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“The two industries are merging to the point of, in some cases, relative indistinguishability”

SEC Chair Mary Schapiro
On brokers and advisers, June 18, 2009

How the SEC Compares Advisers and Brokers in the Proposed CRS Relationship Summary

Chair Schapiro’s remark (above) is important. It followed the landmark Rand study of 2008, which, in part, concluded, “Investors typically fail to distinguish broker-dealers and investment-advisers.” The SEC proposals seeking to establish a higher brokerage standard and seeking to require disclosure comparing advisers and brokers, follow a well-established SEC view that broker and adviser conduct today is essentially the same. As Chair Schapiro stated in 2009, the industries are merging to become, in her view, indistinguishable. Other top SEC officials have expressed similar views. 1

This may well explain that in the SEC proposed CRS Relationship Summary, a hypothetical relationship summary comparing brokers and advisors suggests their conduct is indistinguishable. Key components are excerpted below. For the entire document, [navigate here](#). Knut

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Appendix C: Hypothetical Relationship Summary for a Dually Registered Investment Adviser and Broker-Dealer Prepared By SEC Staff – For Illustrative Purposes Only

Which Type of Account is Right for You — Brokerage, Investment Advisory or Both?

There are different ways you can get help with your investments. You should carefully consider which types of accounts and services are right for you.

Depending on your needs and investment objectives, we can provide you with services in a brokerage account, investment advisory account, or both at the same time. This document gives you a summary of the types of services we provide and how you pay. Please ask us for more information. There are some suggested questions on page 4.

Broker-Dealer Services Brokerage Accounts	Investment Adviser Services Advisory Accounts
Type of Relationships and Services	
<ul style="list-style-type: none"> We offer a limited selection of investments. Other firms could offer a wider range of choices, some of which might have lower costs. 	<ul style="list-style-type: none"> Our investment advice will cover a limited selection of investments. Other firms could provide advice on a wider range of choices, some of which might have lower costs.
Our Obligations to You	

<ul style="list-style-type: none"> • We must act in your best interest and not place our interests ahead of yours when we recommend an investment or an investment strategy involving securities. When we provide any service to you, we must treat you fairly and comply with a number of specific obligations. • Our interests can conflict with your interests. When we provide recommendations, we must eliminate these conflicts or tell you about them and in some cases reduce them. 	<ul style="list-style-type: none"> • We are held to a fiduciary standard that covers our entire investment advisory relationship with you. For example, we are required to monitor your portfolio, investment strategy and investments on an ongoing basis. • Our interests can conflict with your interests. We must eliminate these conflicts or tell you about them in a way you can understand, so that you can decide whether or not to agree to them.
Fees and Costs	
<ul style="list-style-type: none"> • <i>Transaction-based fees.</i> You will pay us a fee every time you buy or sell an investment. This fee, commonly referred to as a commission, is based on the specific transaction and not the value of your account. • Our fees vary and are negotiable. The amount you pay will depend, for example, on how much you buy or sell, what type of investment you buy or sell, and what kind of account you have with us. 	<ul style="list-style-type: none"> • <i>Asset-based fees.</i> You will pay an on-going fee at the end of each quarter based on the value of the cash and investment in your advisory account. • Our fees vary and are negotiable. The amount you pay will depend, for example, on the services you receive and the amount of assets in your account.
Conflicts of Interest	
<ul style="list-style-type: none"> • We can make extra money by selling you certain investments, such as [___], Either because they are managed by someone related to our firm or because they are offered by companies that pay our firm to offer their investments. Your financial professional also receives more money if you buy these investments. • We have an incentive to offer or recommend certain investments, such as [___], because the manager or sponsor of those investments shares with us revenue it earns on those investments. • We can buy investments from you, and sell investments to you, from our own accounts (called “<i>acting as principal</i>”). We can earn a profit on these trades, so we have an incentive to encourage you to trade with us. 	<ul style="list-style-type: none"> • We can make extra money by advising you to invest in certain investments, such as [___], because they are managed by someone related to our firm. Your financial professional also receives more money if you buy these investments. • We have an incentive to advise you to invest in certain investments, such as [___], because the manager or sponsor of those investments shares with us revenue it earns on those investments. • We can buy investments from you, and sell investments to you, from our own accounts (called “<i>acting as principal</i>”), but only with your specific approval on each transaction. We can earn a profit on these trades, so we have an incentive to encourage you to trade with us.

1. For a discussion on how the SEC has come to view the duty of loyalty addressing conflicts of interest and how similar brokers and advisers are viewed, see: <http://www.thefiduciaryinstitute.org/wp-content/uploads/2015/08/SECandConflictsApril62015.pdf>.