

MEMO# 22098

January 7, 2008

SEC Releases Pre-Publication Version of RAND Study on Investment Advisers and Broker-Dealers

[22098]

January 7, 2008

TO: BROKER/DEALER ADVISORY COMMITTEE No. 2-08
BROKER/DEALER ASSOCIATE MEMBERS No. 1-08
INVESTMENT ADVISER MEMBERS No. 2-08
SEC RULES MEMBERS No. 3-08 RE: SEC RELEASES PRE-PUBLICATION VERSION OF RAND STUDY ON INVESTMENT ADVISERS AND BROKER-DEALERS

The Securities and Exchange Commission has released a pre-publication version of the long-awaited RAND Corporation study on investment advisers and broker-dealers. [\[1\]](#) The study, which was commissioned by the SEC, examines investment advisers' and broker-dealers' practices in marketing and providing financial products and services to individual investors. The study also evaluates investors' understanding of the differences between investment advisers' and broker-dealers' financial products and services, duties, and obligations.

The study does not provide specific recommendations on regulatory reform. Instead, it was designed to provide the SEC with a factual description of the current state of the investment advisory and brokerage industries for the SEC's evaluation of the legal and regulatory environment concerning investment professionals. As such, its findings are likely to inform regulatory proposals over the coming years.

The report finds, among other things:

- Overall, the industry is very heterogeneous, with firms taking many different forms and offering a multitude of services and products;
- The typical retail investor finds it difficult to understand the nature of the business from which he or she receives investment advisory or brokerage services, and fails to distinguish broker-dealers and investment advisers along the lines that federal regulations define;
- Many of those interviewed called investment adviser and broker-dealer disclosures problematic, suggesting that the disclosures are confusing to the average investor, inadequate, and neither explained by the financial service provider nor fully read and understood by the investor;
- Focus-group participants struggled to understand the differences in standards of care (i.e., between fiduciary duty and suitability), and in any event expressed doubt that the standards differ in practice; and
- Focus group participants acknowledged uncertainty about the fees they pay for their investments, and survey responses also indicated confusion about fees.

Importantly, the study also finds that, despite their confusion about titles and duties, most investors express high levels of satisfaction with the services they receive from their own financial service providers.

Robert C. Grohowski
Senior Counsel
Securities Regulation - Investment Companies

endnotes

[1] The study, entitled “Investor and Industry Perspectives on Investment Advisers and Broker-Dealers,” is available on the SEC’s web site at http://www.sec.gov/news/press/2008/2008-1_randiabdreport.pdf. The final version is expected in March.

Source URL: <https://icinew-stage.ici.org/memo-22098>

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.