

From: Leann Knuth
Sent: Friday, March 17, 2017 5:26 PM
To: EBSA.FiduciaryRuleExamination
Subject: Comment Letter-RIN 1210-AB79

To Whom It May Concern:

The short timeframe between the review of the rule and the new applicability date is problematic for several reasons. Once the final version of the rule is published, there will be a significant amount of account review, account classification, and compliance work to complete.

The current version of the rule requires the Broker Dealer to ensure that only “reasonable compensation” is charged. “Reasonable Compensation” is not defined in the rule and is being left to the plaintiff’s bar to be defined. This means that each Broker Dealer will have to devise a system to review each investment that is offered and decide on compensation level to the reps and document the reasoning. Reviewing each account, making any necessary changes, and notifying the client is a time consuming process. Since this is likely an area where some definition may be given, this process cannot be completed until the final version of the rule is published.

Additionally, it is hard to review and define “reasonable compensation” for the service being provided when most mutual fund companies, clearing firms, and insurance companies are still deciding on their pricing structure going forward. In light of the review of the rule and likely modification, they have yet to publish this information.

Another area of the current rule that could be modified is the “Grandfathering” provisions. If these provisions are altered, it could allow advisors to offer clients the option to stay in their current investment account structure and continue to receive advice. Under the current rule, exercising this option essentially freezes the account for the client.

Complying with the rule is especially labor intensive when applied to annuity contracts. Insurance companies have no mechanism for paying level fees. This burden is being passed on to the Broker Dealers and Insurance Agencies to direct bill the clients. Nothing is changing the existing charges and compensation on existing contracts. Clients have paid fees for benefits that this new standard may force them to give up since there will now be cheaper options available. Insurance companies are not allowing internal exchanges to the new products since this would create a new compensation structure.

Nothing in the rule eliminated the surrender charges on the existing contracts. Modification to the rule would hopefully address some of these issues.

There is also a burden to publish new procedures to comply with the rule and make several modifications to our website. These will have to be specific not only to the final version of the rule but to how our Broker Dealer specifically decides to handle the implementation. These decisions cannot be made until we know what the final wording is of the rule we are complying with.

Finally, once all of this is completed we will need to train our representatives, back office staff, and compliance professionals on the new procedures and implementation measures.

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