

Current Regulatory Model

SEC



\$25m



States



Next Regulatory Model

SEC



\$100m



States



Next Next Regulatory Model?



atory Model?



Next Regulatory Model?



Next Next Regulatory Model?



Next-Next Regulatory Model?



Next Next Regulatory Model?

FINRA

A small, stylized icon of four people in business attire is positioned on the letter 'N' of the word 'FINRA'.

Next Next Regulatory Model?

FINRA OR ?

Next Next Regulatory Model?

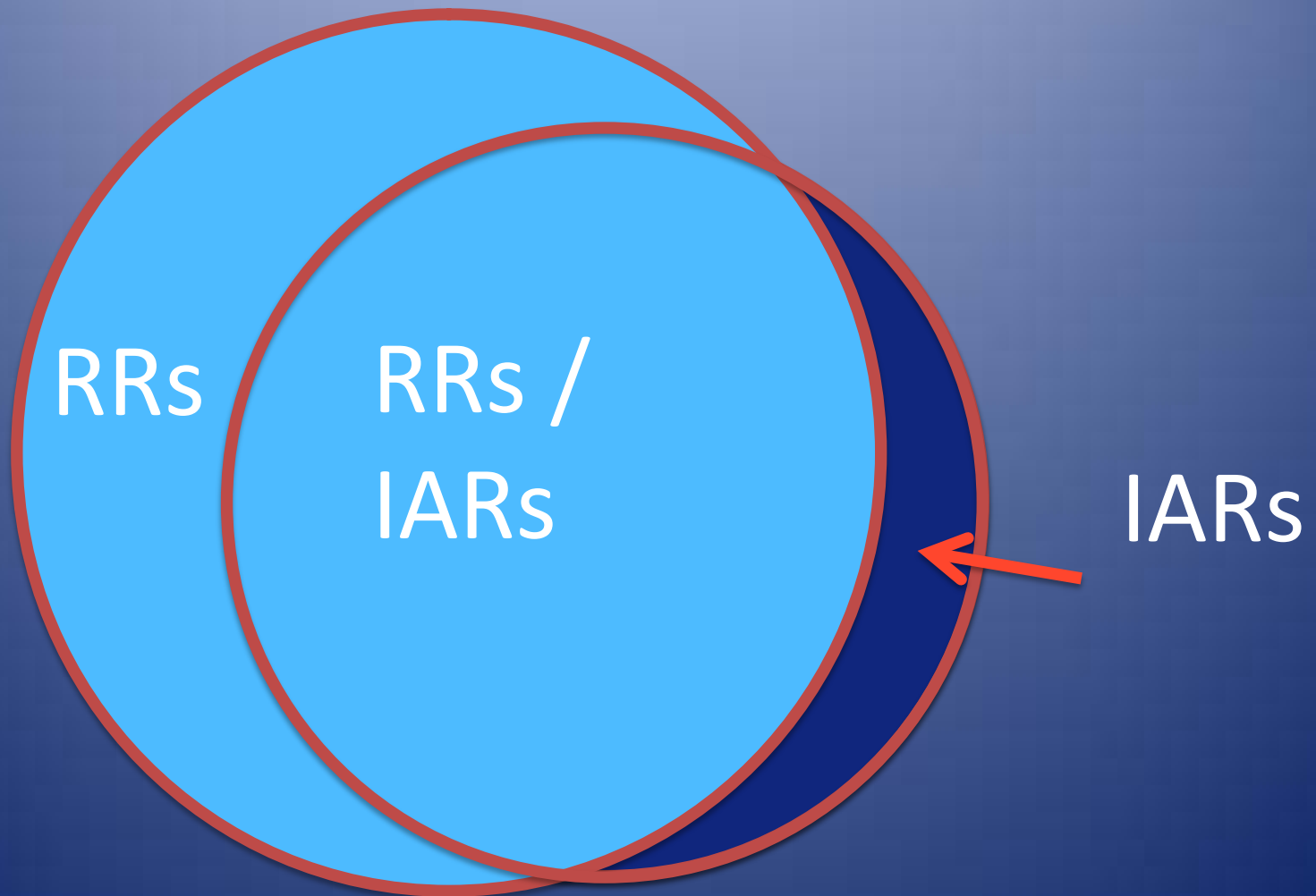
FINRA OR SRO/IIA



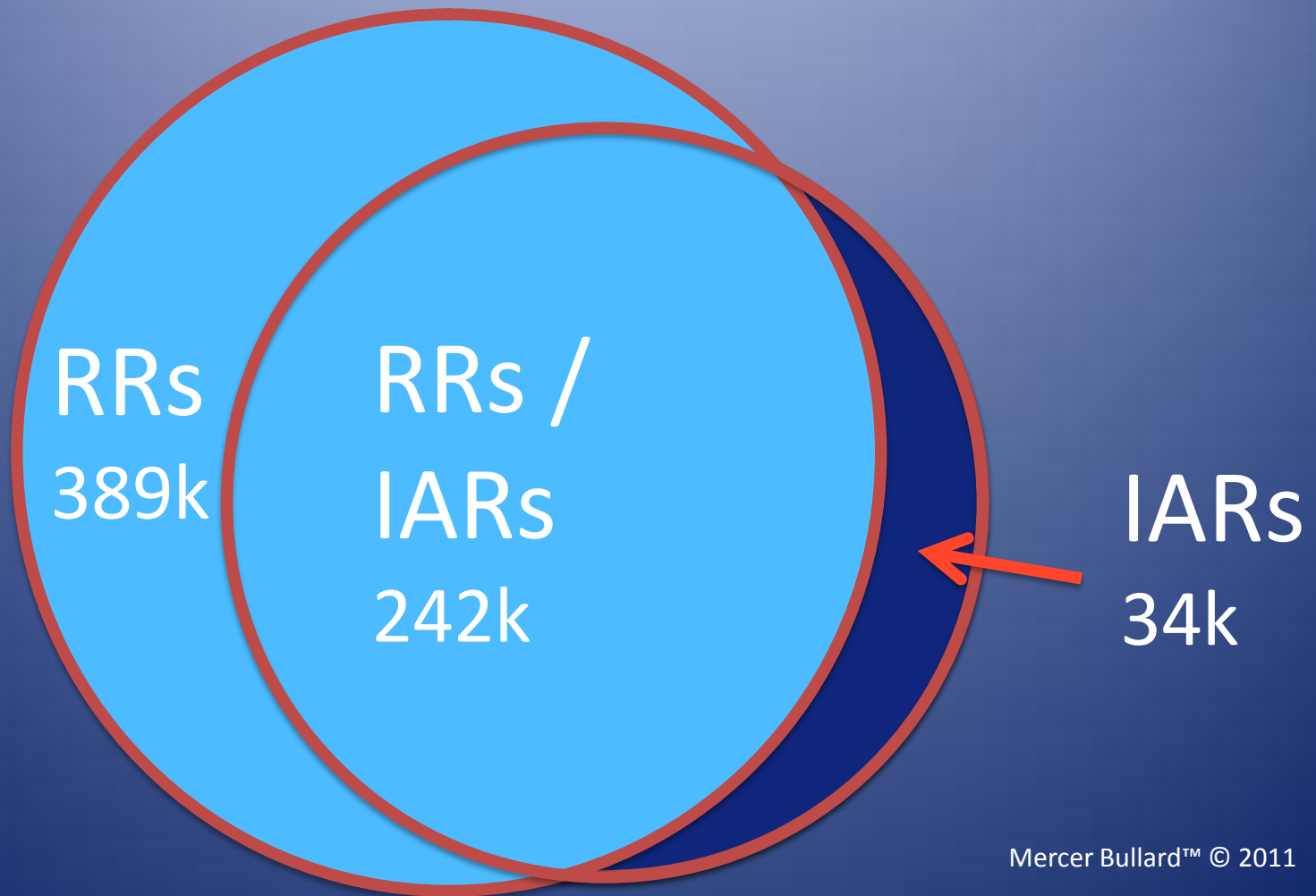
Next Next Regulatory Model



Registered Reps & Investment Advisor Reps

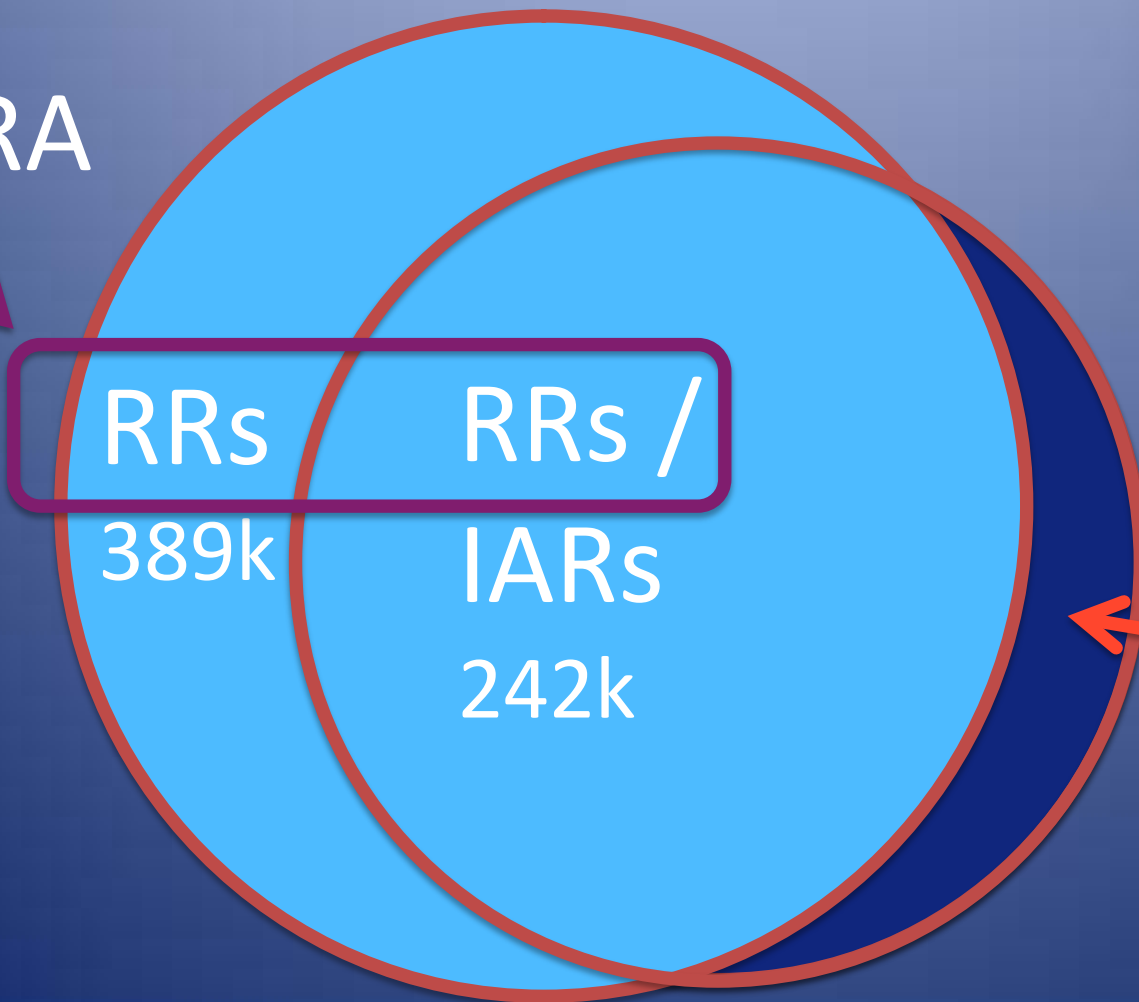


Registered Reps & Investment Advisor Reps



Registered Reps & Investment Advisor Reps

FINRA



RRs
389k

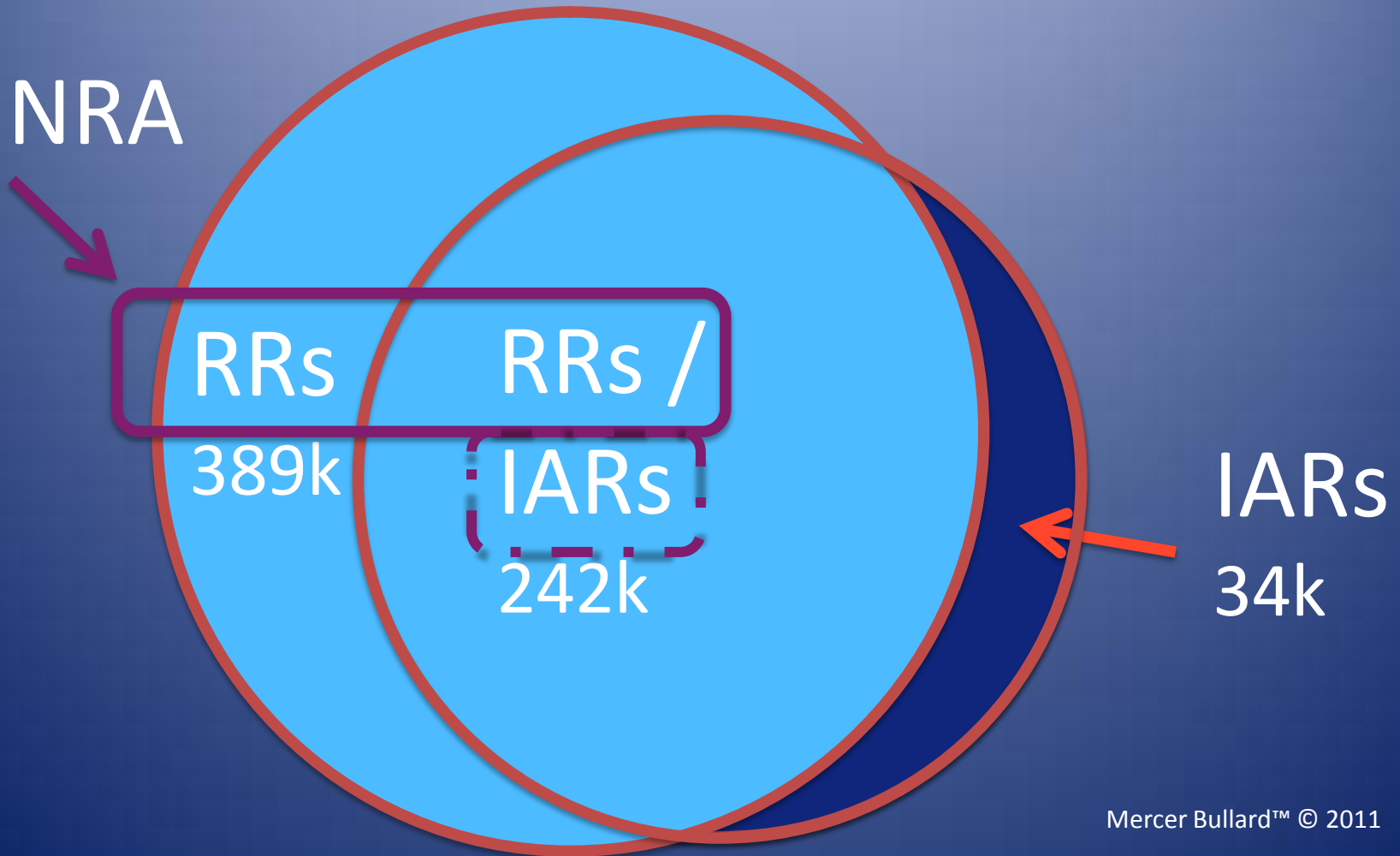
RRs /
IARs
242k



IARs
34k

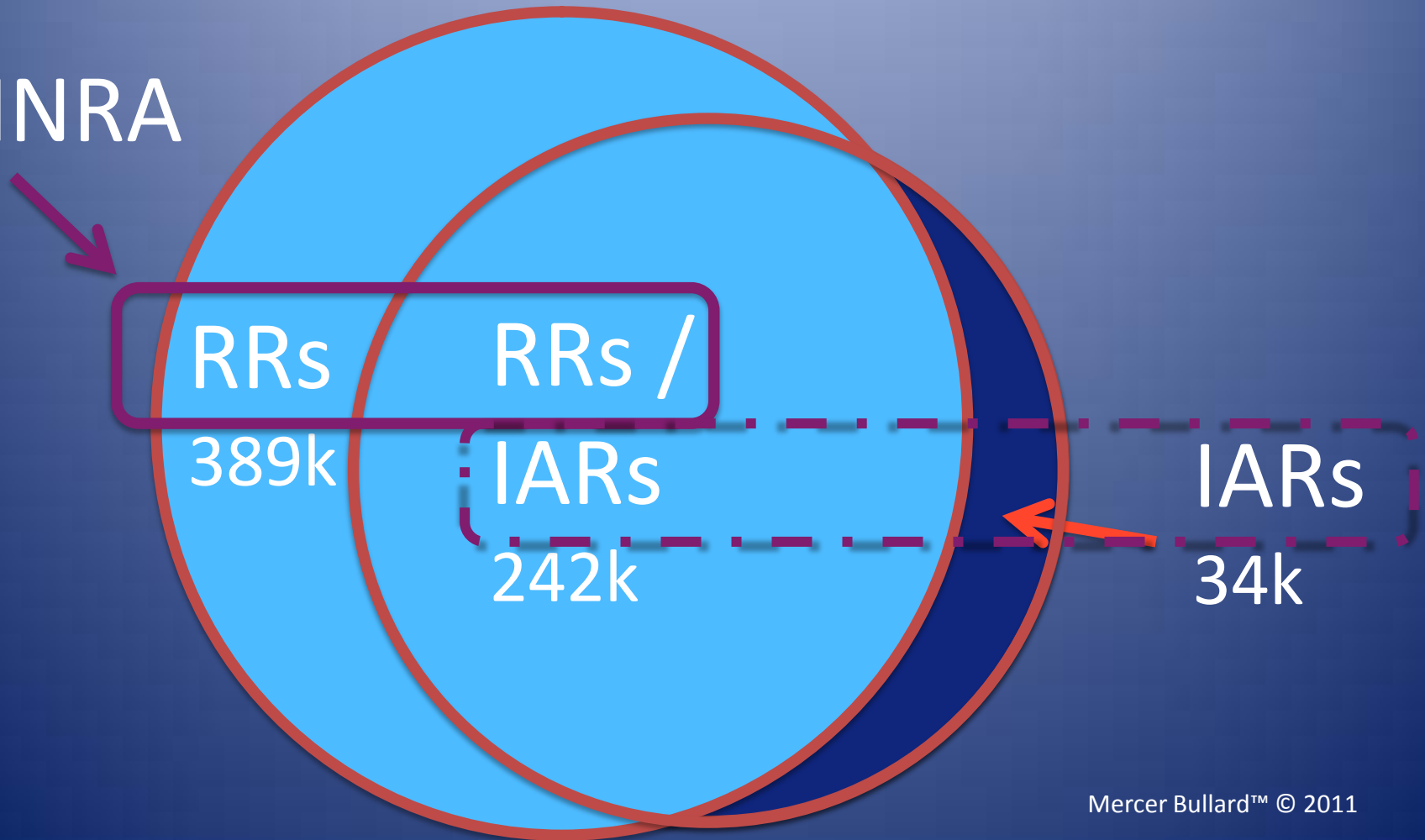
Registered Reps & Investment Advisor Reps

FINRA

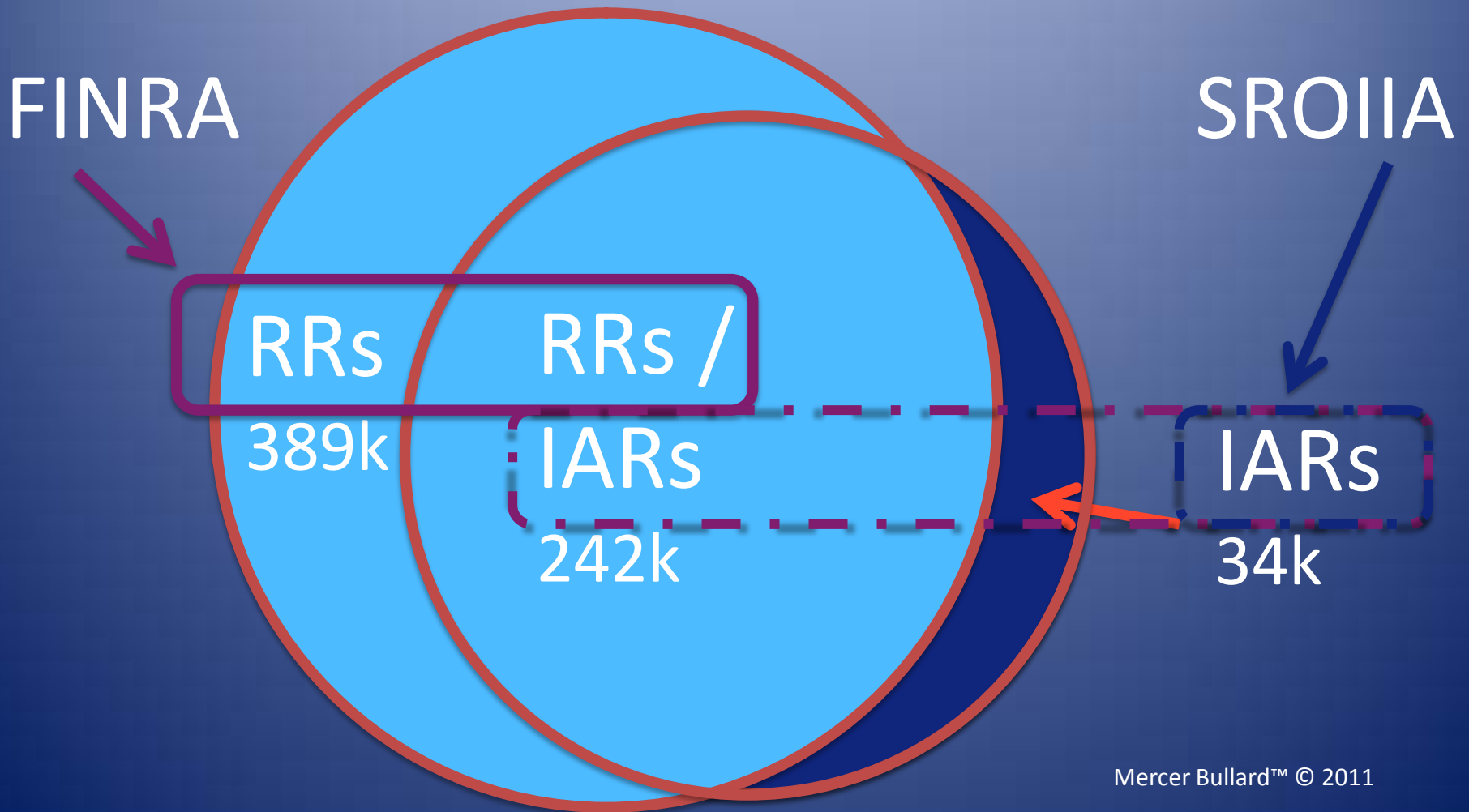


Registered Reps & Investment Advisor Reps

FINRA



Registered Reps & Investment Advisor Reps



SRO Authorization

- Congress
 - Chairman Bachus amendment
- SEC
 - Insufficient resources to examine IAs
 - Harmonization initiative
- FINRA
 - Record lobbying expenditures last quarter
 - Chairman Oxley
- Advisers:
 - No SRO; SEC funding or user fees

What an IA –SRO means for you:

- Membership Dues and Fees
- Regular Advisers Act examinations by SRO
- New rulemaking/enforcement authority
- New, “common denominator” legal standards

New Legal Standards

- Fiduciary Duty:
 - Brochure Delivery
 - Conflict Disclosure
 - Basis for Investment Recommendation
- Harmonization Initiative:
 - Customer Communications
 - Advertising
 - Supervision
 - Licensing/Continuing Ed.
 - Registration
 - Arbitration
 - Finders and Solicitors
 - Books and Records

SRO Timeline

Congress
Authorizes
SEC Approval
of IA-SRO

FINRA
Applies for
Approval

SEC Grants
Approval

RIAs Join
FINRA

IA - SRO
Created



SRO Timeline



What is SROIIA?

- *Bona Fide* Fiduciary Standard

What is SROIIA?

- *Bona Fide* Fiduciary Standard
- Efficiency Examinations

What is SROIIA?

- *Bona Fide* Fiduciary Standard
- Efficiency Examinations
- Coordinated Investigation & Enforcement

What is SROIIA?

- *Bona Fide* Fiduciary Standard
- Efficiency Examinations
- Peer Evaluation & Enforcement

Preliminary Survey Results

If you were required to join an SRO, would you prefer FINRA or a new SRO that was created specifically for investment advisers?

New SRO:	86%
FINRA:	7.7%
Don't Know:	6.3%

Preliminary Survey Results

If your firm were required to join an SRO, would you object to joining one that held your firm to a higher fiduciary standard than the standard that would be applied by FINRA?

NO: 96.6%

YES 3.4%

Preliminary Survey Results

If your firm were required to join an SRO, would you object to joining one that prohibited its members from engaging in principal transactions with clients?

NO:	94.6%
YES	5.4%

Preliminary Survey Results

If your firm were required to join an SRO, would you object to joining one that prohibited its members from being paid commissions?

NO:	97.3%
YES	2.7%

SROIIA/fi360 Fiduciary Exam

- Fi360-prepared, -administered and -maintained
- *Bona fide* fiduciary standard
- Complement Series 65
- Membership requirement
- Development/Review by fiduciary expert panel

Sample Question

Which of the following forms of advisor compensation represent unacceptable conflicts of interest and are not permitted for SROIIA members:

- a) An ongoing asset-based fee applied at the account level that is consistent with the advisor's services agreement
- b) Fully disclosed product-specific 12b-1 fees paid from mutual funds held in a portfolio under advisement
- c) Occasional finders fees or product placement fees authorized in writing by the client at the outset of the relationship to provide added opportunities for special investment opportunities that may arise
- d) Both (b) and (c) involve unacceptable conflicts
- e) None of the above involve unacceptable conflicts

SRO Timeline



Overview of the SROIIA Entry Exam

- Focuses upon requirements of the high (i.e. undiluted) fiduciary standard of the Investment Advisers Act of 1940
- Serves as a complement to the Series 65 exam
 - Only 12% of Series 65 exam addresses “ethical practices and fiduciary obligations”
- Successful completion of the exam is a prerequisite for SROIIA membership (other requirements apply)
- Exam prepared, administered and maintained by fi360
- Exam questions developed initially and revised annually with assistance from a panel of fiduciary experts (including leading practitioners) and SROIIA
- A study guide outline and references will be provided to candidates; no specific training program will be required

Sample Question

- Which of the following forms of advisor compensation represent unacceptable conflicts of interest and are not permitted for SROIIA members:
 - a) An ongoing asset-based fee applied at the account level that is consistent with the advisor's services agreement
 - b) Fully disclosed product-specific 12b-1 fees paid from mutual funds held in a portfolio under advisement
 - c) Occasional finders fees or product placement fees authorized in writing by the client at the outset of the relationship to provide added opportunities for special investment opportunities that may arise
 - d) Both (b) and (c) involve unacceptable conflicts
 - e) None of the above involve unacceptable conflicts

Scope of SRO Authorization

Examinations	Rules & Enforcement	Resolution	Pvt Dispute	
State	National	International		
Advice	Brokerage	Trading	Underwriting	Exchange
Securities	Derivatives	Insurance	Banking	



Registered Reps & Investment Advisor Reps

State	Less than \$25M AUM	\$25-\$50m AUM	\$50-\$100m AUM	Total
	8,568	2,716	2,135	13,419
AL	47	24	14	85
CA	1,448	412	335	2,195
CO	362	95	64	521
FL	510	151	114	775
NE	34	20	14	68
NC	205	58	55	318
WI	129	37	35	201

Registered Reps & Investment Advisor Reps

Less than \$25M AUM	\$25-\$50m AUM	\$50-\$100m AUM	\$100-\$250m AUM	\$250-\$500m AUM	Over \$500m AUM	Total
\$45,000	\$378,000	\$378,000	\$1,144,542	\$2,000,000	\$5,000,000	Revenue
\$250	\$2,000	\$2,000	\$3,000	\$4,000	\$6,000	Fee
\$2,142,000	\$5,432,000	\$4,270,000	\$6,552,000	\$4,436,000	\$22,206,000	\$45m