

2010 YEAR IN REVIEW

“7: MEASURES OF SUCCESS”

In 2010, our seventh year as the voice of independent broker-dealers and independent financial advisors, we saw changes in Congress, SEC leadership, FINRA leadership, NASAA, state Governors, and House and Senate committees. We continued reading about Ponzi schemes, closed banks and failed financial firms. We also celebrated that our broker-dealer members are healthy, prospering and adapting to change. And, our financial advisor members are positioning themselves to fulfill their role as the advisors of choice for Main Street investors. 2010 will certainly go down in history as an extraordinarily active year for legislative and regulatory proposals affecting the financial services industry – and for vigorous and effective engagement by FSI and its members in advancing the mission of FSI. *This is how FSI marked Year 7.*

7: IMPORTANT STORIES

Although there were numerous issues that affected our members, and on which we were focused, in 2010 three big stories in the world of the independent broker-dealer and independent financial advisor can be characterized as those we most vigorously addressed – **the independent contractor issue, 12b-1 fee reform and the Dodd-Frank Act.** Stories four through seven were pretty significant too. Here are the seven stories most important to FSI and its members – and how we influenced them.

1. Independent Contractor Status

In September, Senator John Kerry (D-MA) and Rep. Jim McDermott (D-WA, 7th) introduced the Fair Playing Field Act of 2010, which would have revised the current tax law governing employment status determinations, making it more difficult to classify workers as independent contractors rather than employees. Although independent financial advisors were not the target of the proposed legislation, the Act’s passage would have jeopardized the independent business model. FSI was engaged on this issue for all of 2010 – and so were you. During a four-month period, FSI members sent more than 8,000 letters or emails to their senators, asking them to oppose this proposed legislation. We also executed plans for targeted grassroots contacts by individual FSI members with influential members of the House Ways and Means Committee and the Senate Finance. Our results? This Twitter post from Dale Brown sums it up: *“Indie reps’ tax status secure for now. <http://j.mp/e6X2Y3> Enormous success for FSI members.”*

2. 12b-1 Fee Reform

In July, the SEC voted to rescind Rule 12b-1 in its entirety and replace it with a new rule, 12b-2. Under this proposed new rule, the 25 basis point service fee portion of 12b-1 would be renamed a “marketing and service fee,” but would otherwise be unchanged. For financial advisors, this means trail commissions would continue as usual. However, the proposed Rule would affect Class C share trails. FSI has been engaged on the 12b-1 fee issue for several years because of the importance of these fees to promoting affordable access to professional advice and support. At the end of 2010 it was safe to declare a “close to victory” status, in no small part due to the overwhelming number of other issues the SEC must deal with in 2011. We continue to engage the staff and the commissioners of the SEC on this issue, reflecting the interests and concerns of our members. Read our most recent analyses and position papers on Rule 12b-1, including our November 2010 comment letter to the SEC, on the website.

3. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

A massive piece of legislation that is the biggest overhaul of financial regulation in 70 years. An Act that directs the SEC to undertake 230 studies. And a shorthand name – simply, Dodd-Frank – that results in 9,410,000 results on Google. For FSI members, the most significant part of Dodd-Frank was the requirement for the SEC to conduct a six-month study of the obligations and standards of care of broker-dealers and investment advisers providing personalized investment advice about securities to retail investors. FSI responded on your behalf with a clearly articulated comment letter which represents your and your clients’ best interests. FSI supports a universal fiduciary standard of care applicable to all financial advisors, but does not support applying the fiduciary standard of care derived from the Investment Advisers Act of 1940 to broker-dealers and their registered representatives. Rather, we support a new universal standard of care that can be easily translated into clear conduct rules. We also recommended in our position papers that *all* financial advisors be subject to the same amount and quality of regulatory supervision, regardless of compensation model. To read how our recommendations were positively included in the SEC’s report, issued in early 2011, visit the website.

4. Financial Advisor Member Elected to Lead FSI Board in 2012

In December, a “first” for FSI – the board elected financial advisor Joseph Russo as vice chair for 2011. Russo, a member of the board since 2007, is a 30-year veteran of financial services and the CEO of Advantage Financial Group, the premier OSJ affiliated with National Planning Corporation. Read more about Russo in the “Leadership” section of “About Us” on the website.

5. Election 2010

From the bigger perspective, the 2010 midterm elections were described by policy analysts at BIPAC, our advocacy action partner, as big enough to keep political forensics teams occupied for months. Although Republicans took control of the House by gaining 63 seats, the more important number, according to BIPAC, is 87 – the size of the freshman class of House Republicans. In the Senate, Republicans picked up six seats, but the relevant stat was the 13 new voices added to the party’s caucus. From the perspective of the financial services industry, the departures of well-placed members led to a structural realignment of committees handling business issues. Few committees underwent a more drastic transformation in style and possibly legislative action than the House Financial Services Committee. Gone as chairman is Rep. Barney Frank (D-MA, 4th), who lives on through the Dodd-Frank Act, being replaced by Rep. Spencer Bachus (R-AL, 6th). Rep. Scott Garrett (R-NJ, 5th) is the new chairman of the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the House Financial Services Committee. In the Senate, the new chairman of the Senate Banking Committee is Sen. Tim Johnson (D-SD). FSI is, and always has been, a non-partisan organization. We continue to cultivate constructive working relationships with congressional leaders of both political parties. Read our interview with Rep. Scott Garrett in the September 2010 issue of *FSIVoice*, on the website in “Publications” in the “About Us” section.

6. The Big Switch

The Dodd-Frank Act of 2010 included a provision for the states to begin regulating investment advisers with assets under management of up to \$100 million, a significant switch from the previous \$25 million. By July 2011, an estimated 4,200 advisers will switch to state oversight. While recognizing the important role that state regulators play, FSI expressed its concerns on the switch, primarily due to many states’ funding shortfalls, in several position papers. Throughout 2010, we were actively engaged in discussions with individual state regulators and with the North American Securities Administrators Association (NASAA). We talked with Dave Massey, president of NASAA in November – read the interview in the December 2010 issue of *FSIVoice*. For all of our comments on state regulatory issues, visit the Advocacy Action Center on the website.

7. OneVoice 2010

Our seventh year, our seventh annual broker-dealer conference. OneVoice 2010, held in New Orleans in January, was a success by all measures. It covered all the hot industry topics – from innovation to leadership to branding to regulatory reform. Take a look back at the annual “must attend” event – the special report on OneVoice 2010 is in the March 2010 issue of *FSIVoice*.

7: MAJOR PLAYERS

They were (and in some cases still are) major players in our space. Here's why they were important in 2010.

1. Mary Schapiro, SEC Chairman:

"Quite different regulatory regimes surround the same activity for the two different registration categories. Until now, duty to the customer has flowed from the perspective and legal regimes of the adviser or broker, not from the perspective of the investor we are seeking to protect. At the completion of this study, we will have the authority to write rules that would create a uniform standard of conduct for professionals who provide personalized investment advice to retail customers. And, the new law requires that this standard be "no less stringent" than the standard applicable to investment advisers. I have advocated such a uniform fiduciary standard and I am pleased the legislation provides us with the rulemaking authority necessary to implement it." Speech by Mary Schapiro, July 27, 2010

2. Rick Ketchum, FINRA CEO:

"To deal with this intractable resource problem, we recommended that the Commission seek authority to establish one or more self-regulatory organizations (SROs) for investment advisers. FINRA's operations demonstrate that the SRO model under a strict statutory framework serves investor interests." Comment letter to the SEC, November 2, 2010

3. Chris Dodd, now-retired Senator from Connecticut and co-author of the Dodd-Frank Act:

"This legislation will not stop the next crisis from coming. No legislation can." Press conference, June 17, 2010

4. Barney Frank, congressman from Massachusetts and co-author of the Dodd-Frank Act:

"Regulatory reform is a more popular issue [than health care reform]. I think reg reform is much easier." Interview with The Huffington Post, March 22, 2010

5. Mari Buechner, CEO of Coordinated Capital Securities, 2010 chair of the FSI board and first CEO of a small broker-dealer firm to lead FSI:

"I can recall the days of talking with regulators – and some industry members – and getting a 'FSI-who?' Today we have a seat at the table: at FINRA, with states, at the SEC and in Congress. Today, through the efforts of our leaders at FSI, we have earned credibility for our business model and that gives us tremendous opportunity to be heard on the issues, to be part of the process to look for solutions and not just identify problems." Opening remarks at OneVoice 2010

6. Dave Massey, 2010-2011 president of the North American Securities Administrators Association (NASAA)

"All of [our recent] actions relating to state oversight came from a commitment to review and re-visit 'the way we've always done things.' It's a good shift. I believe after the smoke clears, we'll have a regulatory framework that has the potential for much better oversight of firms that really fit the traditional adviser or planner model." Interview with FSI Voice, November 2010

7. Your Clients:

"The more important question is: Where is Main Street America? I'll tell you where they are – and you know this already. They are in relationships with independent financial advisors, working together on important financial goals: a child goes to college, a small business prospers, a retirement is secured. Millions of them have been there all along; some of them are new to the world of independence. A lot of this [investor] money left Wall Street firms as advisors left Wall Street firms. And much of it left as investors looked for something different." Dale Brown, president & CEO, FSI, opening remarks at OneVoice 2010

7: STEPS FOR THE FUTURE

1. 5-Year Strategic Plan

In 2010, FSI staff and board members embarked on creating a vision for what we would look like in 2015. Our goals were to research and understand what we know about ourselves, analyze the current and anticipated legislative and regulatory environment, and then develop several scenarios that paint a vivid picture of what FSI will look like in 2015. The staff also developed metrics to apply to each scenario so that the vision is realistic and actionable. Among the vision points for FSI at year-end 2015 is this primary one: *FSI will influence every legislative or regulatory change that is significant to providers of independent financial advice.*

2. New Website

A more robust website with useful information, easier navigation and better tools was introduced in June 2010, organized in the ways that real people – our members – want to receive content. In other words, in a variety of ways. Now on financialservices.org, you can read, watch, listen, participate and use. From archived issues of FSI Voice, our quarterly members-only newsletter, to recordings of our Advisor Briefings to issue briefings to videos, financialservices.org is a content-rich destination for understanding and staying up-to-date on all the issues, activities and events.

3. Social Media

On March 8, 2010, Dale Brown, president and CEO, launched the FSI era of social media by putting up the first FSI post on Twitter, as **FSIDaleBrown**. *“Relocation to Washington, DC took a big step forward this week: family moved into temp housing, office space secured, ready to go for FSI!”* **FSIDaveBellaire** also tweets and so does **FSIOneVoice**. Our final 2010 post, on December 30, was a 140-character story of our biggest advocacy success of the year: *“Indie reps’ tax status secure for now. <http://j.mp/e6X2Y3> Enormous success for FSI members.”* FSI is also on LinkedIn, Facebook and YouTube. Follow all the FSI updates by clicking on links on the home page of the website.

4. Connecting the Story to Your Clients

Since our founding in 2004, we’ve been the voice of independent broker-dealers and independent financial advisors. But our vision has always included keeping the focus – yours, ours and Washington’s – on Main Street America. In 2010, we introduced new advertising that ties your story to your clients. Because when we say we’re *your* voice in Washington, we really mean we’re *her* voice in Washington. Look for the ads in the major trade publications.

5. Empowering Members with “Mpower”

What does being an FSI member mean – to you, to each other, to our multiple audiences, and to our vision and mission? In 2010, we clarified this through “Mpower” – a fundamental statement and visual representation of what we can accomplish together on behalf of our industry and your businesses. It conveys the ability of one individual to have power – otherwise not attainable – by being a member of a group working towards common goals. In short, “Mpower” is the power of many, but it starts with one. It’s also a symbol of exclusive members-only benefits.

6. A Stronger, Deeper Team

It takes a strong, experienced team of staff and volunteers to achieve our advocacy mission. In 2010, we added specialized expertise to our staff with the addition of Keith Kelly as executive vice president and chief operating officer, Ryan Caruso as Washington, D.C.-based government affairs manager and Jeannine Rhoden as marketing communications manager. In addition, Kevin Whitehead moved into the position of director of corporate relations. And our extraordinarily dedicated volunteer leaders – a 16-member board of directors – saw a “first” with the December election of a financial advisor, Joe Russo, as vice chair of the board for 2011 and chair in 2012. Read more about all the members of our leadership team in the “About” section on financialservices.org.

7. A Sound Financial Position

When you make an investment, you expect a return on that investment. You also expect transparency about your investment and the organization that manages it. In 2010, FSI revenue of \$3,583,902 came from these sources:

Member dues, financial advisors:	38%
Member dues, broker-dealer firms:	21%
Sponsorships:	22%
OneVoice: FSI Broker-Dealer Conference:	11%
Advocacy support contributions:	7%
Investment and miscellaneous income:	1%

In keeping with our mission of advocacy and member service, the majority of our revenue was invested in these mission-critical areas:

Advocacy:	42%
Member benefits:	38%
Membership marketing:	20%

We believe that our members value good fiscal stewardship in addition to tangible and intangible benefits. In 2010, FSI added more than \$100,000 to our financial reserves to be reinvested in our membership and advocacy efforts.

7: IMPORTANT STATS

1. Record membership of 14,690 financial advisor members of FSI.
2. 6 new broker-dealer members of FSI, ending the year with 122 broker-dealer members.
3. More than 100 pages of FSI comment letters on multiple pieces of proposed legislation and regulation.
4. 14,048 letters and e-mails from FSI members to Congress on the independent contractor issue
5. Five months developing a five-year strategic plan to advance the vision and mission of FSI.
6. \$72,000 contributed from FSI PAC to candidates for office in 2010
7. 100,000 miles traveled by staff and volunteer leaders to tell the FSI story in Washington, D.C. and around the country.