March 10, 2017

As a licensed financial professional and 28-year member of the Society of Financial Service Professionals serving the retirement and investment needs of my clients, I fully support and practice a Fiduciary standard of care.

I welcome and am thankful for the proposed 60-day delay of the Department of Labor’s (DOL) fiduciary rule (Rule) and urge you to support an extension of the delay to 365 days so they can complete the process of thoroughly assessing the implications of the Rule and allow time for firms to adapt their systems.

Frankly, I think the SEC and FINRA are the agencies that should be doing this instead of the DOL. They have the authority both implementing and enforcement.

I now see in real life how the DOL acted in a playground they weren’t qualified to play in and has resulted in damaging unintended consumer consequences that created results exactly opposite of acting in the client best interest. Apparently because “level” compensation was deemed to be “fair”.

Although well-intentioned, the DOL Rule in its current state, will inadvertently negatively impact retail investors. It removes key client benefits and choices that have been valued by clients and advisors for years. Those include client choice of how to pay for services either by commission using A share or C share, fee-based, hourly or flat fee.

For example, to comply with the Rule, the industry has had to remove certain rights of exchange and accumulation in mutual funds because, although beneficial to clients, the Rule views these benefits as creating “unlevelized compensation”. The Rule also results in small investors being disadvantaged versus larger investors.

Here is a an example of the unintended consequences of the new “levelized” commission DOL mandate on one particular client we just acquired.

**Case Facts**

- In January 2017 we took over a Simple IRA with numerous employees with $2 million in American Funds (held direct using "A" shares with average expense ratio of 65bp) for an accounting firm. The Edward Jones rep lost the account because that firm no longer offers commission accounts when adding new money and only offers fee-based which would’ve cost the client 130 bp. The client recognized increased expenses of $13,000 per year was not in their best interest!
The employees (including the smaller account value employees) currently buy at Net Asset Value because it's over the $1 million breakpoint, benefit from buying at Net Asset Value (NAV) and haven't been paying a sales charge for years. According to Advisor Group, T-shares would have 1% sales charge for $1 million+ after 4/10/2017.

We got the business because we could receive commissions and maintain the same American Funds held direct accounts. At least that is what I thought in January 2017. That has since changed because of the DOL Rule interpretation.

According to my BD, Advisor Group, they are taking the same position Edward Jones is where no new money can be added to those held direct A or C share mutual fund accounts except thru systematic purchases and can NEVER be changed. Seriously! Otherwise new purchases must be in a brokerage account with T-shares.

Interpretation of this DOL Rule is effectively eliminating held direct business for ongoing IRA contributions and consequently mandating new money only be done through brokerage accounts using "T" shares only.

Advisor Group is, and I suspect other firms will, expand the DOL Rule to non-qualified accounts under the rationale how can the firm apply the DOL Rule to qualified money but not non-qualified money and create a double standard?

Questions

1. How do I ethically and in good conscience notify my retail clients their investment choices are being reduced, their expenses going up and they have to have to add a brokerage account if any new money is invested thereby adding more complexity and unnecessary paperwork?
2. How do I ethically and in good conscience tell my clients that they will pay a 2.5% commission on any exchanges between funds (including the same fund family!) because their risk tolerance changed or it was time to rebalance?
3. Do I tell clients they can no longer exchange within the same family of funds at NAV because the DOL Rule in its intention to "protect the consumer" from unscrupulous advisors and excessive fees, is directly responsible for increasing their costs?

Other alarming deficiencies in these policies are:

1. Previously allowed NAV exchanges within the same family of funds will now be subject to a 2.5% sales charge, even if it's in the same fund family. Reduced client choice and increased client expenses are not in the client best interest.
2. Typical and beneficial portfolio rebalancing due to life events, risk tolerance changes, or normal aging are now subject to a 2.5% sales charge. The Firm has now actually created a conflict of interest to even make those client best interest changes due to increased client expenses.
3. Implementation of the DOL Rule to qualified money is being applied by the industry to non-qualified money using the same misguided (not in the client best interest) DOL policies furthering the harm (reduced choice, increased complexity/paperwork and increased costs). This simply exacerbates the problem.

4. The $2.50 per account with “held direct” business unfairly and adversely effects clients with Oppenheimer and Franklin funds since they use individual account numbers for each mutual fund even if it’s in the same IRA or other account registration. Those clients with American Funds or others that use fund numbers to designate the individual mutual funds, but use only one account number per account registration, pay less. How does that “level the playing field”?

These are just a few of many grave concerns I have with the consequences of DOL Rule and implementation of firm policy changes to comply to the rule but are not in the best interest of clients.

Frankly, I'm disappointed, pissed off and struggling to understand how increased costs and reduced choices for clients are in their best interest to satisfy the DOL Rule.

The DOL's Rule is the wrong approach and wrong regulating agency to implement policy by having no enforcement authority.

Again, to be perfectly clear, I fully support the best interest standard that puts my clients interests first. That is what I do each and every day by disclosing our compensation, written client service benefits, explaining and documenting all investment choices with the pros and cons of each. It's called transparency.

With so much at stake for investors, policymakers need to get this right.

The DOL should undertake a full-scale review, as requested by the Administration, and determine whether the Rule is the appropriate vehicle to accomplish the intended goal and whether the DOL is even the right agency to be regulating it when it can't enforce it.

Sixty days is not enough time to do this right and I urge you to support expanding the extension to a minimum of 365 days.

Thank you for your attention to this important issue, and consideration of my letter.

Sincerely,

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