

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Request for Comment to Inform Study Regarding Obligations of Brokers, Dealers, and Investment Advisers (Release No. 34-62577; IA-3058; File No. 4-606)

Dear Ms. Murphy:

I am writing in response to the Securities and Exchange Commission (“Commission’s”) request for public comment to inform its study of the obligations and standard of care of brokers, dealers, and investment advisers when providing personalized investment advice about securities to retail customers.

I am a partner and Chief Operating Officer in a firm that brokers life insurance, annuities and securities products. While our primary line of business is life insurance, we function as an Office of Supervisory Jurisdiction (OSJ) for approximately 200 registered representatives, many whom are also dually registered as investment advisers. We are affiliated with a large independent broker dealer and investment adviser. Some of the products we offer to customers are subject to regulation by the Commission, the Financial Industry Regulatory Authority (“FINRA”); State Securities Departments and State Insurance Departments. As a result, we have experience complying with the laws and rules that govern a wide breadth of the financial services industry. In all instances, the core of our business is developing strong customer relationships by providing a variety of planning solutions that meet the needs of customers from the middle to upper markets.

As background, I have 23 years experience in the financial services business. I am the former CEO of an independent broker dealer and investment adviser subsidiary of a major life insurance company. I am also a former board member of the Financial Services Institute and current member of the Association for Advanced Life Underwriting.

I appreciate your efforts to obtain information from the public and conduct a comprehensive and objective study, before deciding whether to propose new regulations. I am hopeful that opportunities for input from financial professionals will continue as the process unfolds.

Effectiveness of Existing Regulation of Brokers, Dealers, and Investment Advisers

I am particularly concerned about the potential impact of new regulation on the sale of life insurance relative to both life insurance agents and customers. The life insurance agents associated with our firm are currently subject to an array of state insurance regulations and oversight for the sale of fixed and variable insurance products. When providing recommendations to their clients, they must consider factors such as the client's current financial status, needs, and goals; age, family, general health, and existing medical conditions; and the client's credit history. These factors must be evaluated before even determining whether a fixed or variable product is appropriate. When representing an insurance carrier, they must also weigh the carrier's medical and financial underwriting standards, current financial stability, and claims-paying record, among a variety of other considerations.

State insurance regulators play a central role in overseeing the sale of insurance products and the market conduct associated with these transactions. The agent's contractual obligations to the carrier require them to comply with all requests and exams and adhere to any conduct regulations and guidelines enforced by the carrier.

A life insurance producer who sells variable insurance products is also subject to the Commission's and FINRA's broker-dealer regulations in all respects. These require, among other things, that they treat customers fairly and abide by just and equitable principles of trade, including suitability obligations. The interaction with each client is extensively regulated and must be completely transparent; agents are required to confirm all communications, provide account statements, and disclose conflicts of interest—which could include information about licensing, company affiliation, and receipt of commissions. Supervisory personnel must review all sales recommendations for compliance with a multitude of FINRA and Commission regulatory requirements. These requirements are extensive, well-known, often product-specific, and capable of being monitored and audited by supervisory personnel, as well as FINRA and the Commission.

FINRA regularly audits broker-dealers, and examiners typically review an array of transaction data, client correspondence, firm financial statements and procedures, and general supervisory structures. After the audit, broker-dealers typically have a brief period to provide comments on the regulators' findings and make any necessary corrections. Similarly, our OSJ is subject to FINRA review of the sales of retail securities products, including variable life insurance and annuities. We are also subject to audits by the State Securities Departments and audits by the Commission of our advisory business.

Gaps, Shortcomings or Overlap in Existing Law and Regulation

It is my understanding that the Commission's study is designed to identify the existence of any gaps, shortcomings or overlaps in the current regulatory structure for consideration relative to the adoption of new regulation. Based on our experience with multiple regulatory entities as described above, I offer the following comments.

In comparing the investment adviser and broker-dealer regulatory regimes, the broker-dealer regulatory regime provides better guidance to registered representatives and their supervisors, and therefore better protection to their customers, because the rules are clear and

specific, and the conduct of registered representatives is capable of being monitored and audited. By contrast, the principles-based nature of the investment adviser regulatory regime is more difficult to follow and enforce.

One of the most significant gaps in regulation is the lack of inspections and examinations of investment advisers. The fiduciary duty of investment advisers gives scant protection to investors in light of the infrequency of Commission examinations. Most small advisers have no federal regulation and oversight whatsoever, whereas insurance producers who sell variable insurance products must respond to examinations and audits at both the federal and state level, and are subject to regulation by both insurance and securities regulators. These gaps and shortcomings in oversight of advisers is an area of investor protection that the Commission should address first, before changing any standards of care for brokers. In other words, the need (if any) to adopt a “uniform” standard of care for broker-dealers and investment advisers pales in comparison to the need to adopt uniform standards for examination and inspections of securities professionals.

If the issue of investor confusion over the legal obligations of the investor’s particular financial service provider is a point of concern—as has previously been suggested in published research reports—there are remedies currently available to address the confusion. Existing FINRA and Commission rules are extensive, but those rules, if necessary, could be supplemented with additional disclosures of the role in which a financial services professional is operating, including additional disclosures of the existence of any conflicts. I believe investors, if presented with appropriate information, can make a choice that is right for them. Disclosure is a far better alternative than eliminating investor choices by attempting to make all financial professionals the same.

Impact of Changing the Standard of Care for Brokers and Dealers to the Standard for Investment Advisers

I have serious concerns about the possible adoption of a new ‘best interest’ standard for broker-dealers, and by extension, life insurance producers who sell variable insurance products. I believe such a general standard will create liability and uncertainty, but will provide no measurable benefit to investors. If the Commission finds in its study that there are gaps in investor protection in the current regulation of brokers and dealers, then I would encourage you to propose specific rules designed to address specific conduct. I believe a FINRA rules-based approach offers the best opportunities for compliance by brokers, and, therefore, the protection for investors. As an organization responsible for the supervision of investment practices, we are very concerned the possibility of complying with an amorphous standard.

While it is difficult to ascertain the practical impact of a general ‘best interest’ standard, it most certainly will result in increased compliance costs -- again, with no measurable benefit to investors. Over time, I believe it will reduce product choice and access for investors.

It is my sincere hope that all financial professionals hold their clients in the highest regard and provide investors with excellent service that enables them to accomplish their financial goals. However, writing rules that are difficult to define and perhaps more difficult to implement and enforce will not achieve this brand of conduct, nor will it create a better or safer financial landscape for investors.

I strongly encourage the Commission to consider the input of life insurance producers, as well as our unique role in the marketplace and the fundamental nature of the products we sell when moving forward with its study of the obligations and standards of care for broker-dealers and investment advisers. Again, I thank the Commission for the opportunity to comment and welcome future opportunities to provide input.

Sincerely,

Ron Angarella

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