



Brent J. Fields  
Secretary, Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

File Number S7-09-18

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I hope this letter finds you well. I'm writing as the president and owner of a small RIA in Los Angeles, CA. My firm was approved in July of 2017 and I have just finished up my first year as a solo advisory practice. Having come from MassMutual and working with a small local insurance brokerage I might have a unique perspective as a 31-year-old trying to build a long career in the financial services industry.

Below I will comment on each of the main sections of the most recent File Number S7-09-18:

**SEC RIA Interpretation-**

I agree with the duty of care and duty of loyalty descriptions. The role of an advisor holding an RIA label is the highest standard of care, this is clear and obvious by the outline the SEC has made. I have concerns with the best interest standard being extended further than what it currently is believed to be.

My primary concern being that relationships with people over a long period of time can have many blurred lines. We have phone discussions, emails, in person meetings etc. The list is growing by how we communicate and how clients communicate with me as an advisor. The difficult task is maintaining clear boundaries of what advice is being giving by myself and firm and what the client might imply I am giving as advice.

- For example – if I'm providing a proposal to manage three separate investment accounts and the client decides to move forward with one of the accounts and then goes and manages the other account on their own but does so based on the original proposal. How can I as the advisor monitor this and would I be considered responsible if the investment account/portfolio is no longer suitable?

My second concern is the high standard that I am held to as and RIA, but the seemingly relaxed standard required by broker-dealers and the IAR's at those firms. It seems to me the requirement to monitor investments only extends to RIA's and not those IAR's at broker-dealers after the time of making the recommendation. This is a huge disconnect.



### **Differences in investment advisor & broker-dealer proposals –**

Best interests should apply to ALL clients not just retail. This loop hole is easily taken advantage of!!!!

### **Federal Licensing & CE –**

When I became a registered advisor with the state of CA, I was shocked to learn that there was not any similar continuing education requirements that all advisors attached to a broker are required to complete. It makes sense to have regular CE credits required and to easily blend those requirements with the CFP Board Guidelines.

Similar to insurance license requirements, it would be very easy to have CE certifications around specific areas that an advisor practices. This could also be tailored toward the type of clients. For example if an older advisor has 90% of his clients over the age of 65, then the CE requirements would likely be geared toward advising the elderly and spotting elder abuse.

It would be easy to require 40 hours of CE credits spread across 3-4 areas of the advisors RIA. This same requirement could be passed down to all advisors at the firm.

Principles of firms could have even a step above this and require CE certs for practice management and best practices for running an advisory firm.

### **Account Statements –**

Clients receive notifications for all trades completed in their accounts.

Clients also receive full detailed statements from the custodian TD Ameritrade Institutional.

I feel as though the statement portion of the advisor /client relationship should fall on the custodian. These firms are doing a great job moving in the direction of assisting advisors, but they could be doing more. Looking at the profitability of Schwab for example – they make a trillion dollars on interest alone from accounts advisors bring to them. They provide the platform, yes. But there should and could be many more reporting and statement options that an advisor can choose for a client.

There should be a series of options that an advisor can select for what a client see's on a statement. Some items just simply are required to have on a statement.

### **Financial Responsibility –**

Being a small new firm, I am impacted greatly by any changes made in the financial responsibility section. To mitigate any risks I purchased a comprehensive Errors & Omissions policy that I review and update annually.

Secondly – I maintain strict accounting and bookkeeping for the firm. These documents are updated quarterly. Sent annually to the state per their guidelines.

It seems easy to me for a small firm to take the same precautions that an insurance broker would need to take or any law office. The challenge is that broker-dealers make a lot of money from the brokers that



work for them. They then can provide assistance to cover the broker-dealer when the broker does the wrong thing. Most all broker-dealers will stand up for their brokers even if what they did was blatant and wrong. This is where the disconnect lies.

It makes no sense treating a broker dealer with 10 registered reps that bring the firm \$250m in revenue that are not held to the same fiduciary standards the same as an RIA with 10 advisors who all bring in \$250m of revenues.

Broker-Dealers have clear and obvious conflicts of interest. They even have incentives for agents and registered reps. These all guide and steer people into not always doing what is in the best interest for the client.

There is a clear split in the make-up of firms currently registered as an RIA. There are very large firms and then there are many small and the middle advisors are few. There should be a tiered system or a system that requires certain safe-guards to be in place depending on the size of the firm, the experience of the advisor(s) running the firm and lastly – there cannot be a one size fits all approach to what type of financial requirements will be placed on ANY advisory firm.

Simple fix:

- Fidelity Bonds (Efficient and cost effective)
- Errors and Omissions /Professional Liability Insurance (Next level up from bonds)
- Mix of the two and a cash account that would tier based on assets under management.
  - o ie: \$10,000 reserves for AUM up to \$10M then \$15,000 up to \$20M
- Require semi annual balance and income statements
- Institute CE Certificates for best practices and practice management for the principals of firms.

Please reach out for additional information and assistance, I'm very open about my practice and would love to be involved to help make things better for everyone.

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