

STIFEL FINANCIAL

Ronald J. Kruszewski
Chairman and Chief Executive Officer

August 7, 2018

The Honorable Jay Clayton, Chair
Mr. Brent J. Fields, Secretary
U.S. Securities and Exchange Commission
100 First Street, NE
Washington, D.C. 20210

RE: Uniform standards of conduct for brokerage and advisory service models
File No. S7-07-18; File Number S7-08-18

Dear Chair Clayton and Mr. Fields,

Almost exactly a year ago, I wrote a letter both to Chair Clayton and to his counterpart at the Department of Labor (“DOL”) advocating for uniform standards of conduct across the retail brokerage and advisory service models. At the time, the Securities and Exchange Commission (the “SEC”) was considering whether to move forward with its own rule proposal under the premise that any standards it may adopt would ultimately have to co-exist with the DOL’s “fiduciary rule”.

Today, the DOL’s fiduciary rule is no longer applicable and the SEC is moving forward with its own Proposals¹ to address broker-dealer and investment adviser standards of conduct and disclosures for retail investors (the “Proposals”). While I was initially disappointed that the Proposals did not clearly establish a uniform standard governing both brokerage and advisory accounts in the retail channel, I now believe that the Proposals, modified as discussed below, can ultimately meet the objectives of materially reducing investor confusion while preserving investor choice, including the brokerage model.

The Proposals can be effective, easily implemented and maintain investor choice if the SEC adopts the following 5 recommendations and modifications:

1. Communicate that the standard of care is essentially uniform across brokerage and advisory service models under the current rules as clarified in the Proposals.
2. Harmonize FINRA rules with Regulation BI, including any operative guidance for Reg BI in the rule itself.
3. Revise Form CRS to be a simple, uniform disclosure, focused on investor education about the brokerage and advisory models to be used as part of a comprehensive layered disclosure regime.
4. Revise Regulation Best Interest’s Conflicts Obligation to permit broker-dealers to address conflicts by disclosing them.
5. Promote increased fee transparency in the financial services industry.

The following outlines how to accomplish these objectives.

¹ Regulation Best Interest, Exchange Act Release No. 83062, 90 Fed. Reg. 21574 (Apr. 18, 2018); Form CRS Relationship Summary; Amendments to Form ADV; Required Disclosures in Retail Communications and Restrictions on the Use of Certain Names or Titles, Exchange Act Release No. 83063, 90 Fed. Reg. 21416, 21429-30 (Apr. 18, 2018); Proposed Commission Interpretation Regarding Standard of Conduct for Investment Advisers; Request for Comment on Enhancing Investment Adviser Regulation, Advisers Act Release No. 4889, 90 Fed. Reg. 21203 (Apr. 18, 2018).

The Current Debate Over Standards of Care

As I reflect on the vigorous discussion surrounding standards of conduct, I am struck by the fact that this debate is often about the differences in *account service levels* between brokerage and advisory accounts instead of the actual *standards of care* that apply to both models. Said another way, this debate often focuses on whether brokerage (with pay-as-you go, point in time advice) or advisory (with ongoing monitoring for ongoing fees) is better for the retail investor, and conflates and confuses the issues by viewing these service levels as standards of care themselves.

I believe that an investor who chooses to receive investment recommendations under either brokerage or advisory models should receive the *same standard of care*. Put simply, the investment recommendations the investor receives should be well-thought out and appropriate for meeting the investor's goals regardless of whether the recommendations are provided episodically through brokerage or on an ongoing basis through advisory. The choice of episodic or ongoing advice should be left, as a choice of service level, to the informed investor.

As a twenty-year CEO of a dual-registrant offering both brokerage and investment advisory services, I strongly support both service models because together they allow clients to choose the amount, frequency, and totality of services to be received and how to pay for them, while in each case providing the same quality investment advice and recommendations. The continued existence of both models is essential to give Americans with different incomes, levels of investible assets, and investment objectives the ability to save and invest for their future goals, all the while protecting and democratizing effective capital formation in our financial markets. However, in my view, the debate that there is a material difference in the standards of care applicable to these models is unnecessary and risks creating an inappropriate bias against brokerage in favor of advisory.

The Standard of Care for Advisory and Brokerage Models is Essentially the Same Under the Current Rules as Clarified by the Proposals

For all practical purposes, the existing standards of care as clarified by the Proposals, which govern the quality of investment advice provided through the brokerage and advisory models, are the same. But, we use different words to describe these essentially identical standards – “suitability” for brokerage and “fiduciary” for advisory. These words have become weaponized in the hands of interested parties who seek a structural competitive advantage by elevating one paradigm (“fiduciary”) as a “gold standard” of care, while denigrating the other paradigm (“suitability”) as a lesser kind of “caveat emptor” model.

The brokerage standard of care and the investment adviser standard of care both require recommendations to be in the best interest of the retail investor without placing the financial or other interests of the service provider ahead of the interest of the retail customer or client. Both brokerage and advisory models require advice to be “suitable,” and in both contexts, “suitable” has been interpreted to mean “best interest”. Thus, to suggest that just because the adviser's standard of care is labeled “fiduciary” it is somehow superior to suitability, or that “suitability” is less than “best interest” misconstrues the fundamental similarities between how these standards have been applied in practice.

As the Proposals are implemented, I would encourage the SEC to take this opportunity to clarify explicitly that the standard of care is uniform across the retail brokerage and advisory models. Under either model, the firm and its representatives cannot put their interests ahead of the investor's interests, and they must provide recommendations and advice that is suitable in light of the investor's circumstances and investment objectives. The chart below illustrates that the standard of care is uniform.

Duty	Brokerage	Advisory
Provide suitable/best interest investment advice	Yes	Yes
Provide recommendations without placing the financial or other interest of the broker-dealer or representative ahead of the interest of the retail customer	Yes	Yes
Deal fairly with clients	Yes	Yes
Have reasonable basis for recommendations	Yes	Yes
Not receive excessive compensation	Yes	Yes
Seek best execution of client transactions	Yes	Yes

Please see Appendix A for a more detailed discussion of the duty of care in both models. The Proposals, which reference, but do not explicitly define, a “best interest” standard, do not explicitly relate such “best interest” standard back to the existing standards. I believe this represents a missed opportunity to help investors better understand and evaluate the service level they want to meet their personal financial goals.

The Real Difference Between Advisory and Brokerage Models is Level of Service and Not Standard of Care

Recognizing that standards of care as clarified by the Proposals are essentially the same, investors should focus on their choice of service model. Specifically, under the typical advisory service model, the investment adviser generally provides, pursuant to its customer contract, on-going advice and monitoring for an on-going fee. By contrast, in a brokerage service model, the client chooses to receive episodic recommendations and pays transaction-based fees but does not contract for ongoing monitoring of the account.

The difference in these models is the contracted and mutually agreed to service level – on-going advice and monitoring, or periodic recommendations. This difference does not (and should not) imply that a different standard of care applies to the quality of recommendations provided in either context. Regardless of the contracted service level, the same standard of care should – and as a practical matter does – apply to ensure the quality of the recommendations and advice provided within the limits of the customer/client agreement.

The following chart summarizes the fundamental differences between advisory and brokerage model service levels today.

	Brokerage	Advisory
Service level	Episodic recommendations and trade execution	Ongoing recommendations or discretionary management
Fees	Generally transaction-based	Generally ongoing asset-based
Compensation from third-parties	Permitted	Permitted
Disclosure of material information	Required in specified circumstances	Broad disclosure obligations
Address conflicts	Required in specified circumstances	Generally satisfied with disclosure
Principal trades	Permitted	Not permitted on a discretionary basis
Other regulatory requirements	Federal licensing and continuing education requirements, detailed account statements, financial requirements	No federal requirements, certain requirements apply under state law
Regulatory oversight	SEC, FINRA, and states	SEC and states

Importantly, as this table highlights, one of the primary regulatory differences between brokerage and advisory accounts is that the brokerage model is not subject to broad disclosure requirements—a gap the Proposals would seek to close. As noted below, we strongly support this aspect of the SEC’s rulemaking.

Specific Recommendations Regarding the Proposals

- 1. Communicate that the standard of care is essentially uniform across brokerage and advisory service models under the current rules as clarified in the Proposals.***

The implementation of the Proposals should form the basis for a standard of care for brokerage accounts that is aligned with the standard that applies to investment advisory accounts, and avoids ambiguous, undefined terms like “fiduciary” and “best interest”. It also respects the investor’s right and ability to make an informed decision about his or her personal assets. Adopting a standard of care on this basis would thus harmonize the standards across SEC broker-dealer and investment adviser regulation (preserving choice and access to both models, while reducing confusion for investors and regulators). Doing so will result in greater efficiency and consistency as these rules are interpreted and enforced.

2. *Harmonize FINRA rules with Regulation BI, including any operative guidance for Regulation BI in the rule itself.*

We recommend that the SEC direct FINRA to keep its rules and standards consistent with the SEC's standard of care and that the SEC provide regulatory certainty and clarity by including any operative guidance under the Proposals in the rule text itself.

Providing guidance in preambles leaves open many open questions, including its weight of authority and whether the guidance is a mandate, safe harbor, or just an example of one of many ways to comply. As you know, firms need a clear roadmap to be able to design compliance systems to meet the requirements of any regulation. Without them, we will be left open to second-guessing by regulators, judges, and arbitrators. In short, a workable rule does not set up "gothchas" or booby-traps for well-intentioned firms working in good faith to play by the rules.

3. *Revise Form CRS to be a simple, uniform disclosure, focused on investor education about the brokerage and advisory models to be used as part of a comprehensive layered disclosure regime.*

When taken in conjunction with the firm-specific disclosure requirement under Regulation Best Interest, disclosure requirements that apply to investment advisers, and the SEC's layered disclosure concept, I think the SEC should substantially simplify Form CRS and create an SEC-maintained, uniform investor education piece that all firms—investment advisers, broker-dealers, and dual-registrants—are required to make available to investors (including by interactive website or other electronic medium). Form CRS should educate investors about the general marketplace for financial services models, rather than the specifics of any particular firm.

Importantly, Form CRS should make clear that the standard of care is the same for broker-dealers and investment advisers and investors can expect the same quality of recommendations under either model. The form should then go on to explain the difference between the two models, including typical service levels (ongoing vs. episodic), compensation types structures (ongoing advisory fee vs. commissions and other transaction-based compensation), how financial professionals are compensated, and common conflicts to look out for.

The goal of this first layer disclosure document would be to arm investors with the general knowledge they need to evaluate any broker-dealer, investment adviser, or dual-registrant they are considering and have comparative information to consider whether another firm might be better suited to meet their needs. Firm-specific information could then be provided as additional layers (pursuant to Regulation Best Interest or the Advisers Act, as applicable) in separate firm-created disclosure pieces, including summary information that makes service levels, fees, and conflicts more accessible.

We have included an illustration of the layered disclosure concept, a concept draft of Form CRS, and sample firm-specific disclosures, for the SEC's consideration in Appendix B of this letter.

4. *Revise Regulation Best Interest’s Conflicts Obligation to permit broker-dealers to address conflicts by disclosing them.*

Currently, the single gap between broker-dealer and investment adviser regulation in this regard is that broker-dealers are not currently subject to an affirmative and broad disclosure requirement like the one that applies to investment advisers. Regulation Best Interest would help close this gap by requiring broker-dealers to affirmatively disclose material facts, including material conflicts of interest. However, Regulation Best Interest, as proposed, applies a materially higher standard to broker-dealers than that applied to investment advisers by requiring broker-dealers to disclose ***and mitigate or eliminate*** conflicts arising from “financial incentives”. This requirement in the “Conflicts Obligation” should be eliminated because it creates significant ambiguity and uncertainty and significantly favors one model over the other.

I believe making sure that investors have the tools to understand what conflicts their financial services providers operate under, as well as what services they are getting and how much they are paying, is crucial to allowing investors to make informed choices. I believe that this goes to simple respect for the investor’s ability to choose for themselves. I agree that the regulator should be active in helping to ensure that clear and effective disclosure are provided to the investor, but ultimately, as we operate in a free market, we need to be able to offer choice to our clients and respect their decisions, without unnecessary second-guessing from the regulatory or having regulations that preference one model over the other, thus reducing client choice. Consistent with the SEC’s layered disclosure concept, clearer disclosures of conflicts, fees, fee structures, and service levels should go a long way to accomplish this and empower investors, as opposed to limiting them.

In short, we agree that Regulation Best Interest’s Disclosure Obligation should require broker-dealer to provide up-front conflicts disclosures consistent with the SEC’s rules for investment adviser disclosures, but we are not aware of any empirical evidence or study that would justify imposing a higher standard for addressing conflicts on broker-dealers than the disclosure standard that applies to investment advisers.

We recommend that the text of the proposed Regulation BI be changed as follows:

Proposed Rule Text for Conflicts Obligation: Amend Section 240.15l-1(a)(2)(iii)(B)

(iii) Conflict of Interest Obligations.

(A) The broker or dealer establishes, maintains, and enforces written policies and procedures reasonably designed to identify and at a minimum disclose all material conflicts of interest that are associated with such recommendations.

5. *Promote increased fee transparency in the financial services industry.*

I have long believed that the financial services industry should further embrace fee transparency—including transparency of the compensation that both broker-dealers and investment advisers receive that is embedded in the expenses of the investment products in which their customers and clients invest. As technology to identify and disclose these compensation streams advances, I believe the SEC should continue to push both broker-dealers and investment advisers to improve their disclosures in this regard, but on a uniform basis, just to be fair. Investors need to know what and how they are paying for their investments and investment services.

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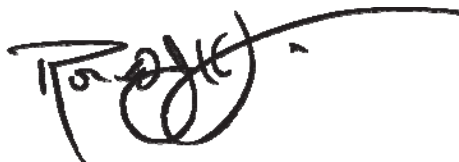
I want to thank the SEC for its efforts in constructing the Proposals and its desire and willingness to engage on what are some of the most important and politicized issues facing our industry today. That effort reflects the SEC's unique position and perspective as the key regulator of our securities markets and associated financial institutions.

I encourage the SEC to employ its unique position and perspective to harmonize the rules and regulations that currently govern the care obligations of two competing service models of brokerage and advisory. Ultimately, our capital markets will thrive and customers and clients will benefit from the ongoing competition between and access to these business models.

As an industry leader, I thank you for engaging with me in these important discussions as our industry develops and changes with the times and am eager to work with you to address these issues in a constructive and practical way so that we can continue our business of creating and preserving wealth for the American people.

I look forward to discussing this approach in more detail.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom O'Neil", with a long horizontal line extending to the right from the end of the signature.

Appendix A

Broker-Dealer “Suitability”

Broker-dealers must provide “suitable” and the SEC and FINRA have interpreted “suitability” as requiring that recommendations “be consistent with his customer’s *best interests*.”² FINRA requires that broker-dealers provide recommendations without placing the financial or other interest of the broker-dealer or representative ahead of the interest of the retail customer.³ Thus, the notion that “suitability” is a lesser, more lenient standard than “best interest” is simply not supported by the SEC’s or FINRA’s own interpretations.

In addition to suitability obligations, the Securities Exchange Act of 1934 antifraud provisions prohibit broker-dealers from engaging in fraud⁴ and broker-dealers are required to deal fairly with their customers and to observe “high standards of commercial honor and just and equitable principles of trade.”⁵ To this, add rigorous registration, testing, continuing education, and recordkeeping requirements;⁶ the requirement that firms closely supervise their representatives for compliance with the federal securities laws;⁷ the fact that customers can sue in court or arbitration if a broker-dealer

² *In re Dane S. Faber*, Securities Exchange Act Release No. 49216 (Feb. 10, 2004) (emphasis added); *see also In re Raghavan Sathianathan*, Securities Exchange Act Rel. No. 54722 (Nov. 8, 2006); *In re Scott Epstein*, Securities Exchange Act Rel. No. 59328, (Jan. 30, 2009) (“In interpreting the suitability rule, we have stated that a [broker’s] ‘recommendations must be consistent with his customer’s best interests.’”); *In re Wendell D. Belden*, 56 S.E.C. 496, 503 (2003) (“As we have frequently pointed out, a broker’s recommendations must be consistent with his customer’s best interests.”).

³ FINRA Regulatory Notice 12-25 (May 2012) (“In interpreting FINRA’s suitability rule, numerous cases explicitly state that ‘a broker’s recommendations must be consistent with his customers’ best interests.’ The suitability requirement that a broker make only those recommendations that are consistent with the customer’s best interests prohibits a broker from placing his or her interests ahead of the customer’s interests.”) (footnotes omitted).

⁴ *See* Securities Act of 1933 § 17(a); Securities Exchange Act of 1934 §§ 9(a), 10(b), 15(c).

⁵ *See* FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade).

⁶ *See, e.g.*, NASD Rules 1031 and 1021 (requiring “representatives” and “principals,” respectively, to register with FINRA and pass the corresponding qualification examinations); FINRA Rule 1250 (requiring firms to design and administer firm-element continuing education programs for their registered personnel and to ensure their registered personnel satisfy applicable regulatory-element continuing education requirements); FINRA Rule 4511 (requiring FINRA members to make and preserve books and records as required under various FINRA rules, the Exchange Act, and applicable Exchange Act rules, including in a format and media that complies with Exchange Act Rule 17a-4); FINRA Rule 4513 (requiring firms to keep and preserve written customer complaints); FINRA Rule 4530 (requiring reporting to FINRA of written customer complaints).

⁷ *See, e.g.*, FINRA Rule 3110 (regarding a FINRA member’s supervisory obligations, which include, among others, requirements to review certain correspondence and internal communications; to review all of the member’s securities transactions (including procedures reasonably designed to identify trades that may violate the provisions of the Exchange Act, Exchange Act rules, and FINRA rules prohibiting insider trading and other manipulative and deceptive devices); to capture, acknowledge, and respond to all written customer complaints; and to conduct internal inspections of the member’s offices); FINRA Rule 2010 (requiring members to “observe high standards of commercial honor and just and equitable principles of trade”); FINRA Rule 2020 (prohibiting members from effecting transactions in, or inducing the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance); FINRA Rule 2121 (acknowledging that firms are “entitled to a profit” when trading with customers as principal, so long as prices are “fair” considering the relevant circumstances,” and requiring that commissions charged by firms for agency transactions be “fair,” taking into account all relevant circumstances); Exchange Act § 15(b)(4)(E) (authorizing the SEC to take disciplinary action against broker-dealers for certain failures to reasonably supervise with a view to preventing violations of the various federal securities laws).

provides a bad recommendation;⁸ and the SEC's and FINRA's ability to sanction broker-dealers for breaking their rules.⁹

All told, today's broker-dealer regulatory regime adds up to a comprehensive and well calibrated mechanism for making sure that customers get good, well-thought out recommendations—just like customers of investment advisers.

Investment Advisers “Fiduciary Duty of Care”

As a “fiduciary,” “[i]nvestment advisers owe their clients the duty to provide only *suitable* investment advice.”¹⁰ In fact, when the SEC proposed a suitability rule for investment advisers in 1994 the SEC looked to interpretations of a broker-dealer's suitability obligations.¹¹ In its proposed interpretation of the standard of conduct, the SEC has proposed to interpret the advisers' duties to also include a “best interest” obligation.¹²

Similarly to the Exchange Act, the Advisers Act also prohibits an investment adviser from committing fraud on any client or prospective client.¹³ Moreover, firms must supervise their representatives for compliance with the federal securities laws, clients can sue in court or arbitration for breaches of contract, and the SEC can sanction advisers for breaking its rules.

⁸ See, e.g., FINRA Rule 12000 Series (the Customer Code of Arbitration, which governs arbitrations between investors and broker-dealers or their representatives); Securities Act § 12(a)(2) (providing a cause of action for damages or rescission as a result of material misstatements or omissions made by any person (i) who offers or sells a security by means of a prospectus or oral communication that includes an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading (the purchaser not knowing of such untruth or omission), and (ii) who does not sustain the burden of proof that he did not know, and in the exercise of reasonable care could not have known, of the untruth or omission); Exchange Act § 10(b) and Rule 10b-5 thereunder.

⁹ See, e.g., Securities Act § 17(a); Exchange Act § 10(b) and Rule 10b-5 thereunder; FINRA Rule 2111; FINRA Rule 2010.

¹⁰ SEC, Study on Investment Advisers and Broker-Dealers at 27 (Jan. 2011) (citing Status of Investment Advisory Programs Under the Investment Company Act of 1940, Investment Company Act Release No. 22579 (Mar. 24, 1997) (in the context of adopting a final rule providing for a non-exclusive safe harbor from the definition of investment company for certain investment advisory programs), citing to Suitability of Investment Advice Provided by Investment Advisers, Investment Advisers Act Release No. 1406 (Mar. 16, 1994) (proposing a rule under the Advisers Act Section 206(4)'s antifraud provisions that would expressly require advisers to give clients only suitable advice; the rule would have codified existing suitability obligations of advisers)).

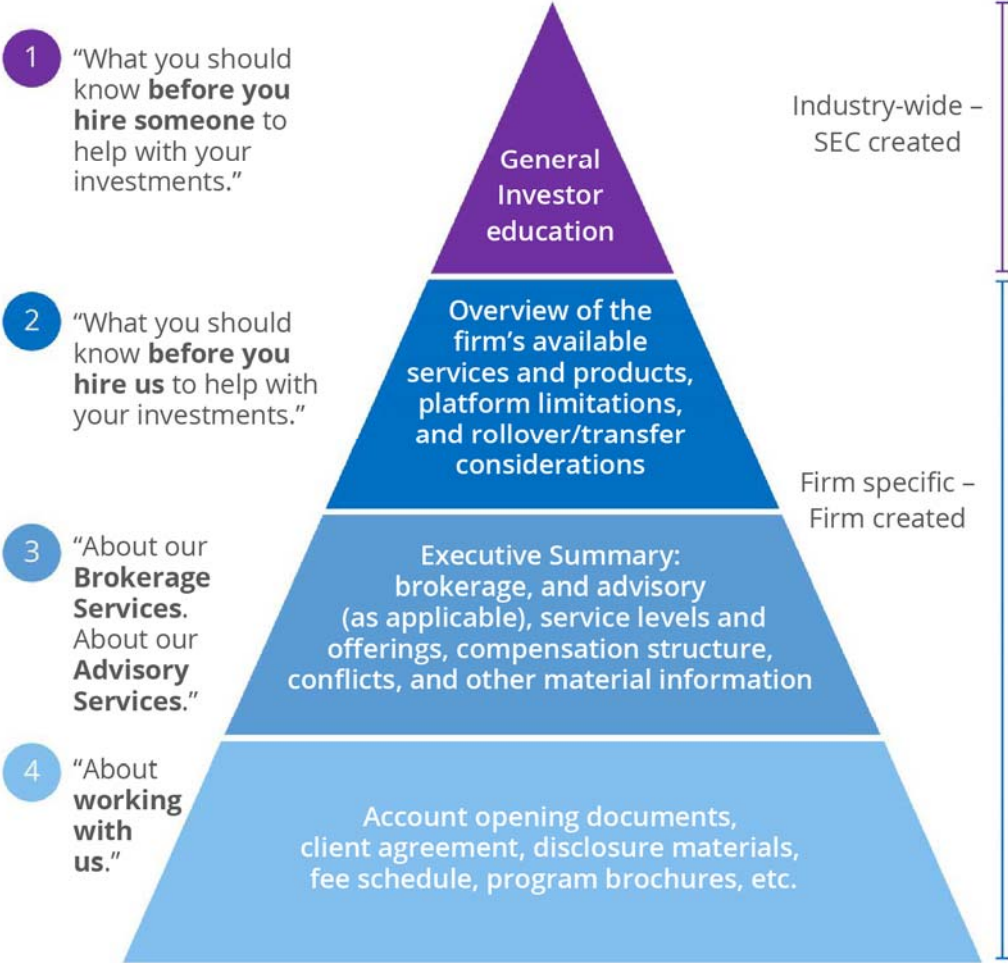
¹¹ See Suitability of Investment Advice Provided by Investment Advisers, Investment Advisers Act Release No. 1406 (Mar. 16, 1994).

¹² 90 Fed. Reg. at 21206.

¹³ Regulation Best Interest, 83 Fed. Reg. at 21599.

Appendix B

SEC Standard of Care Proposal
Layered Disclosures Concept
Helping Investors Make Informed Decisions



[1. Form CRS - SEC Created General Investor Education]

What You Should Know Before You Hire Someone to Help with Your Investments

Broker-dealers and investment advisers offer many different ways you can get help with your investments. This brochure provides general information about key issues you should consider when comparing your options.

Available services, fee structures, and conflicts vary from firm to firm, so you should review each firm's disclosures carefully before making your decision. Banks and insurance brokers and agents may also provide access to financial planning and advice services, but these services are beyond the scope of this document.

What is the standard of care for brokerage and advisory accounts?

When broker-dealers and investment advisers recommend investment products and strategies they each have to meet essentially the same standard of care. This standard requires that any recommendation must be appropriate for the investor and that the firm and its representative cannot put their interests ahead of the investor's interests

How are brokerage and advisory services different?

Broker-dealers can recommend trades for you to consider but won't make investment decisions for you. Typically, broker-dealers do not monitor your investments on an on-going basis, so you will be responsible for making sure you are comfortable with each trade and that your investment mix stays right for your goals.

Investment advisers can recommend investments (like broker-dealers), but can also offer "discretionary" management services where the adviser makes the individual trading decisions for you. Many, but not all, investment advisers will monitor your account on an on-going basis—you should ask whether the investment adviser you are considering takes on this responsibility.

Some firms are "**dual-registrants**" and can offer their services as either a broker-dealer or investment adviser, and can provide access to each of the services above.

When you are looking at different firms, you should find out what services they offer and think about whether their services match your needs.

What fees will I pay?

The fees you pay (and how you pay them) will be different depending on whether you use brokerage or advisory services.

Fees and fee structures vary from firm to firm and within individual firms depending on the particular services you choose, and other factors, like how much you invest. In general:

- **Broker-dealers do not charge a separate fee for their investment recommendations.** You will typically pay them a commission or other fee when you buy or sell an investment.

Commission amounts depend on various factors like the type of investment and investment amount, and can be charged up-front when you buy, or when you sell. You should ask for the firm's commission schedule for more details. The actual amount of commissions you pay will be disclosed on the confirmation you receive after your trade.

Additionally, some commissions are paid to broker-dealers from your investments over time. These include "Rule 12b-1 fees (from mutual funds) and placement fees. You can get information about these fees from the prospectuses or other offering

documents of the investment products in which you invest.

Broker-dealers also typically charge account maintenance, margin interest, custody (including IRA custodial fees) and other fees for maintaining and administering your account. More information about brokerage fees is available from the SEC in "[How to Open a Brokerage Account](#)" and "[Brokers' Miscellaneous Fees](#)."

- ***Investment advisers typically charge an additional fee for their advice.*** Unlike broker-dealers, investment advisers generally charge a separate fee for their advice.

Advisory fees can be calculated as a percentage of the assets in your account, or a fixed dollar amount. They can also be charged on an on-going basis, regardless of the amount of trading in your account.

Advisory fees can be in addition to commission and other transaction charges you pay the broker-dealer who executes your trades, or in the case of a "wrap advisory fee," certain transaction charges are included in this fee, which is usually calculated as a percentage of assets in your account.

You may also pay account maintenance, margin interest, custody (including IRA custodial fees) and other fees to a broker-dealer or custodian for maintaining and administering your account. More information about advisory fees is available from the SEC in "[Opening an Investment Advisory Account](#)" and Investor Publication "[Investment Advisers: What You Need to Know Before Choosing One](#)."

When you are comparing different firms, you should ask about their fees (and compensation) and where you can get more information. You should also ask whether their fees are negotiable, whether lower fee options are available and their policy of aggregating household accounts for better pricing.

Remember that these account-level fees are in addition to the fees and expenses of the products you may invest in, such as the expense ratio of a mutual fund or insurance product.

Fees may seem small, but over time they can have a major impact on performance.

For more information, please review the SEC Investor Bulletins "[Ask Questions – Questions You Should Ask About Your Investments](#)"; "[How Fees and Expenses Affect Your Investment Portfolio](#)"; and "[Ten Things You Should Know About Investing](#)."

Additional information is on the SEC's Investor.gov website at

<https://www.investor.gov/introduction-investing/basics/investment-products.xxxxxxx>

How else do broker-dealers and investment advisers make money?

Broker-dealers and investment advisers may earn money from various sources in addition to what you may pay directly, including:

- ***Certain investment products in which you invest and from the products' sponsors and managers.*** This compensation generally depends on the amount you invest in the particular investment product and can be paid when you invest, an on-going basis or both.
- ***Affiliated products.*** If the broker-dealer or investment adviser offers investment products provided, serviced or sponsored by it or an affiliate, your investment will generally result in additional compensation being paid to the firm or the affiliate.
- ***Payment for order flow.*** Broker-dealers can also receive compensation from market centers called "payment for order flow" for directing your trades to the market centers.
- ***Principal trades/Underwritings.*** Broker-dealers and investment advisers (with your

approval) can trade with you for their own accounts on a “principal basis”. When they do, they earn compensation by marking up the price of securities they sell to you, and marking down the price of securities they buy from you. They can also earn selling concessions for underwritings and IPOs for which the firm participates in the selling syndicate.

- **Sweeps.** If a broker-dealer or investment adviser offers a sweep program for uninvested cash in your account, the firm can earn additional revenue from the banks or money market funds that hold your cash.
- **Margin.** If you hold investments in a margin account, the broker-dealer can earn additional compensation from margin interest charged to you, as well as compensation it may receive for using assets held in the account for lending purposes.

Ask the firms you are considering about compensation they receive from other sources and where you can get more information. Even though you do not pay these fees directly, they affect your investment performance indirectly and should be considered part of the overall fees you are paying for services.

What conflicts do firms have?

Broker-dealers and investment adviser have conflicts to recommend, or invest your savings in, investment products, services, and transactions that result in them receiving greater compensation. Conflicts vary from firm to firm, but here are some general conflicts to look out for:

- **Rollovers and asset transfers.** Broker-dealers and investment advisers don’t generally get paid unless you hire them. Thus, whether you are thinking about moving your assets from an account at another firm, or from your company retirement plan, you should know that the broker-dealer or investment adviser you are talking to has an incentive to encourage you to move your assets to their firm.
- **Brokerage vs. Advisory.** If you are working with a dual-registrant offering both advisory and brokerage services, the firm will have a conflict to encourage you to select the service that results in the most compensation for the firm. This will generally depend on your trading volume—if you trade a lot, the firm may have an incentive to get you into a brokerage account, but otherwise, advisory programs often result in the firm earning more compensation.
- **Advisory Program A vs. Advisory Program B.** Some advisory programs are more expensive than others, and investment advisers have an incentive to encourage you to pick the most expensive one. When making your choice, understand the differences in service levels, and choose the program that best services your needs.
- **Product A vs. Product B.** Firms are compensated more for some products than for others. For example, the commissions you pay to a broker-dealer for a variable annuity may be higher than the commissions you pay for a mutual fund. A mutual fund sponsor may pay a broker-dealer or investment adviser more for selling its mutual funds than it does for selling a similar exchange traded fund (“ETF”). And a firm might get more compensation for selling mutual funds from one fund family than it does from another fund family, or for selling mutual funds managed by an affiliate.
- **Share classes.** A firm may offer investment products in different share classes with different compensation amounts and structures and have an incentive to recommend you invest through the share class that results in the most compensation to the firm. Additionally, depending on the share class compensation

structure, the firm may have an incentive to encourage you to buy and sell share classes with up-front commissions, and to hold share classes that pay compensation over time. Not all share classes are offered by all firms to all customers.

- **Principal trade vs. agency trade.** Broker-dealers and investment advisers have an incentive to encourage you to invest in securities they hold in inventory or where they are participating in an underwriting syndicate, and to execute trades against their proprietary accounts.
- **Order routing.** Broker-dealers have an incentive to route trades to market centers that pay them more.

You should ask the firms you are considering about their conflicts of interest and how those conflicts affect their services to you. You should also ask for the firm’s conflicts disclosures and review these disclosures before making investment decisions.

What conflicts do financial professionals have?

Broker-dealers and investment advisers compensate and incentivize financial professionals for working with investors.

Financial professional compensation varies significantly from firm to firm, but is typically affected by the amount of client assets the financial professional is responsible for and the fees and commissions those assets generate.

Compensation can include both (i) cash compensation and bonuses, and (ii) non-cash incentives like eligibility for sales clubs, trips, and other awards.

Thus, financial professionals have an incentive to encourage you to invest your savings in the services, products, and transactions that result in the financial professional earning the most compensation.

You should ask the firms you are considering about how financial professionals are compensated (both cash and non-cash) and what the firm does to mitigate and supervise those conflicts.

How do broker-dealers’ and investment advisers’ obligations to investors differ?

Federal securities laws use different words to describe the standards that apply to broker-dealers (“best interest”) and investment advisers (“fiduciary”), but both types of firms are required to take steps to make sure the investments and strategies they recommend or implement are appropriate or suitable for you.

Additionally, broker-dealers and investment advisers are required to address their conflicts. Investment advisers can do this by disclosing their conflicts to you.

What disclosures should I look at before deciding to hire a firm?

Each firm will make a number of disclosures available to you about their specific services, fees and compensation, and conflicts of interest. *If you need help understanding these disclosures, ask the firm or financial professional for help.*

For information about how to check a financial professional’s background, review the SEC Investor Bulletins “[Check Out Brokers and Investment Advisers](#)”; “[Check Out Your Financial Professional](#)”; and “[Top Tips for Selecting a Financial Professional](#).”

To report a problem to the SEC, visit the SEC’s [Center for Complaints and Enforcement Tips](#) or call the SEC’s toll-free investor assistance line at (800) 732-0330. To report a problem to FINRA, visit www.finra.org/investors/problem or call FINRA’s call center at (301) 590-6500.

[2. Firm Created Firm Specific Overview of Firm Services]

What You Should Know Before You Hire Us to Help You with Your Investments

Thank you for considering Stifel to help with your investments and savings goals. This pamphlet provides an overview of our services and other things you should consider before you hire us and move your assets to an account with us. More detailed information is available in our pamphlets “About Our Brokerage Services” and “About Our Advisory Services,” as well as in our account agreements and disclosures available at [CROSS-REFERNCE/LINK].

What kinds of services does Stifel offer?

As a registered broker-dealer and investment adviser, we offer various ways you can get help with your investments, including:

- ***[Execution-only brokerage services]***
- ***Advised brokerage services***
- ***Discretionary and non-discretionary investment advisory programs***

Each of these services is different, and has different account minimums, fees, and expenses. We have a conflict of interest to encourage you to hire us for the service that results in greater compensation for us and our affiliates. For more information about each of these services, including our conflicts of interest, see [CROSS-REFERENCE/LINK].

What kinds of investment products does Stifel offer?

We offer access to a broad range of investment products through our brokerage and advisory platforms, including mutual funds, ETFs, annuities, stocks, bonds, REITs, structured products, and alternative investment funds.

Some of the products we offer are provided or managed by our affiliates, while others are offered or managed by third parties. We have a conflict of interest to encourage you to buy, sell, and hold investments that result in greater compensation for us and our affiliates.

When you invest in an affiliated product, our affiliate will earn compensation as disclosed in the applicable prospectus.

We receive payments for marketing and distribution support and other services we provide with respect to third-party products as disclosed in the applicable prospectus or offering document.

Our platforms do not offer access to all investment products in the universe, and other firms may offer different products or the same products at different cost.

How are Stifel financial professionals compensated?

We pay our financial professional a portion of the fees and commissions you pay to us and we provide other benefits to financial professionals based on their performance.

Generally, financial professional compensation depends on the amount of customer assets for which they are responsible and sales of investment products they generate. Thus, financial professionals have an incentive to encourage you to invest more assets and buy, sell, and hold investments that result in more compensation.

More information about financial professional compensation is available in [CROSS-REFERENCE/LINK]

What if I am moving

Moving assets from a tax-qualified account, like an account in a 401(k) plan or

**assets from an
employer-sponsored
plan or IRA?**

IRA, requires special considerations. Please see our pamphlet “Learn About Options for Your Retirement Plan Assets” for more information.