Hokanson associates
Family Wealth Management

July 1, 2013

Dear Members of the Securities and Exchange Commission,

I am writing to you regarding the SEC's current data request covering the establishment of a uniform standard of care as well as the potential harmonization of certain aspects of the regulations of broker-dealers and investment advisors. Hokanson Associates is a SEC registered investment advisor firm with 11 employees and $473 million in AUM. We are a fee only firm with revenue of $2,825,992 in 2012 with 100% of our revenue derived from our advisory business to high net worth individuals and families who we provide personalized investment advice to. We have been in business for over 25 years serving our clients under the fiduciary duty to act in the client's best interests.

We currently have just under 40 SEC rules governing investment advisors while broker-dealers are subject to a very "rules-based" scheme of regulation with scores of SEC rules and hundreds of FINRA rules. The SEC data request suggests that there could be a substantial number of additional rules that could apply to investment advisors as well as broker-dealers under various approaches being considered regarding the standards of conduct. Applying additional rules to a small investment advisor firm like ours will increase the expense and burden of our compliance program. Since typically regulators expect a written supervisory procedure for each rule to which we are subject, and then written evidence that we have actually carried out that procedure, the result of a more "rules-based" compliance regime will be substantially more time-consuming and expensive to carry out than our current "principles-based" approach, even if there is little additional investor-protection benefit. You are considering several areas in which broker-dealer and investment advisor rules could be harmonized. In almost all of those areas, the result of harmonized rules may be additional obligations or limits on investment advisors.

Communications with the public (such as newsletters and marketing brochures) are a good example of the contrast between broker-dealer and investment advisor regulation. Investment advisors are subject to a general requirement that our communications be accurate and not misleading, supplemented by certain prohibitions and requirements, including a ban on testimonials in advertising. Broker-dealers have much more prescriptive rules: certain communications must be pre-reviewed and approved by a principal of the business; other communications may be reviewed by a principal, but on an after-the-fact basis. Some communications must be pre-filed with FINRA; others must be filed with FINRA within ten days of first use. If "harmonization" in advertising and communication means adopting the broker-dealer standard, as the SEC staff suggests is likely, the result would be significant limits and new burdens on investment advisors compared to current practice.

201 Lomas Santa Fe Drive, Suite 360
Solana Beach, CA 92075
Tel: 858 755 8899
Fax: 858 755 4449

Supervision is another good contrast between the regulation of broker-dealers and investment advisors. Investment advisors are required to have a Code of Ethics and compliance program, which may be tailored to their business. Broker-dealers have much more specific, prescriptive supervisory rules. Each broker-dealer employee must have an assigned supervisor, and that supervisor (or the supervisor's delegate) must document their review of the employee's client trades and new accounts, personal trades, private securities transactions, outside business activities, correspondence and emails. Broker-dealers must have an annual independent anti-money laundering review, and must perform annual compliance tests of a variety of specific functions within the business. Those tests lead up to an annual CCO compliance report and an annual CEO compliance certification. Again, there is little evidence to suggest that the broker-dealer supervisory structure has been more effective than that for investment advisors. However, applying the more prescriptive broker-dealer supervision requirements to investment advisors would require a great deal more time, resources and paperwork for investment advisors.

Another set of issues identified by the SEC staff involves the harmonization of books and records requirements. While there are many differences in the books and records requirements of a broker-dealer and an investment advisor the requirement on broker-dealers to keep electronic records in a specific storage format (write-once, read-many, or "WORM" format) concerns us the most if applied to investment advisors. This WORM format is a very expensive storage format not commonly used outside the securities industry. Once again, if the SEC harmonizes toward the current broker-dealer standard (as the January 2011 staff report suggested), the result would be increased costs for investment advisors.

Information regarding costs and statistics relating to the changes you are considering and how that would affect registered investment advisor firms has been forwarded to the SEC by Charles Schwab and Company. Registered investment advisors estimated a cost increase of 86%, with the first year being even more expensive.

If you decide to develop a uniform standard of care and harmonize the regulations (especially if the regulations you end up with are predominately those regulations currently applied to broker-dealers) it is going to have a negative impact on consumers. There will be no differentiators between broker-dealers and investment advisors which means no choice for consumers. Right now many consumers choose investment advisors over broker-dealers because investment advisors do not have the same conflicts of interest when recommending products to a client that broker-dealers do. Investment advisors must act in the client's best interest's period. Also, the harmonization of regulations that you are considering would adversely affect small investment advisor firms such as us who would have to

201 Thomas Santa Fe Drive, Suite 360
Solana Beach, CA 92075
Tel: 858 755 8899
Fax: 858 755 4449

invest considerable time and money to conform to the "rules-based" scheme of regulation. To make all of these changes in how we are regulated and add this additional cost without any firm proof that there is any additional investor-protection benefit seems like a lot of window-dressing without any substance.

Sincerely,

Maureen Gaare

Maureen Gaare

Chief Compliance Officer

201 Lomas Santa Fe Drive, Suite 360
Solana Beach, CA 92075
Tel: 858 755 8899
Fax: 858 755 4449