



VOICE OF INDEPENDENT BROKER-DEALERS
AND INDEPENDENT FINANCIAL ADVISORS

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**FINANCIAL SERVICES INSTITUTE ISSUES STATEMENT ON THREAT TO INDEPENDENT
FINANCIAL ADVISOR BUSINESS MODEL THROUGH RECENTLY PROPOSED
LEGISLATIVE CHANGES TO FEDERAL WORKER CLASSIFICATION RULES**

**“Main Street” American Households’ Access to High-Quality, Affordable Financial
Advice, Products and Services Could Be Diminished Significantly**

Atlanta, Georgia – August 17, 2009 – The Financial Services Institute (FSI) – the leading legislative and policy advocacy voice for independent broker-dealers and independent financial advisors nationwide – today reported that the independent financial advisor business model, as well as middle-class access to financial advice, are threatened by the recently proposed blanket elimination by Congress of the “safe harbor provision” in Section 530 of the Revenue Act of 1978. This critical feature of tax law allows workers to be classified as “independent contractors” rather than “employees” in industries where such designations are part of long-standing, recognized practice.

The proposed legislative changes are being encouraged by labor unions, and are aimed at targeting the misclassification of workers as independent contractors in certain industries, such as trucking and the construction trades.

Dale E. Brown, President and Chief Executive Officer of FSI, issued the following statement in response to the proposed legislative changes:

“While the independent financial advisor community is not the intended target of this legislation, they will become unintended victims of it. The severe and adverse consequences this legislation will have on independent financial advisors would directly threaten middle class American households’ access to affordable, high-quality, independent financial advice, and at a time when the uncertainty and volatility of the markets has made such expert advice more critical than ever.

The following ramifications, should the envisioned legislative changes come to pass, represent a very real possibility, as opposed to a ‘worst-case’ scenario:

- Independent financial advisors would be exposed to unnecessary and onerous IRS scrutiny of their worker classification status;
- Independent broker-dealers could be forced to reclassify the independent financial advisors they serve as employees, and in the process, be subjected to hefty payments related to “back taxes”, penalties and interest.
- These payments – combined with substantial added personnel and compliance costs – could be so significant as to threaten the very existence of most small and mid-sized

independent broker-dealers, while crippling the ability of larger broker-dealers to remain profitable as they provide the vital services needed by the independent financial advisors to serve their clients;

- Independent financial advisors reclassified as employees of broker-dealers would lose much of the independence that is so crucial to the advice, products and solutions they provide to their clients by undermining their entrepreneurial spirit. Additionally, this would wipe out the “sweat equity” independent financial advisors have built in their own practices and eliminate their ability to exert control over how they best serve their own clients.

This would be completely unjust and unfair for the independent financial advisors of America, who pay their taxes, operate in a heavily regulated and thoroughly documented industry in which cash payment for services is strictly prohibited, and are not involved in the industries of concern to legislators and labor unions.

More importantly, the destruction of the independent financial advisor model as it exists today would have an enormous negative impact on the ability of the American middle class to access high-quality, affordable financial advice, products and services.

Today, 98,000 independent financial advisors across the country – approximately 42.3% of all practicing registered reps – provide the investing public with comprehensive and affordable financial solutions, supported by a network of independent broker-dealers. These independent advisors are not employees of broker-dealers, but self-employed business owners who manage their own financial advisory practices and are principally responsible for serving a segment of the US population that has been substantially overlooked by the big Wall Street institutions: the millions of ‘Main Street’ American households across the nation with net investible assets of tens and hundreds of thousands, rather than millions, of dollars.

This is a vital demographic segment that represents the backbone of America, and needs access to sound financial advice, products and solutions to secure their life goals more than ever before. Yet, this seemingly obscure tax law change now threatens middle-class access to such services and solutions.

At FSI, we are working diligently across all avenues to combat this serious potential threat to independent financial advisors, and the middle-class American clients who rely on their services and support.”

About the Financial Services Institute (FSI)

The Financial Services Institute (FSI) was formed in January 2004 as an advocacy and membership organization for independent broker-dealers and independent financial advisors. The organization’s mission is to create a healthier regulatory environment for independent broker-dealers and their affiliated independent financial advisors through aggressive and effective advocacy, education and public awareness. Today, FSI is the voice for 114 independent broker-dealers, who collectively serve more than 152,000 independent financial advisors, and for more than 10,000 independent financial advisors who are individual members.

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