DOL Fiduciary Rule: The Implications for Wholesalers and Their Leaders

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This is a transcript of our discussion with Lee Kowarski and Steve Saltzman regarding the implications of The Department of Labor's Fiduciary Rule [DOL] specifically for wholesalers and their leaders. The show was recorded on October 11, 2016.

Rob Shore, Founder & CEO, Wholesaler Masterminds: Wholesalers, welcome back to *The New Wholesaler Masterminds Radio Show*. Wholesalers, this is a very special episode. And it's special for a few reasons. This is a very important topic. It's an important topic to our industry, it's an important topic to the clients that we serve, our financial advisors and our broker dealers, and it's a very important topic to you. And the topic is DOL. As I know, you know DOL is on the horizon. And just a reminder of dates, initial compliance with DOL is required by April 10, 2017. Full compliance is required by January 1, 2018. And along with our looming deadline we, of course, have an increase in the number of news stories, broker-dealers reacting, sales organizations pivoting, etc. So it's time to get some experts on the line.

As your resource for all things arts, science, and lifestyle of wholesalers, it's our job, we feel, to go out and assemble subject matter experts that can help us look at the issues of the day. And one of the largest looming, of course, is DOL. So to answer the questions that we have before us, I've gathered two esteemed colleagues in the industry, both which I've known for literally decades.

The first is Steve Saltzman. He's the primary business principal at Saltzman Associates. He focuses the company on activities related to research, business development, consulting, and his firm's popular industry around the tables. He's a student in the industry, having spent himself decades in the industry learning from others and translating those insights into actual information to improve the overall results of the industry. I've known him since his days going back to Director of Retail Insurance at Chase. He has served as an insurance and annuity product manager. Prior to that, he was a CMO, Chief Marketing Officer, for a distributor. Steve Saltzman, welcome to *Wholesaler Masterminds Radio*.

Steve Saltzman: Thank you, Rob.

Rob: And joining us today as well is Lee Kowarski. Again, I say, I've known Lee for a very long time. Lee was the original founder along with Steven Miyao of kasina, which was in 1999. They worked together to establish kasina's presence as one of most formidable consulting firms, particularly in asset management but not exclusively in asset management, until they were acquired by DST Systems in 2015. Now, as Vice President of DST kasina, he's in charge of consulting, overseeing DST kasina's consulting team, ensuring the success of all their engagements.

He helps prepare their distribution marketing and product strategies. He's also available for speaking engagements, and he is a frequent conference speaker and attendee, and he also leads all aspects of finance and operations for kasina. Lee is frequently coordinated in our industry press. He also is the founder of Alliance of Industry Leaders, which is the host of Industry Night, and the kasina Youth Foundation (for which he serves as President), a nonprofit that provides financial literacy education to high school and college students. Lee Kowarski, welcome to Wholesalers Masterminds Radio.

Lee Kowarski: Rob thanks for having me back.

Rob: It's absolutely delightful to have you both here. Let's just jump right in. You know, this is a really weighty topic. And I know for many of our wholesaling clients and leadership clients, it's weighing on them. So I guess the first question, Steve, I want to pose to you is, what are the primary impacts of the fiduciary rule, specifically as it's related to wholesalers and their leaders? So, if you could just delineate for us three of the highest level impacts then we're going peel the onion and go through the list of questions, etc.

Steve: Sure, I'd be happy to. I think if we had to point it to a high level...to three high level impacts, it would be, number one, the future role of the wholesaler in relation to joint appointments along with the advisor. And then I think also in terms of the impacts as it relates to firms increasing their focus on training education, training and education as it relates to the products and services that wholesalers are supporting. And then third, there's going be more of a renewed emphasis on planning as firms have to dive a little deeper as it relates to making that best interest determination, which is part of the new Impartial Conduct Standards that's associated with some of the new rules from the DOL. Those are the three primary areas where I'm going see change for wholesalers.

The first of which I'll address, and then maybe I'll turn it back to Lee or to you for some other comments. But if we talk about the role of the wholesaler in joint appointments with the advisor, now what we're seeing so far is there are varying views by firms in terms of how they are looking at the role of a wholesaler in joint appointment going forward. But in the spirit of the DOL's rule, they are very concerned about providing conflicted advice. And many of the firms have concerns about having what would be deemed as a conflicted salesperson in the room while recommendations might be made to a retirement client. To be clear, it wouldn't impact the wholesaler's role as it relates to providing information through seminars or other educational sort of efforts, but specifically I think one of the main impacts that firms are going have to reconcile pretty quickly is in terms of how that wholesaler can interact with the advisor and the client at the same time when the decision point is being made relative to recommendation.

Rob: Let's go to Lee. And this is such a big topic where I have to do my best to kind of fit it in to the right packaging for our listeners today. Lee, let's go over to you. Let's get your three and also get your comments then on Steve's outlook and comments that he made about joint appointment. But what are your three high level primary impacts of DOL against wholesalers and their leaders?

Lee: Well, Rob, not to take a political answer to your question, but to spin it a bit little differently, the way I and we think a lot about this rule is that frankly the DOL rule, well, it certainly has many direct implications we're going talk about, is simply accelerating a number of the shifts that we've already been seeing in the industry. And when we think about what those major trends have been, you're seeing the advisory business shifting from transaction to fee based. You're seeing a greater focus, an intense focus on fees and you're seeing increasing demand for passive strategies, whether that be in a mutual fund wrapper or increasingly with ETFs, whether they be passive, or in some cases, active ETFs.

And the DOL rule is, frankly, just accelerating these trends that have already have been in place for a long time in the industry. And I would also say that the DOL rule is really a precursor as well in that we would expect that there ultimately will be rule changes coming from the SEC, which they plan to announce next spring. I think April is the latest date that I've seen, which will speak to harmonizing the standard of care. So this whole shift, DOL is one piece of an overall ecosphere that we live in, that is expanding changes. That said, I completely agree with the implications Steve mentioned. And we've already seen a number of our clients that have decided to say, "Hey, we're not going to be hosting any client seminars." There are others who were saying, "Hey, the final rule clarification came out a little bit better than we were hoping. And as long as we have some guidelines around this, it can still be viewed as an educational exemption there as opposed to being held to the fiduciary standard."

Rob: So keeping our eye firmly focused on the wholesaler's role, I heard you say, Lee, that you've experienced some firms that are in fact instructing their sales teams. If I heard you correctly, please correct me if I did not, that they are instructing their sales teams that public seminars, that is to say investor seminars, are no longer on the docket. Is that what I heard?

Lee: There are definitely have been some firms that have made that determination to say, "Okay, let's hold off until we see how this all shakes out." And the reality, and I don't mean to be skeptic here or a pessimist, but the reality is a lot of this is going to be settled in the courts. There are going be a lot of lawyers out there that smell blood in the water, and they're going to file a lot of lawsuits as soon as there are any losses from anyone. And where exactly it all shakes out I think is going be pretty interesting. That said our interpretation- and I'll be very clear I'm not a lawyer personally – I've spent a lot of time reading the rules, but there are a lot of words in there. But my understanding is that there should be no issue with having wholesalers meeting along with the advisor with end shareholders and end clients, as long as it is an educational purpose and setup with a clear guideline in place. It's just a question of where you walk in that gray area and open that exposure. Some firms are being very careful about that.

Rob: Steve, before we come back to you to get your outlook on seminars, which of course we know is not as prevalent as it was 10 or 15 years ago but it's still a cornerstone in some wholesalers' practices – offering their expertise in front the public customer. Before we come to you, Steve, for your comments on it, there was actually a piece I was reading this morning from Dechert LLP, *"Navigating the DOL's New Fiduciary Rules: A Game Plan for Broker-Dealers."* And they were suggesting to your point, Lee, that there's a whole cottage industry that's about to erupt inside of the legal profession that, you know, we can call them opportunists, perhaps ambulance chasers, I don't know, but there's going be a cottage industry bubbling up that will be addressing nothing other than the infractions alleged against advisors for DOL.

Lee: Absolutely.

Rob: It's fascinating. Steve, let's go back to you. So this whole notion of seminars, specifically joint appointments you commented on, any further guidance on seminars that you're seeing?

Steve: Yes. To be clear, in the new fiduciary rule, which is part of what was changed through the regulations that were raised about the DOL, there are some specific language that deals with things that are not considered a recommendation, and therefore would not trigger the instance of providing fiduciary investment advice, and education efforts are specifically mentioned and even seminars are specifically mentioned in there. But I think Lee is spot on in the respect that many firms, despite the fact that there is some specific guidance that provides all of us with the insight that the DOL doesn't necessarily want to see seminars end, that they like the fact that education can continue, and wholesalers are a great way to deliver that. I think a lot of the firms are just going to be taking an overly conservative approach, particularly as the rule comes into effect starting in April of next year.

So I think you're probably going have the pendulum swing back a little bit, probably more firms in the near term, maybe put a moratorium on those sorts of activities, at least until they get on the other side of the big changes, and they can start to devote more time and intention relative to establishing protocols that would make them feel comfortable under the rule.

Rob: Let's talk about some of the immediate reactions, moratoriums, changes in behavior, especially as they relate to marketing. And when I say marketing I'm talking about where rubber meets the road. That is to say, the wholesaler and the advisor relationship and what sort of viewpoints distributors might be taking when it comes to marketing to advisors, specifically entertainment type items. Now, we realize that broker-dealer to broker-dealer, distributor to distributor, there's already guidance, if not firm rules, on what can and can't be done relative to the volume of entertainment, the kind of entertainment, due diligences trips permitted or not. But how is the landscape starting to shift? And can we have some outlooks that we can provide for our listeners on what potentially might becoming via that particular portal of concern. Lee, what are your thoughts?

Lee: Again, I go back to this point, this is a shift that has been happening. You know, we do regular research with advisors and we're seeing that the average number of meetings that the advisor has with the wholesalers they choose to meet with, firms that they do business with, wholesaler that they like and accept meetings with, has decreased by over one meeting per year over the last five years. So, what used to be advisor's meeting three or four times a year it's now meeting two or three times a year with that wholesaler. So it's harder and harder to get in front of advisors for a number of different reasons.

And I think that if you are a wholesaler with a traditional actively managed mutual fund shop, that the trends that we are seeing towards having a larger piece of portfolio is being made up of passively managed products and ETF, alternatives and the like, means that you're a smaller piece that's over a portfolio in an environment where fewer and fewer advisors are looking to have that in person meeting, making it even more critical that you spend your time with the right advisors, especially when you think about the role of the home office in driving portfolios with through models and other platforms. So all of these factors make it harder to get in front of the advisor as an external wholesaler, but makes it so much more critical to have that meaningful conversation when you do so. I know I touched on a lot of areas.

Rob: Yes, but I want to get back to the core question. The core question is if I am a wholesaler that has the opportunity to engage my advisors with occasional entertainment, a ball game, meals, due diligences trips, etc., does DOL fundamentally, as you've seen it begin to evolve, does it fundamentally change my ability or the broker-dealer's willingness to allow those types of entertainment and/or "educational opportunities"?

Lee: I would say not explicitly is my take on it. I think that there are still going to be some of those opportunities. But as you have mentioned that's fewer and fewer then there have been, and there are more and more restrictions in place. So you're not talking... Even the ball game, just the dollar limits that are in place in the other caps make it, so that's not as much of a focus. I think the due diligence meetings and other educational type opportunities are absolutely something that are going to be there, that firms are going continue to want to invest in, and broker-dealers are going want to continue to allow.

Rob: We've heard of commentary recently from some of our clients that some of the larger wirehouses have taken. They have in the past, as we all know, moved from taking the opportunity for advisors to visit home offices, even when it's wirehouse firm specific and shut down those meetings. But those wirehouse firms have now said, "Come to our meetings, pay for our meetings, and you can then come and attend, and, you know, we'll all be within the lines of compliance as we view it." Steve, what is your outlook specifically as it relates to insurance company distributors and how they would view entertainment, due diligences trips, things that sometimes fall under the guidance of the registered rep? And sometimes not registered at all, in the case of just say a pure fixed annuity.

Steve: Well, I think from insurance perspective, what we are hearing is it seems to be that that aspect of the business is going to be tightening up a bit. Because the nature of the business is more commission oriented as opposed to fee-based, at least today it is, there is a heightened sensitivity as it relates to the scrutiny that's associated with the Best Interest Contract Exemption, and there's been a narrowing in terms of what's defined as a commission under PTE 84-24, which both of those are prohibited transaction exemptions under the rule, which we can talk about in more detail if you'd like.

But from an insurance perspective and annuity perspective, we get the sense from our conversations that entertainment type items and incentive type items are probably going to be pulled back quite significantly, depending on what channel we're talking about. You made reference to fixed annuity only or non-registered individuals as opposed to folks who might work on under a BD or for an RIA. Particularly in that space there's going be a sea change as it relates to incentives and entertainment that have traditionally accommodated that sort of insurance license to only producer. And I'm speaking to the things that Senator Warren was focusing on in her publication [Villas, Castles and Vacations], not so much in terms of Super Bowl rings, but more in terms of trips to Hawaii for certain levels of production and the like. I do you think by and large, those wheels start to vanish and probably won't return.

Rob: That's a pretty significant change in a non-registered world, that those have been tremendous incentives for both insurers and FMOs and MBAs to be able to drive business. So that really is something quite extraordinary if those do go by the wayside, Steve.

Steve: There is some discussion, Rob, that at least in the IMO or the FMO world, that those firms may still be able to support those types of activities, provided that they're not only in place to reward business place to a single carrier, that maybe to the group of carriers that are under that IMOs umbrella. However, I still think that is yet to be seen because it's still the concern that an advisor might be making a recommendation to the client based on his or her own benefit. And it gets tough to defend that position if, just by the nature of an advisor, making that final recommendation that puts them over the edge so that they can take a trip to Hawaii. It seems very difficult for a financial institution to defend, particularly under the Best Interest Contract Exemption.

Rob: Let's talk about, while we're here with you Steve, then we'll get back, of course, to Lee's comments about this. Training and education, can you expound on that a little bit? Because that was one of your three major points of primary impact, and I don't want to let any of those go by the way side. Talk to us a little bit about that.

Steve: Sure. Specifically, so I'm going speak from the bent of the insurance and annuity world. Training and education is going to be emphasized much more in a post DOL world. If for nothing else, there's going to be an increasingly critical eye towards product complexity and the possibility of making misleading statements to clients. If you're familiar with the Impartial Conduct Standards within the new exemptions, they really focus on three things, and that's the best interest determination, avoiding misleading statements, and receiving no more than reasonable compensation.

Avoiding misleading statements sounds like a pretty easy one to do. But in the language of the exemption, it basically says that if you are in violation of committing these misleading statements, then you are in violation of the Impartial Conduct Standards, which prohibits you from seeking relief from the exemption that you are working under. In the case of annuity or insurance, that would either be the Best Interest Contract Exemption or PTE 84-24. If you are, as an advisor, providing information that's not entirely accurate as it relates to a living benefit on a variable annuity as an example, or the mechanics associated with a rider on a fixed index annuity, then it's pretty easy to draw the conclusion that you could make a materially misleading statement, which would in turn put you in violation of the standards and not allow that business to be sanctioned under the DOL's new rules.

So it's a pretty important element of compliance. And given that these products often have sophisticated mechanics, and in some instances can bring with them some levels of complexity, the idea that the advisor has to get these things right. Not that they didn't have to before but the consequences are a little bit more grave today than they were yesterday. That, I think, is maybe even a bright spot from a wholesaler perspective, and it gives you more of an opportunity to get face time with the advisor, to make sure that he or she fully understands the mechanics of the contract and the benefits associated with it.

Rob: You know...

Lee: Steve, can I throw out a question to you actually? One of those things you mentioned with your focus on what's in the insurance world, this Best Interest Contract Exemption, the BIC exemption, sort of making the assumption here in some of your statement and I'm hearing you right that, okay, advisors that will be operating with BIC exemption in place need to do X, need to do Y, needs to comply with it. What do you think is the realistic likelihood of these BIC exemptions being used?

Because I know from the conversations I've had with certainly many insurance carriers but others as well, but particularly on the insurance side, I hear real bifurcation where some firms are saying, "You know, our business isn't going change that much. We're just going have to put this BIC place, we'll have a process and we'll figure it out." Whereas others are saying, "This is just not practical and we're not going be able to operate in that world." So I'm curious with your expectations there.

Steve: I think in broad view we'll see firms, we'll see a number of firms begin with more of an emphasis on the BIC, on the Best Interest Contract Exemption, and being able to comply with it, particularly firms today that receive probably more than half of their overall business. And again, I'm speaking to the financial institutions in the BIC parlance, which can be broker-dealers, RIAs, it can also be insurance companies; where you have those financial institutions are the ones that are on the hook, if you will, for compliance with the exemption itself. So in the scenario where we're talking about an insurance company that provides a variable annuity through a broker-dealer, the broker-dealer is the one that has to comply with the terms of the BIC. And if they don't, they are the ones that are...their feet are held on fire.

Now, just last week, on Thursday, we saw the announcement from Merrill Lynch that they would not be operating under the Best Interest Contract Exemption going forward as of April of next year. The first major firm has really kind of outlined their strategy there. Edward Jones has made some similar announcements as it relates to mutual funds, but nothing has been broad sweeping as what Merrill identified last week. I do think in the near term Merrill is going be a bit of an exception to the rule on that in terms of taking hard line of not using the Best Interest Contract Exemption. I think from an overall practical standpoint, most firms are going to have to start using it as soon as the applicability dates are appropriate based on that exemption.

Part of the BIC requirement come into place in April of next year in a full blown, full disclosure components of the BIC don't come into new place until January 1, 2018. But I think this is going to be a transition over time. I think over time you'll see more emphasis moving towards level fee fiduciary and more of an advisory based mindset. But I think near term, next 12 to 18 months, there's going be lot of business that's done through the BIC.

Rob: Lee, so I gathered from your inquiry of Steve that you don't necessarily in your conversation see that as being as prevalent? Is that a fair statement?

Lee: You know, I think there's very differing views from the sessions I've had, and, you know, I'm a little bit more skeptical around that. I frankly think that it's a very difficult conversation that that enables between the advisor and their client is very difficult situation between how they handle retirement and non-retirement assets. And I think that any broker-dealer that's sort of viewing the thing, we'll just put that in place. I think it's oversimplifying the process. I do agree in Steve's point that there are going to be a number of firms that are going have really no choice but to put that in place come April, given what their business looks like.

But I just look at the data and the fact that, you know, in the broker-dealer world 49% of broker-dealers have majority of their business in transactional accounts and have less than a thousand reps. And when you think about those relatively smaller or medium-sized broker-dealers that are very heavily relying on transactional business, I know for a fact that many of them are actively looking at how they can be acquired. I think we can see a lot of consolidation in this space, because the compliance cost and hassle of dealing with what we're talking about here, as well as the exposure and potential risk of their taking, is something that's going be a very difficult space for those firms to play.

Rob: Let's talk a little bit about kind of financial implications, the compression of margins, how that ultimately plays out in terms of not only the advisors that are "left" if you will. Because I don't know what statistics you've read recently, but recently I read that, you know, perhaps 10 to as many as...depending on what we're reading, 30% of advisors will not be practicing post-DOL. There'll be contraction amongst broker-dealers as you just said, Lee. How does that work its way down to where this show hits the road, which is, of course, our wholesalers? What sort of outlook, Lee, do you have on contraction within the business as a direct result of the economics surrounding DOL?

Lee: I've learned being in this business for a couple of decades now that nothing changes as quickly as you might think it would or should. We've been seeing relatively slow but consisting margin compression amongst asset managers. And I think that the reality is there are many firms that frankly are going to struggle. We can call them being stuck in the middle. They're not scale players with large broad product suites, you know, the BlackRock's and J.P. Morgan's and such of the world. They're not a real more specialized or niche player, which doesn't necessarily mean small, which are more focused, whether think of Mathews Asia or First Eagle or others that are on that side.

The majority of firms, we say almost 77% of firms are in the middle. They are going struggle, but they still have very high profit margins. You know, as an industry, asset managers are far more profitable than the distributors, and distributors are far more profitable than many other industries out there. So I don't expect as a manager consolidation overnight. I think that what we're seeing though is an evolution, and I'll just touch on this briefly (we can dive more into it if you want, Rob). An evolution in what the role of a salesperson is, and we've seen this evolving over the years. From a salesperson who was more of a product pusher many years back, to a lot of focus on value add for a while. We've been hearing for about the last decade or so about consultative approach and consultative sales, which obviously is an element in it, but we're evolving to a stage with much more of a data driven sales approach.

Not turning the wholesalers into robots and guiding them purely with data, but being informed in recognizing as an asset manager, when does it make sense for us to have a salesperson in person meeting with an advisor? When did it make sense for us to have them call? What does that conversation look like? And is this driving real value? And if we have few broker-dealers and fewer advisors, it doesn't inherently mean fewer salespeople, as long as you understand that those salespeople are driving results and return of that investment.

Rob: And Lee, I should mention to our audience that if you are not aware, Lee and I had done a podcast. If you go to the website and put in the keywords "big data" we had a conversation as much as two years ago, Lee, about what happens as data starts to become a more prominent determinant of who a wholesaler should see, when they should see them, etc. So wholesalers, if you want to get more information about Lee's and kasina's outlook on data and how it applies to our business, check out one of the archived podcasts. [Is The Art of Wholesaling Dying?] Steve, let's go over to you and talk about insurance consolidation, distribution.

I had a client recently who sent me an email of great concern to him. He said that he had recently been at three different broker-dealer meetings. And when they were addressing insurance product, they essentially (in this wholesaler's estimation and his interpretation) they essentially said, "We're no longer going to support you in writing insurance product inside of retirement plans." And that for him was so disconcerting that he immediately emailed me with a concern about his future opportunity in the business, and in that particular moment was considering exiting the business, because he didn't feel his firm was being innovative enough, was not being responsive enough, not being informative enough, frankly, to the wholesalers. What are you seeing around this, because this caused him great consternation? I'm sure he's not alone.

Steve: Well, so let me divide that question within the insurance world to either life insurance or annuity. I'll talk about life insurance first, right? So in the case of life insurance, generally that business is done on a non-qualified fashion. However, within the rule itself, excuse me, the fiduciary rule itself and the new exemptions that support that rule, the DOL does focus on recommendations for distributions and then the target to which those distributions are to go to. So, in the example for life insurance where an advisor may make a recommendation for a client to take distributions from an IRA that he or she is not using for income, or doesn't plan to use for income, and to divert those funds into premiums to fund a life insurance policy, that technically is viewed by many as falling under the rule, even though by the time we're purchasing the life insurance contract, those dollars have been distributed from the IRA and they've been taxed, and they are no longer under the qualified status.

But because the advice had to do with the distribution of the IRA, then it would fall underneath the rule. I've seen many firms, many broker-dealer firms mainly, talk about no longer providing advice as it relates to those IRA transition strategies, moving from an IRA to a life insurance contract. Main reason because it's not because they think it's bad business or it can't be managed, the fact of the matter is that, you know, life insurance business inside a typical organization like that is a very small part of the overall revenue. And again, it's being viewed as, you know, just that the number of fish that they have to fry between now and then, and that one not bringing enough revenue with it to undergo the process and examine what they would need to do in order to mitigate the risks.

As it relates to the annuity side, you know, and again not knowing specifically where your particular contact was focusing his or her concerns with, whether it is annuity or insurance, but if we talk about the annuity side it could simply be a reflection of what Lee was outlining before, where some of these smaller firms look at the Best Interest Contract Exemption (and annuities in those traditional sense of receiving commissions as compensation for them), those smaller firms just see it as too big of a hurdle to jump over and are making a conscious decision to say, "You know what? We just can't get there between now and then in order to support that." So we do see on the larger firm side, and when I say larger firm generally, you know, anywhere from a thousand reps up, whether it be an independent broker-dealer or regional, national or even a wirehouse broker dealer. We generally see, with the exemption of Merrill Lynch, that most of those firms are intending to comply with the Best Interest Contract Exemptions.

Rob: And Steve, to be clear, this was a wholesaler that worked for a "we shall not name" larger insurance carrier and he was concerned about what he had heard at compliance meetings of broker-dealers. So I guess his concern was two-fold, right? His concern was not only what he heard coming out of broker-dealer meetings, which you have certainly and thoroughly addressed, thank you, but he was also a concerned about what he perceived in his own opinion to be the inactivity or the lack of information coming down from on high at his firm. So as an example, you have a Nationwide that buys a Jefferson National, and that's a loud example of what a firm is doing in reaction to flat fee annuity availability, where other firms, you know...

And maybe this is just a message point that I have, which I'll just get on my soapbox for a second. If you're a distributor and you are not bringing down information about what your plans and intentions are to actually address DOL in a way that your wholesalers can get some sense of at least an outlook, if not comfort, about what's going on inside the firm as far as addressing DOL, either at the broker-dealer level or the product level, then I'd like to say just from my small platform, would you please do it? Because, in some cases, you're causing a lot of angst inside the wholesaler community because they're not hearing any messaging. Lee, what are your thoughts on that?

Lee: Yeah, amen. I think you're absolutely right. I think that it's an amazing amount of vacuum that's in the industry from both the product manufacturer and product distributor side. One of the things that I know we were thinking we might end up touching on is for the role that wholesalers can play in helping advisors prepare for the rule. And what's fascinating here is the number of broker-dealers that have come back and said, "We don't want..." To their advisor management partners and insurance partner, "We don't want your wholesalers talking to our reps about this because we're still working on our strategy." And the reality is this is something that's coming very soon.

It's having implications for portfolio construction and other decisions advisors are making. There's a need amongst the advisors to hear what's happening. To your point, even within the product manufacturers to have that clear message of, "Here is what our path is, here's what our future is. This is what's it going to mean for you." And I think that if a firm is not offering that, it's typically because they still haven't answered their questions, and too many people took a big exhale when the final rule came out, "Oh, it's not as bad as we thought it was going to be," and yet I think it's not going to be business as usual for a vast majority of firms that maybe viewing it that way.

Rob: Yeah. Steve, please, I want you to comment on that as well. And then we're going end with that very question, "What is the role wholesalers can play?" And it just came to me, one of the things I wanted to say to add on or to contribute to your thought. Wholesalers have an obligation, especially to their best producers, to be able to provide information, information about products, information about industry trends, information about regulations. And I don't think anybody in this call would disagree with that. It's part of the value that wholesalers bring. It's why they a job and stay actively and gainfully employed – it's a job that will not go away, in my opinion. And if we have a broker-dealer out there that's saying, "I don't want you to talk to my reps about DOL," again, I'll take my small soapbox stand and my small platform to say that's crazy talk.

Because if a wholesaler can go in and provide not broker-dealer specific, but the recognized, in the public eye overview, like the 28-page piece that I reviewed before this call from the firm that I referenced earlier that speaks exactly about what's coming and how advisors should begin to prepare, not specifically as it relates to the procedures and protocols of their broker-dealer, but how to prepare in their practice to be able to comply, that's a role that I think wholesalers should play. Steve, go to you. And let's, on this last question, and let's go to our last question. In the interest of time, you've both been generous with yours.

What role can wholesalers play in helping advisors prepare for the role? Let's just get to it. Give me three things. You know, let's go to world of threes again, but if you got a bonus one we'll take it. If I'm a wholesaler, what am I supposed to do to help my advisor relative to DOL?

Steve: I think the point that you brought up before about, you know, firms not wanting wholesalers to speak with their advisors just yet about the rule I think speaks to the enormity of the sea change that's ahead as it relates to firms and advisors and wholesalers and everybody that has a role to play in this industry. So I think it puts the wholesaler in a challenged position, although I would suggest that the wholesaler is very used to being in that spot. That's the nature of their business that they understand how to abide by protocols and keep everybody happy along the value chain. So I think they're best equipped to deal with it.

But I would think in terms of if you're a wholesaler today, the thing that's going be as important today as it will be tomorrow is making sure from an advisor's perspective that they fully understand the product that you're offering, the mechanics associated with the product. And if there's complexity associated with it, make sure that that wholesaler has the opportunity to drive clarity to the advisor as it relates to how that product works, what the benefits exactly are for the client, so they can avoid making any misleading statements as it relates to providing the advice and recommendation that they ultimately make to their clients.

I think, too, in terms of helping advisors with making recommendations that are in the best interest of the client, I think one of the areas that the wholesaler can help in that regard is by making sure that the advisor knows where their particular product offer fits best and, in many instances, where it does not fit best. That sort of information is always instructive to a thoughtful advisor, even outside of the scenario that we're talking about here relative to DOL. I think that gives them a significant leg up as it relates to submitting recommendations, and then having to defend them from their supervision areas that are ultimately going be making those decisions about whether that recommendation can go forward or not.

Rob: So help understand the product, help understand the best application of the product, where it fits, where it doesn't. And if there's a third bonus, what do you want to toss in?

Steve: Yeah, I would say the third bonus one is to keep up with the educational efforts to a degree that the firm will allow, right? And those are things that bring value to the client, things like social security maximization as an example, or in some instances helping advisors understand medical costs during retirement is a popular topic right now. In this world of increasing emphasis on advisory and recurring revenue, where an advisor is having to continue to provide more value to the client to justify the fees that the clients are paying, to have that relationship, it's those sorts of elements that are very instructive for clients in terms of checking the boxes on the things that they need to know about and understand. So their relationship with the advisor can be deeper beyond just the specific investment relationship that they may have.

Rob: Lee, appreciating that kasina's position is that this is an accelerating shift that's been taking place in our industry for some time, that there is a migration from transaction to fee, empirical fee amounts will be adjusted as we begin or continue the journey of the shift as you spoke about it, and that passive is gaining on active. Specifically what's the role a wholesaler can play in helping advisors prepare for what's coming in April?

Lee: Yeah, I think there's a few thoughts there. One, I think that we finally as an industry have largely gotten past this question of active versus passive and the recognition that both have a role to play within a portfolio, I think that that's largely true for senior management within asset managers and broker-dealers. I think that there are still many wholesalers that work at traditionally active shops and view passive as competitor and threat. And I think that there's a mindset shift that needs to happen there, and part of that is working with the rest of your organizations.

Many asset managers have built up significant resources around portfolio construction, portfolio analysis teams, and bringing them in, to Steve's point, around understanding, here's how our products fit in, this is when they make sense, when they don't in a portfolio, for what type of client, what type of situation, and being willing to move from that wholesaler that always has a product, and just, you know, throwing out, "Here's the hot product, here's the right piece," to really think, "Well, here, let me understand what your approach really looks like and let me help you understand where our role is, because there's going to be a role for my products with some of you clients some of the time, not all of your client all the time."

So that shift is a mindset shift, but it also is a shift in approaching in terms with working with those other resources. And particularly as more and more asset managers and insurers have a full broad range of products, where they have both active and passive funds, ETFs, SMAs, and the like, where it's going be really critical to bring in those other resources, and to be... And some ways are more critical role than ever, being that quarterback for all these different touch points throughout the firm, and bringing those appropriately to the advisor at the right time in the right way when you have limited time.

And I think the other piece, which is probably less DOL-specific, but one of the overall shift is just recognizing that how advisors work and think and want to interact with you is changing, and we're seen some of the most successful wholesalers really switching their jobs where they're just going out and looking at the same type of meetings, but recognizing that it might be the most effective thing in their territory to set aside a day or two every week to do webinars and schedule those out, and bring in other experts for their firm, and looking at that balance to say, "Here's how we can help you understand and trust that our products are right and right for your client, and therefore you can have faith in them."

Rob: Wholesalers, I hope you'll join me in thanking both Steve and Lee for taking time out of their schedules to join us to impart their knowledge on our community to help you whether, however you interpret it: as a light breeze blowing from the north or a big 'ole hurricane that's about to come in April. Whatever your viewpoint is, I think you'll agree with me that both Steve and Lee have been most instructive. Gentlemen, thank you so much.

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