NAIFA Policy Statement on Standard of Care

NAIFA supports the efforts by the Administration and Congress to better protect consumers from predatory "bad actors" and to address possible consumer confusion about the roles of investment advisers and broker-dealers. However, NAIFA has concerns about the legislative and regulatory efforts to address perceived problems in this area, which have focused on establishing a harmonized fiduciary standard of care for investment advisers and broker-dealers. Rather than focus on particular terminology, NAIFA's primary goal on this issue is preserving the ability of lower and mid-market investors to receive professional advice and service.

NAIFA believes that, if not properly and carefully drafted, such a "one size fits all" approach could adversely impact the ability of lower and mid-market investors to access investment products, advice and services and fail to recognize the inherent differences between the investment adviser and broker-dealer business models. NAIFA is also concerned that cost increases resulting from the increased regulation and potential for liability associated with a strict fiduciary standard would force NAIFA members to discontinue service to lower and mid-market investors or to change to a fee-based investor adviser business model that primarily serves wealthier investors.

This issue is important to NAIFA because two-thirds of NAIFA's members are registered representatives of broker-dealers, and approximately one-quarter of NAIFA members are both registered representatives and investment adviser representatives. Thus, the end result of these legislative and regulatory efforts could have a significant impact not only on NAIFA's members but also on many of the clients we serve.

To the extent legislators and regulators continue to move forward with fiduciary standard proposals, NAIFA believes that any new standard of care for broker-dealers and/or investment advisers must accomplish the following goals:

- The standard must preserve the ability of middle and lower income consumers to have access to and receive competent professional services and financial products. The key is preserving competitive cost-effective compensation arrangements that will enable consumers to pursue their financial objectives and financial independence.

• The standard must call for clear and easy-to-understand disclosure to the investor about any existing material conflicts of interest of the adviser, the respective roles of and duties owed by financial professionals, the nature of their contractual relationships, and the different financial products and services available, so the investor is in a position to make an informed decision about the products and services offered by the financial professional.

• The standard must preserve the ability of financial professionals to sell only products made available by the company or companies with which they are affiliated and/or with which they have a contractual relationship/agreement.

• The standard must recognize and preserve the right of financial professionals to be fairly compensated without restriction as to the manner or type of compensation arrangements, including, but not limited to commissions or fees. Compliance with a standard of care should not be determined by the manner or type of compensation received by the financial professional.

April, 2015