



CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS, INC.

INVESTMENT ADVISER  
ASSOCIATION



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## ***FINRA's Cost Estimates Challenged***

*Leading Financial Services Organizations Respond to FINRA's Estimates*

**Washington, D.C. (May 10, 2012)** – The Financial Industry Regulatory Authority's (FINRA) estimate of the cost to setup, operate and oversee a self-regulatory organization (SRO) for investment advisers (IA) underestimates overhead costs and overestimates IA examiner productivity, according to a new review of FINRA's one-and-a-half page document titled, "Investment Estimate for FINRA IA SRO".

The review was conducted by The Boston Consulting Group (BCG) on behalf of the Certified Financial Planner Board of Standards, Inc., Financial Planning Association, Investment Adviser Association, National Association of Personal Financial Advisors and TD Ameritrade Institutional. BCG also provided a report in December 2011 that estimated the cost of options to increase examinations of investment advisers, including the creation of one or more new IA SROs. For a copy of that report, [click here](#).

FINRA released its cost estimate on April 25 – the same day Rep. Spencer Bachus (R-AL) and Rep. Carolyn McCarthy (D-NY) introduced legislation authorizing the creation of an IA SRO.

BCG's [review](#) finds:

- FINRA's estimate omits the cost of SEC oversight (**\$90 - \$100 million**) and the cost of enforcement (**\$60 - \$70 million**), both of which are required by the legislation;
- FINRA's estimate of \$12-\$15 million in setup costs does not include staff costs incurred during the 12-month setup period, specifically the cost of examiners and support staff. FINRA only includes these expenses as part of its ongoing investment once the SRO is up

and running. This omission accounts for **\$180-\$230 million** of the difference between the BCG and FINRA estimates;

- FINRA's estimate of the ongoing annual cost of examining 14,500 IA firms once every four years, assumes that FINRA's IA examiners would be able to nearly double the productivity rate of SEC IA examiners, by performing 5 or more examinations per examiner per year. This compares to SEC IA examiner productivity of 3.0, and FINRA broker-dealer examiner productivity of 2.8. This productivity assumption accounts for **\$150-\$170 million** of the difference between the BCG and FINRA estimates; and
- FINRA's estimate does not include overhead costs in its estimate of \$150-\$155 million of ongoing annual investment. Overhead costs account for **\$135-\$140 million** of the difference between the BCG and FINRA estimates.

“We believe that the review of FINRA's cost estimates confirms the independent economic analysis conducted by BCG last year. We think it would be a mistake to add an unnecessary layer of regulation and cost on small businesses that deliver sound advice to investors,” the group sponsoring the BCG review said. “We continue to believe that oversight of investment advisers should stay with the Securities and Exchange Commission, the most cost-effective alternative.”

A side by side comparison of the cost estimates can be found [here](#).

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