

Setup Costs

Setup costs – Two fundamental differences between FINRA's \$12-15M estimate of setup costs and BCG's estimate of \$200-255M of setup costs:

1. Staff costs during setup period
 - BCG analysis included staff costs incurred during the setup period in its estimate of setup costs. These costs include salaries, benefits and overhead incurred during the setup period. Setup activities include hiring examiners, developing examination process and guidelines, and new examiner training.
 - FINRA reflects all staff costs in its ongoing annual investment costs, and not in its estimate of setup costs
 - Staff costs during the ~12 month setup period are **\$180-230M**.
2. New employee on-boarding costs
 - BCG analysis assumes that employee on-boarding expenses are ~\$25,000 per employee, and is based on recent SEC budget request for new OCIE employees. On-boarding expenses include recruiting costs, trainer costs, required equipment and access, etc.
 - FINRA estimate assumes that employee on-boarding expenses are ~\$13,000-17,000 per employee. Comparability is unclear, as FINRA's setup costs include training costs, initial organization, governance and technology costs.
 - The difference in on-boarding cost per new employee is estimated to account for **\$8-12M** of the difference between the BCG and FINRA estimates of setup costs.

Ongoing mandate costs

Ongoing mandate costs – Three fundamental differences between FINRA's \$150-155M estimate of ongoing annual investment and BCG's estimate of \$460-510M of on-going mandate costs

1. Examiner Productivity

- BCG Analysis assumed IA Examiner productivity of 3.0, equal to recent SEC IA Examiner productivity, above current FINRA B-D Examiner productivity of 2.8
- FINRA Estimate does not directly reference IA Examiner productivity, but may be as high as 5.5 in order to examine 14,500 IA firms, once every four years on average, with an IA SRO population that does not exceed 900 and includes Enforcement and support staff.
- The difference in Examiner productivity is estimated to account for **\$150-170M** of the difference between the BCG and FINRA estimates.

2. Examiner Costs

- BCG's estimate of Examiner Costs includes Examiner compensation, benefits and overhead and is informed by recent SEC Examiner costs. To reflect scale benefits BCG applied a 19% Scale Factor to the FINRA-IA SRO scenario, meaning that if the organization doubled in size, overhead costs would only increase by 81%.
- FINRA Estimate does not reference overhead costs. Ongoing annual investment of \$150-155M for 900 employees suggests that on-going annual per employee costs are \$170,000, which is unlikely to include overhead.
- Excluding Examiner overhead costs is estimated to account for **\$135-140M** of the difference between the BCG and FINRA estimates.

Ongoing mandate costs & Costs of SEC oversight of an SRO

3. Enforcement Costs

- BCG Analysis estimated that enforcement activity would cost \$130M per year, based on 1.0 IA Enforcement FTEs for every 2.8 IA Examiners, the current SEC examination to enforcement FTE ratio.
- FINRA Estimate does not reference Enforcement personnel, but the Enforcement to Examiner FTE ratio may be as high as 5 if the staff population does not exceed 900.
- The difference in the ratio of Enforcement to Examiner FTE is estimated to account for **\$60-70M** of the difference between the BCG and FINRA estimates.

Costs of SEC oversight of an SRO

- The FINRA Estimate makes no reference to the Costs of SEC oversight of an SRO. BCG estimates these costs at \$90-100M annually.