



VOICE OF INDEPENDENT BROKER-DEALERS
AND INDEPENDENT FINANCIAL ADVISORS

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**FSI Believes Only One Reasonable Option Cited in SEC Study on Enhancing
Investment Adviser Examinations**

Atlanta, GA – January 20, 2011 – The Financial Services Institute (FSI) applauds the hard work of the Securities and Exchange Commission (SEC) staff given their time and resource constraints to complete the study on enhancing investment adviser examinations mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

“We commend the Commission for identifying options to solve the very real problem of inadequate examination and enforcement resources for investment advisers,” said Dale E. Brown, CAE, president and CEO of FSI. “We wholeheartedly agree with and support Commissioner Elisse Walter’s assessment of the magnitude and urgency of the problem.”

The SEC provided three options for Congress to consider, including:

- Authorizing the Commission to impose user fees on SEC-registered investment advisers to fund their examinations by the Office of Compliance Inspections and Examinations (OCIE);
- Authorizing one or more self-regulatory organizations (SRO) to examine, subject to SEC oversight, all SEC-registered investment advisers; or
- Authorizing FINRA to examine dual registrants for compliance with the Investment Advisers Act of 1940 (Advisers Act)

“The only option that addresses the serious regulatory gap that exists today is the authorization of an SRO to examine all SEC-registered investment advisers,” said Brown. “As long as some providers of retail financial advice are subject to vigorous oversight and examination and others are not, investors are at risk. The SRO option will close the regulatory gap.”

FSI endorsed FINRA as the SRO for registered investment advisers in late December 2010.

“FINRA has experience in performing regulatory examinations of financial service providers and has experience operating an SRO whose structure is designed to ensure its governing body, committees, and staff act in the public’s best interests,” continued Brown.

FSI agrees with Commissioner Walter’s assessment that many of the benefits of the user fee option are shared by the SRO option. The SRO option would provide OCIE with much-needed resources to perform more frequent investment adviser examinations, more flexibility to develop and determine emerging risks associated with advisers, and greater capability to develop and utilize needed technology to strengthen the adviser program.

Additionally, with an SRO, the cost of regulation would be shifted to industry participants rather than taxpayers.

“The third option proposed by the SEC to authorize FINRA to examine dual registrants for compliance with the Advisers Act has significant flaws for investors,” said Brown.

“Unfortunately, this would not close the regulatory gap. In fact, it has the potential to exaggerate it. Financial advisors who wish to avoid close regulatory scrutiny of their business could opt out of FINRA supervision by dropping their broker-dealer affiliation and move to either SEC or state oversight. This would not enhance investor protection.”

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About the Financial Services Institute (FSI)

FSI is an advocacy organization for independent broker-dealers and independent financial advisors. Established in January 2004, FSI has over 120 broker-dealer members and over 15,500 financial advisor members. FSI's mission is to create a healthier regulatory environment for independent broker-dealers and their affiliated independent financial advisors through aggressive and effective advocacy, education, and public awareness. Its strategy includes involvement in FINRA governance, constructive engagement in the regulatory process, and effective influence on the legislative process. FSI is headquartered in Atlanta, GA with an office in Washington, D.C. For more information, visit financialservices.org.