News Release

August 22, 2011

Investment Industry Leaders Launch

The Institute for the Fiduciary Standard

*New non-profit will advance adoption of the fiduciary standard as vital to investor protection, market integrity and capital formation*

WASHINGTON, DC – A group of leaders in wealth management and academia today announced the formation of the Institute for the Fiduciary Standard to encourage the broad adoption of principles that are vital to investor protection, market integrity and capital formation.

“Capital markets depend on trust, and today trust is often absent. The tsunami of market upheavals and questionable practices over the past three years has investors weary and distrusting. Restoration will require much from market participants, policymakers and regulators, and instilling the robust fiduciary standard into all retail investment advice will help immeasurably,” said Knut A. Rostad, president and a founding member of the Institute. “Applying the fiduciary standard evenly across diverse firms is both smart and balanced regulation.”

Beyond federal securities regulation, the Institute sees new opportunities within the industry to advance principles that embody the concept of the “fiduciary society,” as described by Vanguard Founder John C. Bogle*.* “Investors’ views are undergoing a transformation, and the industry will have to appeal to new investor thinking where the attraction of Bogle’s vision will be even greater in years ahead,” Rostad added.

**The Fiduciary Standard and the ‘Not Unsuitable’ Standard**

The Institute advocates for the fiduciary standard under the Investment Advisers Act of 1940, which requires investment professionals to put their clients’ best interest first. This contrasts with the so-called “suitability” standard for brokers, which essentially only requires, as the Securities and Exchange Commission has noted, that broker recommendations be “not unsuitable.”

Rostad points out, “Fiduciary advisors who meet the 40 Act requirements and brokers who just meet the minimum ‘suitability’ standard (many brokers voluntarily exceed these minimums) live in very different worlds. Fiduciaries must disclose all unavoidable conflicts and always be able to show regulators why their recommendations are in their clients’ best interest; brokers need not disclose material conflicts, or control investment expenses, much less recommend what’s best for clients. Brokers can recommend the higher-cost of two products with equivalent investment qualities and performance records, and keep the additional fees; fiduciary advisors cannot.”

**Equal Protection Under the Law?**

Rostad noted, “Today, there are huge coverage gaps as to when the fiduciary standard is applied that undermine the fiduciary standard’s protection of investors. Our mission is to work with regulators, industry leaders and other groups to advance fiduciary principles and help build a fiduciary culture that closes this gap and extends equal protection under the law.”

Maria Elena Lagomasino, CEO of GenSpring Family Offices, and a Founder and Board member of the Institute, underscores this point. “Investors are often unaware how their portfolios can be harmed by gaps in fiduciary protections. There is a tremendous need to help investors understand the sharp differences between fiduciary advisors and sales professionals, who may sound alike – but then often act very, very differently.”

**Dodd Frank Rule-making and the DOL Fiduciary Definition Rule**

Dodd-Frank Wall Street reform legislation passed last year authorized the SEC to conduct a study to evaluate the effectiveness of existing standards of care for providing personalized investment advice about securities to retail customers, and to study whether there are gaps and shortcomings. The SEC study, released on Jan. 22, recommended that the Commission use its rulemaking authority to develop a “uniform fiduciary standard of conduct for broker-dealers and investment advisers.”

The Department of Labor (DOL) is also in the process of updating rules on when a person is considered to be a “fiduciary” under ERISA, the law governing retirement accounts. According to DOL, the proposed rule seeks to update the regulation in accordance with the significant changes in the industry and the expectations of plan sponsors, beneficiaries, and IRA account holders. The department published a proposed regulation on Oct. 22, 2010.

Rostad and other Institute founders have been working with regulators, legislators and policy makers on how fiduciary principles can be effectively applied to strengthen investor protections. “While we’ve made progress advancing understanding of the fiduciary standard and its practical importance, there’s much left to do,” said Rostad. “We are in the midst of rulemaking in DOL and the SEC; misunderstandings abound about what fiduciary means. The Institute provides a permanent platform to build a full program of advocacy and education on this important public issue.”

Rostad said The Institute will sponsor its first event on Friday*,* Sept. 9 in Washington, a panel discussion, *Crafting Effective Disclosure*. Panel members will include Professors Daylian Cain from Yale University and Arthur Laby from Rutgers University. “How SEC and DOL rule-making handles requirements around disclosure will have critical repercussions for investors,” said Rostad “The panel will provide important practical guidance to regulators and the industry.”

**Roger Ibbotson to Serve on National Board of Advisors**

In announcing the Institute’s formation, Rostad said that Roger Ibbotson, a highly regarded capital markets scholar and leading expert on asset allocation, would serve on the Institute’s Board of Advisors. “The Institute for the Fiduciary Standard is well positioned to encourage long-needed changes in industry practice that will strengthen our markets and benefit investors,” said Ibbotson, who teaches at the Yale School of Management and whose work has won the Graham & Dodd Scroll award six times. “Effective education on fiduciary responsibility is urgently needed.”

The Institute’s founders are:

* Marion Asnes, Envestnet
* Philip Chao, Chao & Company
* Maria Elena Lagomasino, GenSpring Family Offices
* Kathleen McBride, Institute for Private Investors
* James Patrick, Envestnet
* Knut A. Rostad, Rembert Pendleton Jackson
* Michael Zeuner, GenSpring Family Offices

Rostad said the Institute would operate as a separate entity from the Committee for the Fiduciary Standard. He and six other Institute founders no longer serve on the Committee. Harold Evensky, president of Evensky & Katz, has assumed leadership of the Committee of the Fiduciary Standard.

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