

Fact Sheet on SRO Report by SEC Staff

*Study on Enhancing Investment Adviser Examinations*¹

January 20, 2011

Background: The Securities and Exchange Commission (SEC) was required by Congress last July, as part of financial services reform to review:

1. the exam cycle for federally registered investment advisers over the last five years;
2. the extent to which designating one or more self-regulatory organizations (SROs) to augment SEC exams would improve the frequency of exams; and
3. current and potential new approaches to exams for dually registered broker-dealers and investment advisers.

The SEC Commissioners were unable to reach consensus on recommendations and delegated to SEC staff the task of recommending options to Congress.

Staff Recommended Options:

- a. **Self-Funding**--Authorize the Commission to impose user fees on SEC-registered investment advisers (RIAs or IAs).
- b. **SRO**--Authorize one or more SROs, under SEC oversight, to examine all SEC-registered IAs.
- c. **Limited SRO**--Authorize FINRA to examine dual registrants, i.e. investment advisers of dually registered broker-dealers, for compliance with the Investment Advisers Act of 1940 ('40 Act).

In addition to the official report, [Commissioner Elisse Walter issued a separate statement](#) expressing her disappointment with the SEC staff's final report and recommendations.

Relevant Facts (from the SEC staff report and referenced by page number):

- Number of federal RIAs increased 38.5% from Oct. 1, 2004 to Sept. 30, 2010, or from 8,581 RIAs to 11,888 RIAs in that time period (p. 8).
- During this same period, assets under management grew 58.9%, from \$24.1 trillion to \$38.3 trillion, representing a growth rate of 9.1% (p. 9).
- Ratio of RIAs to SEC inspection staff (Office of Compliance Inspections and Examinations or OCIE) increased 43.3% from 2004 to 2010, or from a ratio of 18.0 to a ratio of 25.8 (p. 12)
- A comparison of SEC examiner ratio compared to banking examiners ratio to the firms they regulate in 2010 shows a stark contrast: Office of Comptroller of the Currency (OCC) ratio 0 .7; Federal Deposit Insurance Corporation (FDIC) ratio 1.6; SEC ratio 25.8 (p. 13)

¹ See Staff of the Division of Investment Management of the U.S. Securities and Exchange Commission, "Study on Enhancing Investment Advisers Examinations," January 2011, at <http://www.sec.gov/news/studies/2011/914studyfinal.pdf>; Sec. 914, Dodd-Frank Wall Street Reform and Consumer Protection Act.

- Number of RIA exams from 2004 to 2010 decreased 29.8%, from 1,543 exams in 2004 to 1,083 exams in 2010 (p. 14)
- Similarly, the percentage of RIAs inspected yearly dropped from 18% in 2004 to 9% in 2010 (p. 14).
- De-registration of smaller RIAs from SEC will represent a 28.2% decrease, from 11,888 RIAs to 8,538 RIAs (p. 16)
- SEC expects RIA growth to continue, however, at an assumed growth rate of 5%, from 8,538 RIAs to 10,897 RIAs in five years (p. 20)
- Ratio of SEC examiners to RIAs over the same five-year period will remain stagnant at 18.0. (p. 22)

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For more information and commentary on the SEC's study, visit the fi360 blog:

http://blog.fi360.com/fi360_blog/2011/01/fi360-comments-on-the-secs-sro-report.html