

Broker-Dealer Fee Disclosure Under Microscope

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In September, state securities regulators formed a working group aiming to make broker-dealers' disclosures about their fees more clear, accessible, and useful to investors in comparing different firms' charges. The group plans to finish its work by next fall, and will consider, for example, developing

- a model fee disclosure form;
- guidelines on accessibility, transparency, and uniform use of terminology; and
- recommendations on how to notify customers of fee changes.

In addition to representatives of the North American Securities Administrators Association (NASAA), the working group includes representatives of FINRA, the Securities Industry and Financial Markets Association, the Financial Services Institute, and several broker-dealer firms. NASAA President Andrea Seidt said **“the working group will take into consideration ... wirehouse firms, independent broker-dealers, clearing firms, and introducing firms, among others.”** Earlier this year, a NASAA report on its survey of 34 broker-dealer firms recommended the working group's formation. The survey found a wide disparity of broker-dealer fee disclosure practices. However, that survey, and certain enforcement actions that preceded and partially motivated it, focused particularly on certain problematic fee disclosure practices. For example, some firms allegedly hid the true amount of their compensation for securities transactions by charging unreasonable markups for what they disclosed as “handling,” “postage,” “delivery of securities in certificated form,” or “miscellaneous.” The survey also focused particularly on fees firms charge for closing accounts or transferring account securities to another firm. Against this background, the working group may focus primarily on disclosure issues regarding a limited number of specific fee types. Alternatively, the working group may seek a more comprehensive approach. In any case, some of the practices addressed by NASAA's survey and the working group may involve legal violations. Broker-dealers would be well advised to review their own practices with that in mind.

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