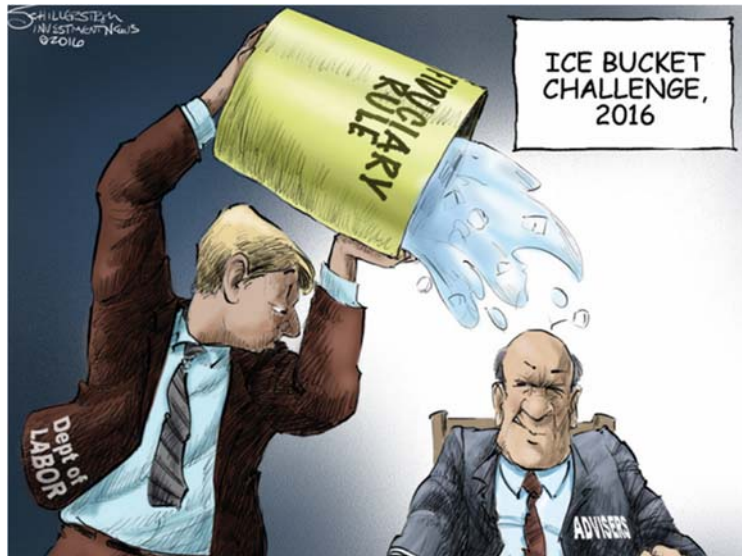


# Time to get on board the fiduciary train

Many advisers and the firms they work for are woefully unprepared for what lies ahead

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For better or worse, the fiduciary train has left the station, and financial advisers of every ilk had better be on board. Tens of thousands of brokers, registered investment advisers and those who straddle both sides of the fiduciary fence soon will face tighter regulation of the advice they provide to retirement savers.

The rule, which is expected to be released by the Labor Department any day now, will likely be the most disruptive change to come down the pike since the Employee Retirement Income Security Act of 1974.

The new rule will require brokers to adhere to a “fiduciary” standard when making investment recommendations on retirement accounts. Right now, brokers' advice only has to be “suitable,” which proponents of the new rule maintain is a standard that lends itself to the sale of expensive — and often inferior — investment products.

Opponents of the rule, of whom there are many, contend it will raise costs and force broker-dealers to abandon accounts with low assets — leaving millions to fend for themselves when it comes to investing for retirement. They also argue that the rule likely will have many unintended consequences, such as forcing smaller B-Ds out of the business or pushing up the fees charged to the clients who least can afford them.

One thing is clear: Forcing brokers to act as fiduciaries when giving advice to plan sponsors or participants, or investors in individual retirement accounts, will affect every facet of the advice business — from brokers and broker-dealers to registered investment advisers to product manufacturers.

But many advisers and the firms they work for are woefully unprepared for what lies ahead. Only 55% of RIAs and so-called hybrid advisers say they are “extremely” or “very” familiar with the proposed rule, according to preliminary results of an *InvestmentNews* Research survey. That compares to 45% of brokers who characterize their familiarity with the rule change the same way, according to the survey, which was sponsored by Legg Mason.

In other words, more than half of RIAs and a little less than half of brokers consider themselves knowledgeable about the rule change.

To be fair, the final rule is still in flux. The DOL is expected to tinker with a provision known as the best interest contract exemption, or BICE, which lets brokers charge commissions and receive other forms of compensation on specific products as long as they enter into a contract with clients that requires a long list of disclosures.

Advisers may be holding off on studying the rule until the final details of the BICE are worked out. But given that implementation of the rule likely would begin eight months after it's finalized, and that Congress is unlikely to overturn the rule, they would be smart to begin considering how the rule will change their way of business.

Custodians, broker-dealers, wirehouses, certain product manufacturers and even RIA firms should reevaluate their business models and invest in educational resources to help advisers get up to speed on the new rule.

Advisers should be educating themselves and preparing for more fee-based compensation and a drop in commissions. They also should reevaluate the products they recommend to retirement savers and the fees on those products.

Finally, they should be getting ready for an even broader application of the rule. The Securities and Exchange Commission is widely expected to release its own version of a fiduciary standard, one that would apply to all forms of advice — not just advice pertaining to retirement assets.

Big changes are coming. Now is not the time to put one's head in the sand in hopes that the claims being made by both proponents and opponents of the rule are exaggerated. The DOL fiduciary rule will have a long and lasting impact on the business of providing financial advice.