Better Equip Advisors for Fiduciary Standards

The right toolset can turn compliance into a competitive advantage.
Recent regulatory action, coupled with a growing demand for lower fees and better technology, has changed the face of the investment industry. Thanks to stronger conflict of interest controls, investors have come to expect that advisors will act in their best interest. Firms remain committed to the data, technology and workflows that will enable them to operate more transparently and capitalize on the fiduciary opportunity to foster stronger client relationships and grow assets. In short, fiduciary compliance is no longer a regulatory issue: it’s become a competitive one.

Changes to product lineup, workflow and best practices are inevitable and essential. Updates to workflow modules and systems are required to validate investment recommendations and to minimize the risk of litigation. As a leading provider of data, analytics and communications solutions, Broadridge can help you better understand and conquer these challenges. This white paper details the key considerations broker-dealers and advisors must address in order to ensure operational efficiency, fiduciary compliance and overall competitiveness.

**KEY CONSIDERATIONS**

1. The simplification of the 401(k) rollover process
2. The significance of share class suitability analysis
3. The relevance of fund suitability analysis
4. The importance of timely transactional data
Redefining Advisor Fiduciary Compliance

In the run-up to the DOL Fiduciary Rule compliance deadline, firms and clients will, as estimated by the Financial Services Institute, spend approximately $3.9 billion in startup compliance costs.

Large wealth management firms like Wells Fargo, Morgan Stanley, and JPMorgan Chase are devoting significant manpower and capital to comply with the rule. Bank of America Merrill Lynch is eliminating all commission-based options for retirement accounts, transitioning 100% of their clients to fee-based options.¹

These timely and strategic business actions are completely in line with key industry trends. For example:

95% of advisors see the financial advice industry moving toward a model based on full transparency and full disclosure.²

85% of net new assets that flowed into funds in 2016 went to passive vs. active products.³

60% of Americans now access information via the cloud, in addition to email, mobile, web and text.

One thing is clear: the higher standard of transparency that now prevails in the industry is here to stay. Investors today expect more from all their service providers. They now know to ask if their advisor is a fiduciary. What’s more, it is going to be difficult for firms to win new business if “best interest” assurance is not automatically part and parcel of every investment deal.

Wealth managers opting to wait and see what happens to the DOL Fiduciary Rule run the risk of expensive litigation, and of being seen as uncompetitive. Decision makers must quickly come to terms with the fact that the benefits of short-term cost savings pale in comparison to the risks of class-action lawsuits. The loss of clients to competitors who are able to provide the level of service that is now expected will prove costly to firms who dragged their feet.

Establishing workflows and tools to assist advisors in meeting stricter fiduciary obligations is essential for growth. As the market shifts toward greater transparency, every advisor needs to identify ways to validate suitability. Leveraging Broadridge’s unique vantage point, we’ve identified four areas that should be considered as you look to re-evaluate fund lineups and re-engineer current workflow processes.

Beyond compliance, firms are now looking at fiduciary standards as a way to differentiate themselves with customers.
KEY CONSIDERATIONS

Consideration #1: Simplification of the 401(k) Rollover Process

Top of mind for most firms right now are the many fiduciary requirements affecting the 401(k) rollover process. The days of simply rolling over 401(k) assets to an IRA are over. Advisors must now document why a 401(k) rollover is in an investor’s best interest, and be fully prepared to say when it’s not. It should, therefore, come as no surprise to learn that almost 50% of projected IRA rollover assets are now at risk of remaining in the defined contribution plan-sponsor market.

The best interest conditions that currently prevail understandably pose numerous challenges to a firm’s workflow. To remain fully competitive, firms should acquire or develop some kind of fully-integrated solution that allows the advisor to present the investor with three key pieces of information:

1. An apples-to-apples comparison of the ongoing annual fees charged by both the 401(k) and IRA plans.

2. The one-time cost to convert.

3. Potentially significant longer term losses they may incur due to higher subaccount fees within their IRA option, which may not be immediately obvious.

Technology currently exists to streamline the process of analyzing, disclosing and archiving recommendations. However, 401(k) plan data currently does not reside in a centralized database—each plan is maintained by the respective record keepers. In the near term, some degree of manual input is inevitable in lieu of the more ideal scenario of pre-populating data within fund analysis screens.

Some firms are currently testing systems that retrieve the data directly from the databases of select record keepers who allow it. For this to happen, investors need to freely provide their account logon details and the record keepers concerned must be willing to allow third party access to “scrape” their site.

Challenges abound due to the fact that there is no central or publicly filed database that lists every plan participant’s 401(k) plan data.

As you can imagine, this method poses considerable privacy concerns from a cybersecurity standpoint. Plus, firms who access 401(k) plan data this way will ultimately find themselves completely at the mercy of record keepers who may not always be willing to part with their data—especially when doing so poses a threat to their bottom line.

Besides this method, there are only two other options available to firms and advisors right now. The first is for advisors to manually retrieve and enter the 401(k) data from each investor’s 404(a)(5) Participant Level Fee Disclosure documents. The second, which offers the most promise when it comes to having all the necessary 401(k) plan data pre-populate into your advisors’ workflow, is to partner with a vendor who already has access to the 404(a)(5) information as well as a solid relationship with record keepers. Doing so will allow you to give your advisors the tools they need to simplify 401(k) rollovers in the most compliant way possible. Plus, you’ll also be confident that as soon as the ability to automatically pre-populate 401(k) data in real time becomes readily available, your firm’s workflow will be among the first to incorporate this highly sought-after functionality.

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Consideration #2: The Significance of Share Class Suitability Analysis
As investors become more savvy, money management firms need to make sure advisors demonstrate best interest standards in all share class recommendations. Now more than ever, firms need to be sure that no advisor is ever perceived to be recommending a front load share class and profiting from the resulting 12b-1 fees if that option is not in the client’s best interests. Additionally, as many firms are making the shift to T shares, advisors need to be able to evaluate T shares vs. no loads for various scenarios. The fiduciary-minded share class analysis that should be presented, acknowledged and archived would need to show not only which share classes were recommended, but also what fees and expenses the investor will incur.

The most cost- and operationally-effective way of ensuring that this critical analysis is carried out would be to have share class suitability functionality fully integrated into your order entry system. This way, all the variable investor data, including name, initial investment amount and time horizon, can be automatically passed through and pre-populated via a single advisor sign on.

The optimal share class analysis functionality should also be able to cover all underlying share classes, and give the advisor access to the most up-to-date fees and rules information. These data points, of which there are over 400, would then enable advisors to quickly compare various share class alternatives and their rules within the same fund. So armed, advisors would be able to provide investors with a comprehensive summary of their recommendations at the point of sale. This analysis can also be used to carry out share class conversions whenever necessary.

To minimize your firm’s risk of any unwanted and potentially costly client comeback regarding share class decisions, your advisor’s workflow should include output and archival functionality. Firms need to be able to show exactly what share class analysis was run, when it was run and when it was shared with and confirmed by the client. With a PDF record of all these actions stored in advisor- or firm-level archives, your firm would be better protected against any civil lawsuits and investor dissatisfaction.

Share Class Suitability violations cost some firms millions of dollars, not to mention irreparable damage to the brand and investor relations.
Consideration #3: The Relevance of Fund Suitability Analysis
In this new era of fiduciary compliance, your advisors need to be fully confident in the suitability of their fund recommendations. They need to be absolutely sure that every fund on their product shelf is in the investor’s best interest. Further, they need to be able to compare mutual funds and ETFs in real time to ensure best interests are always disclosed, signed off on and archived.

To better equip your advisors, first make sure your back office’s workflow includes a solution that ensures your firm’s fund lineup is evaluated for expenses, risk and performance. Next you need to provide your advisors with a fully integrated solution that allows them to always recommend funds that best fit their client’s needs. Even though there are more than 31,000 domestic mutual fund and ETF CUSIPs to choose from, some may no longer be considered best interest offerings based on commission structure.

Also of importance to your advisor’s workflow is the data they need to validate their fund suitability recommendations. Variables such as expected risk and performance, investment amount, share class, time horizon and expected rate of return need to be captured and incorporated into the analysis.

Consideration #4: The Importance of Timely Transactional Data
No matter what the investment, whether it involves a new fund, a new share class (such as T shares) or a 401(k) to IRA rollover, it is now essential that every advisor recommendation be validated by the most accurate, most up-to-date and relevant data. A lack thereof can only result in “not in good order” (NIGO) trades and regulatory uncertainty.

To avoid this, an organization’s workflow must provide advisors with state-of-the-art fund coverage, depth of data, accuracy and timeliness. A centralized data solution sourced directly from the SEC’s EDGAR system may be optimal, particularly if it is refreshed daily. That way, advisors can disclose fund rules, fees and other critical data on your sell list at the point of sale with total confidence and clarity.

With almost $16T in mutual fund choices available, having access to the most recent fee and rules information is critical.

A reliable up-to-date scorecard ranking of your funds against all related U.S. securities will also go a long way in helping to make sure your advisors remain Fiduciary-Rule compliant. For example, Broadridge integrates proprietary algorithms to systematically rank funds on key criteria such as expenses, risk and performance consistency within its FundPOINT® fiduciary compliance toolset.

In addition to having the right data feeding the analysis, it is equally important that every advisor recommendation is presented to the investor in an easy-to-understand, transparent manner. This includes presenting any and all additional disclosures or notes to the file, such as to explain why the client opted for a higher cost fund or more aggressive asset class. These compliance documents then need to be stored in an electronic archival system so they are easily accessible for auditing purposes.
WORKFLOW SIMPLIFICATION

KEY QUESTIONS TO ASK ABOUT SIMPLIFYING YOUR FIRM’S WORKFLOW:

- How effectively can your workflow provide advisors with the time-saving tools they need to meet their fiduciary obligations?
- Is your user interface able to capture multiple data points, interpret information and present a clear best interest recommendation?
- Do you have tools in place that allow an advisor to compare an existing portfolio/401(k) plan to a newly proposed portfolio?
- Does your workflow have a share class suitability solution embedded at the point of sale?
- Are your firm’s advisors able to communicate and capture suitability recommendations with ease and clarity for mutual funds and ETFs?
- How confident are you in the accuracy of the data your advisors need to validate every recommendation at the point of sale?
- Are you able to look back and remedy any existing portfolios that might not meet current best interest standards (for example, a portfolio with a long time horizon that is heavily invested in C shares vs. A shares)?
- Are there any gaps you need to fill?

If you find gaps, you’ll find that market leaders can offer modular and easy-to-implement data solutions to address any shortcomings. In its distinct role in the industry, Broadridge is unique in its ability to help equip firms and their advisors with the technology to ensure transparency and suitability to meet best interest requirements. Whether your needs are fulfilling fiduciary obligations, communications or ongoing compliance, our cost effective, easy-to-integrate solutions use proven technology to ensure compliance, sales efficiency and investor satisfaction every step of the way.

Turn Compliance into a Competitive Advantage with Our Complete Suite of Solutions

VALIDATE

FundPOINT®
The only web-based data and desktop solution sourced daily from the SEC’s EDGAR database

Investigo®
All of your client information, in one place

COMMUNICATE

Communications Cloud℠
A first-of-its-kind digital network for essential customer communications

Customer Communications
Streamline communication obligations and meet compliance deadlines by creating documents once and distributing data-driven messaging across multiple channels

COMPLY

RevPort
An industry-leading revenue and expense management solution

Advisor Compensation Solutions
A best-in-class, back-office agnostic compensation management solution
Contact Us
To discuss your firm’s unique operational and compliance challenges, please contact your Broadridge representative or visit Broadridge.com.

About Broadridge
Broadridge is the leading provider of investor communications, technology-driven solutions, and data and analytics for wealth management, asset management and capital markets firms, and corporations. We help clients drive operational excellence to manage risk, accelerate growth and deliver real business value. Our technology-driven solutions power the entire investment lifecycle, enabling our clients to successfully manage the complexity and operational requirements of today’s capital markets. Broadridge is at the forefront of multi-channel communications, strengthening our clients’ capabilities to communicate with their clients and investors and meet regulatory requirements.

2 2016 Survey of US-based advisors conducted by the UK arm of CoreData Research.
5 Broadridge as of 01/06/17 from search of open-end mutual funds and ETFs on EDGAR.