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You control the journey.

Your RIA or the Broker-dealer's Corporate RIA?

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One of the biggest changes that has been underway in the past five years, and seems likely to continue to accelerate, is the major increase in regulation on RIA (fee) business.

Even after this is mostly complete, regulation on RIAs may still be less than on broker-dealers, but it is sure to be dramatically more complex and expensive to be an RIA than it is today. Beyond those already implemented, a few of the likely changes will be regulatory audits of comparable frequency to broker-dealers – every one to three years, based on size and business model. These audits will be far more exhaustive than they are today.

Another likely change is scrutiny on advertising, sales material, websites, social networking, and emails that is parallel to that in the broker-dealer space. Beyond that, increased financial disclosure and perhaps a net capital requirement or its equivalent are also likely, along with disclosure and limitations on outside business activities.

At Cambridge we believe in choice, and today about 75 percent of our advisors use our corporate RIA while less than 20 percent use an outside RIA – leaving about 5 percent that use both. We believe in the concept as an option and actively promote "your RIA or Ours" as an important choice our advisors can make based on their independent business objectives.

Let's not forget about an RIA's responsibility to conduct due diligence, not only on investment platforms and programs, but also on outsourcing vendors.

We believe that fee business will continue to become a more significant part of retail financial services in spite of the increase in regulation. But it is only logical that with fee business on the rise, regulators will "shoot where the ducks are" and this trend will change how RIAs do business. Most advisors who did fee business 15-20 years ago did it in their own RIA and not in the broker-dealer's corporate RIA. In fact, most broker-dealers didn't offer a corporate RIA. Likewise, during the 1990s, 95 percent of Cambridge's fee business was done separate from the broker-dealer – at other outside or institutional fee platforms.

Over the last 5-10 years, broker-dealers have begun building up their fee offerings and may actually require advisors to use their corporate RIA and hold assets at the broker-dealer, not away. This is in response to current and expected regulatory pressure on broker-dealers to supervise fee business, as well as the opportunity for broker-dealers to capture fee business as a profit center. At Cambridge, we believe this represents freedom and choice that should remain with the independent advisor and their business, and continue to allow both the use of an independent RIA, as well as the use of outside custodians. We have spent the resources to build an effective set of supervisory processes to accommodate both.

Every year, a number of existing Cambridge advisors give up their RIA to use ours and about 90 percent of advisors joining Cambridge use our RIA. Additionally, for the first time we now have several offices joining us who left their former broker-dealer several years ago to form their own RIA (to go fee only) and are now giving up their RIA and opting to use the Cambridge corporate RIA. In these cases the primary reason is the current and projected regulatory burden, and to a lesser degree, to regain access to certain products and value-added services that higher-end broker-dealers now offer.

The world is getting more complicated – regulation is heightened, clients expect more, competitors are offering more for less, technology costs and "must haves" are increasing. These challenges present opportunities to redefine your core value proposition and focus on being the best at fulfilling that mission. That enables you to hire internally or outsource for everything else, including dealing with regulation. If the ever increasing regulation is not a core competency, then outsourcing your RIA function to Cambridge's corporate RIA may make sense for your independent firm.

If you are an advisor considering the independent RIA model, you appreciate the merits of having greater control, independence, and flexibility – but you also realize these traits may be offset by increased regulatory burden, liability, and additional resource costs related to time and expense. It is important to recognize the features associated with forming an RIA generally come at a price that may be overlooked or uncalculated.

Benefits of forming your own RIA:

- Greater independence
- Increased flexibility (dependent on corporate RIA options you have available to you)
- More control

Drawbacks to operating under your own RIA:

- Greater liability
- Heightened regulatory burden
- Ownership of reporting requirements
- Significant time and resource investments

Choosing the advantages of the corporate RIA is an option for you to consider in creating your own practice. At Cambridge, we find many advisors choose our corporate RIA, Cambridge Investment Research Advisors, Inc. (CIRA) because it offers their business advantages.

- You have the ability to focus on clients, asset gathering, and management – CIRA assumes most of the burden regarding regulatory/administrative issues.

- You can seek to avoid or mitigate the pressures of regulatory scrutiny and audit related issues. In exchange for CIRA shouldering the primary RIA liability to clients and regulators, you will accept slightly less control and flexibility.

Using CIRA as your RIA reduces your administrative and compliance costs while giving you more time to focus on gathering assets, managing client assets, and growing your practice. Cambridge's technology, business tools, and back office support can help limit the scope of administrative staff required in your office – enabling you to allocate limited resources like time and money to initiatives focused on increasing revenues.

If you choose the corporate RIA, you will not have the burden or cost of creating or maintaining the filing of the uniform application for investment adviser registration

(Form ADV) with the state or the Securities and Exchange Commission (SEC). Since Cambridge is responsible for maintaining CIRA's Form ADV, you will not be subject to the direct regulatory audits associated with maintaining an RIA.

The SEC has implemented amendments to Form ADV which present additional challenges for the RIA. Form ADV Part 2 is used by investment advisers to satisfy the written disclosure statement requirement of SEC Rule 204-3 which requires investment advisers to provide clients and prospective clients with a more clear, current, and meaningful disclosure of the business practices, conflicts of interest, and background of the investment adviser and its advisory personnel. The brochure contains enhanced disclosure of potential conflicts of interest and incorporates the disclosure of legal and disciplinary events involving the investment adviser firm and its management personnel.

Part 2 consists of three different elements:

- Part 2A – known as the "Firm Brochure" requires advisers to describe the firm's investment advisory services, fees, disciplinary history, and conflicts of interest. An adviser is only required to address the items that apply to its business;
- Appendix 1 to Part 2A – Contains disclosure applicable to wrap-programs. The appendix is very similar in content to the old Schedule H of Form ADV and designed to replace it; and
- Part 2B – known as the "Brochure Supplement" requires an adviser to provide specific information regarding supervised persons who provide investment advice to clients, including their educational background, business experience, compensation, other business activities, and disciplinary action.

In addition, advisers are now required to provide material updates annually in addition to the annual offer of ADV Part 2A. All advisers are required to file their brochures electronically with the SEC.

If you want to form your own RIA you will have to complete the uniform application for investment adviser registration (Form ADV). It is important you fill this form out accurately and completely. An incomplete Form ADV will be rejected by most states and/or the SEC.

New regulations also require that most advisers under $100 million in AUM file with their state regulatory agency versus the SEC. What could this mean for you? You could be required to adhere to state requirements in addition to the SEC requirements. For example, in the state of Michigan you would be required to invoice your clients in addition to the statements sent by your preferred custodians.

A majority of rep-advisors outsource the initial Form ADV registration to professional compliance consulting firms and attorneys. In addition, the development of policies and procedures important to an RIA can also be outsourced to these third party vendors.

In short, the SEC's amendments to Form ADV means YOUR RIA is subject to disclosure, disclosure, disclosure:

- Clear, current, meaningful disclosure
- Plain English narrative disclosure
- Enhanced disclosure

Your RIA will have to redirect time and attention away from clients in order to meet the increased demands for disclosure.

According to experts across the industry, creating an RIA can be expensive. Preliminary consultation starts at just under $5,000. In addition, the cost of the initial compliance investment ranges from $20,000 to $30,000 – and the annual cost of running an RIA that offers financial planning and asset management typically ranges from $8,000 to $50,000, or more.

Formation of your own RIA can be a lengthy process depending upon the state or states with whom you are registering. For example, the initial response from state regulators acknowledging receipt of application can take up to 45 days. Depending on the state of application, a typical approval can take up to 90 days. It can take even longer if the Form ADV application draws questions due to inconsistent or seemingly inaccurate information.

A growing percentage of advisors are interested in offering both fee and commission business, and Cambridge is widely recognized across the industry as the pioneer of the hybrid approach. Eric Schwartz, Cambridge founder and CEO, defined this business model over 20 years ago and designed the Cambridge way of making it easy for you to offer both fee and commission business. The hybrid model is becoming an increasingly popular way for advisors to do both fee and commission business by having dual registration under both the Financial Industry Regulatory Authority (FINRA) and the SEC. Cambridge has designed an RIA offering that gives you the benefits of independence and flexibility – complete with comprehensive home office and compliance support.

Benefits of a corporate RIA:

- Decreased liability
- Reduced regulatory burden
- Reduced cost
- Time and resource savings

Every advisor's independent business is different, and careful consideration is the operative concept when it comes to deciding whether to form and use your own RIA or use the corporate RIA. As a general rule of thumb, if there is a compelling reason to form your own RIA, then do it, assuming you have sufficient personnel and management resources to appropriately deal with the regulatory burdens. If not, use the corporate RIA. Or, if you already have your own RIA and find the costs and details of management to be onerous, you may want to consider dropping it in order to use a corporate RIA and free your focus for client relationships.

YOUR RIA OR OURS? TALK TO US ABOUT WHAT MAKES SENSE FOR YOUR BUSINESS – PLEASE CONTACT US AT WWW.JOINCAMBRIDGE.COM OR 800-4BD-4RIA (877-423-4742).

About Cambridge

Cambridge Investment Research, Inc., member FINRA/SIPC, is an independent, privately owned broker-dealer with over 2,000 independent registered representatives and nearly $45 billion assets under management.

Cambridge strives to offer a corporate RIA that is as flexible as possible in order to accommodate the broad range of independent business models.

Recognized in the industry as The Fee Experts®[1], Cambridge provides innovative fee programs and a full menu of commission offerings to advisors across the nation. Cambridge has been ranked a fee leader among independent broker-dealers for 11 consecutive years[2]. www.joincambridge.com.

[1] *THE FEE EXPERTS® is a registered mark of Cambridge Investment Research, Inc. for its investment advisory service for investment managers.*

[2] *Financial Planning magazine, June "FP50", Top 50 Independent Broker/Dealer Issue, 2001-2011.*

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Selective advisors choose Cambridge. Contact us at (TheFeeExperts@cir2.com) at 877-4BD-4RIA (877-423-4742).

www.joincambridge.com **877-4BD-4RIA (877-423-4742)**

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