HBW Advisory: "Most commission schemes, as they exist today, will not meet the fiduciary rule standard"

Photo: Joe Bonanno, president of HBW Advisory

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- *Compliance and cost increases will be the absolute engines of change*
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By **Cristina J. Orgaz** *, Miami*

For many RIAs, the compliance costs of the new Department of Labor's fiduciary rule only in terms of software, training, and restructuring are discouraging. But before its imminent start-up, ***Joe Bonanno, president of HBW Advisory,*** *explains in this interview how advisers should prepare in the United States to continue offering quality financial advice.*

For Bonanno, it is time to have a new look and resolve potential conflicts of interest that may exist in the firm. Another key is to determine where the energy is focused, that is, in what parts highlights, which area is the most profitable and, above all, to think about what can be done to **simplify the business** .

"The more complex the approach, the more specific steps a firm will need to protect itself," he says. The reason is that there are certain products - such as annuities, private placements and other alternatives - that will be under more intense scrutiny under this new federal regulation.

Commission scheme

"Compliance and cost increases are going to be the absolute engines of change. If a firm fails to be efficient it will not last in the business. In **particular the traditional way of charging the customer** for the advice will make it more expensive than ever to operate, "says Bonanno.

In this situation, the president of HBW Advisory, believes that the most affected will be the small investors. "They may lose access to financial advice, as the cost of compliance will **increase the minimum assets required** . We are still waiting for a more unified standard from the SEC. "

"Many RIAs expect to use standard rates to comply with the simplified exemption from the clause of the **conflict of interest** , but many of these same companies do not understand that the standard fee level applies to both the company and the advisor. And as an example Bonanno explains that most commission schemes, as they exist today, will not meet the standard.

"If an advisor has a commission scheme with third parties, the compensation will vary. This creates an enterprise-level conflict of interest based on allocations, "he concludes.

With the clear goal of reducing retirement savings costs (401k), the new rule will require new standards of advice, which **could quickly expand to other areas of the mutual fund industry**. Unless the US Congress delays it, full implementation will begin on July 1, 2019.