



Investment Adviser Oversight Study

Overview of findings from economic analysis
and survey

Gary Shub, Partner

December 15, 2011

THE BOSTON CONSULTING GROUP

Agenda

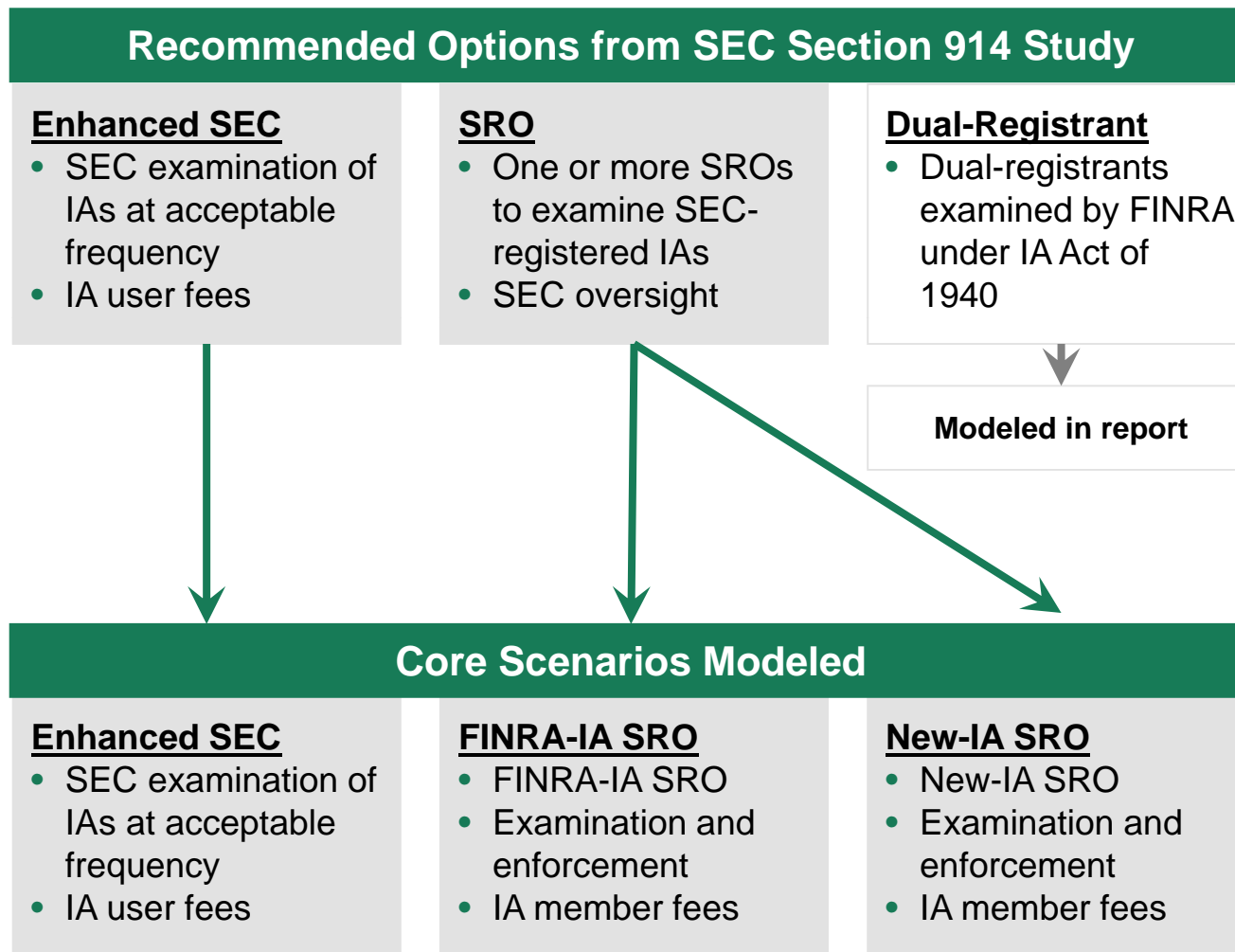
Economic Analysis

Investment Adviser Survey

Introduction to economic analysis

- **The Boston Consulting Group ("BCG"), a global management consulting firm, was engaged by a group of organizations with Investment Adviser ("IA") stakeholders to conduct an economic analysis of IA oversight scenarios. These scenarios are based on recommended options contained in the Securities and Exchange Commission's ("SEC") study released in January 2011, which was conducted per Section 914 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The objective of this report is to establish an economic fact base, informed by publicly available information.**
- **The economic analysis relied upon publicly available research, studies, and reports, as well as more than 40 in-depth interviews with investment advisory firms, relevant industry organizations, former regulatory officials, and other industry experts. The BCG team involved in this effort was not involved in any prior BCG work for related organizations. Further, the BCG team conducted this analysis independently of any prior related work performed by the firm.**
- **The SEC and the Financial Industry Regulatory Authority ("FINRA") were not interviewed or consulted as part of this effort. They did not provide any input, feedback or guidance on the materials or on the analysis contained in this report.**
- **This document does not consider, evaluate, or comment on the benefits of any specific IA oversight scenario, in terms of effectiveness, ease of implementation, or other relevant criteria. This document, any statement made therein, or any statements made by BCG or by any other organization regarding this document, does not constitute a BCG endorsement or recommendation of any of the specific IA oversight scenarios referenced in this document or of any specific approach to IA oversight more generally, and should not be interpreted as such.**

Context for economic analysis



Three core scenarios modeled

	Core Scenarios Modeled		
Model Attributes:	<u>Enhanced SEC</u> <ul style="list-style-type: none"> SEC examination of IAs at acceptable frequency IA user fees 	<u>FINRA-IA SRO</u> <ul style="list-style-type: none"> FINRA-IA SRO Examination and enforcement IA member fees 	<u>New-IA SRO</u> <ul style="list-style-type: none"> New-IA SRO Examination and enforcement IA member fees
Mandate (to be funded by fees)	<ul style="list-style-type: none"> Examination 	<ul style="list-style-type: none"> Examination Enforcement 	<ul style="list-style-type: none"> Examination Enforcement
Required registrants	<ul style="list-style-type: none"> IA firms with \$100M or more AuM 		
Costs	<ul style="list-style-type: none"> Set-up costs Ongoing mandate costs 		
	<ul style="list-style-type: none"> SEC oversight of SRO costs 		

Results of economic analysis

	Three Core Scenarios Modeled			
	Enhanced SEC		FINRA-IA SRO	New-IA SRO
Estimated costs:	<ul style="list-style-type: none"> SEC examination of IAs at acceptable frequency IA user fees 		<ul style="list-style-type: none"> FINRA-IA SRO Examination and enforcement IA member fees 	<ul style="list-style-type: none"> New-IA SRO Examination and enforcement IA member fees
	Existing OCIE²	Full OCIE		
Set-up costs (one-time)	-	\$6–8M	\$200–255M	\$255–310M
Ongoing mandate costs¹ (funded by fees)	\$150M	\$240–270M	\$460–510M (incl. enforcement costs of \$130 M)	\$515–565M (incl. enforcement costs of \$145 M)
SEC oversight of SRO costs (not funded by fees)	-	Not required	\$90–100M	\$95–105M
Average annual fee per IA firm	-	\$27,300	\$51,700	\$57,400

1. Examination and enforcement costs are included in the two SRO scenario costs. But enforcement costs are not included in the Enhanced SEC scenario as per SEC Section 914 Study which referenced user fees as source of funding for examination costs without reference to enforcement costs

2. OCIE = Office of Compliance Inspections and Examinations at the SEC

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Economic Analysis

Investment Adviser Survey

Introduction to survey of IA firms

- In addition to the economic analysis, a broad base of IAs based in the United States were surveyed to better understand their preferences.
- The BCG team designed the questions for the survey, managed its execution, and analyzed the results. The survey was administered online in November 2011. A survey link was distributed via email to the targeted population of IAs. 424 survey responses were received. The profile of respondents was compared to the US IA population to ensure adequate representation across relevant IA sub-segments, such as firm size or type of registration.
- The BCG team involved in the survey effort was not involved in any prior BCG work for related organizations. Further, the BCG team conducted the survey independently of any prior related work performed by the firm.
- The SEC and the Financial Industry Regulatory Authority ("FINRA") were not interviewed or consulted as part of the survey. They did not provide any input, feedback or guidance on the survey, respondent population or survey analysis.
- The results contained in this document reflect the views of the survey respondents only. This document, any statement made therein, or any statements made by BCG or by any other organization regarding this document, does not constitute a BCG endorsement or recommendation of any of the specific IA oversight scenarios referenced in this document or of any specific approach to IA oversight more generally, and should not be interpreted as such.

Investment Adviser survey findings

Survey respondents express the following preferences among the core scenarios

- Enhanced SEC scenario preferred over FINRA-IA SRO
 - Preference holds even if Enhanced SEC scenario user fees were to exceed FINRA-IA SRO membership fees
- New-IA SRO scenario preferred over FINRA-IA SRO
 - Preference holds even if New-IA SRO membership fees were to be materially higher than FINRA-IA SRO fees

Investment Adviser survey results

81% prefer Enhanced SEC over FINRA-IA SRO; 75% prefer New-IA SRO over FINRA-IA SRO

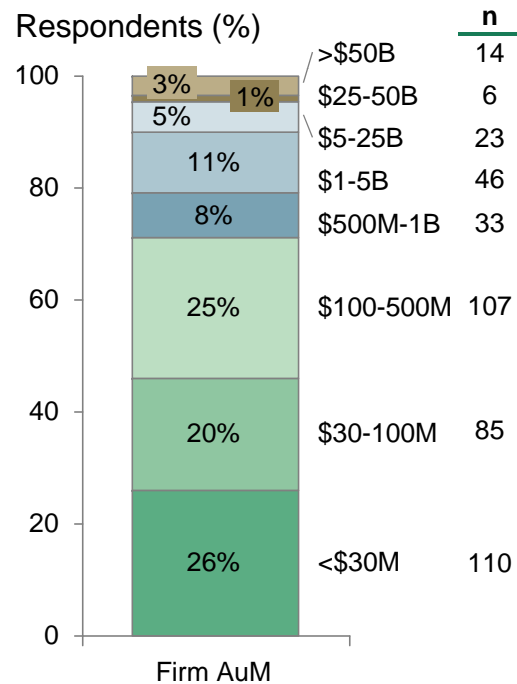
		Three Core Scenarios Modeled		
Survey Questions:		Enhanced SEC	FINRA-IA SRO	New-IA SRO
		<ul style="list-style-type: none"> SEC examination of IAs at acceptable frequency IA user fees 	<ul style="list-style-type: none"> FINRA-IA SRO Examination and enforcement IA member fees 	<ul style="list-style-type: none"> New-IA SRO Examination and enforcement IA member fees
Which scenario do you prefer? (SEC fee 25% less)		81% vs. 19%		
What if fees for preferred scenario increased?				
<ul style="list-style-type: none"> 1.5 x other scenario fee 2.0 x other scenario fee 3.0 x other scenario fee 		68% 58% 46%	15% 8% 4%	
Which scenario do you prefer? (FINRA fee 15% less)		25% vs. 75%		
What if fees for preferred scenario increased?				
<ul style="list-style-type: none"> 1.5 x other scenario fee 2.0 x other scenario fee 3.0 x other scenario fee 		8% 4% 3%	70% 60% 48%	

Note: Respondents initially asked to select preferred scenario assuming SEC fees 25% lower than FINRA-IA SRO and FINRA-IA SRO fees 15% lower than New-IA SRO. Respondents then asked to select preferred scenario at increasing level of fees for their originally preferred scenario.
 Source: BCG IA Survey, 2011 (n = 230, Margin of error. ME +/- 5% at 95% confidence level)

Survey respondent profile

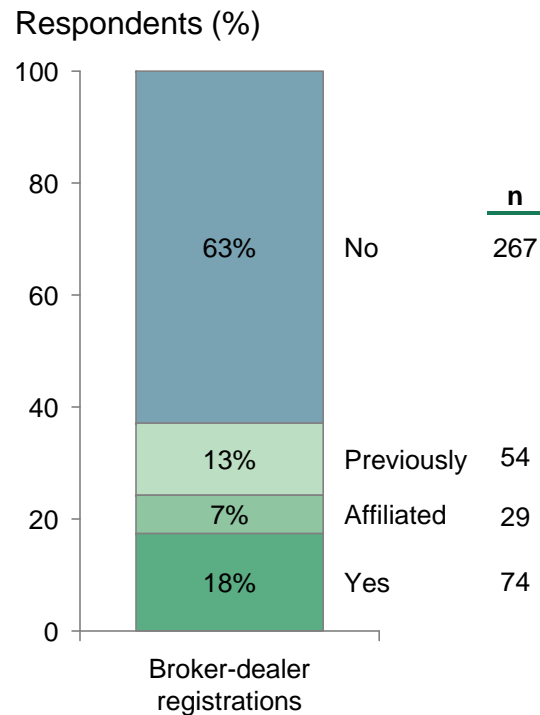
Firm Size

By AuM, (n=424)



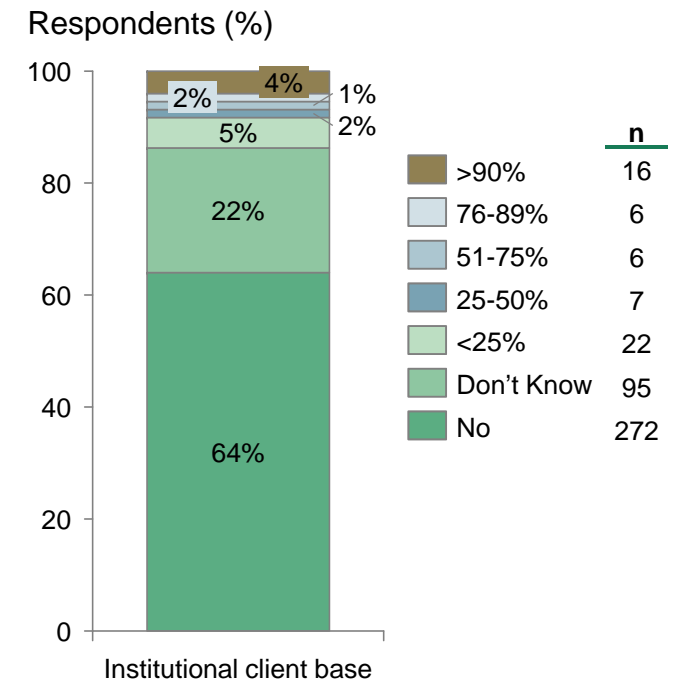
Firm Registration

FINRA registration as a broker-dealer, (n=424)



Firm Client Profile

Firm client mix (institutional¹ and/or individuals with >\$25 million invested), (n=424)



1. Mutual funds, hedge funds, private investment funds, venture capital funds
Source: BCG IA Survey, 2011 (n = 424)