

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **SIFMA Submits Cost Estimates to SEC on Fiduciary Rulemaking.**

SIFMA has released its response to a data request by the Securities and Exchange Commission (SEC) to help inform the agency's cost-benefit analysis of a uniform fiduciary standard for broker-dealers and investment advisers under Section 913 of the Dodd-Frank Act. For the first time, the industry provides estimates on the cost of complying with a uniform fiduciary standard.

"SIFMA remains strongly supportive of a uniform fiduciary standard for broker-dealers and investment advisers when providing personalized investment advice about securities to individual retail clients," said Ira Hammerman, senior managing director and general counsel. "In our effort to be most helpful and responsive to the SEC, we surveyed our member firms to collect data and information about the costs of creating and updating disclosures, systems and procedures to implement a uniform fiduciary standard. We also suggest the types of data and information the SEC should consider in their cost-benefit analysis. While the costs projected by our members clearly are not insignificant, these are costs our industry is generally willing to bear in order to benefit retail clients with a fiduciary standard."

The letter reiterates SIFMA's long-held support for a uniform fiduciary standard of conduct, as well as its support for broader harmonization of broker-dealer and investment adviser regulations.

SIFMA's letter also raises concerns about potential rulemaking by the Department of Labor to expansively redefine fiduciary under the Employee Retirement Income Security Act. SIFMA points out that the DOL's proposal could conflict with the SEC's potential rulemaking under Section 913, and could otherwise have a broad and negative impact on small investors' access to cost-effective advice in IRA accounts.

In response to the SEC's explicit request, SIFMA's letter also details and clarifies why simply overlaying the Advisers Act fiduciary duty onto broker-dealers would create a high risk of confusion and misapplication, and will negatively impact client choice and access to the products and services that best suit their needs. SIFMA reiterated its strong opposition to this approach.

Lastly, SIFMA provided estimates as to the cost of implementing a uniform fiduciary standard for brokers-dealers in two specific ways. The estimates were derived from a survey of 18 SIFMA member firms (12 large broker-dealers, 6 regional broker-dealers)

The costs of developing and maintaining a disclosure form and customer relationship guide.

Responding firms said they would need to furnish the broker-dealer relationship guide to a combined total of approximately 50.6 million retail customers;

Over 75 percent said they planned to hire outside legal counsel to help prepare the guide;

The vast majority of firms' estimated costs fell into out-of-pocket expenses and employee and staff-related costs, which included:

\$1.2 to \$3.9 million to initially developing the BD relationship guide and maintaining it for the first year. The average cost was \$2.6 million

The average per annum cost of updating and maintain the relationship guide was estimated to be about \$631,000

The costs of developing and implementing a new, comprehensive compliance and supervisory system and procedures and related training programs to adapt to the uniform fiduciary standard.

The largest cluster of firms, a group of 9 firms, estimated the total costs of initially developing the necessary infrastructure and maintain and implementing it for one year in the range of approximately \$1 to \$6 million. The average was approximately \$5 million.

Those same firms estimated that it would cost an estimated \$2 million per year to update, maintain and implement those systems, procedures and programs.

As a point of comparison, we asked firms to report the total costs incurred to date to implement FINRA's new suitability rule, Rule 2111, which took effect in July 2012. Of 17 responding firms, the average firm estimated it had spent approximately \$4.6 million to comply with the new rule.

The full letter can be found at the following link:  
<http://www.sifma.org/issues/item.aspx?id=8589944317>.