

# Trustworthy Advice and Individual Investors:

*Will Regulators Act In Investors' Best Interest?*

*Findings of the 2013 fi360-ThinkAdvisor Fiduciary Survey*



# **Trustworthy Advice and Individual Investors: Will Regulators Act in Investors' Best Interest?**

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### **Executive Summary**

Three years have passed since Congress mandated a study by the Securities and Exchange Commission (SEC) on extending the fiduciary standard to include brokers who provide personalized advice to retail investors. As a consequence, in 2011 SEC staff recommended that the fiduciary standard be extended to brokers. Since then the SEC has a new Chairman, Mary Jo White, and two new commissioners who were confirmed in August. The SEC has not announced when it will propose a uniform fiduciary standard applicable to both brokers and registered investment advisers. Since one of the primary missions of the SEC is investor protection, supporters of a robust standard hope the SEC will act without further delay.

Separate from the SEC's mandate to consider a fiduciary standard for stockbrokers, the Department of Labor (DOL) is working to update pension rules by extending ERISA's fiduciary definition to include advisors and other service providers to retirement plans. New DOL rules were recently put in place to provide more transparency of fees that retirement plan participants pay and also clarify roles of advisors and service providers to plans by requiring them to affirm their fiduciary status. During the interim, DOL and SEC have renewed a memorandum of understanding to continue to coordinate activities, including avoidance of any conflicting rules, and share data on a regular basis.

Extending the fiduciary standard in both of these regulatory areas to broker-dealers that service qualified plans and retail investors would have a dramatic effect on the regulatory landscape by increasing disclosure of conflicts of interest and mandating a 'best interest' standard across the securities industry. While many major securities firms now support a fiduciary standard, the debate has shifted to industry concerns over liability costs and unsubstantiated claims that the middle market would have to be abandoned under the current standard.

In this environment, fi360 and ThinkAdvisor.com (formerly AdvisorOne.com) have, for the third year, surveyed investment advisers and brokers about their attitudes regarding the fiduciary standard. The survey sought not only participants' opinions on the fiduciary standard but also to gauge their understanding of what the fiduciary standard means now, or would mean as they work with investors in the future.

The survey was open to all brokers, investment advisers and this year, insurance consultants and producers. It included questions about investor knowledge; costs, availability and access to advice; differentiating types of advisors and fiduciary versus non-fiduciary roles, titles, separating advice from product sales; disclosure, conflicts of interest; compensation models and trends, recruiting payments, registration and more, to track trends in the industry.

Note: You will see advisor/adviser spelled two different ways in the report. 'Adviser' indicates an SEC- or state-registered investment adviser who by law is a fiduciary. 'Advisor' is used in reference to *all who provide advice*, whether subject to a fiduciary standard or not, including all survey participants.

The 382 participants in the 2013 fi360-ThinkAdvisor Fiduciary Survey are a mix of RIA/IARs, dual registrants, registered reps and insurance consultants and producers. Except for ERISA-specific questions, survey questions were based on the traditional fiduciary standard as it applies under the Investment Advisers Act of 1940.

### Key Findings

Participants say a traditional fiduciary standard does not cost investors more, reduce product or service choice, or price some investors out of the market for advice compared to a broker operating under a less stringent suitability standard. In fact, many participants say the opposite is true, that operating under the higher standard can save clients money over the long-term.

Participants indicate that extending the fiduciary standard:

- Would not cost investors more for advice (79%).
- Would not price investors out of the market for advice (69%).
- Would not limit access to advice or products (68%).

Investors do not have the information they need to choose of the type of advisor or sales relationship they want. Much more needs to be done to clarify roles of intermediaries, through titles, firm purpose and disclosure; disclosure alone will not do. When selecting a financial intermediary:

- 97% say investors don't understand the differences between brokers and investment advisers.
- 72% say the titles "advisor," "consultant," and "planner" imply a fiduciary relationship exists.
- 82% say disclosures alone are not sufficient to manage conflicts of interest.

The gap in knowledge between financial intermediaries and regular investors exists, cannot be bridged and makes advice from a fiduciary much more important:

- 83% say the gap in professional knowledge between investors and advisors makes fiduciary advice much more important for ordinary investors.

The same ERISA fiduciary standard that applies to advice to retirement investors in 401(k) accounts should also apply to IRAs and rollovers from 401(k) and IRA accounts.

- 72% say the ERISA fiduciary duty that applies to 401(k)s should also apply to advice on IRAs.
- 79% agree that ERISA fiduciary duty should cover advice on rollovers out of 401(k)s and IRAs.

Compensation models make a material difference in how intermediaries interact with investors.

- Commission-only and commission/fee participants lean away from the fiduciary standard, while fee-only and fee-based participants lean toward the fiduciary standard.
- Most commission-only and fee/commission (more commissions than fees) would rather be fee based (more fees than commissions) or fee-only.

These findings, from financial intermediaries in the field working directly with investors every day, are very different from the rhetoric of Wall Street's lobbyists who are pressing hard to retain the status quo and prevent extension of the traditional fiduciary standard to brokers who provide advice to individual investors. The needs and desires of regular investors are often in conflict with the financial objectives of financial services firms.

However, intra-industry disagreements should not impede regulators from acting decisively on behalf of investors by establishing a uniform baseline fiduciary standard where investors get what marketing by the financial services industry implies – unbiased advice serving the investor's best interest, and in which advertising of services and job titles reflect an intermediary's true function and standard of care.

fi360 and ThinkAdvisor appreciate the efforts of the 382 participants, from across a wide spectrum of financial services business models, who took the time to complete the survey in March and April of 2013.

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## Findings and Observations – Participant Composition

Survey participants are mixed in terms of business model: 53% are RIA/IARs, 15% are RRs, and nearly 29% are dually registered – defined as individuals affiliated with both investment adviser and brokerage firms. In 2013, for the first time, insurance producers and consultants participated, with insurance producers just under 2% and insurance consultants just over 1% of overall respondents.

1. How are you currently registered?		
		Response Percent
RIA/IAR		53.2%
Registered rep		15.2%
Dually registered		28.8%
Insurance producer		1.7%
Insurance consultant		1.1%

Overall, **41% of respondents operated under a different regulatory framework** prior to their current registrations, with a significant number having dropped their insurance or brokerage licenses. Two-thirds of insurance producers, 50% of insurance consultants, 48% of RIA/IARs and 46% of dual registrants have changed registration.

2. Have you ever been registered differently than how you indicated in your response to question 1?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Yes	48.4% (92)	5.5% (3)	46.2% (48)	66.7% (4)	50.0% (2)	41.5% (149)
No	51.6% (98)	94.5% (52)	53.8% (56)	33.3% (2)	50.0% (2)	58.5% (210)

**Prior Registration** – Of the 41% who had been registered differently, 80% had been registered reps, 45% insurance producers and 33% dual registrants, indicating a natural progression for many advisors to migrate to the RIA model as they become more experienced.

3. Not including your current registration status, how have you been registered in the past? (Choose all that apply.)			
		Response Percent	Response Count
RIA/IAR		12.3%	19
Registered rep		80.5%	124
Dually registered (RR/IAR)		33.1%	51
Insurance producer		45.5%	70
Insurance consultant		6.5%	10

## Assets Under Management

Assets under management (AUM) show more participants reporting lower asset levels. Some of this change may be a result of the Securities & Exchange Commission’s recent changes for reporting regulated assets. However, some of this change may be attributable to a more diverse range of participants this year.

The percentage of participants managing under \$50 million in assets under management rose to 39% from 36% in 2012. More are managing the \$100 - \$249 million level of AUM, while participants reporting \$1 billion or more in AUM dropped to 6.7% from 9.4% in 2012. Results represent an overweighing of fee-only /independent investment advisers and are not necessarily indicative of the broader IAR base.

### Managing the Assets: Across All Participants

Participant AUM (millions)	<\$50	\$50-\$99	\$100-\$249	>\$250	>\$500	>\$1Billion
2013	38.9%	17.2%	20.6%	7.8%	8.9%	6.7%
2012	35.9%	18.0%	18.5%	9.4%	8.8%	9.4%
2011	51.4%	17.3%	16.4%	5.4%	3.3%	6.1%

### AUM by Registration Type

In 2013, respondents across all registrations – advisers, brokers, and insurance agents – typically managed less than \$50 million. The number of respondents tapers off quickly after reaching the \$250 million mark.

In the AUM categories above \$250 million, RIA/IARs capture higher percentages of AUM than registered reps and dual registrants: 30.5% of RIA/IARs compared to 13.4% of registered reps and 16% of dual registrants. The number of insurance respondents was too small to identify any trends.

4. What are your assets under management?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
<\$50 million	38.0% (71)	46.2% (24)	33.0% (33)	80.0% (4)	75.0% (3)	38.8% (135)
\$50-\$99 million	12.8% (24)	23.1% (12)	25.0% (25)	20.0% (1)	0.0% (0)	17.8% (62)
\$100-\$249 million	18.7% (35)	17.3% (9)	26.0% (26)	0.0% (0)	0.0% (0)	20.1% (70)
>\$250 million	9.1% (17)	5.8% (3)	7.0% (7)	0.0% (0)	0.0% (0)	7.8% (27)
>\$500 million	12.3% (23)	3.8% (2)	6.0% (6)	0.0% (0)	0.0% (0)	8.9% (31)
>\$1 billion	9.1% (17)	3.8% (2)	3.0% (3)	0.0% (0)	25.0% (1)	6.6% (23)

## AUM by Compensation Model

Looking at AUM across different compensation models – fee-only, fee-based (more fees than commissions), fee/commission (more commissions than fees) and commission-only, the previous responses by regulatory affiliation confirm that the largest percentage of participants in each compensation model manage under \$50 million in AUM.

Above that range, the picture changes dramatically: just over 73% of commission-only participants manage \$50 million or less and another 11% have \$50-\$99 million under management. The remaining 15% have \$100-\$249 in AUM; no commission-only participants reported managing more than \$250 million.

Among participants compensated by fee/commissions (more commissions than fees), 86% manage less than \$249 million. In contrast, 33% of fee-based participants manage more than \$250 million; 21% manage more than \$500 million. And 33% of fee-only participants also manage more than \$250 million, with 23% managing more than \$500 million and 11% more than \$1 billion.

4. What are your assets under management?					
	What is your current compensation model?				Response Totals
	Fee Only	Fee Based	Fee/Commission	Commission	
<\$50 million	32.3% (51)	25.0% (12)	45.5% (55)	73.1% (19)	38.8% (137)
\$50-\$99 million	13.3% (21)	22.9% (11)	22.3% (27)	11.5% (3)	17.6% (62)
\$100-\$249 million	21.5% (34)	18.8% (9)	20.7% (25)	15.4% (4)	20.4% (72)
>\$250 million	9.5% (15)	12.5% (6)	5.8% (7)	0.0% (0)	7.9% (28)
>\$500 million	12.7% (20)	16.7% (8)	2.5% (3)	0.0% (0)	8.8% (31)
>\$1 billion	10.8% (17)	4.2% (2)	3.3% (4)	0.0% (0)	6.5% (23)

## Professional Experience

Once again this year, survey participants are an august group in terms of industry experience; 71% have more than 15 years in the financial services industry, including 41% with more than 25 years of experience.

5. How many years of professional experience do you have in the financial industry?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
5 years or less	5.9% (11)	7.5% (4)	4.0% (4)	0.0% (0)	25.0% (1)	5.8% (20)
6-14 years	25.7% (48)	20.8% (11)	20.2% (20)	50.0% (2)	0.0% (0)	23.3% (81)
15-25 years	31.0% (58)	30.2% (16)	28.3% (28)	0.0% (0)	0.0% (0)	29.4% (102)
more than 25 years	37.4% (70)	41.5% (22)	47.5% (47)	50.0% (2)	75.0% (3)	41.5% (144)

### Fiduciary Relationships With Clients

Instead of asking “**Do you have a fiduciary relationship with your clients?**” as a yes/no question, the survey measures participants based on various categories, such as registration type, compensation and business model. The survey also provides an opportunity to measure the fiduciary culture within a broker-dealer (BD) environment by breaking down responses based on registered rep only, dual registrant, (registered rep who is also an investment adviser rep (IAR), and independent registered investment adviser (RIA).

Overall, no matter the respondent’s demographic profile, **90% say they have fiduciary relationships**, either with all clients (61%) or some clients (16%). Another 11% say for some clients they have both a fiduciary relationship and suitability relationship.

Looking at fiduciary relationship by type of registration, **a strong majority of RIA/IARs, or 87% (up slightly from 85% in 2012), have a fiduciary relationship with all clients**, as might be expected of a group that is regulated under the Investment Advisers Act of 1940 or similar state statutes. Another 8% of RIA/IARs say some are RIA-fiduciary relationships and some are suitability relationships, and nearly 4% say for some clients they have both a fiduciary and suitability relationship, suggesting some confusion over fiduciary responsibilities.

A much smaller number of RIA/IARs, however, 1.6% (down from 3.4% in 2012), did *not* acknowledge or understand that, as registered investment advisers, they are, by law, fiduciaries. These respondents said no, they do not have a fiduciary relationship with any clients, which is in conflict with the 1963 Supreme Court decision in *SEC v. Capital Gains* holding that investment advisers are fiduciaries to their clients, and subsequent regulatory guidance.

As might also be expected, dual registrants’ obligations to clients are mixed. Compared to earlier surveys, fewer clients are subject to a fiduciary relationship, or at least a higher number of dual registrant respondents do not acknowledge a fiduciary relationship with any client. While 36% say they have a fiduciary relationship with all clients, down slightly from 38% a year ago, one-third state that they have some RIA-fiduciary relationships and some suitability (or broker) relationships, down substantially from a 43% share last year. Another 21% say for some clients they have both fiduciary and suitability relationships, up from 14% in 2012. Nine percent of dual registrants say they have no fiduciary relationships with clients, up from 4.5% a year ago. This would suggest that, like the small number of advisers who responded in this way, these dual registrants are either unaware of the difference by law or were required to register as an IAR even if they do not provide advisory services.

Last year, broker-dealer registered reps were evenly divided on part of the fiduciary question – 35% confirmed fiduciary relationships with all clients while 35% responded no – that a suitability standard generally applies. In contrast, this year **41% of registered reps say they do not have a fiduciary relationship with any clients, while half as many, 21%, say they do have a fiduciary relationship with all clients**. However, 21% say for some clients they have both a fiduciary and suitability relationship and 17% have a fiduciary relationship with some clients and a suitability relationship with others. It is impossible to identify whether this is a trend; it may be attributable to a broader base of survey participants this year.

Insurance consultants are new to the survey this year. While not necessarily representative of the consulting side of the industry, given the minimum number of respondents, consultants indicated they either have a fiduciary relationship with all clients (75%), or both a fiduciary relationship and suitability relationship, 25%. This may be explained by insurance laws that permit dual licensing as insurance producers and consultants. Given the extremely small number of consultant registrations around the country, it is probably not surprising that the insurance producer community has expressed concern with what it characterizes as the costs associated with a fiduciary standard.

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6. Do you have a fiduciary relationship with your clients?						
	How are you currently registered?					
	RIA/IA	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes, all clients	<b>86.6%</b> (162)	20.8% (11)	<b>36.4%</b> (36)	<b>40.0%</b> (2)	<b>75.0%</b> (3)	<b>61.5%</b> (214)
No	1.6% (3)	<b>41.5%</b> (22)	9.1% (9)	<b>40.0%</b> (2)	0.0% (0)	10.3% (36)
Some are RIA-fiduciary relationships and some are suitability relationships	8.0% (15)	17.0% (9)	33.3% (33)	20.0% (1)	0.0% (0)	16.7% (58)
For some clients I have both a fiduciary relationship and suitability relationship	3.7% (7)	20.8% (11)	21.2% (21)	0.0% (0)	25.0% (1)	11.5% (40)

## Compensation Models and the Fiduciary Relationship

While the overall majority of participants have a fiduciary relationship with all clients, by compensation model the data confirms a strong correlation with the applicable standard of care. Among the respondents who said they had a fiduciary relationship with all clients, **96% were fee-only, 71% fee-based, 27% fee/commission and 8% commission-only**. These levels are well off the previous year’s results, in which 85% of fee-based participants and 20% of commission-only participants indicated they were fiduciaries to all clients.

**Among fee-based participants**, the results suggest that the larger the mix of fee compensation, the more likely they recognize and consider all clients to be in a fiduciary relationship. For example, nearly 71% of fee-based advisors state their clients are in fiduciary relationships with them, which also suggests a reduction in the number of conflicts that must be avoided or managed appropriately. Only 19% of dual registrants say some clients are RIA-fiduciary relationships and some are suitability relationships, while the remaining 10% say that for some clients they have both a fiduciary and a suitability relationship. None of the fee-based participants selected a “no” to a fiduciary relationship with clients.

**Within the fee/commission compensation model**, in which commission is the primary source of income, slightly more than a quarter of their client base (27%) is exclusively in a fiduciary relationship. Another 36% state that they have RIA-fiduciary relationships with some of their clients and suitability relationships with others. Another 26% indicate they have both a fiduciary relationship and a suitability relationship with the same client, which suggests the traditional ‘hat switch’ in advisory roles, while 11% have no fiduciary relationships with clients.

**In the commission model**, which would include securities brokers and insurance producers, **77% do not have fiduciary relationships with their clients**, up from 70% in 2012. There is a three-way tie among three other choices, with 7.7% indicating they do have a fiduciary relationship with all clients; 7.7% indicating some are RIA-fiduciary relationships and some are suitability relationships; and the remaining 7.7% stating they have both a fiduciary and a suitability relationship for some clients. The increase in non-fiduciary relationships could be attributable to increased visibility of the fiduciary debate, or perhaps DOL’s new disclosure requirement under Rule 408(b)(2) requiring plan service providers to attest to their fiduciary status.

6. Do you have a fiduciary relationship with your clients?					
	What is your current compensation model?				Response Totals
	Fee Only	Fee Based	Fee/Commission	Commission	
Yes, all clients	95.6% (151)	70.8% (34)	27.0% (33)	7.7% (2)	62.1% (220)
No	1.9% (3)	0.0% (0)	10.7% (13)	76.9% (20)	10.2% (36)
Some are RIA-fiduciary relationships and some are suitability relationships	1.3% (2)	18.8% (9)	36.1% (44)	7.7% (2)	16.1% (57)
For some clients I have both a fiduciary relationship and suitability relationship	1.3% (2)	10.4% (5)	26.2% (32)	7.7% (2)	11.6% (41)

## Compensation Trends for Advisors

Among respondents over the past three years, compensation structures have moved toward fee-only and fee-based (more fee than commission) revenue streams, and away from fee and commission (more commissions than fees) compensation. The commission-only model lost share in 2012 but regained share in 2013. Increased representation of securities brokers in the latest survey may account for some of the latest trends, as the number of registered reps increased five-fold this year. In addition, insurance consultants and producers took part for the first time this year.

Compensation Structure	Fee only	Fee-based	Fee/Commission	Commission
2013	44.6%	13.6%	34.5%	7.3%
2012	44.3%	10.6%	42.4%	2.7%
2011	35.9%	8.9%	44.6%	10.6%

## Compensation and Registration Type

Looking at compensation models within the different types of registrations, **fee-only compensation is the choice for the majority of RIA/IARs**, moving up to 74% from 72% in 2012. The compensation models for RIA/IARs have been very steady: 16% say they are compensated by fee/commissions, down from 18% a year ago, and 9.8% are fee-based, down a tic from 9.9% a year ago. No RIA/IAR selected commission-only compensation.

The **majority of registered reps (55%) are compensated under the fee/commission model**, down from 68% in 2012. But registered reps in the commission-only compensation model jumped to 36%, up from 24% last year. Another 7.5% are fee-based, up from 0% last year, and the fee-only model, 1.9%, was down significantly from 8.1% last year. As noted, the influx of new registered rep respondents in the survey accounted for the increase.

Registered reps in the survey are increasingly relying on fee-based compensation. Fee-based reps are up to 22% from 14% in 2012. While fee-commission continues to be the predominant model for dual registrants (61%), the sector is down from 75% last year. Twelve percent reported they are fee-only, which may imply a salaried arrangement, and just 4% are commission-only in 2013.

7. What is your current compensation model?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Fee Only	73.9% (136)	1.9% (1)	12.2% (12)	20.0% (1)	0.0% (0)	43.7% (150)
Fee Based	9.8% (18)	7.5% (4)	22.4% (22)	20.0% (1)	33.3% (1)	13.4% (46)
Fee/Commission	16.3% (30)	54.7% (29)	61.2% (60)	40.0% (2)	33.3% (1)	35.6% (122)
Commission	0.0% (0)	35.8% (19)	4.1% (4)	20.0% (1)	33.3% (1)	7.3% (25)

## What’s Your Ideal Compensation Model?

If survey participants, who work in the field with investors every day, could choose their ideal compensation model, there would be a significant shift from their existing model to fee or fee-based. We asked, **“If you could choose your ideal compensation model, what would be your preference?”** More participants would choose the **fee-only model, 56%**, or 12% more than are currently compensated by fees (44%). **Fee-based would nearly triple to 35%** from the current 13%. Participants in the commission-based model would drop precipitously to 6.4% from the 36% who are compensated under that form of compensation in 2013. And **commission-only compensation would fall to just 2.6%** of participants, from the 8.3% compensated under that model.

Looking at the trend by type of registration, the results are consistent with current compensation models: *the ideal compensation preferences also trend away from commission-only and toward fee-only or fee-based sources.* Put another way, although Dodd-Frank permits multiple compensation models in providing personalized investment advice, and expressly reserves the right to earn commissions as a fiduciary, many fiduciary experts as well as the SEC, in its Form ADV disclosure requirements, assert that the commission model carries with it increased conflicts of interest that must be, at a minimum, disclosed to investors.

As a result, if the ideal preferences for being compensated translated into ‘real life,’ some interesting changes would occur in the industry. The 84% of RIA/IARs currently in fee-only or fee-based models would be joined by the remaining advisor population – except for 1% – with 8 of 10 preferring the fee-only model.

Where currently 91% of registered reps are now commission-only or commission-based, 67% would rather be fee-based or fee-only; another 23% would choose commission-based, and only 1 in 10 would be commission-only. *Ten times more registered reps would choose fee-only compensation than are currently in that compensation model.*

*More than 91% of dual registrants would choose fee-based or fee-only rather than the 35% in those models currently,* and only one in ten who are in commission-based now would remain there if they could choose their ideal compensation.

Again, while the pool of respondents is small, the survey responses suggest **insurance producers would migrate away from commission-only as well:** 40% prefer the fee-only model, 20% prefer fee-based and 40% select commission-based compensation as their ideal model.

### Ideal Compensation Model – by Registration

8. If you could choose your ideal compensation model, what would be your preference?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Fee only	79.8% (146)	20.8% (11)	31.6% (31)	40.0% (2)	0.0% (0)	55.6% (190)
Fee-based (more fee revenue than commissions)	19.1% (35)	47.2% (25)	59.2% (58)	20.0% (1)	66.7% (2)	35.4% (121)
Commission-based (more commission revenue than fees)	1.1% (2)	22.6% (12)	6.1% (6)	40.0% (2)	0.0% (0)	6.4% (22)
Commission only	0.0% (0)	9.4% (5)	3.1% (3)	0.0% (0)	33.3% (1)	2.6% (9)

## Recapping the Trend in Ideal Compensation Models

Compensation and conflicts of interest are fundamental issues in the debate over extending the fiduciary standard to brokers. It is clear from the results of this year’s study that participants want to move away from commission compensation and toward a fee-only or fee-based model. With fewer conflicts of interest to avoid or disclose, it would be easier to manage conflicts in the client’s best interest. This, in turn, could be an important trend in which policymakers should take note in proceeding to expand the fiduciary standard under securities laws and ERISA. Keeping in mind that while the Dodd-Frank Act specifically preserved the ability of brokers to accept commission compensation under a fiduciary standard, the Act also empowered the SEC to eliminate or restrict abusive practices.

**Should I Stay or Should I go?** A closer examination of survey respondents who would choose to retain their current compensation model and those who would move to a different model is revealing. An overwhelming majority of participants would prefer to move to fee-only or fee-based compensation and away from commissions. In fact, *the only participants who would choose the commission-only model as ideal are already in it, and then, notably, only 35% of these respondents* would retain this arrangement as their ideal choice.

In contrast, **nearly all fee-only advisors (97%) would stay in their current model.** Most fee-based participants, 64%, would remain fee-based, although 37% would move to fee-only. None would move to the commission-based or commission-only model.

### Ideal Compensation – by Current Compensation Model

8. If you could choose your ideal compensation model, what would be your preference?					
	What is your current compensation model?				Response Totals
	Fee Only	Fee Based	Fee/Commission	Commission	
Fee only	96.8% (152)	36.2% (17)	23.8% (29)	3.8% (1)	56.5% (199)
Fee-based (more fee revenue than commissions)	2.5% (4)	63.8% (30)	65.6% (80)	26.9% (7)	34.4% (121)
Commission-based (more commission revenue than fees)	0.0% (0)	0.0% (0)	10.7% (13)	34.6% (9)	6.3% (22)
Commission only	0.6% (1)	0.0% (0)	0.0% (0)	34.6% (9)	2.8% (10)

## How Much Revenue is Generated By Commissions?

Among the 55% of survey participants who receive commissions, one-third generate less than \$100,000, while 28% earn \$100,000-\$250,00 in commission revenue. Just 17% earn \$250,000-\$500,000 in commission income and another 22% earn more than \$500,000 in commissions – up from 8.6% in 2012.

**Only 16% of RIA/IARs receive commission revenue.** Of those, 53% make \$1-\$100,000 via commission revenue, down from 67% in 2012, while 23% make \$100,000-\$250,000 in commissions. Another 7% are at the \$250,000-\$500,000 level of commission compensation. Of note, in 2013, 17% of the small group of RIA/IARs who do receive commissions generate more than \$500,000 in commissions – up from 4.2% in 2012.

**Among registered reps, 98% generate commission income.** Broken down by income range, 36% earn less than \$100,000, down from 45% in 2012. Another 40% earn \$100,000-\$500,000 in commissions, and the remaining one-quarter (24%), earn more than \$500,000 in commissions annually – up from 13% in 2012.

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Of the 89% of dual registrants who receive commission income, 34% generate \$100,00-\$250,000 in commission income, while 23% earn less than \$100,000 annually, down significantly from 46% in 2012. The 43% of dual registrants earning more than \$100,000 in commissions are evenly split between the \$250,000-\$500,000 and over \$500,000 brackets.

Insurance producers are evenly split, one-third each, among the three income ranges for commissions: less than \$100,000, \$100,00-\$250,000 and over \$500,000.

9. What is your annual commission production level?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
\$1-\$100k	53.3% (16)	35.6% (16)	23.0% (14)	33.3% (1)	0.0% (0)	33.3% (47)
\$100-\$250k	23.3% (7)	20.0% (9)	34.4% (21)	33.3% (1)	50.0% (1)	27.7% (39)
\$250-\$500k	6.7% (2)	20.0% (9)	21.3% (13)	0.0% (0)	0.0% (0)	17.0% (24)
over \$500k	16.7% (5)	24.4% (11)	21.3% (13)	33.3% (1)	50.0% (1)	22.0% (31)

### Commissions as a Percentage of Income

**Commissions account for more than 50% of income for 42% of participants** who include commissions in their compensation model (55% of all respondents). Last year, only 22% received more than half of their annual revenue in commissions. In part this leap may result from the more diverse demographics this year with more registered reps, insurance producers and consultants weighing in. Two-thirds of insurance producers, 65% of registered reps, and 50% of insurance consultants derive more than half their annual revenue from commissions.

Among the 16% of participating RIA/IARs who earned commission income, commissions account for less than 10% of income for just over a quarter of respondents (28%). Notably, **commissions account for more than half of the income for roughly another quarter (24%) of RIA/IARs.**

10. What percentage of your annual revenue comes from commissions?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
1%-10%	27.6% (8)	8.7% (4)	4.8% (3)	0.0% (0)	0.0% (0)	10.5% (15)
11%-25%	24.1% (7)	10.9% (5)	23.8% (15)	0.0% (0)	0.0% (0)	18.9% (27)
26%-50%	24.1% (7)	15.2% (7)	39.7% (25)	33.3% (1)	50.0% (1)	28.7% (41)
more than 50%	24.1% (7)	65.2% (30)	31.7% (20)	66.7% (2)	50.0% (1)	42.0% (60)

## Upfront Payments to Financial Intermediaries

Upfront payments to financial intermediaries have been a topic of controversy for some time. Upfront payments are essentially financial incentives inducing an advisor to bring assets to a new firm. However, for many advisors there are strings attached, meaning bonuses must be repaid over a certain contract period or if the broker leaves before the contract expires. This traditional practice by brokerage firms raises important policy questions related to conflicts of interest under a fiduciary standard. What consequences do upfront payments have for investors, firms and the intermediaries? How do upfront payments affect the behavior of the broker and firm toward clients? Do bonuses incent intermediaries to sell more and costlier investment products to investors in order to meet the new production goals? In turn, do bonus programs create additional incentive for firms to create more expensive investment products? Does the system generate a vicious cycle for firms competing with each in the contest of aggregating the most assets? Is there any positive benefit to upfront payments? Do they avoid or manage conflicts differently from other advisors? Such questions could be the basis for a separate behavioral study.

This year we asked, for the first time, *“Have you ever received an upfront payment or bonus for moving from one broker or advisory firm to another?”* Only 14% of participants reported having received such a payment. Upfront payments are more typical at brokerage firms: 27% of registered reps, 23% of dual registrants, 20% of insurance producers and 6% of RIA/IARs state they receive this type of financial incentive.

### Upfront Payment or Bonus – by Registration

11. Have you ever received an up front payment or bonus for moving from one broker or advisory firm to another?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Yes	6.5% (12)	27.5% (14)	22.7% (22)	20.0% (1)	0.0% (0)	14.4% (49)
No	93.5% (172)	72.5% (37)	77.3% (75)	80.0% (4)	100.0% (3)	85.6% (291)

## Upfront Payments by Compensation Model

Most recipients of upfront payments currently work under the fee/commission model (27%), and fee-based model (20%). Smaller percentages of commission-only and fee-only participants also receive upfront payments.

11. Have you ever received an up front payment or bonus for moving from one broker or advisory firm to another?					
	What is your current compensation model?				Response Totals
	Fee Only	Fee Based	Fee/Commission	Commission	
Yes	3.8% (6)	19.6% (9)	26.7% (32)	11.5% (3)	14.3% (50)
No	96.2% (152)	80.4% (37)	73.3% (88)	88.5% (23)	85.7% (300)

## Upfront Payment: Advance, Loan or Bonus?

The majority of upfront payments are loans or advances. Looking at this by compensation model, of those who received these type of upfront payments, **100% of commission-only, 80% of fee-based, 73% of fee/commission and 57% of fee-only participants received upfront payments they had to pay back.** Just over one-quarter of the upfront payments are true ‘no strings attached’ bonuses; 43% of those went to fee-only participants.

12. Was the bonus payment an advance, loan, or true bonus?					
	What is your current compensation model?				Response Totals
	Fee Only	Fee Based	Fee/Commission	Commission	
Advance	28.6% (2)	20.0% (2)	12.1% (4)	33.3% (1)	17.0% (9)
Loan	28.6% (2)	60.0% (6)	60.6% (20)	66.7% (2)	56.6% (30)
Bonus	42.9% (3)	20.0% (2)	27.3% (9)	0.0% (0)	26.4% (14)

## Repaying an Upfront Payment

The 2013 Survey asked new questions about upfront payments because of the conflicts of interest present when an intermediary has to repay a loan or advance – an arrangement that requires increased revenue generated from clients in order to maintain the intermediary’s income status. Of the upfront payments that had to be repaid through higher production, **half of the participants report the loans or advances had to be repaid within 4-7 years. Another 26% had a shorter repayment period of 0-3 years,** and 24% were allowed 5-10 years to repay.

That revenue comes ultimately from fees and/or commissions generated from clients. If an intermediary generated \$1million in earned income at his previous firm, and received a 1x-revenue loan, payable over three years, that advisor would have to increase his revenue to \$1.3 million in each of the following three years to repay the advance. Such compensation practices generate heightened conflicts of interest that should be avoided or managed in the best interest of the investor.

The survey has identified are least five significant conflicts of interest in such arrangements:

1. The intermediary has to sell more, potentially higher commission or fee products and services to meet the repayment requirement.
2. Unless the client base rapidly expands, the original clients will be paying more in fees and are likely unaware that there is additional pressure on the advisor to generate new fees or commissions.
3. There is an incentive for firms to create higher fee and/or commission products order to enable the intermediary to meet the required repayment.
4. The increased cost of such products may carry a higher risk premium in order to compensate investors.
5. Some clients may have lower risk tolerance levels unsuitable for product placement.

13. If it was a loan or an advance, how long did you have to repay through higher production?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
0-3 years	25.0% (1)	27.3% (3)	26.1% (6)	0.0% (0)	0.0% (0)	26.3% (10)
4-7 years	75.0% (3)	45.5% (5)	47.8% (11)	0.0% (0)	0.0% (0)	50.0% (19)
5-10 years	0.0% (0)	27.3% (3)	26.1% (6)	0.0% (0)	0.0% (0)	23.7% (9)

### Amount of Upfront Payment

Among participants who received upfront payments (only 14% of respondents), most (59%) were paid less than 1x previous production. An additional one-third received 1-2 x previous production.

14. What was the amount of the payment?						
	How are you currently registered?					
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Less than 1 times previous production	46.2% (6)	64.3% (9)	62.5% (15)	0.0% (0)	0.0% (0)	58.8% (30)
1-2 times previous production	30.8% (4)	35.7% (5)	33.3% (8)	0.0% (0)	0.0% (0)	33.3% (17)
3 or more times previous production	23.1% (3)	0.0% (0)	4.2% (1)	0.0% (0)	0.0% (0)	7.8% (4)

### Which Standard Does Your Compliance Department Support?

Overall, 54% of participants report compliance support for the fiduciary standard of care, off slightly from 58% in 2012. This year, 8.5% say their firm supports only suitability – compared to 12.5% last year. Thirty-seven percent indicate support for both standards, up from 29% last year.

15. Which standard of care is supported by the compliance department of your firm?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Fiduciary standard	86.6% (142)	5.1% (2)	13.8% (12)	50.0% (1)	100.0% (2)	54.1% (159)
Suitability standard	1.2% (2)	38.5% (15)	9.2% (8)	0.0% (0)	0.0% (0)	8.5% (25)
Both	12.2% (20)	56.4% (22)	77.0% (67)	50.0% (1)	0.0% (0)	37.4% (110)

**Based on compensation method, compliance differences are more dramatic:** 91% of fee-only participant firms provide compliance support for the fiduciary standard and 8% provide support for both the fiduciary and suitability standards; less than 1% provided support for suitability alone. Among fee-based participants, 46% report compliance support for fiduciary standard alone and 51% support both, suggesting an evenhanded approach by compliance departments to both areas of regulation.

Fee/commission participants have support for both fiduciary and suitability-only compliance at 74% of firms, fiduciary-only at 14% and suitability-only at 12%. Among commission-only participants, compliance support for suitability is available at 63% of firms and 37% say their firm supports both suitability and the fiduciary standard.

15. Which standard of care is supported by the compliance department of your firm?					
	What is your current compensation model?				Response Totals
	Fee Only	Fee Based	Fee/Commission	Commission	
Fiduciary standard	91.0% (132)	45.7% (16)	13.7% (14)	0.0% (0)	53.8% (162)
Suitability standard	0.7% (1)	2.9% (1)	11.8% (12)	63.2% (12)	8.6% (26)
Both	8.3% (12)	51.4% (18)	74.5% (76)	36.8% (7)	37.5% (113)

## Restoring Investor Confidence

A clear majority of participants, *except registered reps without other regulatory affiliations*, believe a uniform fiduciary standard for brokers and advisers would help restore investor confidence. This year, 59% of respondents say it would help restore consumer confidence, down from 65% last year. However, there is skepticism in the individual comments submitted this year regarding doubts that regulators will make the new standard as tough as the old one, and actually enforce it. Registered reps disagree with the majority on this question: 71% believe that extending the fiduciary standard won't help restore consumer confidence.

16. Do you believe a uniform fiduciary standard for brokers and advisers that is "no less stringent" than what is currently required of registered investment advisers would help restore investors' confidence in financial service providers?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Yes	62.6% (102)	28.9% (11)	64.0% (55)	100.0% (2)	100.0% (2)	59.1% (172)
No	37.4% (61)	71.1% (27)	36.0% (31)	0.0% (0)	0.0% (0)	40.9% (119)

Individual comments from respondents on restoring investor confidence express support for the traditional standard, saying that executives running firms, too, need to act in the best interest of clients. Some express concern that if a uniform fiduciary standard were adopted it wouldn't be strong enough – as in “no less stringent” than the existing Investment Advisers Act fiduciary standard:

*RIA/IAR: “The solution is not a uniform fiduciary standard, but a more transparent representation of a broker or advisor's role in the client relationship. A broker should not be able to call himself a financial advisor if he is not held to a fiduciary relationship. Instead, his job title should be registered rep/ stockbroker/ insurance agent. If an advisor is fee-based, receiving commissions and fees, the standard that advisor should be held to is a fiduciary standard, which would eliminate the different "hats" of those professionals.”*

*Registered rep: “Investor confidence exists independently of the nature of the regulatory scheme we are subject to. As long as the industry continues to tolerate sales producers who are not able to put the customer ahead of themselves, then the industry's image will remain poor.”*

*Dual registrant: “The industry needs a more stringent fiduciary standard for not only brokers and advisors, but for the execs running the firms. They should also always act in the best interest of the client.”*

*RIA/IAR: “Absolutely - if investors actually understand the difference. Investors need to be confident that advisors are working for them and in their best interest. A fiduciary duty combined with total compensation transparency serves to build trust between client and advisor.”*

*Dual registrant: “A watered-down version of a fiduciary standard is just that: A less than full commitment to doing what is in the client's best interest above all else.”*

*RIA/IAR - former registered rep/insurance producer: “Wirehouse production pressure will cause reps to find loopholes or otherwise max. revenues. Public does not differentiate.”*

*RR/IAR: “I am deeply skeptical if it is possible to devise such a "rules-based" standard which is no less stringent than the "principles-based" standard currently applying to RIAs.”*

## Raising the Credibility of Financial Service Providers

Here, a larger majority of respondents (64%) say extending the traditional fiduciary standard to brokers would help raise the credibility of financial service providers. Across all registration types, with two exceptions, participants echo that sentiment. The exceptions are respondents registered solely as brokers (63%), and a minority of dual registrants (35%).

**17. Do you believe a uniform fiduciary standard for brokers and advisors that is "no less stringent" than what is currently required of registered investment advisers would raise the credibility of financial service providers?**

	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Yes	68.7% (112)	36.8% (14)	64.7% (55)	100.0% (2)	100.0% (2)	63.8% (185)
No	31.3% (51)	63.2% (24)	35.3% (30)	0.0% (0)	0.0% (0)	36.2% (105)

## Differentiating Products From Advice

The survey asks, **“Do you believe there needs to be clearer differentiation between product providers and advice providers?”** Overall, an overwhelming majority of 84% agrees with the statement. Agreement is widespread, although six out of ten broker-only registrants (63%) disagree. The inverse responses between RIAs/dual registrants and registered reps are not surprising: although the SEC’s broker-dealer exemption for fee-based advice was overturned by a federal court years ago, the SEC still permits registered reps to provide investment recommendations in exchange for commission income. Comments among participants were passionate on this subject:

*RIA/IAR: “That would help a LOT. I'd like to see non-RIAs precluded from saying or doing anything resembling advice giving, unless they were registered as advice-givers (i.e., RIAs). In other words, I favor elimination of the broker-dealer exemption.”*

*RIA/IAR: “Definitely, especially in the defined contribution market.”*

*Dual registrant: “Just hold everyone to a fiduciary standard.”*

*Registered rep: “Always being honest regarding what you do, how you go about doing it and how you are compensated will always be the differentiator.”*

*Registered rep: Yes, [differentiate products from advice] “BECAUSE YOU CANNOT- SHOULD NOT, separate the concept. The level of obligation to the customer is the same.”*

*RR/RIA (former dual registrant/insurance producer): “DIFFERENTIATION is critical. A so-called Uniform FS will NEVER be truly uniform, and the consumer will suffer, the IA community will lose a key DIFFERENTIATOR, the RR/BD community will be able to operate under the cover of "we're a fiduciary too" language while not really changing that much about their business practices except using a whole lot more forms and client sign-offs than they already do...”*

*RIA/IAR: “Product providers should not be allowed to hold out in a manner that implies an advice relationship, period. Nothing wrong with product providers, just shouldn't be allowed to pretend they're advisors.”*

*RIA/IAR: “Just as there are doctors and pharmacists, so should there be in this industry.”*

**Differentiating Product Providers From Advice Providers – by Registration**

18. Do you believe there needs to be clearer differentiation between product providers and advice providers?						
	How are you currently registered?					Response Totals
	RIA/IA	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Yes	93.8% (152)	53.8% (21)	78.8% (67)	100.0% (2)	100.0% (2)	84.1% (244)
No	6.2% (10)	46.2% (18)	21.2% (18)	0.0% (0)	0.0% (0)	15.9% (46)

**Title Confusion: Do Titles Imply a Fiduciary Relationship Exists?**

The majority of participants think so: **72% believe that the titles “advisor,” “consultant,” and “planner,” imply that a fiduciary relationship exists.** Once again, among participants compensated solely by commissions, 56% disagree. The number of **comments submitted by respondents indicates that this is a big issue for advisors:**

*RIA/RIA: “Not only the titles, but the whole marketing of the financial industry is based on that implied message.”*

*Registered rep: “Absolutely and anyone who doesn't should quit immediately. If I expect the car park/ the coat check to live to the bailment obligations - how nuts would I be to expect less than the best from someone dealing with my finances.”*

*RIA/IA: “You should not be able to deceive prospects by using these names. Get rid of them for everyone whom this not their true job. Personal bank brokers use these titles. We have to remove the big lobby money so we can truly manage the money.”*

*Registered Rep: “No I don't, I think discretion creates a fiduciary relationship, but again I think it's mostly semantics.”*

*RIA/IA: “The new euphemism is Wealth Management in order to pretend rather than comply with fiduciary standards.”*

*Dual registrant: “No – However, I believe that the permitted use of such terms without any earned credential and standards of practice to justify them is a known deception that promotes gross misunderstanding of a person's duties and/or actions.”*

*RIA/IA (former dual registrant): This implication is an intentional misrepresentation by many broker/dealers and their reps (many times as much to the reps as their customers), which causes erroneous inferences.*

*Registered rep: “No, but I am an insider, and understand what they are suppose to mean, not what the holder of the “Title” wants them to mean.”*

*Dual registrant: “Yes – why do you think the brokerage industry came up with these terms...broker sounds like Danny DeVito.”*

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*RIA/IAR: “An advisor/planner should be held to a fiduciary standard, while a broker/rep should be held to a suitability standard. If one calls himself an advisor or is fee-based/fee-only the entire relationship should be considered fiduciary.”*

*Registered rep: “Yes -- Titles are just that...marketing, which everyone puts too much emphasis on. Same with designations.”*

*RIA/IAR “Yes, it is VERY Misleading to the public.”*

*Registered rep: “Yes – The public generally understands the different titles as a meaningless distinction.”*

*RIA/IAR: “Yes – there are no rules or statutes regarding these words and they have been and will continue to be subject to misleading the public. These words are too generic and without a licensing and rigorous standard behind them (lawyer, CFP, CPA) then these words are generic and without universal clarity.”*

*Registered rep: “No – perhaps in the same vain as...waiter/waitress, or sommelier.”*

### Title Confusion – by Registration Type

19. Do you believe the titles “advisor,” “consultant,” and “planner” imply that a fiduciary relationship exists?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes		79.6% (129)	57.9% (22)	61.6% (53)	100.0% (2)	100.0% (1)	71.6% (207)
No		20.4% (33)	42.1% (16)	38.4% (33)	0.0% (0)	0.0% (0)	28.4% (82)

### Title Confusion – by Compensation Model

19. Do you believe the titles “advisor,” “consultant,” and “planner” imply that a fiduciary relationship exists?						
		What is your current compensation model?				
		Fee Only	Fee Based	Fee/Commission	Commission	Response Totals
Yes		81.1% (116)	70.6% (24)	62.0% (62)	44.4% (8)	71.2% (210)
No		18.9% (27)	29.4% (10)	38.0% (38)	55.6% (10)	28.8% (85)

## Availability, Costs and Choice for Investors – Correcting the Myths

The survey asks again this year: **“Do you believe that a fiduciary duty for brokers who provide retail investment advice would reduce product and service availability for investors?”** A strong majority of 68%, up from 65% last year, say no. Across each registration category, except those respondents registered only as brokers, and across all compensation models (again – except commission only respondents), *participants believe a fiduciary duty would not reduce availability*. Last year, registered reps were split 50%-50%; now, 55% of registered reps say extending the fiduciary standard to them would reduce product and service availability for investors.

Individual participant comments add detail to their responses. Some, including registered reps, RIA/IARs and dual registrants, say that certain products currently available are in conflict with a ‘best interest’ standard, while some go further in stating some are products that “nobody should be buying anyway.”

*Dual registrant: “Yes – hopefully we would see less of the commission loaded annuities and DPPs.”*

*Registered rep: “Yes, and it should. Some of the products can safely be eliminated where expenses are too high.”*

*RIA/IAR: “No, The products that no longer would be offered are products that nobody should be buying anyway.”*

*RIA/IAR: “No, What a load of horse manure. You'd lose proprietary, high-margin, useless product...but really, that would be so bad?”*

*RIA/IAR with >\$500 million AUM (former wirehouse dual registrant): “No – Rather, I believe that it would increase the availability of products and services. Prior to starting our fee-only RIA nearly a decade ago I worked in a wirehouse. We were often limited to products that the firm had selling arrangements with. No selling agreement - no luck for the client. Being fee only and not dependent on any indirect compensation from third parties, we actually have access to more products and services for clients.”*

*Attorney: “No – If the service is needed, the market will provide it. The real problem is that many clients are not looking for advice, they want professional management.”*

*Dual registrant: “No – I think that is just an excuse for the b/d industry and product providers.”*

*RIA/IAR: “While the entire universe of products may be reduced, most of the products that are useful will likely still be used.”*

*Dual registrant: “Because as it stands a suitability form alone allows most stock brokers to skirt and undermine true fiduciary duty.”*

*Industry Consultant: “No – There is the duty to act as a prudent expert in the client's best interest which may preclude the use of retail products commonly used under a suitability standard.”*

*Dual registrant: “It would only make retail brokers more accountable for what they sell.”*

*Registered rep: “Yes – because the poor dealers would slow down the bad products they require their brokers to market.”*

*RIA/IAR: “The internet is expanding availability of low cost, good advice to the masses.”*

*Attorney: “This argument, put forth by the financial services industry, is patently disingenuous and just another example of misleading the public.”*

**Product and Service Availability – by Registration**

20. Do you believe a fiduciary duty for brokers who provide retail investment advice would reduce product and service availability for investors?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes	23.4% (37)	55.3% (21)	38.4% (33)	0.0% (0)	0.0% (0)	31.8% (91)	
No	76.6% (121)	44.7% (17)	61.6% (53)	100.0% (2)	100.0% (2)	68.2% (195)	

**Product and Service Availability – by Compensation**

20. Do you believe a fiduciary duty for brokers who provide retail investment advice would reduce product and service availability for investors?						
		What is your current compensation model?				
		Fee Only	Fee Based	Fee/Commission	Commission	Response Totals
Yes	17.1% (24)	26.5% (9)	48.5% (49)	55.6% (10)	31.4% (92)	
No	82.9% (116)	73.5% (25)	51.5% (52)	44.4% (8)	68.6% (201)	

**Investors and the Cost of Advice**

The survey asks if participants believe it costs more to work with advisors who are fiduciaries than with brokers (who are generally not required to be fiduciaries) – when all costs are considered. Overall, a strong majority of participants (79%) say it does not cost more for investors to work with a fiduciary.

Although 91% of RIA/IARs and 73% of dual registrants agree that it doesn't cost more to work with a fiduciary, 59% of reps registered solely as brokers disagree.

**However, a significant minority of registered reps (40%) agrees with the majority of participants – that it does not cost investors more to work with an advisor who is a fiduciary:**

*RIA/IAR “No – Fiduciary advisors usually charge less than brokers when all costs are considered.”*

*Registered Rep: “No – It is the only standard of care there should be. Doesn't everyone expect that of their Doctor? Their elected officials? Isn't that why we get upset about corruption in government?”*

*RIA/IAR: “No -- That's nonsense....would love to see brokers participate in a cost comparison scenario.”*

*Dual registrant: “Brokers are dragging in 2.75-3.25%, or they're not working. Most advisors get all-in at less than 2%.”*

*Attorney: “Just because a cost is hidden does not mean it does not exist. There really is no free lunch.”*

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RIA/IAR: “I think business models will evolve to support smaller investors.”

Industry consultant: “Advisors who acknowledge fiduciary duty to the fullest are constructing client portfolios at 8 basis points. The truth is high cost packaged products which are not consistent with fiduciary duty are massively more expensive than expert fiduciary counsel. Importantly, while less expensive to the consumer, advisors have far higher margins than brokers.”

RIA/IAR: “No -- If fiduciary advice is more expensive due to potential liabilities, why are RIA E&O premiums cheaper?”

Dual registrant: “No -- I believe just the opposite.”

Registered rep: “No -- more visible but not more costly”

RIA/IAR: “No -- Hidden costs always result in higher fees. Transparency is good.”

21. Do you believe it costs investors more to work with fiduciary advisors than brokers when all costs to the investor (not only the advisor's compensation) are considered?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes		8.8% (14)	59.5% (22)	26.7% (23)	0.0% (0)	0.0% (0)	20.6% (59)
No		91.3% (146)	40.5% (15)	73.3% (63)	100.0% (2)	100.0% (2)	79.4% (228)

Looking at participants by compensation, 92% of fee-only, 97% of fee-based and 64% of fee/commission participants say **it does not** cost investors more to work with a fiduciary. The only compensation model in which participants say it costs more for investors to work with a fiduciary is the commission-only model – 76% of those compensated via the commission-only model say it costs more to work with fiduciary advisors.

21. Do you believe it costs investors more to work with fiduciary advisors than brokers when all costs to the investor (not only the advisor's compensation) are considered?						
		What is your current compensation model?				
		Fee Only	Fee Based	Fee/Commission	Commission	Response Totals
Yes		7.7% (11)	2.9% (1)	36.4% (36)	76.5% (13)	20.7% (61)
No		92.3% (132)	97.1% (34)	63.6% (63)	23.5% (4)	79.3% (233)

## Would the Fiduciary Standard Price Some Investors Out of the Advice Market?

We asked, as we have each year: *“Do you believe the fiduciary standard of care would price some investors out of the market for advice?”* Almost 69% say the fiduciary standard of care would not price some investors out of the market for investment advice.

### Price of the Fiduciary Standard of Care – by Registration

22. Do you believe a fiduciary standard of care would price some investors out of the market for investment advice?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes	17.2% (27)	73.0% (27)	40.7% (35)	0.0% (0)	0.0% (0)	31.3% (89)	
No	82.8% (130)	27.0% (10)	59.3% (51)	100.0% (2)	100.0% (2)	68.7% (195)	

Once more, those registered only as brokers, under the registered rep category above, disagree with the consensus of RIAs and dual registrants. In 2013, 73% of registered reps, vs. 59% in 2012, assert that if the fiduciary standard were extended to them it would price some investors out of the market for advice. This view reflects much of the comments by industry groups to the SEC opposing a traditional fiduciary standard.

One RIA respondent recognizes an opportunity if brokers abandon part of the advice market:

*RIA/IAR: “No – I’ll hire several CFP partners and some out of work advisors and take all of the clients that they don’t want. I will get my advisors certified through FI360 to make sure they are on board. There are also many online RIAs that cater to any size investor with diversified ETF and Dimensional fund portfolios.”*

### Price of the Fiduciary Standard of Care – by Compensation Model

22. Do you believe a fiduciary standard of care would price some investors out of the market for investment advice?						
		What is your current compensation model?				
		Fee Only	Fee Based	Fee/Commission	Commission	Response Totals
Yes	14.4% (20)	23.5% (8)	49.5% (50)	76.5% (13)	31.3% (91)	
No	85.6% (119)	76.5% (26)	50.5% (51)	23.5% (4)	68.7% (200)	

*Most participants agree it does not cost investors more, reduce product or service choice for investors, or price some investors out of the market for advice to work with an advisor who is a fiduciary than with a broker operating under the less stringent suitability standard.*

**Regulation – Fact or Fiction?**

Perceptions by advisors surrounding the current fiduciary standard for investment advisers suggest broad disagreement between broker-only reps and the combination of advisers and dual registrants with regard to product and service cost. Based on numerous court decisions in this area, more *than 90% of participants correctly assert that the fiduciary standard does not require advisors to recommend the lowest cost products and services.*

23. Do you believe the fiduciary standard requires advisors to only recommend the lowest cost products and services?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes	6.2% (10)	31.6% (12)	7.0% (6)	0.0% (0)	0.0% (0)	9.7% (28)	
No	93.8% (151)	68.4% (26)	93.0% (80)	100.0% (2)	100.0% (2)	90.3% (261)	

*When it comes to the question of whether commission compensation or recommending proprietary products makes it impossible to act in the client’s best interests, a slight majority (55%) says no..* In this instance, however, 60% of the RIA/IARs are in the minority on this issue. They believe commissions and recommending proprietary products are prohibitive to acting as a fiduciary.

24. Do you believe that receiving commissions and/or recommending proprietary products makes it impossible to act as a fiduciary?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes	59.7% (95)	13.9% (5)	32.2% (28)	0.0% (0)	0.0% (0)	44.8% (128)	
No	40.3% (64)	86.1% (31)	67.8% (59)	100.0% (2)	100.0% (2)	55.2% (158)	

By compensation model, 63% of fee-only participants are also in that camp. However, while commission compensation and recommending proprietary products were not prohibited under Dodd-Frank legislation, it did provide the SEC with the ability to prohibit certain industry practices if they are deemed harmful to investors.

24. Do you believe that receiving commissions and/or recommending proprietary products makes it impossible to act as a fiduciary?						
		What is your current compensation model?				
		Fee Only	Fee Based	Fee/Commission	Commission	Response Totals
Yes	63.1% (89)	45.7% (16)	24.0% (24)	23.5% (4)	45.4% (133)	
No	36.9% (52)	54.3% (19)	76.0% (76)	76.5% (13)	54.6% (160)	

## Fiduciary Knowledge and Training

Once more this year, *most participants would like more fiduciary knowledge and training*. When asked “**Do you believe that financial advisors registered under various laws are knowledgeable and trained to practice under the fiduciary standard?**” more than two-thirds of participants overall and the majority across all registration types, indicate that more training is desirable.

25. In general, do you believe that financial advisors registered under various laws are knowledgeable and trained to practice under the fiduciary standard?						
	How are you currently registered?					
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes	25.6% (41)	47.4% (18)	35.6% (31)	0.0% (0)	0.0% (0)	31.1% (90)
No	74.4% (119)	52.6% (20)	64.4% (56)	100.0% (2)	100.0% (2)	68.9% (199)

*Only participants in the commission-only model alone say advisors are knowledgeable enough* – while a strong majority of other compensation models say more training is necessary.

25. In general, do you believe that financial advisors registered under various laws are knowledgeable and trained to practice under the fiduciary standard?					
	What is your current compensation model?				
	Fee Only	Fee Based	Fee/Commission	Commission	Response Totals
Yes	23.4% (33)	25.7% (9)	36.6% (37)	61.1% (11)	30.5% (90)
No	76.6% (108)	74.3% (26)	63.4% (64)	38.9% (7)	69.5% (205)

## Conflicts of Interest and Disclosures

One of the most important distinctions between the fiduciary standard and the BD suitability standard is the approach to managing conflicts of interest and disclosing conflicts of interest. *Under the fiduciary standard, investment advisers must avoid conflicts, and where a conflict is unavoidable, disclose all material conflicts.* A somewhat higher percentage of RIA respondents (65%) to dual registrants (49.4%) and registered reps (52.6%) believe informing investors of conflicts and the advisor’s basis for recommendations is the primary role of disclosure.

*Under the suitability standard there is no duty to avoid conflicts of interest* – although conflicts of interest may be disclosed for specific products.

26. In general, what do you view as the primary role of disclosures in your practice?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Informing investors of products and conflicts so that they can make the best decisions	36.9% (59)	23.7% (9)	31.0% (27)	50.0% (1)	0.0% (0)	33.2% (96)
Informing investors of the rationale for your recommendation and advice	28.1% (45)	28.9% (11)	18.4% (16)	50.0% (1)	100.0% (2)	26.0% (75)
Make the compliance people happy	5.0% (8)	5.3% (2)	8.0% (7)	0.0% (0)	0.0% (0)	5.9% (17)
None of the above	6.3% (10)	0.0% (0)	3.4% (3)	0.0% (0)	0.0% (0)	4.5% (13)
All of the above	23.8% (38)	42.1% (16)	39.1% (34)	0.0% (0)	0.0% (0)	30.4% (88)

## Are Disclosures Enough?

When asked, “*Are disclosures alone sufficient to manage conflicts?*” a strong majority overall, 82%, and each type of advisor, agrees: *disclosures alone are not sufficient* to manage conflicts. Broken out, 85% of RIA/IARs, 76% of registered reps, and 80% of dual registrants concur.

27. Are disclosures alone sufficient to manage conflicts?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Yes	15.4% (25)	24.3% (9)	19.5% (17)	0.0% (0)	0.0% (0)	17.6% (51)
No	84.6% (137)	75.7% (28)	80.5% (70)	100.0% (2)	100.0% (2)	82.4% (239)

Sentiment that *disclosures alone are not sufficient to manage conflicts* extends across every compensation model.

27. Are disclosures alone sufficient to manage conflicts?					
	What is your current compensation model?				Response Totals
	Fee Only	Fee Based	Fee/Commission	Commission	
Yes	16.8% (24)	8.6% (3)	18.8% (19)	33.3% (6)	17.5% (52)
No	83.2% (119)	91.4% (32)	81.2% (82)	66.7% (12)	82.5% (245)

The question “Are disclosures alone sufficient to manage conflicts?” generated many comments:

*RIA/IAR: “Mitigating the conflict is a must.”*

*Dual Registrant: “No one reads the disclosures, they are too long and contain too much jargon and ‘fine print’.”*

*RIA/IAR: “Disclosures often require amplification to insure investors understand.”*

*Registered rep: “Very gray area.”*

*RIA/IAR: “Conflicts should be eliminated. If they cannot, then manage them with an informed consent by the client.”*

*RIA/IAR: “Advisors need to do their best to avoid the conflict in the first place. If the conflict can't be avoided, it needs to be explained in short, plain language - not fine print contract legalese.”*

*RIA/IAR: “Not all clients understand what to do with information disclosed. Some conflicts have to be avoided/eliminated...where the advisor may have to take unilateral action by not engaging the client or disengaging/terminating the client relationship.”*

*Dual registrant: “The disclosures are incomplete and the pressure from broker-dealers is stifling.”*

*RIA/IAR: “Current disclosures are CYA crap and meaningless to clients, unless they get unhappy. Then it is a case of who documented what best.”*

*RIA/IAR: “You must also do the right thing always.”*

*Registered rep: “They should be the ‘door opener’ to help explain the rationale of the recommendation.”*

## Investors' Knowledge Gap and the Importance of Fiduciary Advice

Numerous studies recognize that **investors do not understand the differences between investment advisers and compliance with a fiduciary standard, and registered reps' duty to comply with a suitability standard.** Studies over the years have confirmed that *investors believe the advice they get from their financial intermediary is in the investor's best interest.* Do investment advisers and brokers agree on this point? They sure do. Overall, more than **97% say investors do not understand the differences between brokers and investment advisers.** This very strong consensus carries through every compensation model.

28. Do you believe investors understand the differences between brokers and investment advisers?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes		1.8% (3)	7.7% (3)	2.3% (2)	0.0% (0)	0.0% (0)	2.7% (8)
No		98.2% (162)	92.3% (36)	97.7% (85)	100.0% (2)	100.0% (2)	97.3% (287)

## Ordinary Investors: A Critical Gap in Investment Knowledge

In addition, there is a significant knowledge gap between financial intermediaries and investors. *Can the ordinary investor, entrusting their retirement savings and financial wellbeing to the broker or advisor they engage, bridge this knowledge gap on their own?* More than 68% of all participants say **no, investors cannot bridge this gap.**

While 65% of RIA/IARs and 66% of registered reps say investors cannot bridge the investment knowledge gap, an even higher number of dual registrants (76%) say that **ordinary investors cannot bridge the knowledge gap.** The knowledge gap is recognized across all registration types and compensation models.

29. There is a large gap in the knowledge base between professional advisors and that of individual investors regarding investments and financial services. Can the ordinary investor bridge this gap?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes		34.8% (56)	34.2% (13)	24.4% (21)	50.0% (1)	0.0% (0)	31.5% (91)
No		65.2% (105)	65.8% (25)	75.6% (65)	50.0% (1)	100.0% (2)	68.5% (198)

## Does the Knowledge Gap Make Fiduciary Advice Much More Important?

“Does the ‘knowledge gap make fiduciary advice much more important for ordinary investors?’” Intermediaries think so. Though 83% believe that the knowledge gap makes fiduciary advice more critical to ordinary investors, the breakout by registration shows wider variation.

An overwhelming majority of RIA/IARs (91%), and dual registrants (78%), and a slight majority of registered reps (58%) believe that *the knowledge gap makes fiduciary advice much more important for ordinary investors*. This gap is so apparent, *the majority across all compensation models agrees*.

30. Does this 'knowledge gap' make fiduciary advice much more important for ordinary investors?						
	How are you currently registered?					
	RIAMAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes	90.6% (145)	57.9% (22)	78.2% (68)	100.0% (2)	100.0% (2)	82.7% (239)
No	9.4% (15)	42.1% (16)	21.8% (19)	0.0% (0)	0.0% (0)	17.3% (50)

## Enforcing the Fiduciary Standard

“Which regulator should enforce the fiduciary standard if extended to brokers who provide advice to investors?”

The common response, based on advisor registration, is connected to “the devil you know.” Overall, 48% say the SEC should enforce the fiduciary standard if extended to brokers, including 65% of RIA/IARs. However, 50% of registered reps and 48% of dual registrants are divided on the question, favoring FINRA for fiduciary enforcement. Broken out by compensation model, Fee-only and fee-based participants favored SEC enforcement of the fiduciary standard, if extended, while fee/commission and commission-only participants would opt for FINRA enforcement.

31. Which regulator should enforce the fiduciary standard if extended to brokers who provide advice to investors?						
	How are you currently registered?					
	RIAMAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
The SEC	63.4% (97)	29.4% (10)	27.8% (22)	0.0% (0)	0.0% (0)	47.8% (129)
FINRA	16.3% (25)	50.0% (17)	48.1% (38)	0.0% (0)	0.0% (0)	29.6% (80)
A separate SRO entity for advisors regulated under the fiduciary standard	20.3% (31)	20.6% (7)	24.1% (19)	100.0% (2)	100.0% (2)	22.6% (61)

## **Fiduciary and Suitability – What’s the Difference?**

The survey asks in Question 32: *“How would you describe the differences between the suitability standard and the fiduciary standard?”* The range of answers from those who took the time to reply runs the gamut from thoughtful and sincere, including some who appear to have a fundamental misunderstanding of the differences between the two. Here is a small sample of some of the more interesting comments:

*RIA/IAR: “Do for them what I would do for myself.”*

*Dual registrant: “Suitability is a minimum standard while fiduciary is fully in the clients' best interest.”*

*Registered rep: “Sales vs. advisor.”*

*RIA/IAR: “Every decision that is made must be in the best interest of the client under the fiduciary standard. Under the suitability standard, the recommendation must only be suitable for the client - not necessarily what is in the client's best interest. The broker's interest, the firm's interest, etc all have a bearing on recommendations under the suitability standard.”*

*Dual registrant: “Suitability standard is a lower standard of care.”*

*RIA/IAR: “The responsibility to work for the client as opposed to a third party. You work for the person who pays you. You can recommend things that are may be suitable but not in someone's best interest.”*

*Dual registrant: “Simple - a Fiduciary Standard means that the interests of the client come before all. I'm not sure whose interests are being served with a suitability requirement.”*

*RIA/IAR: “There should be no differences; however, a broker can sell a high commission product that is suitable rather than best.”*

*Dual registrant: “Caveat emptor vs. dealing with my mother.”*

*“One excludes only some of the worst choices and is outcome oriented. The other is process oriented and excluded far more bad outcomes.”*

*RIA/IAR: “Fiduciary – you must do what is in the clients best interest. Suitability – once I have determined there is a need for a category of product – I can sell the best or the worst – and get away with it.”*

*Dual registrant: “Put your clients first always, beginning, during and at the goal line versus it seemed appropriate at the time.”*

*RIA/IAR: “Suitability is a snapshot, fiduciary is on-going.”*

*Attorney: “Caveat emptor vs. a duty to protect.”*

*RIA/IAR: “Suitability standard just means that you can sell anything that isn't grossly unsuitable. ‘Not grossly unsuitable’ is MUCH different from ‘in their best interest’.”*

### A More Rigorous Fiduciary Standard: ERISA

For two years the survey has asked questions related to the fiduciary standard under ERISA. Why? Because the fiduciary standard under ERISA, with a clear statutory mandate that “*plan fiduciaries...act prudently and solely in the interest of plan participants and beneficiaries,*” is even more rigorous than the Investment Advisers Act of 1940 standard of fiduciary care.

When we asked, “*Do you agree in concept with the Labor Department's plan to propose a rule that would redefine "fiduciary" and expand the number of advisors who are considered fiduciaries under ERISA?*” a significant *majority of 61% agrees*, including RIA/IARs and dual registrants.

*In 2012, 56% of registered reps agreed as well. Not this year.* Though only 15% of participants are solely registered as brokers, they disagree emphatically – 6 of 10 say no. This may be related to the additional prohibitions on financial incentives for brokers under ERISA in contrast to disclosure of the same incentives that is permitted under securities laws, such as 12b-1 fees. The majority of reps registered solely as brokers (60.5%) disagreed with the proposed rule.

33. Do you agree in concept with the Labor Department's plan to propose a rule that would redefine "fiduciary" and expand the number of advisors who are considered fiduciaries under ERISA?						
	How are you currently registered?					Response Totals
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	
Yes	68.2% (101)	39.5% (15)	57.3% (47)	100.0% (2)	100.0% (1)	61.3% (166)
No	31.8% (47)	60.5% (23)	42.7% (35)	0.0% (0)	0.0% (0)	38.7% (105)

Based on compensation model, *fee-only and fee-based participants (70.8% and 82.4% respectively) agree with the Labor Department's plan to expand the number of advisors who would be fiduciaries under ERISA*, while *fee/commission (more commissions than fees) (52.1%) and commission-only participants (83.3%) disagree*. The dichotomy may be explained in part by the impact on the advisor’s business model, particularly if they are service providers to ERISA plans and are paid primarily by commission.

33. Do you agree in concept with the Labor Department's plan to propose a rule that would redefine "fiduciary" and expand the number of advisors who are considered fiduciaries under ERISA?					
	What is your current compensation model?				Response Totals
	Fee Only	Fee Based	Fee/Commission	Commission	
Yes	70.8% (92)	82.4% (28)	47.9% (46)	16.7% (3)	60.8% (169)
No	29.2% (38)	17.6% (6)	52.1% (50)	83.3% (15)	39.2% (109)

### Should the Same ERISA Fiduciary Standard Apply to IRAs?

Similar to support for extending the ERISA fiduciary standard to other service providers such as securities brokers, there is across-the-board agreement that *the same fiduciary standard that applies to 401(k) plans should also apply to advice on IRA accounts*. Overall, 72% of respondents – up from 70% in 2012 – and across every registration category and compensation model, agree.

Even though registered reps did not support inclusion of more advisors under the ERISA fiduciary umbrella, above, *two-thirds of registered reps support the same fiduciary standard that applies to 401(k) accounts for advice on IRAs*.

34. Should the same fiduciary standard that applies to 401(k) plans also apply to advice on IRA accounts?						
	How are you currently registered?					
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes	79.6% (125)	66.7% (24)	60.7% (51)	50.0% (1)	100.0% (2)	72.2% (203)
No	20.4% (32)	33.3% (12)	39.3% (33)	50.0% (1)	0.0% (0)	27.8% (78)

### Advice on Rollovers From 401(k) and IRA Accounts

Pro-fiduciary, consumer and labor organizations believe there is no more vulnerable point for a retirement investor than when advice is given on money rolled over from a retirement account. The survey asked, “*Should the fiduciary standard apply to investment advice on rollovers from 401(k) or IRA accounts?*”

Once again this year, **79% overall agree that the fiduciary standard should apply to rollovers**. This includes 91% of RIA/IARs, 61% of registered reps, and 63% of dual registrants.

35. Should the fiduciary standard apply to advice to investors on rollovers from 401(k) or IRA accounts?						
	How are you currently registered?					
	RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes	91.0% (141)	61.1% (22)	62.8% (54)	100.0% (2)	100.0% (2)	78.6% (221)
No	9.0% (14)	38.9% (14)	37.2% (32)	0.0% (0)	0.0% (0)	21.4% (60)

Broken out by compensation model, strong majorities include all but commission-only participants, who are on the bubble at 50-50. It may be that the conflicts of interest in the commission-only model preclude their support on this important question.

### Separating Advice From Sales: Can Sales and Fiduciary Advice Exist Separately?

Here is the opportunity to gauge intermediaries' views on whether the fiduciary standard of care for advice and/or money management, and suitability only for product sales, can coexist within the financial services industry. Overall support is higher than last year, 66% overall, up from 63% in 2012. Support was up from last year across every type of registration as well.

36. Is there room in financial services for the suitability standard to apply to sales only (investment information only, no personalized advice, all costs disclosed) and the fiduciary standard to apply to advice and/or money management?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Yes		63.9% (101)	68.6% (24)	65.9% (56)	100.0% (2)	100.0% (2)	65.6% (185)
No		36.1% (57)	31.4% (11)	34.1% (29)	0.0% (0)	0.0% (0)	34.4% (97)

Looking through the differing compensation models, all support this concept, commission-only participants most emphatically at 80% -- up from 56% last year.

36. Is there room in financial services for the suitability standard to apply to sales only (investment information only, no personalized advice, all costs disclosed) and the fiduciary standard to apply to advice and/or money management?						
		What is your current compensation model?				
		Fee Only	Fee Based	Fee/Commission	Commission	Response Totals
Yes		63.3% (88)	68.6% (24)	66.0% (66)	80.0% (12)	65.7% (190)
No		36.7% (51)	31.4% (11)	34.0% (34)	20.0% (3)	34.3% (99)

## Differentiating Fiduciary Versus Non-Fiduciary Roles

Clearly, *investors do not understand the differences between investment advisers, who are required under the fiduciary standard to put client’s interests first; and broker-dealer registered reps who, under suitability rules, do not have to put investor’s interests ahead of their own or their firm’s.* (See question 28.).

The survey asks: *“Which of the following ways are best to clearly differentiate fiduciary versus non-fiduciary roles to investors?”* Respondents were allowed to answer yes or no to each of the three options. Overall:

- A disclosure solution – 82% say yes, down from 86% in 2012.
- Separating sales and advice roles -- 67% overall favor separate firms with clearly differentiated purposes, up from 64% in 2012.
- Defining functions through titles – 60.0% agree, titles can be used as a differentiator, up slightly from 59.2% last year.

By registration, most participants indicate that *a combination of disclosure, titles and separate firms with clearly differentiated purposes are the best ways to differentiate fiduciary versus non-fiduciary roles to investors.*

RIA/IARs (80%) favor separate firms with clearly differentiated purposes for advice and sales; nearly three-quarters favor using disclosure, and 67% also would use titles to differentiate roles. Dual registrants strongly favor disclosure (92%), titles (56%), and separate firms, 54%.

On the other hand, *81% of reps registered only as brokers favor disclosure, but 62% say no to titles restrictions and 56% say no to separate firms as differentiators.* Some discrepancies show up, in comparing responses to related questions. When asked, “Are disclosures alone enough to manage conflicts?” in question 27, at least three-quarters of participants across all registrations – including registered reps – say no.

37. Which of the following ways are best to clearly differentiate fiduciary versus non-fiduciary roles to investors?							
		How are you currently registered?					
		RIA/IAR	Registered rep	Dually registered	Insurance producer	Insurance consultant	Response Totals
Titles	Yes	67.3% (99)	37.8% (14)	56.3% (45)	100.0% (2)	50.0% (1)	
	No	32.7% (48)	62.2% (23)	43.8% (35)	0.0% (0)	50.0% (1)	
		147	37	80	2	2	268
Disclosure	Yes	74.8% (110)	81.1% (30)	91.6% (76)	100.0% (2)	100.0% (2)	
	No	25.2% (37)	18.9% (7)	8.4% (7)	0.0% (0)	0.0% (0)	
		147	37	83	2	2	271
Separate firms with clearly differentiated purposes	Yes	79.7% (118)	44.1% (15)	54.5% (42)	50.0% (1)	50.0% (1)	
	No	20.3% (30)	55.9% (19)	45.5% (35)	50.0% (1)	50.0% (1)	

## 2013 fi360-ThinkAdvisor Fiduciary Survey

By compensation model, 82% of fee-only participants favor separate firms, 75% would use disclosure and 70% differentiate through titles. Disclosures were most popular as differentiators with 88% of fee-based participants, 87% of fee/commission and 89% of commission-only participants – 62% of whom say no to separate firms and 59% no to differentiating with titles.

37. Which of the following ways are best to clearly differentiate fiduciary versus non-fiduciary roles to investors?						
		What is your current compensation model?				
		Fee Only	Fee Based	Fee/Commission	Commission	Response Totals
Titles	Yes	70.5% (91)	50.0% (17)	52.7% (49)	41.2% (7)	
	No	29.5% (38)	50.0% (17)	47.3% (44)	58.8% (10)	
		129	34	93	17	273
Disclosure	Yes	75.4% (98)	87.9% (29)	87.4% (83)	88.9% (16)	
	No	24.6% (32)	12.1% (4)	12.6% (12)	11.1% (2)	
		130	33	95	18	276
Separate firms with clearly differentiated purposes	Yes	82.3% (107)	60.6% (20)	53.3% (48)	37.5% (6)	
	No	17.7% (23)	39.4% (13)	46.7% (42)	62.5% (10)	

The question of how to differentiate fiduciary versus non-fiduciary roles generated many strong opinions:

*RIA/IAR: “Non-fiduciaries should be prohibited from using titles or any other means to imply that they are objective advice-givers. Perhaps precluding them from having any title other than ‘salesperson’ would be useful. Prohibiting use of the word ‘advisor’, ‘consultant’, etc. from being used by salespeople might be useful.”*

*Dual registrant: “Only let investment advisors use the word advisor to describe themselves. The term ‘Financial Advisor’ has diluted the sanctity of the title.”*

*RIA/IAR: “Fiduciary means absolutely no conflicts at any time in any capacity or relationship.”*

*Industry consultant: “Reluctantly, separate firms. In fact every firm should be acting in the best interest of the investing public.”*

*RIA/IAR: “Call salesmen what they are salesmen, and call true advisors ‘advisors’.”*

*Registered rep: “All investment products and services should be provided under a fiduciary standard.”*

RIA/IAR: “Current situation allows confusion between practitioners in terms of titles and how the firms are portrayed. Disclosure is of limited use since most consumers do not read the material. This does not have to be hard although preserving the confusion is profitable to the commission based world.”

Dual registrant: “Titles would work if they were policed closely with real enforcement teeth.”

RIA/IAR: “Titles are a dime a dozen with no differentiation. Disclosures often get lost on page 472 of a prospectus – sure, you have complied with the letter of the law – but the client is still clueless.”

Registered rep: “I stopped using any title as it confusing to investors.”

RIA/IAR: “Put on the business cards for brokers...in plain English, they are sales professionals...and no way to mis-advertise. Public does not know that Investment Advisers cannot advertise and mislead...and they cannot defend against the brokerage industry who can advertise themselves as fiduciaries even though they are not...”

RIA/IAR: “Do away with dually registered brokers. It's hard enough for consumers to understand how a rep is paid. But when the consumer is paying and the rep is still being paid by the broker/dealer, the consumer has no hope of understanding.”

Dual registrant: “Conflicts of interest at corporate Investment Adviser make this very difficult. Talk to product person at the firm and the first thing out of their mouth is a recommendation to use the ‘strategic partners’ fund.’ Additional comp to broker-dealer and no additional service or performance to the client.”

RIA/IAR: “Put ‘Fiduciary’ in the title. (Only if there NOT different levels of Fiduciary care. Boy, would that be confusing).”

RIA/IAR: Devise clear language that makes sense to the consumer. The regulatory titles Registered Rep and Investment Advisor Rep confuse even the ‘financial advisors’ so registered. And be sure to get INSURANCE titles in on the act, too. Insurance Brokers have the duty to the client - how's that for confusing?!? When I started in the business in the 1990s our NYSE firm required the titles Investment Broker for RR's, and ONLY allowed IAR and DUAL registrants to use the title Investment Adviser deliberately spelled with an e.”

RIA/IAR: “I'm not sure people want to take the time to learn the differences between a brokerage firm employee and a Registered Investment Adviser. To most of the investing public, it's all the same. It's up to the individual adviser to educate as well as advise the general public.”

RIA/IAR: “Brokers should ONLY be allowed to use Sales Broker as a title.”

## **Additional Comments On the Fiduciary Standard**

For the final question, 38, the survey asks participants to add any comments they wish. Quite a few did. Here is a representative sampling:

RIA/IAR: “THIS MAY BE THE LAST CHANCE FOR THIS GENERATION. IT MUST GET DONE WITH THIS LEGISLATIVE BODY. WE HAVE TO HELP THE LARGE NUMBER OF CURRENT RETIREES RETIRE.”

Insurance producer: “Service and Engagement agreements should provide which role an individual plays.”

Dual registrant: “The confusion among the public is the titles. There used to be financial planners, insurance agents, stockbrokers. Now everyone is an ‘advisor’. Change that and much of the confusion goes away. As a CFP, I'm held, at least in principle, to a fiduciary standard. However, if I offer someone a commissioned

*product, and fully disclose expenses and any potential conflicts, I don't see how that's a breach of my fiduciary duty."*

*RIA/IAR: "Completely get rid of 'Suitability.' It's just a joke."*

*Dual registrant: "The fiduciary model is the model of the future. The old model is broken. Also, get rid of the "Pay-to-Play game. It's obfuscated from the client who ultimately pays the cost."*

*Registered rep: "You can't legislate morality. A culture, however, can influence it. Rules are also helpful when they teach or clarify."*

*Industry consultant: "Arbitration proceedings, which protect industry interests, not the interests of consumers and advisors, must be either removed from FINRA supervision or replaced so adjudication of disputes bring economic incentives for the industry to be less insular and more focused on the consumer and the advisor's well being."*

*RIA/IAR: "The problem began when brokers and insurance salesmen adopted titles which implied a fiduciary relationship. I would require a prominent sign by each broker's & insurance salesperson's desk, advertising, and contracts to state in big bold lettering: "I am a sales person, and am not required to place your interests ahead of my own."*

*Dual registrant: "These changes are long overdue, the big wirehouses should be ashamed for fighting the fiduciary standard"*

*RIA/IAR: "There is room for both types of advice. It is an issue of transparency and advertising."*

*Insurance consultant: "An advisor who engages in financial planning has to disclose those areas that do not apply to fiduciary standards - or adopt such a standard in that area."*

*RIA/IAR: "Fiduciary has a clear legal and professional meaning which cannot be abridged by historical privilege in hunting prey."*

*Dual registrant: "Our entire industry needs to operate under the Fiduciary standard. We need to weed out the churners & burners."*

*Attorney: "Good Lord. Just require that anyone selling investment product and/or providing investment advice to the public must always put the client's interests first. KISS."*

*RIA/IAR: "Let's stop appealing to the lowest common denominator and raise the bar."*

*Registered rep: "Are we not claiming we are worthy of the highest trust a client can give? It is a two way street."*

*RIA/IAR: I don't ever see the broker firms being willing to take on the Fiduciary Standard as it is defined in the 1940 Act – too much liability."*

*Insurance consultant: "Written policy statement - covering ALL aspects of financial planning work."*

*Dual registrant: "Until the insurance industry and securities agree to a common standard there will not be one that the consumer of financial services can rely on."*

*Registered rep: "Enforce the existing rules and that will eliminate many of the conflicts."*

*RIA/IAR: "I've been a registered investment adviser now since 2005. I would never go back to being a registered representative. The fiduciary standard demanded by the Registered Investment Adviser raises it to*

*the level of a profession placing the client's needs first and foremost at all times. A lot of what passes for brokerage might as well be taking pizza orders, or selling cars.”*

*Dual registrant: “Will GOP, responding to financial services industry pressure, dilute the fiduciary standard sought to be imposed?”*

*RIA/IAR: “Commission based advisors, generally, have no problem with fee based advisors. I find it difficult – and sometimes offensive, that fee-based advisors seem to impugn the motives of commission based advisors and do not want to “harmonize” the two standards but lean much more to imposing the fiduciary standard – a standard that has never stopped folks like Bernie Madoff from fraud. I have been in business for 44 years and 2000 clients and I don't think any of them would have felt better served if I had ‘fiduciary standard believer’ stamped on my forehead!”*

*Registered rep: “Trying to create a ‘black or white’ standard should be avoided. Investing, planning (e.g. financial, estate, tax, etc) and needing help (aka advice) cannot be pigeon-holed into any one regulatory regime or into any particular business model.”*

*Dual registrant: “Maintaining the difference between advisors/fiduciary standard and brokers/suitability provides the best opportunity for those that want to pick up the fiduciary mantle and keeps choice alive. Squeezing everyone in to one mold will have unintended consequences.”*

*Unaffiliated: “All issues must be client performance centered. Charging money for commission and fees to achieve marginal outcomes should not be rewarded. The SEC should please enforce regulatory authority. Advisors should be graded just like a credit report concept for individuals. Be accountable or you will be out of business.”*

*RIA/IAR: “It is pretty clear that Wall Street has not provided the necessary enabling resources [(a) expert authenticated prudent investment processes that make it safe for brokers to acknowledge they render advice and serve in a fiduciary capacity, (b) advanced technology that facilitates transparency, more sophisticated approaches to portfolio construction and continuous comprehensive counsel required for fiduciary standing, (c) work flow management tied to a functional division of labor (advisor, CAO, CIO) which makes advice scalable, easy to execute and manage, and (d) conflict of interest management so it is possible to act in the best interest of the consumer. This is a failure [of] leadership that requires an external regulatory catalyst to make advice safe, scalable, easy to execute and manage as a high margin business at the advisor level, which restores the trust and confidence of the investing public.”*

### Conclusions

Most participants agree it does not cost investors more to work with a fiduciary advisor. Nor do they believe imposing a fiduciary standard on brokers will reduce product or service choice for investors, or price some investors out of the market for advice.

When it comes to selecting a financial intermediary, participants say investors do not have the information they need to make an informed choice of advisor. Much more needs to be done, according to the most recent survey of advisors, to clarify the roles of advisors and other financial intermediaries, primarily through titles, firm purpose and disclosure of conflicts. There may be additional elements that can be incorporated into differentiating fiduciary versus non-fiduciary advice to investors. Nearly all participants strongly agree on one thing, however: Disclosure alone is insufficient.

Compensation models provide important insights into how intermediaries interact with investors. While the Dodd-Frank Act permits commission compensation under a fiduciary standard, most commission-only and fee/commission (more commissions than fees) would prefer to be fee-based (more fees than commissions) or fee-only than rely solely on commission income. In addition, commission-only and fee/commission participants are less supportive of a fiduciary standard, while fee-only and fee-based participants are generally very supportive.

Participants agree that the gap in knowledge between financial intermediaries and regular investors exists; it is significant, difficult to close, and makes advice from a fiduciary that much more critical.

Intermediaries in this study agree that the same fiduciary standard – ERISA – which applies to advice to 401(k) account holders, should also apply to IRAs and rollovers from 401(k) and IRA accounts.

These findings from financial intermediaries in the field working directly with investors every day provide unique insights that shed light on a sometimes intense and vitriolic debate over the appropriate standard for retail investment advice.

By benchmarking key questions from the survey, fi360 and ThinkAdvisor believe these opinions will shed light on some of the key questions in the policy debate as the SEC and DOL consider implementation of new rules.

### **About fi360**

fi360 offers a comprehensive approach to investment fiduciary education, practice management and support that has established them as the go-to source for investment fiduciary insights. With substantiated Practices as the foundation, fi360 offers world-class fiduciary Training/Education, Tools and Resources that are essential for fiduciaries and those who provide services to fiduciaries to effectively and successfully manage their roles and responsibilities. Fi360 assists those who rely on their fiduciary education programs, professional AIF® and AIFA® designations, Web-based analytical and reporting software and resources to achieve success. For more information about fi360, please visit [www.fi360.com](http://www.fi360.com) or Twitter: @fiduciary360.

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### **About FiduciaryPath**

FiduciaryPath offers fiduciary consulting and assessments for firm certification by the Centre for Fiduciary Excellence (CEFEX), for investment advisers, investment managers and investment stewards – investment committees, retirement plan fiduciaries, foundations, endowments and family offices, to ensure that they are aware of their fiduciary responsibilities and that their investment process is managed to an appropriate fiduciary standard of care. For more information about FiduciaryPath, please visit [www.Fiduciarypath.com](http://www.Fiduciarypath.com) or contact [KMcBride@FiduciaryPath.com](mailto:KMcBride@FiduciaryPath.com)

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