Seeking Trustworthy Advice For Individual Investors

Financial Intermediaries Indicate Strong Support for Fiduciary Standard

Findings of the 2015 fi360 Fiduciary Standard Survey

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Executive Summary

More than five years have passed since the U.S. Treasury proposed sweeping reforms to financial services, and extending the fiduciary standard to include all who provide investment advice to individual investors. A year later Congress empowered the Securities and Exchange Commission (SEC) to study and extend the fiduciary standard to include brokers who provide personalized advice to retail investors. In 2011, SEC staff recommended that the fiduciary standard be extended to brokers. In 2014 the SEC's Investor Advisory Committee recommended:

> The Investor Advisory Committee believes that personalized investment advice to retail customers should be governed by a fiduciary duty, regardless of whether that advice is provided by an investment adviser or a broker-dealer. The Committee further believes that the fiduciary duty for investment advice should include, first and foremost, an enforceable, principles-based obligation to act in the best interest of the customer. In approaching this issue, the SEC's goal should be to eliminate the regulatory gap that allows broker-dealers to offer investment advice without being subject to the same fiduciary duty as other investment advisers…

The issue at hand is two-fold: investors can't discern the differences between potential providers and the playing field is uneven for those professionals. Titles such as 'advisor,' 'counselor,' 'consultant,' or 'wealth manager' are now ubiquitous amongst both those who are in sales roles and those who provide advisory services. This makes it very difficult for ordinary investors to discern whether they are working with a salesperson who is subject to a BD-suitability or sales standard, or an investment adviser who is subject to a fiduciary duty to put the investor's interest ahead of their own and their firm's.

Adding to investor confusion, SEC permits brokers to provide 'advice' that is "incidental to a sale" of securities products, but that "advice" is not subject to the fiduciary standard and does not have to be in the investor's interest, whereas advice from an investment adviser is always subject to a fiduciary standard, and must be in the investor's interest. These policies create opacity rather than transparency. Media and legislators often refer to virtually all financial intermediaries as "advisor," adding to investors' confusion.

In this environment, fi360 and FiduciaryPath have, for the fourth year, surveyed investment advisers and brokers about their attitudes regarding the fiduciary standard. The survey gauges financial intermediaries' opinions on the fiduciary standard and their understanding of what the fiduciary standard means now, and as they work with investors in the future. The survey was open to all brokers, investment advisers and, 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.

The fiduciary model works for advice and money management – registered investment advisers have been profitably providing advice that's in the best interest of their clients since 1940. However opponents of the fiduciary standard say some brokers would leave the industry, or charge investors more for advice, or wouldn't work with small investors if regulators extended the fiduciary standard. Findings of the fi360 Fiduciary Standard Survey do not substantiate those fears.

Key Findings

The survey's results flatly refute the implication that it costs more to work with an adviser who puts the investor first, or that smaller investors would be shut out of the market for fiduciary advice. Does it cost investors more to work with a fiduciary? No, according to financial intermediaries working with client investors every day. In fact, survey participants say the opposite is true – that operating under the higher standard saves clients money. They say the fiduciary standard does not cost investors more, or reduce product or service choice, or price some investors out of the market for investment advice compared to a broker operating under the less stringent suitability standard:

- Nearly 91% say no, it does not cost more to work with a fiduciary advisor than a broker.
- 83% say no, a fiduciary standard would not price investors out of the market for advice.
- 78% say no, fiduciary duty for brokers who provide advice would not reduce investor access to products or services for investors.

It's well established, as 97% said last year, that investors don't understand the differences between brokers and investment advisers. Much more needs to be done to clarify roles of intermediaries, through titles, firm purpose and transparency, participants say: Who is a fiduciary and who is a salesperson? Disclosures alone are not sufficient. When selecting a financial intermediary:

- 96% say clearer differentiation between product providers and advice providers is necessary
- 72% say the titles *"advisor," "consultant," and "planner" imply that a fiduciary relationship exists*
- 84% say disclosures alone are not enough to manage conflicts of interest.

The fiduciary standard under ERISA is even more rigorous than in the Investment Advisers Act of 1940. Yet, 74% of survey participants agree in concept with the Labor Department's plan to propose a rule that would expand the number of advisors who are considered fiduciaries under ERISA. And there's more:

- 91% say yes, the fiduciary standard should apply to advice to investors on rollovers from 401(k) accounts to IRA accounts. That's up from 79% in 2013.
- Nearly 82%, up from 72% in 2013, say **the same fiduciary standard that applies to 401(k) accounts should also apply to advice on IRA accounts.**

This year, there is no blanket 'advisor' moniker to describe financial intermediaries. The report draws a distinction between registered investment advisers (RIAs), who are by law fiduciaries, and other intermediaries who are not fiduciaries. The survey report refers to the survey respondents by their individual categories – broker-dealer (BD) registered reps, registered investment advisers or investment adviser reps as RIA/IARs, dual registrants, dual registrants plus insurance, and insurance producer or consultant.

For the first time, we conducted the survey without a media partner and would like to thank the many associations, firms and individuals who invited their own circles of intermediaries to complete the survey. We also appreciate the efforts of the 609 survey respondents, from a wide spectrum of financial services business models, who took the time to complete the survey from April through June 2014.

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Editor
2015 fi360 Fiduciary Standard Survey

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Findings and Observations – Participant Composition

Through the four years fi360 and FiduciaryPath have conducted and reported findings of the fi360 Fiduciary Standard Survey, the goal has been to encourage all types of financial or investment intermediaries to participate. Past respondents are always invited to participate again (if they have provided an email address), and we invite participation via media, associations, email lists and social media. The survey is a snapshot of participants' opinions about the fiduciary standard, and is not a random survey designed to reflect statistical accuracy of the opinions of financial intermediaries in general.

The survey was conducted from April through June 2014, and was open to all brokers, investment advisers and 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. There were 609 participants in this year's survey.

A higher percentage of RIA/IARs participated this year (85%), compared to 53% in 2013. There are fewer dually registered and dually registered-plus insurance respondents, 11% vs. 29% in 2013, and registered reps, 3% vs. 15%. Insurance consultants and insurance producers constitute less than 1% of respondents. These are important groups and we encourage more participation by insurance consultants and producers. We include results for this very small set of participants throughout the report but do not comment on them because of the small size of this respondent category.

We look at results overall, by registration type, and by compensation model. This year, we have made a distinction between "dually registered" (those who are affiliated with both broker-dealer and investment adviser firms) and "dually registered-plus insurance" respondents, to more finely gauge similarities or differences in attitude. In addition, we have simplified the compensation models. Previously we had fee-only, fee/commission (more fees than commissions), commission/fee (more commissions than fees), and commission-only. We've streamlined these categories, so any combination of fees and commissions now falls into only one fee/commission category.

How are you currently registered?

Answer Options	Response Percent
RIA/IAR	85.2%
Registered rep	3.2%
Dually registered	2.0%
Dually registered plus insurance	9.2%
Insurance producer	0.2%
Insurance consultant	0.2%

Because the majority of respondents work in a fiduciary environment, overall opinions recorded in this survey can be expected to reflect those of investment advisers, rather than broker-dealers or insurance producers. However, we examine responses by registration type and compensation model to better understand the opinions within each group.

Analyzing registration type by compensation model, nearly all fee-only respondents (97%) are RIA/IARs. Fewer respondents report working in the fee/commission model, but of those in the fee/commission model, 47% are dually registered-plus insurance, 34% are affiliated with an investment adviser firm RIA/IAR, 11% are affiliated with a broker-dealer, and 6% with both a BD and RIA. There are very few commission-only survey participants this year. As with insurance producers and consultants, above, we include the results for commission-only respondents throughout the report but do not generally comment on them because of the small sample in this category.

Current Registration – By Compensation Model

	RIA/IAR	Registered Rep	Dually Registered	Dually Registered plus Insurance	Insurance Provider	Insurance Consultant
Q10: Fee Only	97.42% 453	0.86% 4	0.86% 4	0.86% 4	0.00% 0	0.00% 0
Q10: Fee/Commission	34.58% 37	11.21% 12	6.54% 7	46.73% 50	0.00% 0	0.93% 1
Q10: Commission Only	0.00% 0	33.33% 1	0.00% 0	33.33% 1	33.33% 1	0.00% 0

Movement Within the Industry

The survey looks each year at movement across all types of registration, asking: ***"How have you previously been registered?"*** *(Check all that apply.)* Of respondents who are now RIA/IARs, almost 25% were once registered reps, 16% previously were dually registered-plus insurance, and 13% were once dually registered. Almost 30% of registered reps were previously insurance producers. Two-thirds of dual registrants were previously registered reps, while 58% at one time were RIA/IARs. Half of dually registered-plus insurance respondents were previously registered reps.

Prior Registration Type (Across the Top) - By Current Registration Type (Left Column)

	RIA/IAR	Registered Rep	Dually Registered	Dually Registered plus Insurance	Insurance Provider	Insurance Consultant
Q1: RIA/IAR	66.33% 327	24.95% 123	12.98% 64	15.82% 78	12.37% 61	1.01% 5
Q1: Registered Rep	11.76% 2	70.59% 12	11.76% 2	11.76% 2	29.41% 5	5.88% 1
Q1: Dually Registered	58.33% 7	66.67% 8	41.67% 5	50.00% 6	16.67% 2	0.00% 0
Q1: Dually Registered plus Insurance	32.73% 18	49.09% 27	21.82% 12	70.91% 39	30.91% 17	1.82% 1
Q1: Insurance Producer	0.00% 0	0.00% 0	0.00% 0	0.00% 0	100.00% 1	0.00% 0
Q1: Insurance Consultant	100.00% 1	100.00% 1	100.00% 1	100.00% 1	100.00% 1	100.00% 1

As in past years, survey respondents are a seasoned group. We asked: ***"How many years of professional experience do you have?"*** More than 63% overall have more than 15 years of professional experience and almost one-third have more than 25 years of professional experience.

Answer Choices	Responses
5 years or less	4.89%
6-14 years	31.70%
15-25 years	31.70%
more than 25 years	31.70%

Professional Designations

This year we asked a new question: ***"Which designations do you hold?"*** The certified financial planner™ professional designation is the most widely held designation among survey respondents. More than 81% indicate they are CFP® practitioners. The Accredited Investment Fiduciary™ or AIF® designation is held by 19% of respondents. *

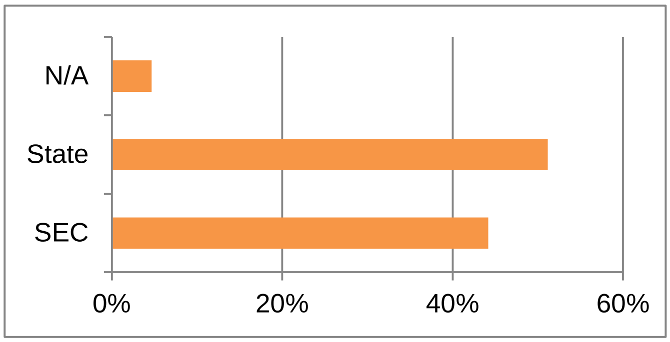
Answer Choices	Responses
AIF	19.29%
AIFA	5.12%
CFA	8.86%
CFP	81.30%
CHFC	9.25%
CIMA	1.97%
CLU	7.18%
CPA/PFS	10.43%
CPWA	0.79%
CRPS	3.15%
Total Respondents	508

*fi360 provides training and accreditation for the AIF® and AIFA® designations and has for the past four years been a partner in this survey.

State vs. SEC Registration for Registered Investment Advisers

In 2010, Congress increased the threshold for adviser registration with the Securities and Exchange Commission (SEC). Prior to this increase, investment adviser firms with more than $25 million in assets under management (AUM) were generally required to register with the SEC. Now, firms with more than $100 million in AUM are generally required to register with the SEC, while firms with less than $100 million in AUM are generally required to register with the states in which they have clients. The purpose of this higher threshold is to increase the frequency of SEC's examination cycle of federal registrants. As a result, several thousand RIAs de-registered from the Commission. To reflect these changes, we asked, ***"If you are affiliated with an RIA, is it a state-registered or SEC-registered firm?"*** A bare majority of respondents who are affiliated with an RIA firm say their firm is state-registered, 51%, while 44% are SEC registered. Both state and SEC-registered adviser firms are generally subject to similar fiduciary and related disclosure requirements.

RIA-affiliated Respondents: State or SEC Registration



Looking at the data cross-tabbed by registration type, slightly more IARs are affiliated with firms that are state-registered, 57%, than with SEC-registered firms. Most of the IARs who indicated that their RIAs are state-registered are likely to be independent, meaning their RIAs have no affiliation with independent broker-dealers or investment banking firms that generally are required to register their adviser affiliates with the SEC. For example, more than 76% of dually registered-plus insurance respondents, and 58% of dually registered respondents are affiliated with RIA firms that are SEC-registered.

RIA-Affiliated Respondents: By State or SEC Registration

	SEC	State	N/A
Q1: RIA/IAR	41.67% 210	57.54% 290	0.79% 4
Q1: Registered rep	33.33% 5	20.00% 3	46.67% 7
Q1: Dually registered	58.33% 7	33.33% 4	8.33% 1
Q1: Dually registered plus insurance	76.36% 42	16.36% 9	7.27% 4
Q1: Insurance producer	0.00% 0	0.00% 0	100.00% 1
Q1: Insurance consultant	0.00% 0	0.00% 0	100.00% 1

By compensation model, most fee-only survey participants, 57%, are affiliated with state-registered RIAs while most fee/commission respondents, 69%, are affiliated with SEC-registered firms. The tendency to a greater concentration of fee-only IARs in state-registered firms further reinforces the view that the smaller firms tend to be independent.

RIA Firm: State or SEC Registration - By Compensation Model

	SEC	State	N/A
Q10: Fee only	40.80% 193	56.66% 268	2.54% 12
Q10: Fee/Commission	60.58% 63	27.88% 29	11.54% 12
Q10: Commission only	33.33% 1	0.00% 0	66.67% 2

Regulatory Oversight

There has been a great deal of industry discussion following the 2009 Madoff scandal comparing inspection cycles of RIAs to broker-dealers. Although Madoff was principally a BD, the Ponzi scheme occurred in his RIA. Partly in response to that as well as the rapid growth in the number of RIAs registered with the SEC, in 2010 Congress increased the original registration threshold of $25 million to $100 million, thereby reducing the number of RIAs subject to federal oversight and easing the SEC's resource problem. According to the SEC, the average inspection cycle of federal RIAs is about once every 11 or 12 years, while FINRA's inspection cycle of BDs is about once every two years. Overall, IARs appear to have experienced an inspection cycle that appears to be more in line with the traditional once-in-five-years cycle used by the SEC.

In 2014, the survey posed a new question: ***"If you are affiliated with an RIA, how many times in the last 10 years has your office been subject to surprise inspections by your regulator?"*** Almost 52% of dually registered-plus insurance, 51% of RIA/IARs and 45% of dual registrants indicate they had no surprise inspections by their regulator in the past 10 years. However, 39% of RIA/IARs – more than any other registration type – indicate they've been surprised by their regulator 1-2 times in the last 10 years, as have 37% of registered reps, 27% of dually registered, and 24% of dually registered-plus insurance respondents.

Surprise Inspections - By Registration Type

	0	1-2 times	3-4 times	>5 surprise inspections	N/A
Q1: RIA/IAR	51.30% 257	39.12% 196	4.39% 22	.40% 2	4.79% 24
Q1: Registered rep	6.25% 1	37.50% 6	6.25% 1	0.00% 0	50.00% 8
Q1: Dually registered	45.45% 5	27.27% 3	9.09% 1	0.00% 0	18.18% 2
Q1: Dually registered plus insurance	51.85% 28	24.07% 13	3.70% 2	0.00% 0	20.37% 11

Similarly, while nearly half of fee only, and fee/commission respondents say they have *not* had a surprise visit by their regulator on the past 10 years, **40% of fee-only respondents – more than any other compensation model – have had 1-2 surprise regulatory visits**, as have 33% of commission only and 27% of fee/commission respondents.

Number of Surprise Inspections - By Compensation Model

	0	1-2 times	3-4 times	>5 surprise inspections
Q10: Fee only	49.36% 233	39.62% 187	4.24% 20	0.42% 2
Q10: Fee/Commission	46.60% 48	27.18% 28	4.85% 5	0.00% 0
Q10: Commission only	0.00% 0	33.33% 1	0.00% 0	0.00% 0

Assets Under Management

Each year the survey asks the amount of assets under management (AUM). This year we revised the question to ensure we received the AUM for which the individual respondent has direct supervision rather than the firm's overall AUM. ***"What are the assets under management that you oversee directly?"*** Approximately 87% of respondents had direct oversight of assets ranging from zero to $249 million; with 52%, reporting AUM of $50 million or under.

Managing the Assets: Across All Participants

Participant AUM (millions)	<50	$50-$99	$100-$249	>$250	>$500	>$1 billion
2014	51.7%	17.1%	18.3%	7.0%	3.2%	2.4%
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%

Most RIA/IARs, 55%, have $50 million or less in AUM and another 17% have $100-$249 million under management. Half of the registered reps report AUM of less than $50 million. Dually registered-plus insurance respondents are more evenly distributed in the first three AUM brackets, with 30% in the under $50 million AUM, 26% in the $50-$99 million AUM, and 30% in the $100-$249 million AUM brackets.

Managing the Assets – By Registration Type

	<50 million	$50-$99 million	$100-$249 million	$250 mm-$500 mm	$500 MM-$1 billion	>$1 billion
Q1: RIA/IAR	54.68% 263	15.59% 75	17.46% 84	7.07% 34	3.12% 15	2.08% 10
Q1: Registered rep	50.00% 9	27.78% 5	5.56% 1	5.56% 1	5.56% 1	5.56% 1
Q1: Dually registered	33.33% 4	33.33% 4	25.00% 3	0.00% 0	8.33% 1	0.00% 0
Q1: Dually registered plus insurance	29.63% 16	25.93% 14	29.63% 16	7.41% 4	3.70% 2	3.70% 2

Across compensation models, AUM percentages decrease as asset brackets increase. The exception is the $100 million to $249 million bracket, something of a sweet spot, capturing 20% of fee/commission respondents and more than 18% of fee only respondents.

Managing the Assets - By Compensation Model

	<50 million	$50-$99 million	$100-$249 million	>$250 million	>$500 million	>$1 billion
Q10: Fee only	52.38% 242	16.88% 78	18.18% 84	7.14% 33	3.03% 14	2.38% 11
Q10: Fee/Commission	47.66% 51	18.69% 20	19.63% 21	7.48% 8	3.74% 4	2.80% 3
Q10: Commission only	50.00% 1	0.00% 0	50.00% 1	0.00% 0	0.00% 0	0.00% 0

Compensation

Compensation is very important when it comes to the fiduciary standard, because variable forms of compensation create multiple conflicts of interest. The investor always pays the compensation to intermediaries, whether directly or indirectly – depending on the business model. The type and amount of compensation, and conflicts of interest caused by some types of compensation are very important to investor outcomes. The SEC and other regulators often require disclosure of compensation that creates material conflicts of interest in the client relationship.

Past surveys included two categories of blended fee and commission compensation: fee-based, defined as predominantly fee revenue with some commission revenue, and commission/fee compensation, defined as more commissions with some fee revenue. There has also been confusion in the investment industry over how “fee only” and “fee-based” descriptions are used by intermediaries to describe their compensation. This year, the survey offered only three compensation model categories: fee-only (no commissions), fee/commission (any blend of fees and commissions) and commission-only.

We asked: ***“What is your current compensation model?”*** The **majority of respondents overall, 81%, indicate they are compensated by fees alone**. Another 18% are compensated by a combination of fees and commissions, while less than 1% are commission-only.

By registration type, **92% of RIA/IAR respondents say they are fee-only,** while 7.5% are fee/commission. Flipping the model, **91% of dually registered-plus insurance respondents are compensated via fees/commissions** and 7% are fee-only. Most **registered reps, 71%, and dual registrants, 64%, are in the fee/commission model**, while **23% of registered reps and 36% of dual registrants report that they are fee only**. Very few respondents are compensated solely by commissions: less than 6% of registered reps and less than 2% of dually registered-plus insurance respondents are commission only.

Current Compensation Model - By Registration

	Fee Only	Fee/Commission	Commission Only
Q1: RIA/IAR	92.45% 453	7.55% 37	0.00% 0
Q1: Registered rep	23.53% 4	70.59% 12	5.88% 1
Q1: Dually registered	36.36% 4	63.64% 7	0.00% 0
Q1: Dually registered plus insurance	7.27% 4	90.91% 50	1.82% 1
Q1: Insurance producer	0.00% 0	0.00% 0	100.00% 1
Q1: Insurance consultant	0.00% 0	100.00% 1	0.00% 0

How Much Revenue is Commission Revenue?

“If you do receive commissions, what is your annual commission production level?” More than **80% of survey respondents answered N/A –** not applicable. Of the 20% of survey participants in the minority who do receive commission revenue, most, **12% of participants overall, earn $1 to $100,000 annually** from commissions. **Another 4.4% receive $100,000 to $250,000 annually in commissions; 1.7% receives $250,000 to $500,000; and 1.2% make more than $500,000** annually in commissions.

Commission revenue is not applicable for 91% of RIA/IARs, 45% of dual registrants and one-third of registered reps. That said, 9% of dually registered and 5% of dually registered-plus insurance respondents say they generate more than $500,000 in commissions annually, while 20% of registered reps, 9% of dually registered and 7% of dually registered-plus insurance make $250,000 to $500,000 in commissions annually. Most respondents who have any commission compensation earn less than $250,000 annually via commissions: 80% of dually registered-plus insurance; 67% of registered reps; 36% of dual registrants; and 8% of RIA/IARs. (It is puzzling to see RIA/IARs report commission income, but a small percentage indicate this each year. It may be that some IARs who were previously registered reps, dually registered, or dually registered-plus insurance continue to receive trail commissions from products sold before they moved to RIA/IAR registration and that new clients are fee-only.)

Annual Commission Revenue - By Registration Type

	$1 to $100k	$100k to $250k	$250k to $500k	Over $500k	N/A
Q1: RIA/IAR	6.98% 33	1.06% 5	0.42% 2	0.63% 3	90.91% 430
Q1: Registered rep	20.00% 3	26.67% 4	20.00% 3	0.00% 0	33.33% 5
Q1: Dually registered	18.18% 2	18.18% 2	9.09% 1	9.09% 1	45.45% 5
Q1: Dually registered plus insurance	56.36% 31	23.64% 13	7.27% 4	5.45% 3	7.27% 4
Q1: Insurance producer	100.00% 1	0.00% 0	0.00% 0	0.00% 0	0.00% 0
Q1: Insurance consultant	0.00% 0	100.00% 1	0.00% 0	0.00% 0	0.00% 0

Commissions as a Percentage of Revenue

Only 19% of respondents overall receive commission compensation. We asked: ***"If you do receive commissions, what percentage of your annual revenue comes from commissions?"*** Within the fee/commission compensation model, almost **43% of respondents say commissions total 10% or less** of their annual revenue. Another **18% within the fee/commission model indicate that 11%-25%** of their compensation is from commissions; **20% say commissions are 26%-50% of their compensation; and 15% say they make 50% or more of their compensation from commissions**. In general, the lower the ratio of commission to fee income earned by an investment fiduciary, the fewer conflicts of interest that must be managed or avoided.

Percentage of Annual Revenue From Commissions – By Compensation Model

	1%-10%	11%-25%	26%-50%	More than 50%	N/A
Q10: Fee only	0.22% 1	0.00% 0	0.00% 0	0.22% 1	99.56% 452
Q10: Fee/Commission	42.59% 46	18.52% 20	20.37% 22	14.81% 16	3.70% 4
Q10: Commission only	0.00% 0	0.00% 0	0.00% 0	100.00% 3	0.00% 0

By registration type, **27% of dually registered, 20% of registered reps, and 14% of dually registered-plus insurance respondents make more than half of their compensation from commissions.** Commissions comprise 25%-50% of total compensation for 27% of dually registered-plus insurance respondents, 18% of dual registrants and 13% of registered reps. Commissions are 25% or less of the total compensation for 57% of dually registered-plus insurance respondents, 46% of registered reps, 18% of dual registrants and 6% of RIA/IARs.

Percentage of Annual Revenue from Commissions – by Registration Type

	1%-10%	11%-25%	26%-50%	More than 50%	N/A
Q1: RIA/IAR	4.87% 23	1.27% 6	0.42% 2	1.06% 5	92.37% 436
Q1: Registered rep	13.33% 2	33.33% 5	13.33% 2	20.00% 3	20.00% 3
Q1: Dually registered	18.18% 2	0.00% 0	18.18% 2	27.27% 3	36.36% 4
Q1: Dually registered plus insurance	36.36% 20	16.36% 9	27.27% 15	14.55% 8	5.45% 3
Q1: Insurance producer	0.00% 0	0.00% 0	0.00% 0	100.00% 1	0.00% 0
Q1: Insurance consultant	0.00% 0	0.00% 0	100.00% 1	0.00% 0	0.00% 0

Choose Your Ideal Compensation Model

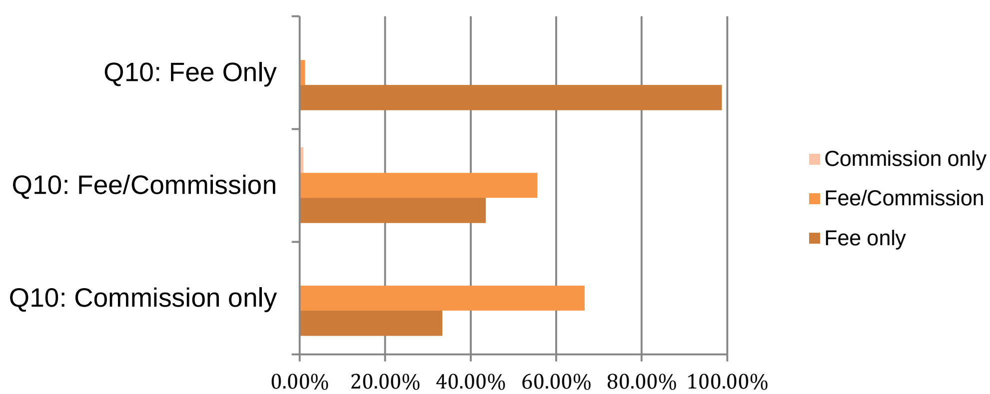
When asked ***"If you could choose your ideal compensation model, what would be your preference?"*** more than **88% overall say they would choose fee-only** compensation; **11% say they would choose the fee/commission** model and **less than 1% would choose a commission-only** compensation model.

Compensation questions drew a significant number of comments, many of them with strong opinions. A selection of comments is provided below:

> *Dually Registered (Dually registered) - Currently fee/commission, prefers fee/commission. - There are some legacy clients where fee would be more expensive. All new clients are fee but don't want to send legacy packing. Some very unique circumstances where commission more cost-effective. Case-by-case desirable (if rarely used).*
>
> *Registered Rep (RR) – Currently fee/commission, prefers fee only. - Commissions = Conflicts of interest.*
>
> *RIA/IAR – Currently fee only, would remain fee only. - Better revenue stream.*
>
> *Dually registered-plus insurance – Currently fee/commission., would remain fee/commission. - Can help those who do not yet [have] enough to pay fees.*
>
> *Dually registered-plus insurance –Currently fee/commission., prefers fee only. - Less expense for the client.*
>
> *RR – Currently fee/commission., would remain fee/commission. - Some types of business will always be based on commission/success fees.*
>
> *RIA/IAR – Currently fee only, would remain fee only. - Minimizes conflicts of interest.*
>
> *RIA/IAR – Currently fee only, would remain fee only. - I chose hourly only - the fewest conflicts of interest and the greatest correlation with work actually performed.*
>
> *RIA/IAR – Currently fee only, would remain fee only. - Fee only is the only model that is fair to the client, and recognizes the advisor as a professional service provider.*
>
> *RIA/IAR – Currently fee only, would remain fee only. - We are advisors, not salespeople. We should be compensated as such.*

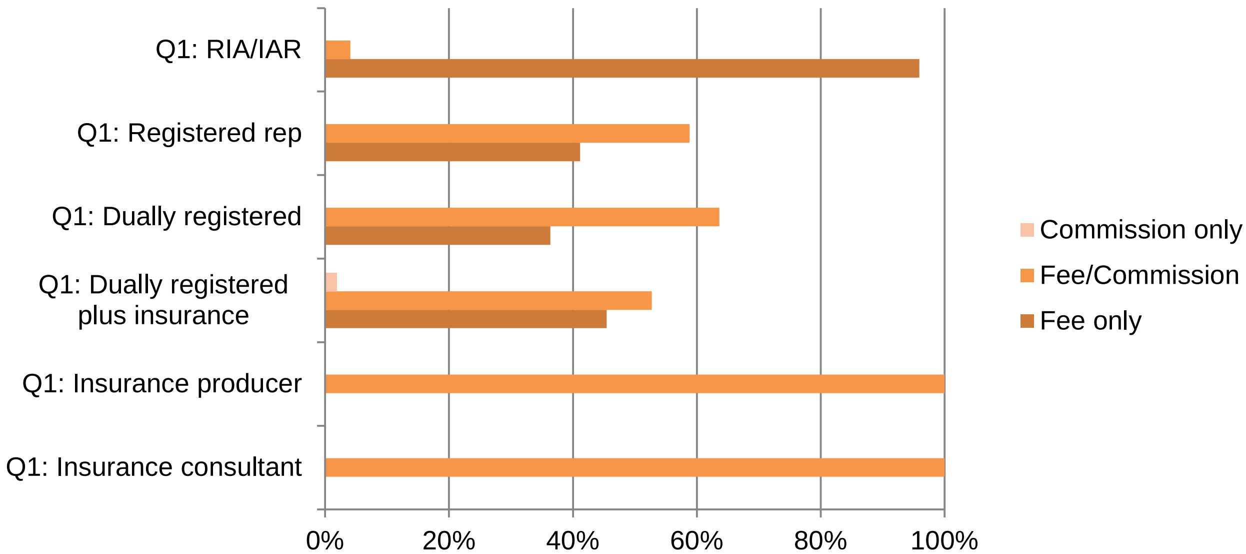
Looking at responses by current compensation model, **nearly 99% of fee-only respondents say they would keep their current model**; just over 1% would migrate to the fee/commission compensation model. More **than 55% of current fee/commission respondents would continue with their current business model, but 43% would move to fee-only**. **Less than 1% would choose the commission-only model**. Of the small number of **commission-only respondents, two thirds would move to the fee/commission model**, while **one-third would move to the fee-only model**. **None would remain in the commission-only model if given the choice**.

Preferred Compensation - By Current Compensation Model



Across registration type**, 96% of RIA/IARs opt for the fee-only compensation** model as their ideal and 4% select the fee/commission model. Not surprisingly, the **fee/commission model is the top choice among the dually registered, 64%; registered reps, 59%; and dually registered-plus insurance respondents, 53%**. However, **45% of dually registered-plus insurance respondents would prefer the fee-only compensation model if given the choice, along with 41% of registered reps and 36% of dual registrants**. Only one small segment of registration type, 2% of dually registered-plus insurance respondents, prefers the commission-only compensation model.

Preferred Compensation - By Registration Type



Upfront Payments to Financial Intermediaries and Associated Conflicts of Interest

Upfront payments or bonuses to financial intermediaries – typically used by brokerage firms as incentives to aggregate assets – have been a controversial topic for years. Upfront payments are used to recruit registered reps to a new firm, along with customer assets. They can also be used to retain reps when a firm merges. However, **upfront payments most often take the form of loans, rather than true bonuses.** The payments can amount to **one, two, three or more years' equivalent of a rep's previous 12-months' sales revenue**. However, there are strings attached – upfront payments **must be repaid over a contract period of months or years** – or if the rep leaves the firm. **Repayment of the loan ultimately comes from commission and fee revenue paid by investors, leading to pressure on the broker to sell more or higher-cost products that may be unsuitable for the customer.**

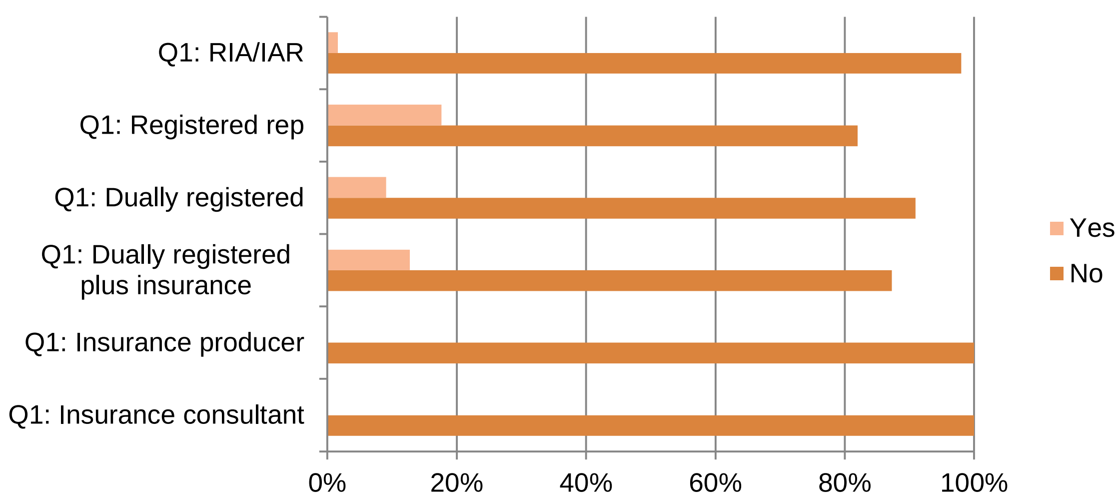
This conflict of interest is important because investors generally believe their advisor always acts in their best interest, and cannot distinguish between regulatory affiliations. In last year's fiduciary survey, 97% of intermediaries said investors don't understand the differences between brokers (suitability) and investment advisers (fiduciary standard). Since many of the brokers receiving upfront payments are **dually registered as broker/investment adviser reps, or dually registered-plus insurance reps,** existing disclosure requirements may be insufficient in informing investors of the conflict and intermediary's need to repay the loan.

This recruiting practice raises important policy questions related to conflicts of interest:

- What consequences do upfront payments have for investors, intermediaries and firms?
- How and to what extent do upfront payments change the behavior of the intermediary and firm toward clients?
- Do upfront payments cause intermediaries to sell more of a firm's costlier higher-commission and higher-fee products in order to meet the higher sales-production goals necessary to repay the upfront payment?
- Do upfront payment programs incent firms to offer products that cost investors more in commissions and fees?
- Do reps and firms using upfront payments avoid or manage conflicts differently than firms that refrain from using similar recruiting practices?
- What are the positive and negative benefits of current recruiting practices, for investors?

This year, we asked once again, **"Have you ever received an up-front payment or bonus for moving from one broker or advisory firm to another?"** Only 3% of survey participants report having received such payments, a response that is probably much lower than the industry average due to the higher survey response rate of investment adviser firms, which do not usually offer similar incentives. Upfront payments are much more typical at brokerage firms: 18% of registered reps, 13%, of dually registered-plus insurance, 9% of dual registrants report receiving such payments, while less than 2% of RIA/IARs received such payments. Looking across compensation models, 9% of respondents in the fee/commission model, and 2% of fee-only respondents received up-front payments.

Up-Front Payments – By Registration Type



Upfront Payment: Advance, Loan or Bonus?

The majority of upfront payments are loans. Of survey respondents who received an up-front payment, 70% say it was a loan, while 30% say it was a bonus. Looking at upfront payments by compensation model, of those who received an up-front payment, ***90% of fee/commission respondents, and 50% of fee-only respondents received upfront payments in the form of loans they had to pay back.*** Only 50% of fee-only and 10% of fee/commission participants say it was a true bonus with no strings attached.

Upfront Advance, Loan or Bonus? – By Compensation Model

	Advance	Loan	Bonus
Q10: Fee only	0.00% 0	50.00% 5	50.00% 5
Q10: Fee/Commission	0.00% 0	90.00% 9	10.00% 1
Q10: Commission only	0.00% 0	0.00% 0	0.00% 0

Across registration type, the **majority of participants who received an upfront payment say it was a loan:** 100% of registered representatives and dually registered, 71% of dually registered-plus insurance, and 55% of RIA/IAR respondents. However, 44% of RIA/IARs and 28% of dually registered-plus insurance respondents indicate it was a bonus.

Upfront Advance, Loan or Bonus? – By Registration Type

	Advance	Loan	Bonus
Q1: RIA/IAR	0.00% 0	55.56% 5	44.44% 4
Q1: Registered rep	0.00% 0	100.00% 3	0.00% 0
Q1: Dually registered	0.00% 0	100.00% 1	0.00% 0
Q1: Dually registered plus insurance	0.00% 0	71.43% 5	28.57% 2
Q1: Insurance producer	0.00% 0	0.00% 0	0.00% 0
Q1: Insurance consultant	0.00% 0	0.00% 0	0.00% 0

Repaying an Upfront Loan

The 2014 Survey asked about upfront payments because their inherent conflicts of interest cause harm to investors. **Investors ultimately pay the costs of these upfront payments in higher commissions or fees. Investor outcomes are diminished as higher costs drag down investment performance and compounding** over the long term. **Even if the payment is not a loan, but a bonus, the firm paying the bonus may be extracting higher fees from investors indirectly**, if products investors are sold at the new firm **extract higher internal, unseen fees from clients**. **Repaying an upfront loan requires an intermediary to generate more commissions and/or fees from clients** in order to maintain his or her income status and at the same time pay down the loan. Of the upfront payments that had to be repaid through higher production revenue – generating more commissions and /or fees from clients **– 40% report the loans or advances had to be repaid within 4-7 years. Another 20% had a shorter period of 0-3 years to repay,** and 10% were given 5-10 years to repay.

The **loan repayment revenue comes from fees and/or commissions on client's investments**. In this hypothetical example, if an intermediary generated $1 million in commissions and fees at his/her previous firm, and received a 1x-revenue loan, to be repaid over three years, that **intermediary would have to generate increased revenue of $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. But are they? FINRA, the Financial Industry Regulatory Authority, the self-regulator for broker-dealers, which is composed of broker dealers (BDs), proposed disclosure rules for upfront payments and withdrew them after BDs pressured FINRA not to move forward.

Repaying an Upfront Loan - By Compensation Model

Looking at responses by compensation model, of those who had an upfront loan they had to repay through higher production, **40% of fee-only respondents and 40% in the fee/commission models had 4-7 years** to repay. However, **20% of those in fee-only and fee/commission compensation models had shorter repayment windows, 0-3 years.** And 20% of those in the fee/commission model were given 5-10 years to repay.

Years to Repay Upfront Loan – By Compensation Model

	0-3 years	4-7 years	5-10 years	N/A
Q10: Fee only	20.00% 2	40.00% 4	0.00% 0	40.00% 4
Q10: Fee/Commission	20.00% 2	40.00% 4	20.00% 2	20.00% 2
Q10: Commission only	0.00% 0	0.00% 0	0.00% 0	0.00% 0

Responses across registration types indicate that **43% of dually registered-plus insurance respondents, and 11% of RIA/IARs had the shortest repayment timeframe, 0-3 years**. All dually registered, 44% of RIA/IARs, 33% of registered representatives and 28% of dually registered-plus insurance intermediaries had 4-7 years to repay. One-third of registered reps, and 14% of dually registered-plus insurance respondents were given 5-10 years to repay.

Years to Repay Up-Front Loan – By Registration Type

	0-3 years	4-7 years	5-10 years	N/A
Q1: RIA/IAR	11.11% 1	44.44% 4	0.00% 0	44.44% 4
Q1: Registered rep	0.00% 0	33.33% 1	33.33% 1	33.33% 1
Q1: Dually registered	0.00% 0	100.00% 1	0.00% 0	0.00% 0
Q1: Dually registered plus insurance	42.86% 3	28.57% 2	14.29% 1	14.29% 1
Q1: Insurance producer	0.00% 0	0.00% 0	0.00% 0	0.00% 0
Q1: Insurance consultant	0.00% 0	0.00% 0	0.00% 0	0.00% 0

Amount of Upfront Payment or Loan

Among survey participants who received upfront payments (only 3%), a slight majority (53%) received less than 1x previous production, 42% received 1-2 x previous production and 5% received 3 or more x previous production.

Across compensation models, of those who received an up-front payment**, 60% of respondents in the fee/commission model and 44% in the fee-only model received less than 1 x previous production,** while **40% of fee/commission and 44%of fee-only respondents received up front payments of 1-2 x** previous production. And **11% of fee-only respondents received up-front payments of 3 or more x previous production**.

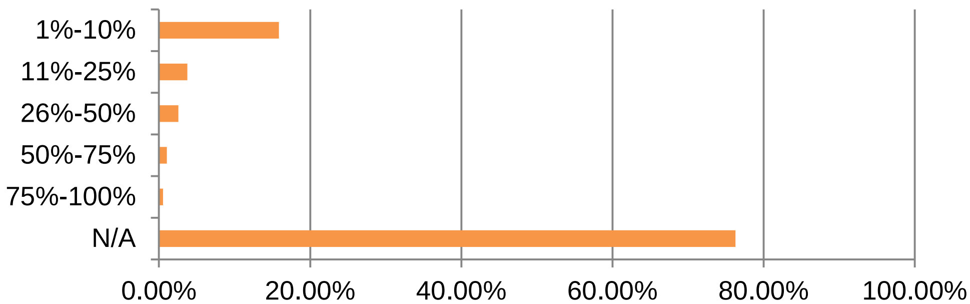
What was the amount of the payment? - By Compensation Model

	Less than 1 times previous production	1-2 times previous production	3 or more times previous production
Q10: Fee only	44.44% 4	44.44% 4	11.11% 1
Q10: Fee/Commission	60.00% 6	40.00% 4	0.00% 0
Q10: Commission only	0.00% 0	0.00% 0	0.00% 0

Compensation from Sales of Insurance Products

This year, we asked for the first time, ***"If you are licensed for insurance, what percentage of your annual revenue comes from sales of insurance?"*** Overall, relatively few respondents sell insurance – **76% say that's not applicable** to them. However, for those with multiple licenses including insurance, commission revenue from insurance products remains a considerable portion of their compensation. Nearly 16% overall stated that insurance products provides between 1% and 10% of their revenue, while nearly **4% indicate that insurance sales are 11%-25% of their revenue. For 2.6% of respondents, sale of insurance products is 25%-50% of their revenue**.

Annual Revenue from Sales of Insurance Products – in Percent



By registration type, **most reported that insurance sales comprise 10% or less of their annual revenue**. The understandable exception is insurance producers. However, while most RIA/IAR respondents derive little or no revenue from insurance sales, a majority of registered reps, dual registrants and dually registered-plus insurance do generate revenue from sales of insurance.

Percentage of Revenue From Insurance Sales - By Registration Type

	1%-10%	11%-25%	26-50%	50%-75%	75%-100%	N/A
Q1: RIA/IAR	10.27% 50	1.44% 7	0.82% 4	0.21% 1	0.21% 1	87.06% 424
Q1: Registered rep	38.89% 7	11.11% 2	16.67% 3	11.11% 2	5.56% 1	16.67% 3
Q1: Dually registered	33.33% 4	16.67% 2	8.33% 1	0.00% 0	0.00% 0	41.67% 5
Q1: Dually registered plus insurance	58.18% 32	20.00% 11	12.73% 7	3.64% 2	0.00% 0	5.45% 3
Q1: Insurance producer	0.00% 0	0.00% 0	0.00% 0	0.00% 0	100.00% 1	0.00% 0
Q1: Insurance consultant	0.00% 0	0.00% 0	0.00% 0	100.00% 1	0.00% 0	0.00% 0

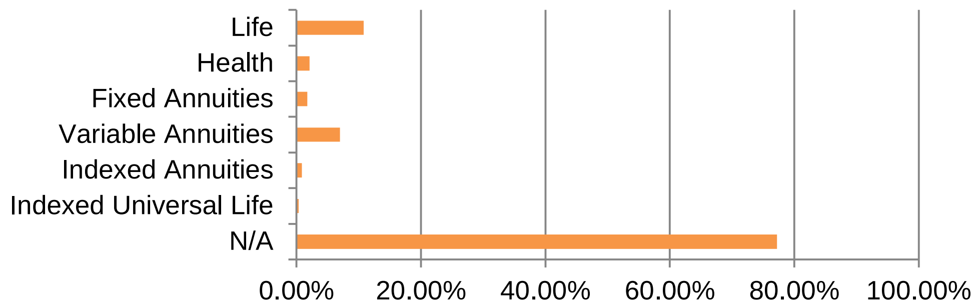
By compensation model, **95% of respondents in the fee/commission model receive revenue from insurance sales, while 7% of fee-only have revenue from insurance** sales. This finding is surprising: most insurance is sold on a commission basis. When an intermediary is fee-only there is no commission income. It may be that the small amount of revenue from sales of insurance by fee-only participants is from flat fee or other fee basis, however it is not possible to state this conclusively from the survey data. It may also be that some respondents who indicate they are fee-*only* are in fact fee-*based*. These two terms are not interchangeable and the National Association of Personal Financial Advisors and CFP Board are two organizations endeavoring to define the differences in these two terms.

Percentage of Revenue From Insurance Sales - By Compensation Model

	1%-10%	11%-25%	26-50%	50%-75%	75%-100%	N/A
Q10: Fee only	6.55% 30	0.44% 2	0.00% 0	0.00% 0	0.00% 0	93.01% 426
Q10: Fee/Commission	57.55% 61	17.92% 19	14.15% 15	4.72% 5	0.94% 1	4.72% 5
Q10: Commission only	0.00% 0	0.00% 0	0.00% 0	33.33% 1	33.33% 1	33.33% 1

Insurance Products Sold Most Often

"If you are licensed for insurance, which product type comprises the majority of your insurance sales?" More than three-quarters of respondents, 77.2%, indicate they don't sell insurance. However, **nearly 11% of respondents overall report that the majority of their insurance sales are life insurance,** and **nearly 10% report that annuities comprise the majority of their insurance sales**, including variable annuities, 7%, fixed annuities, 1.7%, and indexed annuities, 0.87%. Another 2% report sales of health insurance is the majority of the insurance they sell.



By compensation model, **annuities comprise the majority of insurance sales within the fee/commission model at just over 45%: variable annuities are sold most, 33%, fixed annuities second, 8%, and indexed annuities about 4% of sales.** About 5% of fee/commission participants report that health insurance is what they sell most often. **Life insurance comprises 41% of insurance sales by fee/commission respondents.** Only 2% reported indexed universal life insurance as the majority of their insurance sales. The majority of survey respondents are fee only, and with **93% stating they do not sell insurance.** However, 4% of fee-only respondents report that life insurance is the majority of their insurance sales, while less than 2% report of fee-only respondents say annuities comprise the majority of their insurance sales; 1% say health insurance is the majority of their insurance sales.

Type of Insurance Sold - By Compensation Model

	Life	Health	Fixed Annuities	Variable Annuities	Indexed Annuities	Indexed Universal Life	N/A
Q10: Fee only	3.96% 18	1.10% 5	0.44% 2	0.88% 4	0.22% 1	0.00% 0	93.41% 425
Q10: Fee/Commission	41.18% 42	4.90% 5	7.84% 8	33.33% 34	3.92% 4	1.96% 2	6.86% 7
Q10: Commission only	33.33% 1	33.33% 1	0.00% 0	33.33% 1	0.00% 0	0.00% 0	0.00% 0

Insurance Products Sold – By Registration Type

As would be expected, most dually registered-plus insurance respondents sell various types of insurance. **They most often sell variable annuities (44%), as do nearly 42% of dually registered respondents, and 35% of registered reps. Life insurance is the most-sold insurance for 36% of dually registered-plus insurance respondents**, with life insurance and VAs sold most by an equal number of registered reps at 35% each.

Insurance Sales Product Type - By Registration Type

	Life	Health	Fixed Annuities	Variable Annuities	Indexed Annuities	Indexed Universal Life	N/A
Q1: RIA/IAR	7.48% 36	1.46% 7	1.46% 7	1.46% 7	0.83% 4	0.21% 1	87.11% 419
Q1: Registered rep	35.29% 6	11.76% 2	0.00% 0	35.29% 6	0.00% 0	0.00% 0	17.65% 3
Q1: Dually registered	8.33% 1	0.00% 0	8.33% 1	41.67% 5	0.00% 0	0.00% 0	41.67% 5
Q1: Dually registered plus insurance	36.00% 18	4.00% 2	4.00% 2	44.00% 22	2.00% 1	2.00% 1	8.00% 4
Q1: Insurance producer	0.00% 0	100.00% 1	0.00% 0	0.00% 0	0.00% 0	0.00% 0	0.00% 0
Q1: Insurance consultant	100.00% 1	0.00% 0	0.00% 0	0.00% 0	0.00% 0	0.00% 0	0.00% 0

Fiduciary Relationships With Clients

Each year since 2011 the survey has asked: ***"Do you have a fiduciary relationship with your clients?"*** While RIAs must always have a fiduciary relationship with clients, the survey also provides an opportunity to measure the fiduciary culture among intermediaries within various BD or BD/RIA business models as well as in comparison to different compensation models. Responses are analyzed by registration type and compensation model.

The overwhelming majority of survey participants, nearly 99%, report at least some fiduciary relationships. More than nine out of 10 have fiduciary relationships with all clients, 91%, some clients 4.3% or a combination fiduciary and suitability relationship with some clients 3.6%. A small number of respondents, 1.3%, say no, they don't have any fiduciary relationships with clients.

The nearly 99% of intermediaries with at least some fiduciary relationships is higher than in past years, and may reflect the demographic makeup of this year's participants, which includes a higher percentage of RIA/IARs than in past years. But it may also show desire for and a migration toward a fiduciary model – at least by intermediaries. Many advisors, whether registered rep, dually registered, dually registered plus insurance or another combination, believe that they act in the client's best interest. As a result, they may believe that they have a fiduciary relationship when technically or legally they don't.

This question ***"Do you have a fiduciary relationship with your clients?"*** always prompts comments from survey participants. Here are a few comments:

> *Dually registered - fee only. Written fiduciary service agreement with the client.*
>
> *Dually registered-plus insurance - fee only. None of these answers work. I have a fiduciary relationship with some and not even a suitability relationship with others. All business is retirement plans or foundations.*
>
> *RIA/IAR - fee only. Yes, all clients. We act in a fiduciary capacity and serve as our clients' financial advocate.*
>
> *RR - fee/commission.- For some clients I have both fiduciary and suitability relationship – 80% of my client AUA is discretionary managed, thus fiduciary responsibility per IPS, the balance is self-directed and thus considered suitability.*
>
> *Dually registered-plus insurance - fee commission. (Would move to fee only) - Some accounts are too small to be converted to fee-based compensation. Since I can't tell the truth, BD suitability is ideal. At least there is a safe harbor under suitability. Even though commissions would better serve some investors, the media has told everyone that commissions are bad. Under the thumb of the BD, an unethical and untrustworthy group, you shut your mouth while they lie, mislead, deceive and threaten you. Regarding the next question - exploiting the consumer is the standard my broker dealer supports.*

Compensation Models and Fiduciary Relationships

The majority of participants across all compensation models say they have a fiduciary relationship with all clients. This includes **98% of fee-only, 66% of commission-only, and 56% of fee/commission respondents**. Within the fee/commission and commission-only models, which include securities brokers and insurance producers, the majority acknowledging a fiduciary relationship with all clients is an interesting development and may indicate desire to move toward the fiduciary model even when not all firms are set up culturally to foster a fiduciary model. For example, representatives or agents of BDs or insurance firms generally are fiduciaries to the company – not the investor.

About **22% in the fee/commission model say some clients are RIA-fiduciary relationships and some are BD-suitability relationships**, **while 19% indicate that for some clients they have both a fiduciary and a suitability relationship**. **One-third of commission only, 3% of fee/commission, and less than 1% of fee only respondents say no, they don't have a fiduciary relationship with any clients**.

These results suggest that some financial intermediaries – particularly those in fee/commission and commission-only models – may act in their clients' best interest although legally they may not be held to a fiduciary standard. RIA/IARs are subject to an underlying fiduciary standard for their investment advice, and those providing investment advice under ERISA may be held to a fiduciary standard if they meet a five-part functional test in regulation. The laws and rules governing securities and insurance brokers, in contrast, do not mandate a fiduciary standard for their investment advice, although they may be held to a fiduciary standard under the common law facts and circumstances test in a legal or arbitration forum. This is an important distinction because currently there is no practical way for an investor to know, unless working with a fiduciary adviser or registered investment adviser, that a fiduciary standard applies – and the research shows that majority of investors assume it does.

Fiduciary Relationships With Clients – By Compensation Model

	Yes, all clients	No	Some are RIA-fiduciary relationship and some are BD-suitability relationship.	For some clients I have both a fiduciary relationship and suitability relationship
Q10: Fee only	98.50% 461	0.85% 4	0.43% 2	0.21% 1
Q10: Fee/Commission	55.77% 58	2.88% 3	22.12% 23	19.23% 20
Q10: Commission only	66.67% 2	33.33% 1	0.00% 0	0.00% 0

Fiduciary Relationships Across Registration Type

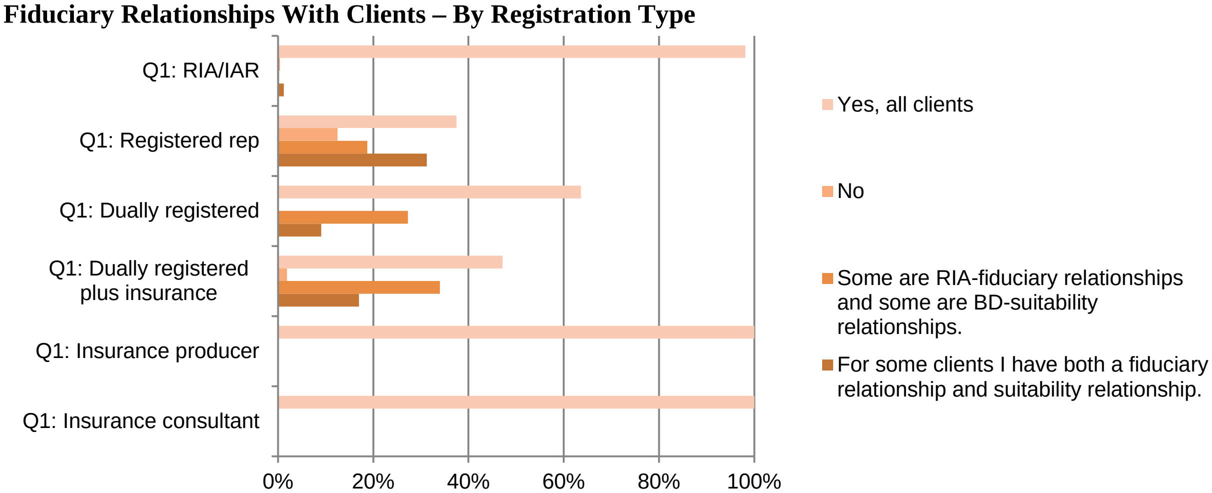
Looking at fiduciary relationships with clients across registration types, it's not surprising to note that **nearly all, 98%, (up from 87% in 2013 and 85% in 2012) of RIA/IARs say they <u>have a fiduciary relationship</u> with all clients**. After all, registered investment adviser (RIA) firms and their personnel, investment adviser representatives (IARs), are required to act in and serve the client's best interests under the fiduciary standard of the Investment Advisers Act of 1940. However, **a small number of RIA/IARs, 0.4%, (down from 1.6% in 2013 and 3.4% in 2012) <u>do not acknowledge any fiduciary relationships</u> with clients** – something that might give regulators pause since RIA/IARs have been recognized to be subject to a fiduciary duty. A disavowal of fiduciary duty is also prohibited, in advisory agreements (sometimes called 'hedge clauses'), by the SEC. A few RIA/IARs, 1.2%, indicate that with some clients they have both a fiduciary and a suitability relationship. Less than 1% say for some clients they have RIA-fiduciary relationships, and with other clients, BD-suitability relationships.

A majority of **64% of dually registered respondents has a fiduciary relationship with all clients.** Another **27% of dual registrants say some are RIA-fiduciary relationships and others are BD-suitability relationships,** and 9% indicate for some clients they have both a fiduciary and suitability relationship. And no dual registrants answered that they didn't have any fiduciary relationships.

For **dually registered-plus insurance respondents** results were more mixed but the clear majority**, 47%, state that they have a fiduciary relationship with all clients,** while **34% say some are RIA-fiduciary relationships and some are BD-suitability relationships**, and **17% note for some clients they have both fiduciary and suitability relationships.** Just 1.8% say no, they don't have any fiduciary relationships with clients.

While the sample size for registered reps is small**, a surprising 37% say they have a fiduciary relationship with all clients – up from 21% last year**. Another 31% say for some clients they have both fiduciary and suitability relationships and 19% say for some clients they have RIA-fiduciary relationships and for some they have BD-suitability relationships. **Just 12% say no, they do not have any fiduciary relationships** with clients – **down from 41% in 2013.** As noted earlier, respondents who are insurance or securities-licensed may be misinterpreting the question with acting in their client's best interest. Doing so would be a best practice, but in most activities they would not be deemed to be legally in a fiduciary relationship.

Fiduciary Relationships With Clients – By Registration Type

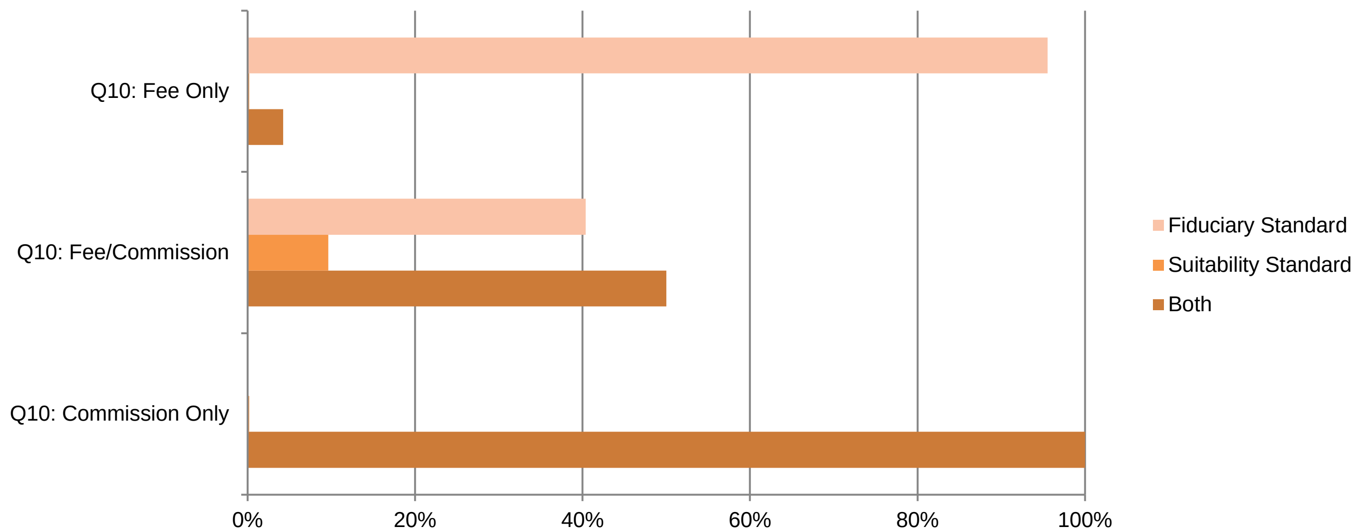


Compliance Support - Which Standard of Care Does Your Firm Support?

As a follow-up question, the survey asks: ***"Which standard of care does the compliance department of your firm support?"*** More than **85% of respondents overall indicate their compliance department supports the fiduciary standard of care, and another 13% say their compliance department supports both the fiduciary standard and suitability**. Just 2% indicate that their firm supports suitability only.

Analysis by compensation model indicates broad support for the fiduciary standard – **95% of fee-only respondents and 40% of fee/commission respondents say the compliance departments of their firms support the fiduciary standard**. In addition, **50% of fee/commission, and 100% of commission-only respondents indicate their firms' compliance department supports both the fiduciary standard and suitability**. Fewer than 10% of fee/commission respondents and no commission-only respondents indicate that their firms support suitability alone.

Standard of Care Supported – By Compensation Model



Restoring Investor Confidence

When we asked, ***"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 help restore confidence in financial service providers?"*** a majority of nearly **71%, up from 59% last year, say 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 confidence** in financial service providers. This increase may be because the proportion of RIA/IARs participating in the survey is higher this year. However, looking at findings by compensation model, illustrated below, a higher percentage of respondents in the fee/commission model concurs this year, 66%, versus 50% last year.

Here are comments in respondents' own words:

> *Dually registered-plus insurance - Yes I think it will force an equalizing and leveling of the playing field. They've had similar statutes in Australia for years and they still have a robust financial services environment.*
>
> *RR – No, the big players would water it down.*
>
> *Dually registered-plus insurance – No, I support the fiduciary standard for all. The problem is at the broker/dealers. The regulators are captured and lack the gonads to do what is best for consumers. Product manufacturers have huge margins and broker/dealers share in those profits via revenue sharing. The allure of easy money is powerful and corrupting. Who does the [industry lobby group] support? Broker/Dealers. As long as all the money and the lobbyists are on the side of product and BDs there will be no real reform. Most consumers just don't understand how much money they pay unnecessarily for product. 12b-1 [fees] and revenue sharing add at least 36 basis points. Eliminating those costs reduces a 1% management cost by 36%. No additional risk and client return goes up by 36bps.*
>
> *RIA/IAR – Yes, anybody who provides advice should be held to a fiduciary standard under the Investment Advisers' Act of 1940. There should be no "Merrill" rule. Sales people should be commissioned and be fine with a suitability standard, but they should not be allowed to provide advice. If advice is provided it should be under the fiduciary standard.*
>
> *RIA/IAR - Yes, I frequently see clients who have been sold product that does not best fit their financial situation – such as annuities to clients in their mid-80's, whole life insurance for children where parents have low income and zero tax bracket ... suitability is meaningless.*
>
> *RIA/IAR – Yes, it is absurd that it hasn't always been this way.*

Across compensation models, a majority of participants agrees: **72% of fee-only, and 66% of fee/commission say yes, this would help restore confidence** in financial service providers. However, while the pool of commission-only respondents is statistically insignificant for survey purposes, it can be noted that the majority disagrees, which is consistent with last year's findings. While the percentage of fee-only respondents who agree is the same as last year, the percentage of fee/commission respondents is higher this year, 66%, than last year, 50%.

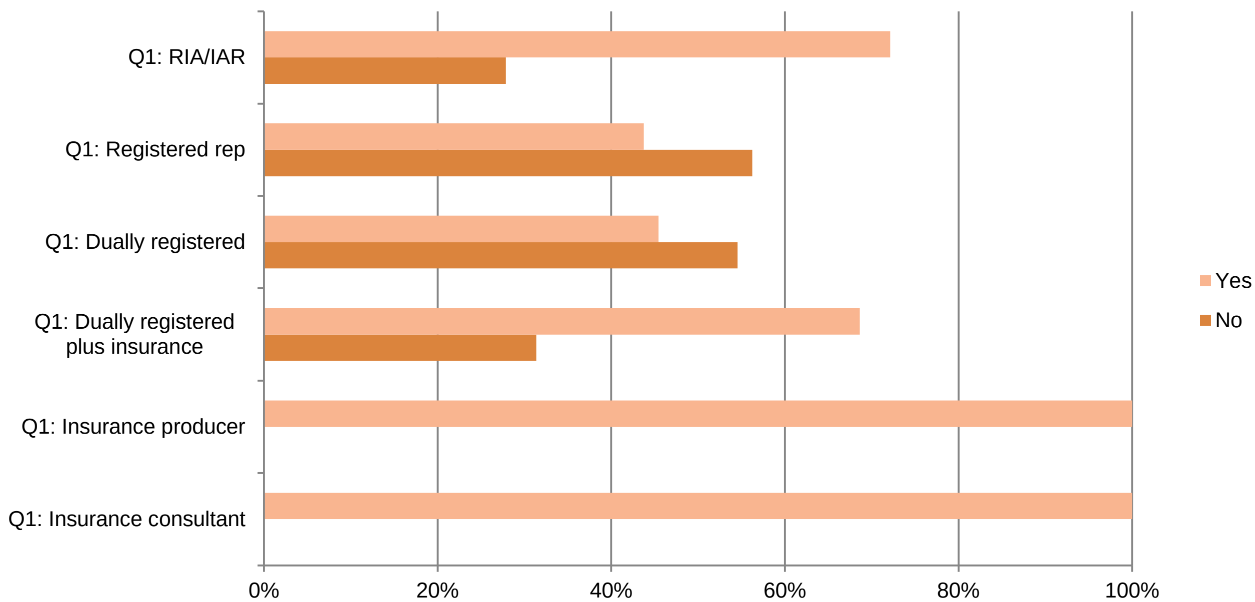
Fiduciary Standard and Investor Confidence – By Compensation Model

	Yes	No
Q10: Fee only	71.77% 333	28.23% 131
Q10: Fee/Commission	66.34% 67	33.66% 34
Q10: Commission only	33.33% 1	66.67% 2

Restoring Investor Confidence – By Registration Type

Responses are divided by registration type: **72% of RIA/IARs and 64% of dually registered-plus insurance respondents say yes, a uniform fiduciary standard that is "no less stringent" than what is currently required of registered investment advisers would help** restore confidence in financial service providers. But **56% of registered reps and 54% of dual registrants say no**.

Fiduciary Standard and Investor Confidence – By Registration Type



Raising the Credibility of Financial Services Providers

The survey asks: ***"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?"*** A strong majority of participants, **72%, up from 64% last year, agree that extending the traditional fiduciary standard to brokers would help raise the credibility of financial service providers**. The depth of this majority extends across all registration types and compensation models except the small sample of commission-only respondents.

From our survey participants, a sampling of their comments on this question:

> *RIA/IAR - No, I just don't believe the average consumer/investor even knows the difference so I don't think it will change their perception, however, it is absolutely the right thing to do for that very reason.*

> *RIA/IAR - Yes, but I do not think it is realistic given the huge financial and personal resources of the brokerage and insurance industries. The risk is a watered down fiduciary standard*

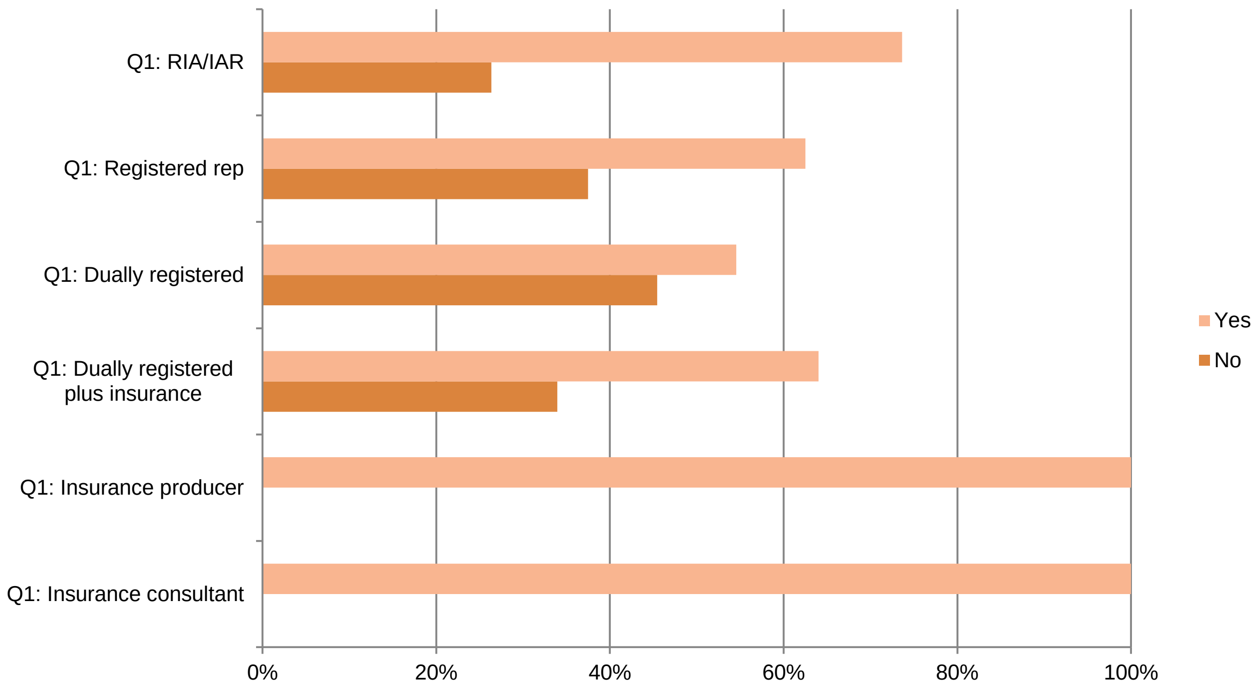
> *Dually registered -plus insurance – Yes, the public has no idea of the difference between the two standards; further, they have no idea of how corrupt the investment system is, and how much it hurts them. The suitability standard allows for significant abuse of investors and equally significant incentive for the sales people. I believe that a higher standard would remove some of these conflicts of interest.*

> *Dually registered - No, this would just be status quo as perceived by clients.*

There is substantial agreement across all registration types that 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. **Here, more than 73% of RIA/IARs agree, up from 69% last year. The biggest percentage change, however, was within registered reps: this year, 62% agree, up from 37% last year.**

When dually registered and dually registered-plus insurance respondents are grouped together (as they were in last year's survey) the results are consistent, 64% this year and 64.7% last year.

Fiduciary Standard and Financial Services Credibility – By Registration Type



Fiduciary Standard and Financial Services Credibility – By Compensation Model

Looking at responses **by compensation model, fee-only and fee/commission respondents agree that 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.** Two commission-only respondents, a very small group compared with the other compensation categories, disagree.

Fiduciary Standard and Financial Services Credibility – By Compensation Model

	Yes	No
Q10: Fee only	74.30% 347	25.70% 120
Q10: Fee/Commission	64.71% 66	35.29% 36
Q10: Commission only	33.33% 1	66.67% 2

Differentiating Products from Advice

When the survey asked, **“Do you believe there needs to clearer differentiation between product providers and advice providers?”** most respondents agree. **Overall, more than 96% say clearer differentiation between product providers and advice providers is necessary.** That’s **up from 84% in 2013.** This nearly universal agreement crosses all registration types and compensation models with the exception of a single insurance producer and two commission-only participants. This question clearly hit a nerve, generating a lot of comments – including many referring to differentiation by titles as well as functions:

RIA/IAR - Yes, the general public, and even some CPA's and estate planning attorneys, have little understanding of the difference, especially when commissioned providers call themselves "fee based" - which sounds like fee only but IS NOT.

RR - Yes, the term "financial advisor" is far too broad.

RIA/IAR - Yes, one solution might be to put parameters on being able to refer to yourself as a 'financial adviser' when you receive any compensation for a product sold.

Dually registered - Yes, it would better inform clients and allow them to make more informed choices.

Dually registered-plus insurance - Yes, the [firm name] "retirement solutions representative" sent a letter [when my wife was changing jobs]. The letter does not include the address where he is located. Other than a reference to [the firm], the letter never indicates he is a registered representative. Deception is the goal.

Dually registered - Yes, clients should understand the degree to which a broker vs. advisor provides due diligence and prudent care handling their financial affairs.

RIA/IAR - Yes, they should have different titles that are required to specify the function. "Sales" should be included in the title for providers of products. Advisors, planners and similar titles are misused and therefore cause confusion.

Dually registered-plus insurance - Yes, but in effective reality, the client seeks and obtains advice from both. I do not think it is possible for a product provider to do their job without giving some degree and form of advice. If a product provider were purely representing a single product, then perhaps. But as soon as the provider offers two or more products and offers any information to the client that could help them choose between them they are effectively, and most assuredly from the client's standpoint, giving advice. Personally I think it's foolish to try and skirt this issue—we use all sorts of games and word-play to try and dance around the issue, but the truth is, clients seek advice from financial professionals and we give it. Because of this, being held to a fiduciary standard is (or should be) a logical and necessary function of the job

RIA/IAR - Yes, suitability standard product providers do not and cannot work truly in the best interests of the client.

RIA/IAR - Yes, I think most investors already think that people that call themselves financial advisors have a responsibility to do what's in their best interests so it is already a tragedy that many people are being taken advantage of by this misunderstanding.

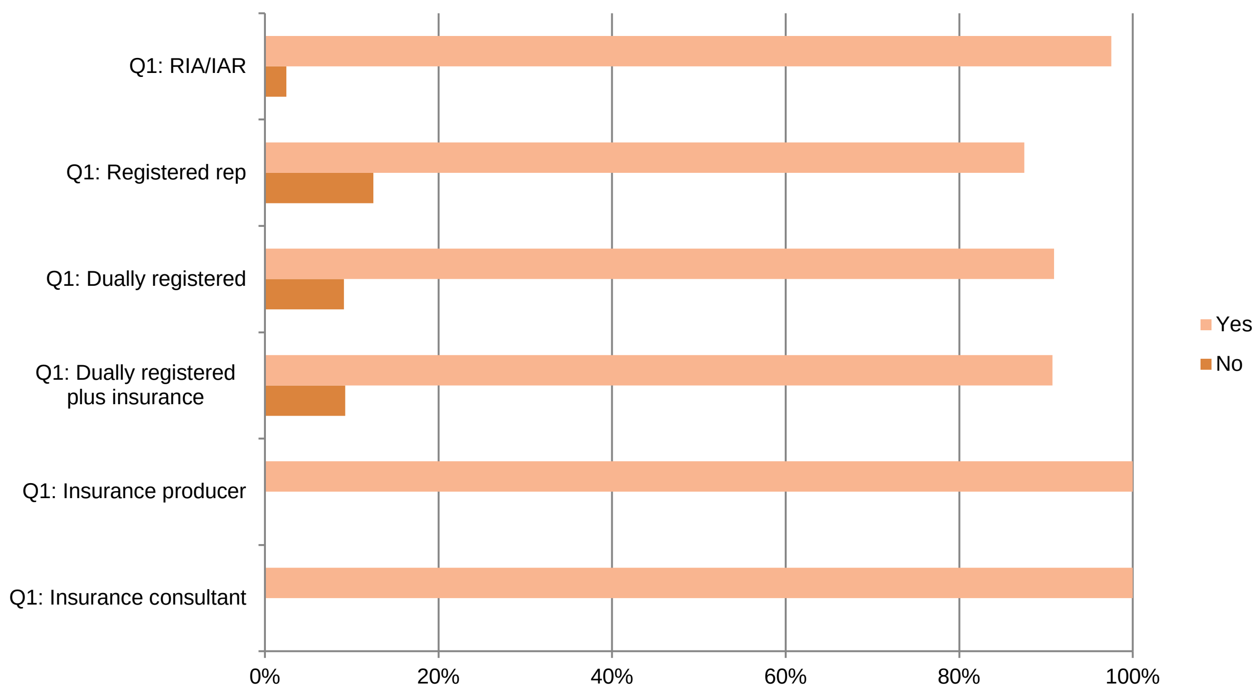
Dually registered-plus insurance – Yes, if we do not accept a fiduciary standard across the board, then it is only right and fair that the public be informed of how we are compensated, and what we are truly providing to our clients.

RIA/IAR - Yes, absolutely and to maintain a true fiduciary standard it may be necessary to have two standards (e.g. fiduciary and suitability) but ensure that investors are genuinely aware of the differences not just "disclosed" somewhere in pages of small print. Better to specify, "here is what you pay and here is how your advisor is compensated" in writing to the investor so there is a fully informed choice.

Differentiating Products from Advice – Responses by Type of Registration

Across nearly every registration type, respondents say clearer differentiation is needed: 97% of RIA/IARs, 91% of both dual registrant and dually registered-plus insurance, and 87% of registered reps agree. The sole dissenter is an individual insurance producer.

Differentiate Product Providers From Advice Providers? – By Registration Type



There is **substantial agreement among respondents in the different compensation models as well, with 98% of fee only and 92% of fee/commission respondents indicating that there should be differentiation between products and advice**. Two of the three commission-only respondents disagree.

Differentiate Product Providers From Advice Providers? – By Compensation Model

	Yes	No
Q10: Fee only	97.64% 456	2.36% 11
Q10: Fee/Commission	92.38% 97	7.62% 8
Q10: Commission only	33.33% 1	66.67% 2

Investor Confusion: Do Titles Imply a Fiduciary Relationship Exists?

Numerous studies[1] indicate that there is investor confusion about their relationships with, and the roles of, financial intermediaries. Indeed, 97% of respondents in last year's Fiduciary Survey said investors do not understand the differences between brokers and investment advisers. The survey asked, ***"Do you believe the titles "advisor," "consultant," and "planner" imply that a fiduciary relationship exists?"*** Overall, **72% of respondents hold a consensus view that <u>these titles imply a fiduciary relationship</u>.**

Here, **agreement runs evenly across every compensation model and registration type: the majority concur that the titles "advisor," "consultant," and "planner" imply a fiduciary relationship.** This includes **73% of RIA/IARs, 75% of registered reps, 73% of dually registered, and 66% of dually registered-plus insurance respondents**. When broken out by compensation model, **we find similar agreement among 73% of fee-only, 69% of fee/commission, and two of the three** commission-only respondents.

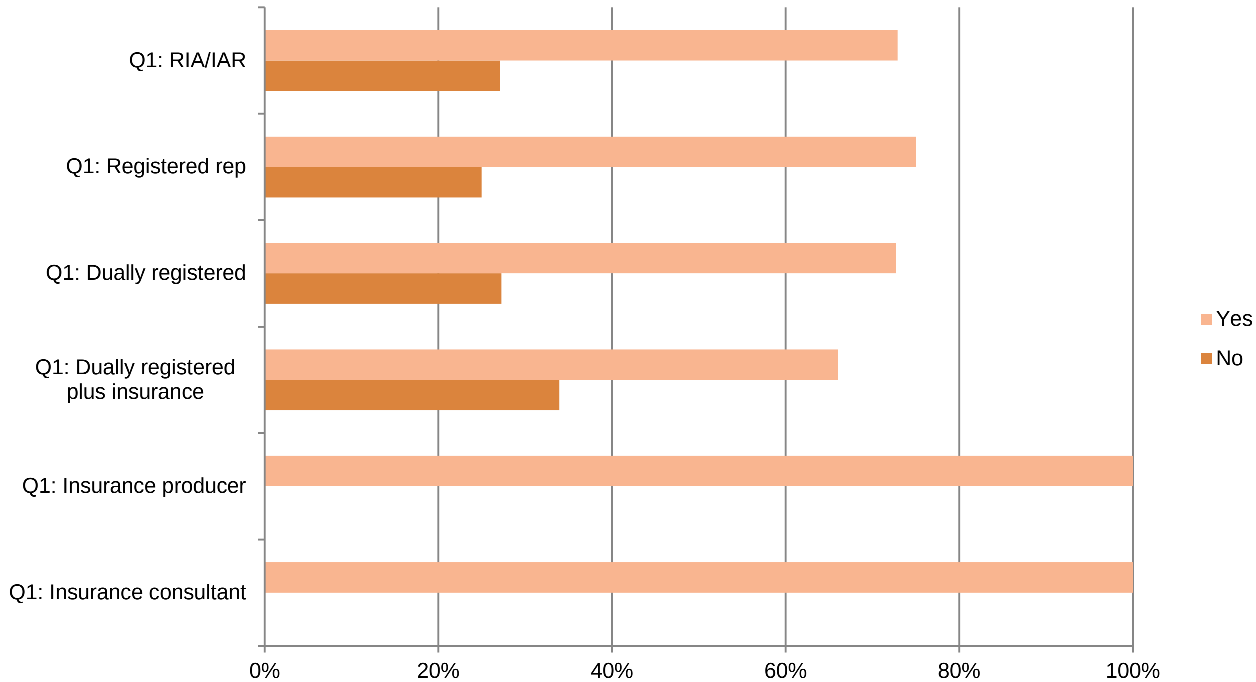
Survey participants provided a tremendous amount of strong feedback and comments about specific types of titles and functions. Listed below is a representative sample from all groups.

> *Dually registered – Yes. Unfortunately, the terms "stockbroker" and "insurance agent" imply "salesman;" hence, the wirehouses and insurance companies prefer advisor, consultant, and planner, but still eschew the fiduciary responsibility that goes with it.*
>
> *RIA/IAR - Yes. I think non-fiduciary providers should be barred from representing themselves as such.*
>
> *Dually registered-plus insurance - Yes. As do virtually all other titles that those in the financial services industry use. We are overly concerned with drawing the line, when in functional reality the average customer assumes that everybody with whom they do financial business with has some degree of fiduciary responsibility. Customers for the most part do not make this distinction—they assume (or at least hope) that anyone who touches their money should do so with a high standard of care and a stewardship mentality. I tend to agree.*
>
> *RIA/IAR - Yes. Why else do brokerages refer to their brokers as financial consultants when in fact they are salesmen.*
>
> *Dually registered - Yes, sure. That's why commission sales individuals use them.*
>
> *Dually registered -plus insurance - No. Imply? My BD's code of ethics implies that its employees are required to act ethically. That isn't true.*
>
> *RIA/IAR - Yes. But the SEC has allowed these titles to become meaningless in real terms.*
>
> *Dually registered-plus insurance - Yes. Most investors cannot draw a distinction among these titles*
>
> *RR - No. The client doesn't "get it" in our current industry. And I don't think it is meant to imply that. Is it?*
>
> *Dually registered-plus insurance - Yes. Sales people need to use the label "sales person."*
>
> *RIA/IAR - Yes. We violently disagree with the misuse of terminology like financial adviser, which in our mind means you are neither a financial planner nor an investment adviser, but it sounds good.*

Do Titles Imply a Fiduciary Relationship Exists?

Agreement runs across every registration type. **Regarding the titles "advisor," "consultant," and "planner," survey participants say yes, these titles do imply that a fiduciary relationship exists.** This includes 73% of RIA/IARs, 75% of registered reps, 73% of dually registered, and 66% of dually registered-plus insurance respondents.

Do Titles Imply a Fiduciary Relationship Exists? – By Registration Type



Titles and the Fiduciary Relationship – By Compensation Model

Not surprisingly, strong agreement is reflected across all compensation models in addition to registration types: **73% of fee only, 69% of fee/commission, and two of the three commission-only respondents agree that the titles "advisor," "consultant," and "planner" imply that a fiduciary relationship exists.**

Do Titles Imply a Fiduciary Relationship Exists? – By Compensation Model

	Yes	No
Q10: Fee only	73.04% 336	26.96% 124
Q10: Fee/Commission	69.23% 72	30.77% 32
Q10: Commission only	66.67% 2	33.33% 1

Fiduciary Duty and Availability, Costs and Choice for Investors: Intermediaries Offer a Perspective that Contrasts with Opponents of a Fiduciary Standard

Opponents of a fiduciary standard claim products and services would be reduced for smaller and middle market investors if brokers were required to act as fiduciaries. This year's survey asks once again: ***"Do you believe a fiduciary duty for brokers who provide advice would reduce product and service availability for investors?"*** Once again, there is strong consensus**: a majority of 78% say no, fiduciary duty for brokers who provide advice <u>would not reduce product or service availability for investors</u>.** That's up from a 68% majority in 2013.

Strong agreement is reflected across registration types and compensation models. By registration type, 79% of RIA/IARs, 73% of registered reps, 54% of dually registered, and 77% of dually registered-plus insurance respondents do not believe that a fiduciary standard for brokers would reduce the availability of products or services. Similarly, **78% of fee only, 76% of fee/commission and two of the three commission-only respondents agree.**

Survey participants added detail to their responses. Some note that extending a fiduciary duty to brokers may "filter out products that may be suitable but are not in clients' best interests. That's a good thing." Below is a sampling of some of their comments:

RIA/IAR - Yes. Lower quality product would disappear. This is good for consumers.

RIA/IAR - No. Not unless you are including products that are not in the best interests of the consumer.

Dually registered-plus insurance - No. The marketplace would change. Isn't it time?

RIA/IAR - No/Yes - Yes, I think a fiduciary standard might dry up the 'selling' of sub-par solutions for investors. No, I don't think that's a reduction in service and product availability.

Dually registered-plus insurance - No. It should not. It only would if the brokerage firms paint their people into a corner and limit the products and service.

RIA/IAR – Yes, It would filter out products that may be suitable, but are not in clients' best interests. That's a good thing. It may impact how those products are built, but in a Darwinian sense, only the fittest would survive.

Insurance Consultant - No. Would clean up product design with more disclosure.

RIA/IAR – Yes. Products perhaps because presumably there would be less incentive to sell crap to consumers just to make a sale. Service should be enhanced because brokers would be acting in the client's best interest and not their own.

Dually registered - Yes. Perhaps, it depends upon how a universal fiduciary standard is written and would it allow for clients to pay a commission instead of a fee.

RIA - No. There is a time and place for everything. If there is a product that someone legitimately needs, then it should be easy to evidence that it is the BEST solution for them. We do that frequently, and we're fiduciaries. If they don't buy it from us, they buy it elsewhere, but we still have to provide the best advice given our experience and knowledge of what's available and their situation/needs.

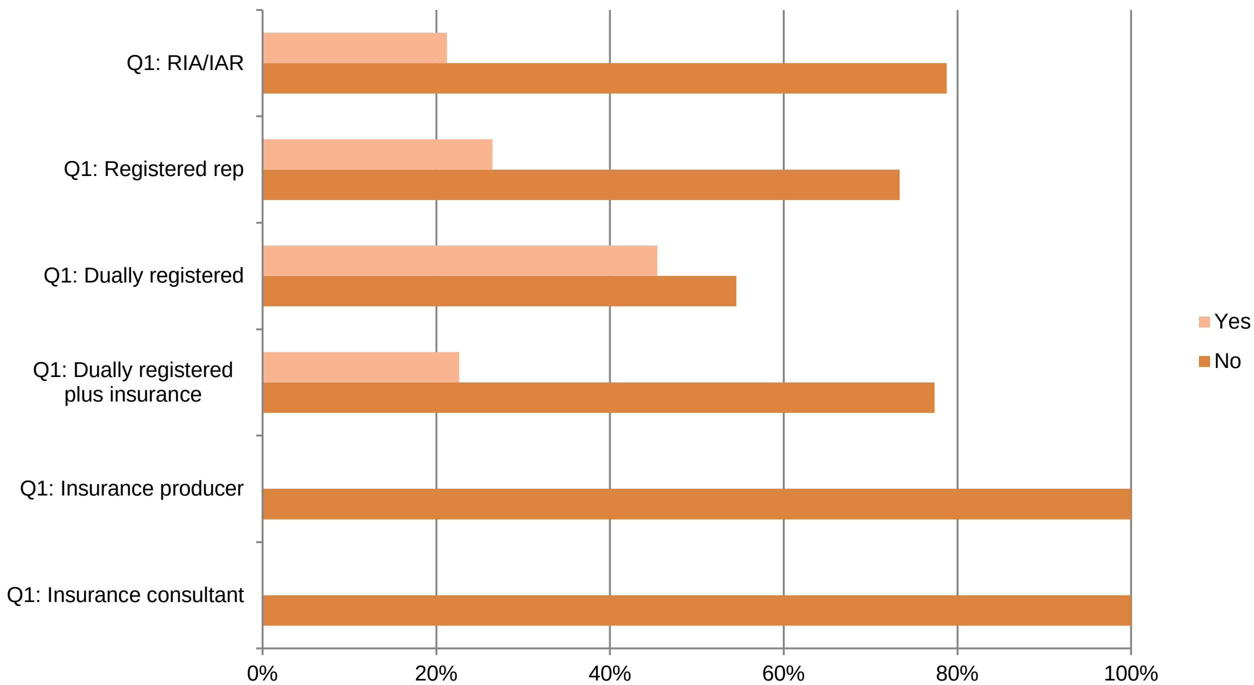
Dually registered-plus insurance - No. More than enough to go around.

RIA/IAR - No. NO WAY... They know that their current product offering would not meet the fiduciary standard is the reason for their objection to a fiduciary standard. They need to be honest

RIA/IAR - No. Absolutely not. They just don't want to change their business model. Let's see; sell a less favorable product to make more money. Great business plan!

"Do you believe a fiduciary duty for brokers who provide advice would reduce product and service availability for investors?"

Fiduciary Duty and Product or Service Availability – By Registration Type



Fiduciary Duty and Product and Service Availability - By Compensation Model

	Yes	No
Q10: Fee only	21.74% 100	78.26% 360
Q10: Fee/Commission	24.27% 25	75.73% 78
Q10: Commission only	33.33% 1	66.67% 2

Fiduciary Duty and Costs to Investors

The survey asked, ***"Do you believe it costs more to work with fiduciary advisors than brokers when all costs to the investor (not only the advisor's compensation) are considered?"*** The survey has included this each year because opponents of extending a fiduciary standard to brokers have made unsubstantiated claims that it costs investors more to work with a fiduciary. However, a strong majority of respondents disagrees: **nearly 91%, up from 79% overall last year, and across all compensation models and all registration types with one individual exception**, **say** **no.**

The consensus view across registration types is consistent: **94% of RIA/IARs, 83% of dually registered-plus insurance, 73% of dual registrants and 62% of registered reps indicate it does not cost more to work with a fiduciary** advisor than with a broker. In comparing compensation models, the response is nearly identical: more than **93% of fee-only, 80% of fee/commission, and two of three commission-only respondents say it does not cost more to work with a fiduciary advisor than a broker.** Comments are plentiful – here is a sampling of comments:

RIA/IAR - No. It is significantly less expensive.

RIA/IAR - No. Actually, I think it costs MORE for investors to work with brokers. Such investors are put in products with higher on-going costs, bigger front/back loads and surrender charges (annuities), etc. But most significantly, lower ending balances at retirement. This is what you get for FREE advice!

RIA/IAR - No. Absolutely, not! It takes an advisor charging 1% of assets under management 3-7 years to earn the same fee it takes a broker to receive upon securing a signature. I was a broker - I know.

Dually registered - No. Analysis shows that it costs less to work with an advisor.

RIA/IAR - No. Cost analysis should include the massive destruction of wealth that takes place at the hands of brokers when downturns come or non-fiduciary advice is associated with a failure to remain loyal to clients' best interests.

RIA/IAR - No. Bad products and broker's financial interest driven recommendations cost far exceed fee-only costs in my opinion.

DR - No. When we bring on a new client from a broker our fees are less than the broker fees 80% of the time.

RIA/IAR - No. From Fiduciary News, February 12, 2013: According to the January 24, 2013 entry of January Market Size Blog, U.S. retirement assets (including IRAs, 401k plans and 403b plans) total $10.3 trillion at the end of the third quarter in 2012. The universe of trusteed plans in the "It Pays to Set the Menu" paper indicates 33% of the assets are held by "conflicted" trustees. We'll assume this number for 403b plans and IRAs as a way of accounting for conflicted brokers. (Please note, the 33% number does not mean only 33% of the plans are advised by conflicted vendors, it only means the actual conflict occurs in only 33% of the assets. In other words, a conflicted adviser is likely to also put assets into unaffiliated funds.) A third of the total U.S. retirement assets is $3.4 trillion. Now, we take 10% of that reflecting the lower performing decile of funds and that's equal to $340 billion. Finally, we take the average underperformance of 3.6% annually and you get $12.3 billion of lost performance each year. That's more than a billion dollars a month, or $24.6 billion since the adoption of a uniform fiduciary standard was first proposed." [As of February 2013.]

Dually registered-plus insurance - No. I can mix ETFs and actively managed mutual funds (w/o 12b-1 fees or revenue sharing) that cost approximately 50bps. If it is straight ETFs or Vanguard funds only, you could easily add 50-75 bps for investment advice and be less than 1%. Isn't the average cost of mutual funds north of 1.15%. The FSI, IRI, SIFMA and the rest are just trying to scare everyone.

RIA/IAR - No. Brokers cost more because of hidden costs and fees wrapped inside expensive, underperforming products.

Dually registered-plus insurance - No. A fiduciary doing their job will always save money for their clients.

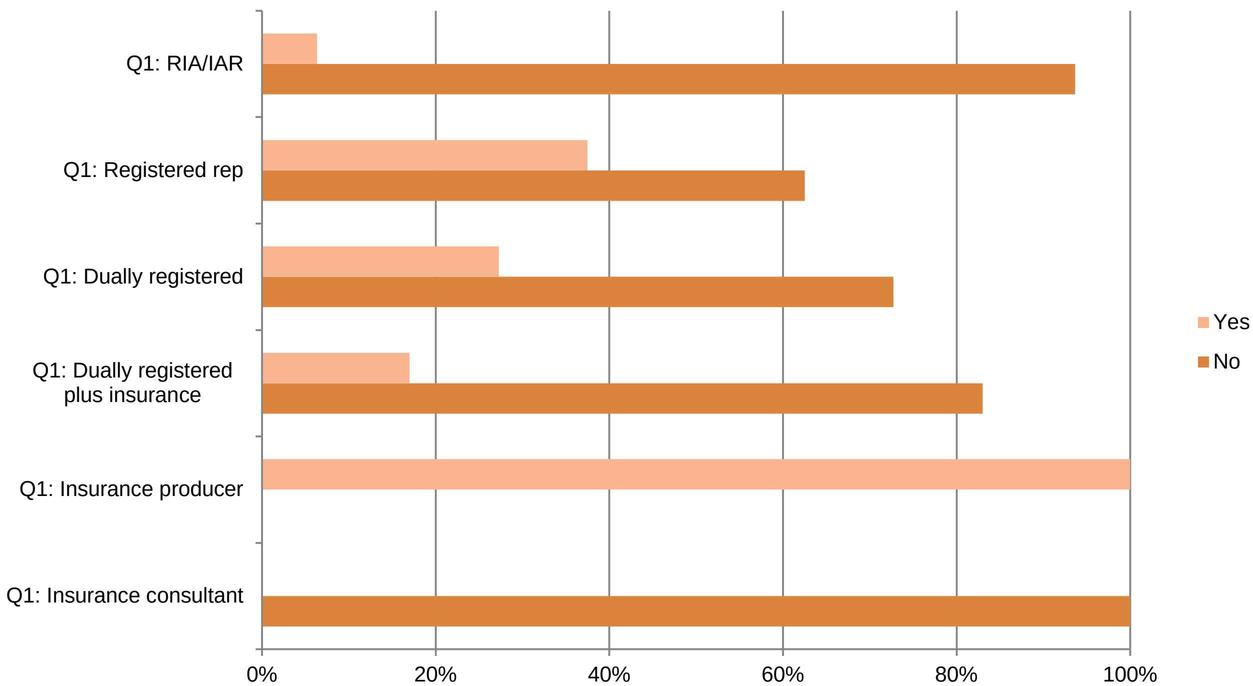
Dually registered-plus insurance - Yes. Yes, because people need to have their financial professional take time to understand their goals, needs, time-lines, family situation and budge issues (among other factors).

Does It Cost More to Work With a Fiduciary Than a Broker? – By Compensation Model

	Yes	No
Q10: Fee only	6.77% 31	93.23% 427
Q10: Fee/Commission	19.42% 20	80.58% 83
Q10: Commission only	33.33% 1	66.67% 2

Comparing compensation models, the response is nearly identical: more than **93% of fee-only, 80% of fee/commission, and two of three commission-only respondents say it does not cost more to work with a fiduciary advisor than a broker.**

Does It Cost More to Work With a Fiduciary Than a Broker? – By Registration Type



Fiduciary Duty and Advice for Investors

The survey asked: ***"Do you believe a fiduciary standard of care would price some investors out of the market for investment advice?"*** The survey has included this question each year because opponents of extending a fiduciary standard to brokers have made unsubstantiated claims that smaller and medium-sized investors would be priced out of the market for advice if the fiduciary standard was required of brokers when they advise investors. Survey respondents disagree: more than eight out of ten, **83%, say no, that's not the case** Concurrence is deep, across all compensation models and all but one registration type.

By compensation model there's strong consensus: 85% of fee only, 72% of fee/commission, and two of the three commission-only respondents say **no, a fiduciary standard of care would not price some investors out of the market** for investment advice. Analysis by registration type also reveals strong consensus: 85% of RIA/IARs, 73% of dually registered-plus insurance, and 62% of registered reps say that a fiduciary standard of care would not price some investors out of the market for advice. However, 54% of dual registrants disagree. There are many comments from participants; here is a sampling:

RIA/IAR - No. I think that the lack of this standard makes it easier to take money from people without their knowing or understanding that it's happening. So my hope is that a fiduciary standard would make them more aware of how much their investment advice is costing them.

RR - No. The competition would keep the prices in a band and the clients who can't afford it may need to more!

RIA/IAR - No. My firm supports large and micro clients fairly and profitably.

RIA/IAR - No. There are people like me who charge an hourly fee so investors could be handled at all levels.

Dually registered - No. A very illogical assumption or thought.

RIA/IAR - No. Small investors are "paying the freight" now unknowingly. If they ultimately are "priced out of the market" it will be because they have chosen not to pay the price - an informed choice. The free market will then provide alternatives (e.g., hourly rate advisors, robo-advisors, etc) just as it did when Charles Schwab stepped in when stock exchange fixed commissions ended in the '70s.

RIA/IAR - No. They are not getting advice now, only sales pitches.

RIA/IAR - No. Again, a smokescreen. Merrill won't help folks with less than a million now.

RIA/IAR - No. If there is a market segment available, a model will be developed to serve it (and one that doesn't rip off consumers).

RIA/IAR - No. It might price some less ethical providers out of the market, but not the investors.

RIA/IAR - No. Most fee-only RIAs are substantially cheaper than Wall Street

RIA/IAR – No. Scare tactics and games by large BDs to stop this legislation. Advisors will have to systematize and optimize how they serve smaller investors, but with increases in technologies, remote meeting capabilities, etc, the market will still be served.

RIA/IAR - No. There are fee only advisors that work on an hourly basis.

Dually registered-plus insurance - No. New models are being developed to service all markets.

RIA/IAR - No. There are more low-cost models available all the time.

RIA/IAR - No. We actually created a company with no minimum investment requirement that the parent company manages all the money. It is very scaled based and has no conflicts of interests. It is TRUELY a Fee Only company for ANYONE.

RIA/IAR - No. The market for investment advice would adjust. We don't lower the fiduciary standards to which CPAs and lawyers are held to because their fees are considered high and, as a whole, we sneer at the notion of reducing that standard so those professionals can "serve" more clients. Why should this be different?

RIA/IAR - Yes. However, if that's the price of admission so be it. Low cost Internet support for investors could be made available. The alternative of having people victimized in small and large ways is too high a price.

Dually registered-plus insurance - No. Scare tactic. The FSI, IRI and SIFMA all want to keep the gravy train going. As a fiduciary, why would I allow my clients to pay more for nothing?

RIA/IAR - No. There are a multitude of advisors who work with clients with no minimum fee or no minimum investment requirement. Many of them utilize less expensive share classes of funds and/or build portfolios utilizing ETFs. For example, an investor with between $0 and $25,000 can get retirement and college planning, access to fiduciary advisors for all questions they may have in regard to their planning, and active, tactical discretionary investment management for 2.37% all-in cost. There is enough technology now available for advisors to offer solutions to anyone, regardless of the amount of assets, in a scalable way.

RIA/IAR - No. The assertion is absurd!

RIA/IAR - No. The Internet has made a lot of quality advice available for free. There are several 'robo-advisors" that are working and providing low cost advice and investment help.

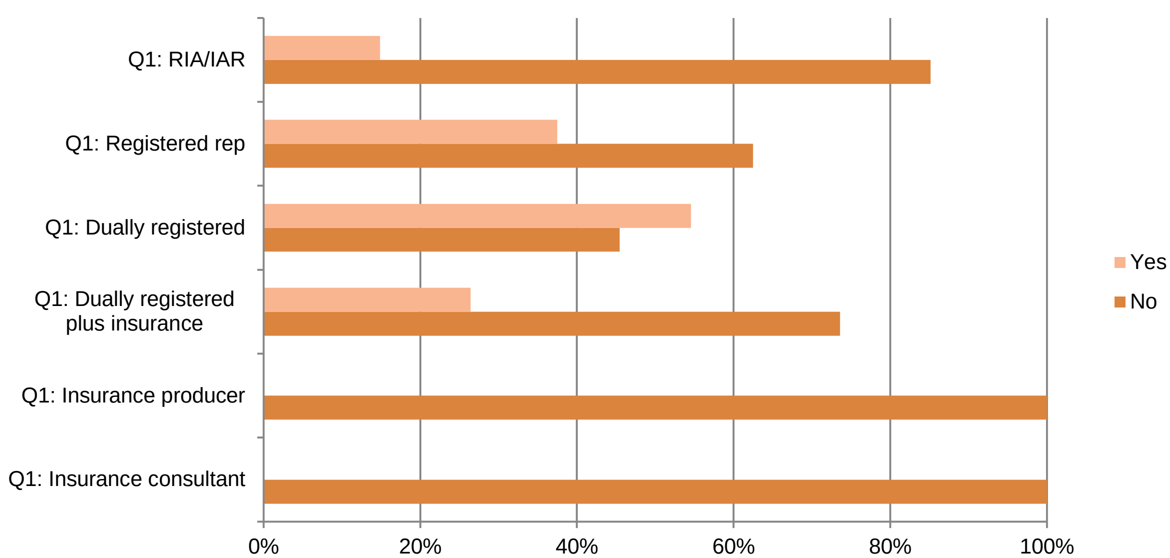
RIA/IAR - No. Not over time. Paying a fee to be pointed to Vanguard is well worth avoiding years of annual expenses in more costly funds.

RIA/IAR - Yes. When costs are transparent some will choose to not to pay. If the cost is not hidden from them, some investors will be "priced out of the market" because they are unwilling to pay. I don't lose any sleep over this.

Would Fiduciary Standard Price Some Investors Out? – By Compensation Model

	Yes	No
Q10: Fee only	14.72% 68	85.28% 394
Q10: Fee/Commission	27.88% 29	72.12% 75
Q10: Commission only	33.33% 1	66.67% 2

Would Fiduciary Standard Price Some Investors Out? – By Registration Type



Fiduciary Standard and Intermediaries' Knowledge and Training

The survey asks: ***"Do you believe that advisors who are subject to a fiduciary duty have the fiduciary training and knowledge base to practice under the fiduciary standard?"*** Overall, **62% of respondents believe advisors who are subject to a fiduciary standard do have the fiduciary training and knowledge base to practice under the fiduciary standard.** However, there was lower consensus among respondents within registration types and compensation models.

Looking across registration types, 65% of RIA/IARs and 52% of dually registered-plus insurance respondents believe advisors who are subject to a fiduciary duty have the training and knowledge base to practice under the fiduciary standard. But 64% of dual registrants and 56% of registered reps don't agree. By compensation model, **64% of fee only, and 52% of fee/commission respondents do believe that advisors subject to a fiduciary standard have the fiduciary training and knowledge base to practice under a fiduciary standard**, while two of the three commission-only respondents say they don't agree. Many respondents commented – here is a selection:

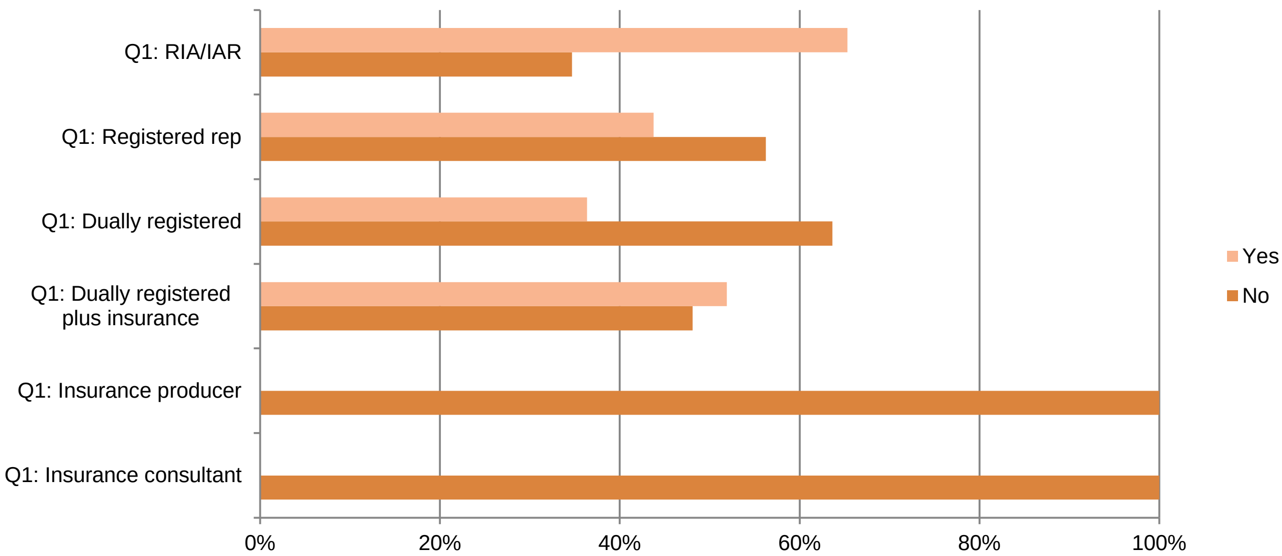
> *Dually registered-plus insurance - No. Not nearly enough advisors have any formal training when it comes to 401(k) plans.*
>
> *RIA/IAR - Yes. There are certainly many who don't, but the vast majority who prosper do so because they know what they're doing.*
>
> *Dually registered-plus insurance - No. Virtually anyone who has a middle-school command of our language can be in this business. Many of our colleagues have no idea what the word even means.*
>
> *RIA/IAR - Yes. It really is not that hard - just always do what is best for your client. Always act in utmost good faith. Avoid and, if that is not possible, fully disclose any conflicts of interest. If you always do those three things, any transgression will be only a technicality.*
>
> *RR - No. I am not familiar enough with our industry to have a strong belief about this. If the one exam I had to take to work with money managers, series (?), is all it takes - no. There are no annual CEs; no oversight.*
>
> *RIA/IAR - No. Many do, but some don't. This needs to be fixed.*
>
> *Dually registered-plus insurance - Yes. But as we move toward a uniform standard, I believe we are approaching a place where advisors do not have the training. Previously there was a clear difference between those serving the client and those selling a product technically (even if it required some work to explain it to the public). Advisors that migrated toward true fiduciaries knew what they were taking on. Now, registered reps are becoming advisors everyday because they are being pushed in that direction by the brokerage firms. Their job is no different than it was previously. Instead of selling a mutual fund they are being told to sell an investment model. True advisors always provided advice and leadership to execute.*

Fiduciary Training and Knowledge Base – By Compensation Model

	Yes	No
Q10: Fee only	64.33% 294	35.67% 163
Q10: Fee/Commission	51.96% 53	48.04% 49
Q10: Commission only	33.33% 1	66.67% 2

Do you believe that advisors who are subject to a fiduciary duty have the fiduciary training and knowledge base to practice under the fiduciary standard?

Fiduciary Training and Knowledge Base – By Registration Type



Conflicts of Interest and Disclosures

Conflicts of interest and how they are avoided, managed and disclosed are some of the most important issues for investors – and they generally make a big difference in investors' outcomes. Conflicts of interest also point to some of the starkest differences between the fiduciary standard and BD suitability. ***Under the fiduciary standard, investment advisers must avoid conflicts, and where a conflict is unavoidable, disclose all material conflicts.***

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

The survey asked, ***"Generally, what do you view as the primary role of disclosures in your practice?"*** Overall, survey participants are mixed about how they view the role of disclosures: 41% of survey respondents view the primary role of disclosures as informing investors of products and conflicts so that they can make an informed decision. Another 37% view disclosures as informing investors of the rationale for their recommendation and advice, while 9% say the role of disclosures is to minimize their liability. More than 36% say it's all of the above. Comments were plentiful, here is a selection:

Dually registered-plus insurance - Unfortunately...the vast majority do not read or review.

Dually registered-plus insurance - Disclosures are the necessary result (fall-out) of deceptive business practices. They are band-aids. If, as an industry, we believed that what we provided was valuable and that we were collectively ethically sound, we would have nothing to hide, our prices would be clearly marked and our products proudly displayed, and we wouldn't have this problem.

Dually registered-plus insurance - Disclosure in this business is now a joke - it is disclosure through obfuscation and I question whether a client actually has a legal duty to read the volumes of "disclosure" presented. I don't think current disclosures inform a client of anything.

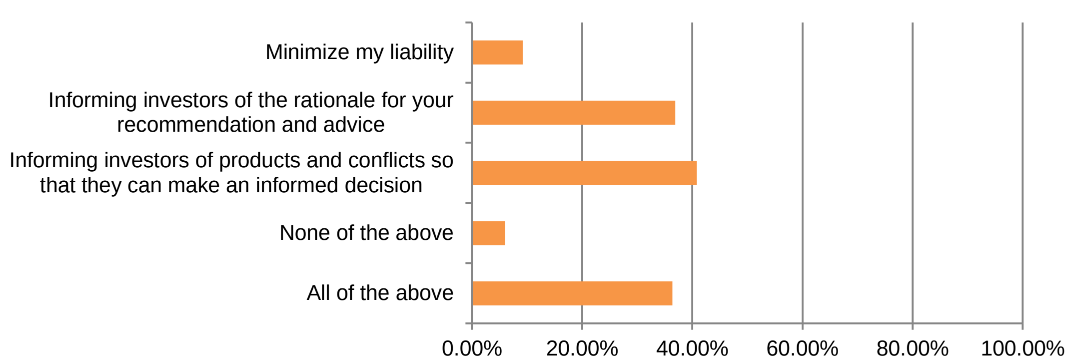
RIA/IAR - A way to create full transparency and build trust.

RR - I think disclosures are mostly not even read. They are mostly about making Government think the have done something special for the public. If the bad actors would be held accountable, it would do more for the safety of investors than disclosures.

RIA/IAR - First of all, I have shaped my business model to reduce the number of possible conflicts of interest. Of course, there is no completely conflict-free environment. My primary reason for disclosure is because our relationship is based on trust, and transparency is a cornerstone of trust. Yes, I want clients to understand potential conflicts, and yes I want them to understand my rationale, but ultimately I am sitting on the same side of the table and my role is to help them understand the pro/cons so that they can make the best decision for them.

RIA/IAR - While disclosures are important and to a certain degree necessary, disclosure does not prevent clients from making poor decisions when seeking advice from those with conflicts of interests; the behavioral science is pretty clear on this.

Primary Role of Disclosures – Overall Respondents



Analysis by compensation model shows views are divided about the role of disclosures. Nearly 43% of fee only, and 33% of fee/commission respondents say the role of disclosures is informing investors of products and conflicts so they can make an informed decision. More than one-third, 37% of fee only, and 36% of fee/commission respondents, indicate that informing investors of the rationale for their recommendations and advice is the main role for disclosures in their practice. Relatively few, 9% of fee only, and 8% of fee/commission, say minimizing their liability is disclosures' role, while 47% of fee/commission and 33% of fee-only respondents say it's all of the above.

Role of Disclosures – By Compensation Model

	Informing investors of products and conflicts so that they can make an informed decision	Informing investors of the rationale for your recommendation and advice	Minimize my liability	None of the above	All of the above
Q10: Fee only	42.67% 195	37.20% 170	9.41% 43	6.56% 30	33.48% 153
Q10: Fee/Commission	33.01% 34	35.92% 37	7.77% 8	3.88% 4	47.57% 50
Q10: Commission only	33.33% 1	33.33% 1	33.33% 1	0.00% 0	66.67% 2

Across registration type, 'all of the above' is the choice most selected by dual registrants, 73%, dually registered-plus insurance, 49%, and registered reps, 44%. Most RIA/IARs selected 'informing investors of products and conflicts so they can make an informed decision.'

Role of Disclosures – By Registration Type

	Informing investors of products and conflicts so that they can make an informed decision	Informing investors of the rationale for your recommendation and advice	Minimize my liability	None of the above	All of the above
Q1: RIA/IAR	43.13% 204	38.05% 180	8.88% 42	6.55% 31	33.19% 157
Q1: Registered rep	31.25% 5	31.25% 5	6.25% 1	6.25% 1	43.75% 8
Q1: Dually registered	27.27% 3	27.27% 3	18.18% 2	0.00% 0	72.73% 8
Q1: Dually registered plus insurance	30.19% 16	32.08% 17	9.43% 5	1.89% 1	49.06% 26
Q1: Insurance producer	0.00% 0	0.00% 0	0.00% 0	0.00% 0	100.00% 1
Q1: Insurance consultant	0.00% 0	100.00% 1	0.00% 0	0.00% 0	0.00% 0

Are Disclosures Enough to Manage Conflicts of Interest?

Disclosures of conflicts of interest are a very important part of an investment fiduciary's duty of loyalty to clients. However, disclosures do not replace the duty to act in the client's best interest – even once a conflict is disclosed. **Avoiding conflicts of interest in the first place** is a first step, but since not all conflicts can be eliminated, ***how a fiduciary manages the conflict of interest - in the investor's favor – can make a big difference in the investor's outcome.***

Recent research[2] indicates that disclosures can have a surprising effect on an investor, and can <u>cause investors to be more likely to agree to an intermediary's recommendations *even if they may in fact harm them*,</u> because they are more likely to trust the intermediary who has disclosed a conflict of interest.

When we asked: ***"Are disclosures alone enough to manage conflicts?"*** most respondents, **84%,** up from 82% in 2013, **say no, disclosures alone are not enough to manage conflicts of interest.** This year's response includes a strong majority across all registration and compensation categories. Fee only, 85%, fee/commission, 82% and all three commission-only respondents indicate that disclosures alone are not enough to manage conflicts. Across every registration type**: 85% of RIA/IARs, 81% of registered reps, 82% of dual registrants, and 79% of dually registered-plus insurance respondents agree that disclosures alone are not enough to manage conflicts of interest.** Comments here are plentiful and add context and detail to participants' survey responses. A sampling follows:

RIA/IAR - No. The average annuity product comes with 200 pages of "disclosures" written in dense legal terms. Really? That's enough? What a crock!!!!

Dually registered-plus insurance - No. Disclosing a conflict does exactly one thing: it discloses a conflict. Making it known does not do anything to "manage" a conflict, nor does it do anything to remove or fix the problem, which is the real issue. Conflicts shouldn't be "managed," they should be removed.

RR - No. They haven't prevented abuse in our industry so far have they?

RIA/IAR - No. You can disclose everything and still run into a situation that is new and hasn't been disclosed in the past. That's why it is so important that there is a spirit/culture of transparency, and fiduciary duty if our industry is ever going to be trusted fully.

RIA/IAR - No. You have to have a culture where you are truly trying to live up to the do the right thing for the client; disclosure isn't enough. There are often several "right things" for the client and not only one choice.

Dually registered-plus insurance - No. What can't be disclosed in writing has to be disclosed verbally. I can't disclose in writing to my clients that the behavior of BD employees undermines my confidence not only in the market, the marketplace but also regulators. I have stopped, (almost) doing business with any company that identifies itself as a BD "partner." Lying is ok. Telling the truth will get you in trouble. It's a great industry.

RIA/IAR - No. I think an advisor's choice of business model should remove conflicts, not simply "disclose" them.

Dually registered-plus insurance - Yes. Most people are grown ups about it. They can make a reasonable decision. But where the playing field is unlevel and others are not bound to disclose they can represent that their services are free. This is bad for consumers. Full disclosure beyond the prospectus is necessary. It must be verbal and in writing specific to the client and the event.

RIA/IAR - No. If disclosures alone were sufficient, then there's no need to change the current conflict ridden system.

RIA/IAR - No. You also have to create an environment that mitigates, not fosters or protects conflicts of interest.

RIA/IAR - No. There is evidence that Disclosures can and have had the opposite effect.

RR - Yes. Provided they are made in a way that is clearly understood by investors.

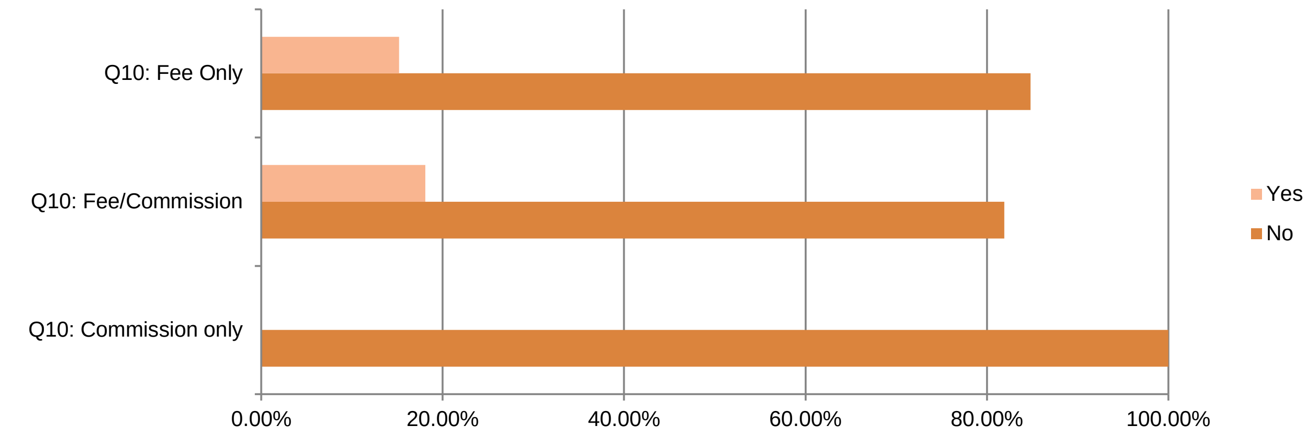
RIA/IAR - No. People don't read them...the fiduciary standard will help...investors will know from the start how the advisor operates and therefore will better understand the that the focus of the advice is in the investors best interest...not the advisors' back pocket.

RIA/IAR - No. If you would sell a VA and 7% loaded stock mutual funds to a 75-year old person, you are slimy enough to gloss over disclosures.

Are Disclosures Enough?

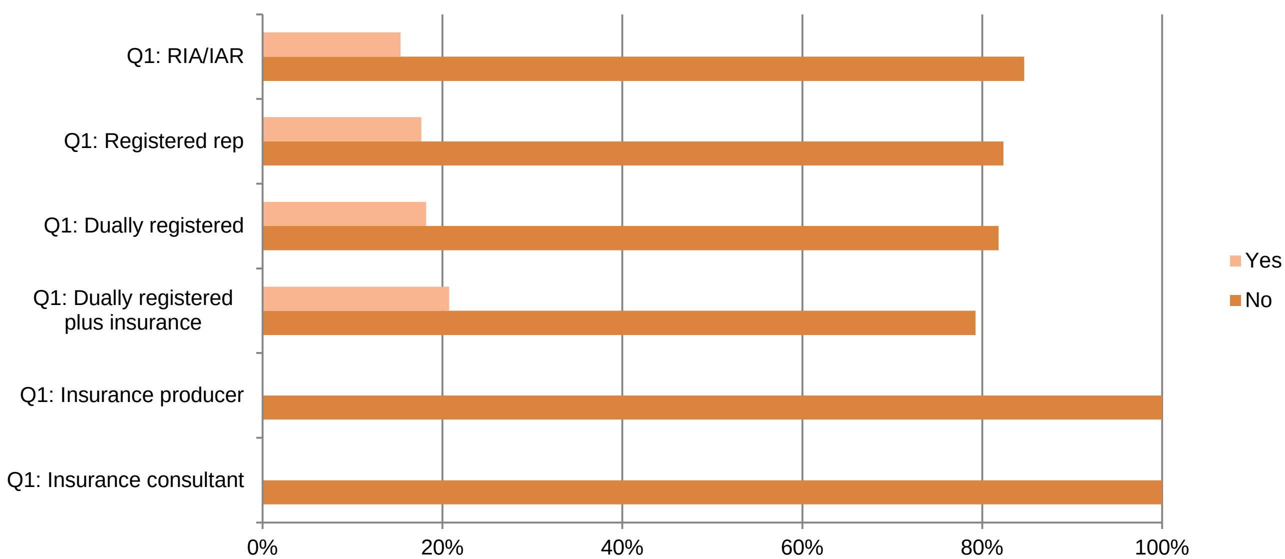
Sentiment that ***disclosures alone are <u>not</u> sufficient to manage conflicts*** extends across every compensation model.

Are Disclosures Enough? – By Compensation Model



Sentiment that ***disclosures alone are not sufficient to manage conflicts*** extends across every registration type.

Are Disclosures Enough? – By Registration Type



A Critical Gap in Investment Knowledge Between Ordinary Investors and Financial Intermediaries

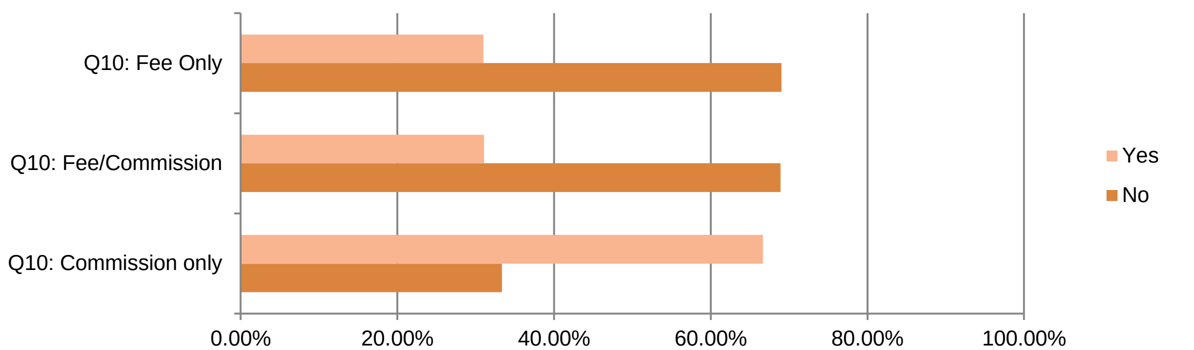
It is widely acknowledged that **investors don't understand the differences between investment advisers and their duty to place investor's interests ahead of their own under the fiduciary standard, and registered reps' duty to comply with a BD-suitability standard in which loyalty to the firm, rather than the investor, is required.** In fact, in the 2013 fiduciary survey, **97% of participants acknowledged that investors do not understand the differences between brokers and investment advisers**. Numerous other studies support this finding[1].

There is a widely acknowledged gap in professional knowledge between financial intermediaries and investors. It is often described like this: Would someone without professional training be expected to perform surgery, give legal advice, or develop a tax strategy? Most individuals entrust doctors, CPAs and lawyers with their wellbeing in those areas. Similarly, ***ordinary investors typically entrust their retirement savings and financial wellbeing to the broker or investment adviser they engage – or who is engaged on their behalf for a 401(k) or other retirement plan.***

The 2014 survey asked, ***"There has been a large gap in the knowledge base between professional advisors and that of individual investors regarding investments and financial services. Can ordinary investors bridge this gap?"*** More than 69% respondents overall say ordinary **investors cannot bridge the knowledge gap that exists between investors and professional advisors**. There is strong consensus across registration types and compensation models.

By compensation model, **69% of fee only and nearly 70% of fee/commission respondents say no, ordinary investors cannot bridge the investment knowledge gap.** However, two of the three commission-only respondents disagree.

Can Investors Bridge the Investment Knowledge Gap? – By Compensation Model



Among registration types, a strong majority **of 75% of dually registered-plus insurance, 73% of dual registrants, 68% of RIA/IARs and 60% of registered reps says ordinary investors cannot bridge the gap between their investment knowledge and that of a professional advisor**.

Can Investors Bridge the Investment Knowledge Gap? – By Registration Type

	Yes	No
Q1: RIA/IAR	31.62% 148	68.38% 320
Q1: Registered rep	43.75% 7	56.25% 9
Q1: Dually registered	27.27% 3	72.73% 8
Q1: Dually registered plus insurance	25.00% 13	75.00% 39
Q1: Insurance producer	100.00% 1	0.00% 0
Q1: Insurance consultant	0.00% 1	100.00% 1

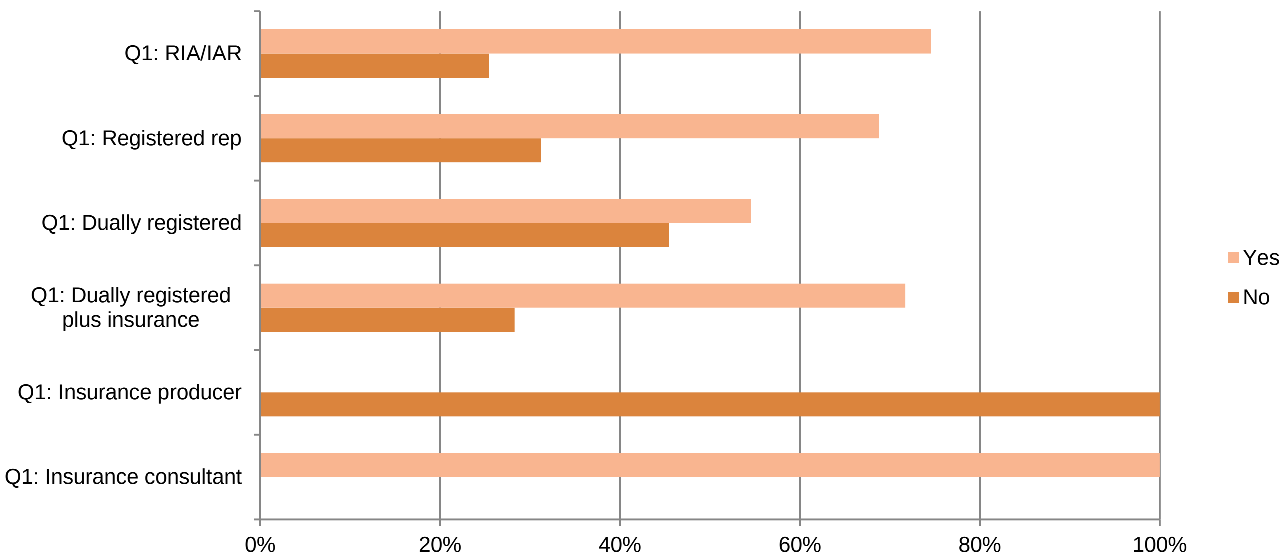
ERISA – A More Rigorous Fiduciary Standard

Most questions in the survey relate to the RIA/IAR fiduciary standard, regulated under the Investment Advisers Act of 1940. This year, for the third year, the survey asked questions about support for 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.** For this reason, we have been surprised at the support intermediaries have shown for the more rigorous requirements of the ERISA fiduciary standard.

The survey asked: ***"Do you agree in concept with the Labor Department's plan to propose a rule that would expand the number of advisors who are considered fiduciaries under ERISA?"* Yes, say 74% of respondents overall, vs. 61% last year.** There's strong consensus across registration types and compensation models**.**

Analysis by registration type shows **strong agreement in nearly every category of registrant: 74% of RIA/IARs, 73% of registered reps, 73% of dually registered-plus insurance and 54% of dually registered respondents agree in concept with expanding the number of advisors who are considered fiduciaries under ERISA.** A lone insurance producer disagrees - but the lone insurance consultant agrees with the Labor Department's plan.

Expand Who Is Considered ERISA Fiduciary? – By Registration Type



Across compensation models, **75% of fee only and 70% of fee/commission respondents would agree in concept with a Labor Department plan to expand the number of advisors who are considered fiduciaries under ERISA**. The three commission-only respondents disagree.

Expand Who Is Considered ERISA Fiduciary? By Compensation Model

	Yes	No
Q10: Fee only	74.94% 317	25.06% 106
Q10: Fee/Commission	69.23% 72	30.77% 32
Q10: Commission only	0.00% 0	100.00% 3

Should the Same ERISA Fiduciary Standard Apply to IRAs?

As with support for extending the ERISA fiduciary standard to cover more service providers such as securities brokers, **respondents indicate support for the ERISA fiduciary standard, even more emphatically than last year.** When the survey asked: ***"Should the same fiduciary standard that applies to 401(k) accounts also apply to advice on IRA accounts?"*** nearly 82% say yes, up from 72% in 2013. And the answer is yes, across the board: **the majority, across all compensation models and all registration types, says *yes, the same fiduciary standard that applies to 401(k) plans should also apply to advice on IRA accounts.***

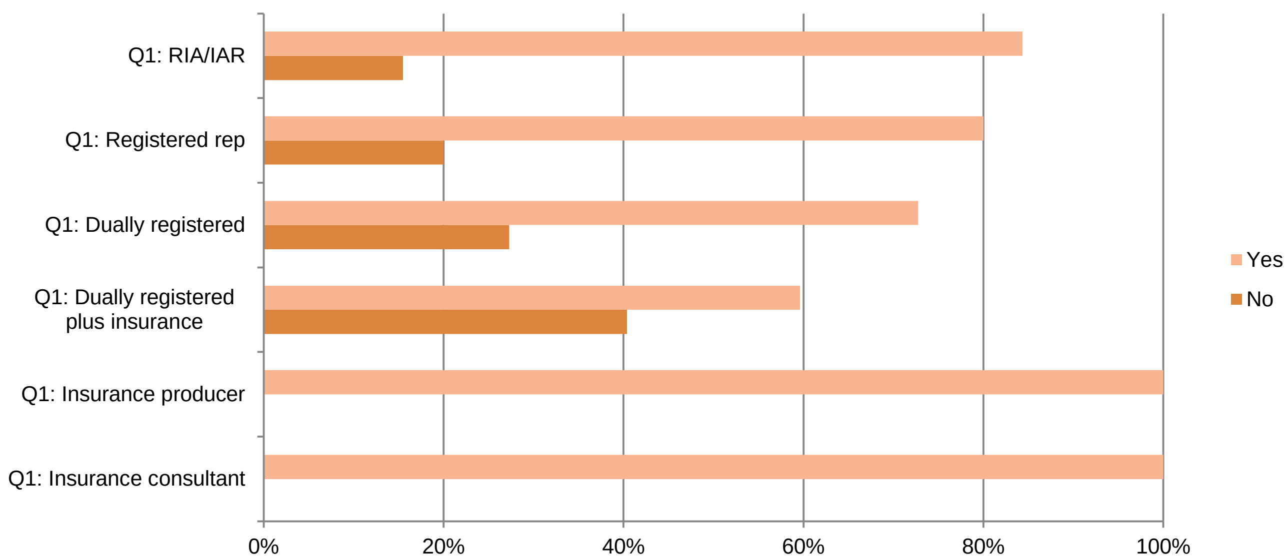
Looking at compensation models, 86% of fee only, 65% of fee/commission and two of the three commission-only respondents say yes, the same fiduciary standard that applies to 401(k) accounts also apply to advice on IRA accounts. Analysis by registration type reveals that 84% of RIA/IARs, 80% of registered reps, 73% of dually registered and 60% of dually registered-plus insurance respondents all say yes, the same fiduciary standard that applies to 401(k) accounts also apply to advice on IRA accounts.

Should the ERISA 401(k) Fiduciary Standard Apply to IRAs? – By Compensation Model

	Yes	No
Q10: Fee only	85.78% 374	14.22% 62
Q10: Fee/Commission	64.71% 66	35.29% 36
Q10: Commission only	66.67% 2	33.33% 1

Across every type of registration, intermediaries say the ERISA fiduciary standard should apply to IRAs.

Should the ERISA 401(k) Fiduciary Standard Apply to IRAs? – By Registration Type



Advice on Rollovers From 401(k) and IRA Accounts

Many consumer and investor advocates and labor organizations believe that there may be no more vulnerable transition for a retirement investor than when advice is proffered on money rolling over from a retirement account. The survey asked, ***"Should the fiduciary standard apply to advice to investors on rollovers from 401(k) to IRA accounts?"***

This particularly vulnerable point for investors – when leaving a company, retiring or just consolidating retirement accounts from former employers or financial institutions, is a critical decision point. The advice they get at this time can affect whether they will be able to retire with dignity – or even at all. And because the retirement system in America consists largely of individual corporate defined contribution plans that vary wildly in size, fees and the quality of investment choices, there is no single answer to questions such as:

- Should the investor stay in their 401(k) or rollover to an IRA?
- Should the investor move to a new employer's 401(k)?
- Should the investor entrust their retirement savings to an annuity?
- Who is the best person to advise the investor about this transition?

It all depends on the facts and circumstances of individual investor's individual situation:

- How old is the employee? Risk tolerance, marital status, kids to get through college?
- What is their overall financial situation? Other assets?
- Are costs in the current 401(k) high or low relative to other plans of the same size?
- What is the quality and cost to the investor of the choices on their current 401(k) platform?
- Why should there even be a difference between a 401(k) at one company and another?
- Would moving to a new institution be in this investor's best interest?

The fact is that the size, cost, and quality of a particular 401(k) plan or IRA and the quality and intent of the advice the investor receives at this point makes a great deal of difference in the quality of their life in retirement.

<u>**The 91% overall response is yes, the fiduciary standard should apply to advice to investors on rollovers from 401(k) accounts to IRA accounts.**</u> That's up from 79% in 2013. As in the previous question, respondents indicate a majority across the board - **all compensation models and registration types affirm this sentiment.**

Analyzing responses by compensation model, **93% of fee only, 81% of fee/commission and two of the three commission-only respondents say yes, the fiduciary standard should apply to rollovers from 401(k) to IRA accounts.** Across all registration types, the answer is yes: **92% of RIA/IARs, 86% of registered reps, 85% of dually registered-plus insurance, and 82% of dually registered respondents say the fiduciary standard should apply to advice on rollovers from 401(k)s to IRAs.**

There were many comments on this question. A sampling follows:

> *RIA/IAR - Yes. This is arguably the most critical transition investors undergo with their Retirement accounts. Especially, but not only, if this is at the point of retirement. More uninformed and destructive decisions are made at this time than over the life of retirement accounts.*
>
> *RIA/IAR - Yes. Particularly to IRA Rollovers where most of the abuse occurs.*
>
> *Dually registered-plus insurance - Yes. Why should investors get abused when they leave the protection of a qualified plan? Look at fixed index annuity sales. One decision for ignorant investors and salesman make 6%-10% commission. It's like shearing sheep. Line them up.*
>
> *RIA/IAR - Yes. Fiduciary advice would include weighing all available options and recommending the best option that will help them meet their objectives. It is very easy for an advisor to show the pros/cons and cost of each option they have: keep the assets in the plan, roll the assets to an IRA, distribute the assets, roll the assets to a new plan. Showing them all of the options and then letting them decide what to do should be a pretty simple task. Why shouldn't that be done under a fiduciary standard?!*
>
> *Dually registered - Yes. Because of all the options available for IRA accounts.*
>
> *RIA/IAR - Yes. I have personally seen many cases where the person was advised to move out of a 401k with low fees and good investment choices so that they could be sold A shares.*
>
> *Dually registered-plus insurance - No. Materially different service and planning solutions. Big fan of all things fiduciary, however, the solution providers have not developed solutions to allow a fiduciary model to exist.*

Dually registered-plus insurance - Yes. There are far too many abuses that can occur by advising employees to pull out of the 401(k) to a more expensive product outside of the plan.

Dually registered-plus insurance - Yes. Why wouldn't it? When someone is hired to provide financial advice of any flavor, color, or shape, there is a fiduciary aspect to that relationship. The scope of fiduciary responsibility may be lesser or greater depending on the particulars involved, but I can't see how it can ever be removed (regardless of the laws or regulations technically defining such—I am approaching this from the paradigm of a philosophical ideal).

RIA/IAR - As an IAR, the fiduciary standard is THE STANDARD we intend to fulfill. This standard already applies to Investment Advisers.

Dually registered-plus insurance - Yes. My wife was solicited by [insurance company] to rollover her old 401k from them as a plan custodian/administrator to them as a IRA product /custodian. Expenses on her account would have doubled, quality of choices would have declined and she would have paid an up-from sales charge of 2-4%. Salesman soliciting change had no obligation to inform her that she would not benefit from the change. This is what BDs are afraid of. They want to keep revenue sharing. They want to keep 12b-1 fees. They want to keep rollovers from 401(k)s where the client doesn't benefit. Tibble, Manarin, regulators are dragging their feet. It reminds me [of] High Freq Trading - I don't know how much it costs me but it doesn't make me confident that regulators are doing a good job.

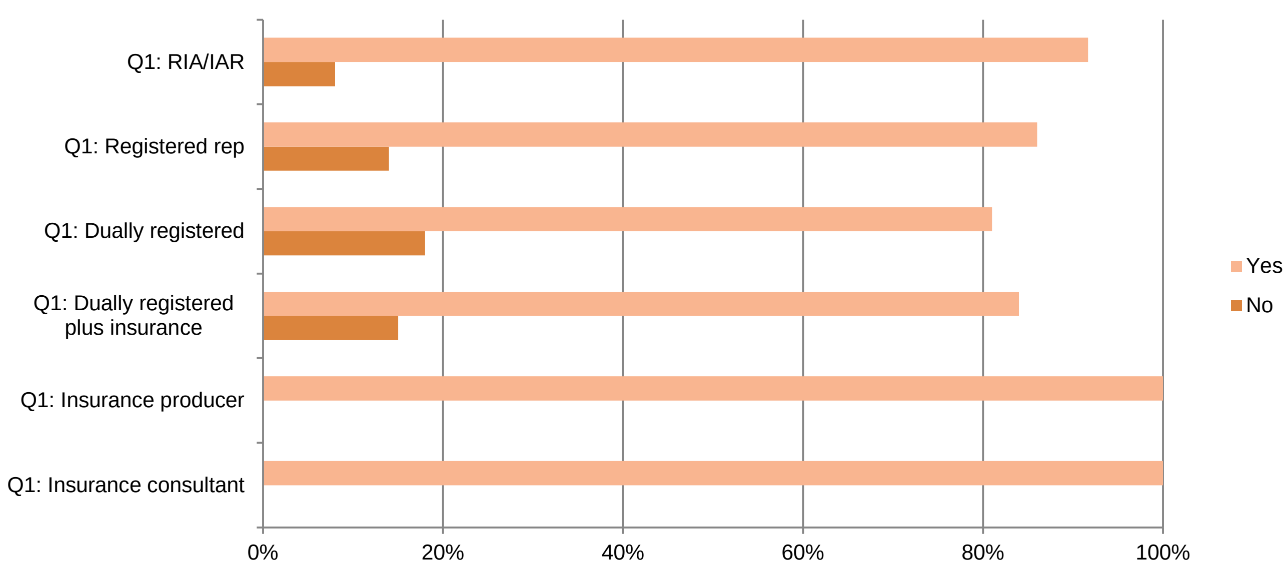
RIA/IAR - Yes. Yes, BUT the clients are better served with a fiduciary advisor who is managing all the assets. And who decides on this? Even a very low cost 401(k) can be easily mis-managed by clients.

Strong majorities exist across all compensation models and registration types say yes, the fiduciary standard should apply to rollovers from 401(k)s to IRA accounts.

Fiduciary Standard For 401(k) Rollovers to IRAs? By Compensation Model

	Yes	No
Q10: Fee only	92.97% 410	7.03% 31
Q10: Fee/Commission	81.00% 81	19.00% 19
Q10: Commission only	66.67% 2	33.33% 1

Fiduciary Standard For 401(k) Rollovers to IRAs? By Registration Type



Differentiate Fiduciary from Non-fiduciary Roles for Investors

In the 2013 survey, respondents indicated that 97% of investors do not understand the differences between investment advisers operating under the fiduciary standard, and broker-dealer registered reps operating under suitability. This year, the survey asked: ***"What are the best ways to clearly differentiate fiduciary versus non-fiduciary roles to investors?"*** *(Check all choices that apply.)* Overall, more respondents indicate that the best way to differentiate fiduciary roles from non-fiduciary roles is: 'fiduciary disclaimer,' 61%, followed by 'separate sales from advice,' 51%, and 'titles,' 48%.

Looking at responses by registration type, a different picture emerges. 'Fiduciary disclaimer' is the best way, say 60% of RIA/IARs, 75% of dually registered, and 70% of dually registered-plus insurance. Most registered reps, 64%, say 'titles' are the best way to differentiate fiduciary from non-fiduciary roles. And 54% of RIA/IARs, 42% of dually registered-plus insurance and 36% of registered reps indicate 'separating sales from advice' would be the best way to differentiate fiduciary from non-fiduciary roles for investors. However, only 12% of dually registered respondents thought that would help to differentiate fiduciary from non-fiduciary roles for clients.

Comments from survey participants are plentiful; here is a sample:

> *RIA/IAR The idea that a single advisor can do both sales and advice, and switch their fiduciary hat somewhere in the conversation is ludicrous. The client has no idea when you switch hats.*
>
> *RIA/IAR - There should not actually be a differentiation. ALL advice should meet the fiduciary standard, whether advice or product sales/recommendations.*
>
> *RIA/IAR - Eliminating the term 'advisor' for all non-fiduciary product representatives.*
>
> *Dually registered - Not sure. I see titles as being mis-used now. Disclaimer unlikely to be read.*
>
> *RIA/IAR - Call salespeople, salespeople. It's an honorable profession. Use terminology that is broadly recognized by the public...not as defined by legalese.*
>
> *RIA/IAR - I am a Fiduciary, but do not believe everyone must be. I think what needs to change is the marketing and titles that allows salespeople to pretend to be giving advice when they are really selling a product.*
>
> *RIA/IAR - Only registered investment advisors should be allowed to call themselves advisors and only certified planners should be allowed to call themselves planners. If sales firms wish to be in the investment advice business, they should establish advice subsidiaries with entirely different names so there is no question of who does what.*
>
> *RIA/IAR – Big, bold, top-of-front-page-required client acknowledgement that they are being SOLD an investment product that may not be in their best interest and may be more costly than other options. Conflicts of interest may exist between the salesperson and the client due to such things as higher commissions being paid on some investment products than others.*
>
> *RIA/IAR - I think adherence to the fiduciary standard benefits those financial advisors who adopt it (and, of course, their clients as well) and they should clearly communicate this to their current and potential clients in their marketing materials. It also becomes a component of the contractual obligation a financial advisor has to his/her client as well and therefore this language should most likely be included in the service agreement as well.*
>
> *RIA/IAR - Sign a fiduciary oath.*
>
> *RIA/IAR - 1. Standardized compensation disclosure on confirms and monthly brokerage statements. 2. Then, internet-based comparison of service providers. Menu of costs, websites that compare costs for consumers, letting the marketplace drive the change that is needed in this industry.*
>
> *Dually registered-plus insurance - It is not enough to say there is a difference; there must be a difference.*
>
> *Dually registered-plus insurance - I think titles and fiduciary disclosure, not disclaimer, are the correct starting points.*
>
> *RIA/IAR – [I] don't think the ordinary consumer can distinguish so I believe that no one should be allowed to call themselves "Advisor," "Planner," or hold them out in any way to be giving advice unless they are held to a fiduciary standard. If they just want to sell something then they should have to disclose that openly and have "Sales" something in their title. But most clearly stating that when I act in a non-fiduciary status, I receive compensation that varies from one product to another. In fact, it is very difficult for me to know what I'm earning*

ever on a commission basis, so disclosure isn't just a burden on me, it's a burden that the product manufacturers have to commit to doing. If they won't cooperate, we will be in a tenuous position.

RIA/IAR - The person who provides advice should not be the same person who sells the products. Also, disclosure needs to go beyond just the individuals providing advice and/or products but needs to extend to the BD/RIA itself. BDs that are affiliated with RIAs, custodians, banks, etc. need to disclose all of their conflicts, such as selling of proprietary products to their clients, fees they receive from affiliated bank products or trust services provided to clients, and whether they are taking proprietary risk on their balance sheets that could potentially put client assets at risk. This should all be affirmatively disclosed and not buried in small print somewhere.

Dually registered-plus insurance - Why would we seek such an artificial and meaningless differentiation? Unless, of course, if we didn't want to be held responsible, and the implications to this position are rather clear. As stated before, there is a fiduciary aspect to any financial advice (yes, even transactions or "sales only," and the word "advice" applies in all cases) for which compensation is received.

RIA/IAR – Can't we just clarify what each profession is doing? If they want to buy products from someone, can't it be required that "product salesman" is disclosed somewhere? As compared to an advisor/planner?

RIA/IAR – Require FIDUCIARY STANDARD of all who advise whether a product is involved or not.

Dually registered-plus insurance - Fiduciary statement not disclaimer. You can't separate sales and advice. Most firms aren't large enough.

RIA/IAR – Require fee/service disclosure to investor similar to 408(b)(2) in ERISA plans

RIA/IAR – [Titles] like "Financial Products Sales Consultant" vs. "Registered Investment Advisor."

RIA/IAR – I believe the way to clearly define and differentiate this is to ONLY allow advice from an RIA firm, and that that advice must be fiduciary advice, in allocation as well as product selection. If a broker sells product, it should be prohibited that they give "advice." Fee-based advisors should ONLY be allowed to provide advice and that it must be fiduciary advice, in allocation as well as product selection, and any commission should offset a fixed fee arrangement. Said another way, a 1940 Act firm should be held to the fiduciary standard, period. NO TWO-HAT RULE!

Dually registered-plus insurance – I am responding to the "best" of what was offered. Everything has an Achilles Heel. Disclaimers will not be read, separating sales from advice will result in more expense and does not serve the client, titles are the easiest way to do so.

RIA/IAR - Could a used car salesman also be called "a vehicular consultant"?

Dually registered-plus insurance - Statement from non-fiduciary - I am not required to put your interests first. If you want someone who will place your interests first - you must hire an investment adviser.

RIA/IAR - Anyone who sells a product for commissions cannot claim to be a fiduciary.

RR - I do not think you can as long as the person providing advice also helps decide how the advice is implemented which usually involves the investments (aka products) themselves.

RIA/IAR - I think non-fiduciary advisors who provide advice should have to clearly state on their marketing materials and business cards that their advice in no way creates or is subject to a fiduciary duty.

RIA/IAR - Disclose all fees.

RIA/IAR - Prevent product providers/sellers from marketing directly to consumers!

RIA/IAR - Advisors should either be a fiduciary or NOT 100% of the time. This back and forth nonsense is what has consumers so confused. Maybe titles/designations would be one way to accomplish the objective. A fiduciary disclaimer is only helpful if it is in 14-point font, on the front page of a disclosure brochure and in easy-to-read/understand language. Ex: I am a fiduciary and agree to be legally bound to providing advice that is in the BEST interest of the clients I serve.

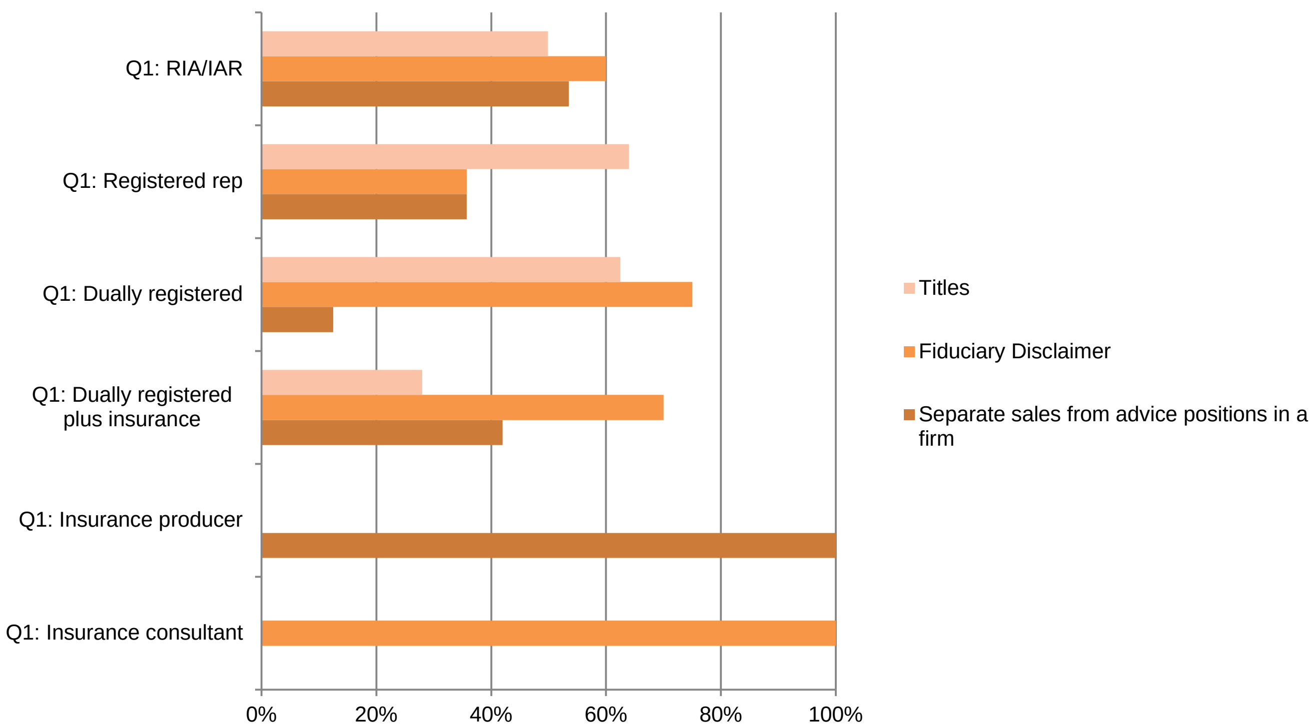
"What are the best ways to clearly differentiate fiduciary versus non-fiduciary roles to investors?"

The survey did not offer an 'all of the above' choice, but there is a good bit of overlap in the percentages, suggesting that these steps may work best when all, or a combination, are used, and there may be additional ways to differentiate fiduciary from non-fiduciary roles so investors have a better understanding of the nature of their relationship with a broker, adviser or other financial intermediary.

Differentiating Fiduciary vs. Non-Fiduciary Roles – By Compensation Type

	Titles	Fiduciary Disclaimer	Separate sales from advice positions in a firm
Q10: Fee only	48.22% 203	59.14% 249	53.92% 227
Q10: Fee/Commission	46.32% 44	66.32% 63	37.89% 36
Q10: Commission only	50.00% 1	50.00% 1	100.00% 2

Differentiating Fiduciary vs. Non-Fiduciary Roles – By Registration Type



Notations and additional resources:

1) Securities and Exchange Commission's "Investor and Industry Perspectives in Investment Advisers and Broker Dealers," by Angela EA Huang, Noreen Clancy, Jeff Dominitz, Eric Talley, Claude Berrebi, Farrukh Suvankulov http://www.sec.gov/news/press/2008/2008-1_randiabdreport.pdf

Securities and Exchange Commission's "Staff Study on Investment Advisers and Broker Dealers, As Required by Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act" http://www.sec.gov/news/studies/2011/913studyfinal.pdf

Securities and Exchange Commission's "The Report of The Committee on Compensation Practices," by Daniel P. Tully, Thomas E. O'Hara, Warren E. Buffett, Raymond A. Mason, Samuel L. Hayes, III https://www.sec.gov/news/studies/bkrcomp.txt

2) "The Limits of Transparency: Pitfalls and Potential of Disclosing Conflicts of Interest," by George Loewenstein, Daylian M. Cain, and Sunita Sah http://www.cmu.edu/dietrich/sds/docs/loewenstein/PitfallsdisclosingCOI.pdf

Conclusions

Financial intermediaries have shown strong support for the fiduciary standard for financial and investment advice to investors. Perhaps the most surprising finding in the survey is how much support there is for the application of amore stringent ERISA fiduciary standard to advice on that is in the “sole interest” of the investor. This strong support has been an interesting and in some ways surprising finding in each of the three years the survey has posed the questions.

Regarding ERISA, the survey asked: “Do you agree in concept with the Labor Department’s plan to propose a rule that would expand the number of advisors who are considered fiduciaries under ERISA?” Yes, say 74% of respondents overall, vs. 61% last year. There’s strong consensus across registration types and compensation models.

Analysis by registration type shows strong agreement in nearly every category of registrant: 74% of RIA/IARs, 73% of registered reps, 73% of dually registered-plus insurance and 54% of dually registered respondents agree in concept with expanding the number of advisors who are considered fiduciaries under ERISA. A lone insurance producer disagrees - but the lone insurance consultant agrees with the Labor Department’s plan.

Across compensation models, 75% of fee only and 70% of fee/commission respondents would agree in concept with a Labor Department plan to expand the number of advisors who are considered fiduciaries under ERISA.

Similarly, when the survey asked, “Should the same fiduciary standard that applies to 401(k) accounts also apply to advice on IRA accounts?” nearly 82% say yes, up from 72% in 2013. And the answer is yes, across the board: the majority, across all compensation models and all registration types, says yes, the same fiduciary standard that applies to 401(k) plans should also apply to advice on IRA accounts.

Finally, the survey asked, “Should the fiduciary standard apply to advice to investors on rollovers from 401(k) to IRA accounts?” The 91% overall response is yes, the fiduciary standard should apply to advice to investors on rollovers from 401(k) accounts to IRA accounts. That’s up from 79% in 2013. As in the previous question, respondents indicate a majority across the board - all compensation models and registration types affirm this sentiment.

Acknowledgements

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We also appreciate the special efforts of the firms, publications, associations and individuals that invited colleagues and members to take part in this year's fi360 Fiduciary Standard Survey, including prior survey participants who volunteered email information, and:

- FiduciaryNews - www.fiduciarynews.com/
- Financial Planning Association (FPA) - www.onefpa.org
- Garrett Planning Network - www.garrettplanningnetwork.com/
- Inside Information - www.bobveres.com/
- Investment Adviser Association (IAA) - www.investmentadviser.org
- National Association of Personal Financial Advisors (NAPFA) - www.napfa.org/
- Pershing Advisor Solutions - www.pershing.com/ria.html
- TDAmeritrade Institutional - www.tdainstitutional.com/
- The Rudin Group - www.therudingroup.com/

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