NAVIGATING THE PROPOSED DOL FIDUCIARY STANDARD RULE

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April 2016

Operator: Good day, and welcome to the Navigating the Proposed DOL Fiduciary Standard Rule: A Spotlight on Asset Managers. Today's session will be recorded. At the end of today's presentation, we will also hold a question, answer session. You may hit star one, at any time to pose a question. I would like to turn the conference over to Erik Beck of BNY Mellon. Please go ahead, sir.

Erik Beck: Hi, thanks Kyle. And thanks everyone for joining us, good morning and good afternoon. And if you're anyone on the phone from Asia, good evening. I'm gonna kick off the call today; I have the easy part, to just give a brief intro and turn it over to some of my colleagues. As Kyle mentioned, my name's Erik Beck, I lead our Investment Management Industry Client Group at BNY Mellon. So we're essentially focused purely on the investment management industry, which comprises all the investment management clients of our firm globally. Today we're focused, as you mentioned on the DOL Fiduciary Rule, but we're trying to do something different here. Since Obama announced the changes to some of this in February, I believe it was, 2015, there have been a lot of conferences and webinars focused on this topic. But we're trying today to focus specifically on the investment management community and the impact to them. So hopefully we'll give you a little bit of a unique perspective and have questions and answers that can do that. We think BNY Mellon is uniquely positioned to do some of this, specifically for those who aren't as familiar. We're obviously the largest investment servicer in the world, but we're also a big investment management firm. And then uniquely for this rule, Pershing is one of the largest providers of investment adviser platforms, and advice and technology through the broker-dealer community as well. So we're kind of sitting, certainly impacted, but also trying to help our clients navigate all of this. Specifically, we've done a lot of work already on this. Just to give a little bit of background, we have a dedicated task force which spans a number of our businesses, including of course, our Investment Management business, and they've been intimately involved. We've participated in, and will continue to do so in many industry discussions. We've hosted panels and webinars. And we spend a lot of time helping the marketplace prepare for the rule, and hopefully today we'll do the same. I'm gonna turn over the call at this point to Christine Gill, who has a long career at BNY Mellon, focused on the Investment Management community most recently, but also on the broker-dealer community in many of her prior roles. And currently is the new head of our Investors Solutions Group, which is effectively leading our Transfer Agency and Sub accounting businesses, so she's in a great spot. And spends a lot of time thinking about these things, specifically that impact both communities, but her new role is focused specifically on that as well. She will MC today's call, but just as additional background, she spends a lot of time thinking about topics that impact both the community and her role specifically is focused on that. And she intends to, as this call does, focus on leveraging the insights that we have on this topic and other topics as well. So we look forward to hopefully providing some insight in the Q&A. So Christina, I'll turn it over to you, and I think you'll MC and also introduce the other experts and speakers we have.

Christine Gill: Great, thanks very much Erik. Good morning everyone, it's a pleasure to be talking to you today. This is really an important time for our industry. Morningstar is estimating that the new rule will effect roughly $19 billion in revenue on approximately 3 trillion in client assets. And although this rule will directly impact the broker-dealers and the advisers, it's going to have a dramatic impact on investment managers. And so, we're pleased to be here today, talking about the insights that we have from all the work we've been doing with the broker-dealer community, and the regulators on this topic, and how we think this is going to impact you as investment managers. So I'm very grateful to have a panel of experts here today, to share their insights. So we have Rob Cirrotti, who's a Managing Director and Head of Retirement and Investment Solutions. He oversees all aspects of Pershing's retirement business, including the development of investment solutions for broker-dealer and registered investment adviser clients. We also have Tonia Bottoms, and Tonia is Managing Director and Managing Counsel at Pershing, and she specializes in the areas of retirement plans and financial products. She provides advice and guidance regarding the compliance and oversight of retirement and education savings products. We also have Charlie Hawkins on the line, and Charlie sits within our Asset Servicing Division. He's responsible for our Transfer Agency Regulatory Management department, and is focused on delivering regulatory services to our Transfer Agency clients and serves on a number of industry committees. And all three, Rob, Tonia, and Charlie, have spent significant time actually going back to when the rule was first proposed, back in 2010. Understanding the dynamics and working directly with the DOL and others, to try to influence and understand the impacts of these rules. So in terms of today's agenda for our webinar, we're going to get some background and just kind of level that everyone on the DOL Fiduciary Standard Proposed Rule, how it's looking today. Talk about the impact on the broad marketplace, and then we're gonna do a deep dive into the asset manager perspective and talk about what it could mean, in terms of your sales and marketing efforts, your product development. Operationally, how this will impact you, and then also, things you should be thinking about from a legal perspective. And then we do plan to open the lineup for questions at the end. So we would love to have this be interactive, and understand the questions that are on your mind, and also welcome any comments or thoughts on the topic. So with that, I'll go ahead and I'll hand it over to Rob Cirrotti, who's going to give you some insights on why the Department of Labor is actually taking action, how did this come to be.

Rob Cirrotti: Great, thank you Christine and good day everybody. As Christine mentioned, we thought we'd start off with some level-setting as to what the rule is about, and starting here in particular with, why the Department of Labor's taking action. So first it's important to note that Department of Labor is responsible for administering and enforcing certain federal laws. The most applicable or important of which today, for today's conversation is ERISA, the Employee Retirement Income Security Act, I'm sure you're all familiar. With that, the DOL has issued a proposed rule in 2015 that would modify a regulation that was previously issued in 1975. Which created essentially what we think of as a five-part test that has to be satisfied in order for an individual to be considered a fiduciary under ERISA for purposes of providing investment advice. And it's that definition in particular or that five part test, that's really at the heart of the regulatory change that the Department of Labor is making. So with respect to why they're making this change, I think it's really driven by two primary things. First of all, the cost of that five-part test, and that test being one whereby each prong of that test, or that definition, would have to be met in order for one to be considered an ERISA Fiduciary, under the investment advice prong. Many advisers and firms had been able to essentially skirt the characterization of being a fiduciary under ERISA, by way of forming their business model, and essentially through many disclosures, and so forth. That would allow them to avoid one or more parts of that five part test. And as a result of that in instances where the Department of Labor was trying to bring enforcement actions they've been unable do so. And so this lack of success in bringing enforcement action in situations where the department thought that individuals should otherwise be acting according to a fiduciary standard and then being unable to, have caused them to really rethink what that definition should look like. And therefore to propose a rule that would substantially expand the circumstances under which an adviser would be considered a fiduciary. The second fundamental driver as to why the Department of Labor is taking action, is really driven by the marketplace. And so if you think back to 1975, when they first put these regulations into the marketplace, the retirement market looked very different. If you simply break the retirement market into three components, the defined benefit space, the defined contribution space, and the individual retirement account space or IRAs, there's been some very clear shifts in how the marketplace has operated since 1975. And so the department has clearly been regulating the defined benefit, and even the defined contribution space with respect to the regulations it has had. And this regulation expands into the IRA space. And the reason for that is that there are substantial assets flowing, as you all know, from those retirement plan space, the employer plan space. And now very much so from the defined contribution space specifically into IRAs, and those rollovers are not expected to slow down any time soon. So I think as a fundamental reason why the Department of Labor, that they feel they want to extend some of the protections that exist in the employer plan marketplace into the IRA marketplace because of the substantial retirement assets that are shifting. And that's one of the key components of how they have changed the regulations with respect to investment advice. So with that as our starting point, let me turn it over to Tonia to talk a little bit about what the proposal currently entails.

Tonia Bottoms: Thanks, Rob. So as Rob mentioned, the Department of Labor in April of last year published this proposal addressing the conflicts of interest in retirement investment advice. The 2015 proposal changes the existing definition of investment advice under ERISA. So, this is really the second bite of the apple for this regulator and it significantly expands the circumstances under which an individual is deemed to be a fiduciary under ERISA. Because of the changes that have been proposed, it is anticipated that this definition is gonna cover the majority of interactions with retirement investors. So by way of background, generally there are two ways you can become a ERISA fiduciary, exercising discretion and the provision of investment advice. Basically, ERISA provides that to the extent you exercise discretion over the investment of a plan or exercise discretion of the administration of a plan, or provide investment advice for a fee, you're a fiduciary under their statutes. As we mentioned, the DOL Proposal focuses on the investment advice prong. Basically, they've lowered the bar and expanded the circumstances. The existing rules require a five part test which must be met. But this proposal unwinds that test and removes certain requirements. Generally, under the proposal, any individual receiving compensation for providing advice that is specifically directed to an IRA owner, a plan sponsor, or a participant will be deemed a fiduciary. While this definition is changing under the regulations for ERISA, Rob also noted that the proposal covers IRAs. And that's important, because the regulations also defines parallel terms which are under the Internal Revenue Code. That's how these rules align and cover IRAs. The DOL Proposal basically applies as a functional test and is gonna cover a broad class of individuals servicing retirement plans. It'll potentially apply to brokers, registered investment advisers, insurance agents, administrative service providers, and sales people. Remember, under ERISA conflicts of interests must be cured not just disclosed. Otherwise, those conflicts of interest will give rise to prohibited transaction. Prohibited transactions are specifically defined in ERISA and Internal Revenue code. And when they're violated they can have adverse consequences to the plan, the participants as well as beneficiaries, or the IRA owner as applicable. Fundamentally, this proposal will affect the way that retirement investment advice is delivered. Under ERISA today, there are certain exemptions which allow you to proceed with activities which are normally prohibited under the rules. Exemptions are critical to facilitating retirement business today. And financial representatives and financial institutions who deal with retirement investors are gonna be challenged to rethink the way they do things under this proposal. Rob, I turn it back to you.

Christine: So Rob, can you help tell us what this is going to mean in terms of impact and how advisors and broker dealers are actually gonna do business under these new requirements

Rob: So before we delve into some more detail on the components of the proposal, we thought it would be important to discuss a little bit about the landscape with which we're operating in. And it's important to note there's a number of political drivers that are shaping the environment and in fact the rule making process itself. Eric mentioned earlier that the President announced this regulation last February, of 2015 that is. And from that point, it's clear that politics were at work in this process. The President made the announcement at the headquarters of AARP and made it clear that he stood behind this regulation and the changes it represented. Second, it's important to note that there's a lot of sometimes bluster around how this rule will play out with various sides of the politic aisles debating its impacts and their positioning with respect to the rules. And partisan politics are really going to reduce the ability of Congress to effectively mitigate or control how this rule proceeds. Particularly in that regardless of what bills might get introduced or what efforts are undertaken, the President has promised a veto of any bill that would derail this regulatory effort. Further, the department has spent many years creating the structure of this proposal. As we may have mentioned, the rule was initially proposed in 2010, and since they withdrew it in 2011, they've been working hard to reshape it into its current form. As a result, they spent so many years working on its current structure. While there will likely be many changes to the proposal when we see in its final form, they're not expected to be substantially different in terms of the fundamental structure that has been proposed here. And so while there'll will be changes on the margin, we believe that it will be substantially the same as the proposal is and that the final rule will be substantially the same as the proposal is. The other issue here that's driving this is that the President has really identified this as one of the legacy issues for his administration. And so as a result, he's keen on making sure that the timing works to ensure that this regulation is promulgated in a time that it would be effective before the current administration leaves office. And as a result even the expected timeframe for implementation and compliance with the new regulation are really driven by the political election cycle, and the presidential election cycle in particular. So what does all of that mean? We expect to see a final rule shortly, initial indications, where that we would see something in April. It could be even sooner than that in the next few weeks. But needless to say, the final rule is imminent. So let me turn it back to Tonya to talk a little bit about some of the specific components of the proposal.

Christine: Rob, can I just ask, do you think there's a chance, right, there's been lots of people who have been very vocal speaking out against the rule like Paul Ryan. And then we have Senator Johnny Isaacson just introduced some legislation to stop it. Is that at all likely? Maybe Tanya you can comment too. Or do we think that, it's not possible for them to stall it or stop it?

Rob: Yeah, our shared view I think is that the department is going to make enough changes to satisfy the Democratic side of Congress. Such that any attempt to create new legislation even if it were to pass the House and the Senate would ultimately get vetoed by the President. I think the one other option that remains to be seen is whether or not there could be successful litigation against the Department of Labor. Against any number of rulemaking or administrative procedures essentially and whether there have been any violations. And I think whether that will be successful is highly dependent upon what the final rule looks like and whether the industry can demonstrate that it's going to have some unintended impacts that are substantial enough for it to be essentially circumvented.

Tonia: Makes sense. Just one additional thought to share based on Rob's comments. When we were talking initially about this proposal, we made the distinction that we're really talking about the regulation, and that's important here. When we some of the actions that are proposed to be taken either from the senate or the perspective of the house. All of those changes today would have to focus on actually changing the law. I'm going to date myself a little bit in the context of moving that and the process if you think about School House Rock there's a lot of steps that would have to be taken to get that where it needs to be. The department's changing the regulation and as Rob described very early on. Changing the regulation is within their purview. Now once that regulation is final, there's possible action that Congress can take. But again, we'd have to see that rule go to final stage before the traditional option to do congressional review would be available.

Christine: Okay. Great! So Tanya you're going to jump into some of the key components of the proposal.

Tonia: Yeah.

Christine: Thank you.

Tonia: So this slide is meant to depict at a very high level the key components of the DOL proposal and I'm gonna break down the three things that you see here in just a slightly different way. We talked about how different the structure of the 2015 proposal was from the 2010 proposal, and that's important. It has two main components. The first is the change in the definition of investment advice. And the definition of investment advice is undoing the existing five part test. You'll see in is slide we describe that it really create a two part test. So does away with the initial rule, creates from a five part test to a two part test. The other substantial part of the structure of the proposal relates to the exemptions. And you'll see in the other two boxes on this slide, the department proposes two new exemptions as part of this package. And then based on those two new exemptions, they also propose additional changes and amendments to several existing class exemptions. Exemptions, as I had mentioned a little bit previously, are passed forward to continue to engage in an action or act in the face of a conflict when you're a fiduciary or other party servicing a plan. The existing class exemptions that identified on the slide, 75-1, 77-4, 80-83, etc. All of those exemptions exist today and are prior guide us as the Department of Labor introduced. This package amends those exemptions in an effort to channel reliance for certain activities with regard to IRAs and qualified plans back to the new exemption, the best interest contract. So I talked a little bit about how the definition of investment advice changes. And that's important because it's the fundamental tenant to determining whether or not you need to rely on the best interest contract. Remember, I previously described that the statute also allows you to become a fiduciary by engaging in discretionary activity. Those prongs aren't changing. And so, to the extent you are a person who provides advice, for a fee, and you represent to a retirement investor. That you're a fiduciary, or you provide that advice under an agreement, that the advice is individualized, or specifically directed to that retirement investor for consideration and then making investment decisions. You're providing investment advice under this proposal. It's a recommendation, very broadly interpreted. So if you meet that definition, and you need to determine a path forward, one of those paths forward is the BIC. And at a very high level, the Best Interest Contract would allow an individual who's a fiduciary to receive variable compensation including commission. So, and a couple of comments here, I've said individual and I said that because, just to reinforce, this is a functional test. Unlike some of the regulatory structures that we are normally familiar with, it is not tied to how you're licensed or registered. The Best Interest Contract provides for several conditions that must be met. A couple are highlighted on this slide in order to get relief under the exemption. In addition to the Best Interest Contract, a new principle transaction exemption was proposed. That exemption is intended to allow advisors to provide advice, and receive compensation for principle transactions. Both of these exemptions, along with amendments to the existing exemptions, will have a significant impact on how businesses operate. So while it may not be readily apparent, offerings in the retirement market today already taken to contemplation whether it's well known or well understood compliance with certain exemptions, whether they're the class exemptions that are identified here on this slide or certain statutory exceptions that are actually written into ERISA. Because of the incorporation of compliance with those things into existing businesses, this rethinking around what investment advice is, and how you can satisfy the BIC or other new exemptions, is gonna cause a significant shift in So Rob, can you help tell us what this is going to mean in terms of impact and how advisors and broker dealers are actually gonna do business under these new requirements

Rob: Sure, so as we jump into the impact that this will have on the market place, we though it important to start with the distributor side of the market place. Because as we talked about, if you provide advice, or if you do this, what we really mean is those who are on the front lines of providing that advice. And that is fundamentally, and generally speaking, going to be the advisors that we work with. And so we thought we'd look at it through that lens first, and then delve into where there might be some other impacts, with respect to other players in the market place, specifically the investment managers. So, first thing and I would say as it relates to the distributors is that there's a diverse range of responses. And never before has it been so true that the devil is in the details to this regulation. And so it had taken time for the level of understanding really to grow and reach the level where firms have been able to pull back the onion and really understand some of the impacts that various elements of the proposal could have on their business. But at the highest level I think that there's really three primary approaches or strategies that firms are going to deploy as it relates to the regulation. And for many firms it's a multi-prong strategy. There's really no one silver bullet. In order to solve some of the challenges that the new regulation will present. First of all almost universally we have found that broker dealers are going to look to accelerate their transition from commission based business to advisory business. As we know many firms have significant amounts of advisory business today. And almost irrespective of how far along they are on the spectrum of commission versus advisory business, they're indicating that they want to accelerate that. I think a couple things to note there, first off it's not entirely clear, there still remains ambiguity with respect to the rules as to how fee-based advisory business may still intersect with the best interest contract example. And I want to just provide two specific examples, because even as firms look to accelerate advisory as a strategy to potentially eliminate, but more likely mitigate some of the reliance on this new exemption, the best interest contract exemption that Tanya referred to. It's unclear as to whether firms will be able to completely eliminate their reliance on it. And so those two examples are that the Department of Labor has specifically indicated that two types of recommendations would be considered investment advice. And therefore potentially subject firms to the best interest contract exemption in order for them to find relief or end any conflict that they have. And that's the rollover recommendation. So any recommendation to roll over assets from a qualified plan into an IRA could trigger the need to rely on the new exemption. And so even if firms are putting their clients into advisory programs, there may still be a need for relief under the best interest contract. And secondarily, the recommendation of a third party manager. So to the extent that a third party manager is being utilized in a fee based program, there still may be a need for that best interest contract. If there's any differentiated compensation, that creates a conflict for advisors. Further into advisory strategies, firms are increasingly thinking about their robo strategy, and increasingly it's sort of rising in importance. It's sort of going from being on their radar as something they want to consider, to being part of their strategy in the near or short-term. On the opposite end of the spectrum, what we have found is that many firms have found that they do, in fact, need to rely on the best interest contract, not just for the two specific examples I gave but for some important part of their business. And there can be any number of reasons as to why they feel that way. For some it might be that they don't feel they can accelerate that transition to advisory fast enough. There advisors may be ill prepared to get there if they've been long conducting business in a commission model. Or perhaps their enterprise affiliation would cause them to really need to sell certain products perhaps proprietary products, perhaps variable in units that are important to their economic model and their business model. And therefore need to rely on the exemption in order to continue their business model, which they feel is sort of key to their corporate strategy. Finally, I would say a third reaction is, firms are looking for any and all options to avoid the best interest contract exemption, if they feel that they can't get to advisory. And so there's a lot of exploration right now around what we would refer to as levelized comp or fee leveling solutions that could essentially help broker dealers eliminate conflicts in a commission based model, by leveling the compensation that an advisor in the firm would receive. And yet at the same time, not necessarily kick them over the line if you will, into advisory business. And then the final thing that I would note here is that the full impact of the rule is likely not to be felt for quite some time. It's going to take time for this to play out. Particularly to the extent that the best interest contract really puts a lot of this in the hands of the courts. And it will be case law that starts to define some of the things that are important to understanding the requirements and the standards, if you will, that firms will need to operate in a new environment. So, that's really through the lens of the distributor's side of the marketplace, how the rule might impact them.

Christine: Great, so given that the distributors are dramatically changing their business models, or accelerating the shifts that were already occurring to fee based what does that mean to the asset managers, Rob?

Rob: So, the heart of our conversation here today, right? We thought we'd break it down into a couple of components. Christine outlined it in the agenda, so let's start with how this could potentially impact sales and marketing efforts. As it relates to conflicts that are really the heart of this rule, it's all about conflicts. It's important to note that the Department of Labor is looking for firms to resolve conflicts not just at the advisor level, but also at the firm level. And as a result of that, many firms are going to reassess their product shelf, the investments, the managers, the programs they make available. And in doing so, may very well be shrinking some of their offerings. In order to more easily comply and to take out some of the conflict that they might have in their system. So as the result of that, does that mean competition from an investment manager's perspective may rise if there's less shelf space? So that's the potential impact as it relates to the rules. Secondly, a lot of that shelf space discussion could very well be tied to the economic arrangements between investment managers and broker, dealers, and firms. And the reason is that many of the revenue sharing arrangements, perhaps called marketing arrangements and other arrangements, could potentially create conflict for firms that they are looking to resolve. And we know how important those revenue streams are to the economics of broker-dealers. And as a result of that, that will likely cause them to reassess their economic relationships as well as the shelf space that I mentioned previously. Another aspect of this is that, another fundamental component of this regulation is that it's all about increasing or raising the standard of care. The best interest contract, by its very title, is called best interest contract. It's all about serving investors and keeping their best interest in mind when doing so. So the very nature of becoming a fiduciary will increase the expectations of the investment products that advisors are recommending. As a result of that, it will be a lot more analytically-driven, it could potentially be a lot more about performance where relationships are much more de-emphasized as it relates to distribution of your product. And then finally, as they're related to marketing activity, I mentioned before that we would typically think of advisors as being the ones who are providing investment advice and therefore in the crosshairs of this new regulation. But because of the expansive nature of the regulation and how broad sweeping the activity that could be considered as investment advice is going to be, it had the potential to deem other parties who were today not considered fiduciaries, to be fiduciaries in the future. So let's get tangible around that. So if we think about the support that, for example, fund wholesalers might provide to advisors, there is sort of a new bright line that firms have to think about if they don't want those wholesalers to become fiduciaries as a result of investment advice. Are there co-client meetings that occur? Are there prospecting efforts that they might participate in where they may very well be crossing that new fiduciary line as it relates to investment advice? And so as a result of that, there's going to be a need to reassess, if you will, the activities of some of the folks in the field working closely with advisors, to ensure that you understand where and when they might become a fiduciary. And you know whether or not that's an acceptable risk, if you will, as it relates to your distribution efforts. So I think those are some of the four key elements as to how the rule could impact sales and marketing efforts.

Christine: Great, so shifting gears. What do we think is gonna happen with respect to the product development efforts of the asset managers, and will we see new products hit the market to comply and to appeal to the distribution arm?

Rob: So as if the impact of sales and marketing isn't enough. Those changes are likely to drive other changes that are gonna be requested at you as it relates to the products that you offer. And so here's a few things that at least were thinking about. If you use the independent RIA segment as a proxy for judiciary behavior in the future, some of the things that we see certainly is that there's greater utilization of passive investments versus active management. Part of that is about lowering expenses and using lower expense products and investment products, in particular, in those portfolios. And so as a result, what is already a clear trend and shift, we expect to accelerate as a result of this regulation. Secondly, in terms of share classes, I think there's a number of different ways that share classes could be impacted. First of all, we see current scrutiny by regulators around share class utilization and when it's appropriate to use one share class or another, and certainly this regulation, we believe, will only increase that. And as a result, we see greater utilization of institutional and advisory share classes versus some of the traditional commission base share classes that are heavily utilized. By way of new share class structures, there's a potential for either new shares that you might not have today that look more like a hybrid between an A share and a C share in order facilitate or to support those levelized compensation programs that I mentioned before. For some, that might look like an R share that, generally today, is not available to an individual investor where there could be a higher 12b-1 fee that's paid out on an annual basis, or on a regular basis, I should say, but not necessarily to the level of the C share. So I think those are two primary changes that could occur with respect to share classes. And I think that there it is where there might be request for what

I'll call a clean share class or more share classes that don't have any revenue sharing or any 12b-1 built in to the expenses of the fund In order to take away some of the conflicts that might get created as a result of those revenue streams to the advisors or their firms. The third impact I wanna touch on here is just with respect to alternative investments. Under the best interest contract exemption, the Department of Labor has defined eligible assets, and therefore they have defined ineligible assets. And notably absent from the list of eligible assets are alternatives. As the result of that, there's likely going to be less utilization of illiquid alternative vehicles, and that could perhaps increase demand for more liquid alternatives as a way to give investors exposure to alternative investments in their retirement portfolios. So again, something that I think we'll see play out over time depending upon what the final rule looks like. And then finally, small balance account solutions. As firms focus on changing their business to advisory, it's clear that they have solutions that work well in the upper ends of the market as it relates to advisory solutions. But when they think about the programs and the solutions that they'll need for their smaller account balance clients, if they're trying to serve them in an advisory program, it means they're gonna need different solutions. So as the result of that, will they be looking for, again, product that you would typically see in advisory programs. Will they be looking for programs that help facilitate a shift from a fun company that they might like and get utilized heavily today, into an advisory version that would allow them to harness the inertia that might be in place with respect to their investors and the recommendations that they've made. And then further I think there's a question around whether or not broker dealers will resign from serving some of these small balance accounts. And that in and of itself could have ramifications to investment managers with respect to the assets that you manage today. So those are some of the key impacts that we see to product development as it relates to investment management as a result of the rule.

Christine: Right, thanks, Rob. So Charlie, let's jump to you, and if you could give us some insights from where you sit with respect to how this will impact investment managers from an operational perspective and what they should be thinking about.

Charles S. Hawkins: Sure, thank you. Just first is a note on the discussion about share classes and the addition of share classes. Clearly, that has an impact to fund operations to the extent that you're just moving assets from an existing class to new share classes. The equation is probably revenue neutral, But your expenses go up as a result of fixed costs associated with running additional classes, reconciliations that have to occur, cap stock activity being reported to the fund accounting, fund accounting calculating and publishing NAPs, trading. All of that is going to impact expenses and therefore profitability. So just a thought in terms of operations, yes, there'll be new classes mean for a translation, more work. But it also, to the fund company, affects to some extent the bottom line. But we understand that the main impact of the rule is on the firms to comply with whatever will be in the final rule. While we don't know what's going to be in the final rule, we do expect that firms will be looking to funds to assist them with their compliance under the rule. And again, we don't know what's going to be in the final rule. We do things that is appropriate at this point for funds to begin a dialogue to understand what firms are thinking about in terms of what their needs might be. Really, three areas of focus at this point in terms of fund operations, reporting requirements, small balance IRAs, and roboadvisors. First up being reporting requirements. These reporting requirements would be triggered by a firm using the best interest contract or the BIC. Some of the reporting that the firms will need to undertake would be point of sale reporting, future investment including projections and costs of those investments. There's an annual disclosure that's required to be delivered to the participants within 45 days of year end. Again, if the rule is adopted as proposed, they would have to list each asset that was acquired or held during the period and the fees and expenses that were paid by the investor and the compensation received by the advisor and their financial institution. So that's the annual disclosure, and on top of that, the deal would require the advisory firm to provide upon request information at the asset level for inflows, outflows, holdings and at the retirement investment level of returns for up to six years prior to the request. So, just a listing of the various types of reports the advisors will need to undertake. In many cases, much of the data that would have to be reported is available within the firm. And they would not be of assistance. However, we suspect that certain data elements are going to be not available, and instead, will need to be acquired from the funds. And to the extent that that data needs to be provided to firms, what is that data, is that data available within the record keeping system to transfer the record keeping systems and fund accounting systems today in such a way that it can be provided? If not, what system modifications might be required to be able to provide that data? And then beyond the record keeping systems themselves, we need to look at the pipelines and the methods of transmitting that data, so that it can be received and used by the firms. So generally, we understand that there will probably be reporting requirements for the funds to deliver data to firms that are using the deck. Exactly what those stated elements are of the timing and the method of delivery and the system implications to record keeping systems are not yet known and will certainly be a focus shortly after we see a final rule. The main two circles that we see on this slide really relate to smaller balance accounts, that what we anticipate happening to some of the accounts that wouldn't be necessarily supported by a BIC but firms may need to take a look at in terms, and funds they need to take a look at, in terms of some of the less profitable small balance accounts. The first is just small balance IRAs. We anticipate that with the increased costs associated with compliance of the rule, the economics of maintaining small balance accounts could turn upside down. And firms may decide to shed those accounts and keep them away or have them be direct to the fund, essentially orphaning the accounts. Orphaned accounts present a number of operational challenges to funds and their transfer agents beyond just the economic issues of small balances with being supported by fixed costs. Some of the operational issues relate to not knowing the birth date of the account owner, and therefore, should the account owner be in a required minimum distribution stage? And if so, are they taking those distributions? And are they taking enough? So not having any information about age presents some issues in terms of compliance with required minimum distributions.

Christine: Definitely a lot of details here. I think people are very concerned about These small balance accounts getting abandoned at the funds and all the implications associated with that. And it definitely seems like people are leaning towards robo advisor as the solution for those. And really impressive to hear some of the stats that are being thrown around and terms of expecting like six hundred billion in assets to shift to robo advisors. So lots of dynamics here. In the interest of being able to kind of move along and jump to questions, why don't we just quickly hit our next topic which was the legal aspects, and Tonya, you were gonna hit on briefly what the attorneys should be thinking about. If they're sitting within an asset management firm, and kind of the work that is going to be on their plate very, very soon

Tonia: Yeah. Christine, this slide is just really meant to it a high level payback to lot of what Rob and Charlie have been describing. If you are an attorney sitting in an asset, manager sitting in that seat, partnering with your client. All of the things that they talked about tie back to stuff, things that we put on to this slide. Thinking about how it's going to affect product options or thinking about how it's going to affect marketing activity. All of these different components are now doing things where before, you were not fiduciary. Services that could be called into question, how does that shift or increase risk shift liability. We talked about some of the implications about offering new product options. Those things triggers attorneys have to think about how to amend disclosure, prospectuses, shared class changes. So attorneys sitting across businesses are looking at this rule. I think a lot of these things are true across very broad types of businesses. Again, just meant to highlight and tie back to some of what Rob and Charlie described.

Christine: Great, thanks Tonya. All right, so now we do have a few minutes, so we're gonna open the call up for your questions. Operator, can you please go ahead and open the lines up?

Operator: If anyone has any questions for today's conference please press star one on your telephone keypad. If you are on a speaker phone please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on your phone line will indicate when you're line is open. At that point please state your name before posing your question. Once again that is star one.

Christine: So while we're waiting for people to enter in their questions, one question that did come through as people were registering for the seminar was, what is the impact to call center reps? So lots of office managers have their own call center and they're taking questions from investors, advisors. What do we think the impact is, do we think that there's the risk that these call center reps are gonna be considered to be giving advice. Tonia, maybe you could take that?

Tonia: Sure, I can start off and Rob will probably have thoughts as well. We talked a lot about how this rule is a functional test. So to the extent those individuals are having conversations with retirement investors. And by that we mean and IRA account owner, a participant in a plan, a beneficiary who takes assets after one of those individuals dies. They may meet the definition of this rule. So given the structure of those services today, probably not treated as fiduciary services. This'll impose a different structure on how they're able to interact with those investors. If at all, depending on how those opportunities can be managed, whether or not the firm wants to assume the level of risk that's associated with providing fiduciary services. Remember fiduciary's not necessarily a bad word. But you do need to understand the obligations that go along with providing fiduciary investment advice.

Rob: The only point I would add is just that this has been a point that there was a lot of discussion on sort of through the comment period and so forth about the practical challenges that essentially get created if there is advice being given in a call center environment. Because of the way they structured the best interest contract exemption and who has to be a party to it and so forth. So definitely area where we expect to see some change in the final rule because it was definitely a point that has been raised. One thing to note around that is just being real clear in terms of procedures and scripts and so forth that call centers are typically relying on. Is to ensure that you know when and if you expect those call center reps to actually be providing advice which would sort of put them over that line, if you will. Causing them to become a fiduciary as a result of it.

Operator: Operator, do we have any questions on the line please? And once again that is star one for any questions, star one.

Christine: I had another question I think that comes up a lot in terms of many investment managers acting as self-advisor for annuities. And there's been lots of press about annuities in backs. Maybe Rob can you speak to what we're thinking there?

Rob: Sure happy to cover that. We talked about exemptions which are sort of at the heart of how the department of labor deals with various conflicts that might exist. And there is exemptions today that provide for essentially different paths forward that insurance companies generally rely on when selling annuities. As the result of the way they structured this rule they have essentially forced individuals who are providing advice on variable annuities to rely on this new exemption, of the best interest contract exemption. And as a result, sort of handicap variable annuities verses the fixed annuities if you will, that can rely on the old exemption that they have been operating for years. So as a result of that we expect that there is gonna be greater innovation around variable annuity products. I think one of the implications there is, A could it slow sales and then, B will variable annuities become more fee based friendly in terms of structure as compared to the commission based products that we see today. And so as an investment manager the question is right, if that's an important way that you essentially gather assets to manage as being a sub advisor if you will. The question is what will the impact be on annuities and how will that play out over time?

Christine: Operator, do we have any questions on the line?

Operator: No, we have no questions at this time.

Christine: What do we think is the impact in terms of overall financial advisors? We already have a predicted shortage of financial advisors. Do we think this is just gonna cause more people to say I'm not going to go into this industry, or you know what I'm just going to hang it up now and go to something else. It's too risky.

Rob: Yeah, it's an interesting question and one that we'll have to watch play out. Certainly there are indications that this could be the cause for many advisors to leave the industry. But if you think about an advisor who is sort of further along in their career, have large amounts of clients who are in a commission based environment. And it would cost them to have the substantially rethink their business model. They may rather sell their business than make that change fundamentally and so this could very well be sort of the cause for many advisors to leave the business. And the question is really whether or not the industry can substantially recruit the next generation of advisors with a whole new business model, right? And thinking about what the landscape will look like post a DOL rule. And then I think the other thing too that firms are thinking about is where is their opportunity as it relates to the changes that are occurring? And so for many firms, they're embracing we want to be flexible, we want to offer lots of different ways to do business. They might think of it as recruiting opportunities. And so I think there will also be not only changes among the advisor force, if you will. But also around which firms win or lose, and there could very well be some structural change, among the brokered deal community as we know it today. Firms that today might be affiliated with product manufacturers where tomorrow that may need to be more independent In order to eliminate conflict. So, I think there's implications not only on the advisors themselves, but also the firms that they're affiliated with and what those affiliations look like. And just one more point on that is that, there are even broker dealers who are considering shedding their broker dealer registration and looking to become pure IRA's so, I think that has ramifications for the industry broadly.

Christine: Right, and for the asset managers who partner and distribute through those firms. So with that, we're gonna need to wrap it up. But I wanted to thank everyone for dialing in today and for your attention. This is an important topic for the industry, and we all need to work together to address it and ensure that our investors are really served well by us. We will be sending out a survey. We'd really appreciate your feedback and thoughts on what we could address in the future and we're planning to have another webinar once the rule is finalized, to really talk about the details and what it means. So, thanks again. Appreciate your time and attention. Appreciate your business and look forward to talking to you again soon.

Operator: And this does conclude this days webinar, you may now disconnect. Thank you for your participation.

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