Putting a Bell on the DOL Rule

Executing around uncertainty, costs and unintended consequences

By Corey Fiedler, VP Product Management at Broadridge Financial Solutions, Inc.

There's an old fable about a family of mice tired of being terrorized by a cat. The youngest mouse comes up with the perfect plan: tie a bell around the cat's neck so they will always hear him coming. It's a great idea in theory. But it's the oldest mouse who asks: "Who will be the one to bell the cat?"

Like the bell on the cat, the DOL Fiduciary Rule is a noble idea about protection – protecting the consumer. But who will be the one to execute it?

When the rule was enacted on June 9th (after a 60-day delay), the first shoe dropped turning advisors into fiduciaries and holding them accountable to "Impartial Conducts Standards". These include best interest advice, reasonable compensation and making no misleading statements.

Another delay has pushed the live date for "Key Requirements" to July 1, 2019. If the rule remains intact, it will require full compliance with exemptions such as contracts, warranties, policies and procedures and disclosures. It will also require personnel and processes to address material conflicts of interest and ongoing monitoring of advisor adherence to impartial conduct standards.

Or … will it just all go away?

Uncertainty drives higher than projected compliance costs

According to a recent report by Deloitte[1], uncertainty surrounding the rule has divided firms into various levels of rule readiness. However, costs-to-date have exceeded early projections by 37-57%. The Deloitte report estimates that medium to large-size broker-dealers ($50M+ in net capital) have spent more than $4.7 billion to date on start-up costs to comply with the rule. The higher costs are likely associated with the starts and stops related to rule delays.

Should the rule remain unchanged, annual costs of compliance are projected to be over $700 million for investments in people, processes and technology. Beyond costs, firms face business disruption surrounding process changes for rollover recommendations, product due diligence and firm and advisor compensation.

While many of these process changes will be driven in-house, the Fintech toolbox to solve them will likely come from third-party service providers as internal IT groups are currently overtaxed.

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Timely choices can help minimize expense and business disruption

The 18-month extension may seem like a long window, but some firms are too far down the road and are looking to turn fiduciary standards into a firm advantage. At Broadridge, our discussions with nearly 100 firms reveal that – although needs vary firm-by-firm – there are three large operational impacts that cause considerable challenge related to process change:

1. Will firms play dead or rollover?

Job one for many are how to handle rollovers. Whereas some firms will simply opt out of providing rollover advice, those that stay in the game have an opportunity to transform a compliance challenge into a competitive differentiator that can build investor trust and grow assets. Critical to this task is gathering the right data to present the best recommendation in accordance with Impartial Conduct Standards. Just as important is a process to document these recommendations, automating tasks such as asset allocation mixes, suitability at the fund and share class levels, signature capture and document archival.

2. Looking your fund lineup in the mirror

A second key area, product due diligence, requires evaluating fund lineups to make sure "best interest" funds are in place. Some firms are scaling back and simplifying – reducing the number of funds and share classes for mutual funds and annuity products. It is still unclear if the industry will migrate away from traditional share classes toward new hybrids such as "clean shares" – much like the industry moved from active to passively managed funds over the past 12-18 months.

3. Taking a level to compensation

In addition to rollovers and product due diligence, many firms have already begun or are looking to "levelize" compensation at the firm and advisor levels. Operational impacts include the time and resources to renegotiate partner selling agreements and product compensation with carriers. In theory, this lowers income for firms and advisors. Consequently about half of medium to large-size broker-dealers have reduced or exited advisory services, causing a shift of retirement assets into fee-based platforms.

Who Took My Cheese? (Unintended Consequences and Silver Linings)

A few of the unintended consequences of the DOL Rule and its inherent process changes are less investor choice due to a reduction of fund and share class offerings and industry consolidation. As retirement assets turn to fee-based platforms, the cost to investors for advice also increases.

Still, a silver lining remains as forward-thinking firms move to modernize operations, simplify products and focus on the consumer. By making hard choices and smart investments, positive outcomes are on the immediate horizon for firms, advisors and their investors. Despite the recent extension, firms are wise to act sooner than later to ensure process changes and new technology align with business rules and legacy systems. Those firms that commit to change, align with a partner solution and push ahead will be the mouse that puts the bell on the DOL Rule and get to keep the cheese.

About the Author

Corey Fiedler is Vice President of Product Development for Investor Communications Services (ICS) on behalf of the bank/broker-dealer and advisory solutions segments at Broadridge. Corey manages Broadridge's reference data solutions, regulatory communications, post-sale fulfillment, transaction documents and proxy services – focusing on transforming compliance challenges into competitive advantages. Her combination of Fintech and Regulatory expertise helps drives innovation, operational excellence and digital customer experiences in Broadridge's regulatory solutions and industry utilities. A frequent speaker at industry events, Corey has authored many articles and white papers to empower clients to be "Ready for Next".

[1] *The DOL Rule: A study on how financial institutions have responded and the resulting impacts on retirement investors. Published by Deloitte Consulting LLP, August 9, 2017.*