March 10, 2017

Delivered via Email: EBSA.FiduciaryRuleExamination@dol.gov

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Room N-5655  
U.S. Department of Labor  
200 Constitution Avenue, N.W.  
Washington, DC 20210  
Attention: Fiduciary Rule Examination

Re: RIN 1210-AB79

Ladies and Gentlemen:

Raymond James appreciates the opportunity to comment on the Department of Labor’s proposal to extend for 60 days the applicability date defining who is a “fiduciary” under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code of 1986 (Code), and the applicability date of related prohibited transaction exemptions including the Best Interest Contract Exemption and amended prohibited transaction exemptions (collectively PTEs) to address questions of law and policy. As you may know, we have been a long-standing advocate for a uniform best interest standard, but have also expressed concerns regarding the DOL’s fiduciary rule.

While we do not believe this is the rule’s intent, nor the goal of anyone involved in its creation, we are certain that applying different standards of care to different account types will create unnecessary complexity and confusion for our advisors and their clients. In addition, it has been reported that the rule will substantially increase costs for many investors – even more than originally anticipated – while cutting off professional financial planning and investment advice services to many less-affluent savers who arguably need those services most.

We hope that our comments around four consequential topics – having time necessary for optimal compliance, understanding conflicts created by the Best Interest Contract Exemption, ensuring products created in response to the rule are in clients’ best interests and minimizing disruption to the retirement advice marketplace – are helpful in pointing out why a delay is in the interest of both financial service providers and retirement investors.

**Firms need the time requisite with complying in a way that best serves clients.**

Our first concern is the inadequate time provided under the original rule for the industry to comply with the rule and PTEs. While we anticipate complying with the portions of the rule
required by the April 10 applicability date, a significant delay will allow Raymond James and others in the industry to implement changes that will better serve clients’ retirement needs. The relatively short amount of time the industry was given to alter decades of product, compensation and fee structures has forced us to adopt a number of imperfect solutions, many of which will eliminate consumer choice and increase client costs. Please note that the Department provided a two-year implementation period for service providers to implement 408(b)(2). The changes required by that regulation were small in comparison with those required by this rule. Even if the rule were to move forward unchanged, a significant delay beyond April 10 will allow firms to comply with better solutions for clients.

The Best Interest Contract Exemption is riddled with unintended consequences.

Second, while we believe clients can benefit from commission account relationships, extensive structural issues associated with using the Best Interest Contract Exemption (BICE) remain. A delay will allow the Department to reconsider those issues. While there are many examples, please consider the following. The BICE allows firms to continue to sell commission-based products provided they receive “reasonable compensation.” It is clear to us that some clients, especially smaller clients that are more likely to buy and hold, would pay less for advice if they pay a one-time commission rather than an ongoing annual fee on assets. Consequently, it is our intention to utilize this exemption. However, under today’s structure, the commissions on packaged products such as mutual funds, annuities and unit investment trusts are set by product manufacturers rather than distributors. While Raymond James can certainly provide input (and has) to these product manufacturers, packaged providers as a whole have not demonstrated the ability to meet standards set forth by the rule by April 10. Therefore, we face a dilemma. Do we continue to offer products that pay different levels of compensation and are clearly beneficial to clients, or do we instead remove products to insulate the firm from unreasonable compensation claims or allegations from the Department or others that compensation was not based on the ambiguous concept of “neutral factors” outlined in the rule?

The Department needs time to ensure that products developed in response to the rule are in clients’ best interests.

Third, we believe that the impending applicability of the rule is resulting in the creation of products and compensation structures that on the surface purport to better comply with the anti-conflict aspects of the rule, but in reality raise the overall cost of advice and reduce choice for clients with no discernible benefit. A delay will give the Department time to analyze these developments. While there are many examples, please consider the following as illustrative of the issues: In order to address the Department’s concerns that current mutual fund share class structures create unacceptable conflicts of interest for advisors, some mutual fund companies have proposed a new “T share” class that will pay 2.5% in upfront commission with a 0.25% annual trail on all mutual funds regardless of asset class. On the surface, this appears to be an
improvement versus the existing A shares that can pay up to 5% in commissions to firms. However, for many clients this will not be the case. This new share class offers few if any breakpoints, no rights of accumulation and no free exchanges within fund families. For example, someone that owns an A share mutual fund with most fund families today can buy and sell within that family of funds at no additional charge. In addition, if that client had made a large enough purchase, he/she would have paid significantly less in commissions. Conversely, the T share owner may pay less upfront, but then would incur an additional 2.5% commission with each exchange. One might assume that we can correct this situation by offering both share classes so that the advisor can recommend the one that will be cheapest for each individual client. However, consider the potential legal liability that would be created if an advisor decided to forego the new T shares and instead recommend A shares, but then the client ultimately did not use either the free exchanges or rights of accumulation features. It’s expected that some distributors will only offer T shares within commissionable features, thereby causing some clients to pay more in the long run and existing clients to hold A shares and T shares for incremental purchases causing incremental client confusion on share differentiation.

We will also note that while Raymond James currently offers more than 300 mutual fund families, less than 60 have filed T shares with the SEC. Therefore, should the rule not be delayed, we may have no choice but to eliminate over 250 fund families from our IRA platform. Many would likely argue that 60 fund families are more than enough. However, the client that wants one of the other 250 would most certainly disagree. Hence, the unintended consequences of the rule are reduction of choice and an increase in costs borne by the investor.

**Implementing changes that may be reversed will disrupt the retirement advice marketplace.**

Our fourth concern (which would be satisfied by a delay) is the confusion that will be caused in the retirement advice marketplace, and especially for clients, if the originally proposed rule and associated PTEs are put into place on April 10, but then subsequently changed or withdrawn based on the analysis required by the President’s February 3 memorandum. In order to comply with the rule and PTEs as written, Raymond James and many others in the industry feel that we must limit client choices related to product and account types. Many of these changes would not be made in the absence of this rule or presumably if it were substantially modified. Please note that several firms recently indicated that decisions to either completely eliminate or substantially curtail the availability of commission IRA accounts based on factors such as the size of client investable assets would most likely be reversed if the rule were withdrawn or substantially modified. The confusion and costs incurred by implementing these changes for a short period of time would far outweigh any perceived benefits.

Please also note that many have challenged aspects of the Department’s original cost benefit study. Given those questions, as well as developments that have occurred over the past year that may challenge some of the Department’s assumptions in that study, we feel that a pause to reevaluate is prudent.
In summary, while the industry has done its best to develop optimal product designs given the short window allowed under the rule, many of these solutions are far from ideal and/or can only be partly implemented by April 10. Raymond James has long been an advocate for a uniform best interest standard across all account types. We simply ask for more time to allow the industry, our regulators and us to do it right. Not only do we support the proposed 60-day delay, but we encourage the Department to delay both the April 10 applicability date and the January 1, 2018 full implementation date by at least 180 days.

We thank you for considering our views on this proposal.

Sincerely,

Paul Reilly
Chairman and CEO
Raymond James Financial