

# SEC Regulation Best Interest Rule Proposals: *Request for Information Analysis*

*July 25, 2018*

*Presented To:*



# Study Objectives and Methodology



## Gathering Information on the Rule Proposal Impacts

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In proposing the standards of conduct in the Regulation Best Interest Rule Proposals, the SEC readily admits it lacks data and its analysis of the economic impacts of these proposals is therefore inadequate and imprecise. The SEC is specifically encouraging commenters to provide data and information to assist them in quantifying the benefits, costs, and potential impacts of the rule proposals.

As part of this effort, the U.S. Chamber of Commerce conducted in-depth interviews with approximately 30 individuals at **15 companies providing financial advisory services and products, including broker-dealers and firms that are dually-registered as broker-dealers and investment advisors**. Collectively, these companies represent a significant portion of the financial advisory market in the U.S., responsible for nearly \$23.1 trillion in assets under management and administration (AUM/AUA), and they guide the financial future of nearly 78.54 million investment accounts.

This research is intended to provide data points and market insights for the SEC, informing whether the SEC's assumptions about the proposed rules' impacts on the industry and marketplace are accurate. The results outlined in this report represent industry perspective on the Regulation Best Interest Rule Proposals\*, illustrate potential impacts on firms and investors, the cost of implementation of the proposed, and areas of confusion to be further clarified.

*\*Regulation Best Interest Rule Proposals refers to all three of the SEC's proposals: Reg BI, proposed Form CRS and other disclosures, and the proposed interpretation on Registered Investment Advisers.*

# Executive Summary

# While there are opportunities for optimization, the SEC Regulation Best Interest Rule Proposals are expected to positively impact investors



## Investors will be better served

Many of the firms interviewed expect the rule proposals to improve protection, choice, and clarity for investors.



## There is potential for improvements to the proposals

The rule proposals are generally considered positive and enacted by the appropriate governing body. However, most see opportunity to improve upon the standard of conduct for Broker-Dealers and Form CRS. Firms think the SEC should provide needed protections while continuing to allow diversity of products and services to smaller investors. Some surveyed thought that some aspects of the proposal would create a higher standard for Broker-Dealers than Investment Advisers and would like to see more of a level playing field. Additionally, many firms see an opportunity to improve Form CRS to present information to investors in a clear and concise manner.



## Investor access to the brokerage model must be maintained

Given the high standard of conduct for Broker-Dealers in the rule proposals, some surveyed had concerns that this increased regulation and the associated costs may impact the ability to serve smaller investors. Investors must have access to the brokerage model, since the advisory model may not be suitable for everyone, particularly small investors.



## Implementation costs may be higher at first, but will lessen over time

Most firms feel that the cost estimates offered by the SEC associated with implementing Form CRS, new systems, and retraining programs are too low. However, many feel that these costs will be slightly offset by the investment that was already made in the DOL Fiduciary Rule and most agree that costs will lessen over time. Firms also feel that the benefits to investors will likely outweigh the cost of compliance.

# Impact of the Regulation Best Interest Rule Proposals

## Nearly all firms suggest that the good aspects of the rule proposals outweigh the potential costs

**Firms generally have a positive view of the proposals, say the SEC is the right governing body to oversee such regulation, and welcome the SEC's efforts to ensure all investors will benefit.**

*"We would say the good outweighs the bad. We think the SEC is the right agency with the right expertise to move this forward. And we certainly applaud the SEC for their more principle-based approach. We think it's important to have a standard that applies across both retirement accounts as well as taxable accounts."*

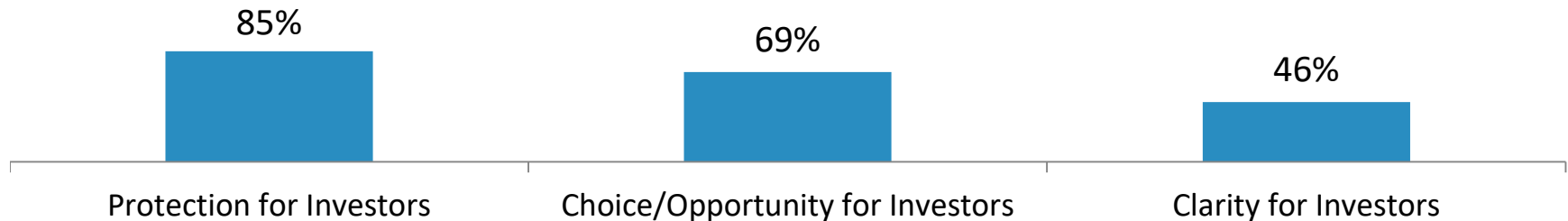
*"We believe this rule is heading in the direction, as opposed to the one-off DOL rule, which we've gotten past. This framework is probably a better place than where we were, but we still obviously want to work to make it better."*

*"We are relatively pleased with the rule proposals compared to where we could have been and compared to where we were. In a vacuum there are some challenges to be addressed but generally speaking we are relatively pleased."*

## The rule proposals will largely benefit investors

Firms (85%) see “protection for investors” as the most likely benefit. 100% of those with \$500 billion or more in AUM/AUA are of this view.

Showing % Rule Proposals Definitely + Largely Promote Characteristics



*“The rules would be helpful to investors in that they help clarify, especially the CRS requirement, the services that a broker-dealer provides and that an IA provides, give them clarity on the standards that they can expect, clearly raise the standard of conduct on brokerage, even though we say we’re already acting that way in brokerage. So I think that’s a positive.”*

*“I’d say the proposals promote protection for investors. I’m also hopeful that the disclosure requirement will provide clarity for investors. And if advice is made in investors’ best interest, it should create greater opportunity for success, so the rule promotes opportunity as well.”*



It is important to preserve access to the brokerage model, since some smaller investors are best served by this model

**Firms highlighted that as regulatory costs increases, it may become harder to serve small investors.**

*"I do think as you impose additional costs, requirements and risk on business, they're going to be less inclined to deal with smaller accounts. Smaller investors are going to find it harder for people to engage with them and help them save, invest, and plan for retirement."*

*"If they make it too difficult for broker-dealers to give advice without risking suit even for totally ordinary types of conflicts, there's a danger that broker-dealers will pull back from offering advice and it will only be an advisory service which typically are more expensive."*

*"I think there are certain provisions of Reg BI that put pressure on brokerage."*

Three-quarters of small to medium sized firms with less than \$1 trillion in AUM/AUA say a "decent" or "significant" proportion of their clients would be unable to afford an advisory account or an advisory account would not be suitable for their clients if the Broker-Dealer model did not exist.

# Firms point to opportunities for improvement in both Reg BI and Form CRS

Firms stressed that the SEC must strike the right balance of regulation among Broker-Dealers and Investment Advisers to create a level playing field with equally strong investor protections. Additionally, many think Form CRS can be improved to make it more investor-friendly.

## Standard for Broker-Dealers

*“The way the rule is set up, a broker-dealer ends up having a higher standard of conduct than the investment advisor with respect to financial incentive optics. I don’t think it was intentional, but that’s how it ended up, the way they wrote it.”*

*“All of a sudden, the standard of conduct for broker-dealers will be higher than the standard of conduct for investor advisors in the sense that disclosure of conflicts is not enough.”*

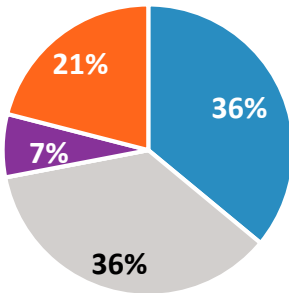
## Form CRS

*“The Form CRS is well-intentioned but it’s too long, the delivery is difficult, and it has to be delivered to prospects who call you once and you never speak to again. It could be skimmed down substantially and the delivery could be easier.”*

*“I think the goal is to clarify the obligations for a broker-dealer versus an investment advisor. But the more you say, the more people could get lost in the trees and lose the forest. And the more you focus on the forest, the more you run the risk that people aren’t adequately informed.”*

Firms stated the SEC's estimates are low, however while implementation costs may be high at first, they will lessen over time.

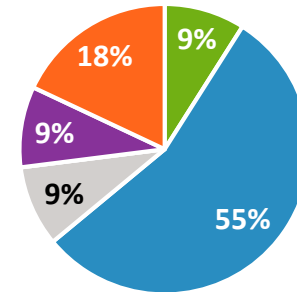
### Standard for Broker-Dealers and Form CRS



- Nothing
- Small Amount (less than 1% of annual profits)
- Moderate Amount (more than 1% but less than 5% of annual profits)
- Substantial Amount (unable to relate to annual profits)
- Unsure

*“Those all seem very low to me. I don’t think the SEC really understands what’s involved in actually implementing these changes. It involves thousands of people who have to be retrained, the massive systems that have to be reviewed.”*

### Standard of Conduct for Registered Investment Advisers

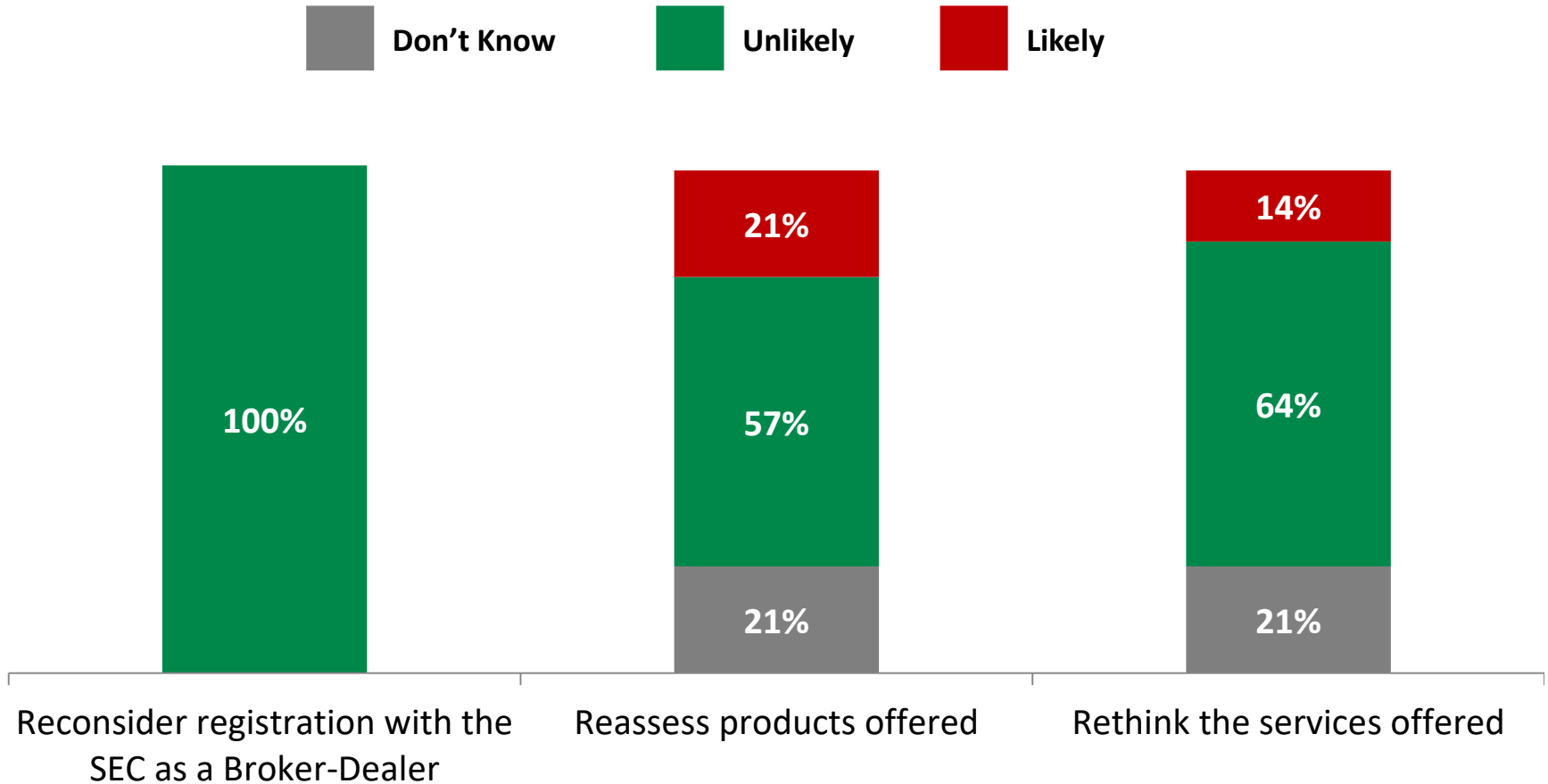


*“In general, this looks like an underestimate. If they’re closer here, it’s probably because we’ve already spent so much money on getting ready for DOL and that can be repurposed. But, they’re probably undershooting it.”*

79% agree that the costs may be higher at first but will likely lessen over time and many firms agree that the costs may be higher than expected by the SEC, but the benefits to investors will outweigh the likely costs.

Despite the costs, few anticipate changing their registration, products, or services as a result of the rule proposals, which shows investor choice will largely be preserved

*Showing Likelihood to Rethink Registration, Products, or Services Due to Proposals*





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