

MEMORANDUM

November 18, 2013

To: File No. 4-606

From: Elad Roisman
Office of Commissioner Daniel M. Gallagher

Re: Comments on Duties of Brokers, Dealers, and Investment Advisers

On November 12, 2013, Commissioner Daniel M. Gallagher and Elad Roisman, Counsel to Commissioner Gallagher, met with Christopher Gilkerson, Bernard Clark, and Jeff Brown of Charles Schwab.

Among the matters discussed was the request for data and other information on the duties of brokers, dealers, and investment advisers. The following attachment was also provided during the meeting.



Meeting with Securities and
Exchange Commission staff
Request for Data and Other
Information: Duties of Brokers,
Dealers, and Investment Advisers

November 12, 2013

Background on Schwab Survey

- Purpose was to respond to the Commission's Request for Data, not just provide an opinion.
- Online Survey was conducted by Koski Research (not affiliated with Schwab) and was fielded from May 28 to June 7, 2013.
- Survey asked advisers to provide estimated compliance costs if the SEC were to harmonize investment adviser rules with broker-dealer rules in the areas set forth in the Request for Data.
- 834 independent registered investment advisers responded. Margin of error is plus or minus 3.5 percentage points at the 95% confidence level.
- Schwab's comment letter focused on the data provided by the 483 RIA survey respondents with more than \$90 million assets under management.
- Recommendation based on the cost data: Other than a narrowly-tailored uniform standard of care where investment adviser and broker-dealer conduct overlaps, take no further action with respect to rule harmonization.

Key Findings of Schwab Survey

Results from RIAs with over \$90 million in assets under management (AUM) show that the cost to implement potential rule changes could be high and could have a negative impact on firms and their clients.

- Currently, RIAs spend, on average, about 1,600 hours and over \$116,000 annually on compliance-related activities.
- RIAs estimate an increase of \$175,000 in first year compliance costs and \$117,000 in each subsequent year. Depending on a firm's size, new compliance costs in the first year could consume 5-13% of their gross revenue.
- On average, firms anticipate a 63% increase in time spent on compliance-related activities.
- The majority of RIAs anticipate a negative impact on their firm and their clients. Very few anticipate a positive impact.
 - The biggest areas of negative impact are:
 - decrease in the firm's profitability;
 - time allotted for compliance-related activities would take time away from clients;
 - firms would have to hire additional resources (e.g., consultants, agencies, outsourcers); and
 - clients would have to pay more for investment advice and receive less customized service.

\$1 Billion+ Cost to RIA Industry

The potential rules outlined by the SEC could result in over \$1 billion¹ in additional costs for the RIA industry.

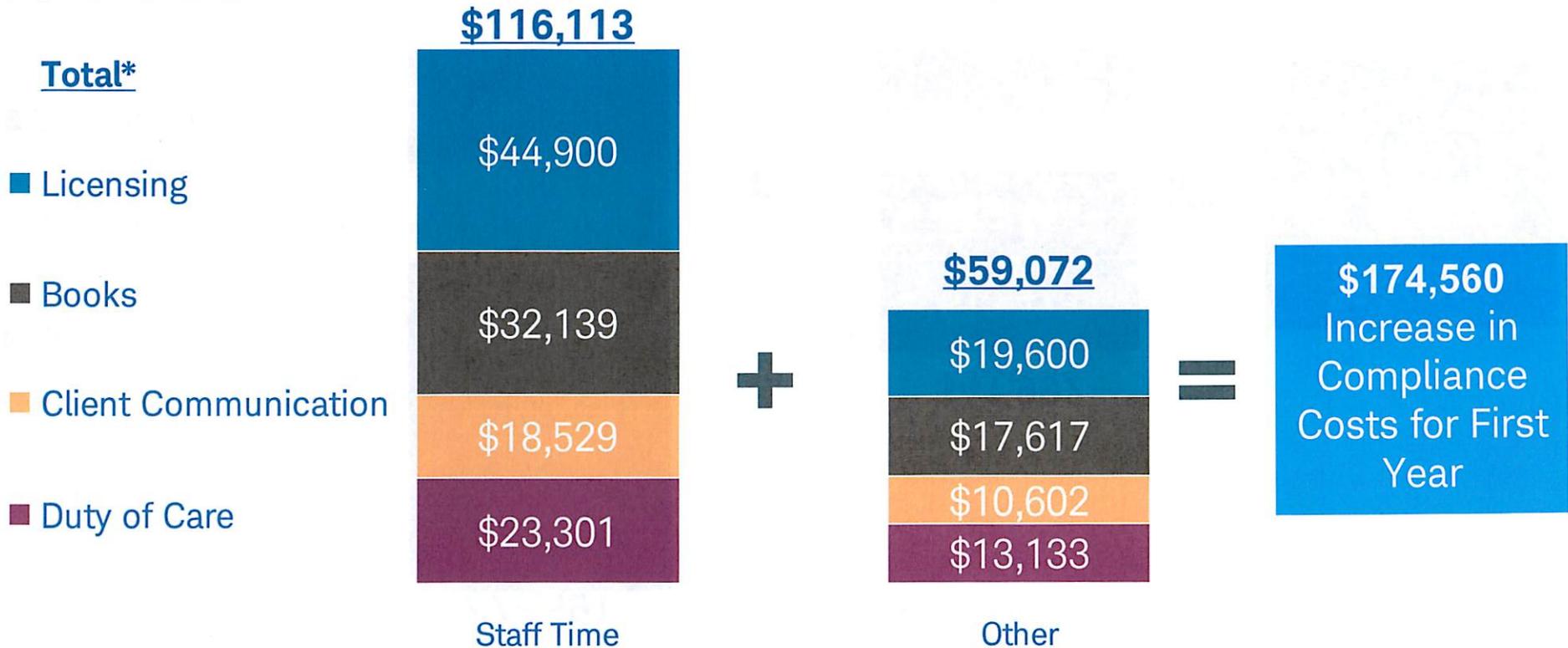
¹Costs to the RIA industry overall would depend on whether the SEC would apply new harmonized rules to some or all RIAs. All numbers are based on a mean average.

Compliance costs are projected to increase by 150% totaling \$174,560 in the first year...

Depending on a firm's size, new compliance costs in the first year could consume 5-13% of their gross revenue

Anticipated Average Setup Increases in Staff Time and Other Costs from Proposed Changes

RIAs \$90M+ in AUM



Respondents were asked to consider all costs, including:

- Time to research, design, establish, and conduct policies and procedures related to SEC compliance—including staff training and principal oversight
- Time for staff to create and maintain records about clients, communications, and investment activities
- Expenses related to filing and maintaining records, including the archival of electronic communications
- Expenses for compliance consultants, lawyers, service providers, systems, and software

The "Total" in each chart does not reflect the simple sum of the parts because some respondents did not answer all of the questions.

...and are projected to increase by \$117,153 in each subsequent year

Ongoing Increases in Staff Time and Other Costs from Proposed Changes

RIAs \$90M+ in AUM

