operating Expense	$ 41,674,622	19.0%	$ 21,451,681	17.2%	$ 23,733,268	16.2%
Operating Profit	**$ 11,760,153**	**5.4%**	**$ 4,786,308**	**3.8%**	**$ 6,857,222**	**4.7%**
OTHER INCOME AND EXPENSES						
Other Income	$ 61,591	0.0%	$ 172,030	0.1%	$ 15,861,069	10.8%
Other Expenses (-)	(95,785)	0.0%	(112,637)	-0.1%	(14,967,166)	-10.2%
Interest on Financing Related to Business Acquisitions (-)	(30,575)	0.0%	-	0.0%	(24,865)	0.0%
Other Interest Expense (-)	(3,144,213)	-1.4%	(21,212)	0.0%	(77,340)	-0.1%
Goodwill Amortization (-)	(4,863)	0.0%	(35,397)	0.0%	(27,360)	0.0%
Total Other Income and Expenses	$ (3,213,845)	-1.5%	$ 2,783	0.0%	$ 764,338	0.5%
Pre-Tax Profit	**$ 8,546,308**	**3.9%**	**$ 4,789,091**	**3.8%**	**$ 7,621,559**	**5.2%**
Income Taxes (-)	$ (4,063,776)	-1.8%	$ (2,460,521)	-2.0%	$ (2,062,568)	-1.4%
Net Income	**$ 4,482,532**	**2.0%**	**$ 2,328,571**	**1.9%**	**$ 5,558,992**	**3.8%**
Count	37		31		39	

Common-Sized Income Statement - Insurance Broker-Dealers by Year

	2008		2009		2010	
REVENUES						
Commission Received						
Mutual Funds	$29,949,936	22.0%	$ 16,081,175	14.7%	$ 14,718,525	13.7%
Equities	1,613,904	1.2%	1,367,830	1.2%	1,449,832	1.3%
Annuities	7,350,062	5.4%	3,345,805	3.1%	2,841,757	2.6%
Variable Annuities	25,720,490	18.9%	26,690,391	24.4%	22,711,070	21.1%
Bonds	437,022	0.3%	740,894	0.7%	614,130	0.6%
Life Insurance	11,506,001	8.4%	9,891,514	9.0%	16,445,155	15.3%
Partnerships	1,935,497	1.4%	858,941	0.8%	1,413,142	1.3%
Trail Commissions	19,839,485	14.6%	14,103,281	12.9%	15,455,682	14.4%
Other	3,124,970	2.3%	4,225,040	3.9%	1,444,083	1.3%
Total Commission Received	$101,477,367	74.5%	$ 77,304,871	70.6%	$ 77,093,376	71.7%
Asset Management/Advisory Fees						
Advisor Directed Accounts	$12,101,576	8.9%	$ 9,076,190	8.3%	$ 10,082,113	9.4%
Broker-Dealer Directed Accounts	3,708,394	2.7%	2,905,119	2.7%	4,990,084	4.6%
Third-Party Directed Accounts	1,452,658	1.1%	1,266,607	1.2%	4,519,940	4.2%
Financial Planning Fees	N/A		N/A		667,360	0.6%
Other	6,652,771	4.9%	8,848,068	8.1%	2,092,208	1.9%
Total Asset Management/Advisory Fees	$ 23,915,398	17.5%	$ 22,095,984	20.2%	$ 22,351,705	20.8%
Other Revenue Subject to Rep Payout	$ 758,681	0.6%	$ 85,817	0.1%	$ 95,001	0.1%
Total Revenue Subject to Rep Payout	$ 126,151,446	92.6%	$ 99,486,672	90.8%	$ 99,540,082	92.5%
REVENUE NOT SUBJECT TO REP PAYOUT						
Fees Charged to Reps	$ 338,558	0.2%	$ 956,913	0.9%	$ 760,731	0.7%
Marketing/Due Diligence Fees/Soft Dollars	2,816,774	2.1%	1,716,287	1.6%	2,787,631	2.6%
Other Non-Commissionable Revenue	(1,059)	5.1%	7,385,747	6.7%	4,504,339	4.2%
Total Revenue Not Subject to Rep Payout	$ 10,149,392	7.4%	$ 10,058,947	9.2%	$ 8,052,701	7.5%
Total Revenue	**$ 136,300,839**	**100.0%**	**$ 109,545,619**	**100.0%**	**$ 107,592,782**	**100.0%**
DIRECT EXPENSES						
Commissions Paid	$ 105,980,174	77.8%	$ 78,289,315	71.5%	$ 85,731,164	79.7%
Clearance Fees	2,010,191	1.5%	1,531,806	1.4%	977,919	0.9%
Other	2,350,216	1.7%	7,141,690	6.5%	1,373,950	1.3%
Total Direct Expense	$ 110,340,581	81.0%	$ 86,962,811	79.4%	$ 88,083,033	81.9%
Gross Profit	**$ 25,960,258**	**19.0%**	**$ 22,582,808**	**20.6%**	**$ 19,509,749**	**18.1%**
OPERATING EXPENSES						
Accounting/Consulting	$ 439,089	0.3%	$ 337,567	0.3%	$ 384,187	0.4%
Computer (hardware, software, maintenance)	2,037,226	1.5%	1,875,628	1.7%	1,595,693	1.5%
Depreciation Expense	161,641	0.1%	309,213	0.3%	71,569	0.1%
Equipment Lease	13,122	0.0%	10,213	0.0%	3,480	0.0%
Employee Benefits/Insurance/Pension/401k	2,550,960	1.9%	2,493,943	2.3%	2,580,454	2.4%
Legal/Litigation/Customer Settlement	2,663,466	2.0%	1,236,337	1.1%	908,861	0.8%
Marketing Expense	705,810	0.5%	521,898	0.5%	410,663	0.4%
Parent/Third-Party Administrative Fee	7,602,723	5.6%	6,278,989	5.7%	3,025,933	2.8%
Phone/Fax/Communications	166,902	0.1%	142,723	0.1%	135,500	0.1%
Registration Fees	251,148	0.2%	538,792	0.5%	300,783	0.3%
Rent and Other Facility Expense	754,396	0.6%	826,833	0.8%	553,072	0.5%
Salaries/Wages and Payroll Taxes	10,659,225	7.8%	10,309,402	9.4%	8,200,025	7.6%
Travel, Lodging, Meals, and Entertainment	439,127	0.3%	422,823	0.4%	320,449	0.3%
Miscellaneous General and Administrative Expense	2,607,455	1.9%	2,781,399	2.5%	1,000,789	0.9%
Total Operating Expense	$ 31,052,290	22.8%	$ 28,904,828	26.4%	$ 19,491,458	18.1%
Operating Profit	**$ (5,092,033)**	**-3.7%**	**$ (6,322,020)**	**-5.8%**	**$ 18,291**	**0.0%**
OTHER INCOME AND EXPENSES						
Other Income	$ 1,059	0.0%	$ 865,602	0.8%	$ 352,634	0.3%
Other Expenses (-)	(178,822)	-0.1%	(16,449)	0.0%	(128,533)	-0.1%
Interest on Financing Related to Business Acquisitions (-)	-	0.0%	-	0.0%	-	0.0%
Other Interest Expense (-)	(362)	0.0%	(963)	0.0%	(2,658)	0.0%
Goodwill Amortization (-)	(17,507)	0.0%	(1,023,815)	-0.9%	(28,463)	0.0%
Total Other Income and Expenses	$ (195,632)	-0.1%	$ (175,624)	-0.2%	$ 192,980	0.2%
Pre-Tax Profit	**$ (5,287,665)**	**-3.9%**	**$ (6,497,644)**	**-5.9%**	**$ 211,271**	**0.2%**
Income Taxes (-)	$ 1,004,021	0.7%	$ 755,523	0.7%	$ 37,809	0.0%
Net Income	**$ (4,283,644)**	**-3.1%**	**$ (5,742,121)**	**-5.2%**	**$ 249,080**	**0.2%**
Count	17		19		19	

Common-Sized Balance Sheet

Common-Sized Balance Sheet - All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers			*High-Profit: Top 25%*			*Non-High-Profit*	
ASSETS								
Cash	$	11,112,854	27.2%	$	20,948,743	33.8%	$	7,681,730	22.9%
Cash Equivalents and Securities		6,159,291	15.1%		11,091,943	17.9%		4,438,598	13.2%
Accounts Receivable		3,817,851	9.3%		5,407,319	8.7%		3,263,385	9.7%
Commissions Receivable		4,083,950	10.0%		5,608,336	9.0%		3,552,188	10.6%
Securities Held for Resale		2,520,974	6.2%		92,789	0.1%		3,368,014	10.0%
Prepaid Expenses		441,473	1.1%		738,576	1.2%		337,832	1.0%
Income Tax Receivable		1,103,019	2.7%		2,372,567	3.8%		660,154	2.0%
Other Current Assets		1,317,276	3.2%		488,842	0.8%		1,606,264	4.8%
Total Current Assets	**$**	**30,556,687**	**74.7%**	**$**	**46,749,115**	**75.4%**	**$**	**24,908,166**	**74.2%**
Gross Fixed Assets	$	2,844,264	7.0%	$	5,374,799	8.7%	$	1,961,520	5.8%
Less Accumulated Depreciation (-)		**(1,733,612)**	**-4.2%**		**(2,705,070)**	**-4.4%**		**(1,394,731)**	**-4.2%**
Total Net Fixed Assets	$	1,110,653	2.7%	$	2,669,729	4.3%	$	566,789	1.7%
Net Intangible Assets	$	4,380,615	10.7%	$	11,893,250	19.2%	$	1,759,929	5.2%
Other Non-Current Assets		4,868,294	11.9%		670,043	1.1%		6,332,800	18.9%
Total Assets	**$**	**40,916,249**	**100.0%**	**$**	**61,982,138**	**100.0%**	**$**	**33,567,684**	**100.0%**
LIABILITIES									
Notes Payable, Bank	$	240,067	0.6%	$	154,169	0.2%	$	270,031	0.8%
Accounts Payable		1,567,000	3.8%		1,684,377	2.7%		1,526,054	4.5%
Commissions Payable		6,068,636	14.8%		9,141,035	14.7%		4,996,870	14.9%
Current Portion Long-Term Debt		43,286	0.1%		121,064	0.2%		16,155	0.0%
Deposits		32,957	0.1%		-	0.0%		44,453	0.1%
Deferred Revenue		200,435	0.5%		462,145	0.7%		109,141	0.3%
Accrued Expenses		1,876,407	4.6%		4,401,305	7.1%		995,628	3.0%
Income Taxes Payable		373,096	0.9%		1,123,764	1.8%		111,235	0.3%
Other Current Liabilities		2,393,191	5.8%		4,930,127	8.0%		1,508,213	4.5%
Total Current Liabilities	**$**	**12,795,074**	**31.3%**	**$**	**22,017,984**	**35.5%**	**$**	**9,577,780**	**28.5%**
Long-Term Debt	$	216,463	0.5%	$	642,780	1.0%	$	67,748	0.2%
Shareholder Debt/Notes Due to Affiliate		1,102,463	2.7%		3,860,333	6.2%		140,416	0.4%
Other Non-Current Liabilities		3,099,905	7.6%		2,042,394	3.3%		3,468,805	10.3%
Total Long-Term Liabilities	**$**	**4,418,832**	**10.8%**	**$**	**6,545,507**	**10.6%**	**$**	**3,676,969**	**11.0%**
Total Liabilities	**$**	**17,213,906**	**42.1%**	**$**	**28,563,492**	**46.1%**	**$**	**13,254,748**	**39.5%**
EQUITY									
Common Stock/Paid-In Surplus	$	25,506,842	62.3%	$	15,450,586	24.9%	$	29,014,838	86.4%
Retained Earnings		(2,241,576)	-5.5%		18,222,872	29.4%		(9,380,337)	-27.9%
Treasury Stock (-)		437,078	1.1%		(254,811)	-0.4%		678,435	2.0%
Total Equity	**$**	**23,702,344**	**57.9%**	**$**	**33,418,646**	**53.9%**	**$**	**20,312,936**	**60.5%**
Total Liabilities and Equity	**$**	**40,916,249**	**100.0%**	**$**	**61,982,138**	**100.0%**	**$**	**33,567,684**	**100.0%**
Count		58			15			43	

Common-Sized Balance Sheet - Broker-Dealers by Revenue Size

	Less Than $25M			$25M - $54M			$54M - $100M		
ASSETS									
Cash	$	1,054,529	28.7%	$	1,252,213	19.7%	$	5,813,337	28.1%
Cash Equivalents and Securities		845,512	23.0%		1,768,549	27.9%		3,207,653	15.5%
Accounts Receivable		303,904	8.3%		1,209,193	19.1%		1,247,507	6.0%
Commissions Receivable		786,809	21.4%		694,176	10.9%		4,164,630	20.1%
Securities Held for Resale		5,504	0.1%		113,678	1.8%		404,847	2.0%
Prepaid Expenses		100,944	2.7%		111,619	1.8%		252,136	1.2%
Income Tax Receivable		9,829	0.3%		190,764	3.0%		366,999	1.8%
Other Current Assets		27,203	0.7%		407,078	6.4%		2,832,210	13.7%
Total Current Assets	**$**	**3,134,234**	**85.2%**	**$**	**5,747,270**	**90.6%**	**$**	**18,289,318**	**88.3%**
Gross Fixed Assets	$	146,207	4.0%	$	711,055	11.2%	$	860,833	4.2%
Less Accumulated Depreciation (-)		**(54,206)**	**-1.5%**		**(485,255)**	**-7.6%**		**(668,692)**	**-3.2%**
Total Net Fixed Assets	$	92,001	2.5%	$	225,799	3.6%	$	192,141	0.9%
Net Intangible Assets	$	412,685	11.2%	$	18,043	0.3%	$	302,656	1.5%
Other Non-Current Assets		38,604	1.0%		354,775	5.6%		1,934,949	9.3%
Total Assets	**$**	**3,677,524**	**100.0%**	**$**	**6,345,887**	**100.0%**	**$**	**20,719,063**	**100.0%**
LIABILITIES									
Notes Payable, Bank	$	134,103	3.6%	$	1,605	0.0%	$	1,308	0.0%
Accounts Payable		281,899	7.7%		814,462	12.8%		1,237,578	6.0%
Commissions Payable		612,032	16.6%		899,567	14.2%		3,708,174	17.9%
Current Portion Long-Term Debt		-	0.0%		-	0.0%		2,464	0.0%
Deposits		880	0.0%		-	0.0%		55,304	0.3%
Deferred Revenue		286,043	7.8%		147,399	2.3%		168,584	0.8%
Accrued Expenses		100,834	2.7%		323,167	5.1%		656,141	3.2%
Income Taxes Payable		176,188	4.8%		42,706	0.7%		83,622	0.4%
Other Current Liabilities		31,750	0.9%		17,971	0.3%		1,441,196	7.0%
Total Current Liabilities	**$**	**1,623,728**	**44.2%**	**$**	**2,246,877**	**35.4%**	**$**	**7,354,371**	**35.5%**
Long-Term Debt	$	-	0.0%	$	-	0.0%	$	1,076	0.0%
Shareholder Debt/Notes Due to Affiliate		21,960	0.6%		(865)	0.0%		-	0.0%
Other Non-Current Liabilities		45,886	1.2%		-	0.0%		823,040	4.0%
Total Long-Term Liabilities	**$**	**67,846**	**1.8%**	**$**	**(865)**	**0.0%**	**$**	**824,116**	**4.0%**
Total Liabilities	**$**	**1,691,574**	**46.0%**	**$**	**2,246,012**	**35.4%**	**$**	**8,178,486**	**39.5%**
EQUITY									
Common Stock/Paid-In Surplus	$	2,650,484	72.1%	$	3,129,938	49.3%	$	3,549,462	17.1%
Retained Earnings		(664,534)	-18.1%		969,482	15.3%		9,096,011	43.9%
Treasury Stock (-)		-	0.0%		455	0.0%		(104,896)	-0.5%
Total Equity	**$**	**1,985,950**	**54.0%**	**$**	**4,099,875**	**64.6%**	**$**	**12,540,577**	**60.5%**
Total Liabilities and Equity	**$**	**3,677,524**	**100.0%**	**$**	**6,345,887**	**100.0%**	**$**	**20,719,063**	**100.0%**
Count		11			11			13	

Common-Sized Balance Sheet - Broker-Dealers by Revenue Size

	$100M - $250M			More Than $250M		
ASSETS						
Cash	$	15,027,959	21.6%	$	37,022,955	32.7%
Cash Equivalents and Securities		17,425,787	25.0%		4,758,189	4.2%
Accounts Receivable		4,204,700	6.0%		14,411,986	12.7%
Commissions Receivable		5,452,855	7.8%		10,010,902	8.9%
Securities Held for Resale		1,050,659	1.5%		13,881,470	12.3%
Prepaid Expenses		544,921	0.8%		1,373,398	1.2%
Income Tax Receivable		1,322,375	1.9%		4,276,041	3.8%
Other Current Assets		1,559,333	2.2%		1,441,723	1.3%
Total Current Assets	**$**	**46,588,588**	**66.8%**	**$**	**87,176,664**	**77.1%**
Gross Fixed Assets	$	1,961,305	2.8%	$	12,987,595	11.5%
Less Accumulated Depreciation (-)		**(1,629,932)**	**-2.3%**		**(7,011,485)**	**-6.2%**
Total Net Fixed Assets	$	331,374	0.5%	$	5,976,110	5.3%
Net Intangible Assets	$	12,521,784	18.0%	$	7,788,685	6.9%
Other Non-Current Assets		10,277,838	14.7%		12,109,978	10.7%
Total Assets	**$**	**69,719,584**	**100.0%**	**$**	**113,051,438**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$	60,728	0.1%	$	1,284,876	1.1%
Accounts Payable		2,179,709	3.1%		3,580,175	3.2%
Commissions Payable		7,530,288	10.8%		20,191,449	17.9%
Current Portion Long-Term Debt		47,330	0.1%		201,773	0.2%
Deposits		48,776	0.1%		55,556	0.0%
Deferred Revenue		240,221	0.3%		144,740	0.1%
Accrued Expenses		3,844,039	5.5%		4,646,800	4.1%
Income Taxes Payable		1,222,001	1.8%		115,182	0.1%
Other Current Liabilities		3,324,557	4.8%		8,108,753	7.2%
Total Current Liabilities	**$**	**18,497,649**	**26.5%**	**$**	**38,329,303**	**33.9%**
Long-Term Debt	$	207,085	0.3%	$	1,071,300	0.9%
Shareholder Debt/Notes Due to Affiliate		-	0.0%		7,078,980	6.3%
Other Non-Current Liabilities		4,831,425	6.9%		11,216,700	9.9%
Total Long-Term Liabilities	**$**	**5,038,509**	**7.2%**	**$**	**19,366,980**	**17.1%**
Total Liabilities	**$**	**23,536,159**	**33.8%**	**$**	**57,696,283**	**51.0%**
EQUITY						
Common Stock/Paid-In Surplus	$	54,006,727	77.5%	$	68,175,001	60.3%
Retained Earnings		(9,994,284)	-14.3%		(12,410,449)	-11.0%
Treasury Stock (-)		2,170,982	3.1%		(409,398)	-0.4%
Total Equity	**$**	**46,183,425**	**66.2%**	**$**	**55,355,155**	**49.0%**
Total Liabilities and Equity	**$**	**69,719,584**	**100.0%**	**$**	**113,051,438**	**100.0%**
Count		14			9	

Common-Sized Balance Sheet - Independent and Insurance Broker-Dealers

	Independent			Insurance		
ASSETS						
Cash	$	14,142,015	30.0%	$	4,895,104	17.3%
Cash Equivalents and Securities		6,160,901	13.1%		6,155,986	21.8%
Accounts Receivable		4,826,515	10.3%		1,747,434	6.2%
Commissions Receivable		4,383,644	9.3%		3,468,789	12.3%
Securities Held for Resale		255,239	0.5%		7,171,691	25.4%
Prepaid Expenses		418,970	0.9%		487,664	1.7%
Income Tax Receivable		1,490,210	3.2%		308,260	1.1%
Other Current Assets		1,467,449	3.1%		1,009,025	3.6%
Total Current Assets	**$**	**33,144,943**	**70.4%**	**$**	**25,243,952**	**89.3%**
Gross Fixed Assets	$	3,744,451	8.0%	$	996,514	3.5%
Less Accumulated Depreciation (-)		**(2,149,477)**	**-4.6%**		**(879,993)**	**-3.1%**
Total Net Fixed Assets	$	1,594,974	3.4%	$	116,521	0.4%
Net Intangible Assets	$	6,283,139	13.3%	$	475,436	1.7%
Other Non-Current Assets		6,052,615	12.9%		2,437,318	8.6%
Total Assets	**$**	**47,075,671**	**100.0%**	**$**	**28,273,227**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$	55,721	0.1%	$	618,460	2.2%
Accounts Payable		1,650,262	3.5%		1,396,093	4.9%
Commissions Payable		7,121,386	15.1%		3,907,729	13.8%
Current Portion Long-Term Debt		64,374	0.1%		-	0.0%
Deposits		36,192	0.1%		26,316	0.1%
Deferred Revenue		284,493	0.6%		27,895	0.1%
Accrued Expenses		2,385,499	5.1%		831,427	2.9%
Income Taxes Payable		474,318	1.0%		165,326	0.6%
Other Current Liabilities		2,984,705	6.3%		1,179,029	4.2%
Total Current Liabilities	**$**	**15,056,951**	**32.0%**	**$**	**8,152,273**	**28.8%**
Long-Term Debt	$	321,920	0.7%	$	-	0.0%
Shareholder Debt/Notes Due to Affiliate		1,637,189	3.5%		4,868	0.0%
Other Non-Current Liabilities		2,969,795	6.3%		3,366,975	11.9%
Total Long-Term Liabilities	**$**	**4,928,904**	**10.5%**	**$**	**3,371,842**	**11.9%**
Total Liabilities	**$**	**19,985,855**	**42.5%**	**$**	**11,524,115**	**40.8%**
EQUITY						
Common Stock/Paid-In Surplus	$	23,984,566	50.9%	$	28,631,515	101.3%
Retained Earnings		3,265,544	6.9%		(13,545,667)	-47.9%
Treasury Stock (-)		(160,294)	-0.3%		1,663,263	5.9%
Total Equity	**$**	**27,089,816**	**57.5%**	**$**	**16,749,111**	**59.2%**
Total Liabilities and Equity	**$**	**47,075,671**	**100.0%**	**$**	**28,273,227**	**100.0%**
Count		39			19	

Common-Sized Balance Sheet - All Broker-Dealers by Year

	2008		2009		2010	
ASSETS						
Cash	$ 14,219,349	14.0%	$ 9,711,167	9.0%	$ 11,112,854	27.2%
Cash Equivalents and Securities	11,985,563	11.8%	6,881,898	6.4%	6,159,291	15.1%
Accounts Receivable	8,754,825	8.6%	4,460,980	4.1%	3,817,851	9.3%
Commissions Receivable	8,565,728	8.5%	3,257,071	3.0%	4,083,950	10.0%
Securities Held for Resale	3,036,068	3.0%	2,800,595	2.6%	2,520,974	6.2%
Prepaid Expenses	529,204	0.5%	470,119	0.4%	441,473	1.1%
Income Tax Receivable	1,055,336	1.0%	965,773	0.9%	1,103,019	2.7%
Other Current Assets	2,653,073	2.6%	1,385,931	1.3%	1,317,276	3.2%
Total Current Assets	**$ 50,799,148**	**50.1%**	**$ 53,946,023**	**49.9%**	**$ 30,556,687**	**74.7%**
Gross Fixed Assets	$ 8,582,306	8.5%	$ 2,444,035	2.3%	$ 2,844,264	7.0%
Less Accumulated Depreciation (-)	**(4,587,282)**	**-4.5%**	**(1,515,732)**	**-1.4%**	**(1,733,612)**	**-4.2%**
Total Net Fixed Assets	$ 3,995,024	3.9%	$ 4,185,727	3.9%	$ 1,110,653	2.7%
Net Intangible Assets	$ 40,812,125	40.3%	$ 5,259,305	4.9%	$ 4,380,615	10.7%
Other Non-Current Assets	5,688,361	5.6%	4,371,604	4.0%	4,868,294	11.9%
Total Assets	**$ 101,294,659**	**100.0%**	**$ 108,082,816**	**100.0%**	**$ 40,916,249**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 14,839,106	14.6%	$ 660,255	0.6%	$ 240,067	0.6%
Accounts Payable	3,744,917	3.7%	2,415,489	2.2%	1,567,000	3.8%
Commissions Payable	6,529,422	6.4%	5,144,633	4.8%	6,068,636	14.8%
Current Portion Long-Term Debt	27,692	0.0%	134,448	0.1%	43,286	0.1%
Deposits	161,569	0.2%	23,943	0.0%	32,957	0.1%
Deferred Revenue	992,073	1.0%	214,735	0.2%	200,435	0.5%
Accrued Expenses	1,726,728	1.7%	1,734,967	1.6%	1,876,407	4.6%
Income Taxes Payable	452,316	0.4%	431,756	0.4%	373,096	0.9%
Other Current Liabilities	4,735,919	4.7%	3,657,440	3.4%	2,393,191	5.8%
Total Current Liabilities	**$ 33,209,742**	**32.8%**	**$ 34,991,324**	**32.4%**	**$ 12,795,074**	**31.3%**
Long-Term Debt	$ 25,708,517	25.4%	$ 254,927	0.2%	$ 216,463	0.5%
Shareholder Debt/Notes Due to Affiliate	1,025,919	1.0%	325,200	0.3%	1,102,463	2.7%
Other Non-Current Liabilities	3,997,160	3.9%	619,039	0.6%	3,099,905	7.6%
Total Long-Term Liabilities	**$ 30,731,595**	**30.3%**	**$ 32,456,161**	**30.0%**	**$ 4,418,832**	**10.8%**
Total Liabilities	**$ 63,914,017**	**63.1%**	**$ 67,417,980**	**62.4%**	**$ 17,213,906**	**42.1%**
EQUITY						
Common Stock/Paid-In Surplus	$ 39,503,172	39.0%	$ 30,119,497	27.9%	$ 25,506,842	62.3%
Retained Earnings	(572,958)	-0.6%	(5,304,707)	-4.9%	(2,241,576)	-5.5%
Treasury Stock (-)	(1,546,875)	-1.5%	61,124	0.1%	437,078	1.1%
Total Equity	**$ 37,353,321**	**36.9%**	**$ 40,635,331**	**37.6%**	**$ 23,702,344**	**57.9%**
Total Liabilities and Equity	**$ 101,294,659**	**100.0%**	**$ 108,082,816**	**100.0%**	**$ 40,916,249**	**100.0%**
Count	54		50		58	

Common-Sized Balance Sheet - Independent Broker-Dealers by Year

	2008		2009		2010	
ASSETS						
Cash	$ 17,712,271	13.4%	$ 11,966,117	7.7%	$ 14,142,015	30.0%
Cash Equivalents and Securities	13,179,772	10.0%	5,681,935	3.7%	6,160,901	13.1%
Accounts Receivable	11,270,103	8.6%	5,688,934	3.7%	4,826,515	10.3%
Commissions Receivable	11,263,044	8.5%	3,680,157	2.4%	4,383,644	9.3%
Securities Held for Resale	940,197	0.7%	177,628	0.1%	255,239	0.5%
Prepaid Expenses	510,317	0.4%	489,388	0.3%	418,970	0.9%
Income Tax Receivable	1,056,745	0.8%	914,490	0.6%	1,490,210	3.2%
Other Current Assets	3,464,404	2.6%	1,751,070	1.1%	1,467,449	3.1%
Total Current Assets	**$ 59,396,852**	**45.1%**	**$ 69,079,540**	**44.5%**	**$ 33,144,943**	**70.4%**
Gross Fixed Assets	$ 11,858,076	9.0%	$ 3,233,499	2.1%	$ 3,744,451	8.0%
Less Accumulated Depreciation (-)	**(6,132,430)**	**-4.7%**	**(1,825,418)**	**-1.2%**	**(2,149,477)**	**-4.6%**
Total Net Fixed Assets	$ 5,725,646	4.3%	$ 6,661,991	4.3%	$ 1,594,974	3.4%
Net Intangible Assets	$ 59,107,787	44.8%	$ 7,972,529	5.1%	$ 6,283,139	13.3%
Other Non-Current Assets	7,565,870	5.7%	6,583,003	4.2%	6,052,615	12.9%
Total Assets	**$ 131,796,155**	**100.0%**	**$ 155,329,574**	**100.0%**	**$ 47,075,671**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 19,760,236	15.0%	$ 89,089	0.1%	$ 55,721	0.1%
Accounts Payable	4,246,904	3.2%	1,095,628	0.7%	1,650,262	3.5%
Commissions Payable	7,480,734	5.7%	5,612,095	3.6%	7,121,386	15.1%
Current Portion Long-Term Debt	39,036	0.0%	215,753	0.1%	64,374	0.1%
Deposits	222,290	0.2%	22,489	0.0%	36,192	0.1%
Deferred Revenue	1,127,385	0.9%	259,770	0.2%	284,493	0.6%
Accrued Expenses	1,921,863	1.5%	1,983,604	1.3%	2,385,499	5.1%
Income Taxes Payable	570,717	0.4%	601,780	0.4%	474,318	1.0%
Other Current Liabilities	5,366,083	4.1%	5,275,987	3.4%	2,984,705	6.3%
Total Current Liabilities	**$ 40,735,249**	**30.9%**	**$ 48,339,515**	**31.1%**	**$ 15,056,951**	**32.0%**
Long-Term Debt	$ 37,520,538	28.5%	$ 411,173	0.3%	$ 321,920	0.7%
Shareholder Debt/Notes Due to Affiliate	1,489,395	1.1%	524,516	0.3%	1,637,189	3.5%
Other Non-Current Liabilities	6,114,566	4.6%	564,383	0.4%	2,969,795	6.3%
Total Long-Term Liabilities	**$ 45,124,499**	**34.2%**	**$ 51,914,580**	**33.4%**	**$ 4,928,904**	**10.5%**
Total Liabilities	**$ 85,819,876**	**65.1%**	**$ 100,206,505**	**64.5%**	**$ 19,985,855**	**42.5%**
EQUITY						
Common Stock/Paid-In Surplus	$ 38,977,633	29.6%	$ 25,376,076	16.3%	$ 23,984,566	50.9%
Retained Earnings	8,656,644	6.6%	4,461,602	2.9%	3,265,544	6.9%
Treasury Stock (-)	(1,654,061)	-1.3%	(180,613)	-0.1%	(160,294)	-0.3%
Total Equity	**$ 45,936,406**	**34.9%**	**$ 55,075,478**	**35.5%**	**$ 27,089,816**	**57.5%**
Total Liabilities and Equity	**$ 131,796,155**	**100.0%**	**$ 155,329,574**	**100.0%**	**$ 47,075,671**	**100.0%**
Count	37		31		39	

Common-Sized Balance Sheet - Insurance Broker-Dealers by Year

	2008		2009		2010	
ASSETS						
Cash	$ 6,617,109	19.0%	$ 6,032,038	19.5%	$ 4,895,104	17.3%
Cash Equivalents and Securities	9,386,402	26.9%	8,839,734	28.5%	6,155,986	21.8%
Accounts Receivable	3,280,397	9.4%	2,457,477	7.9%	1,747,434	6.2%
Commissions Receivable	2,695,100	7.7%	2,566,771	8.3%	3,468,789	12.3%
Securities Held for Resale	7,597,671	21.8%	7,080,173	22.8%	7,171,691	25.4%
Prepaid Expenses	570,311	1.6%	438,679	1.4%	487,664	1.7%
Income Tax Receivable	1,052,271	3.0%	1,049,446	3.4%	308,260	1.1%
Other Current Assets	887,236	2.5%	790,177	2.5%	1,009,025	3.6%
Total Current Assets	**$ 32,086,498**	**91.9%**	**$ 29,254,496**	**94.4%**	**$ 25,243,952**	**89.3%**
Gross Fixed Assets	$ 1,452,688	4.2%	$ 1,155,962	3.7%	$ 996,514	3.5%
Less Accumulated Depreciation (-)	**(1,224,311)**	**-3.5%**	**(1,010,454)**	**-3.3%**	**(879,993)**	**-3.1%**
Total Net Fixed Assets	$ 228,377	0.7%	$ 145,507	0.5%	$ 116,521	0.4%
Net Intangible Assets	$ 992,156	2.8%	$ 832,466	2.7%	$ 475,436	1.7%
Other Non-Current Assets	1,602,018	4.6%	763,532	2.5%	2,437,318	8.6%
Total Assets	**$ 34,909,049**	**100.0%**	**$ 30,996,001**	**100.0%**	**$ 28,273,227**	**100.0%**
LIABILITIES						
Notes Payable, Bank	$ 4,128,412	11.8%	$ 1,592,158	5.1%	$ 618,460	2.2%
Accounts Payable	2,652,357	7.6%	4,568,945	14.7%	1,396,093	4.9%
Commissions Payable	4,458,918	12.8%	4,381,931	14.1%	3,907,729	13.8%
Current Portion Long-Term Debt	3,002	0.0%	1,793	0.0%	-	0.0%
Deposits	29,412	0.1%	26,316	0.1%	26,316	0.1%
Deferred Revenue	697,569	2.0%	141,256	0.5%	27,895	0.1%
Accrued Expenses	1,302,022	3.7%	1,329,297	4.3%	831,427	2.9%
Income Taxes Payable	194,620	0.6%	154,349	0.5%	165,326	0.6%
Other Current Liabilities	3,364,385	9.6%	1,016,653	3.3%	1,179,029	4.2%
Total Current Liabilities	**$ 16,830,697**	**48.2%**	**$ 13,212,697**	**42.6%**	**$ 8,152,273**	**28.8%**
Long-Term Debt	$ -	0.0%	$ -	0.0%	$ -	0.0%
Shareholder Debt/Notes Due to Affiliate	17,176	0.0%	-	0.0%	4,868	0.0%
Other Non-Current Liabilities	(611,313)	-1.8%	708,214	2.3%	3,366,975	11.9%
Total Long-Term Liabilities	**$ (594,137)**	**-1.7%**	**$ 708,214**	**2.3%**	**$ 3,371,842**	**11.9%**
Total Liabilities	**$ 16,236,560**	**46.5%**	**$ 13,920,911**	**44.9%**	**$ 11,524,115**	**40.8%**
EQUITY						
Common Stock/Paid-In Surplus	$ 40,646,992	116.4%	$ 37,858,764	122.1%	$ 28,631,515	101.3%
Retained Earnings	(20,660,914)	-59.2%	(21,239,211)	-68.5%	(13,545,667)	-47.9%
Treasury Stock (-)	(1,313,588)	-3.8%	455,536	1.5%	1,663,263	5.9%
Total Equity	**$ 18,672,490**	**53.5%**	**$ 17,075,090**	**55.1%**	**$ 16,749,111**	**59.2%**
Total Liabilities and Equity	**$ 34,909,049**	**100.0%**	**$ 30,996,001**	**100.0%**	**$ 28,273,227**	**100.0%**
Count	17		19		19	

Staffing

Number of Employees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category						
Administration/Operations	45	19	47	22	45	19
Commissions/Accounting	12	7	7	5	14	7
Compliance/Licensing	20	14	23	11	20	14
Executive Management	4	4	5	5	4	4
Investment/Retirement	4	0	4	0	3	1
Marketing Department (except recruiting)	10	4	11	3	9	5
MIS Department	15	4	13	5	15	4
Practice Management	5	1	6	2	4	1
Recruiting	5	2	6	3	5	2
Trading Room	7	3	5	3	8	3
Total Employees	**127**	**72**	**126**	**76**	**127**	**72**

Number of Employees
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category						
Administration/Operations	4	4	11	11	46	21
Commissions/Accounting	2	2	3	3	9	7
Compliance/Licensing	4	4	11	9	15	15
Executive Management	2	2	4	4	5	5
Investment/Retirement	1	0	1	0	2	2
Marketing Department (except recruiting)	1	1	4	2	7	5
MIS Department	0	0	2	1	13	6
Practice Management	0	0	1	1	4	2
Recruiting	0	0	1	1	4	3
Trading Room	1	1	3	2	10	4
Total Employees	**16**	**15**	**42**	**43**	**114**	**72**

Number of Employees
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category				
Administration/Operations	64	53	106	75
Commissions/Accounting	18	14	34	20
Compliance/Licensing	25	24	53	45
Executive Management	6	6	6	4
Investment/Retirement	4	0	12	8
Marketing Department (except recruiting)	19	11	15	13
MIS Department	23	15	38	33
Practice Management	6	3	13	5
Recruiting	8	6	11	6
Trading Room	11	8	9	7
Total Employees	**184**	**135**	**295**	**301**

Number of Employees
Independent and Insurance Broker-Dealers

	Independent		Insurance	
	Average	*Median*	*Average*	*Median*
Full-Time Equivalent Employees by Category				
Administration/Operations	45	21	46	17
Commissions/Accounting	14	6	9	7
Compliance/Licensing	20	12	20	18
Executive Management	5	5	3	3
Investment/Retirement	4	0	2	0
Marketing Department (except recruiting)	10	4	9	9
MIS Department	15	5	14	3
Practice Management	5	1	3	1
Recruiting	6	2	3	2
Trading Room	7	4	7	3
Total Employees	**132**	**72**	**116**	**72**

Financial and Operational Ratios

Financial and Operational Ratios - All, High-Profit, and Non-High-Profit Broker-Dealers by Year

Median Values	*All Broker-Dealers* 2009	*All Broker-Dealers* 2010	*High-Profit: Top 25%* 2009	*High-Profit: Top 25%* 2010	*Non-High-Profit* 2009	*Non-High-Profit* 2010
Liquidity						
Current Ratio	2.11	2.38	2.12	2.10	2.10	2.49
Safety						
Debt to Equity	0.70	0.70	0.63	0.86	0.74	0.69
Working Capital						
Sales to Working Capital	7.56	7.02	6.89	6.36	7.80	7.04
Working Capital ($)	$8,164,956	$7,308,891	$15,291,840	$17,341,598	$6,937,875	$6,747,656
*Profitability**						
Gross Profit	19.1%	18.9%	23.4%	24.4%	18.3%	18.5%
Operating Profit	0.0%	1.3%	5.5%	9.5%	-1.4%	0.5%
Pre-Tax Profit	0.1%	1.3%	5.5%	5.8%	-1.3%	0.5%
Net Profit	-0.1%	1.1%	4.0%	5.0%	-1.0%	0.3%
Employee/Office Productivity						
Revenue per Employee (FTE)	$859,186	$1,046,549	$903,336	$1,357,073	$834,342	$1,012,528
Revenue per Rep	$108,494	$139,373	$153,421	$186,361	$91,390	$114,423
Commission per Rep	$79,349	$95,557	$97,738	$111,575	$75,873	$93,085
Commission Analysis						
Commission Payable Turnover	17.53	16.25	16.56	15.32	18.38	16.72
Commission Payable - Days	21	22	22	24	20	22
Payout Ratio *	76.6%	79.0%	72.4%	75.0%	78.2%	79.7%
Cash Flow Analysis						
Cash Conversion Efficiency	0.2%	1.6%	5.8%	9.6%	-1.3%	0.8%
Operating Cash Flow to Profit	144.3%	142.5%	142.0%	154.9%	148.7%	137.3%
Operating Cash Flow ROA	0.1%	8.6%	23.1%	29.2%	-6.8%	3.6%
Operating Cash Flow ROE	0.2%	12.7%	33.7%	55.4%	-11.6%	6.0%

N/A - Not Available
** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - Broker-Dealers by Revenue Size and Year

Median Values	*Less Than $25M* 2009	*Less Than $25M* 2010	*$25M - $54M* 2009	*$25M - $54M* 2010	*$54M - $100M* 2009	*$54M - $100M* 2010
Liquidity						
Current Ratio	2.22	2.45	2.20	2.62	2.33	2.26
Safety						
Debt to Equity	0.67	0.84	0.66	0.52	0.70	0.69
Working Capital						
Sales to Working Capital	3.15	6.37	10.37	15.28	7.00	9.10
Working Capital ($)	$1,140,156	$1,157,733	$2,967,998	$2,019,776	$6,597,497	$5,713,508
*Profitability**						
Gross Profit	24.6%	22.6%	19.4%	19.3%	18.9%	15.6%
Operating Profit	-1.6%	1.0%	-0.7%	1.4%	0.5%	1.7%
Pre-Tax Profit	-3.3%	1.9%	-0.5%	0.5%	0.5%	1.7%
Net Profit	-2.2%	1.4%	-0.5%	0.3%	0.5%	2.2%
Employee/Office Productivity						
Revenue per Employee (FTE)	$624,618	$619,237	$759,064	$997,270	$955,007	$1,151,958
Revenue per Rep	$90,296	$98,867	$115,698	$139,448	$114,450	$147,323
Commission per Rep	$81,083	$92,843	$88,478	$98,590	$77,937	$104,337
Commission Analysis						
Commission Payable Turnover	13.90	13.18	22.82	24.82	16.03	17.53
Commission Payable - Days	26	28	16	15	23	21
Payout Ratio *	71.4%	76.6%	75.2%	75.0%	78.2%	80.6%
Cash Flow Analysis						
Cash Conversion Efficiency	-1.4%	1.0%	-0.6%	1.5%	1.0%	3.0%
Operating Cash Flow to Profit	105.7%	106.6%	161.6%	162.8%	157.1%	133.6%
Operating Cash Flow ROA	-6.2%	5.6%	-9.4%	13.9%	2.5%	8.3%
Operating Cash Flow ROE	-10.0%	10.7%	-16.5%	22.1%	3.4%	12.3%

N/A - Not Available
** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - Broker-Dealers by Revenue Size and Year

Median Values	*$100M - $250M*		*More Than $250M*	
	2009	*2010*	*2009*	*2010*
Liquidity				
Current Ratio	1.87	2.48	1 95	2.08
Safety				
Debt to Equity	0 91	0.71	0.70	1.18
Working Capital				
Sales to Working Capital	7 37	5.09	9 33	7.39
Working Capital ($)	$20,601,468	$23,797,966	$48,657,122	$45,435,484
*Profitability**				
Gross Profit	18.9%	17.7%	17.4%	17.7%
Operating Profit	-0.6%	1 2%	0.3%	2.1%
Pre-Tax Profit	0.5%	1 2%	0.3%	2.1%
Net Profit	-0.9%	1.1%	0.4%	1.3%
Employee/Office Productivity				
Revenue per Employee (FTE)	$883,084	$1,035,930	$1,402,510	$1,444,163
Revenue per Rep	$103,512	$103,583	$153,421	$188,186
Commission per Rep	$62,366	$80,478	$94,308	$111,575
Commission Analysis				
Commission Payable Turnover	17.55	15.07	17.53	15.43
Commission Payable - Days	21	24	21	24
Payout Ratio *	80.6%	81 5%	72.4%	75.6%
Cash Flow Analysis				
Cash Conversion Efficiency	-0.5%	1.4%	1.9%	2.1%
Operating Cash Flow to Profit	142.0%	142.5%	154.5%	158.2%
Operating Cash Flow ROA	-1.8%	6.4%	4.5%	4.4%
Operating Cash Flow ROE	-2.6%	11 2%	7.6%	7.2%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized*

Financial and Operational Ratios - Independent and Insurance Broker-Dealers by Year

Median Values	*Independent*		*Insurance*	
	2009	*2010*	*2009*	*2010*
Liquidity				
Current Ratio	2.10	2.31	2.14	2.49
Safety				
Debt to Equity	0.67	0.69	0.93	1.01
Working Capital				
Sales to Working Capital	9.33	7.39	4.63	5.27
Working Capital ($)	$6,597,497	$6,747,656	$12,437,000	$7,870,125
*Profitability**				
Gross Profit	18.9%	19.2%	21.1%	15 8%
Operating Profit	1.6%	1.7%	-4.9%	0.3%
Pre-Tax Profit	1.1%	1.7%	-3.4%	0.7%
Net Profit	0.6%	1.3%	-2.2%	0.7%
Employee/Office Productivity				
Revenue per Employee (FTE)	$955,007	$1,059,332	$801,063	$934,590
Revenue per Rep	$132,513	$150,931	$66,836	$80,823
Commission per Rep	$88,631	$104,337	$49,043	$60,181
Commission Analysis				
Commission Payable Turnover	16 66	17.32	18.38	15.62
Commission Payable - Days	22	21	20	23
Payout Ratio*	78.2%	78.7%	75.9%	80.6%
Cash Flow Analysis				
Cash Conversion Efficiency	2.1%	2.1%	-4.7%	0 5%
Operating Cash Flow to Profit	149.4%	147 8%	138.7%	131.0%
Operating Cash Flow ROA	8.1%	11.9%	-18.4%	2 2%
Operating Cash Flow ROE	11.3%	16.0%	-32.7%	3 9%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Financial and Operational Ratios - All Broker-Dealers by Year

Median Values	***2007***	***2008***	***2009***	***2010***
Liquidity				
Current Ratio	1.85	2.13	2.11	2.38
Safety				
Debt to Equity	0.89	0.82	0.70	0.70
Working Capital				
Sales to Working Capital	12.68	10.69	7.56	7.02
Working Capital ($)	$5,646,465	$8,424,333	$8,164,956	$7,308,891
*Profitability**				
Gross Profit	17.8%	19.4%	19.1%	18.9%
Operating Profit	2.8%	2.1%	0.0%	1.3%
Pre-Tax Profit	2.7%	1.8%	0.1%	1.3%
Net Profit	1.8%	1.1%	-0.1%	1.1%
Employee/Office Productivity				
Revenue per Employee (FTE)	$1,055,509	$952,518	$859,186	$1,046,549
Revenue per Rep	$133,030	$142,863	$108,494	$139,373
Commission per Rep	$105,652	$96,399	$79,349	$95,557
Commission Analysis				
Commission Payable Turnover	20.28	21.88	17.53	16.25
Commission Payable - Days	18	17	21	22
Payout Ratio *	81.3%	77.3%	76.6%	79.0%
Cash Flow Analysis				
Cash Conversion Efficiency	2.8%	2.1%	0.2%	1.6%
Operating Cash Flow to Profit	120.7%	145.8%	144.3%	142.5%
Operating Cash Flow ROA	15.2%	11.1%	0.1%	8.6%
Operating Cash Flow ROE	28.0%	19.0%	0.2%	12.7%

N/A - Not Available

** - Note that the Ratio Report presents median margins which may be different from the average margins reported on the Common-Sized Statements.*

Representative Network by Production

Representative Network by Production
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Total Number of Reps	1,148	606	1,166	429	1,141	672
Total Number of OSJs	102	46	212	31	63	51
Reps Producing in a Range as a Percentage of All Reps in the Network						
$0 - $25,000	39.2%		33.5%		41.1%	
$25,001 - $50,000	11.9%		11.6%		12.0%	
$50,001 - $75,000	8.6%		8.2%		8.8%	
$75,001 - $100,000	6.4%		6.1%		6.4%	
$100,001 - $150,000	8.8%		8.8%		8.8%	
$150,001 - $250,000	10.5%		12.4%		9.8%	
$250,001 - $350,000	5.5%		6.6%		5.2%	
$350,001 - $500,000	4.0%		6.0%		3.3%	
$500,001 - $750,000	2.8%		3.8%		2.5%	
$750,001 - $1,000,000	1.1%		1.6%		0.9%	
Greater than $1,000,000	1.2%		1.3%		1.2%	

Representative Network by Production
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Total Number of Reps	353	111	806	298	549	482
Total Number of OSJs	23	6	23	15	64	60
Reps Producing in a Range as a Percentage of All Reps in the Network						
$0 - $25,000	54.7%		39.5%		25.7%	
$25,001 - $50,000	8.5%		12.7%		12.4%	
$50,001 - $75,000	6.7%		8 6%		10.0%	
$75,001 - $100,000	4.5%		6.7%		7.5%	
$100,001 - $150,000	5.7%		9 9%		11.0%	
$150,001 - $250,000	6.7%		10.4%		14.4%	
$250,001 - $350,000	4 5%		4.4%		7.8%	
$350,001 - $500,000	2 6%		3 6%		5.7%	
$500,001 - $750,000	2 9%		2 3%		3.4%	
$750,001 - $1,000,000	1.3%		0 9%		1.2%	
Greater than $1,000,000	1 9%		1 0%		1.0%	

Representative Network by Production
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	Median	Average	Median
Total Number of Reps	1,663	1,420	2,599	1,826
Total Number of OSJs	70	57	399	185
Reps Producing in a Range as a Percent of All Reps in the Network				
$0 - $25,000	42.7%		33.6%	
$25,001 - $50,000	14.0%		11.2%	
$50,001 - $75,000	9.6%		7.6%	
$75,001 - $100,000	6.9%		5.7%	
$100,001 - $150,000	8.0%		9.5%	
$150,001 - $250,000	8.7%		12.3%	
$250,001 - $350,000	4.2%		7.0%	
$350,001 - $500,000	3.0%		5.5%	
$500,001 - $750,000	1.7%		4.3%	
$750,001 - $1,000,000	0.6%		1.7%	
Greater than $1,000,000	0.8%		1.6%	

Representative Network by Production
Independent and Insurance Broker-Dealers

	Independent		Insurance	
	Average	Median	Average	Median
Total Number of Reps	977	482	1,498	950
Total Number of OSJs	124	28	56	57
Reps Producing in a Range as a Percentage of All Reps in the Network				
$0 - $25,000	31.3%		55.4%	
$25,001 - $50,000	12.3%		11.2%	
$50,001 - $75,000	9.1%		7.6%	
$75,001 - $100,000	7.2%		4.6%	
$100,001 - $150,000	10.1%		6.2%	
$150,001 - $250,000	12.4%		6.5%	
$250,001 - $350,000	6.3%		3.9%	
$350,001 - $500,000	4.9%		2.2%	
$500,001 - $750,000	3.5%		1.6%	
$750,001 - $1,000,000	1.4%		0.5%	
Greater than $1,000,000	1.5%		0.5%	

Representative Payout by Production

Representative Payout Percentage by Production

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers			High-Profit: Top 25%			Non-High-Profit		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Reps' Payout for Producing the Following Amount									
$25,000	53%	68%	80%	55%	68%	89%	52%	68%	78%
$50,000	60%	75%	83%	65%	75%	89%	59%	74%	80%
$75,000	68%	75%	84%	68%	75%	89%	69%	77%	81%
$100,000	78%	84%	88%	81%	85%	90%	77%	80%	86%
$150,000	80%	85%	90%	85%	87%	90%	80%	84%	88%
$250,000	83%	88%	90%	88%	90%	90%	82%	85%	90%
$350,000	85%	88%	90%	88%	90%	90%	84%	88%	90%
$500,000	85%	90%	91%	89%	90%	91%	85%	90%	91%
$750,000	88%	90%	91%	89%	90%	93%	85%	90%	91%
$1,000,000	88%	90%	92%	90%	91%	94%	87%	90%	92%
Percentage of Firms Offering Production Bonuses to Branch Offices		28%			36%			26%	

Representative Payout Percentage by Production

Independent and Insurance Broker-Dealers

	Independent			Insurance		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Reps' Payout for Producing the Following Amount						
$25,000	55%	70%	80%	48%	63%	71%
$50,000	65%	75%	83%	50%	73%	75%
$75,000	70%	80%	85%	50%	75%	80%
$100,000	80%	85%	88%	59%	80%	86%
$150,000	83%	85%	90%	65%	80%	86%
$250,000	85%	89%	90%	75%	85%	90%
$350,000	87%	90%	90%	75%	85%	90%
$500,000	88%	90%	91%	75%	88%	90%
$750,000	90%	90%	92%	80%	88%	90%
$1,000,000	90%	91%	93%	80%	90%	92%
Percentage of Firms Offering Production Bonuses to Branch Offices		24%			37%	

Representative Payout Percentage by Production

Independent Broker-Dealer by Revenue Size

	Less Than $25M			$25M - $54M			$54M - $100M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Reps' Payout for Producing the Following Amount									
$25,000	66%	70%	76%	58%	65%	79%	62%	72%	80%
$50,000	71%	78%	80%	68%	71%	86%	69%	78%	82%
$75,000	75%	78%	80%	72%	78%	86%	71%	80%	84%
$100,000	78%	83%	85%	80%	88%	90%	80%	85%	89%
$150,000	81%	84%	89%	87%	90%	91%	83%	85%	89%
$250,000	80%	85%	90%	90%	90%	91%	85%	90%	90%
$350,000	80%	85%	90%	90%	90%	92%	87%	90%	90%
$500,000	80%	85%	90%	90%	92%	94%	90%	90%	91%
$750,000	80%	90%	90%	90%	92%	95%	90%	90%	92%
$1,000,000	80%	90%	92%	91%	94%	96%	90%	92%	95%
Percentage of Firms Offering Production Bonuses to Branch Offices		17%			0%			11%	

Representative Payout Percentage by Production

Independent Broker-Dealer by Revenue Size

	$100M - $250M			More Than $250M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Reps' Payout for Producing the Following Amount						
$25,000	54%	60%	71%	54%	77%	89%
$50,000	63%	70%	79%	58%	77%	89%
$75,000	70%	75%	81%	61%	77%	89%
$100,000	75%	80%	84%	84%	85%	89%
$150,000	81%	85%	86%	85%	87%	89%
$250,000	84%	87%	88%	88%	88%	90%
$350,000	87%	88%	89%	88%	89%	90%
$500,000	89%	90%	90%	88%	90%	91%
$750,000	90%	90%	90%	89%	90%	92%
$1,000,000	90%	90%	91%	89%	91%	93%
Percentage of Firms Offering Production Bonuses to Branch Offices		25%			71%	

Representative Payout Percentage by Production

Insurance Broker-Dealer by Revenue Size

	Less Than $25M			$25M - $54M			$54M - $100M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Reps' Payout for Producing the Following Amount									
$25,000	58%	65%	68%	64%	68%	71%	48%	55%	63%
$50,000	63%	75%	N/A	74%	78%	81%	60%	75%	75%
$75,000	63%	75%	78%	78%	80%	83%	63%	80%	80%
$100,000	63%	75%	N/A	81%	83%	84%	66%	85%	86%
$150,000	63%	75%	N/A	81%	83%	84%	68%	85%	87%
$250,000	69%	83%	N/A	81%	83%	84%	70%	88%	89%
$350,000	69%	83%	N/A	81%	83%	84%	70%	88%	89%
$500,000	69%	83%	N/A	81%	83%	84%	71%	90%	91%
$750,000	69%	83%	N/A	81%	83%	84%	71%	90%	91%
$1,000,000	69%	83%	N/A	81%	83%	84%	71%	90%	91%
Percentage of Firms Offering Production Bonuses to Branch Offices		20%			67%			0%	

Representative Payout Percentage by Production

Insurance Broker-Dealer by Revenue Size

	$100M - $250M			More Than $250M		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Reps' Payout for Producing the Following Amount						
$25,000	59%	72%	87%	31%	33%	34%
$50,000	70%	73%	88%	38%	40%	43%
$75,000	75%	77%	89%	43%	45%	48%
$100,000	80%	80%	89%	44%	48%	51%
$150,000	80%	81%	90%	49%	53%	56%
$250,000	83%	85%	90%	58%	62%	66%
$350,000	85%	87%	91%	59%	65%	70%
$500,000	88%	89%	92%	59%	65%	70%
$750,000	89%	90%	92%	61%	67%	74%
$1,000,000	91%	92%	93%	62%	70%	77%
Percentage of Firms Offering Production Bonuses to Branch Offices		50%			50%	

Insurance Broker-Dealer Payout Percentage by Level Grid Is Applied

Payout at Branch Office/OSJ and Individual Rep Level

	Independent - Payout at Branch Office/OSJ			*Independent - Payout at Individual Rep*		
	Lower Quartile	*Median*	*Upper Quartile*	*Lower Quartile*	*Median*	*Upper Quartile*
Reps' Payout for Producing the Following Amount						
$25,000	53%	70%	83%	59%	69%	78%
$50,000	55%	80%	83%	69%	73%	81%
$75,000	65%	80%	85%	72%	75%	84%
$100,000	81%	85%	88%	79%	85%	88%
$150,000	81%	85%	89%	83%	86%	90%
$250,000	85%	89%	90%	86%	88%	90%
$350,000	87%	89%	90%	87%	90%	90%
$500,000	88%	90%	90%	89%	90%	92%
$750,000	90%	90%	91%	90%	90%	93%
$1,000,000	90%	91%	92%	90%	91%	94%
Percentage of Firms Offering Production Bonuses to Branch Offices		20%			26%	

Insurance Broker-Dealer Payout Percentage by Level Grid Is Applied

Payout at Branch Office and Individual Rep Level

	Insurance - Payout at Branch Office			*Insurance - Payout at Individual Rep*		
	Lower Quartile	*Median*	*Upper Quartile*	*Lower Quartile*	*Median*	*Upper Quartile*
Reps' Payout for Producing the Following Amount						
$25,000	70%	72%	75%	42%	53%	63%
$50,000	71%	75%	83%	47%	60%	75%
$75,000	76%	79%	84%	50%	63%	79%
$100,000	80%	83%	89%	51%	68%	84%
$150,000	81%	84%	89%	53%	71%	84%
$250,000	84%	85%	90%	58%	75%	87%
$350,000	85%	88%	90%	59%	79%	87%
$500,000	87%	90%	90%	59%	80%	90%
$750,000	88%	90%	90%	59%	83%	90%
$1,000,000	88%	90%	92%	59%	87%	91%
Percentage of Firms Offering Production Bonuses to Branch Offices		71%			17%	

Recruiting

Recruiting- Representative Numbers
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Number of Reps at the End of 2009	Average	Median	Average	Median	Average	Median
< $50,000	657	316	727	341	633	299
$50,000 - $100,000	141	114	150	120	138	114
$100,000 - $250,000	188	129	251	129	163	129
$250,000 - $500,000	87	46	137	41	67	48
$500,000 - $750,000	28	14	51	18	20	14
> $750,000	23	8	44	9	15	7
New Reps Added in 2010						
< $50,000	95	58	98	44	93	58
$50,000 - $100,000	13	9	15	10	12	9
$100,000 - $250,000	17	9	16	10	18	8
$250,000 - $500,000	11	9	9	7	12	9
$500,000 - $750,000	3	3	4	5	3	3
> $750,000	2	2	2	2	2	2
Reps Who Left During 2010						
< $50,000	138	73	127	52	143	75
$50,000 - $100,000	12	5	8	7	13	5
$100,000 - $250,000	11	5	9	5	11	5
$250,000 - $500,000	6	3	5	2	6	3
$500,000 - $750,000	2	1	2	2	2	1
> $750,000	3	1	N/A	N/A	2	1
2011 Reps	Average	Median	Average	Median	Average	Median
Expected to Add	187	135	139	80	207	170
Expected to Drop	95	45	79	25	101	50
Expected to Leave	66	50	52	20	73	50
Expected Total Production from Reps Added	$15,253,568	$9,000,000	$19,118,182	$12,000,000	$13,128,030	$8,250,000
Expected Total Production from Reps Dropped	$2,510,110	$300,000	$677,474	$275,000	$3,243,165	$325,000
Expected Total Production from Reps Leaving	$2,523,350	$800,000	$750,000	$675,000	$3,410,025	$800,000
New Reps Coming From	Average	Median	Average	Median	Average	Median
Wirehouses	7%	5%	12%	10%	5%	1%
Other Broker-Dealers	62%	75%	62%	70%	62%	78%
Banks	4%	0%	7%	0%	3%	0%
New to Industry	15%	0%	14%	2%	15%	0%
RIA Firms	4%	0%	4%	0%	4%	0%
Other	8%	0%	0%	0%	11%	0%

Recruiting- Actions and Costs
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Cost of Recruiting in 2010	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Total Costs	$734,295	$569,075	$1,179,941	$750,000	$592,499	$553,457
Industry Advertising (company-wide)	$227,232	$124,284	$400,055	$100,000	$134,173	$148,568
Direct Mail	$98,977	$33,000	$164,513	$64,005	$59,656	$15,500
Retained or Internal Recruiter	$354,980	$206,007	$710,425	$729,000	$228,035	$153,004
Recruiting Bonuses	$87,100	$111,003	$59,877	$59,877	$105,248	$111,003
Average outside recruiting firm costs (per rep)	$15,038	$6,173	$23,480	$8,225	$9,762	$4,500
Average recruiting trips to headquarters (per rep)	$28,707	$1,000	$83,980	$1,500	$8,967	$1,000
Average account transition assistance (per rep)	$5,119	$2,500	$4,421	$2,105	$5,329	$2,650
Transaction Assistance to Newly Recruited Reps						
Forgivable Loan	39.7%		10.3%		29.3%	
Repayable Loan	41.4%		10.3%		31.0%	
Remote Staff Assistance	75.9%		22.4%		53.4%	
Onsite Staff Assistance	60.3%		19.0%		41.4%	
Compliance Set-up	63.8%		19.0%		44.8%	
Automated Customer Account Transfer (ACAT) Services	72.4%		20.7%		51.7%	
Technology Set-Up and Training	63.8%		19.0%		44.8%	
Other	24.1%		3.4%		20.7%	
If Parent-Owned, Parent Contribution to Recruiting Costs						
Yes	27.7%		0.0%		36.1%	
No	72.3%		100.0%		63.9%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% of Costs Contributed	92 3%	100 0%	N/A	N/A	92.3%	100.0%
Pay Recruits a Signing Bonus						
No	62.3%		53.3%		65.8%	
Yes, a flat amount	0 0%		0.0%		0.0%	
Yes, based on recruited rep's trailing 12 mos. production	24.5%		26.7%		23.7%	
Yes, based on recruited reps first 12 mos. production	3 8%		0.0%		5.3%	
Other	9.4%		20.0%		5.3%	
Pay Reps Referral Bonuses						
No	36.0%		40.0%		34.3%	
Yes, a flat amount	10.0%		20.0%		5.7%	
Yes, based on recruited rep's trailing 12 mos. production	18.0%		20.0%		17.1%	
Yes, based on recruited reps first 12 mos. production	20.0%		6.7%		25.7%	
Other	16.0%		13.3%		17.1%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Flat Amount	$2,000	$2,000	$2,000	$2,000	$2,000	$500
% Based on Trailing 12 Months' Production	2%	2%	N/A	N/A	2%	2%
% Based on First 12 Months' Production	2%	2%	N/A	N/A	2%	2%
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	2.9	2.0	4.1	2.0	2.5	2 0
Salary	$77,668	$75,000	$65,000	$60,000	$81,668	$75,000
% of GDC of Recruited Rep	1.5%	1 0%	3.0%	1.8%	0 8%	1.0%
External (Field Employee)	8.0	8.0	4 0	3.0	11.0	9 0
Salary	$67,500	$70,000	$58,333	$60,000	$76,667	$90,000
Flat Fee per Recruited Rep	$1,483	$1,450	N/A	N/A	N/A	N/A
% of GDC of Recruited Rep	1.2%	1 0%	N/A	N/A	1 3%	1.5%
External (Contractor)	2.2	1.0	1 8	1.5	2.3	1 0
% of GDC of Recruited Rep	3.3%	2 0%	N/A	N/A	3.1%	2%
Retention Bonus for Reps						
Yes	10%		8%		11%	
No	90%		92%		89%	
Pay Retention Bonus Beyond 2011						
Yes	36%		N/A		30%	
No	64%		N/A		70%	

Recruiting- Representative Numbers
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Number of Reps at the End of 2009	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
< $50,000	317	59	734	134	161	138
$50,000 - $100,000	20	18	47	43	99	103
$100,000 - $250,000	17	12	51	49	95	99
$250,000 - $500,000	9	10	17	19	38	39
$500,000 - $750,000	3	3	6	7	12	11
> $750,000	N/A	N/A	4	4	6	5
New Reps Added in 2010						
< $50,000	56	13	57	15	44	18
$50,000 - $100,000	3	3	10	8	13	10
$100,000 - $250,000	3	2	13	10	20	17
$250,000 - $500,000	N/A	N/A	7	4	12	9
$500,000 - $750,000	N/A	N/A	3	3	4	3
> $750,000	N/A	N/A	2	1	2	2
Reps Who Left During 2010						
< $50,000	64	13	113	28	68	57
$50,000 - $100,000	2	1	4	4	8	7
$100,000 - $250,000	1	1	2	1	7	7
$250,000 - $500,000	1	1	3	1	5	2
$500,000 - $750,000	N/A	N/A	N/A	N/A	1	1
> $750,000	N/A	N/A	N/A	N/A	2	1
2011 Reps	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Expected to Add	133	22	80	48	118	100
Expected to Drop	41	8	21	20	57	45
Expected to Leave	86	20	54	3	41	15
Expected Total Production from Reps Added	$5,266,667	$1,600,000	$6,200,000	$6,550,000	$12,285,714	$12,000,000
Expected Total Production from Reps Dropped	$261,667	$100,000	$409,199	$100,000	$1,133,333	$625,000
Expected Total Production from Reps Leaving	$350,000	$400,000	$247,500	$270,000	$950,000	$1,000,000
New Reps Coming From	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Wirehouses	1%	0%	11%	1%	7%	7%
Other Broker-Dealers	54%	60%	65%	73%	72%	85%
Banks	0%	0%	3%	1%	9%	4%
New to Industry	31%	20%	1%	0%	3%	0%
RIA Firms	1%	0%	11%	2%	2%	0%
Other	13%	0%	10%	0%	6%	0%

Recruiting- Actions and Costs
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Cost of Recruiting in 2010	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Total Costs	$91,467	$73,700	$290,292	$286,750	$682,688	$750,000
Industry Advertising (company-wide)	N/A	N/A	$82,856	$50,000	$149,713	$150,000
Direct Mail	N/A	N/A	N/A	N/A	$52,835	$15,000
Retained or Internal Recruiter	N/A	N/A	$131,801	$123,000	$320,892	$332,500
Recruiting Bonuses	N/A	N/A	$111,003	$111,003	N/A	N/A
Average outside recruiting firm costs (per rep)	N/A	N/A	$4,619	$4,238	$14,041	$6,173
Average recruiting trips to headquarters (per rep)	N/A	N/A	$908	$750	$21,380	$1,000
Average account transition assistance (per rep)	N/A	N/A	$4,126	$2,453	$8,875	$9,000
Transaction Assistance to Newly Recruited Reps						
Forgivable Loan	0 0%		27.3%		69 2%	
Repayable Loan	0 0%		45.5%		69 2%	
Remote Staff Assistance	54.5%		81.8%		84 6%	
Onsite Staff Assistance	18.2%		72.7%		69 2%	
Compliance Set-up	54.5%		72.7%		53 8%	
Automated Customer Account Transfer (ACAT) Services	54.5%		81.8%		76 9%	
Technology Set-Up and Training	36.4%		81.8%		69 2%	
Other	9.1%		36.4%		7.7%	
If Parent-Owned, Parent Contribution to Recruiting Costs						
Yes	22.2%		25.0%		18 2%	
No	77.8%		75.0%		81 8%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% of Costs Contributed	N/A	N/A	N/A	N/A	77 5%	77.5%
Pay Recruits a Signing Bonus						
No	100 0%		70.0%		38 5%	
Yes, a flat amount	0 0%		0.0%		0.0%	
Yes, based on recruited rep's trailing 12 mos. production	0 0%		10.0%		46 2%	
Yes, based on recruited reps first 12 mos. production	0 0%		0.0%		7.7%	
Other	0 0%		20.0%		7.7%	
Pay Reps Referral Bonuses						
No	60.0%		22.2%		23.1%	
Yes, a flat amount	10.0%		11.1%		15.4%	
Yes, based on recruited rep's trailing 12 mos. production	0 0%		22.2%		15.4%	
Yes, based on recruited reps first 12 mos. production	20.0%		0.0%		38 5%	
Other	10.0%		44.4%		7.7%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Flat Amount	N/A	N/A	N/A	N/A	N/A	N/A
% Based on Trailing 12 Months' Production	N/A	N/A	N/A	N/A	N/A	N/A
% Based on First 12 Months' Production	N/A	N/A	N/A	N/A	N/A	N/A
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	1.3	1.0	2.0	2 0	2.4	2.0
Salary	N/A	N/A	$75,167	$80,000	$79,400	$75,000
% of GDC of Recruited Rep	N/A	N/A	N/A	N/A	2.0%	1.0%
External (Field Employee)	N/A	N/A	N/A	N/A	8 0	8.0
Salary	N/A	N/A	N/A	N/A	N/A	N/A
Flat Fee per Recruited Rep	N/A	N/A	N/A	N/A	N/A	N/A
% of GDC of Recruited Rep	N/A	N/A	N/A	N/A	N/A	N/A
External (Contractor)	N/A	N/A	3.8	4 0	1 0	1.0
% of GDC of Recruited Rep	N/A	N/A	3 5%	3%	4.0%	4%
Retention Bonus for Reps						
Yes	0%		10%		23%	
No	100%		90%		77%	
Pay Retention Bonus Beyond 2011						
Yes	N/A		N/A		100%	
No	N/A		N/A		0%	

Recruiting- Representative Numbers
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Number of Reps at the End of 2009	Average	Median	Average	Median
< $50,000	1,007	724	987	695
$50,000 - $100,000	231	186	270	312
$100,000 - $250,000	228	205	477	423
$250,000 - $500,000	89	82	256	203
$500,000 - $750,000	20	22	83	79
> $750,000	12	8	73	62
New Reps Added in 2010				
< $50,000	141	101	174	148
$50,000 - $100,000	14	10	21	21
$100,000 - $250,000	19	8	29	32
$250,000 - $500,000	11	7	16	17
$500,000 - $750,000	N/A	N/A	4	3
> $750,000	2	1	2	2
Reps Who Left During 2010				
< $50,000	237	209	210	217
$50,000 - $100,000	23	9	18	17
$100,000 - $250,000	14	5	23	20
$250,000 - $500,000	8	4	9	11
$500,000 - $750,000	2	2	3	3
> $750,000	N/A	N/A	4	1
2011 Reps	Average	Median	Average	Median
Expected to Add	271	200	392	200
Expected to Drop	133	75	349	175
Expected to Leave	84	50	N/A	N/A
Expected Total Production from Reps Added	$25,443,433	$15,000,000	$38,250,000	$45,000,000
Expected Total Production from Reps Dropped	$9,480,050	$5,375,000	N/A	N/A
Expected Total Production from Reps Leaving	$6,726,060	$3,250,000	N/A	N/A
New Reps Coming From	Average	Median	Average	Median
Wirehouses	4%	0%	15%	15%
O her Broker-Dealers	51%	63%	61%	70%
Banks	3%	0%	2%	0%
New to Industry	31%	33%	17%	0%
RIA Firms	3%	0%	4%	1%
O her	8%	0%	0%	0%

Recruiting- Actions and Costs

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Cost of Recruiting in 2010	Average	Median	Average	Median
Total Costs	$1,159,057	$1,157,026	$1,735,634	$809,594
Industry Advertising (company-wide)	$145,749	$95,000	$739,970	$724,863
Direct Mail	$140,970	$54,000	$171,304	$99,505
Retained or Internal Recruiter	$465,800	$471,154	$751,686	$603,824
Recruiting Bonuses	$113,000	$113,000	$99,248	$99,248
Average outside recruiting firm costs (per rep)	$19,333	$5,000	N/A	N/A
Average recruiting trips to headquarters (per rep)	$100,532	$1,000	$9,922	$11,327
Average account transition assistance (per rep)	$1,129	$1,000	N/A	N/A
Transaction Assistance to Newly Recruited Reps				
Forgivable Loan	35.7%		66.7%	
Repayable Loan	42.9%		44.4%	
Remote Staff Assistance	78.6%		77.8%	
Onsite Staff Assistance	71.4%		66.7%	
Compliance Set-up	64.3%		77.8%	
Automated Customer Account Transfer (ACAT) Services	71.4%		77.8%	
Technology Set-Up and Training	64.3%		66.7%	
O her	42.9%		22.2%	
If Parent-Owned, Parent Contribution to Recruiting Costs				
Yes	38.5%		33.3%	
No	61.5%		66.7%	
	Average	Median	Average	Median
% of Costs Contributed	90.0%	100.0%	N/A	N/A
Pay Recruits a Signing Bonus				
No	72.7%		33.3%	
Yes, a flat amount	0.0%		0.0%	
Yes, based on recruited rep's trailing 12 mos. production	18.2%		44.4%	
Yes, based on recruited reps first 12 mos. production	9.1%		0.0%	
O her	0.0%		22.2%	
Pay Reps Referral Bonuses				
No	45.5%		28.6%	
Yes, a flat amount	0.0%		14.3%	
Yes, based on recruited rep's trailing 12 mos. production	27.3%		28.6%	
Yes, based on recruited reps first 12 mos. production	9.1%		28.6%	
O her	18.2%		0.0%	
	Average	Median	Average	Median
Flat Amount	N/A	N/A	N/A	N/A
% Based on Trailing 12 Mon hs' Production	N/A	N/A	N/A	N/A
% Based on First 12 Months' Produc ion	N/A	N/A	N/A	N/A
Full-Time Recruiters at the Broker-Dealer	Average	Median	Average	Median
Internal (Employee)	3.5	2.0	4.6	3.0
Salary	$97,673	$67,500	$73,333	$70,000
% of GDC of Recruited Rep	N/A	N/A	N/A	N/A
External (Field Employee)	4.7	3.0	16.5	16.5
Salary	N/A	N/A	N/A	N/A
Flat Fee per Recruited Rep	N/A	N/A	N/A	N/A
% of GDC of Recruited Rep	N/A	N/A	N/A	N/A
External (Contractor)	3.0	3.0	1.0	1.0
% of GDC of Recruited Rep	2.0%	2%	N/A	N/A
Retention Bonus for Reps				
Yes	0%		14%	
No	100%		86%	
Pay Retention Bonus Beyond 2011				
Yes	N/A		N/A	
No	N/A		N/A	

Recruiting- Representative Numbers
Independent and Insurance Broker-Dealers

	Independent		Insurance	
Number of Reps at the End of 2009	*Average*	*Median*	*Average*	*Median*
< $50,000	525	243	967	604
$50,000 - $100,000	149	114	124	91
$100,000 - $250,000	215	140	119	95
$250,000 - $500,000	102	48	43	45
$500,000 - $750,000	32	13	15	17
> $750,000	26	8	11	4
New Reps Added in 2010				
< $50,000	83	33	122	87
$50,000 - $100,000	14	10	8	5
$100,000 - $250,000	20	15	10	4
$250,000 - $500,000	13	10	5	3
$500,000 - $750,000	4	3	N/A	N/A
> $750,000	2	2	N/A	N/A
Reps Who Left During 2010				
< $50,000	111	54	212	164
$50,000 - $100,000	12	5	12	8
$100,000 - $250,000	12	5	7	5
$250,000 - $500,000	7	2	3	3
$500,000 - $750,000	2	1	1	1
> $750,000	3	1	N/A	N/A
2011 Reps	*Average*	*Median*	*Average*	*Median*
Expected to Add	162	78	240	200
Expected to Drop	105	28	76	60
Expected to Leave	39	10	98	75
Expected Total Produc ion from Reps Added	$17,547,727	$9,500,000	$9,645,622	$5,000,000
Expected Total Produc ion from Reps Dropped	$1,900,990	$300,000	$4,032,913	$250,000
Expected Total Produc ion from Reps Leaving	$1,390,909	$1,000,000	$4,302,900	$600,000
New Reps Coming From	*Average*	*Median*	*Average*	*Median*
Wirehouses	10%	6%	3%	0%
Other Broker-Dealers	70%	78%	47%	40%
Banks	5%	0%	2%	0%
New to Industry	6%	0%	32%	20%
RIA Firms	6%	0%	2%	0%
Other	4%	0%	14%	0%

Recruiting- Actions and Costs

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Cost of Recruiting in 2010	*Average*	*Median*	*Average*	*Median*
Total Costs	$726,651	$493,920	$758,322	$809,594
Industry Adver ising (company-wide)	$284,443	$150,000	$55,599	$45,000
Direct Mail	$124,710	$52,000	$21,780	$12,578
Retained or Internal Recruiter	$341,829	$150,000	$404,294	$484,412
Recrui ing Bonuses	$60,939	$62,002	$191,742	$191,742
Average outside recrui ing firm costs (per rep)	$14,155	$6,837	$17,983	$3,000
Average recrui ing trips to headquarters (per rep)	$28,548	$1,000	$29,306	$6,164
Average account transi ion assistance (per rep)	$6,205	$5,400	$1,500	$1,000
Transaction Assistance to Newly Recruited Reps				
Forgivable Loan	31.0%		8.6%	
Repayable Loan	32.8%		8.6%	
Remote Staff Assistance	56.9%		19.0%	
Onsite Staff Assistance	48.3%		12.1%	
Compliance Set-up	50.0%		13.8%	
Automated Customer Account Transfer (ACAT) Services	56.9%		15.5%	
Technology Set-Up and Training	50.0%		13.8%	
Other	13.8%		10.3%	
If Parent-Owned, Parent Contribution to Recruiting Costs				
Yes	16.1%		50.0%	
No	83.9%		50.0%	
	Average	*Median*	*Average*	*Median*
% of Costs Contributed	97.5%	100.0%	89.3%	100.0%
Pay Recruits a Signing Bonus				
No	47.2%		94.1%	
Yes, a flat amount	0.0%		0.0%	
Yes, based on recruited rep's trailing 12 mos. production	36.1%		0.0%	
Yes, based on recruited reps first 12 mos. production	2.8%		5.9%	
Other	13.9%		0.0%	
Pay Reps Referral Bonuses				
No	25.0%		64.3%	
Yes, a flat amount	11.1%		7.1%	
Yes, based on recruited rep's trailing 12 mos. production	22.2%		7.1%	
Yes, based on recruited reps first 12 mos. production	19.4%		21.4%	
Other	22.2%		0.0%	
	Average	*Median*	*Average*	*Median*
Flat Amount	$2,000	$2,000	N/A	N/A
% Based on Trailing 12 Months' Production	2%	2%	N/A	N/A
% Based on First 12 Mon hs' Production	2%	2%	N/A	N/A
Full-Time Recruiters at the Broker-Dealer	*Average*	*Median*	*Average*	*Median*
Internal (Employee)	3.1	2.0	2.4	2.0
Salary	$78,685	$75,000	$73,600	$70,000
% of GDC of Recruited Rep	1.7%	1.0%	0.5%	0.5%
External (Field Employee)	3.3	2.0	14.3	10.0
Salary	$66,250	$70,000	N/A	N/A
Flat Fee per Recruited Rep	$1,483	$1,450	N/A	N/A
% of GDC of Recruited Rep	1.2%	1.0%	N/A	N/A
External (Contractor)	2.1	1.0	2.5	2.5
% of GDC of Recruited Rep	3.3%	2%	N/A	N/A
Retention Bonus for Reps				
Yes	15%		0%	
No	85%		100%	
Pay Retention Bonus Beyond 2011				
Yes	44%		N/A	
No	56%		N/A	

Ownership Succession

Ownership Succession
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Rep Age Ranges	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
35 or less	13%	10%	10%	8%	15%	12%
36 - 45	20%	19%	19%	17%	21%	20%
46 - 55	31%	30%	34%	32%	30%	30%
56 - 65	27%	26%	27%	29%	27%	26%
Greater than 65	10%	9%	10%	9%	9%	8%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Actual 2010:	$72,755	$0	N/A	N/A	$46,234	$0
Budgeted 2011:	$79,185	$0	N/A	N/A	$49,467	$0
Offer Succession Education to Reps						
Yes	63.2%		80 0%		57.1%	
No	35.1%		20 0%		40.5%	
If Yes, Education Format						
Webinars	47.2%		33 3%		54.2%	
Conference Presentations/Breakout Sessions	77.8%		75 0%		79.2%	
Workshops Dedicated to Corporate RIA Program	58.3%		50 0%		62.5%	
Guidebooks	52.8%		33 3%		62.5%	
Online Tools, Courses and Other Resources	44.4%		58 3%		37.5%	
Valuation Services	41.7%		25 0%		50.0%	
Succession Program Matching Buyers and Sellers						
Formal	17.5%		20 0%		16.7%	
Informal	52.6%		53 3%		52.4%	
None	29.8%		26.7%		31.0%	
Offer Transaction Assistance to Reps						
Yes	54.4%		66.7%		50.0%	
No	45.6%		33 3%		50.0%	
If Yes, Type of Assistance for Sellers						
Recommended network of prof. service providers	58.1%		70 0%		52.4%	
Preferred Pricing	29.0%		10 0%		38.1%	
Access to BD internal consultants	51.6%		60 0%		47.6%	
Access to BD external consultants	35.5%		10 0%		47.6%	
Access to valuation services	51.6%		40 0%		57.1%	
Other						
If Yes, Type of Assistance for Buyers						
Recommended network of prof. service providers	58.1%		70 0%		52.4%	
Preferred Pricing	25.8%		10 0%		33.3%	
Access to BD internal consultants	51.6%		50 0%		52.4%	
Access to BD external consultants	41.9%		20 0%		52.4%	
Access to valuation services	51.6%		40 0%		57.1%	
Loan application assistance	16.1%		20 0%		14.3%	
Access to direct financing from BD	38.7%		30 0%		42.9%	
Access to third-party financing	12.9%		20 0%		9 5%	
Other	16.1%		20 0%		14.3%	
Offer a Financing Program for Practice Purchases	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Number of Deals Financed Last Year	1	1	1	1	2	1
Purchases Subject to Broker-Dealer Approval						
Yes	66.7%		60 0%		69.2%	
No	33.3%		40 0%		30.8%	

Ownership Succession
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Rep Age Ranges	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
35 or less	16%	13%	9%	9%	11%	8%
36 - 45	26%	25%	16%	16%	18%	18%
46 - 55	28%	25%	34%	34%	33%	29%
56 - 65	22%	20%	31%	31%	30%	29%
Greater than 65	10%	8%	11%	10%	9%	8%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Actual 2010:	N/A	N/A	N/A	N/A	$17,833	$1,000
Budgeted 2011:	N/A	N/A	N/A	N/A	$21,167	$3,500
Offer Succession Education to Reps						
Yes	18 2%		70.0%		61.5%	
No	81 8%		30.0%		38.5%	
If Yes, Education Format						
Webinars	N/A		28.6%		50.0%	
Conference Presentations/Breakout Sessions	N/A		57.1%		87.5%	
Workshops Dedicated to Corporate RIA Program	N/A		57.1%		50.0%	
Guidebooks	N/A		28.6%		25.0%	
Online Tools, Courses and Other Resources	N/A		42.9%		12.5%	
Valuation Services	N/A		28.6%		25.0%	
Succession Program Matching Buyers and Sellers						
Formal	0.0%		10.0%		30.8%	
Informal	54 5%		60.0%		38.5%	
None	45 5%		30.0%		30.8%	
Offer Transaction Assistance to Reps						
Yes	9.1%		50.0%		69.2%	
No	90 9%		50.0%		30.8%	
If Yes, Type of Assistance for Sellers						
Recommended network of prof. service providers	N/A		80.0%		44.4%	
Preferred Pricing	N/A		40.0%		0.0%	
Access to BD internal consultants	N/A		40.0%		22.2%	
Access to BD external consultants	N/A		40.0%		11.1%	
Access to valuation services	N/A		40.0%		33.3%	
If Yes, Type of Assistance for Buyers						
Recommended network of prof. service providers	N/A		80.0%		44.4%	
Preferred Pricing	N/A		40.0%		0.0%	
Access to BD internal consultants	N/A		40.0%		22.2%	
Access to BD external consultants	N/A		40.0%		11.1%	
Access to valuation services	N/A		40.0%		22.2%	
Loan application assistance	N/A		20.0%		0.0%	
Access to direct financing from BD	N/A		40.0%		44.4%	
Access to third-party financing	N/A		0 0%		11.1%	
	N/A		20.0%		11.1%	
Offer a Financing Program for Practice Purchases						
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Number of Deals Financed Last Year	N/A	N/A	0	0	1	0
Purchases Subject to Broker-Dealer Approval						
Yes	55 6%		80.0%		58.3%	
No	44.4%		20.0%		41.7%	

Ownership Succession
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Rep Age Ranges	Average	Median	Average	Median
35 or less	13%	13%	18%	12%
36 - 45	19%	19%	23%	24%
46 - 55	30%	30%	28%	31%
56 - 65	28%	27%	22%	23%
Greater than 65	10%	12%	9%	8%
Spending on Successon Related Programs	Average	Median	Average	Median
Actual 2010:	$30,200	$28,000	N/A	N/A
Budgeted 2011:	$29,000	$21,000	N/A	N/A
Offer Succession Education to Reps				
Yes	78.6%		88.9%	
No	14.3%		11.1%	
If Yes, Educa ion Format				
Webinars	63.6%		50.0%	
Conference Presentations/Breakout Sessions	90.9%		87.5%	
Workshops Dedicated to Corporate RIA Program	81.8%		50.0%	
Guidebooks	81.8%		75.0%	
Online Tools, Courses and O her Resources	63.6%		62.5%	
Valua ion Services	54.5%		50.0%	
Succession Program Matching Buyers and Sellers				
Formal	14.3%		33.3%	
Informal	64.3%		44.4%	
None	21.4%		22.2%	
Offer Transaction Assistance to Reps				
Yes	71.4%		66.7%	
No	28.6%		33.3%	
If Yes, Type of Assistance for Sellers				
Recommended network of prof. service providers	60.0%		66.7%	
Preferred Pricing	40.0%		33.3%	
Access to BD internal consultants	50.0%		100.0%	
Access to BD external consultants	50.0%		50.0%	
Access to valua ion services	50.0%		83.3%	
If Yes, Type of Assistance for Buyers				
Recommended network of prof. service providers	60.0%		66.7%	
Preferred Pricing	30.0%		33.3%	
Access to BD internal consultants	50.0%		100.0%	
Access to BD external consultants	70.0%		50.0%	
Access to valua ion services	60.0%		83.3%	
Loan application assistance	20.0%		33.3%	
Access to direct financing from BD	30.0%		50.0%	
Access to third-party financing	20.0%		16.7%	
	20.0%		16.7%	
Offer a Financing Program for Practice Purchases	Average	Median	Average	Median
Number of Deals Financed Last Year	2	2	3	2
Purchases Subject to Broker-Dealer Approval				
Yes	57.1%		88.9%	
No	42.9%		11.1%	

Ownership Succession

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Rep Age Ranges	*Average*	*Median*	*Average*	*Median*
35 or less	11%	9%	19%	18%
36 - 45	20%	19%	21%	20%
46 - 55	31%	31%	29%	28%
56 - 65	28%	27%	23%	24%
Greater than 65	10%	10%	9%	7%
Spending on Successon Related Programs	*Average*	*Median*	*Average*	*Median*
Actual 2010:	$68,453	$0	$80,500	$0
Budgeted 2011:	$69,600	$0	$100,750	$1,000
Offer Succession Education to Reps				
Yes	71.8%		44.4%	
No	28.2%		50.0%	
If Yes, Educa ion Format				
Webinars	42.9%		62.5%	
Conference Presentations/Breakout Sessions	78.6%		75.0%	
Workshops Dedicated to Corporate RIA Program	57.1%		62.5%	
Guidebooks	50.0%		62.5%	
Online Tools, Courses and O her Resources	42.9%		50.0%	
Valua ion Services	42.9%		37.5%	
Succession Program Matching Buyers and Sellers				
Formal	20.5%		11.1%	
Informal	53.8%		50.0%	
None	25.6%		38.9%	
Offer Transaction Assistance to Reps				
Yes	66.7%		27.8%	
No	33.3%		72.2%	
If Yes, Type of Assistance for Sellers				
Recommended network of prof. service providers	65.4%		20.0%	
Preferred Pricing	30.8%		20.0%	
Access to BD internal consultants	57.7%		20.0%	
Access to BD external consultants	30.8%		60.0%	
Access to valuation services	53.8%		40.0%	
If Yes, Type of Assistance for Buyers				
Recommended network of prof. service providers	61.5%		40.0%	
Preferred Pricing	30.8%		0.0%	
Access to BD internal consultants	53.8%		40.0%	
Access to BD external consultants	38.5%		60.0%	
Access to valuation services	46.2%		80.0%	
Loan application assistance	15.4%		20.0%	
Access to direct financing from BD	46.2%		0.0%	
Access to third-party financing	15.4%		0.0%	
	15.4%		20.0%	
Offer a Financing Program for Practice Purchases				
	Average	*Median*	*Average*	*Median*
Number of Deals Financed Last Year	1	0	N/A	N/A
Purchases Subject to Broker-Dealer Approval				
Yes	65.8%		68.8%	
No	34.2%		31.3%	

Representative Fees

Representative Fees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	High-Profit: Top 25%	Non-High-Profit
Affiliation Fee			
Covered 100% by Broker-Dealer	13.2%	0 0%	16.7%
Shared by Broker-Dealer and Rep	0 0%	0 0%	0 0%
Paid 100% by Rep	86.8%	100 0%	83.3%
Required	82.8%	60.0%	94.7%
Optional	0 0%	0 0%	0 0%
Not Available	13.8%	30.0%	5 3%
Included in Other Fees	3.4%	10.0%	0 0%
Compliance Fee			
Covered 100% by Broker-Dealer	60.7%	16.7%	72.7%
Shared by Broker-Dealer and Rep	14.3%	33.3%	9.1%
Paid 100% by Rep	28.6%	50.0%	22.7%
Required	60.0%	80.0%	53.3%
Optional	0 0%	0 0%	0 0%
Not Available	25.0%	20.0%	26.7%
Included in Other Fees	15.0%	0 0%	20.0%
Fidelity Bond Coverage Charge			
Covered 100% by Broker-Dealer	41.9%	25.0%	47.8%
Shared by Broker-Dealer and Rep	9.7%	37.5%	0 0%
Paid 100% by Rep	48.4%	37.5%	52.2%
Required	68.0%	75.0%	64.7%
Optional	0 0%	0 0%	0 0%
Not Available	4 0%	0 0%	5 9%
Included in Other Fees	28.0%	25.0%	29.4%
Non-Producing License Fee			
Covered 100% by Broker-Dealer	42.3%	33.3%	45.0%
Shared by Broker-Dealer and Rep	0 0%	0 0%	0 0%
Paid 100% by Rep	57.7%	66.7%	55.0%
Required	65.0%	66.7%	64.3%
Optional	5 0%	0 0%	7.1%
Not Available	30.0%	33.3%	28.6%
Included in Other Fees	0 0%	0 0%	0.0%
Home Office OSJ Fee			
Covered 100% by Broker-Dealer	75.0%	40.0%	84.2%
Shared by Broker-Dealer and Rep	4 2%	20.0%	0.0%
Paid 100% by Rep	20.8%	40.0%	15.8%
Required	26.7%	20.0%	30.0%
Optional	13.3%	20.0%	10.0%
Not Available	40.0%	40.0%	40.0%
Included in Other Fees	20.0%	20.0%	20.0%
State/FINRA Licensing Fee			
Covered 100% by Broker-Dealer	2 0%	0 0%	2.7%
Shared by Broker-Dealer and Rep	16.0%	23.1%	13.5%
Paid 100% by Rep	88.0%	84.6%	89.2%
Required	100 0%	100 0%	100 0%
Optional	0 0%	0.0%	0.0%
Not Available	0 0%	0.0%	0.0%
Included in Other Fees	0 0%	0.0%	0.0%
SIPC Fee			
Covered 100% by Broker-Dealer	54.8%	41.7%	60.0%
Shared by Broker-Dealer and Rep	9 5%	25.0%	3.3%
Paid 100% by Rep	35.7%	33.3%	36.7%
Required	81.5%	88.9%	77.8%
Optional	0 0%	0.0%	0.0%
Not Available	3.7%	0.0%	5.6%
Included in Other Fees	14.8%	11.1%	16.7%

Representative Fees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	High-Profit: Top 25%	Non-High-Profit
Overall Technology Fee			
Covered 100% by Broker-Dealer	31.3%	0.0%	40.0%
Shared by Broker-Dealer and Rep	15.6%	0.0%	20.0%
Paid 100% by Rep	56.3%	100.0%	44.0%
Required	52.0%	66.7%	43.8%
Optional	16.0%	0.0%	25.0%
Not Available	12.0%	11.1%	12.5%
Included in Other Fees	20.0%	22.2%	18.8%
Quotes, Real-Time			
Covered 100% by Broker-Dealer	7.0%	0.0%	8.8%
Shared by Broker-Dealer and Rep	0.0%	0.0%	0.0%
Paid 100% by Rep	93.0%	100.0%	91.2%
Required	7.1%	0.0%	11.1%
Optional	82.1%	90.0%	77.8%
Not Available	3.6%	10.0%	0.0%
Included in Other Fees	7.1%	0.0%	11.1%
Quotes, Delayed			
Covered 100% by Broker-Dealer	55.3%	33.3%	59.4%
Shared by Broker-Dealer and Rep	0.0%	0.0%	0.0%
Paid 100% by Rep	44.7%	66.7%	40.6%
Required	12.5%	14.3%	11.8%
Optional	62.5%	57.1%	64.7%
Not Available	4.2%	0.0%	5.9%
Included in Other Fees	20.8%	28.6%	17.6%
Portfolio Management			
Covered 100% by Broker-Dealer	35.3%	0.0%	42.9%
Shared by Broker-Dealer and Rep	5.9%	16.7%	3.6%
Paid 100% by Rep	58.8%	83.3%	53.6%
Required	0.0%	0.0%	0.0%
Optional	82.6%	87.5%	80.0%
Not Available	8.7%	12.5%	6.7%
Included in Other Fees	8.7%	0.0%	13.3%
Website for Rep			
Covered 100% by Broker-Dealer	17.9%	0.0%	22.6%
Shared by Broker-Dealer and Rep	0.0%	0.0%	0.0%
Paid 100% by Rep	82.1%	100.0%	77.4%
Required	3.8%	0.0%	5.9%
Optional	96.2%	100.0%	94.1%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
Investment Research			
Covered 100% by Broker-Dealer	15.4%	0.0%	18.8%
Shared by Broker-Dealer and Rep	2.6%	14.3%	0.0%
Paid 100% by Rep	82.1%	85.7%	81.3%
Required	3.8%	0.0%	5.9%
Optional	76.9%	66.7%	82.4%
Not Available	7.7%	22.2%	0.0%
Included in Other Fees	11.5%	11.1%	11.8%
Client Account Access			
Covered 100% by Broker-Dealer	57.1%	40.0%	60.0%
Shared by Broker-Dealer and Rep	2.9%	20.0%	0.0%
Paid 100% by Rep	42.9%	40.0%	43.3%
Required	4.8%	12.5%	0.0%
Optional	52.4%	50.0%	53.8%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	42.9%	37.5%	46.2%
Client Relationship Management			
Covered 100% by Broker-Dealer	36.7%	16.7%	41.7%
Shared by Broker-Dealer and Rep	6.7%	16.7%	4.2%
Paid 100% by Rep	56.7%	66.7%	54.2%
Required	4.2%	0.0%	6.7%
Optional	58.3%	55.6%	60.0%
Not Available	16.7%	11.1%	20.0%
Included in Other Fees	20.8%	33.3%	13.3%
Data Mining			
Covered 100% by Broker-Dealer	54.5%	0.0%	63.2%
Shared by Broker-Dealer and Rep	4.5%	33.3%	0.0%
Paid 100% by Rep	40.9%	66.7%	36.8%
Required	5.3%	0.0%	8.3%
Optional	31.6%	42.9%	25.0%
Not Available	47.4%	42.9%	50.0%
Included in Other Fees	15.8%	14.3%	16.7%
Help Desk			
Covered 100% by Broker-Dealer	81.5%	50.0%	87.0%
Shared by Broker-Dealer and Rep	7.4%	50.0%	0.0%
Paid 100% by Rep	11.1%	0.0%	13.0%
Required	10.0%	0.0%	16.7%
Optional	35.0%	37.5%	33.3%
Not Available	15.0%	12.5%	16.7%
Included in Other Fees	40.0%	50.0%	33.3%

Representative Fees- Ticket Charges
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
	Average	Median	Average	Median	Average	Median
Ticket Charges						
Mutual Funds	$14.40	$15.00	$14.79	$15.00	$14.25	$14.50
General Securities	$21.93	$21.00	$19.96	$18.00	$22.66	$23.00
Unit Investment Trusts (UIT)	$33.28	$30.00	$33.54	$30.00	$33.18	$30.00
Fixed Income	$32.73	$32.25	$34.92	$35.00	$31.91	$30.00
Ticket Charges Cleared Through Clearing Firm						
Passed Straight Through	32.0%		14.3%		38.9%	
Marked-Up	68.0%		85.7%		61.1%	
Mark-up Amount	Average	Median	Average	Median	Average	Median
Mutual Funds	93%	50%	92%	88%	93%	43%
General Securities	127%	95%	87%	70%	146%	100%
Unit Investment Trusts	125%	67%	121%	83%	128%	60%
Fixed Income	125%	100%	88%	78%	144%	100%

Representative Fees
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Offer Account Aggregation Technology to Reps						
Yes	87.9%		93.3%		86.0%	
No	12.1%		6.7%		14.0%	
Allow Client Access to Consolidated Statements						
Yes	81.0%		93.3%		76.7%	
No	19.0%		6.7%		23.3%	
	Average	Median	Average	Median	Average	Median
% of Reps Participating	46%	34%	48%	45%	46%	30%
Charge per Year	$1,732	$1,365	$994	$690	$2,067	$1,770
Account Aggregation Technology Vendor						
Albridge	63.5%		57.1%		65.8%	
Broadridge/Investigo	13.5%		14.3%		13.2%	
Proprietary Product	5.8%		7.1%		5.3%	
Other	17.3%		21.4%		15.8%	
Offer Differentiated Services to Best Reps						
Yes	39.7%		46.7%		37.2%	
No	60.3%		53.3%		62.8%	
Benefits Offered						
Reduced Pricing and/or Fees	20.7%		26.7%		18.6%	
Specialized Customer Service	25.9%		20.0%		27.9%	
Practice Management Programs	15.5%		13.3%		16.3%	
Technology Upgrades	12.1%		0.0%		16.3%	
Other	22.4%		20.0%		23.3%	
Charge for Compliance Audits						
Yes	17.2%		13.3%		18.6%	
No	82.8%		86.7%		81.4%	
	Average	Median	Average	Median	Average	Median
% Cost Paid by Rep	100%	100%	N/A	N/A	100%	100%
Typical Rep Charge per Audit	$538	$500	N/A	N/A	$571	$550
Pass Along Any Costs for Business Compliance Visits						
Yes	3.5%		6.7%		2.4%	
No	96.5%		93.3%		97.6%	
Provide Branch Offices With Compliance Subsidy						
Yes	7.0%		0.0%		9.5%	
No	93.0%		100.0%		90.5%	
Percentage of B-Ds With Outsourced Rep Services						
Clearing						
Yes	83.6%		80.0%		85.0%	
No, but considering within next 12 months	0.0%		0.0%		0.0%	
No, and no plans to outsource within next 12 months	16.4%		20.0%		15.0%	
Commission Processing						
Yes	5.6%		6.7%		5.1%	
No, but considering within next 12 months	5.6%		13.3%		2.6%	
No, and no plans to outsource within next 12 months	88.9%		80.0%		92.3%	
Compliance						
Yes	11.1%		13.3%		10.3%	
No, but considering within next 12 months	7.4%		13.3%		5.1%	
No, and no plans to outsource within next 12 months	81.5%		73.3%		84.6%	
Portfolio Reporting/Statements						
Yes	57.4%		53.3%		59.0%	
No, but considering within next 12 months	1.9%		0.0%		2.6%	
No, and no plans to outsource within next 12 months	40.7%		46.7%		38.5%	

Representative Fees
Broker-Dealer by Revenue Size

	Less Than $25M	$25M - $54M	$54M - $100M
Affiliation Fee			
Covered 100% by Broker-Dealer	12.5%	0.0%	25 0%
Shared by Broker-Dealer and Rep	0.0%	0.0%	0.0%
Paid 100% by Rep	87.5%	100.0%	75 0%
Required	100.0%	66.7%	83 3%
Optional	0.0%	0.0%	0.0%
Not Available	0.0%	16.7%	16.7%
Included in Other Fees	0.0%	16.7%	0.0%
Compliance Fee			
Covered 100% by Broker-Dealer	66.7%	50.0%	60 0%
Shared by Broker-Dealer and Rep	0.0%	16.7%	0.0%
Paid 100% by Rep	33.3%	33.3%	40 0%
Required	75.0%	50.0%	N/A
Optional	0.0%	0.0%	N/A
Not Available	25.0%	50.0%	N/A
Included in Other Fees	0.0%	0.0%	N/A
Fidelity Bond Coverage Charge			
Covered 100% by Broker-Dealer	40.0%	44.4%	40 0%
Shared by Broker-Dealer and Rep	0.0%	11.1%	0.0%
Paid 100% by Rep	60.0%	44.4%	60 0%
Required	71.4%	60.0%	60 0%
Optional	0.0%	0.0%	0.0%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	28.6%	40.0%	40 0%
Non-Producing License Fee			
Covered 100% by Broker-Dealer	N/A	25.0%	50 0%
Shared by Broker-Dealer and Rep	N/A	0.0%	0.0%
Paid 100% by Rep	N/A	75.0%	50 0%
Required	75.0%	100.0%	66.7%
Optional	0.0%	0.0%	0.0%
Not Available	25.0%	0.0%	33 3%
Included in Other Fees	0.0%	0.0%	0.0%
Home Office OSJ Fee			
Covered 100% by Broker-Dealer	N/A	66.7%	50 0%
Shared by Broker-Dealer and Rep	N/A	16.7%	0.0%
Paid 100% by Rep	N/A	16.7%	50 0%
Required	N/A	25.0%	33 3%
Optional	N/A	0.0%	33 3%
Not Available	N/A	25.0%	33 3%
Included in Other Fees	N/A	50.0%	0.0%
State/FINRA Licensing Fee			
Covered 100% by Broker-Dealer	0.0%	10.0%	0.0%
Shared by Broker-Dealer and Rep	0.0%	40.0%	10 0%
Paid 100% by Rep	100.0%	70.0%	90 0%
Required	100.0%	100.0%	100.0%
Optional	0.0%	0.0%	0.0%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
SIPC Fee			
Covered 100% by Broker-Dealer	71.4%	44.4%	14 3%
Shared by Broker-Dealer and Rep	0.0%	11.1%	28 6%
Paid 100% by Rep	28.6%	44.4%	57.1%
Required	100.0%	66.7%	83 3%
Optional	0.0%	0.0%	0.0%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	0.0%	33.3%	16.7%

Representative Fees

Broker-Dealer by Revenue Size

	Less Than $25M	$25M - $54M	$54M - $100M
Overall Technology Fee			
Covered 100% by Broker-Dealer	0.0%	40.0%	60.0%
Shared by Broker-Dealer and Rep	40.0%	20.0%	0.0%
Paid 100% by Rep	60.0%	60.0%	40.0%
Required	50.0%	50.0%	N/A
Optional	16.7%	0.0%	N/A
Not Available	16.7%	0.0%	N/A
Included in Other Fees	16.7%	50.0%	N/A
Quotes, Real-Time			
Covered 100% by Broker-Dealer	0.0%	12.5%	12.5%
Shared by Broker-Dealer and Rep	0.0%	0.0%	0.0%
Paid 100% by Rep	100.0%	87.5%	87.5%
Required	0.0%	20.0%	0.0%
Optional	100.0%	60.0%	80.0%
Not Available	0.0%	0.0%	20.0%
Included in Other Fees	0.0%	20.0%	0.0%
Quotes, Delayed			
Covered 100% by Broker-Dealer	0.0%	42.9%	50.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%	0.0%
Paid 100% by Rep	100.0%	57.1%	50.0%
Required	0.0%	25.0%	0.0%
Optional	83.3%	50.0%	80.0%
Not Available	16.7%	0.0%	0.0%
Included in Other Fees	0.0%	25.0%	20.0%
Portfolio Management			
Covered 100% by Broker-Dealer	0.0%	20.0%	12.5%
Shared by Broker-Dealer and Rep	0.0%	0.0%	12.5%
Paid 100% by Rep	100.0%	80.0%	75.0%
Required	0.0%	0.0%	0.0%
Optional	80.0%	100.0%	100.0%
Not Available	20.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
Web site for Rep			
Covered 100% by Broker-Dealer	0.0%	14.3%	22.2%
Shared by Broker-Dealer and Rep	0.0%	0.0%	0.0%
Paid 100% by Rep	100.0%	85.7%	77.8%
Required	20.0%	0.0%	0.0%
Optional	80.0%	100.0%	100.0%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	0.0%	0.0%	0.0%
Investment Research			
Covered 100% by Broker-Dealer	0.0%	12.5%	25.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%	0.0%
Paid 100% by Rep	100.0%	87.5%	75.0%
Required	0.0%	20.0%	0.0%
Optional	80.0%	60.0%	60.0%
Not Available	0.0%	20.0%	0.0%
Included in Other Fees	20.0%	0.0%	40.0%
Client Account Access			
Covered 100% by Broker-Dealer	0.0%	50.0%	50.0%
Shared by Broker-Dealer and Rep	0.0%	16.7%	0.0%
Paid 100% by Rep	100.0%	50.0%	50.0%
Required	0.0%	0.0%	0.0%
Optional	66.7%	50.0%	75.0%
Not Available	0.0%	0.0%	0.0%
Included in Other Fees	33.3%	50.0%	25.0%
Client Relationship Management			
Covered 100% by Broker-Dealer	0.0%	20.0%	16.7%
Shared by Broker-Dealer and Rep	33.3%	0.0%	0.0%
Paid 100% by Rep	66.7%	80.0%	83.3%
Required	0.0%	0.0%	0.0%
Optional	50.0%	50.0%	80.0%
Not Available	50.0%	50.0%	0.0%
Included in Other Fees	0.0%	0.0%	20.0%
Data Mining			
Covered 100% by Broker-Dealer	N/A	25.0%	50.0%
Shared by Broker-Dealer and Rep	N/A	0.0%	0.0%
Paid 100% by Rep	N/A	75.0%	50.0%
Required	0.0%	0.0%	0.0%
Optional	33.3%	0.0%	25.0%
Not Available	66.7%	100.0%	50.0%
Included in Other Fees	0.0%	0.0%	25.0%
Help Desk			
Covered 100% by Broker-Dealer	66.7%	66.7%	60.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%	20.0%
Paid 100% by Rep	33.3%	33.3%	20.0%
Required	33.3%	0.0%	0.0%
Optional	33.3%	0.0%	25.0%
Not Available	33.3%	33.3%	25.0%
Included in Other Fees	0.0%	66.7%	50.0%

Representative Fees- Ticket Charges
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Ticket Charges						
Mutual Funds	$13.69	$13.25	$16.08	$15.00	$15.80	$15.50
General Securities	$20.89	$21.00	$20.10	$19.95	$23.80	$23.98
Unit Investment Trusts (UIT)	$32.13	$30.00	$29.44	$30.00	$34.10	$31.50
Fixed Income	$29.00	$30.00	$35.77	$35.00	$35.30	$35.00
Ticket Charges Cleared Through Clearing Firm						
Passed Straight Through	44.4%		33.3%		18.2%	
Marked-Up	55.6%		66.7%		81.8%	
Mark-up Amount	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Mutual Funds	24%	23%	69%	60%	121%	69%
General Securities	45%	30%	89%	100%	143%	80%
Unit Investment Trusts	62%	63%	69%	100%	139%	50%
Fixed Income	60%	60%	94%	100%	115%	50%

Representative Fees
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Offer Account Aggregation Technology to Reps						
Yes	63.6%		90.9%		84.6%	
No	36.4%		9.1%		15.4%	
Allow Client Access to Consolidated Statements						
Yes	63.6%		63.6%		92.3%	
No	36.4%		36.4%		7.7%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% of Reps Participating	43%	30%	37%	25%	49%	43%
Charge per Year	$2,627	$1,605	$906	$900	$1,646	$1,710
Account Aggregation Technology Vendor						
Albridge	85.7%		60.0%		75.0%	
Broadridge/Investigo	14.3%		30.0%		8.3%	
Proprietary Product	0.0%		0.0%		8.3%	
Other	0.0%		10.0%		8.3%	
Offer Differentiated Services to Best Reps						
Yes	18.2%		27.3%		23.1%	
No	81.8%		72.7%		76.9%	
Benefits Offered						
Reduced Pricing and/or Fees	9.1%		18.2%		15.4%	
Specialized Customer Service	0.0%		18.2%		15.4%	
Practice Management Programs	0.0%		9.1%		7.7%	
Technology Upgrades	18.2%		0.0%		15.4%	
Other	9.1%		9.1%		15.4%	
Charge for Compliance Audits						
Yes	27.3%		27.3%		15.4%	
No	72.7%		72.7%		84.6%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% Cost Paid by Rep	N/A	N/A	100%	100%	N/A	N/A
Typical Rep Charge per Audit	$887	$950	$500	$500	$390	N/A
Pass Along Any Costs for Business Compliance Visits						
Yes	10.0%		0.0%		0.0%	
No	90.0%		100.0%		100.0%	
Provide Branch Offices With Compliance Subsidy						
Yes	0.0%		18.2%		7.7%	
No	100.0%		81.8%		92.3%	
Percentage of B-Ds With Outsourced Rep Services						
Clearing						
Yes	70.0%		80.0%		92.3%	
No, but considering within next 12 months	0.0%		0.0%		0.0%	
No, and no plans to outsource within next 12 months	30.0%		20.0%		7.7%	
Commission Processing						
Yes	20.0%		10.0%		0.0%	
No, but considering within next 12 months	10.0%		10.0%		7.7%	
No, and no plans to outsource within next 12 months	70.0%		80.0%		92.3%	
Compliance						
Yes	20.0%		10.0%		7.7%	
No, but considering within next 12 months	20.0%		10.0%		7.7%	
No, and no plans to outsource within next 12 months	60.0%		80.0%		84.6%	
Portfolio Reporting/Statements						
Yes	70.0%		50.0%		61.5%	
No, but considering within next 12 months	0.0%		0.0%		7.7%	
No, and no plans to outsource within next 12 months	30.0%		50.0%		30.8%	

Representative Fees
Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Affiliation Fee		
Covered 100% by Broker-Dealer	9.1%	25.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	90.9%	75.0%
Required	83.3%	N/A
Optional	0.0%	N/A
Not Available	16.7%	N/A
Included in Other Fees	0.0%	N/A
Compliance Fee		
Covered 100% by Broker-Dealer	60.0%	75.0%
Shared by Broker-Dealer and Rep	20.0%	25.0%
Paid 100% by Rep	20.0%	25.0%
Required	62.5%	N/A
Optional	0.0%	N/A
Not Available	12.5%	N/A
Included in Other Fees	25.0%	N/A
Fidelity Bond Coverage Charge		
Covered 100% by Broker-Dealer	28.6%	60.0%
Shared by Broker-Dealer and Rep	14.3%	20.0%
Paid 100% by Rep	57.1%	20.0%
Required	83.3%	N/A
Optional	0.0%	N/A
Not Available	16.7%	N/A
Included in Other Fees	0.0%	N/A
Non-Producing License Fee		
Covered 100% by Broker-Dealer	42.9%	60.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	57.1%	40.0%
Required	20.0%	N/A
Optional	20.0%	N/A
Not Available	60.0%	N/A
Included in Other Fees	0.0%	N/A
Home Office OSJ Fee		
Covered 100% by Broker-Dealer	85.7%	80.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	14.3%	20.0%
Required	N/A	N/A
Optional	N/A	N/A
Not Available	N/A	N/A
Included in Other Fees	N/A	N/A
State/FINRA Licensing Fee		
Covered 100% by Broker-Dealer	0.0%	0.0%
Shared by Broker-Dealer and Rep	25.0%	0.0%
Paid 100% by Rep	83.3%	100.0%
Required	100.0%	100.0%
Optional	0.0%	0.0%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	0.0%
SIPC Fee		
Covered 100% by Broker-Dealer	75.0%	57.1%
Shared by Broker-Dealer and Rep	0.0%	14.3%
Paid 100% by Rep	25.0%	28.6%
Required	66.7%	100.0%
Optional	0.0%	0.0%
Not Available	16.7%	0.0%
Included in Other Fees	16.7%	0.0%

Representative Fees
Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Overall Technology Fee		
Covered 100% by Broker-Dealer	27.3%	33.3%
Shared by Broker-Dealer and Rep	9.1%	16.7%
Paid 100% by Rep	63.6%	50.0%
Required	42.9%	50.0%
Optional	28.6%	16.7%
Not Available	14.3%	16.7%
Included in Other Fees	14.3%	16.7%
Quotes, Real-Time		
Covered 100% by Broker-Dealer	0.0%	14.3%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	100.0%	85.7%
Required	0.0%	16.7%
Optional	100.0%	66.7%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	16.7%
Quotes, Delayed		
Covered 100% by Broker-Dealer	83.3%	80.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	16.7%	20.0%
Required	33.3%	0.0%
Optional	33.3%	66.7%
Not Available	0.0%	0.0%
Included in Other Fees	33.3%	33.3%
Portfolio Management		
Covered 100% by Broker-Dealer	60.0%	66.7%
Shared by Broker-Dealer and Rep	0.0%	16.7%
Paid 100% by Rep	40.0%	16.7%
Required	0.0%	0.0%
Optional	66.7%	75.0%
Not Available	16.7%	0.0%
Included in Other Fees	16.7%	25.0%
Web site for Rep		
Covered 100% by Broker-Dealer	16.7%	33.3%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	83.3%	66.7%
Required	0.0%	0.0%
Optional	100.0%	100.0%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	0.0%
Investment Research		
Covered 100% by Broker-Dealer	18.2%	14.3%
Shared by Broker-Dealer and Rep	0.0%	14.3%
Paid 100% by Rep	81.8%	71.4%
Required	0.0%	0.0%
Optional	80.0%	100.0%
Not Available	20.0%	0.0%
Included in Other Fees	0.0%	0.0%
Client Account Access		
Covered 100% by Broker-Dealer	75.0%	80.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	25.0%	20.0%
Required	16.7%	0.0%
Optional	33.3%	50.0%
Not Available	0.0%	0.0%
Included in Other Fees	50.0%	50.0%
Client Relationship Management		
Covered 100% by Broker-Dealer	45.5%	80.0%
Shared by Broker-Dealer and Rep	0.0%	20.0%
Paid 100% by Rep	54.5%	0.0%
Required	14.3%	0.0%
Optional	57.1%	50.0%
Not Available	0.0%	0.0%
Included in Other Fees	28.6%	50.0%
Data Mining		
Covered 100% by Broker-Dealer	66.7%	75.0%
Shared by Broker-Dealer and Rep	0.0%	25.0%
Paid 100% by Rep	33.3%	0.0%
Required	16.7%	0.0%
Optional	33.3%	66.7%
Not Available	33.3%	0.0%
Included in Other Fees	16.7%	33.3%
Help Desk		
Covered 100% by Broker-Dealer	90.9%	100.0%
Shared by Broker-Dealer and Rep	9.1%	0.0%
Paid 100% by Rep	0.0%	0.0%
Required	16.7%	0.0%
Optional	50.0%	50.0%
Not Available	0.0%	0.0%
Included in Other Fees	33.3%	50.0%

Representative Fees- Ticket Charges
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
	Average	Median	Average	Median
Ticket Charges				
Mutual Funds	$12.72	$10.75	$14.00	$12.50
General Securities	$21.45	$20 50	$23.56	$22.75
Unit Investment Trusts (UIT)	$33.82	$35 00	$37.50	$34.50
Fixed Income	$31.71	$30 00	$31.81	$32.25
Ticket Charges Cleared Through Clearing Firm				
Passed Straight Through	41.7%		22 2%	
Marked-Up	58.3%		77 8%	
Mark-up Amount	Average	Median	Average	Median
Mutual Funds	148%	125%	N/A	N/A
General Securities	144%	100%	N/A	N/A
Unit Investment Trusts	N/A	N/A	N/A	N/A
Fixed Income	N/A	N/A	N/A	N/A

Representative Fees
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Offer Account Aggregation Technology to Reps				
Yes	100.0%		100.0%	
No	0.0%		0.0%	
Allow Client Access to Consolidated Statements				
Yes	92.9%		88 9%	
No	7.1%		11.1%	
	Average	Median	Average	Median
% of Reps Participating	64%	82%	20%	19%
Charge per Year	$1,809	$1,740	$1,500	$1,500
Account Aggregation Technology Vendor				
Albridge	50.0%		55 6%	
Broadridge/Investigo	7.1%		11.1%	
Proprietary Product	14.3%		0.0%	
Other	28.6%		33 3%	
Offer Differentiated Services to Best Reps				
Yes	64.3%		66.7%	
No	35.7%		33 3%	
Benefits Offered				
Reduced Pricing and/or Fees	28.6%		33 3%	
Specialized Customer Service	50.0%		44.4%	
Practice Management Programs	28.6%		33 3%	
Technology Upgrades	21.4%		0.0%	
Other	35.7%		44.4%	
Charge for Compliance Audits				
Yes	14.3%		0.0%	
No	85.7%		100.0%	
	Average	Median	Average	Median
% Cost Paid by Rep	N/A	N/A	N/A	N/A
Typical Rep Charge per Audit	N/A	N/A	N/A	N/A
Pass Along Any Costs for Business Compliance Visits				
Yes	0.0%		11.1%	
No	100.0%		88 9%	
Provide Branch Offices With Compliance Subsidy				
Yes	0.0%		11.1%	
No	100.0%		88 9%	
Percentage of B-Ds With Outsourced Rep Services				
Clearing				
Yes	84.6%		88 9%	
No, but considering within next 12 months	0.0%		0.0%	
No, and no plans to outsource within next 12 months	15.4%		11.1%	
Commission Processing				
Yes	0.0%		0.0%	
No, but considering within next 12 months	0.0%		0.0%	
No, and no plans to outsource within next 12 months	100.0%		100.0%	
Compliance				
Yes	16.7%		0.0%	
No, but considering within next 12 months	0.0%		0.0%	
No, and no plans to outsource within next 12 months	83.3%		100.0%	
Portfolio Reporting/Statements				
Yes	46.2%		62 5%	
No, but considering within next 12 months	0.0%		0.0%	
No, and no plans to outsource within next 12 months	53.8%		37 5%	

Representative Fees

Independent and Insurance Broker-Dealers

	Independent	Insurance
Affiliation Fee		
Covered 100% by Broker-Dealer	15.4%	8.3%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	84.6%	91.7%
Required	73.7%	100.0%
Optional	0.0%	0.0%
Not Available	21.1%	0.0%
Included in Other Fees	5.3%	0.0%
Compliance Fee		
Covered 100% by Broker-Dealer	47.6%	100.0%
Shared by Broker-Dealer and Rep	19.0%	0.0%
Paid 100% by Rep	38.1%	0.0%
Required	60.0%	60.0%
Optional	0.0%	0.0%
Not Available	26.7%	20.0%
Included in Other Fees	13.3%	20.0%
Fidelity Bond Coverage Charge		
Covered 100% by Broker-Dealer	33.3%	71.4%
Shared by Broker-Dealer and Rep	12.5%	0.0%
Paid 100% by Rep	54.2%	28.6%
Required	66.7%	71.4%
Optional	0.0%	0.0%
Not Available	0.0%	14.3%
Included in Other Fees	33.3%	14.3%
Non-Producing License Fee		
Covered 100% by Broker-Dealer	44.4%	37.5%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	55.6%	62.5%
Required	64.3%	66.7%
Optional	7.1%	0.0%
Not Available	28.6%	33.3%
Included in Other Fees	0.0%	0.0%
Home Office OSJ Fee		
Covered 100% by Broker-Dealer	68.8%	87.5%
Shared by Broker-Dealer and Rep	6.3%	0.0%
Paid 100% by Rep	25.0%	12.5%
Required	25.0%	33.3%
Optional	16.7%	0.0%
Not Available	33.3%	66.7%
Included in Other Fees	25.0%	0.0%
State/FINRA Licensing Fee		
Covered 100% by Broker-Dealer	2.9%	0.0%
Shared by Broker-Dealer and Rep	14.3%	20.0%
Paid 100% by Rep	91.4%	80.0%
Required	100.0%	100.0%
Optional	0.0%	0.0%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	0.0%
SIPC Fee		
Covered 100% by Broker-Dealer	43.3%	83.3%
Shared by Broker-Dealer and Rep	13.3%	0.0%
Paid 100% by Rep	43.3%	16.7%
Required	81.0%	83.3%
Optional	0.0%	0.0%
Not Available	0.0%	16.7%
Included in Other Fees	19.0%	0.0%

Representative Fees

Independent and Insurance Broker-Dealers

	Independent	*Insurance*
Overall Technology Fee		
Covered 100% by Broker-Dealer	34.8%	22.2%
Shared by Broker-Dealer and Rep	17.4%	11.1%
Paid 100% by Rep	52.2%	66.7%
Required	55.0%	40.0%
Optional	15.0%	20.0%
Not Available	5.0%	40.0%
Included in Other Fees	25.0%	0.0%
Quotes, Real-Time		
Covered 100% by Broker-Dealer	9.7%	0.0%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	90.3%	100.0%
Required	0.0%	28.6%
Optional	85.7%	71.4%
Not Available	4.8%	0.0%
Included in Other Fees	9.5%	0.0%
Quotes, Delayed		
Covered 100% by Broker-Dealer	53.8%	58.3%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	46.2%	41.7%
Required	11.1%	16.7%
Optional	66.7%	50.0%
Not Available	0.0%	16.7%
Included in Other Fees	22.2%	16.7%
Portfolio Management		
Covered 100% by Broker-Dealer	30.4%	45.5%
Shared by Broker-Dealer and Rep	8.7%	0.0%
Paid 100% by Rep	60.9%	54.5%
Required	0.0%	0.0%
Optional	83.3%	80.0%
Not Available	11.1%	0.0%
Included in Other Fees	5.6%	20.0%
Web site for Rep		
Covered 100% by Broker-Dealer	17.9%	18.2%
Shared by Broker-Dealer and Rep	0.0%	0.0%
Paid 100% by Rep	82.1%	81.8%
Required	4.8%	0.0%
Optional	95.2%	100.0%
Not Available	0.0%	0.0%
Included in Other Fees	0.0%	0.0%
Investment Research		
Covered 100% by Broker-Dealer	11.1%	25.0%
Shared by Broker-Dealer and Rep	3.7%	0.0%
Paid 100% by Rep	85.2%	75.0%
Required	0.0%	14.3%
Optional	84.2%	57.1%
Not Available	10.5%	0.0%
Included in Other Fees	5.3%	28.6%
Client Account Access		
Covered 100% by Broker-Dealer	54.2%	63.6%
Shared by Broker-Dealer and Rep	4.2%	0.0%
Paid 100% by Rep	45.8%	36.4%
Required	5.9%	0.0%
Optional	52.9%	50.0%
Not Available	0.0%	0.0%
Included in Other Fees	41.2%	50.0%
Client Relationship Management		
Covered 100% by Broker-Dealer	38.1%	33.3%
Shared by Broker-Dealer and Rep	4.8%	11.1%
Paid 100% by Rep	57.1%	55.6%
Required	0.0%	16.7%
Optional	55.6%	66.7%
Not Available	16.7%	16.7%
Included in Other Fees	27.8%	0.0%
Data Mining		
Covered 100% by Broker-Dealer	43.8%	83.3%
Shared by Broker-Dealer and Rep	6.3%	0.0%
Paid 100% by Rep	50.0%	16.7%
Required	0.0%	25.0%
Optional	33.3%	25.0%
Not Available	46.7%	50.0%
Included in Other Fees	20.0%	0.0%
Help Desk		
Covered 100% by Broker-Dealer	83.3%	77.8%
Shared by Broker-Dealer and Rep	11.1%	0.0%
Paid 100% by Rep	5.6%	22.2%
Required	6.3%	25.0%
Optional	37.5%	25.0%
Not Available	12.5%	25.0%
Included in Other Fees	43.8%	25.0%

Representative Fees- Ticket Charges
Independent and Insurance Broker-Dealers

	Independent		Insurance	
	Average	*Median*	*Average*	*Median*
Ticket Charges				
Mutual Funds	$15.22	$15.00	$12.46	$10.50
General Securities	$21.52	$22.00	$22.83	$21.00
Unit Investment Trusts (UIT)	$33.01	$30.00	$34.00	$34.00
Fixed Income	$33.39	$35.00	$31.27	$30.00
Ticket Charges Cleared Through Clearing Firm				
Passed Straight Through	31.4%		33.3%	
Marked-Up	68.6%		66.7%	
Mark-up Amount	*Average*	*Median*	*Average*	*Median*
Mutual Funds	103%	50%	66%	63%
General Securities	130%	100%	120%	50%
Unit Investment Trusts	135%	83%	73%	50%
Fixed Income	108%	100%	179%	42%

Representative Fees
Independent and Insurance Broker-Dealers

	Independent		Insurance	
Offer Account Aggregation Technology to Reps				
Yes	89.7%		84.2%	
No	10.3%		15.8%	
Allow Client Access to Consolidated Statements				
Yes	82.1%		78.9%	
No	17.9%		21.1%	
	Average	*Median*	*Average*	*Median*
% of Reps Participating	51%	45%	38%	28%
Charge per Year	$1,975	$1,800	$1,266	$1,320
Account Aggregation Technology Vendor				
Albridge	58.3%		75.0%	
Broadridge/Investigo	13.9%		12.5%	
Proprietary Product	8.3%		0.0%	
Other	19.4%		12.5%	
Offer Differentiated Services to Best Reps				
Yes	41.0%		36.8%	
No	59.0%		63.2%	
Benefits Offered				
Reduced Pricing and/or Fees	20.5%		21.1%	
Specialized Customer Service	25.6%		26.3%	
Practice Management Programs	15.4%		15.8%	
Technology Upgrades	5.1%		26.3%	
Other	23.1%		21.1%	
Charge for Compliance Audits				
Yes	23.1%		5.3%	
No	76.9%		94.7%	
	Average	*Median*	*Average*	*Median*
% Cost Paid by Rep	100%	100%	N/A	N/A
Typical Rep Charge per Audit	$514	$500	N/A	N/A
Pass Along Any Costs for Business Compliance Visits				
Yes	5.1%		0.0%	
No	94.9%		100.0%	
Provide Branch Offices With Compliance Subsidy				
Yes	2.6%		16.7%	
No	97.4%		83.3%	
Percentage of B-Ds With Outsourced Rep Services				
Clearing				
Yes	82.1%		87.5%	
No, but considering within next 12 months	0.0%		0.0%	
No, and no plans to outsource within next 12 months	17.9%		12.5%	
Commission Processing				
Yes	7.9%		0.0%	
No, but considering within next 12 months	7.9%		0.0%	
No, and no plans to outsource within next 12 months	84.2%		100.0%	
Compliance				
Yes	10.5%		12.5%	
No, but considering within next 12 months	10.5%		0.0%	
No, and no plans to outsource within next 12 months	78.9%		87.5%	
Portfolio Reporting/Statements				
Yes	45.9%		82.4%	
No, but considering within next 12 months	2.7%		0.0%	
No, and no plans to outsource within next 12 months	51.4%		17.6%	

Production, E&O, and D&O Requirements

Production Requirements
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Have a Minimum Production Requirement for Reps						
Yes	50.9%		46.7%		52.4%	
No	49.1%		53.3%		47.6%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Production Minimum	$71,800	$45,000	$87,857	$40,000	$66,448	$50,000
If Yes, Percent of Reps Not Meeting Minimum Requirement	17.7%	9.1%	N/A	N/A	19.3%	11.3%
If Parent-Owned, Production Req. for Proprietary Products						
Yes	1.9%		0.0%		2.5%	
No	98.1%		100.0%		97.5%	
Have Firm Low Production Fee						
Yes	30.4%		42.9%		26.2%	
No	69.6%		57.1%		73.8%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Implementation Level	$45,100	$40,000	$44,200	$40,000	$45,550	$40,000
Average Annual Production Per Rep	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2008	$224,935	$119,000	$167,129	$176,623	$244,711	$110,500
2009	$131,244	$93,400	$125,166	$127,513	$133,219	$89,500
2010	$144,612	$116,548	$176,422	$178,366	$134,274	$101,350

E & O and D & O Requirements

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Reps Required to Take E&O Insurance						
Yes	98.3%		93.3%		100.0%	
No	1.7%		6.7%		0.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$2,521,250	$1,000,000	$1,555,556	$2,000,000	$2,801,613	$1,000,000
Require Particular E&O Provider						
Yes	83.9%		80.0%		85.4%	
No	16.1%		20.0%		14.6%	
Require Particular E&O Plan						
Yes	78.6%		73.3%		80.5%	
No	21.4%		26.7%		19.5%	
If Required Plan, Specific Parameters	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$3,437,500	$2,000,000	$1,700,000	$2,000,000	$4,105,769	$2,000,000
Deductible	$39,301	$5,000	$103,182	$7,500	$14,205	$5,000
Policy Limit	$7,664,634	$5,000,000	$9,045,455	$7,500,000	$7,158,333	$4,500,000
% of E&O Cost, if any, Paid by BD	59%	70%	N/A	N/A	50%	50%
E&O Carrier Offering Segregated Pricing for Reps						
Yes	19.6%		13.3%		22.0%	
No	80.4%		86.7%		78.0%	
E&O Broker						
Aon Risk Solutions	10.7%		13.3%		9.8%	
Arthur J. Gallagher & Co.	25.0%		0.0%		34.1%	
CalSurance	14.3%		6.7%		17.1%	
E & O Pros	1.8%		6.7%		0.0%	
Lockton	1.8%		0.0%		2.4%	
Seabury & Smith (Marsh)	7.1%		13.3%		4.9%	
Other	32.1%		46.7%		26.8%	
Do not use broker for E&O coverage	7.1%		13.3%		4.9%	
E&O Carrier						
Arch Insurance Company	10.5%		13.3%		9.5%	
Catlin, Inc.	10.5%		20.0%		7.1%	
Chartis	19.3%		20.0%		19.0%	
CNA	7.0%		6.7%		7.1%	
Everest	5.3%		0.0%		7.1%	
Lloyds of London	3.5%		0.0%		4.8%	
Zurich Steadfast Insurance Company	12.3%		6.7%		14.3%	
Other	31.6%		33.3%		31.0%	
Changes in E&O Insurance during 2010	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
% Change in Rep's Policy	0.7%	0.0%	0.0%	0.0%	0.9%	0.0%
% Change in Rep's Deductible	10.1%	0.0%	0.0%	0.0%	13.0%	0.0%
% Change in Firm's Policy	-1.6%	5.2%	-8.4%	2.7%	1.2%	5.7%
% Change in Firm's Deductible	40.9%	0.0%	11.1%	0.0%	52.6%	0.0%
Maintain D&O Liability Insurance						
Yes	56.6%		41.7%		61.0%	
No	43.4%		58.3%		39.0%	
If Yes, Specific Parameters	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$24,500,000	$2,000,000	$2,000,000	$2,000,000	$30,636,364	$2,000,000
Deductible	$1,066,842	$100,000	$291,250	$75,000	$1,273,667	$100,000
Policy Limit	$26,380,952	$10,000,000	$20,250,000	$2,500,000	$27,823,529	$10,000,000
Cost of Plan Per Director	$6,612	$2,340	N/A	N/A	$6,664	$2,078
Total Cost of Policy	$233,864	$30,000	$477,483	$27,250	$145,275	$42,000
% of D&O Cost, if any, Paid by BD	92%	100%	N/A	N/A	92%	100%
Coverage for All Officers and Directors						
Yes	89.3%		83.3%		90.9%	
No	10.7%		16.7%		9.1%	

Production Requirements
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Have a Minimum Production Requirement for Reps						
Yes	45.5%		70 0%		69.2%	
No	54.5%		30 0%		30.8%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Production Minimum	$140,600	$30,000	$50,429	$50,000	$61,111	$40,000
If Yes, Percent of Reps Not Meeting Minimum Requirement	N/A	N/A	12.7%	6 2%	29.4%	35.5%
If Parent-Owned, Production Req. for Proprietary Products						
Yes	9.1%		0.0%		0 0%	
No	90.9%		100.0%		100 0%	
Have Firm Low Production Fee						
Yes	9.1%		40 0%		46.2%	
No	90.9%		60 0%		53.8%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Implementation Level	N/A	N/A	$38,875	$50,000	$54,167	$40,000
Average Annual Production Per Rep	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2008	$626,972	$67,960	$117,590	$125,218	$152,958	$129,000
2009	$224,496	$73,000	$100,169	$107,847	$127,413	$119,000
2010	$184,846	$98,600	$113,539	$125,000	$155,956	$145,000

E & O and D & O Requirements

Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Reps Required to Take E&O Insurance						
Yes	100.0%		100.0%		100.0%	
No	0.0%		0.0%		0.0%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$1,050,000	$1,000,000	$1,444,444	$1,000,000	$1,388,889	$1,000,000
Require Particular E&O Provider						
Yes	80.0%		81.8%		83.3%	
No	20.0%		18.2%		16.7%	
Require Particular E&O Plan						
Yes	70.0%		72.7%		91.7%	
No	30.0%		27.3%		8.3%	
If Required Plan, Specific Parameters	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$1,050,000	$1,000,000	$2,000,000	$2,000,000	$1,666,667	$2,000,000
Deductible	$194,250	$5,000	$16,786	$10,000	$12,111	$5,000
Policy Limit	$3,958,333	$4,500,000	$4,857,143	$5,000,000	$6,250,000	$5,000,000
% of E&O Cost, if any, Paid by BD	N/A	N/A	N/A	N/A	N/A	N/A
E&O Carrier Offering Segregated Pricing for Reps						
Yes	10.0%		18.2%		15.4%	
No	90.0%		81.8%		84.6%	
E&O Broker						
Aon Risk Solutions	0.0%		20.0%		7.7%	
Arthur J. Gallagher & Co.	36.4%		10.0%		30.8%	
CalSurance	9.1%		10.0%		7.7%	
E & O Pros	0.0%		10.0%		0.0%	
Lockton	9.1%		0.0%		0.0%	
Seabury & Smith (Marsh)	9.1%		0.0%		15.4%	
Other	27.3%		50.0%		38.5%	
Do not use broker for E&O coverage	9.1%		0.0%		0.0%	
E&O Carrier						
Arch Insurance Company	18.2%		18.2%		0.0%	
Catlin, Inc.	0.0%		18.2%		23.1%	
Chartis	18.2%		0.0%		38.5%	
CNA	0.0%		9.1%		7.7%	
Everest	0.0%		0.0%		0.0%	
Lloyds of London	18.2%		0.0%		0.0%	
Zurich Steadfast Insurance Company	0.0%		18.2%		15.4%	
Other	45.5%		36.4%		15.4%	
Changes in E&O Insurance during 2009	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
% Change in Rep's Policy	0.0%	0.0%	1.7%	0.1%	2.3%	0.0%
% Change in Rep's Deductible	-6.3%	0.0%	43.3%	0.0%	10.0%	0.0%
% Change in Firm's Policy	-15.4%	6.7%	6.5%	5.2%	-4.1%	6.5%
% Change in Firm's Deductible	-25.0%	0.0%	16.7%	0.0%	1.1%	0.0%
Maintain D&O Liability Insurance						
Yes	27.3%		60.0%		69.2%	
No	72.7%		40.0%		30.8%	
If Yes, Specific Parameters	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	N/A	N/A	N/A	N/A	$3,166,667	$2,000,000
Deductible	N/A	N/A	$41,667	$50,000	$119,167	$100,000
Policy Limit	N/A	N/A	$18,000,000	$5,500,000	$4,666,667	$2,500,000
Cost of Plan Per Director	N/A	N/A	$1,721	$1,750	$15,304	$6,357
Total Cost of Policy	N/A	N/A	$148,944	$47,500	$100,583	$27,250
% of D&O Cost, if any, Paid by BD	N/A	N/A	100%	100%	N/A	N/A
Coverage for All Officers and Directors						
Yes	100.0%		85.7%		90.0%	
No	0.0%		14.3%		10.0%	

Production Requirements
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Have a Minimum Production Requirement for Reps				
Yes	35.7%		33.3%	
No	64.3%		66.7%	
	Average	*Median*	*Average*	*Median*
If Yes, Production Minimum	$17,000	$10,000	$153,333	$200,000
If Yes, Percent of Reps Not Mee ing Minimum Requirement	16.2%	8.8%	N/A	N/A
If Parent-Owned, Production Req. for Proprietary Products				
Yes	0.0%		0.0%	
No	100.0%		100.0%	
Have Firm Low Production Fee				
Yes	30.8%		22.2%	
No	69.2%		77.8%	
	Average	*Median*	*Average*	*Median*
If Yes, Implementa ion Level	$35,000	$30,000	N/A	N/A
Average Annual Production Per Rep	*Average*	*Median*	*Average*	*Median*
2008	$116,019	$108,655	$182,785	$161,716
2009	$97,844	$80,000	$125,870	$139,800
2010	$106,184	$90,678	$179,288	$178,366

E & O and D & O Requirements

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Reps Required to Take E&O Insurance				
Yes	92.9%		100.0%	
No	7.1%		0.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$4,333,333	$2,000,000	$4,833,333	$2,000,000
Require Particular E&O Provider				
Yes	85.7%		88.9%	
No	14.3%		11.1%	
Require Particular E&O Plan				
Yes	71.4%		88.9%	
No	28.6%		11.1%	
If Required Plan, Specific Parameters	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$6,250,000	$3,000,000	$4,428,571	$2,000,000
Deductible	$6,528	$5,000	$10,250	$8,750
Policy Limit	$11,600,000	$7,500,000	$9,750,000	$10,000,000
% of E&O Cost, if any, Paid by BD	N/A	N/A	N/A	N/A
E&O Carrier Offering Segregated Pricing for Reps				
Yes	23.1%		33.3%	
No	76.9%		66.7%	
E&O Broker				
Aon Risk Solutions	15.4%		11.1%	
Arthur J. Gallagher & Co.	30.8%		11.1%	
CalSurance	23.1%		22.2%	
E & O Pros	0.0%		0.0%	
Lockton	0.0%		0.0%	
Seabury & Smith (Marsh)	7.7%		0.0%	
Other	23.1%		22.2%	
Do not use broker for E&O coverage	0.0%		33.3%	
E&O Carrier				
Arch Insurance Company	7.7%		11.1%	
Catlin, Inc.	7.7%		0.0%	
Chartis	23.1%		11.1%	
CNA	15.4%		0.0%	
Everest	15.4%		11.1%	
Lloyds of London	0.0%		0.0%	
Zurich Steadfast Insurance Company	7.7%		22.2%	
Other	23.1%		44.4%	
Changes in E&O Insurance during 2009	*Average*	*Median*	*Average*	*Median*
% Change in Rep's Policy	-0.2%	0.0%	-0.7%	0.0%
% Change in Rep's Deductible	0.0%	0.0%	0.0%	0.0%
% Change in Firm's Policy	1.0%	-2.7%	3.4%	7.6%
% Change in Firm's Deductible	81.3%	0.0%	130.0%	0.0%
Maintain D&O Liability Insurance				
Yes	63.6%		62.5%	
No	36.4%		37.5%	
If Yes, Specific Parameters	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	N/A	N/A	N/A	N/A
Deductible	$2,825,000	$625,000	$2,001,250	$1,000,000
Policy Limit	$57,400,000	$30,000,000	$41,250,000	$37,500,000
Cost of Plan Per Director	N/A	N/A	N/A	N/A
Total Cost of Policy	N/A	N/A	N/A	N/A
% of D&O Cost, if any, Paid by BD	N/A	N/A	100%	100%
Coverage for All Officers and Directors				
Yes	75.0%		100.0%	
No	25.0%		0.0%	

Production Requirements

Independent and Insurance Broker-Dealers

	Independent		*Insurance*	
Have a Minimum Production Requirement for Reps				
Yes	48.7%		55.6%	
No	51.3%		44.4%	
	Average	*Median*	*Average*	*Median*
If Yes, Production Minimum	$101,316	$50,000	$9,489	$10,000
If Yes, Percent of Reps Not Mee ing Minimum Requirement	22.9%	11.3%	11.9%	4.4%
If Parent-Owned, Production Req. for Proprietary Products				
Yes	0.0%		5.6%	
No	100.0%		94.4%	
Have Firm Low Production Fee				
Yes	23.7%		44.4%	
No	76.3%		55.6%	
	Average	*Median*	*Average*	*Median*
If Yes, Implementa ion Level	$65,000	$50,000	$22,357	$25,000
Average Annual Production Per Rep	*Average*	*Median*	*Average*	*Median*
2008	$299,226	$139,800	$88,736	$71,206
2009	$161,845	$123,060	$71,740	$59,763
2010	$177,655	$145,000	$80,363	$72,571

E & O and D & O Requirements

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Reps Required to Take E&O Insurance				
Yes	97.4%		100.0%	
No	2.6%		0.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Required Coverage	$2,129,167	$1,000,000	$3,109,375	$1,625,000
Require Particular E&O Provider				
Yes	92.1%		66.7%	
No	7.9%		33.3%	
Require Particular E&O Plan				
Yes	84.2%		66.7%	
No	15.8%		33.3%	
If Required Plan, Specific Parameters	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$3,125,000	$2,000,000	$4,531,250	$1,625,000
Deductible	$51,284	$10,000	$4,550	$3,750
Policy Limit	$7,850,000	$5,000,000	$7,159,091	$3,000,000
% of E&O Cost, if any, Paid by BD	63%	75%	N/A	N/A
E&O Carrier Offering Segregated Pricing for Reps				
Yes	10.3%		41.2%	
No	89.7%		58.8%	
E&O Broker				
Aon Risk Solutions	12.8%		5.9%	
Arthur J. Gallagher & Co.	28.2%		17.6%	
CalSurance	7.7%		29.4%	
E & O Pros	2.6%		0.0%	
Lockton	0.0%		5.9%	
Seabury & Smith (Marsh)	5.1%		11.8%	
Other	38.5%		17.6%	
Do not use broker for E&O coverage	5.1%		11.8%	
E&O Carrier				
Arch Insurance Company	10.3%		11.1%	
Catlin, Inc.	12.8%		5.6%	
Chartis	25.6%		5.6%	
CNA	10.3%		0.0%	
Everest	7.7%		0.0%	
Lloyds of London	0.0%		11.1%	
Zurich Steadfast Insurance Company	2.6%		33.3%	
Other	30.8%		33.3%	
Changes in E&O Insurance during 2009	*Average*	*Median*	*Average*	*Median*
% Change in Rep's Policy	1.0%	0.0%	0.2%	0.0%
% Change in Rep's Deductible	11.9%	0.0%	6.3%	0.0%
% Change in Firm's Policy	1.8%	6.5%	-11.7%	0.0%
% Change in Firm's Deductible	54.2%	0.0%	-16.7%	0.0%
Maintain D&O Liability Insurance				
Yes	55.6%		58.8%	
No	44.4%		41.2%	
If Yes, Specific Parameters	*Average*	*Median*	*Average*	*Median*
Coverage Obtained	$8,909,091	$1,000,000	$81,666,667	$50,000,000
Deductible	$201,429	$50,000	$3,490,000	$1,000,000
Policy Limit	$13,933,333	$2,000,000	$57,500,000	$37,500,000
Cost of Plan Per Director	$7,799	$2,500	$3,052	$2,180
Total Cost of Policy	$236,996	$27,250	$221,333	$225,000
% of D&O Cost, if any, Paid by BD	100%	100%	80%	100%
Coverage for All Officers and Directors				
Yes	89.5%		88.9%	
No	10.5%		11.1%	

Rep-Owned RIA

Rep-Owned RIA

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		*High-Profit: Top 25%*		*Non-High-Profit*	
Allow Reps to Have Own RIA for Financial Planning						
Yes	57.9%		66.7%		54.8%	
No, but considering allowing within 12 months	0.0%		0 0%		0 0%	
No, and no plans to allow within next 12 months	42.1%		33.3%		45.2%	
Allow Reps to Have Own RIA for Asset Management						
Yes	50.9%		60.0%		47.6%	
No, but considering allowing within 12 months	3.5%		6.7%		2.4%	
No, and no plans to allow within next 12 months	45.6%		33.3%		50.0%	
Choosing a Custody for Own RIA						
Mandate Custody	45.9%		70.0%		37.0%	
Rep's Choice	54.1%		30.0%		63.0%	
Rep-Owned RIAs *	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2008	83	18	154	32	51	17
2009	71	20	139	33	43	10
2010	58	19	103	34	36	13
AUM in Rep-Owned RIAs*	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
2008	$2,269,077,952	$561,728,506	$5,488,597,186	$4,956,194,373	$838,180,514	$250,000,000
2009	$2,800,147,991	$413,318,179	$6,551,122,627	$4,575,745,253	$1,299,758,136	$301,500,000
2010	$4,004,798,522	$850,000,000	$5,741,661,769	$2,657,407,013	$3,057,418,569	$507,000,000
Take a Payout on Financial Planning Fees						
Yes	47.1%		50.0%		45.8%	
No	52.9%		50.0%		54.2%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	4%	5%	4%	5%	5%	5%
If Yes, Maximum Percent of Payout	12%	10%	15%	13%	11%	9%
Take a Payout on AUM						
Yes	58.8%		50.0%		62.5%	
No	41.2%		50.0%		37.5%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	4%	5%	5%	5%	4%	5%
If Yes, Maximum Percent of Payout	10%	10%	14%	10%	9%	9%
Charge Audit Fees for Own RIA						
Yes	21.2%		22.2%		20.8%	
No	78.8%		77.8%		79.2%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
If Yes, Charge for Audit	$363	$363	N/A	N/A	$363	$363

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Rep-Owned RIA
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Allow Reps to Have Own RIA for Financial Planning						
Yes	27.3%		70.0%		76.9%	
No, but considering allowing within 12 months	0.0%		0.0%		0.0%	
No, and no plans to allow within next 12 months	72.7%		30.0%		23.1%	
Allow Reps to Have Own RIA for Asset Management						
Yes	27.3%		70.0%		69.2%	
No, but considering allowing within 12 months	0.0%		0.0%		0.0%	
No, and no plans to allow within next 12 months	72.7%		30.0%		30.8%	
Choosing a Custody for Own RIA						
Mandate Custody	25.0%		37.5%		45.5%	
Rep's Choice	75.0%		62.5%		54.5%	
Rep-Owned RIAs	Average	Median	Average	Median	Average	Median
2007	3	2	14	11	120	32
2008	4	3	13	9	91	25
2009	5	5	15	9	58	17
AUM in Rep-Owned RIAs	Average	Median	Average	Median	Average	Median
2007	$208,666,667	$16,000,000	$134,000,000	$110,000,000	$571,333,333	$664,000,000
2008	$275,000,000	$50,000,000	$196,250,000	$189,500,000	$663,566,667	$975,000,000
2009	$303,166,667	$34,500,000	$339,500,000	$194,500,000	$610,195,928	$663,016,856
Take a Payout on Financial Planning Fees						
Yes	50.0%		50.0%		50.0%	
No	50.0%		50.0%		50.0%	
	Average	Median	Average	Median	Average	Median
If Yes, Minimum Percent of Payout	N/A	N/A	4%	4%	4%	5%
If Yes, Maximum Percent of Payout	N/A	N/A	16%	13%	11%	8%
Take a Payout on AUM						
Yes	75.0%		50.0%		60.0%	
No	25.0%		50.0%		40.0%	
	Average	Median	Average	Median	Average	Median
If Yes, Minimum Percent of Payout	6%	5%	6%	5%	3%	5%
If Yes, Maximum Percent of Payout	8%	8%	14%	10%	10%	8%
Charge Audit Fees for Own RIA						
Yes	0.0%		25.0%		0.0%	
No	100.0%		75.0%		100.0%	
	Average	Median	Average	Median	Average	Median
If Yes, Charge for Audit	N/A	N/A	$600	$600	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Rep-Owned RIA
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Allow Reps to Have Own RIA for Financial Planning				
Yes	50.0%		66.7%	
No, but considering allowing wi hin 12 mon hs	0.0%		0.0%	
No, and no plans to allow within next 12 months	50.0%		33.3%	
Allow Reps to Have Own RIA for Asset Management				
Yes	28.6%		66.7%	
No, but considering allowing wi hin 12 mon hs	14.3%		0.0%	
No, and no plans to allow within next 12 months	57.1%		33.3%	
Choosing a Custody for Own RIA				
Mandate Custody	57.1%		57.1%	
Rep's Choice	42.9%		42.9%	
Rep-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2007	35	42	301	405
2008	41	43	268	292
2009	37	41	191	109
AUM in Rep-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2007	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A
2009	N/A	N/A	$11,213,984,226	$9,150,000,000
Take a Payout on Financial Planning Fees				
Yes	16.7%		66.7%	
No	83.3%		33.3%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	N/A	N/A	4%	5%
If Yes, Maximum Percent of Payout	N/A	N/A	N/A	N/A
Take a Payout on AUM				
Yes	66.7%		50.0%	
No	33.3%		50.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	N/A	N/A	3%	5%
If Yes, Maximum Percent of Payout	6%	9%	9%	10%
Charge Audit Fees for Own RIA				
Yes	66.7%		16.7%	
No	33.3%		83.3%	
	Average	*Median*	*Average*	*Median*
If Yes, Charge for Audit	N/A	N/A	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Rep-Owned RIA

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Allow Reps to Have Own RIA for Financial Planning				
Yes	71.8%		27.8%	
No, but considering allowing wi hin 12 mon hs	0.0%		0.0%	
No, and no plans to allow within next 12 months	28.2%		72.2%	
Allow Reps to Have Own RIA for Asset Management				
Yes	66.7%		16.7%	
No, but considering allowing wi hin 12 mon hs	2.6%		5.6%	
No, and no plans to allow within next 12 months	30.8%		77.8%	
Choosing a Custody for Own RIA				
Mandate Custody	43.3%		57.1%	
Rep's Choice	56.7%		42.9%	
Rep-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2007	88	19	N/A	N/A
2008	74	20	N/A	N/A
2009	63	22	N/A	N/A
AUM in Rep-Owned RIAs	*Average*	*Median*	*Average*	*Median*
2007	$2,456,834,448	$580,864,253	N/A	N/A
2008	$3,011,697,836	$473,636,358	N/A	N/A
2009	$4,252,942,179	$875,500,000	N/A	N/A
Take a Payout on Financial Planning Fees				
Yes	51.7%		20.0%	
No	48.3%		80.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	4%	5%	N/A	N/A
If Yes, Maximum Percent of Payout	12%	10%	N/A	N/A
Take a Payout on AUM				
Yes	58.6%		60.0%	
No	41.4%		40.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Minimum Percent of Payout	4%	5%	N/A	N/A
If Yes, Maximum Percent of Payout	10%	10%	9%	10%
Charge Audit Fees for Own RIA				
Yes	21.4%		20.0%	
No	78.6%		80.0%	
	Average	*Median*	*Average*	*Median*
If Yes, Charge for Audit	$363	$363	N/A	N/A

* Average and medians based on firms who provided data for these questions. Results may not be typical for all firms.

Asset Management

Asset Management
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Corporate RIA AUM (only if all 3 years reported) as of:	Average	Median	Average	Median	Average	Median
December 31, 2008	$2,740,894,996	$1,259,420,485	$4,122,574,961	$1,404,028,826	$2,180,754,470	$998,571,491
December 31, 2009	$3,550,510,544	$1,561,887,660	$5,338,011,674	$1,796,086,557	$2,825,847,923	$1,307,665,574
December 31, 2010	$4,230,356,197	$1,988,969,465	$6,281,905,475	$2,259,041,500	$3,398,647,029	$1,785,000,000
Offer Asset Management Accounts						
Rep Directed	86.2%		86.7%		86.0%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$47,500	$40,000	$48,000	$50,000	$47,344	$30,000
Broker-Dealer Directed	41.4%		40.0%		41.9%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$51,000	$40,000	$35,000	$25,000	$57,857	$50,000
Third-Party Turnkey Asset Management Programs	79.3%		86.7%		76.7%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$47,639	$50,000	$78,500	$50,000	$35,769	$25,000
Third Party Separately Managed Accounts	82.8%		86.7%		81.4%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$167,763	$100,000	$205,556	$100,000	$156,034	$100,000
Payout Fees Generated through AUM*						
Part of Overall Production	77.4%		71.4%		79.5%	
Fixed Percent, Regardless of the Total	13.2%		14.3%		12.8%	
Different Schedule Than GDC	9.4%		28.6%		2.6%	
*Answers are independent of each other						
Cost of Corporate RIA's Fee-Based Program	Average	Median	Average	Median	Average	Median
Number of Full-Time Employees	18	8	5	5	24	9
Payroll	$2,290,260	$631,896	$429,015	$485,000	$2,910,675	$653,000
Technology Budget	$392,094	$164,947	N/A	N/A	$467,809	$171,000
Marketing Budget	$97,246	$28,750	N/A	N/A	$107,419	$28,750
Compliance Budget	$391,537	$32,000	N/A	N/A	$481,421	$93,500
Other Expenses	$722,830	$273,265	$236,485	$113,454	$931,264	$380,529
No specific budget available for corporate RIA	65.0%		66.7%		64.3%	
Rep Assistance from Corporate RIA						
Webinars	92.5%		72.7%		100.0%	
Conference Presentations/Breakout Sessions	90.0%		90.9%		89.7%	
Workshops Dedicated to Corporate RIA Program	72.5%		81.8%		69.0%	
Guidebooks	67.5%		81.8%		62.1%	
Online Tools, Courses and Other Resources	72.5%		72.7%		72.4%	
On-site Training	67.5%		63.6%		69.0%	
Revenue Sharing from Asset Mgrs on Corporate RIA						
Yes	46.2%		42.9%		47.4%	
No	53.8%		57.1%		52.6%	
If Yes, Number of Basis Points	Average	Median	Average	Median	Average	Median
Turnkey Asset Management Program	13	10	14	20	13	10
Separate Account Managers	29	10	7	7	34	20
Mutual Funds	12	9	N/A	N/A	12	8

Asset Management
Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Corporate RIA AUM as of:	Average	Median	Average	Median	Average	Median
December 31, 2008	$289,083,583	$117,949,865	$600,940,500	$500,000,000	$1,780,979,940	$1,000,000,000
December 31, 2009	$298,536,406	$111,100,000	$789,774,994	$845,679,671	$2,479,983,980	$1,000,000,000
December 31, 2010	$532,166,215	$219,728,725	$1,021,973,420	$925,825,155	$2,574,850,043	$1,040,000,000
Offer Fee-Based Accounts						
Rep Directed	72.7%		81.8%		92.3%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$50,000	$50,000	$38,125	$40,000	$58,889	$25,000
Broker-Dealer Directed	27.3%		36.4%		30.8%	
	Average	Median	Average	Median	Average	Median
Account Minimum	N/A	N/A	$50,000	$37,500	$76,250	$27,500
Third-Party Turnkey Asset Management Programs	72.7%		81.8%		69.2%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$80,000	$50,000	$52,000	$50,000	$41,875	$37,500
Third Party Separately Managed Accounts	54.5%		81.8%		84.6%	
	Average	Median	Average	Median	Average	Median
Account Minimum	$145,000	$50,000	$82,143	$100,000	$175,000	$100,000
Payout Fees Generated through AUM*						
Part of Overall Production	60.0%		77.8%		75.0%	
Fixed Percent, Regardless of the Total	30.0%		22.2%		8.3%	
Different Schedule Than GDC	0.0%		0.0%		16.7%	
*Answers are independent of each other						
Cost of Corporate RIA's Fee-Based Program	Average	Median	Average	Median	Average	Median
Number of Full-Time Employees	N/A	N/A	6	8	3	3
Payroll	N/A	N/A	$323,250	$290,000	$413,597	$500,000
Technology Budget	N/A	N/A	$122,667	$146,000	N/A	N/A
Marketing Budget	N/A	N/A	N/A	N/A	N/A	N/A
Compliance Budget	N/A	N/A	$71,333	$32,000	N/A	N/A
Other Expenses	N/A	N/A	$261,333	$166,000	N/A	N/A
No specific budget available for corporate RIA	85.7%		50.0%		63.6%	
Rep Assistance from Corporate RIA						
Webinars	83.3%		100.0%		100.0%	
Conference Presentations/Breakout Sessions	83.3%		87.5%		100.0%	
Workshops Dedicated to Corporate RIA Program	50.0%		62.5%		88.9%	
Guidebooks	66.7%		50.0%		66.7%	
Online Tools, Courses and Other Resources	50.0%		75.0%		66.7%	
On-site Training	33.3%		87.5%		66.7%	
Revenue Sharing from Asset Mgrs on Corporate RIA						
Yes	44.4%		33.3%		41.7%	
No	55.6%		66.7%		58.3%	
If yes, number of basis points	Average	Median	Average	Median	Average	Median
Turnkey Asset Management Program	3	3	N/A	N/A	9	9
Separate Account Managers	N/A	N/A	N/A	N/A	20	20
Mutual Funds	N/A	N/A	N/A	N/A	15	15

Asset Management
Broker-Dealer by Revenue Size

	$100M - $250M		*More Than $250M*	
Corporate RIA AUM as of:	*Average*	*Median*	*Average*	*Median*
December 31, 2008	$1,984,370,140	$2,100,000,000	$9,539,539,512	$9,678,375,142
December 31, 2009	$2,314,723,187	$2,420,550,000	$12,243,492,289	$13,221,601,229
December 31, 2010	$2,850,893,033	$2,976,361,546	$14,735,273,609	$14,355,823,768
Offer Fee-Based Accounts				
Rep Directed	92.9%		88.9%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$42,500	$27,500	$50,000	$50,000
Broker-Dealer Directed	64.3%		44.4%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$47,143	$50,000	$33,750	$37,500
Third-Party Turnkey Asset Management Programs	92.9%		77.8%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$40,909	$25,000	$38,571	$50,000
Third Party Separately Managed Accounts	100.0%		88.9%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$122,917	$100,000	$339,286	$100,000
Payout Fees Generated through AUM*				
Part of Overall Production	84.6%		88.9%	
Fixed Percent, Regardless of he Total	7.7%		0.0%	
Different Schedule Than GDC	7.7%		22.2%	
*Answers are independent of each other				
Cost of Corporate RIA's Fee-Based Program	*Average*	*Median*	*Average*	*Median*
Number of Full-Time Employees	10	9	N/A	N/A
Payroll	N/A	N/A	N/A	N/A
Technology Budget	N/A	N/A	N/A	N/A
Marketing Budget	N/A	N/A	N/A	N/A
Compliance Budget	N/A	N/A	N/A	N/A
Other Expenses	N/A	N/A	N/A	N/A
No specific budget available for corporate RIA	70.0%		50.0%	
Rep Assistance from Corporate RIA				
Webinars	88.9%		87.5%	
Conference Presenta ions/Breakout Sessions	88.9%		87.5%	
Workshops Dedicated to Corporate RIA Program	77.8%		75.0%	
Guidebooks	88.9%		62.5%	
Online Tools, Courses and Other Resources	88.9%		75.0%	
On-site Training	88.9%		50.0%	
Revenue Sharing from Asset Mgrs on Corporate RIA				
Yes	46.2%		66.7%	
No	53.8%		33.3%	
If yes, number of basis points	*Average*	*Median*	*Average*	*Median*
Turnkey Asset Management Program	22	19	16	19
Separate Account Managers	69	68	21	7
Mutual Funds	N/A	N/A	N/A	N/A

Asset Management

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Corporate RIA AUM as of:	*Average*	*Median*	*Average*	*Median*
December 31, 2008	$2,782,510,974	$1,057,406,072	$2,627,937,342	$1,495,412,313
December 31, 2009	$3,644,450,602	$1,317,677,169	$2,883,939,168	$1,185,000,000
December 31, 2010	$4,279,933,048	$1,601,224,061	$3,584,551,025	$1,988,969,465
Offer Fee-Based Accounts				
Rep Directed	92.3%		73.7%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$40,172	$30,000	$63,846	$50,000
Broker-Dealer Directed	35.9%		52.6%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$40,833	$27,500	$66,250	$50,000
Third-Party Turnkey Asset Management Programs	87.2%		63.2%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$50,536	$50,000	$37,500	$37,500
Third Party Separately Managed Accounts	84.6%		78.9%	
	Average	*Median*	*Average*	*Median*
Account Minimum	$134,259	$100,000	$250,000	$100,000
Payout Fees Generated through AUM*				
Part of Overall Production	75.0%		82.4%	
Fixed Percent, Regardless of he Total	13.9%		11.8%	
Different Schedule Than GDC	13.9%		0.0%	
*Answers are independent of each other				
Cost of Corporate RIA's Fee-Based Program	*Average*	*Median*	*Average*	*Median*
Number of Full-Time Employees	8	9	38	4
Payroll	$626,489	$653,000	$7,281,576	$610,792
Technology Budget	$121,149	$135,500	N/A	N/A
Marketing Budget	$41,796	$20,000	N/A	N/A
Compliance Budget	$57,250	$23,500	N/A	N/A
Other Expenses	$317,498	$273,265	N/A	N/A
No specific budget available for corporate RIA	64.3%		66.7%	
Rep Assistance from Corporate RIA				
Webinars	92.9%		91.7%	
Conference Presenta ions/Breakout Sessions	92.9%		83.3%	
Workshops Dedicated to Corporate RIA Program	78.6%		58.3%	
Guidebooks	60.7%		83.3%	
Online Tools, Courses and Other Resources	71.4%		75.0%	
On-site Training	60.7%		83.3%	
Revenue Sharing from Asset Mgrs on Corporate RIA				
Yes	48.6%		40.0%	
No	51.4%		60.0%	
If yes, number of basis points	*Average*	*Median*	*Average*	*Median*
Turnkey Asset Management Program	15	18	5	5
Separate Account Managers	31	10	N/A	N/A
Mutual Funds	12	9	N/A	N/A

Insurance Products

Treatment of Fixed and Proprietary Variable Insurance Products

All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?						
Fully included in the overall grid for production through the broker-dealer	31.0%		40.0%		27.9%	
Production counts toward the overall grid, but payout is determined separately	29.3%		40.0%		25.6%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Minimum Payout	82%	90%	74%	76%	88%	92%
Maximum Payout	91%	92%	87%	92%	93%	94%
There are no arrangements for Fixed Products	10.3%		0 0%		14.0%	
Processed through the parent insurance company	17.2%		6.7%		20.9%	
Other	12.1%		13.3%		11.6%	
How do you treat Proprietary Variable Insurance Products?						
Fully included in the overall grid for production through the broker-dealer	33.3%		7.7%		42.1%	
Production counts toward the overall grid, but payout is determined separately	9.8%		7.7%		10.5%	
There are no arrangements for Proprietary Variable Products	43.1%		84.6%		28.9%	
Processed through the parent insurance company	13.7%		0 0%		18.4%	

Treatment of Fixed and Proprietary Variable Insurance Products

Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?						
Fully included in the overall grid for production through the broker-dealer	9.1%		27.3%		53.8%	
Production counts toward the overall grid, but payout is determined separately	27.3%		27.3%		30.8%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Minimum Payout	78%	90%	86%	100%	91%	90%
Maximum Payout	78%	90%	91%	100%	94%	92%
There are no arrangements for Fixed Products	18.2%		18.2%		7.7%	
Processed through the parent insurance company	36.4%		18.2%		0.0%	
Other	9.1%		9.1%		7.7%	
How do you treat Proprietary Variable Insurance Products?						
Fully included in the overall grid for production through the broker-dealer	10.0%		14.3%		45.5%	
Production counts toward the overall grid, but payout is determined separately	0.0%		28.6%		0.0%	
There are no arrangements for Proprietary Variable Products	70.0%		42.9%		54.5%	
Processed through the parent insurance company	20.0%		14.3%		0.0%	

Treatment of Fixed and Proprietary Variable Insurance Products

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?				
Fully included in the overall grid for production through the broker-dealer	42.9%		11.1%	
Production counts toward the overall grid, but payout is determined separately	21.4%		44.4%	
	Average	*Median*	*Average*	*Median*
Minimum Payout	78%	70%	76%	83%
Maximum Payout	93%	90%	96%	97%
There are no arrangements for Fixed Products	7.1%		0.0%	
Processed through the parent insurance company	21.4%		11.1%	
Other	7.1%		33.3%	
How do you treat Proprietary Variable Insurance Products?				
Fully included in the overall grid for production through the broker-dealer	57.1%		22.2%	
Production counts toward the overall grid, but payout is determined separately	7.1%		22.2%	
There are no arrangements for Proprietary Variable Products	14.3%		44.4%	
Processed through the parent insurance company	21.4%		11.1%	

Treatment of Fixed and Proprietary Variable Insurance Products

Independent and Insurance Broker-Dealers

	Independent		Insurance	
How do you treat Fixed Products (Life Insurance, Annuities, Disability, etc.)?				
Fully included in the overall grid for production through the broker-dealer	41.0%		10.5%	
Production counts toward the overall grid, but payout is determined separately	33.3%		21.1%	
	Average	*Median*	*Average*	*Median*
Minimum Payout	81%	90%	87%	95%
Maximum Payout	90%	92%	92%	98%
There are no arrangements for Fixed Products	7.7%		15.8%	
Processed through the parent insurance company	7.7%		36.8%	
Other	10.3%		15.8%	
How do you treat Proprietary Variable Insurance Products?				
Fully included in the overall grid for production through the broker-dealer	32.4%		35.3%	
Production counts toward the overall grid, but payout is determined separately	5.9%		17.6%	
There are no arrangements for Proprietary Variable Products	58.8%		11.8%	
Processed through the parent insurance company	2.9%		35.3%	

Direct Business

Direct Business
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Direct Business						
Not allowed	4%		0%		5%	
Allowed, but require a network account	11%		0%		14%	
Allowed with no restric ions	86%		100%		81%	
If Allowed, Typical Charge Per Trade						
Firm does not charge for direct business	77.8%		66.7%		82.1%	
Percentage Payout	3.7%		6.7%		2.6%	
Flat Charge Per Trade Only	7.4%		0.0%		10.3%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	$21	$18	N/A	N/A	$21	$18
Other	11.1%		26.7%		5.1%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Number of Trades	62.7%	69.0%	49.4%	55.0%	67.5%	77.5%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	63.0%	70.0%	54.5%	50.5%	65.2%	75.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	67.6%	75.0%	61.2%	68.5%	69.3%	75.0%

Direct Business

Broker-Dealer by Revenue Size

	Less Than $25M		*$25M - $54M*		*$54M - $100M*	
Direct Business						
Not allowed	0%		10%		0%	
Allowed, but require a network account	9%		0%		15%	
Allowed with no restric ions	91%		90%		85%	
If Allowed, Typical Charge Per Trade						
Firm does not charge for direct business	90.9%		87.5%		69.2%	
Percentage Payout	0.0%		0.0%		15.4%	
Flat Charge Per Trade Only	9.1%		0.0%		0.0%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A	N/A	N/A
Other	0.0%		12.5%		15.4%	
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Number of Trades	74.2%	80.0%	64.1%	66.0%	66.1%	65.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	79.0%	90.0%	60.0%	60.0%	77.0%	75.0%
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	75.7%	88.0%	70.9%	70.0%	69.0%	75.0%

Direct Business

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Direct Business				
Not allowed	0%		11%	
Allowed, but require a network account	7%		22%	
Allowed with no restrictions	93%		67%	
If Allowed, Typical Charge Per Trade				
Firm does not charge for direct business	78.6%		62.5%	
Percentage Payout	0.0%		0.0%	
Flat Charge Per Trade Only	14.3%		12.5%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	N/A	N/A
Other	7.1%		25.0%	
	Average	*Median*	*Average*	*Median*
Percentage of Number of Trades	47.9%	63.0%	60.0%	71.5%
	Average	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	50.5%	44.2%	43.9%	41.5%
	Average	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	62.8%	72.0%	50.1%	53.0%

Direct Business

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Direct Business				
Not allowed	5%		0%	
Allowed, but require a network account	8%		17%	
Allowed with no restrictions	87%		83%	
If Allowed, Typical Charge Per Trade				
Firm does not charge for direct business	75.7%		82.4%	
Percentage Payout	5.4%		0.0%	
Flat Charge Per Trade Only	2.7%		17.6%	
Dollar Charge	*Average*	*Median*	*Average*	*Median*
	N/A	N/A	$16	$15
Other	16.2%		0.0%	
	Average	*Median*	*Average*	*Median*
Percentage of Number of Trades	51.2%	60.0%	80.4%	85.0%
	Average	*Median*	*Average*	*Median*
Percentage of Dollar Volume of Trades	55.5%	65.0%	77.3%	85.0%
	Average	*Median*	*Average*	*Median*
Percentage of Commission Revenue Received	59.2%	65.0%	81.4%	84.0%

Trades

Trades
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Trades Completed in 2010	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
# Direct Transactions	892,322	255,429	787,509	163,648	916,779	307,360
# Clearing Transactions	386,695	143,462	419,001	131,190	374,190	161,003
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% Using Straight Through Processing Technology	60%	75%	66%	95%	57%	70%
Clearing Firm(s) Used						
Self-cleared	3.8%		0.0%		5.1%	
First Clearing	3.8%		7.1%		2.6%	
JP Morgan	0.0%		0.0%		0.0%	
National Financial Services LLC	34.0%		42.9%		30 8%	
Pershing	66.0%		50.0%		71 8%	
Schwab	3.8%		14.3%		0.0%	
TD Ameritrade	5.7%		14.3%		2.6%	
Other	17.0%		28.6%		12 8%	

Trades
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Trades Completed in 2010	*Average*	*Median*	*Average*	*Median*	*Average*	*Median*
# Direct Transactions	98,229	85,000	153,187	71,748	1,044,837	410,000
# Clearing Transactions	24,631	12,066	62,488	58,236	255,353	150,276
	Average	*Median*	*Average*	*Median*	*Average*	*Median*
% Using Straight Through Processing Technology	N/A	N/A	58%	80%	77%	84%
Clearing Firm(s) Used						
Self-cleared	0.0%		0.0%		0.0%	
First Clearing	0.0%		0.0%		8.3%	
JP Morgan	0.0%		0.0%		0.0%	
National Financial Services LLC	33.3%		40.0%		16.7%	
Pershing	55.6%		70.0%		83 3%	
Schwab	0.0%		10.0%		0.0%	
TD Ameritrade	11.1%		10.0%		0.0%	
Other	22.2%		30.0%		8.3%	

Trades
Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Trades Completed in 2010	*Average*	*Median*	*Average*	*Median*
# Direct Transactions	1,380,650	910,807	2,945,831	2,085,922
# Clearing Transactions	506,995	426,941	1,286,231	1,016,296
	Average	*Median*	*Average*	*Median*
% Using Straight Through Processing Technology	60%	63%	97%	99%
Clearing Firm(s) Used				
Self-cleared	15.4%		0.0%	
First Clearing	7.7%		0.0%	
JP Morgan	0.0%		0.0%	
National Financial Services LLC	30.8%		55.6%	
Pershing	61.5%		55.6%	
Schwab	0.0%		11.1%	
TD Ameritrade	0.0%		11.1%	
Other	7.7%		22.2%	

Trades
Independent and Insurance Broker-Dealers

	Independent		Insurance	
Trades Completed in 2010	*Average*	*Median*	*Average*	*Median*
# Direct Transactions	861,629	277,715	964,869	163,648
# Clearing Transactions	419,955	150,276	300,774	74,265
	Average	*Median*	*Average*	*Median*
% Using Straight Through Processing Technology	56%	70%	67%	84%
Clearing Firm(s) Used				
Self-cleared	5.4%		0.0%	
First Clearing	5.4%		0.0%	
JP Morgan	0.0%		0.0%	
National Financial Services LLC	40.5%		18.8%	
Pershing	62.2%		75.0%	
Schwab	5.4%		0.0%	
TD Ameritrade	8.1%		0.0%	
Other	16.2%		18.8%	

Complaints and Litigation

Complaints/Litigation
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Number of New Complaints in 2010	Average	Median	Average	Median	Average	Median
	51	13	38	11	55	15
Nature of Complaints	Average	Median	Average	Median	Average	Median
Supervision	4.0%	0.0%	3.1%	0.0%	4.4%	0.0%
Suitability	31.1%	15.0%	25.8%	12.0%	33.4%	16.0%
Churning	0.3%	0.0%	0.0%	0.0%	0.4%	0.0%
Investment Performance	8.3%	1.0%	3.9%	0.0%	10.2%	2.0%
Failure to Follow Instructions	11.2%	0.5%	10.0%	0.0%	11.8%	1.0%
Misrepresentation	14.8%	10.5%	11.5%	8.0%	16.3%	11.0%
Other	30.3%	21.5%	45.7%	42.0%	23.5%	15.0%
Total Complaints as of 12/31/10	Average	Median	Average	Median	Average	Median
	130	10	23	6	170	15
Total Cost to Defend Complaints in 2010	Average	Median	Average	Median	Average	Median
(excluding settlement dollars)	$391,040	$200,548	$150,838	$169,365	$441,083	$249,774
Total Settlement Dollars Paid in 2010	Average	Median	Average	Median	Average	Median
	$903,624	$171,000	$366,202	$61,264	$1,060,372	$183,600
Regulatory Inquiries (Sweeps) in 2010						
Yes	31.9%		14.3%		39.4%	
No	68.1%		85.7%		60.6%	
	Average	Median	Average	Median	Average	Median
If Yes, Number of Inquiries	30	13	N/A	N/A	32	13
Trigger of Regulatory Inquiries in 2010						
1031s	20.0%		0.0%		23.1%	
Late Filings	0.0%		0.0%		0.0%	
Soft Dollar and/or Marketing Dollar Inquiry	0.0%		0.0%		0.0%	
Auction Rate Security Sales	0.0%		0.0%		0.0%	
Variable Annuity Sales Practices	46.7%		50.0%		46.2%	
Investment Advisor Activities	53.3%		50.0%		53.8%	
Other	66.7%		100.0%		61.5%	

Complaints/Litigation
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Number of New Complaints in 2010	Average	Median	Average	Median	Average	Median
	7	7	12	8	71	38
Nature of Complaints	Average	Median	Average	Median	Average	Median
Supervision	0.7%	0.0%	8.5%	0.0%	5.3%	2.5%
Suitability	37.0%	22.0%	41.0%	47.5%	27.0%	15.5%
Churning	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%
Investment Performance	7.6%	0.0%	6.3%	0.0%	15.2%	7.0%
Failure to Follow Instructions	11.7%	0.0%	13.2%	0.0%	11.2%	5.0%
Misrepresentation	11.1%	10.0%	10.8%	11.5%	11.9%	10.0%
Other	31.9%	0.0%	20.2%	6.5%	28.9%	27.0%
Total Complaints as of 12/31/10	Average	Median	Average	Median	Average	Median
	6	6	9	6	67	28
Total Cost to Defend Complaints in 2010	Average	Median	Average	Median	Average	Median
(excluding settlement dollars)	$155,502	$70,000	$550,537	$266,628	$229,172	$200,548
Total Settlement Dollars Paid in 2010	Average	Median	Average	Median	Average	Median
	$295,000	$90,000	$133,150	$24,353	$398,580	$160,500
Regulatory Inquiries (Sweeps) in 2010						
Yes	18.2%		20.0%		50.0%	
No	81.8%		80.0%		50.0%	
	Average	Median	Average	Median	Average	Median
If Yes, Number of Inquiries	N/A	N/A	N/A	N/A	17	4
Trigger of Regulatory Inquiries in 2010						
1031s	0.0%		0.0%		33.3%	
Late Filings	0.0%		0.0%		0.0%	
Soft Dollar and/or Marketing Dollar Inquiry	0.0%		0.0%		0.0%	
Auction Rate Security Sales	0.0%		0.0%		0.0%	
Variable Annuity Sales Practices	0.0%		50.0%		33.3%	
Investment Advisor Activities	100.0%		0.0%		33.3%	
Other	0.0%		50.0%		66.7%	

Complaints/Litigation

Broker-Dealer by Revenue Size

	$100M - $250M		More Than $250M	
Number of New Complaints in 2010	*Average*	*Median*	*Average*	*Median*
	76	45	132	102
Nature of Complaints	*Average*	*Median*	*Average*	*Median*
Supervision	0.0%	0 0%	0.5%	0.5%
Suitability	27.2%	14.0%	11.0%	14.0%
Churning	1.0%	0 0%	0.0%	0.0%
Investment Performance	3.0%	2 0%	3.8%	3.5%
Failure to Follow Instructions	9.2%	9 0%	8.0%	10.0%
Misrepresentation	31.2%	32.0%	18.0%	19.0%
Other	28.4%	23.0%	58.8%	51.0%
Total Complaints as of 12/31/10	*Average*	*Median*	*Average*	*Median*
	545	17	53	48
Total Cost to Defend Complaints in 2010	*Average*	*Median*	*Average*	*Median*
(excluding settlement dollars)	N/A	N/A	N/A	N/A
Total Settlement Dollars Paid in 2010	*Average*	*Median*	*Average*	*Median*
	$2,387,222	$373,362	$1,938,253	$1,891,644
Regulatory Inquiries (Sweeps) in 2010				
Yes	25.0%		50 0%	
No	75.0%		50 0%	
	Average	*Median*	*Average*	*Median*
If Yes, Number of Inquiries	N/A	N/A	74	30
Trigger of Regulatory Inquiries in 2010				
1031s	0 0%		33 3%	
Late Filings	0 0%		0.0%	
Soft Dollar and/or Marketing Dollar Inquiry	0 0%		0.0%	
Auction Rate Security Sales	0 0%		0.0%	
Variable Annuity Sales Practices	100.0%		66.7%	
Investment Advisor Activities	100.0%		66.7%	
Other	100.0%		100.0%	

Complaints/Litigation

Independent and Insurance Broker-Dealers

	Independent		Insurance	
Number of New Complaints in 2010	*Average*	*Median*	*Average*	*Median*
	53	13	48	14
Nature of Complaints	*Average*	*Median*	*Average*	*Median*
Supervision	5.8%	0.0%	0 0%	0.0%
Suitability	33.9%	22 0%	24.7%	14.0%
Churning	0.0%	0.0%	0 8%	0.0%
Investment Performance	10.8%	5.0%	2 6%	0.0%
Failure to Follow Instructions	7.3%	0.0%	20.2%	9.0%
Misrepresentation	12.0%	10 0%	21.2%	16.0%
Other	30.2%	20 0%	30.5%	25.0%
Total Complaints as of 12/31/10	*Average*	*Median*	*Average*	*Median*
	36	11	423	8
Total Cost to Defend Complaints in 2010	*Average*	*Median*	*Average*	*Median*
(excluding settlement dollars)	$426,677	$265,814	$279,039	$70,000
Total Settlement Dollars Paid in 2010	*Average*	*Median*	*Average*	*Median*
	$588,103	$196,200	$1,810,746	$95,722
Regulatory Inquiries (Sweeps) in 2010				
Yes	32.4%		30.8%	
No	67 6%		69.2%	
	Average	*Median*	*Average*	*Median*
If Yes, Number of Inquiries	29	3	34	29
Trigger of Regulatory Inquiries in 2010				
1031s	18 2%		25.0%	
Late Filings	0.0%		0.0%	
Soft Dollar and/or Marketing Dollar Inquiry	0.0%		0.0%	
Auction Rate Security Sales	0.0%		0.0%	
Variable Annuity Sales Practices	45 5%		50.0%	
Investment Advisor Activities	45 5%		75.0%	
Other	72.7%		50.0%	

Technology

Investment in Technology
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers		High-Profit: Top 25%		Non-High-Profit	
Investment in Technology	Average	Median	Average	Median	Average	Median
Home Office - 2009	$1,211,018	$322,707	$594,667	$496,920	$1,416,468	$312,600
Home Office - 2010	$1,123,019	$375,000	$839,750	$751,081	$1,210,930	$250,000
Home Office - 2011 (Budgeted)	$928,457	$525,000	$779,619	$600,000	$982,039	$450,000
Field Services - 2009	$1,483,376	$600,000	$1,368,475	$1,321,625	$1,546,050	$379,905
Field Services - 2010	$1,345,273	$734,186	$2,023,560	$1,555,883	$817,717	$300,000
Field Services - 2011 (Budgeted)	$1,197,357	$637,857	$2,330,314	$2,591,700	$693,820	$350,000
Assist Reps in Developing Social Media Presence						
Yes	33.3%		38.5%		31.7%	
No	66.7%		61.5%		68.3%	
Social Media Presence Assistance						
Outsource	41.7%		40.0%		42.1%	
Internal	58.3%		60.0%		57.9%	
Offer Social Media Presence Assistance in the Future						
Yes	30.8%		16.7%		35.0%	
No	69.2%		83.3%		65.0%	

Investment in Technology
Broker-Dealer by Revenue Size

	Less Than $25M		$25M - $54M		$54M - $100M	
Investment in Technology	Average	Median	Average	Median	Average	Median
Home Office - 2009	$76,337	$68,385	$380,777	$250,000	$631,626	$325,000
Home Office - 2010	$66,491	$55,444	$426,973	$188,839	$455,011	$325,000
Home Office - 2011 (Budgeted)	$160,079	$60,000	$512,143	$250,000	$683,201	$525,000
Field Services - 2009	N/A	N/A	N/A	N/A	$2,793,520	$557,054
Field Services - 2010	N/A	N/A	N/A	N/A	$1,076,642	$612,372
Field Services - 2011 (Budgeted)	N/A	N/A	N/A	N/A	$977,127	$637,857
Assist Reps in Developing Social Media Presence						
Yes	10.0%		27.3%		23.1%	
No	90.0%		72.7%		76.9%	
Social Media Presence Assistance						
Outsource	N/A		50.0%		20.0%	
Internal	N/A		50.0%		80.0%	
Offer Social Media Presence Assistance in the Future						
Yes	50.0%		33.3%		33.3%	
No	50.0%		66.7%		66.7%	

Investment in Technology
Broker-Dealer by Revenue Size

	$100M - $250M		*More Than $250M*	
Investment in Technology	*Average*	*Median*	*Average*	*Median*
Home Office - 2009	$2,031,839	$1,310,143	$3,517,044	$1,503,500
Home Office - 2010	$2,365,700	$1,367,460	$2,908,150	$2,000,000
Home Office - 2011 (Budgeted)	$2,161,427	$976,085	$1,633,333	$1,600,000
Field Services - 2009	$955,981	$600,000	$1,536,036	$1,321,625
Field Services - 2010	$972,097	$856,000	$3,606,294	$1,763,000
Field Services - 2011 (Budgeted)	$880,000	$585,000	N/A	N/A
Assist Reps in Developing Social Media Presence				
Yes	27.3%		88.9%	
No	72.7%		11.1%	
Social Media Presence Assistance				
Outsource	80.0%		25.0%	
Internal	20.0%		75.0%	
Offer Social Media Presence Assistance in the Future				
Yes	16.7%		N/A	
No	83.3%		N/A	

Investment in Technology
Independent and Insurance Broker-Dealers

	Independent		*Insurance*	
Investment in Technology	*Average*	*Median*	*Average*	*Median*
Home Office - 2009	$920,159	$281,893	$2,083,595	$872,500
Home Office - 2010	$1,060,223	$375,000	$1,298,846	$479,500
Home Office - 2011 (Budgeted)	$949,540	$475,000	$859,940	$842,043
Field Services - 2009	$965,415	$850,000	$3,166,750	$525,000
Field Services - 2010	$1,449,156	$756,186	$1,033,624	$653,000
Field Services - 2011 (Budgeted)	$1,243,126	$493,929	$1,044,793	$720,000
Assist Reps in Developing Social Media Presence				
Yes	32.4%		35.3%	
No	67.6%		64.7%	
Social Media Presence Assistance				
Outsource	33.3%		55.6%	
Internal	66.7%		44.4%	
Offer Social Media Presence Assistance in the Future				
Yes	31.6%		28.6%	
No	68.4%		71.4%	

Ownership

Ownership
All, High-Profit, and Non-High-Profit Broker-Dealers

	All Broker-Dealers	High-Profit: Top 25%	Non-High-Profit
Have a Parent Company			
Yes	75.9%	46.7%	86.0%
No	24.1%	53.3%	14.0%
Broker-Dealer's Primary Objective in Parent			
Operates as a profit center (goal to maximize profit)	65.9%	71.4%	64.9%
Operates as a cost center (goal to break-even)	34.1%	28.6%	35.1%
If Parent Owned, in Business of Insurance			
Yes	61.4%	37.5%	66.7%
No	38.6%	62.5%	33.3%
If Insurance, Type of Reps Served			
B-D primarily services agents of parent insurance company	44.8%	33.3%	46.2%
B-D primarily services reps not closely affiliated w/ parent	34.5%	66.7%	30.8%
B-D services combination of both types of reps	20.7%	0.0%	23.1%
Occupy Space in Parent Company's Facility			
Yes	70.5%	57.1%	73.0%
No	29.5%	42.9%	27.0%
Report Net Profit Before or After Parent Company Fees			
Before	9.8%	0.0%	11.8%
After	90.2%	100.0%	88.2%
Handle Proprietary Products			
Yes	52.3%	42.9%	54.1%
No	47.7%	57.1%	45.9%
If Yes, B-D Credited for Distribution Costs			
Yes	42.9%	N/A	42.1%
No	57.1%	N/A	57.9%

Ownership
Broker-Dealer by Revenue Size

	Less Than $25M	$25M - $54M	$54M - $100M
Have a Parent Company			
Yes	90.9%	72.7%	53.8%
No	9.1%	27.3%	46.2%
Broker-Dealer's Primary Objective in Parent			
Operates as a profit center (goal to maximize profit)	40.0%	62.5%	85.7%
Operates as a cost center (goal to break-even)	60.0%	37.5%	14.3%
If Parent Owned, in Business of Insurance			
Yes	50.0%	50.0%	57.1%
No	50.0%	50.0%	42.9%
If Insurance, Type of Reps Served			
B-D primarily services agents of parent insurance company	66.7%	60.0%	25.0%
B-D primarily services reps not closely affiliated w/ parent	16.7%	40.0%	25.0%
B-D services combination of both types of reps	16.7%	0.0%	50.0%
Occupy Space in Parent Company's Facility			
Yes	80.0%	87.5%	71.4%
No	20.0%	12.5%	28.6%
Report Net Profit Before or After Parent Company Fees			
Before	0.0%	14.3%	16.7%
After	100.0%	85.7%	83.3%
Handle Proprietary Products			
Yes	40.0%	25.0%	57.1%
No	60.0%	75.0%	42.9%
If Yes, B-D Credited for Distribution Costs			
Yes	75.0%	N/A	0.0%
No	25.0%	N/A	100.0%

Ownership
Broker-Dealer by Revenue Size

	$100M - $250M	More Than $250M
Have a Parent Company		
Yes	85.7%	77.8%
No	14.3%	22.2%
Broker-Dealer's Primary Objective in Parent		
Operates as a profit center (goal to maximize profit)	66.7%	85.7%
Operates as a cost center (goal to break-even)	33.3%	14.3%
If Parent Owned, in Business of Insurance		
Yes	83.3%	57.1%
No	16.7%	42.9%
If Insurance, Type of Reps Served		
B-D primarily services agents of parent insurance company	30.0%	50.0%
B-D primarily services reps not closely affiliated w/ parent	40.0%	50.0%
B-D services combination of both types of reps	30.0%	0.0%
Occupy Space in Parent Company's Facility		
Yes	50.0%	71.4%
No	50.0%	28.6%
Report Net Profit Before or After Parent Company Fees		
Before	9.1%	14.3%
After	90.9%	85.7%
Handle Proprietary Products		
Yes	83.3%	42.9%
No	16.7%	57.1%
If Yes, B-D Credited for Distribution Costs		
Yes	25.0%	100.0%
No	75.0%	0.0%

Ownership

Independent and Insurance Broker-Dealers

	Independent	Insurance
Have a Parent Company		
Yes	64.1%	100.0%
No	35.9%	0.0%
Broker-Dealer's Primary Objective in Parent		
Operates as a profit center (goal to maximize profit)	80.0%	47.4%
Operates as a cost center (goal to break-even)	20.0%	52.6%
If Parent Owned, in Business of Insurance		
Yes	36.0%	94.7%
No	64.0%	5.3%
If Insurance, Type of Reps Served		
B-D primarily services agents of parent insurance company	0.0%	68.4%
B-D primarily services reps not closely affiliated w/ parent	100.0%	0.0%
B-D services combination of both types of reps	0.0%	31.6%
Occupy Space in Parent Company's Facility		
Yes	52.0%	94.7%
No	48.0%	5.3%
Report Net Profit Before or After Parent Company Fees		
Before	12.5%	5.9%
After	87.5%	94.1%
Handle Proprietary Products		
Yes	28.0%	84.2%
No	72.0%	15.8%
If Yes, B-D Credited for Distribution Costs		
Yes	33.3%	46.7%
No	N/A	53.3%

From:	Piacentini, Joseph - EBSA
To:	Piacentini, Joseph - EBSA
Subject:	FSR response
Date:	Friday, February 24, 2012 5:43:06 PM
Attachments:	Roundtable"s Response to DOL"s Feb 10th Letter 2.24.12.pdf

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From: Brian Tate [redacted]@fsround.org]
Sent: Friday, February 24, 2012 4:54 PM
To: Piacentini, Joseph - EBSA
Cc: Edozie, Melinda U - EBSA; Cosby, Chris - EBSA
Subject: Financial Services Roundtable Reply to DOL Data request

Mr. Piacentini:

Good afternoon. Attached above is the Financial Services Roundtable's reply to the Department's letter dated February 10, 2012. Please do not hesitate to contact me if you have any questions. Have a good evening.

Best Regards,

Brian Tate
Vice President of Banking
THE FINANCIAL SERVICES ROUNDTABLE
Financing America's Economy

1001 Pennsylvania Avenue, NW
[redacted]
Washington, D.C. 20004
Tel: [redacted]
Cell: [redacted]
Fax: [redacted]
E-mail: [redacted]@fsround.org
Website: www.fsround.org

THE FINANCIAL SERVICES ROUNDTABLE

Financing America's Economy

February 24, 2012

Joseph Piacentini
Director
The Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor
[redacted]
200 Constitution Ave., N.W.
Washington, DC 20210

Re: Fiduciary Data Request for Proposed Rule

Dear Mr. Piacentini:

I am responding to your letter dated February 10, 2012, which I received on February 16, 2012. Since the Department released its proposal to re-define the term "Fiduciary" on October 21, 2010, the Financial Services Roundtable[1] and other industry participants have actively participated in the regulatory process, including filing comment letters, testifying at the Department's March 2011 hearing, and attending meetings with the Department. As the Department prepares to re-propose its definition of "Fiduciary," we believe the most effective process would be an iterative collaboration with the financial services industry, consumer groups, other financial regulators, and Congress. The Roundtable believes the Department should clearly and publicly identify the specific harms it seeks to redress, and narrowly tailor proposed changes to address those harms.

You initially requested our assistance with a collection of information request for up to ten years of *customer-specific* data on millions of individual investment accounts (including IRAs) in a letter dated December 15, 2011. You noted in your letter that this collection of information was being sought for the Department's expanded regulatory impact analysis. We received the letter on December 21, 2011, and the deadline for our response was January 15, 2011.

Within hours of receiving your request to assist with the collection of information, I contacted your office on December 21st and eventually spoke to you directly about your request. I also sought an in-person meeting to clarify the Department's collection of information request. As we have been throughout this rulemaking proceeding, the Roundtable was fully engaged and responded quickly.

[1] The Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer.

On January 24, 2012, you and your colleagues and Securities and Exchange Commission staff met with representatives of several financial services trade organizations. At that meeting, Roundtable staff informed you that the data identified in your December 15th letter is not currently collected in any form by the Roundtable. The Roundtable is a trade association consisting of member companies. The Roundtable has no customers or customer data. We do not collect or have access to the information you requested. As we stated during the meeting (and reiterated in a joint trade letter dated February 1, 2012), we are committed to communicating with our members regarding your collection of information request, and to researching additional sources of data that may help the Department with its data analysis.

More recently, your February 10th letter asked us to identify which data elements we can provide and when the Department can expect to receive them (our original response deadline of February 17th was extended to February 24th). In several ways, the data specified in the Department's collection of information request is not information that broker-dealers and investment advisers are required to record and maintain under the federal securities laws or regulations. First, broker-dealers and investment advisers generally do not make and keep some of the data requested by the Department, such as whether a specific recommendation was solicited or whether a customer followed the recommendation. Second, even in cases where our members make and keep the individual account-level data specified in the request (*e.g.*, Item 2), the data generally is not maintained in a format that easily lends itself to complying with the Department's collection of information request. Finally, neither broker-dealers nor investment advisers are required to make or maintain customer transaction information for ten years.

The effort to collect, compile, extract, and analyze the requested data across millions of individual client accounts held by our member companies is an extraordinarily expensive endeavor in terms of time and resources as well as costs. The complexity of this industry-wide collection of information request negatively impacts companies of all sizes and business models. An effort to collect this kind of information would drain valuable resources and dramatically reduce the time companies have to serve their clients.

Despite the enormous challenge the Department's collection of information request presents, we continue to seek out sources of information that you and your colleagues may find useful. Accordingly, we will supplement this letter with additional correspondence shortly. In the interim, it would be helpful if you could provide greater context concerning how the Department intends to use, distribute, and store the collection of information to ensure the financial privacy and confidentiality of the information. This customer-specific data is confidential information of these customers, and it is essential that it remain so. The Department, however, has not provided any assurance concerning the confidentiality of this information.

Advice encompasses information that makes customers aware of all options available to them, including (but not limited to) the importance of saving and planning for retirement. Because investment decisions take into account many more factors, a direct correlation between the advice given and the investment result would be tenuous. Therefore, we disagree with the Department's thesis that the quality of advice can be evaluated based solely on investment results.

In summary, as the Department moves forward in its efforts to collect information to prepare its expanded regulatory impact analysis, we respectfully request that the Department clearly identify the problem it seeks to rectify through further revisions to the definition of "Fiduciary." The reasoning behind the current data request remains unclear. Next, as a trade association we do not have any customers or any ability to obtain confidential customer-specific data from our members. Furthermore, the implementation of an industry-wide collection of information involving millions of customer-specific data points would be extremely burdensome and costly, particularly without any clearly identified policy goal or benefit to investors.

Revisions to the definition of "Fiduciary" raise important policy issues. Therefore, we encourage the Department to develop any revised definition in a way that would address the specific concerns identified by the Department without eliminating customers' ability to work with their preferred financial professional or to select from a broad range of retirement services and products provided by a variety of service providers.

If you have any additional questions, or need to contact the Roundtable in a timely fashion, please do not hesitate to contact Brian Tate on my staff at [redacted]@fsround.org or [redacted]. We look forward to continuing our constructive engagement with the Department on this important public policy issue.

Best Regards,

Steve Bartlett
President and CEO

From: Piacentini, Joseph - EBSA
To: Piacentini, Joseph - EBSA
Subject: SIFMA response
Date: Friday, February 24, 2012 6:40:00 PM

From: Bleier, Lisa [redacted]@sifma.org]
Sent: Friday, February 24, 2012 10:56 AM
To: Piacentini, Joseph - EBSA
Cc: Bentsen, Ken
Subject: data request

Joe,

We will not have our response to the Department completed by today, as I am still awaiting responses from some of our members. I walked through with our members each element of the request and what they might have and what format that might be in, before then trying to figure out what data might be kept in any common formats. We hope to be able to fully respond by the end of next week.

Lisa

Lisa J. Bleier
Managing Director
Public Policy & Advocacy
SIFMA
1101 New York Avenue, [redacted] NW, Washington, DC 20005
Office: [redacted]
Fax: [redacted]
[redacted]@sifma.org
www.sifma.org
www.investedinamerica.org

From: Piacentini, Joseph - EBSA
To: Piacentini, Joseph - EBSA
Subject: IRI response
Date: Friday, February 24, 2012 6:06:54 PM
Attachments: image001.jpg

From: John Little [redacted]@irionline.org]
Sent: Thursday, February 16, 2012 3:39 PM
To: Piacentini, Joseph - EBSA
Subject: Feb. 10th Letter

Dear Joe,

I am writing on behalf of Cathy Weatherford, President and CEO of IRI, in regards to your letter dated February 10, 2012. Unfortunately, we only received your letter today. We are unable to formulate a formal response in time for your February 17 deadline. I am also aware that many of the other trades had not received their letters as of this morning. Please know that we want to do everything we can to assist your efforts on the fiduciary rule. We are working with our members and our sister trades to formulate a formal response to your request and we will be back to you as soon as possible. We apologize for the delay. Please do not hesitate to contact me if you have questions or if I can be of assistance. Thanks JL

John Little
Senior Vice President for Federal Affairs
Insured Retirement Institute (IRI)
[redacted]@irionline.org
1101 New York Avenue NW, [redacted] Washington, DC 20005
Phone: [redacted] Cell: [redacted] Fax: [redacted]
Follow us on: Twitter · Facebook · YouTube · LinkedIn

"Honoring 20 Years of Service, Commitment and Collaboration within the Insured Retirement Industry"

To register for IRI's Marketing Summit (April 1-3, 2012) click here.

From: Piacentini, Joseph - EBSA
To: Piacentini, Joseph - EBSA
Subject: Outgoing letters
Date: Friday, February 24, 2012 6:29:56 PM
Attachments: 20120210151223313.pdf

-----Original Message-----
From: Cosby, Chris - EBSA
Sent: Thursday, February 16, 2012 3:52 PM
To: [redacted]@dol.gov'
Subject: FW: Emailing: 20120210151223313

-----Original Message-----
From: Edozie, Melinda U - EBSA
Sent: Friday, February 10, 2012 3:34 PM
To: Cosby, Chris - EBSA
Subject: Emailing: 20120210151223313

Your message is ready to be sent with the following file or link attachments:

20120210151223313

Note: To protect against computer viruses, e-mail programs may prevent sending or receiving certain types of file attachments. Check your e-mail security settings to determine how attachments are handled.

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

February 10, 2012

Mr. Walter Welsh
Executive Vice President, Taxes & Retirement Security
American Counsel of Life Insurers
101 Constitution Ave, NW
Washington, D.C. 20001

Dear Mr. Welsh:

Thank you for attending the January 27, 2012, meeting with Department of Labor and Securities Exchange Commission staff regarding the Department's request for data related to the economic analysis for the re-proposal of its definition of fiduciary rule. At the meeting, you reported that your organization did not have all of the requested data. We answered your questions and clarified that the request was for any portion of the data requested. You stated that you would ascertain whether your organization would be able to provide any of the requested data and report back to us.

As the Department moves forward with its re-proposal, it is very important that we know which, if any, of the data elements enumerated in my December 15, 2011, letter you will be able to provide and when we can expect to receive these data. If you do not have any of these data, please inform us of any other data or data sources you are aware of that could help the Department evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. I am hereby requesting your organization's response by February 17, 2012. Please send the response to:

Joseph S. Piacentini,
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, [redacted]
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may email me directly at [redacted]@dol.gov. We appreciate your assistance in this matter.

Sincerely,

Joseph S. Piacentini
Director, Office of Policy and Research

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

February 10, 2012

Mr. Timothy Keegan
Vice President and Senior Counsel
American Bankers Association
1120 Connecticut Ave, NW
Washington, D.C. 20036

Dear Mr. Keegan:

Thank you for attending the January 27, 2012, meeting with Department of Labor and Securities Exchange Commission staff regarding the Department's request for data related to the economic analysis for the re-proposal of its definition of fiduciary rule. At the meeting, you reported that your organization did not have all of the requested data. We answered your questions and clarified that the request was for any portion of the data requested. You stated that you would ascertain whether your organization would be able to provide any of the requested data and report back to us.

As the Department moves forward with its re-proposal, it is very important that we know which, if any, of the data elements enumerated in my December 15, 2011, letter you will be able to provide and when we can expect to receive these data. If you do not have any of these data, please inform us of any other data or data sources you are aware of that could help the Department evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. I am hereby requesting your organization's response by February 17, 2012. Please send the response to:

Joseph S. Piacentini,
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, [redacted]
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may email me directly at [redacted]@dol.gov. We appreciate your assistance in this matter.

Sincerely,

Joseph S. Piacentini
Director, Office of Policy and Research

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

February 10, 2012

Ms. Cathy Weatherford
Executive Vice President
Insured Retirement Institute
1101 New York Avenue, NW
[redacted]
Washington, DC 20005

Dear Ms. Weatherford:

Thank you for attending the January 27, 2012, meeting with Department of Labor and Securities Exchange Commission staff regarding the Department's request for data related to the economic analysis for the re-proposal of its definition of fiduciary rule. At the meeting, you reported that your organization did not have all of the requested data. We answered your questions and clarified that the request was for any portion of the data requested. You stated that you would ascertain whether your organization would be able to provide any of the requested data and report back to us.

As the Department moves forward with its re-proposal, it is very important that we know which, if any, of the data elements enumerated in my December 15, 2011, letter you will be able to provide and when we can expect to receive these data. If you do not have any of these data, please inform us of any other data or data sources you are aware of that could help the Department evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. I am hereby requesting your organization's response by February 17, 2012. Please send the response to:

Joseph S. Piacentini,
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, [redacted]
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may email me directly at [redacted]@dol.gov. We appreciate your assistance in this matter.

Sincerely,

Joseph S. Piacentini
Director, Office of Policy and Research

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

February 10, 2012

Ms. Mary Podesta
Senior Counsel – Pension Regulation
Investment Company Institute
1401 H Street, NW
Washington, D.C. 20005

Dear Ms. Podesta:

Thank you for attending the January 27, 2012, meeting with Department of Labor and Securities Exchange Commission staff regarding the Department's request for data related to the economic analysis for the re-proposal of its definition of fiduciary rule. At the meeting, you reported that your organization did not have all of the requested data. We answered your questions and clarified that the request was for any portion of the data requested. You stated that you would ascertain whether your organization would be able to provide any of the requested data and report back to us.

As the Department moves forward with its re-proposal, it is very important that we know which, if any, of the data elements enumerated in my December 15, 2011, letter you will be able to provide and when we can expect to receive these data. If you do not have any of these data, please inform us of any other data or data sources you are aware of that could help the Department evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. I am hereby requesting your organization's response by February 17, 2012. Please send the response to:

Joseph S. Piacentini,
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, [redacted]
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may email me directly at [redacted]@dol.gov. We appreciate your assistance in this matter.

Sincerely,

Joseph S. Piacentini
Director, Office of Policy and Research

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

February 10, 2012

David Bellaire, Esq.
General Counsel and Director of Government Affairs
Financial Services Institute
1905 Woodstock Road, [redacted]
Roswell, GA 30075

Dear Mr. Bellaire:

Thank you for attending the January 27, 2012, meeting with Department of Labor and Securities Exchange Commission staff regarding the Department's request for data related to the economic analysis for the re-proposal of its definition of fiduciary rule. At the meeting, you reported that your organization did not have all of the requested data. We answered your questions and clarified that the request was for any portion of the data requested. You stated that you would ascertain whether your organization would be able to provide any of the requested data and report back to us.

As the Department moves forward with its re-proposal, it is very important that we know which, if any, of the data elements enumerated in my December 15, 2011, letter you will be able to provide and when we can expect to receive these data. If you do not have any of these data, please inform us of any other data or data sources you are aware of that could help the Department evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. I am hereby requesting your organization's response by February 17, 2012. Please send the response to:

Joseph S. Piacentini,
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, [redacted]
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may email me directly at [redacted]@dol.gov. We appreciate your assistance in this matter.

Sincerely,

Joseph S. Piacentini
Director, Office of Policy and Research

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

February 10, 2012

Ms. Lisa Bleier
Managing Director, Public Policy & Advocacy
Securities Industry and Financial Markets Association
1101 New York Avenue, NW, [redacted]
Washington, D.C. 20005

Dear Ms. Bleier:

Thank you for attending the January 27, 2012, meeting with Department of Labor and Securities Exchange Commission staff regarding the Department's request for data related to the economic analysis for the re-proposal of its definition of fiduciary rule. At the meeting, you reported that your organization did not have all of the requested data. We answered your questions and clarified that the request was for any portion of the data requested. You stated that you would ascertain whether your organization would be able to provide any of the requested data and report back to us.

As the Department moves forward with its re-proposal, it is very important that we know which, if any, of the data elements enumerated in my December 15, 2011, letter you will be able to provide and when we can expect to receive these data. If you do not have any of these data, please inform us of any other data or data sources you are aware of that could help the Department evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. I am hereby requesting your organization's response by February 17, 2012. Please send the response to:

Joseph S. Piacentini,
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, [redacted]
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may email me directly at [redacted]@dol.gov. We appreciate your assistance in this matter.

Sincerely,

Joseph S. Piacentini
Director, Office of Policy and Research

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

February 10, 2012

Dr. Susan Waters, CSE
Chief Executive Officer
National Association of Insurance and Financial Advisors
2901 Telestar Court
Falls Church, VA 22042-1205

Dear Dr. Waters:

Thank you for attending the January 27, 2012, meeting with Department of Labor and Securities Exchange Commission staff regarding the Department's request for data related to the economic analysis for the re-proposal of its definition of fiduciary rule. At the meeting, you reported that your organization did not have all of the requested data. We answered your questions and clarified that the request was for any portion of the data requested. You stated that you would ascertain whether your organization would be able to provide any of the requested data and report back to us.

As the Department moves forward with its re-proposal, it is very important that we know which, if any, of the data elements enumerated in my December 15, 2011, letter you will be able to provide and when we can expect to receive these data. If you do not have any of these data, please inform us of any other data or data sources you are aware of that could help the Department evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. I am hereby requesting your organization's response by February 17, 2012. Please send the response to:

Joseph S. Piacentini,
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, [redacted]
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may email me directly at [redacted]@dol.gov. We appreciate your assistance in this matter.

Sincerely,

Joseph S. Piacentini
Director, Office of Policy and Research

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210

February 10, 2012

Mr. Steve Bartlett
President and CEO
The Financial Services Roundtable
1001 Pennsylvania Avenue, NW
[redacted]
Washington, D.C. 20004

Dear Mr. Bartlett:

Thank you for attending the January 27, 2012, meeting with Department of Labor and Securities Exchange Commission staff regarding the Department's request for data related to the economic analysis for the re-proposal of its definition of fiduciary rule. At the meeting, you reported that your organization did not have all of the requested data. We answered your questions and clarified that the request was for any portion of the data requested. You stated that you would ascertain whether your organization would be able to provide any of the requested data and report back to us.

As the Department moves forward with its re-proposal, it is very important that we know which, if any, of the data elements enumerated in my December 15, 2011, letter you will be able to provide and when we can expect to receive these data. If you do not have any of these data, please inform us of any other data or data sources you are aware of that could help the Department evaluate the impact, if any, of conflicts of interest faced by brokers or others who advise IRA investors. I am hereby requesting your organization's response by February 17, 2012. Please send the response to:

Joseph S. Piacentini,
Director, Office of Policy and Research
Employee Benefits Security Administration
U.S. Department of Labor, [redacted]
200 Constitution Ave
Washington, DC 20210
Attention: Definition of Fiduciary RIA Data Request

If you prefer, you may email me directly at [redacted]@dol.gov. We appreciate your assistance in this matter.

Sincerely,

Joseph S. Piacentini
Director, Office of Policy and Research

From: Hauser, Timothy - EBSA
To: Blass, D.W. (David) [redacted]@SEC.GOV); McHugh, Jennifer B. [redacted]@SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: DOL"s Fiduciary Project
Date: Friday, April 04, 2014 11:53:49 AM

Thanks for meeting with us yesterday. As we discussed, we would like to meet with you in a smaller group setting to see what we can achieve. As an initial matter, it would be especially helpful to work with you on the "global" exemption. I would think that we should start by focusing on establishing parameters for the policy and procedures condition that both reduce the dangers posed by conflicts of interest and that are workable. But we would also appreciate detailed discussions about the disclosure provisions, the audit requirement, and any other aspect of the exemption or alternative approaches that you'd care to discuss. We'll be happy to come to you, and we'll move schedules around to meet with you for as long and for as many meetings as you can stand. Please just let me know what works for you.

Thanks again for what I thought was a very constructive meeting and for your willingness to work with us on this challenging project.

Tim

From: Hauser, Timothy - EBSA
To: Blass, D.W. (David) [redacted]@SEC.GOV); McHugh, Jennifer B. [redacted]@SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: FW: DOL"s Fiduciary Project
Date: Monday, April 07, 2014 9:30:27 AM

Sorry to be a nudge, but were you able to find any good times this week?

From: Hauser, Timothy - EBSA
Sent: Friday, April 04, 2014 11:54 AM
To: Blass, D.W. (David) [redacted]@SEC.GOV); McHugh, Jennifer B. [redacted]@SEC.GOV)
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Subject: DOL's Fiduciary Project

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Tim

From: Blass, D.W. (David)
To: McHugh, Jennifer B.; Hauser, Timothy - EBSA
Subject: Re: DOL"s Fiduciary Project
Date: Friday, April 11, 2014 8:21:15 AM

Tim - I just wanted to confirm that we are not meeting today.

Thanks.

David

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: McHugh, Jennifer B.
Sent: Tuesday, April 08, 2014 02:47 PM
To: 'Hauser, Timothy - EBSA' [redacted]@dol.gov>; Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

Thanks, Tim. We can still meet tomorrow at noon. We can meet in David's office, so you should have the team contact David when you arrive. Also, will there be others joining you? I know that we will have David Blass, Emily Russell, Lourdes Gonzalez, me and maybe others. But we are focused on keeping this to a small group.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 08, 2014 1:56 PM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

Are we set? When and where should we meet?

From: Hauser, Timothy - EBSA
Sent: Monday, April 07, 2014 5:42 PM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

I understand. Thanks. Friday definitely works, but would you be open to calendaring both Wednesday and Friday? I'd have to make some substitutions on Wednesday, but we could get started Wednesday, see how far we get, and then continue work Friday as needed. Please let me know what you think.

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Subject: RE: DOL's Fiduciary Project

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From: McHugh, Jennifer B.
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Cc: Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

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Cc: Blass, D.W. (David); Hauser, Timothy - EBSA
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From: McHugh, Jennifer B. [redacted]@SEC.GOV]
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Cc: Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

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Chief Counsel
Division of Trading and Markets
[redacted]

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From:	McHugh, Jennifer B.
To:	Hauser, Timothy - EBSA; Blass, D.W. (David)
Subject:	RE: DOL"s Fiduciary Project
Date:	Tuesday, April 08, 2014 2:47:38 PM

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Division of Trading and Markets
[redacted]

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To: Hauser, Timothy - EBSA
Cc: Blass, D.W. (David)
Subject: RE: DOL"s Fiduciary Project
Date: Monday, April 07, 2014 4:22:39 PM

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This message may contain information that is privileged and exempt from disclosure under applicable law. Do not share or copy without consulting the Employee Benefits Security Administration. If you think you received this e-mail in error, please notify the sender immediately.

From: Blass, D.W. (David)
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Subject: Re: DOL"s Fiduciary Project
Date: Monday, April 07, 2014 9:56:33 AM

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From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Cc: Blass, D.W. (David)
Subject: Re: DOL"s Fiduciary Project
Date: Wednesday, April 09, 2014 8:49:53 AM

Got it. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, April 09, 2014 08:29 AM
To: McHugh, Jennifer B.
Subject: RE: DOL's Fiduciary Project

I also have one of our regional employees, Carol Hamilton, shadowing me on a developmental detail, and I may have her attend if that's ok with you – she wouldn't actively participate.

From: Hauser, Timothy - EBSA
Sent: Tuesday, April 08, 2014 7:01 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

Thanks! I expect that I will attend along with Judy Mares, Fred Wong, Joe Piacentini, Karen Lloyd, and possibly Lyssa Hall.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, April 08, 2014 2:47 PM
To: Hauser, Timothy - EBSA; Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

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Cc: Blass, D.W. (David)
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Date: Monday, April 07, 2014 10:46:12 AM

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Sent: Friday, April 04, 2014 11:54 AM
To: Blass, D.W. (David) [redacted]@SEC.GOV); McHugh, Jennifer B. [redacted]@SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: DOL's Fiduciary Project

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Tim

From: Hauser, Timothy - EBSA
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: DOL''s Fiduciary Project
Date: Friday, April 11, 2014 8:29:05 AM

Thanks. I thought I'd send an outline over today that sketches out a revised approach to the policies and procedures based on our discussions earlier in the week, and also try to flag some other issues for discussion. My staff has given me revised exemption text that I thought I'd try to work through over the weekend as well. It might make more sense to meet early next week if your staff is available. Of course, I'm happy to come over today, but it might make more sense to circulate some additional paper first. Are there dates next week that work?

From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Friday, April 11, 2014 8:21 AM
To: McHugh, Jennifer B.; Hauser, Timothy - EBSA
Subject: Re: DOL's Fiduciary Project

Tim - I just wanted to confirm that we are not meeting today.

Thanks.

David

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: McHugh, Jennifer B.
Sent: Tuesday, April 08, 2014 02:47 PM
To: 'Hauser, Timothy - EBSA' [redacted]@dol.gov>; Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

Thanks, Tim. We can still meet tomorrow at noon. We can meet in David's office, so you should have the team contact David when you arrive. Also, will there be others joining you? I know that we will have David Blass, Emily Russell, Lourdes Gonzalez, me and maybe others. But we are focused on keeping this to a small group.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 08, 2014 1:56 PM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA

Subject: RE: DOL's Fiduciary Project

Are we set? When and where should we meet?

From: Hauser, Timothy - EBSA
Sent: Monday, April 07, 2014 5:42 PM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

I understand. Thanks. Friday definitely works, but would you be open to calendaring both Wednesday and Friday? I'd have to make some substitutions on Wednesday, but we could get started Wednesday, see how far we get, and then continue work Friday as needed. Please let me know what you think.

From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Monday, April 07, 2014 5:14 PM
To: McHugh, Jennifer B.; Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

My apologies, Tim, but Lourdes truly is key to the conversation.

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Cc: Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

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Cc: Blass, D.W. (David)
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David W. Blass
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Division of Trading and Markets
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Cc:	Hauser, Timothy - EBSA
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Date:	Tuesday, April 08, 2014 1:55:42 PM

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To:	Blass, D.W. (David); McHugh, Jennifer B.
Cc:	Hauser, Timothy - EBSA
Subject:	RE: DOL''s Fiduciary Project
Date:	Monday, April 07, 2014 5:41:58 PM

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To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: DOL"s Fiduciary Project
Date: Tuesday, April 08, 2014 7:01:07 PM

Thanks! I expect that I will attend along with Judy Mares, Fred Wong, Joe Piacentini, Karen Lloyd, and possibly Lyssa Hall.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Tuesday, April 08, 2014 2:47 PM
To: Hauser, Timothy - EBSA; Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

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Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: FW: DOL's Fiduciary Project

Sorry to be a nudge, but were you able to find any good times this week?

From: Hauser, Timothy - EBSA
Sent: Friday, April 04, 2014 11:54 AM
To: Blass, D.W. (David) [redacted]@SEC.GOV); McHugh, Jennifer B. [redacted]@SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: DOL's Fiduciary Project

Thanks for meeting with us yesterday. As we discussed, we would like to meet with you in a smaller group setting to see what we can achieve. As an initial matter, it would be especially helpful to work with you on the "global" exemption. I would think that we should start by focusing on establishing parameters for the policy and procedures condition that both reduce the dangers posed by conflicts of interest and that are workable. But we would also appreciate detailed discussions about the disclosure provisions, the audit requirement, and any other aspect of the exemption or alternative approaches that you'd care to discuss. We'll be happy to come to you, and we'll move schedules around to meet with you for as long and for as many meetings as you can stand. Please just let me know what works for you.

Thanks again for what I thought was a very constructive meeting and for your willingness to work with us on this challenging project.

Tim

From: Blass, D.W. (David)
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Cc: Gonzalez, Lourdes
Subject: Re: DOL"s Fiduciary Project
Date: Friday, April 11, 2014 8:33:18 AM

That make sense to me. Having papers certainly helps focus the discussion. Let us get back to you about next steps.

Many thanks (and I hope you are able to enjoy the weekend!).

David

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, April 11, 2014 08:29 AM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: RE: DOL's Fiduciary Project

Thanks. I thought I'd send an outline over today that sketches out a revised approach to the policies and procedures based on our discussions earlier in the week, and also try to flag some other issues for discussion. My staff has given me revised exemption text that I thought I'd try to work through over the weekend as well. It might make more sense to meet early next week if your staff is available. Of course, I'm happy to come over today, but it might make more sense to circulate some additional paper first. Are there dates next week that work?

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Thanks.

David

David W. Blass
Chief Counsel

Division of Trading and Markets
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Thanks, Tim. We can still meet tomorrow at noon. We can meet in David's office, so you should have the team contact David when you arrive. Also, will there be others joining you? I know that we will have David Blass, Emily Russell, Lourdes Gonzalez, me and maybe others. But we are focused on keeping this to a small group.

Thanks,

Jennifer

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Cc: Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

Are we set? When and where should we meet?

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Cc: Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

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Cc: Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

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From: Blass, D.W. (David)
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Subject: Re: Draft Text for Global Exemption -- Confidential
Date: Tuesday, June 10, 2014 11:57:06 AM

Tim - I am not sure that I responded to your email message. My apologies if I have not done so to date. We are talking over your email with our Chair's and we hope to get back to you soon with next steps from our side. Again, apologies for the late response.

David

David W. Blass
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Division of Trading and Markets
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From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Thursday, June 05, 2014 06:43 PM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: RE: Draft Text for Global Exemption -- Confidential

David and Jennifer –

I'm guessing that the respite from global exemption meetings was welcome, but …

Let me know when you've had a chance to review the text and are ready to discuss. I'm happy to come to you. I'll be around all next week if you'd like to talk.

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Cc: Hauser, Timothy - EBSA
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To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Draft Text for Global Exemption -- Confidential
Date: Wednesday, June 18, 2014 5:38:39 PM

Any word? As always, I'm happy to talk with you whenever you're ready.

Thanks,

Tim

From: Hauser, Timothy - EBSA
Sent: Tuesday, June 10, 2014 5:59 PM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: Draft Text for Global Exemption -- Confidential

Thanks.

From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Tuesday, June 10, 2014 11:57 AM
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Subject: Re: Draft Text for Global Exemption -- Confidential

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Tim

From: McHugh, Jennifer B.
To: Hauser, Timothy - EBSA
Subject: Re: Draft Text for Global Exemption -- Confidential
Date: Wednesday, May 21, 2014 6:18:00 PM

Thanks. Your email sort of forced the issue, so I should know soon who/how we are going to staff this.

Thanks for reaching out on the question of my involvement.

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Wednesday, May 21, 2014 05:59 PM
To: McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
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Regardless, I'm really hoping you can stay involved.

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To:	Blass, D.W. (David); McHugh, Jennifer B.
Cc:	Hauser, Timothy - EBSA
Subject:	RE: Draft Text for Global Exemption -- Confidential
Date:	Tuesday, June 10, 2014 5:58:55 PM

Thanks.

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Sent: Tuesday, June 10, 2014 11:57 AM
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To: McHugh, Jennifer B. [redacted]@SEC.GOV)
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Cc:	Hauser, Timothy - EBSA
Subject:	RE: Draft Text for Global Exemption -- Confidential
Date:	Thursday, June 05, 2014 6:43:23 PM

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Tim

From:	Blass, D.W. (David)
To:	Hauser, Timothy - EBSA; McHugh, Jennifer B.
Cc:	Gonzalez, Lourdes
Subject:	Re: Outline of Fiduciary Regulation and Global Exemption Conditions
Date:	Tuesday, April 22, 2014 10:41:16 AM

Tim, let's do it from 1-2, if that still works for you all.

Thanks.

David

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 22, 2014 09:45 AM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Gonzalez, Lourdes; Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: RE: Outline of Fiduciary Regulation and Global Exemption Conditions

Yes – pick a time and we'll be there. Thanks.

From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Tuesday, April 22, 2014 9:44 AM
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Cc: Gonzalez, Lourdes
Subject: Re: Outline of Fiduciary Regulation and Global Exemption Conditions

Sorry for the late response. I am in NYC today and I am booked solid on Thursday. Would Friday at 1 or 1:30 work?
David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, April 18, 2014 01:53 PM
To: McHugh, Jennifer B.; Blass, D.W. (David)
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: RE: Outline of Fiduciary Regulation and Global Exemption Conditions

Sounds like a plan. Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, April 18, 2014 1:52 PM
To: Hauser, Timothy - EBSA; Blass, D.W. (David)

Subject: Re: Outline of Fiduciary Regulation and Global Exemption Conditions

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Subject: RE: Outline of Fiduciary Regulation and Global Exemption Conditions

Could we meet again this coming week? These meetings are very helpful to us. The only really bad day for me is Wednesday.

From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Monday, April 14, 2014 5:06 PM
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Subject: Re: Outline of Fiduciary Regulation and Global Exemption Conditions

I am afraid that I am out this week. Lourdes and Emily are also away this week.
David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, April 14, 2014 02:56 PM
To: McHugh, Jennifer B.; Blass, D.W. (David)
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: Outline of Fiduciary Regulation and Global Exemption Conditions

Here is our working outline of conditions for the fiduciary regulation and global exemption. I had hoped to get this to you Friday, but I'm afraid that I missed by a day. Our thinking has benefitted a great deal from our conversations with you, but the outline contains a number of concepts that we haven't yet had a chance to discuss. If possible, I'm hoping we can pick up where we left off with you this week. Please let me know what works for you. We are happy to come to you.

Tim

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Subject: DOL's Fiduciary Project

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Tim

From:	Blass, D.W. (David)
To:	Hauser, Timothy - EBSA; McHugh, Jennifer B.
Cc:	Gonzalez, Lourdes
Subject:	Re: Outline of Fiduciary Regulation and Global Exemption Conditions
Date:	Tuesday, April 22, 2014 9:48:51 AM

Our email messages crossed. Friday looks possible for me if it does for others.

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 22, 2014 09:43 AM
To: McHugh, Jennifer B.; Blass, D.W. (David)
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
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Cc:	Gonzalez, Lourdes
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Date:	Tuesday, April 22, 2014 9:44:39 AM

Sorry for the late response. I am in NYC today and I am booked solid on Thursday. Would Friday at 1 or 1:30 work?

David W. Blass
Chief Counsel
Division of Trading and Markets
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To:	McHugh, Jennifer B.; Blass, D.W. (David)
Cc:	Hauser, Timothy - EBSA
Subject:	RE: Outline of Fiduciary Regulation and Global Exemption Conditions
Date:	Friday, April 18, 2014 1:53:16 PM

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From: Hauser, Timothy - EBSA
Sent: Monday, April 07, 2014 5:42 PM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA

Subject: RE: DOL's Fiduciary Project

I understand. Thanks. Friday definitely works, but would you be open to calendaring both Wednesday and Friday? I'd have to make some substitutions on Wednesday, but we could get started Wednesday, see how far we get, and then continue work Friday as needed. Please let me know what you think.

From: Blass, D.W. (David) [redacted]@SEC.GOV]
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To: McHugh, Jennifer B.; Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

My apologies, Tim, but Lourdes truly is key to the conversation.

From: McHugh, Jennifer B.
Sent: Monday, April 07, 2014 4:22 PM
To: 'Hauser, Timothy - EBSA'
Cc: Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

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From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, April 07, 2014 3:56 PM
To: McHugh, Jennifer B.
Cc: Blass, D.W. (David); Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

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Thanks,

Tim

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Monday, April 07, 2014 10:45 AM
To: Hauser, Timothy - EBSA
Cc: Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

Tim,

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- Friday, 4/11, 10:00-11:00 or 12:00-1:00

Thanks,

Jennifer

From: Blass, D.W. (David)
Sent: Monday, April 07, 2014 9:56 AM
To: Tim Hauser [redacted]@dol.gov'; McHugh, Jennifer B.
Subject: Re: DOL's Fiduciary Project

Thanks, Tim. We will get back to you soon.

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, April 07, 2014 09:30 AM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: FW: DOL's Fiduciary Project

Sorry to be a nudge, but were you able to find any good times this week?

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Sent: Friday, April 04, 2014 11:54 AM
To: Blass, D.W. (David) [redacted]@SEC.GOV); McHugh, Jennifer B. [redacted]@SEC.GOV)
Cc: Hauser, Timothy - EBSA
Subject: DOL's Fiduciary Project

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Thanks again for what I thought was a very constructive meeting and for your willingness to work with us on this challenging project.

Tim

From: Hauser, Timothy - EBSA
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Gonzalez, Lourdes; Hauser, Timothy - EBSA
Subject: RE: Outline of Fiduciary Regulation and Global Exemption Conditions
Date: Tuesday, April 22, 2014 9:45:51 AM

Yes – pick a time and we'll be there. Thanks.

From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Tuesday, April 22, 2014 9:44 AM
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Cc: Gonzalez, Lourdes
Subject: Re: Outline of Fiduciary Regulation and Global Exemption Conditions

Sorry for the late response. I am in NYC today and I am booked solid on Thursday. Would Friday at 1 or 1:30 work?

David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, April 18, 2014 01:53 PM
To: McHugh, Jennifer B.; Blass, D.W. (David)
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: RE: Outline of Fiduciary Regulation and Global Exemption Conditions

Sounds like a plan. Thanks.

From: McHugh, Jennifer B. [redacted]@SEC.GOV]
Sent: Friday, April 18, 2014 1:52 PM
To: Hauser, Timothy - EBSA; Blass, D.W. (David)
Subject: Re: Outline of Fiduciary Regulation and Global Exemption Conditions

I aM out on Monday, but let's check with David when he gets back and see what is good for him. Thanks.

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Friday, April 18, 2014 01:45 PM
To: McHugh, Jennifer B.; Blass, D.W. (David)
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: RE: Outline of Fiduciary Regulation and Global Exemption Conditions

Could we meet again this coming week? These meetings are very helpful to us. The only really bad day for me is Wednesday.

From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Monday, April 14, 2014 5:06 PM
To: Hauser, Timothy - EBSA; McHugh, Jennifer B.
Subject: Re: Outline of Fiduciary Regulation and Global Exemption Conditions

I am afraid that I am out this week. Lourdes and Emily are also away this week.
David W. Blass
Chief Counsel
Division of Trading and Markets
[redacted]

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Monday, April 14, 2014 02:56 PM
To: McHugh, Jennifer B.; Blass, D.W. (David)
Cc: Hauser, Timothy - EBSA [redacted]@dol.gov>
Subject: Outline of Fiduciary Regulation and Global Exemption Conditions

Here is our working outline of conditions for the fiduciary regulation and global exemption. I had hoped to get this to you Friday, but I'm afraid that I missed by a day. Our thinking has benefitted a great deal from our conversations with you, but the outline contains a number of concepts that we haven't yet had a chance to discuss. If possible, I'm hoping we can pick up where we left off with you this week. Please let me know what works for you. We are happy to come to you.

Tim

From: Hauser, Timothy - EBSA
Sent: Friday, April 11, 2014 8:29 AM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

Thanks. I thought I'd send an outline over today that sketches out a revised approach to the policies and procedures based on our discussions earlier in the week, and also try to flag some other issues for discussion. My staff has given me revised exemption text that I thought I'd try to work through over the weekend as well. It might make more sense to meet early next week if your staff is available. Of course, I'm happy to come over today, but it might make more sense to circulate some additional paper first. Are there dates next week that work?

From: Blass, D.W. (David) [redacted]@SEC.GOV]
Sent: Friday, April 11, 2014 8:21 AM
To: McHugh, Jennifer B.; Hauser, Timothy - EBSA
Subject: Re: DOL's Fiduciary Project

Tim - I just wanted to confirm that we are not meeting today.

Thanks.

David

David W. Blass
Chief Counsel

Division of Trading and Markets
[redacted]

From: McHugh, Jennifer B.
Sent: Tuesday, April 08, 2014 02:47 PM
To: 'Hauser, Timothy - EBSA' [redacted]@dol.gov>; Blass, D.W. (David)
Subject: RE: DOL's Fiduciary Project

Thanks, Tim. We can still meet tomorrow at noon. We can meet in David's office, so you should have the team contact David when you arrive. Also, will there be others joining you? I know that we will have David Blass, Emily Russell, Lourdes Gonzalez, me and maybe others. But we are focused on keeping this to a small group.

Thanks,

Jennifer

From: Hauser, Timothy - EBSA [redacted]@dol.gov]
Sent: Tuesday, April 08, 2014 1:56 PM
To: Blass, D.W. (David); McHugh, Jennifer B.
Cc: Hauser, Timothy - EBSA
Subject: RE: DOL's Fiduciary Project

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Tim

From:	Kozora, Matthew
To:	Piacentini, Joseph - EBSA
Subject:	RE: "Winning rollovers"
Date:	Friday, July 25, 2014 9:04:46 AM

Thanks Joe!

m|k

From: Piacentini, Joseph - EBSA [redacted]@dol.gov]
Sent: Thursday, July 24, 2014 4:42 PM
To: Kozora, Matthew
Subject: "Winning rollovers"

Hi Matt,

I know that SEC, like DOL, has interest in rollovers. So I thought you might find this interesting (See attached). Sometimes I think salespeople are out in front of behavioral economists – in understanding and exploiting how people make decisions, or even influencing how they make decisions.

Best,
Joe P.