



ARE YOU AN INFORMED INVESTOR?

UNDERSTANDING BROKER-DEALER FEES

Savvy consumers know it is important to compare prices on similar products to get the best value for their money. Wouldn't it be nice if the same were true when shopping for a broker-dealer firm to handle your investments?

New research from the North American Securities Administrators Association (NASAA) shows investors are confused about the fees brokers charge for services and maintenance of their brokerage accounts. The research also shows investors want clear and easy access to fee information from their brokerages. Broker-dealer firms must disclose all fees to customers; however, brokerage firms are largely free to decide for themselves how to do this. In an effort to do comparison shopping of broker-dealer firms, NASAA also surveyed brokerage firms to determine how firms disclosed their fees to customers and the amount they charged. The survey found:

- How and when firms disclosed fees to clients varied tremendously from firm to firm.
- Markups for some of the services charged to clients were routine among the surveyed brokerage firms, ranging in some cases from 100 percent to 280 percent. In one case, a firm charged \$500 for a securities certificate when its cost was \$60, a 733 percent markup!

To learn more or for help with these or other products, contact:

NC Department of the
Secretary of State, Securities
Division, PO Box 29622,
Raleigh, NC 27626-0622

www.sosnc.com

Phone: (800) 688-4507 or
(919) 733-3924

Fax: (919) 807-2183

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Despite these discrepancies, firms are compliant with the law as long as they disclose their fees to customers. Therefore, investors must be vigilant and know what to look for when comparison shopping for broker-dealers.

It can be difficult for investors to comparison shop among different broker-dealer firms due to the different terminology used by the firms and the lack of consistent fee descriptions or definitions. Until fee disclosures are more consistent and transparent, the burden falls to the investor to understand all the fees.

For more investor education resources, visit the website of the North American Securities Administrators Association at www.nasaa.org.

The Needle in the Haystack:

How to find the fees in disclosures

The NASAA survey found differences among broker-dealer firms in the timing, method, manner, and length of the fee disclosures.

Timing of Disclosure

Fees are typically disclosed when a customer account is opened. **Ask for the fee schedule** – make sure it's up-to-date. If it is not readily available, do not place any assets until it is provided. You have the right to know the fees in advance.

Watch out for fee changes. Most broker-dealers disclose fee changes at least 30 days in advance, but they may use different methods to notify you (e.g., email, postal mail, or their website). At your first meeting, clarify how you want to be notified, and how the fees and fee changes will be disclosed. Before authorizing any service, ask the broker-dealer firm to provide the fee in writing.

Method of Disclosure

Most broker-dealers disclose fees for certain services on a table, chart, or list, while some use a narrative, but it may not list dollar amounts or formulas. Either way, **read the fine print and ask questions.**

If you do not readily see a section on fees and charges, ask for it. You are responsible for reading and understanding all materials the broker-dealer firm sends.

Disclosure Length and Content

There are no defined minimum or maximum length requirements for disclosure, but whether it's one page or 10, take your time to review the information and be sure to ask questions. **Talk the talk.** Different firms may use different terms for the same service. Know the services you may be using regularly and ask specifically what terms the firm uses for the services and the associated fees.

The Bottom Line:

Remember, every broker-dealer firm and broker-dealer representative must be registered to lawfully sell you any security. Check out the firms or representatives with your state or provincial securities regulator before placing any assets with them or authorizing them to conduct a trade. Your securities regulator can tell you if there are any complaints or past actions against any firms or representatives you are considering. If you have any questions, contact the North Carolina Securities Division at (800) 688-4507 or (919) 733-3924.

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