



*Invested in America*

[Sent via email to [Piacentini.Joseph@dol.gov](mailto:Piacentini.Joseph@dol.gov) and [e-ORI@dol.gov](mailto:e-ORI@dol.gov)]

Sept. 24, 2015

Mr. Joseph S. Piacentini  
Chief Economist and Director of Policy and Research  
Employee Benefits Securities Administration  
United States Department of Labor

Dear Mr. Piacentini:

We received of your request of August 26<sup>th</sup> for additional information regarding the cost estimates contained within Deloitte's Report on the Anticipated Operational Impacts to Broker Dealers of the Department of Labor's Proposed Conflicts of Interest Rule Package."

Below we have answered those questions we are able to answer while respecting the constraints under which the data for the study was obtained. Similarly to studies relied upon by the Department within its regulatory impact analysis, the study included underlying data that cannot be shared outside of the confines of the study. As you are aware, an assurance of confidentiality is frequently necessary to obtain parties' agreement to participate in studies involving the analysis of marketplace data.

DOL Request # 1 (a)

***What are the identities of the 18 SIFMA member firms that participated in the "2015 Cost Survey?"***

As a precondition to participating in the DOL Cost Survey, SIFMA members required anonymity. Specifically, the survey included the following language regarding confidentiality:

All answers provided are confidential.

SIFMA will aggregate and anonymize information your firm provides. Your firm's identity will not be shared with anyone outside SIFMA.

DOL Request # 1 (b)

***Alternatively, please characterize generally how closely these firms represent, or how they differ from, the industry at large.***

As stated in the Deloitte Report:

The surveyed firms represent a diverse business mix; including both clearing and non-clearing firms and range from full-service broker-dealers to smaller retail oriented broker-dealers.

In figure 2.7-8, the SIFMA survey categorized the size of firms consistent with the DOL's cost analysis and outlined the number of SIFMA survey respondents in those categories:

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**Figure 2.7 – Firm size as defined in terms of Dollar Amount of Net Capital**

Firm Size	Net Capital
Large	Greater than \$1 billion
Medium	\$50 million to \$1 billion
Small	Less than \$50 million

According to the estimates that the DOL included in its Regulatory Impact Analysis, there were a total of 2,619 broker-dealers that serve ERISA accounts or IRAs and would thus be impacted by the proposed Rule. The DOL's estimate broke down this population as follows:

**Figure 2.8 – Department of Labor Population and participants in SIFMA cost survey**

Firm Size	Number of broker-dealers in industry, per DOL	Number of broker-dealers in SIFMA survey
Large	42	9
Medium	137	4
Small	2,440	5

Generally, SIFMA believes that the large and medium sized firms that completed the survey are representative of the firms in their respective categories. As outlined in the Deloitte report, the surveyed firms represent a diverse business mix; including both clearing and non-clearing firms, and ranged from full-service broker-dealers to smaller retail oriented broker-dealers. As it relates to small firms that completed the SIFMA survey in the context of their representation of the broader population of small firms, the Deloitte Report outlined the following:

[T]he Working Group chose to exclude small firms from this exercise because of the broad and diverse make-up of the industry's small firm population, which the SIFMA survey respondents may not have been representative of. In the view of the Working Group, while there would undoubtedly be substantial costs for small firms to come into compliance, their costs are difficult to assess, given the broad range of firm sizes and business models included in this category.

Implementation for small firms would involve a mix of costs which are borne entirely by the firm itself, such as additional employees, customized legal advice, and system and process changes, as well changes made at the vendors and clearing firms who support many of their processes. The balance of these costs and whether costs undertaken by vendors would also be borne by small firms remains uncertain.

DOL Request # 2

*Please provide a description of the methodology used to select firms for participation in the survey and any other information that might assist in assessing the generalizability of the survey findings.*

SIFMA requested members of the working group to complete the survey. The SIFMA Working Group is comprised of over 140 senior operations, technology, and legal professionals from approximately 40 SIFMA member firms whose business include providing individual investors with financial advice and services. Of these 40 SIFMA member firms, 18 responded to the survey.

DOL Request # 3

*Please provide any scripts, questionnaires, and/or survey instruments used to elicit responses from survey participants.*

Please see attached. Please note, the granular start up and ongoing cost component costs (i.e., the non-total cost elements) were not required fields, and were not completed by many participants.

DOL Request # 4 (a)

*Please provide raw survey data in csv format. In the absence of raw survey data, please provide descriptive statistics, including means and ranges by firm size category, for each of the questions posed to respondents.*

Pursuant to SIFMA's agreement with members that completed the survey outlined above, SIFMA is unable to provide granular detail on survey responses beyond what was outlined in the Deloitte Report.

**Figure 2.11 –Mean Cost Estimates of Survey Respondents by Firm Size**

Firm Size	Mean Start-up Costs per Respondent	Mean Ongoing Costs per Respondent
Large	\$38.1M	\$9.5M
Medium	\$23.1M	\$5M
Small	\$3.4M	\$2.6M

Given the sample size of responding firms, it is not possible to provide additional descriptive statistics, such as ranges by firm size category, without risking disclosure of the identity of a significant number (6) of the participants, which is inconsistent with our agreement with SIFMA members stated above.

DOL Request # 5 (a)

*Did the survey elicit separate estimates for costs attributable to the Proposal's various specific provisions?*

The survey enabled, but did not require, respondent to submit separate cost estimates in the following categories: contract costs; disclosure costs; record keeping, retention and reporting costs; supervisory system and compliance costs; as well as a general category for other costs. Some, but not all, of survey respondents provided these more granular cost estimates. All survey

respondents were instructed to consider the key cost components outlined in figure 2.9, below.

DOL Request # 5 (b)

***Alternatively, did the survey elicit separate estimates for the “Key Cost Components” identified in Figure 2.9? If so, please provide a breakdown by cost component and firm size?***

The following key cost components were discussed among Working Group members and are considered to be included in the overall start-up and ongoing cost of compliance. Pursuant to SIFMA’s agreement with members that completed the survey outlined above, SIFMA is unable to provide granular detail on survey responses beyond what was outlined in the Deloitte Report. Providing a further breakdown by cost component and firm size risks revealing the identity of survey respondents.

**Figure 2.9 – Key Cost Components Considered**

Considerations for Start-up and annual on-going costs	
<ul style="list-style-type: none"><li>• Information technology suppliers and vendors;</li><li>• Information technology systems, hardware and software, support and testing/audit;</li><li>• Outside legal counsel costs</li><li>• Outside compliance consultant costs</li><li>• Communications, marketing, business review and risk review;</li><li>• Training materials: creating, editing, and circulating new materials; reviewing, editing, finalizing, and publishing all impacted training materials;</li><li>• Training: providing training and communication to all impacted personnel, particularly sales and operations personnel;</li></ul>	<ul style="list-style-type: none"><li>• Reviewing and updating all existing client contracts and client disclosures (including documentation and delivery of disclosure);</li><li>• Reviewing and updating of sales surveillance tools, all impacted policies and procedures, including written supervisory procedures;</li><li>• Publishing and distributing revised policies and procedures;</li><li>• Reviewing, editing, finalizing and publishing all impacted marketing materials; and</li><li>• Updating exam test modules and instructions, training examiners, and executing additional testing procedures across all branch offices</li><li>• Other out-of-pocket costs</li><li>• Employee- and staff-related costs</li></ul>

Sincerely,



Kenneth E. Bentsen, Jr.  
President and CEO  
SIFMA

# SIFMA DOL Fiduciary Operations - Cost Analysis

## Purpose & Assumptions

- Purpose:** this survey plans to obtain a high-level firm cost estimate of:
- (1) the total dollar amount it would cost your firm to build and implement the current DOL Proposal, and
  - (2) the total dollar amount it would cost your firm to maintain the current DOL Proposal on a yearly basis.

**Assumptions:** Aggregate cost including all sub-requirements

- o Business Interest Contract Exemption
- o Principal Transaction Exemption
- o Fiduciary Analysis
- o Other Prohibited Transaction Exemption Changes
- Results are based on respondents' best estimates based on current understand of the proposed rule's requirements
- Results will reflect an average of responses from firms of similar profiles, individual results will vary by individual firms and between various firm profiles
- Results should not be relied upon or used for purposes of budgeting and planning

## Survey Target Profiles

### Small firms:

- Less than \$50 million in capital

### Medium firms:

- \$50 million to \$1billion in capital

### Large firms:

- Over \$1 billion in capital

### Clearing firms:

- Firms who clear on behalf of introducing firms

### Self-clearing firms:

- Firms who clear their own business, but do not clear on behalf of anyone else

### Introducing firms:

- Firms who introduce accounts to clearing firms for clearance and settlement

## Key Cost Components

### Non-Exclusive Considerations for Start-up and annual ongoing costs:

- information technology suppliers and vendors;
- information technology systems, hardware and software, support and testing/audit;
- outside legal counsel costs
- outside compliance consultant costs
- communications, marketing, business review and risk review;
- training materials: creating, editing, and circulating new materials; reviewing, editing, finalizing, and publishing all impacted training materials;
- training: providing training and communication to all impacted personnel, particularly sales and operations personnel;
- reviewing and updating all existing client contracts and client disclosures (including documentation and delivery of disclosure);
- reviewing and updating of sales surveillance tools, all impacted policies and procedures, including written supervisory procedures;
- publishing and distributing revised policies and procedures;
- reviewing, editing, finalizing and publishing all impacted marketing materials; and
- updating exam test modules and instructions, training examiners, and executing additional testing procedures across all branch offices
- other out-of-pocket costs
- employee- and staff-related costs

# High-Level Firm Cost Estimate

## DOL Proposal Aggregate Costs

Please use \$#,###. format when entering costs below.

If you have the granular cost numbers, please provide.

However, the only required responses below are the total cost fields.

	Start-up-Costs	Ongoing Costs/Yr.
Contract costs		
Disclosure costs		
Record keeping, retention and reporting costs		
Supervisory system and compliance costs		
Other (pencils to servers)		
<b>Total Cost (Required)</b>	<b>\$#,###</b>	<b>\$#,###</b>



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September 24, 2015

Mr. Joseph Piacentini  
Office Director and Chief Economist  
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Department of Labor  
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[Piacentini.joseph@dol.gov](mailto:Piacentini.joseph@dol.gov)

Dear Mr. Piacentini:

Attached please find a memo from NERA to SIFMA which addresses the questions the Department asked about the NERA study in their letter to SIFMA of August 26<sup>th</sup>.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Bentsen", with a long horizontal line extending to the right.

Kenneth E. Bentsen, Jr.  
President and CEO  
SIFMA

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