



**FOR IMMEDIATE RELEASE**  
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**SRO for Investment Advisers Would Likely Cost at  
Least Twice as Much as an Adequately Funded SEC;  
Investment Advisers Express Strong Opposition to SRO**

*Boston Consulting Group Study, Commissioned by Leading Financial Services Organizations,  
Analyzes Costs and Funding Needs of Oversight Options;  
Survey Reveals Adviser Preferences*

**December 15, 2011, New York** – Creating a self-regulatory organization (SRO) to oversee investment advisers (IA) would likely **cost at least twice as much as** adequately funding an enhanced Securities and Exchange Commission (SEC) examination program, according to an independent economic analysis by The Boston Consulting Group (BCG). In a survey conducted by BCG, more than 80% of IAs said they would prefer to pay user fees to fund enhanced SEC oversight.

***Certified Financial Planner Board of Standards, Inc. (CFP Board), the Financial Planning Association (FPA), the Investment Adviser Association (IAA), the National Association of Personal Financial Advisors (NAPFA), and TD Ameritrade Institutional*** commissioned the study and survey in response to calls for additional analysis of the recommendations in the SEC's study under Section 914 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In that study, released in January 2011, the SEC discussed three options for increasing the frequency of IA examinations:

- Authorize the SEC to collect user fees from SEC-registered IAs to fund their examinations;
- Authorize one or more SROs to examine all SEC-registered IAs, subject to SEC oversight; or
- Authorize FINRA to examine dual registrants for compliance with the Advisers Act.

Each of these options would require Congressional approval.

BCG's economic analysis of the recommended options in the Section 914 study involved two key components: (1) economics, including setup costs, ongoing costs, and the cost of SEC oversight of an SRO; and (2) level of funding and total potential fees required. BCG modeled

three core scenarios informed by the SEC Section 914 study: (1) Enhanced SEC (i.e., the costs associated with an increased level of SEC examinations) (2) FINRA-IA SRO (i.e., the costs associated with FINRA developing an IA SRO with an examination and enforcement mandate); and (3) New-IA SRO (i.e., the costs associated with creation of an entirely new SRO with an examination and enforcement mandate). The cost analysis was based on the assumption that IAs would be examined on average once every four years. BCG relied on publicly available data, research, studies, and reports, as well as in-depth interviews with IA firms and former regulatory officials, among others. The SEC and FINRA did not sponsor the study and were not asked to participate in it.

### **Key Findings of the Economic Analysis**

- 1. *Creating an SRO for IAs would likely cost at least twice as much as funding an enhanced SEC examination program.***
  - A full “Enhanced SEC” examination program is projected to cost \$240–270 million per year.
  - In contrast, a FINRA-IA SRO (examination, enforcement, and SEC oversight) is projected to cost \$540–610 million per year; and a New-IA SRO is projected to cost \$610–670 million per year.
- 2. *Funding an SRO would likely cost IAs at least twice as much as paying user fees to the SEC.***
  - The average annual fee per IA firm is projected to be \$27,300 for a full “Enhanced SEC” examination program; \$51,700 for a FINRA-IA SRO; and \$57,400 for a New-IA SRO.
  - If the SEC were authorized to collect user fees to fund only the incremental cost to hire additional adviser examiners (including supporting expenses) and not the total costs of an “Enhanced SEC” examination program, the average annual fee is projected to be \$11,300, less than one-fourth the fees needed to support an SRO.
  - The actual approach for apportioning the fees to be paid by IA firms will need to be determined.
- 3. *The cost savings to the SEC of creating an SRO is likely to be minimal because the SEC would need to spend significant resources (\$90–105 million) overseeing an SRO.***
- 4. *The startup costs of an SRO alone (\$200–310 million) could fund an enhanced SEC examination program for an entire year (\$240–270 million).***
- 5. *If adopted as currently drafted, the Investment Adviser Oversight Act of 2011 would likely further increase the funding burden on small IAs since approximately 1,800 larger IA firms would be exempt and would not pay membership fees to the SRO.***
- 6. *Shifting primary oversight of dual registrants (those regulated by both the SEC and FINRA) to FINRA is not expected to result in significant costs savings to the SEC.***

## **Key Findings of the Survey of IA Preferences**

In addition to the economic analysis, in November 2011, BCG conducted an online survey of a broad base of IAs in the United States to understand their regulatory preferences, and received 424 responses. The survey results are statistically significant at a 95% confidence level +/- 4%.

- 1. More than 80% of IAs said they preferred the SEC over a FINRA-IA SRO (based on SEC user fees that were about 24% lower than FINRA membership fees).**
- 2. The preference for SEC oversight remained strong even in scenarios in which the cost of Enhanced SEC oversight exceeded that of FINRA oversight.**
  - In a scenario where SEC oversight was 50% more expensive than FINRA, 68% of respondents preferred the SEC.
  - In a scenario where SEC oversight was twice as expensive as FINRA, 58% of respondents preferred the SEC.
  - In a scenario where SEC oversight was 2.5 times more expensive than FINRA, 48% of respondents preferred the SEC.
  - In a scenario where SEC oversight was three times more expensive than FINRA, 46% of respondents preferred the SEC.
- 3. Seventy-five percent of IAs would prefer a New-IA SRO over a FINRA-IA SRO even if this option would cost advisers 20% more.**
- 4. The preference for a New-IA SRO remained strong even given increasingly higher costs.**
  - In a scenario where a New-IA SRO was 50% more expensive than a FINRA-IA SRO, 70% of respondents preferred a New-IA SRO.
  - In a scenario where a New-IA SRO was twice as expensive as a FINRA-IA SRO, 60% of respondents preferred a New-IA SRO.
  - In a scenario where a New-IA SRO was 2.5 times more expensive than a FINRA-IA SRO, 53% of respondents preferred a New-IA SRO.
  - In a scenario where a New-IA SRO was three times more expensive than a FINRA-IA SRO, 48% of respondents preferred a New-IA SRO.
- 5. More than 60% of dual-registrants expressed a preference for the SEC over a FINRA-IA SRO. Half of dual-registrants would prefer a New-IA SRO over a FINRA-IA SRO.**

For more information about the studies, please visit:

<http://www.videonewswire.com/event.asp?id=84131>.

## **Statements from Members of the Investment Adviser Oversight Study Group**

“The Boston Consulting Group study makes the economic case that outsourcing investment adviser oversight to FINRA or a new SRO would cost too much and is strongly opposed by investment advisers. We firmly believe that the SEC should retain oversight of investment advisers and be given the tools to adequately do the job, including the option of imposing user

fees, which will be the most appropriate and cost effective way to achieve the most important goal – protecting investors.”

- **Kevin Keller, Chief Executive Officer, Certified Financial Planner Board of Standards, Inc.**

“Let’s be clear – enhanced investment adviser oversight is needed. But giving the job to FINRA would be the wrong choice for many reasons, including its lack of accountability, lack of transparency, weak track record, excessive costs, and its bias favoring the brokerage industry. The BCG report underscores the conclusion that the best and most efficient approach is to ensure that the SEC has enough examiners.”

- **David Tittsworth, Executive Director, Investment Adviser Association**

"Now we have the cost context that's been missing from the months of discussion on how to improve adviser oversight. It's not the only factor in trying to get to the most effective and efficient way to oversee advisers, but it's an important consideration that's been missing from the debate."

- **Marvin Tuttle, Executive Director & CEO, Financial Planning Association**

“As most of our members are small business owners, NAPFA is keenly aware of the likely disparity in funding costs between the SEC, FINRA or a new SRO. We are unwilling to support a new layer of bureaucracy that would burden our member firms and further confuse consumers.”

- **Susan John, 2011-2012 Chair, National Association of Personal Financial Advisors**

“This study addresses the critical issue of cost and serves to provide perspective and add needed objectivity and independent analysis to the discussion. With the release of this economic analysis, we take another step toward informing a productive industry debate.”

- **Skip Schweiss, Managing Director, Advisor Advocacy and Industry Affairs, TD Ameritrade Institutional**

### **About CFP Board**

*CFP Board is a 501(c)(3) non-profit organization that acts in the public interest by fostering professional standards in personal financial planning through setting and enforcing education, examination, experience, and ethics standards for financial planner professionals who hold the CFP® certification. CFP Board’s mission is to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for competent and ethical personal financial planning. CFP Board currently oversees more than 64,000 CFP® professionals who agree to comply with CFP Board’s competency and ethics standards and subject themselves to the disciplinary oversight of CFP Board.*

### **About the Financial Planning Association**

*The Financial Planning Association® (FPA®) is the largest membership organization for personal financial planning experts in the U.S. and includes professionals from all backgrounds and business models. FPA members adhere to the highest standards of professional competence, ethical conduct and clear, complete disclosure to those they serve. Based in Denver, Colo., FPA*

works in alliance with academic leaders, legislative and regulatory bodies, financial services firms and consumer interest organizations. For more information about FPA, visit [www.FPAnet.org](http://www.FPAnet.org) or call 800.322.4237.

#### **About the IAA**

*The Investment Adviser Association is a non-profit association based in Washington, DC that represents the interests of SEC-registered investment advisory firms. The IAA's membership consists of more than 500 SEC-registered investment adviser firms that collectively manage in excess of \$10 trillion for a variety of institutional and individual clients. For more information, please visit: [www.investmentadviser.org](http://www.investmentadviser.org).*

#### **About The National Association of Personal Financial Advisors (NAPFA)**

*Since 1983, The National Association of Personal Financial Advisors (NAPFA) has provided Fee- Only financial planners across the country with some of the strictest guidelines possible for professional competency, comprehensive financial planning, and Fee-Only compensation. With more than 2,400 members across the country, NAPFA has become the leading professional association in the United States dedicated to the advancement of Fee-Only financial planning. For more information on NAPFA, please visit [www.napfa.org](http://www.napfa.org).*

#### **About TD Ameritrade Institutional**

*TD Ameritrade Institutional is a leading provider of comprehensive brokerage and custody services to over 4,000 fee-based, independent registered investment advisors and their clients. Our advanced technology platform, coupled with personal support from our dedicated service teams, allows investment advisors to run their practices more efficiently and effectively while optimizing time with clients.*

#### **About The Boston Consulting Group**

*The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 74 offices in 42 countries.*

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