

Does Regulatory Jurisdiction Affect the Quality of Investment-Adviser Regulation? Online Appendix

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A Additional Results & Robustness

In this section, we present additional results consistent with a lowering of service quality, but that did not provide incremental identification power for the different plausible explanations of increased complaints. These results include (1) assortative matching of transitioned firms and transitioned advisers, and (2) RIAs that re-register with the SEC after transitioning from the SEC to state regulators due to the Dodd-Frank Act.

We also provide additional alternative specifications for various tests. We tackle the robustness of our results to (1) variation across states in the ease of filing complaints, (2) the choice of outcome variables and alternative samples, (3) different reporting requirements between SEC and state regulators, (4) spurious results due to cross-sectional or additional time-series correlations, (5) local economic and political conditions that may be suggestive of regulatory capture or strategic leniency of regulators, (6) an alternative identification approach using a regression discontinuity design, and finally (7) survivorship-bias concerns in our data.

A.1 Assortative Matching

We examine the idea of assortative matching. We examine the effect the transition in oversight had on changes in the probability of hiring an IAR with a past complaint, conditional on hiring. Table 1 presents our analysis. Across columns (1) to (6), we find evidence consistent with mid-size RIAs increasing hiring of representatives with past complaints.

In columns (1) and (2) we control for the log number of hirers, and in columns (5) and (6) we normalize by the number of hires. We only control for state and year fixed effects given that we do not observe multiple repeated observations of the firm in a much reduced sample size. The statistical significance and coefficient estimates depend only slightly on the sampling window, but overall the message is clear: hiring of individuals with complaints increases in the years starting in 2012, just like our main effect. The totality of evidence may be weakly consistent with the notion that individuals, particularly those who have experience in the new regulatory environment, are more likely to gravitate toward a weak regulatory environment in the form of moving to a transitioned firm. However, we feel best to take a more measured approach.

A.2 Re-Registration with the SEC

Another concern is that some firms may re-register with the SEC. As assets under management increase (exogenously to the adviser or not) firms re-register with the SEC. If asset growth rates are random due to different factors unrelated to RIA quality, transitioning from SEC to state regulators or vice versa occurring after the implementation of the Dodd-Frank Act would attenuate our results. However, if the allocations and asset growth are related to the quality of investment advisers, our results would be biased.

There are two ways of thinking about treatment. On one extreme, we do not allow firms to re-register. On the other extreme, we allow firms to re-register, but we should treat the re-registration as exogenous. Otherwise, there may be the concern of manipulation. Of the transitioned RIAs, 350 switched back from the state regulator to the SEC at least one year after the implementation of Dodd-Frank. What led to switching in the post period may be problematic if RIAs manipulated AUM to operate under the RIA's preferred regulator. The market performance may lead to switching that is plausibly exogenous.

Therefore, we run two tests. We first try to show what happens to our pure reduced form results accounting for those who we know to later re-register. Second

Table 1: Assortative Matching - Firm Level

This table analyzes the propensity of mid-size registered-investment advisers transitioning to state oversight to hire advisers with past complaints conditional on hiring. We examine three variables: “Hired Adviser w/Complaints > 0”, which is one if any hire this year had a complaint the prior year, “log(Hired Adviser w/ Complaints)” which is the log number of hires this year that had complaints, and “log(1+%hires with complaints)” which is the log percentage of hires who had a prior complaints, plus one. We present six columns, two for each outcome variable, with the first column of each pair using the time period 2009-2014 and the second column of each pair using the time period 2008-2015. Columns (1) to (3) examine the extensive margin - whether any new hire received a complaint the year before the hire. Columns (4) and (5) study the log number of complaints among the hires. Columns (6) and (7) examine the log percent of new employees with complaints. Column (3) interacts treatment with the firm’s complaint rate the prior year to test the following hypothesis: the increase in hires with a complaint coincides with transitioning firms who receive complaints. All regressions include state and year fixed effects. Standard errors are clustered by state and shown in parentheses.

<i>Dependent Var.</i>	Hired Adviser w/ Complaints > 0		log(Hired Adviser w/ Complaints)		$\log\left(\frac{\text{Num. Complaints}}{\text{Num. Hires}} \times 100 + 1\right)$		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Transitioned	-0.006 (0.011)	-0.005 (0.010)	0.007 (0.009)	-0.009 (0.010)	-0.009 (0.009)	-0.020 (0.040)	-0.024 (0.035)
log(Ratio IARs w/ Past Complaints)			0.067 (0.012)				
log(1+Hired From Another RIA)	0.146 (0.009)	0.134 (0.009)	0.141 (0.009)	0.134 (0.010)	0.123 (0.010)		
Post×Transitioned	0.023 (0.014)	0.023 (0.012)	0.007 (0.012)	0.027 (0.012)	0.026 (0.010)	0.049 (0.047)	0.063 (0.038)
Post×log(Ratio IARs w/ Past Complaints)			-0.063 (0.023)				
Transitioned×log(Ratio IARs w/ Past Complaints)			-0.071 (0.016)				
Post×Transitioned×log(Ratio IARs w/ Past Complaints)			0.053 (0.031)				
FE: State	Y	Y	Y	Y	Y	Y	Y
FE: Year	Y	Y	Y	Y	Y	Y	Y
Observations	6,495	8,195	6,495	6,495	8,195	6,495	8,195
R ²	0.264	0.253	0.266	0.304	0.287	0.079	0.081

we try to instrument the re-registration among those who were originally transitioned. Our original test abstracted away from this concern by considering firms transitioned if once transitioned. However, when we started the project, we obtained an Investment Adviser Public Disclosure database compilation report which provides a daily refresh of the roster of investment advisers. The SEC does not archive historical daily versions, but we have the compilation report as of early 2015. This is important because we have a clear snapshot as of the start of 2015 as to who is SEC and who is state registered. Otherwise, we don't know the exact timing of re-registration because of various peculiarities with Form ADV. Our main concern would primarily be that significant confusion existed among de-registering advisers such that it becomes unclear to us when exactly a firm may have filed Form ADV again. Based on the results below, it would appear to work against us.

We then create a new dummy for re-registration with the SEC. We run a cross-sectional test comparing those who originally transitioned to those who transitioned and then re-registered with the SEC as of the start of 2015. They may have re-registered in 2013 or 2014. We expand our sample through to 2016 now to maximize the amount of data available.

Second, we run an instrumental variables regression. We run an IV for re-registration by 2015 captured by our variable "SEC Re-Registration". The instrumental variable is based on the state-level growth rates of assets under management from 2011 to 2014. Each firm is differentially exposed by its assets under management in 2011. There are three specifications. First, we calculate the overall growth rate of all AUM in the state, denoted by $g_s = \frac{\sum_{i \in s} AUM_{i,2014}}{\sum_{i \in s} AUM_{i,2011}}$ and construct a variety of Hausman-like instruments. In specification 1, we multiply the firm's 2011 AUM by the ratio of 2014/2011 AUM for that state. The first instrument $QRANK(g_s \times AUM_{i,2011})$ takes the quintile rank of this number. Second, $QRANK(g_s \times AUM_{i,2011}) > 0.8$ is an indicator variable for those who are in the 80th or above of percentile of projected AUM. Third, we use a three polynomial orders of $\log(AUM * g)$. Fourth, we use three polynomial orders of $AUM * g$. These last three specifications capture the tail-end of growth in AUM, which increases our power to identify the firms that grow due to exogenous state-level forces. Because there may be heterogeneity over this period across states that is unrelated to

Dodd-Frank, we include state fixed effects. We believe these instruments are plausibly exogenous to a specific mid-size RIA firm since the market concentration at the state-level of a single firm is small. The SEC requires advisers to re-register if assets in a subsequent year exceed \$110 million.

Table 2: Re-registration

The table below shows the impact of re-registrations on investment adviser complaints using our main sample of firms with less than \$1 billion in assets. The sample period is 2015-2016 as we observe registration status as of 2015 year start. The first instrument $QRANK(g_s \times AUM_{t,2011})$ takes the quintile rank of this number. Second, $QRANK(g_s \times AUM_{t,2011}) > 0.8$ is an indicator variable for those who are in the 80th or above of percentile of projected AUM. Third, we use a three polynomial orders of $\log(AUM \times g)$. Fourth, we use three polynomial orders of $AUM \times g$. All regressions include fixed effects as specified with the rows with "FE" at the bottom of the table and also controls for a first polynomial of the number of investment adviser representatives employed at a firm as denoted in the bottom of the table. Standard errors are clustered by state and shown in parentheses.

Dependent Variable	$I_{\{\text{Complaints}>0\}} \times 100$					
	$QRANK(g_s \times AUM_{t,2011})$ (1)	(2)	(3)	(4)	(5)	(6)
$IV_{it} =$				$\log(AUM * g)$	$(AUM * g)$	Reduced Form
SEC Re-registration						-0.804 (0.597)
SEC Re-registration	-7.093 (3.346)	-6.921 (3.342)	-6.860 (3.335)	-4.791 (2.109)	-5.833 (2.429)	
$I_{\{\text{Complaints}>0\}}_{t-1}$			3.075 (2.032)			
First Stage F-Stat.	15.615	15.615	11.596	14.9	15.126	
Polynomial Order	1	1	1	3	3	1
FE: State & Year	Y	Y	Y	Y	Y	Y
Observations	3,481	3,481	3,481	3,481	3,481	3,518
R^2	0.012	0.12	0.012	0.012	0.012	0.053

Table 2 below reports the results using the instrumental-variables specification. As this is a cross-sectional test, we remove firm fixed effects which would subsume treatment. The table shows that RIAs that re-register with the SEC see a reduction in complaint rates consistent with such advisers improving service quality in response to stronger oversight. We present three specifications. First we quintile rank the projected AUM growth. Second, we measure whether firms are in the 80th percentile or above. The next column adds the lagged complaints, exploring the referee’s suggestion that lagged complaints could partly explain the re-registration. We do not believe our Hausman-like instruments are correlated with firm-specific news on complaints so we believe the exclusion restriction to be valid without considering complaints in the past. However, the overall inference is similar if we do. Our clustered first stage F-statistic ranges from 11.59 to 15.615, and inspecting the first stage reveals a negative relation between prior complaints and re-registration. Third we use three instruments, taking three polynomial orders of the log AUM. Fourth we take three polynomial orders of the instruments in millions. Finally we present the reduced form. The outcome variable is the extensive margin of complaints but it is similar to study instead the log number of complaints as the outcome variables. Across most specifications, the F-statistics for the chosen specifications are quite high, far above the suggested levels for weak instrument identification.

A.3 Ease of Filing Complaints

We also consider whether differences in the ease of filing complaints moderates the transition effects. We analyzed the complaint forms for all 50 states and Washington DC. We first examined the means of filing the complaint and found that 25 states use a web-based complaint form while 26 do not. We also find that 18 states have an email option, while 33 do not. Only 4 states have a Spanish version of their complaint forms, and there are no other language options available.

We next examined the information collected. All complaint forms ask for some level of personal and case-related information. To answer this question, we use variation in the page count of complaint forms as a proxy for the amount of information requested. The mean and median number of pages in the “complaint form” are 2.9

and 3.0 respectively with a standard deviation of 1.75 pages. The longest complaint form is 9 pages (Arizona) and the shortest is 0 pages (Wisconsin), which simply invites citizens to send a letter about the complaint and any supporting documents.

We also assess how tailored the form is to securities-related complaints. A more-tailored form comes from the “securities division,” while a less-tailored form comes from a more general governmental level like the attorney-general’s office or a division with oversight of responsibility of banks and mortgages in addition to investment advisers. We find that 41 states have a focused form and 10 states do not.

In Table 3, across all specifications, we find some evidence that more difficulty with respect to filing a complaint actually attenuates our main effects. However, the data on state filing difficulty was collected as of July 2018 and may also be endogenous to the quality of the regulator. We would expect to find these results if higher quality regulators had an easier means of reporting, receiving, and consolidating complaints. In contrast, if the cost of filing affects the complaint behavior, we would have expected to find the opposite result, that states with easier filing procedures should have more complaints. These results are also consistent with the threat of a complaint being an effective deterrence of actual misconduct, analogous to the economics of crime literature that documents safer areas receiving fewer 911 calls.³¹ However, the interactions in Table 3 with the transition effect after the Dodd-Frank Act implementation are not statistically significant.

³¹Our first interpretation is also consistent with the economics of crime literature that is concerned with the endogeneity of police quality and changes in reported crime.

Table 3: Ease of State Complaint Filings

This table presents results interacting the transition status of mid-size RIAs with different measures proxying for the ease of filing complaints across different states using our main person-year sample for advisers with less than \$1 billion in assets from 2009 to 2014. We consider four different measures related to the difficulty or ease of filing a complaint: Column (1) uses the log number of complaint filing form pages, Column (2) uses the number of pages of information requested in the complaint filing form, Column (3) is an indicator that equals 1 if the state regulator accepts the form via email, and Column (4) is an indicator equal to 1 if the regulator has an online web form for complaint filing. The complaint filing information are static and collected as of July 2018. The outcome is an indicator equal to 1 if a representative receives a complaint in year t . Post is an indicator taking the value of 1 on and after 2012, following the implementation of the Dodd-Frank Act. “Transitioned” is an indicator taking the value of 1 if a RIA transitioned from the SEC to state registration, and 0 otherwise. Fixed effects are specified in the table with the prefix “FE”. Standard errors are clustered by state and shown in parentheses.

Ease of Filing Proxy =	$I_{\{\text{Complaints}>0\}} \times 100$			
	log(Num. of Filing Pages + 1) (1)	Num. of Filing Pages (2)	Email Form (3)	Online Web Form (4)
Post×Transitioned	0.216 (0.429)	0.341 (0.284)	0.350 (0.116)	0.438 (0.230)
Post×Ease of Filing Proxy	0.042 (0.137)	0.032 (0.042)	0.114 (0.130)	0.038 (0.113)
Post×Transitioned×Ease of Filing Proxy	0.101 (0.313)	-0.001 (0.087)	-0.123 (0.310)	-0.140 (0.261)
FE: Firm	Y	Y	Y	Y
FE: State-Year	Y	Y	Y	Y
Observations	326,586	326,586	326,586	326,586
R^2	0.021	0.021	0.021	0.021

Another way to evaluate the content of the complaint forms is to look for mentions of certain topics. First, we search for the word “investment.” We find that 35 states have forms using the word “investment” while 16 do not. Second, we look for the word “stock”. We find 19 states have forms with the word “stock” while 32 do not.

In general, complaint forms ask for (1) the name of individual filing the complaint and address, (2) the name, phone number, and address of company invested money with, (3) which individual at the firm is involved, (4) a brief description of the complaint, (5) whether filed a complaint with the company or investment adviser and any response, and (6) whether filed a complaint with other state or federal agencies. Upon receiving a complaint, examiners will contact filers if they need any additional information. Usually, the examiners will also contact the firm/individual and give a chance for the firm/individual to respond. Regulators may then take no action, make sanctions, cancel license, or refer to court. All states conduct investigations keeping the identity of the individual filing a complaint confidential. However, information would be revealed publicly if ordered by the court. The agencies may send a copy of the complaint to the registered firm or individual.

A.4 Alternative Complaint Measures & Samples

In Table 4, we find that our main treatment effects are robust to different scaling and transformations of the complaints outcome variable. In addition, these firm-level results persist after controlling for a cubic polynomial of the number of representatives that a firm employs.

In Table 5, we show that the parallel trends assumptions are met with these alternative outcome variable specifications. Our comparison group of mid-sized broker dealers is adjusted so that mid-size brokers start at the same level in 2006 as the transitioned RIAs. Otherwise mid-size advisers receive unconditionally much lower complaint rates, which may perhaps be attributed to a lack of conflicts-of-interest between their roles as an adviser and broker. Perhaps due to rising equity markets in 2012 and 2013, many firms re-register some time in 2013. We find that if we remove firms that re-register with the SEC by early 2015, the parallel trends

Table 4: Alternative Complaint Measures

This table presents firm-year level results to show the robustness under different transformations of our outcome variable using our main sample of firms with less than \$1 billion in assets for the sample period 2009 to 2014. We show that the results are not sensitive to measures of complaints scaled by the number of advisers that a firm employs. In the regressions below, “Complaints” stands to the total number of complaints that a firm received in a year, and N stands for the number of investment-adviser representatives employed at the firm. Column (1) uses the fraction of the total number of complaints scaled by the total number of employees, winsorized at the 98% level. Column (2) uses the log number of complaints plus one. Column (3) uses the log number of complaints scaled by 100 to show that the results are not driven by the “one-plus log” transformation. Post is an indicator taking the value of 1 on and after 2012, following the implementation of the Dodd-Frank Act. “Transitioned” is an indicator taking the value of 1 if a RIA transitioned from the SEC to state registration, and 0 otherwise. Fixed effects are specified below with the prefix “FE”. Standard errors are clustered by state and shown in parentheses.

<i>Dependent Variable:</i>	$\frac{\# \text{Complaints}}{N} \times 100$	$\log(1 + \# \text{Complaints})$	$\log(1 + \# \text{Complaints} \times 100)$
	(1)	(2)	(3)
Post×Transitioned	0.015 (0.007)	0.010 (0.003)	0.033 (0.015)
$\log(N)$	-0.198 (0.058)	0.016 (0.037)	-0.176 (0.148)
$\log(N)^2$	0.119 (0.030)	-0.015 (0.019)	0.086 (0.075)
$\log(N)^3$	-0.012 (0.004)	0.008 (0.003)	0.010 (0.009)
FE: Firm	Y	Y	Y
FE: State-Year	Y	Y	Y
Observations	35,854	35,854	35,854
R^2	0.519	0.755	0.660

graph shows a much stronger divergence. Between keeping and removing these firms, what we report is the more conservative of the two, which assumes firms never re-register with the SEC.

In Figure 2, we show the parallel trends graphs using the individual-level sample of representatives. In the paper, we feature similarly constructed graphs but using complaint rates aggregated to the firm level.

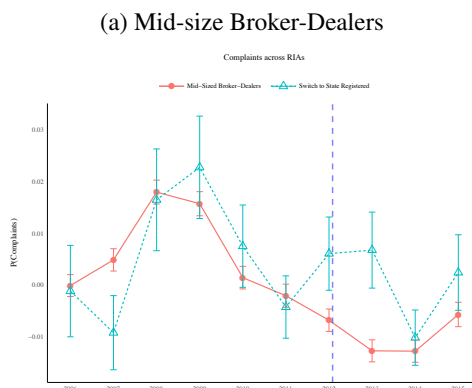
Table 5: Robustness: Parallel Trends

This table reports parallel trends tests at the firm-year and individual-year level for numerous outcome variable specifications. At the firm level we present four versions of firm-level complaint rates designed to treat outlier values in a different way. All firm-year specifications control for third-order polynomials of the number of advisers operating in that year. For all specifications, the sample period is 2008-2015, with the base year as the reference. Post is an indicator taking the value of 1 on and after 2012, following the implementation of the Dodd-Frank Act. "Transitioned" is an indicator taking the value of 1 if a RIA transitioned from the SEC to state registration, and 0 otherwise. Fixed effects are specified below with the "FE" prefix. Standard errors are clustered by state and shown in parentheses.

Dependent Variable:	$100 \times \frac{\# \text{Complaints}}{\# \text{IARs}}$		$\log(1 + \# \text{Complaints})$		$\log(1 + 100 \times \frac{\# \text{Complaints}}{\# \text{IARs}})$		$1 \{ \text{Complaints} > 0 \}$		$1 \{ \text{Complaints} > 0 \}$	
	Firm				Individual					
Year = 2009	-0.031 (0.033)	-0.005 (0.005)	-0.012 (0.015)	-0.002 (0.006)	-0.031 (0.034)	0.212 (0.421)	0.326 (0.411)			
Year = 2010	-0.024 (0.035)	-0.001 (0.004)	-0.008 (0.017)	-0.002 (0.006)	-0.025 (0.035)	0.258 (0.546)	0.604 (0.514)			
Year = 2011	0.003 (0.036)	0.002 (0.005)	0.002 (0.017)	-0.0002 (0.005)	0.0003 (0.036)	0.543 (0.514)	0.776 (0.522)			
Year = 2012	0.003 (0.027)	0.003 (0.004)	0.004 (0.013)	0.001 (0.004)		0.539 (0.549)	0.860 (0.502)			
Year = 2013	0.042 (0.032)	0.012 (0.004)	0.021 (0.015)	0.009 (0.005)	0.042 (0.032)	0.772 (0.456)	1.054 (0.405)			
Year = 2014	0.061 (0.033)	0.016 (0.005)	0.023 (0.015)	0.011 (0.005)	0.060 (0.033)	0.736 (0.480)	1.028 (0.422)			
Year = 2015	0.092 (0.028)	0.020 (0.004)	0.039 (0.012)	0.019 (0.005)	0.092 (0.029)	0.836 (0.485)	1.099 (0.421)			
Observations	46,490	46,490	46,490	46,490	40,191	436,429	436,429			
FE: State-Year	Y	Y	Y	Y	Y	Y	Y			
FE: Firm & Year	Y	Y	Y	Y	Y	Y	Y			
FE: Branch-Post										Y
Sample Period	2008-2015	2008-2015	2008-2015	2008-2015	2008-2015, drop 2012	2009-2014	2008-2015			2008-2015
R ²	0.331	0.755	0.332	0.559	0.35	0.02	0.065			

Figure 1: Additional Firm Level Parallel Trends 1

The figures below show the parallel trends for analyses at the firm level. Figure 3.1 adjusts the starting points of the mid-size broker-dealers in 2006 to be the same as the transitioned RIAs. One-standard error bands clustered by state are shown around the estimates.



A.5 Differing Reporting Requirements

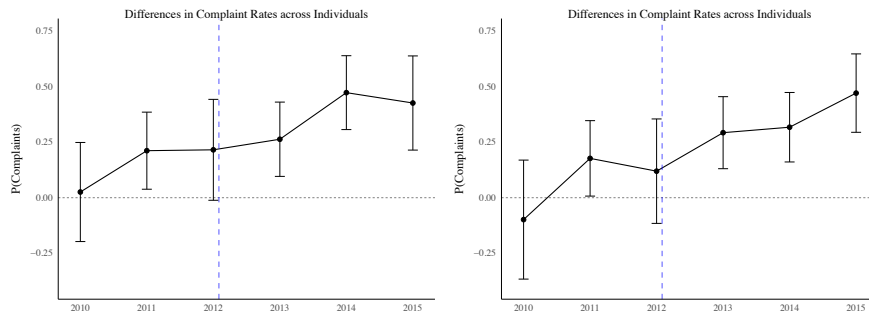
The first concern is a potential delay in when the complaint was received after the misconduct. That is, the increase in complaints could be explained by opportunistic clients if clients have a strategic incentive to delay filing complaints until their adviser transitions in 2012. Figure 2 helps dispel this alternative explanation. The gap in complaint rates between transitioned and non-transitioned advisers appears to persist through 2014, mitigating the alternative that complaints merely reflect a backlog. Cross-sectional evidence also casts doubt on this alternative. First, the states with lower staff-per-RIA had higher complaints, whereas states with capacity would likely accommodate any queue more effectively. Second, firms closer to the regulator saw fewer complaints, whereas these firms would likely be the firms most sought after by the regulator. Third, the less sophisticated investors are the least likely to be aware of regulator capacity, yet as clients of transitioned firms were the likeliest to complain.

A second alternative is that either the SEC has a more lax or a state regulator has a more stringent reporting standard for complaints. However, we believe this is not an issue for numerous reasons. We spoke with several regulators to confirm that

Figure 2: Parallel Trends at the Individual Level

The figures below show the parallel trends for analyses at the individual level. Sub-Figure 3.1 shows the results for individuals working at firms with less than \$1 billion in assets under management as of 2011, consistent with our main sample of analysis. Sub-Figure 3.2 shows the results for individuals working at firms with less than \$500 million in assets, which may permit a closer and more valid comparison between more similar firms between transitioned and non-transitioned firms. One-standard error bands clustered by state are shown around the estimates.

(a) Individuals in Firms with \leq \$1 billion in AUM (b) Individuals in Firms with \leq \$500 million in AUM



FINRA handles disclosure reporting. This allocation of responsibility suggests regulator involvement in expungement of records or the general reporting standards is likely not correlated with treatment. Also, to the extent regulator effort is required to intervene in the case of an expungement, for example, our forthcoming result suggests treatment is higher where regulators are less likely to be well-staffed. Moreover, we performed our analysis using data gathered in 2015 and 2016, achieving similar results. There is some delay between reporting a complaint and how long an adviser must wait to redact it. Finally, from inspecting the data by hand, often we actually observe cases that constitute cases that are no longer reportable, and have been asked by the adviser to be removed. In such cases, the complaint details (alleged damages and the case description, for example) are redacted, not the disclosure itself. Therefore, the extensive margin analysis is unlikely to be affected by these concerns. We a more detailed discussion in B.3.

A.6 Simulated Falsification

We consider boot-strapped falsification tests based on randomizing treatment and comparison group assignments and years of treatment to test whether the estimated coefficients are statistically significant based on an empirical distribution of estimated treatment effects. The first approach preserves within-state and year effects while randomizing the cross section. The second approach preserves the cross-sectional classifications into treatment and control but randomizes the time of implementation effects. Figure 3 shows that the estimated coefficients of treatment in our data are statistically significant well beyond the 1% level based on the histogram of 1,000 simulated samples and regression.

First, we randomly assign RIAs to the treatment group and show our estimated coefficient relative to a histogram of the simulated results. This preserves the state by year properties in the original dataset, but scrambles only the treatment and control group assignments in a way that preserves average unconditional treatment probability. Evidenced by the histogram, this random assignment eliminates the treatment effect.

Second, we randomly assign the years within each state and show the histogram of estimated coefficients. We find that our main effect is only statistically significant when the treatment year is 2012. Overall, both falsification exercises provide additional support that our estimated coefficients are indeed statistically significant even when simulating data that preserves within state correlations in complaints at a given point in time.

Finally, we also removed one state at a time. The distribution of coefficients is stable and the lowest coefficient we observed is almost as large as the original main effect.

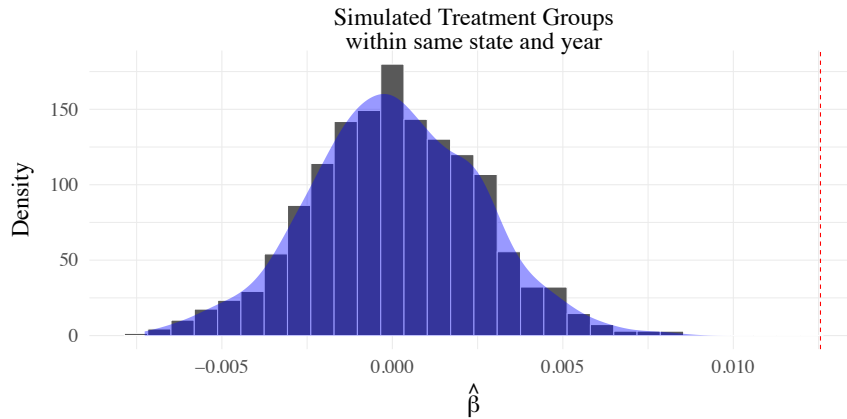
A.7 Local Economic & Political Conditions

If a state is experience high unemployment, the regulators may be more lenient in hopes to reduce regulatory burden on workers in the state in hopes to improve the local economic condition. Alternatively, they may also simply be distracted from their regulatory roles over investment advisers and instead focus on other concerns.

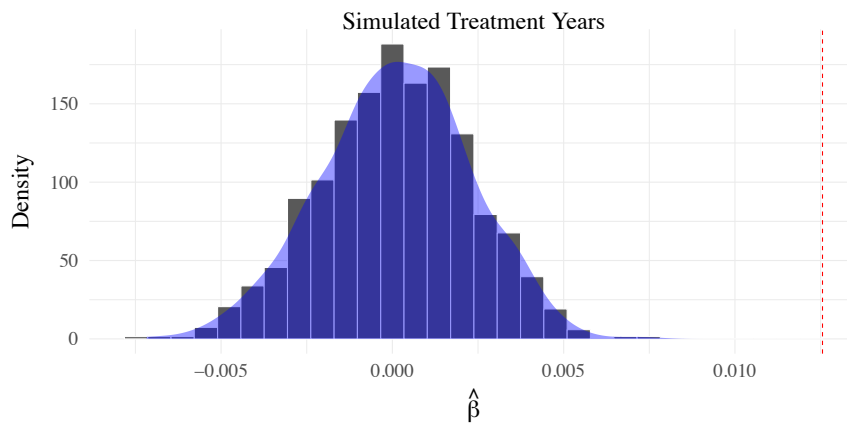
Figure 3: Histogram of Simulated $\hat{\beta}$

The figure below shows the histograms of estimated coefficients from our main regression specification based on 1,000 simulations for each procedure. In the first procedure, we randomly assign treatment and control groups within each state and year so that the conditional probability of treatment in each state matches that in our main sample. In the second procedure, we replace the actual observed year with a randomly drawn year between 2009 and 2014 without replacement. For each simulation, we run a regression of the form $1\{\text{Complaint}\}_{ijt} = \alpha_i + \alpha_j + \alpha_{st} + \beta_1 \text{Treated}_j + \beta_2 \text{Post}_t + \beta_3 \text{Post}_t \times \text{Treated}_j + \varepsilon_{ijt}$ where i is an individual adviser representative, j is the registered-investment-adviser company, s is the state, and t is the year. Complaints stands for the number of total complaints that an RIA or IAR receives with a reporting or filing date within that year. Post is an indicator taking the value of 1 on and after 2012, following the implementation of the Dodd-Frank Act. “Transitioned” is an indicator taking the value of 1 if a RIA transitioned from the SEC to state registration, and 0 otherwise. We cluster standard errors by state, allowing for RIAs and representatives within the same state to experience correlated shocks. Panel A shows the simulation based on randomly assigning treatment groups with the same probability as the unconditional treatment probability, among firms within the same state and year. Panel B shows the simulation based on randomly assigning years within each state and treatment group.

(a) Randomly Assigning Treatment and Controls within State and Year



(b) Randomly Assigning Years within State and Treatment Group



In Table 6 below, we explicitly consider the interaction of the transition effects with measures of local economic conditions. We estimate a specification of the form

$$1\{\text{Complaint}\}_{ijt} = \alpha_t + \alpha_j + \alpha_s + \beta_1 X_t + \beta_2 \text{Post}_t \times X_t + \beta_3 \text{Transitioned}_j \\ + \beta_4 \text{Transitioned}_j \times X_t + \beta_5 \text{Post}_t \times \text{Transitioned}_j \times X_t + \varepsilon_{ijt}$$

where j is the registered investment adviser company, s is the state, and t is the year. X_t captures lagged state-GDP growth, lagged state unemployment, county-level loan-to-value ratios of mortgages from the ACS 2011, county-level fraction of households with mortgages from the ACS 2011, and county-level homeownership percentage from the ACS 2011. We cluster standard errors by state, allowing for RIAs and representatives within the same state to experience correlated shocks.

Unlike in the main tables in our paper, we do not include state-year fixed effects since we are striving to test whether state-year level variables interact with the transition effect. There may be better measures of local economic conditions worth looking at. Among the array of measures we examined, we generally find no statistically significant evidence of local economic conditions moderating the transition effect at the 10% level. Nevertheless, interpreting the coefficients would suggest that the divergence in complaint rates was slightly larger in areas with previously lower-GDP growth, higher unemployment, lower-home ownership, and areas with less mortgages. We find no relation between the local loan-to-value and transition effects. These measures of local economic conditions likely influence the regulatory resources of the state regulators. Areas with more economic distress may be less likely to increase budgets for state-securities regulators, which motivates including state-year and even branch-post fixed effects in our specifications.

In Table 7, we examine directly whether the transition effect varies with preferences for democratic governors measured by voting share and also with whether the governor faces an upcoming election. In Table 7, we first consider differences across states in the state's governor's political affiliation. Perhaps, republican governors are more pro-business and thus easier to capture. However, another possibility is that republican governors simply prefer smaller governments and thus provide

Table 6: Condition

This table examines the relations between cross-state differences in economic conditions and the divergence in complaints between transitioned and non-transitioned registered-investment advisers (RIAs) using our main person-year sample for advisers with less than \$1 billion in assets from 2009 to 2014. Transitioned RIAs are mid-sized RIAs with less than \$100 million in assets that were affected by the Dodd-Frank Act and transitioned from SEC to state oversight. The comparison group consists of RIAs that did not transition and continued under SEC oversight. Our measures of local-economic conditions include lagged state-GDP growth, lagged state unemployment, county-level loan-to-value ratios of mortgages from the 2011 American Community Survey (ACS), county-level fraction of households with mortgages from the 2011 ACS, and county-level homeownership percentage from the 2011 ACS. Columns (3) to (5) respectively use static 2011 ACS level variables so that these variables are subsumed by the firm fixed effects. Unlike in the main tables in our paper, we do not include state-year fixed effects since we are striving to test whether state-year level variables interact with the transition effect. Complaints stands for the number of total complaints that an RIA or representative receives with a reporting or filing date within that year. "Post" is an indicator equal to one for post transition years (2012 to 2014). "Transitioned" is an indicator taking the value of one if a RIA transitioned from the SEC to state registration and zero otherwise. Fixed effects are specified below with the "FE" prefix. Standard errors are clustered by state and shown in parentheses.

	$I_{\{\text{Complaints}>0\}} \times 100$				
X =	(1)	(2)	(3)	(4)	(5)
	GDP Growth	Unemployment Growth	Normalized Log(Loan to Value of Mortgages)	Normalized Log(Fraction of Households with Mortgages)	Normalized Log (Home Ownership Percentage)
PostXTransitioned	0.497 (0.206)	0.321 (0.140)	0.330 (0.104)	0.332 (0.109)	0.321 (0.107)
PostXTransitionedX	-5.365 (5.123)	0.934 (1.353)	-0.003 (0.085)	-0.066 (0.075)	-0.113 (0.106)
PostXX	-6.162 (2.405)	-0.456 (0.795)	0.066 (0.053)	0.037 (0.045)	0.004 (0.044)
X	1.607 (1.674)	0.000 (0.653)			
Transitioned × X	0.574 (2.596)	-0.286 (0.360)			
FE: Firm	Y	Y	Y	Y	Y
FE: State	Y	Y	Y	Y	Y
Observations	330,523	330,523	326,586	326,586	326,586
R ²	0.021	0.021	0.021	0.021	0.021

less funding to the state regulator, weakening the regulator. We find no relation between political affiliation and the effect of the transition.

Next, we analyze the effect of elections. Our first caveat is that elections tend to cluster in time. Specifically, for each of the years from 2009 to 2015, there were {2, 39, 4, 12, 2, 38, and 3} elections respectively. That is, 38 elections in the year 2014, when our effect is the greatest. Thus, we caution against the reader from interpreting this too closely. With this caveat in mind, column (4) indicates that if an election is this year or next, we see more complaints, significant at the 5% level. This indicates if anything the opposite of political capture. If we were to interpret this evidence aggressively, it appears the government is more heavy-handed against investment advisers, leading to more complaints, during years of elections. If anything it appears the opposite appears to be true. This test helps us isolate differences in our setting versus that of Agarwal et al (2014). We have posited that one crucial difference between our paper and Agarwal et al (2014) is the absence of political capture in our setting and the commonality of local interests in both settings. This test helps us directly rule out that our results are due to political capture. Also, in our setting, financial constraints matter if regulators want to protect clients of advisers whereas they would be more lenient for clients of commercial banks which requires less resources.

A.8 Regression Discontinuity Approach

To further alleviate concerns about the control groups being different, we also implement a regression discontinuity design (RDD) to identify the impact of the regulation. Figure 4 shows using a narrow sample of firms around the \$100 million threshold a similar increase in complaints for transitioned firms after the transition. By narrowing the sample to only those RIAs with assets very close to the \$100M threshold, we reduce the possibility that these RIAs are different. The discontinuity identification generates the same qualitative and quantitative results, albeit at a loss of some statistical power due to limited sample availability around the discontinuity threshold of \$100 million.

The RDD design is not ideal for our setting because AUM shifts from 2011

Table 7: Impact of Democrat vs. Republican Governors

This table examines the relation between the transition effect and governor political affiliations and also whether the governor faces an upcoming election using our main person-year sample for advisers with less than \$1 billion in assets from 2009 to 2014. The outcome variable “Normalized Democrat-Republican Gap” captures the normalized difference in vote share of the democratic governor in the state election. The outcome variable “Election (t)” is an indicator that equals 1 if the state has a governor election in year t . “Election (t+1)” is an indicator that equals 1 if the state has a governor election in year $t + 1$. “Election (t,t+1)” is an indicator that equals 1 if the state has a governor election either in year t or $t + 1$. We use our main sample of investment adviser firms with less than \$1 billion in assets from 2009 to 2014. The comparison group are firms not directly affected by the transition, namely those with more than \$100 million in assets and also mid-size RIAs in New York and Wyoming which remained under SEC oversight. Complaints stands for the number of total complaints that an RIA or IAR receives with a reporting or filing date within that year. Post is an indicator taking the value of 1 on and after 2012, following the implementation of the Dodd-Frank Act. “Transitioned” is an indicator taking the value of 1 if a RIA switched from the SEC to state registration, and 0 otherwise. Fixed effects are specified below with the “FE” prefix. Standard errors are clustered by state and shown in parentheses.

<i>Dependent variable:</i>	$I_{\{\text{Complaints}>0\}} \times 100$			
$X_t =$	(1) Normalized Democrat-Republican Gap	Election t	Election t+1	Election t,t+1
Post×Transitioned	0.320 (0.109)	0.194 (0.124)	0.226 (0.123)	0.044 (0.142)
Transitioned × X_t	-0.015 (0.051)	-0.116 (0.185)	0.163 (0.168)	-0.273 (0.123)
Post×Transitioned× X_t	-0.017 (0.109)	0.268 (0.230)	0.163 (0.168)	0.393 (0.148)
FE: Firm	Y	Y	Y	Y
FE: State-Year	Y	Y	Y	Y
Observations	330,523	330,523	330,523	330,523
R^2	0.021	0.021	0.021	0.021

to 2012 (particularly with the bull market in the latter half of 2011), and we only observe AUM reliably for SEC-registered RIAs, not state-registered RIAs. Also, some firms are disqualified from state registration for other reasons even if managing less than \$100 million. Therefore, our current setup relies on indications provided by the firm or a regulator that the adviser transitioned to state jurisdiction. With these caveats in mind, we try our RDD design with a \$10-million-AUM bandwidth around either side of the \$100-million threshold. We use a registered-investment adviser's 2011 AUM and require the adviser to be headquartered in the 48 states affected by transition (i.e. not New York or Wyoming). In the post-period, we find weak statistical evidence that being below \$100 million in assets leads to higher numbers of complaints. This effect appears to be absent in the pre-period, but the evidence is suggestive because of the difficulty of classifying firms using purely lagged AUM.

A.9 Sample Survivorship Bias Concerns

In this section, we directly test whether advisers are more likely to leave our sample after receiving a complaint. There is no significant evidence that representatives working for transitioned mid-size RIAs are more or less likely to leave the industry upon getting a complaint. If anything, representatives working for transitioned mid-size RIAs and receiving a complaint are less likely to see their ultimate year, consistent with weaker regulators who are less likely to terminate those with complaints.

A.10 Workload Shock

This section discusses our results on the workload of regulators. We take the number of people/firms who we presume to be under state jurisdiction and the percentage change based on the number of transitioning firms in 2012.³²

³²If a firm is under SEC jurisdiction they must file form ADV with the SEC. Firms which do not register with the SEC do sometimes file anyway with the SEC, either hoping to gain visibility or as a signal to consumers. In any case we presume a firm is not registered with the SEC in 2011 if

Figure 4: Regression Discontinuity Plots

The figures below show the average number of complaints of firms in \$1 million dollar bins using the main sample from 2009 to 2014, but include only firms whose size are between \$75 million and \$125 million, tightening the bandwidth to improve precision around the \$100 million threshold. We split the panel into before and after 2012, when the Dodd-Frank Act was implemented.

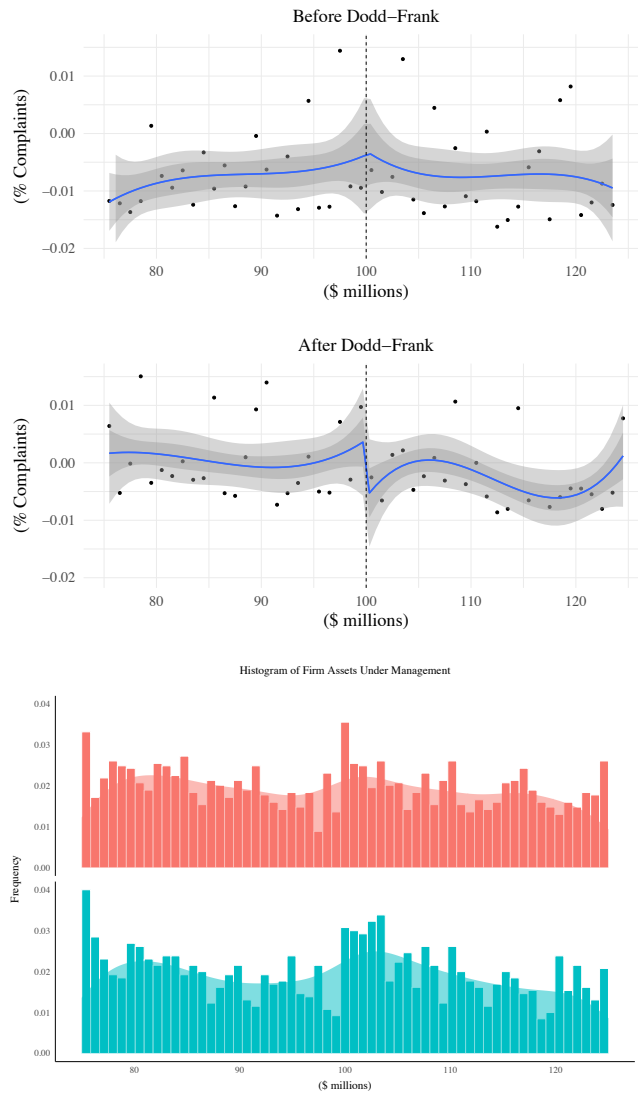


Table 8: Investment-Adviser Representative Exits

The table below shows the probability that an investment-adviser representative drops out of our sample after receiving a complaint using our main person-year sample for advisers with less than \$1 billion in assets from 2009 to 2014. The dependent variable Penultimate_t takes the value 1 if year t is the penultimate year a representative exists in our sample. The dependent variable Ultimate_t takes the value 1 if year t is the last year an IAR exists in our sample, limiting it to end in 2014. Complaints stands for the number of total complaints that an RIA or IAR receives with a reporting or filing date within that year. Post is an indicator taking the value of 1 on and after 2012, following the implementation of the Dodd-Frank Act. “Transitioned” is an indicator taking the value of 1 if a RIA transitioned from the SEC to state registration, and 0 otherwise. Receiving a complaint is related to dropping out of our sample. Standard errors are clustered by state and shown in parentheses.

<i>Dependent variable:</i>	Ultimate Year	Penultimate Year
	(1)	(2)
Post×Transitioned	0.023 (0.004)	0.0004 (0.006)
Post× $1_{\{\text{Complaints}>0\}}$	0.009 (0.007)	-0.006 (0.007)
$1_{\{\text{Complaints}>0\}}$	0.008 (0.003)	0.006 (0.006)
$1_{\{\text{Complaints}>0\}}$ ×Transitioned	0.025 (0.020)	-0.030 (0.025)
Post×Transitioned× $1_{\{\text{Complaints}>0\}}$	-0.068 (0.042)	0.016 (0.028)
Observations	330,451	330,451
R^2	0.038	0.037

Table 9 columns (1) to (4) perform extensive margin analysis at the individual level using two measures of workload changes. Columns (1) and (2) rank states by the percent change in number of firms and percent change in number of people in 2012. Columns (5) and (6) perform extensive margin analysis on the firm level using the log percent of firms (column 5) and log percent of people who transitioned over (column 6). Columns (7) and (8) take the log percent of *people* who transitioned to state oversight and perform the analysis on two other outcome variables: the log percent of employees who have complaints and the log number of complaints received by the firm. All firm-level specifications control for three polynomial orders of the number of people at the firm. Moreover, all specifications include firm and state-year fixed effects.

The results provide some evidence that changes in complaint rates can be explained by the number of *people* who transition. Columns (1) and (3) indicate an unreliable relation between complaint rates and the number of firms that transitioned. The relationships are positive but statistically unreliable with standard errors much larger than coefficients. However, columns (2) and (4) indicate that the number of people who transitioned is related to the increase in complaints. We believe the number of adviser representatives better represents the workload shock than the number of firms as it better conveys the true economic footprint of the firm and thus the burden the regulator may face. The base effect of treatment (post times treated) turns to zero or negative in these specifications, suggesting that workload may play a large role. We find a similar result at the firm level. Columns (6) to (8) indicate that the number of people transitioning is positively related to the increase in complaints, using firm-level data. However, this overall piece of evidence is statistically weaker than the main resource-constraint measures we provided above.

the firm never files an ADV in 2010, 2011 or 2012 with the SEC.

Table 9: State-level Workload Shock

This table presents results interacting our transition effect with various measures of the workload increase facing state securities regulators as a result of the transition in oversight using our main person-year sample in columns (1) through (4) and firm-year panel in columns (5) to (8) for advisers with less than \$1 billion in assets from 2009 to 2014. We measure the workload shock as the percentage increase in state-supervised firms and also individual representatives. The outcome variables are either an indicator for the incidence of a complaint in year t , the log percent of employees who have complaints in year t , or the log number of complaints received by the firm in year t . Post is an indicator taking the value of one on and after 2012, following the implementation of the Dodd-Frank Act. "Transitioned" is an indicator taking the value of one if a RIA switched from the SEC to state registration, and zero otherwise. All regressions include firm and state-by-year fixed effects that account for constant firm characteristics and state time trends. Standard errors are clustered at the state level and shown in parentheses.

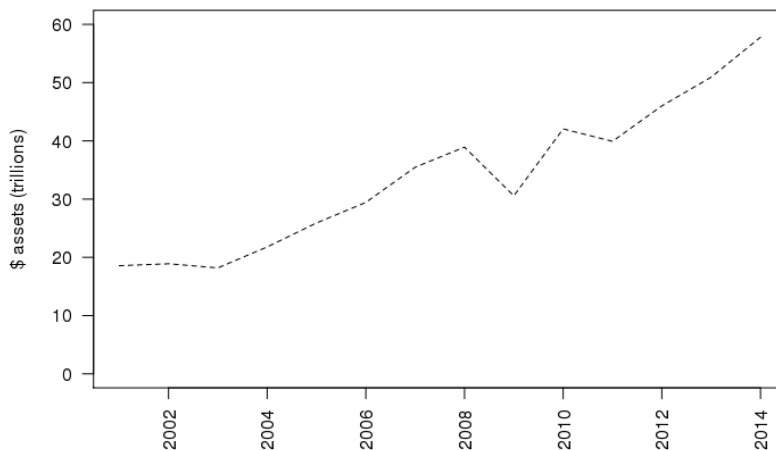
<i>Dependent variable:</i>	$I_{(Complaints>0)} \times 100$							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post×Transitioned	0.174 (0.304)	-0.15 (0.227)	-0.813 (1.584)	-0.971 (0.459)	-2.833 (5.786)	-1.453 (2.111)	-0.07 (0.060)	-0.011 (0.019)
Post×Transitioned×Workload	0.213 (0.561)	0.761 (0.438)	0.346 (0.496)	0.329 (0.121)	1.145 (1.872)	0.616 (0.607)	0.025 (0.017)	0.006 (0.005)
Workload measure	Q % firms	Q % people	log % firms	log % people	log % firm	log % people	log % people	log % people
Observations	318,144	318,144	318,144	318,144	34,374	34,374	34,374	34,374
State-Year	Y	Y	Y	Y	Y	Y	Y	Y
Firm	Y	Y	Y	Y	Y	Y	Y	Y
R ²	0.022	0.022	0.022	0.022	0.58	0.58	0.368	0.776

B Additional Institutional Details

In this section, we provide additional details on our setting. Figure 5 shows the total assets of the industry from 2001 through 2014.

Figure 5: Assets Growth

This graph presents the growth in assets under management of RIAs filing Form ADV to the SEC through 2014. We retrieved the ADV data from the SEC through a Freedom of Information Act request in 2015. For each RIA, we use the latest filing in the calendar year. Note that the AUM of mid-size RIAs is not included after the transition because mid-size RIAs no longer file a Form ADV with the SEC.



To provide additional color to the Form ADV data we acquired through the Freedom of Information Act, Table 10 shows a sample of available information. We provide firm-level summary statistics in Table 11 for this full sample, from which we construct our main data sample.

In Figure 6 we show that the annual time series filings of Form ADV-W to de-register with the SEC was stable before 2012 and recovered back to normal after 2014. To illustrate the CRD depository, which provides us the data through

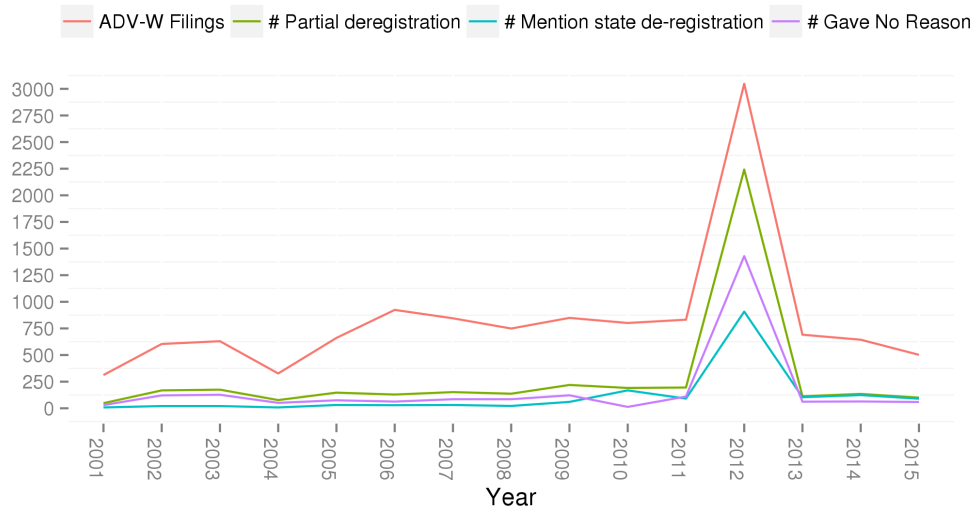
Table 10: Form ADV Information

This table summarizes the components of Form ADV

Item in form ADV	Description
Item 1. Identifying Information	Address, business name, etc. normal business hours.
Item2. SEC Registration/Reporting	States of operation
Item3. Form of Organization	Are you a corporation, LLC? Where are you organized?
Item4. Successions	What country's laws are you subject to?
Item5. Information about your Advisory Business	Are you succeeding another business, e.g. inheriting clients? Regulatory AUM, lines of business, types of clients, compensation arrangements, types of services offered, num. employees, num. clients,
Item 6. Other Business Activities	Non-principal activities your firm engages in
Item 7. Financial Industry Affiliations	Are your related persons part of another financial institution, broker, law firm or accounting firm?
Item 7B Private Fund Reporting	Are you a private fund?
Item 8 Participation or Interest in Client Transactions	Do you have a proprietary interest in client transactions (do you trade your own funds)), a sales interest in client transactions (do you sell your clients stuff), or investment/brokerage discretion? And a lot of related detailed questions.
Item 9 Custody	Do you have custody of assets, of how much?
Item 10 Control Persons	Do your related persons have control?
Item 11 Disclosures	Do you have a qualified custodian, an independent accountant, that overlooks? Do you get surprise audits?
Item 12 Small Business Schedule A/B/D	Who are the control persons and how much do they own? Criminal, regulatory, civil lawsuits for the firm. Note: Not individual IAR history/roster. Various probably irrelevant things about control structure and total firm assets Direct/indirect owners, officers, with ownership stakes. Location of books and records. Other offices.

Figure 6: Annual ADV De-registration Filings

The graph below shows the number of RIAs that de-registered from the SEC with form ADV-W filings. The Dodd-Frank Act came into effect in 2012. “ADV-W Filings” refers to the total number of filed Form ADV-Ws. “Partial de-registration” presents the number of Form ADV-Ws with a “partial de-registration” description in the optional reasons. “# Mention state de-registration” indicates how many partial de-registrations specifically mentioned the intention to register with state securities regulator.



BrokerCheck and IAPD databases, we included the following schematic. The data infrastructure is shown the data infrastructure from different sources in Figure 7. We show a sample filing procedure from New Jersey in Figure 8, to show an example of a web form that investors can use to lodge an official complaint that we would observe in the data.

Figure 7: Filing and Data Infrastructure

This graph presents a diagram of the filings made by RIAs and investment advisers (individuals), the relevant receiving entity, the record maintainer, and the points of disclosure through which one can obtain the data used in this paper or related papers. This diagram is based on the authors' own observations.

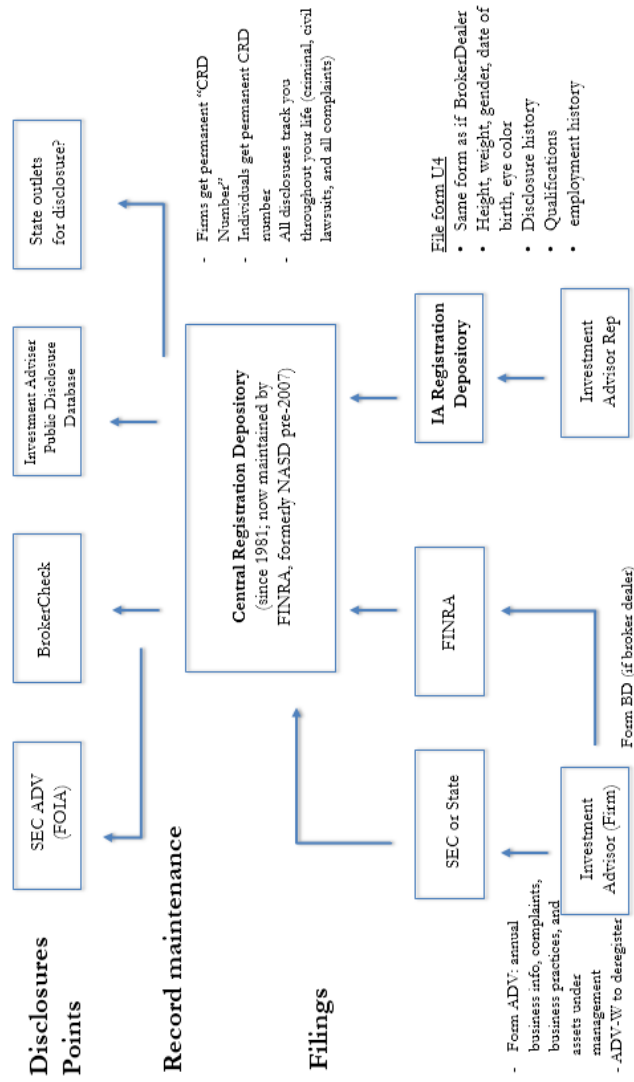


Table 11: RIA Summary Statistics for the Full Data

The table provides summary statistics for investment adviser RIAs from Form ADV filings for 2011, without placing the restriction of having less than \$1 billion in AUM. RIAs report whether they have custody over assets, independent audits, specific incentive structures, and report the fraction of clients who are institutions, private funds, government, and individuals. Advisers also denote whether individuals are accredited, earning either more than \$200,000 if single or \$300,000 if married, or more than \$1,000,000 in net worth. We denote accredited advisers as sophisticated. Funds are labeled as having a majority of clients in a particular category if the fraction of clients for the adviser is greater than or equal to 50%.

	Total	Non-transitioned	Transitioned
Assets:			
AUM 10 th Percentile	35	103	30
AUM 25 th Percentile	57	143	39
AUM 50 th Percentile	128	295	53
AUM 75 th Percentile	422	882	72
AUM 90 th Percentile	1,841	4,090	89
Fraction of AUM with Custody (%)	7	6	14
Fraction of RIAs with Custody (%)	18	24	8
Fraction with Independent Audits (%)	21	29	9
Incentive Structure:			
Private Fund (%)	26	32	15
Other Business (%)	16	15	18
Other Business is Main Business (%)	5	5	6
Recommends a Broker (%)	64	68	58
Have Proprietary Conflicts of Interest (%)	87	88	86
Have Sales Conflicts of Interest (%)	20	27	10
Have Investment Discretion (%)	93	94	90
Client Composition:			
Individuals (%)	69	66	75
Unsophisticated Individuals (%)	35	29	45
Institutions (%)	43	47	36

Table 12: Total Data Observation Counts

Observation Counts	
Unique representative CRDs in IAPD	492,841
Unique RIA CRDs in IAPD	30,579
Unique CRDs in SEC Form ADV	6,235
Total IA-year Observations in IAPD	4,623,292
Observations(2009-2014)	1,791,522
Observations (Annual Sample)	1,290,043
Observations (3-year window)	382,665
RIAs transitioned	2,089
Individuals transitioned	8,698
Individual-Year transitioned	22,153

Figure 8: Filing a Complaint

This figure illustrates how clients file a complaint with the New Jersey Securities Regulator.





File a Complaint

The Bureau of Securities investigates complaints against individuals and firms selling securities or offering investment advice as well as companies issuing securities investments. The Bureau is empowered to bring administrative actions or civil law suits to enforce the registration and anti-fraud provisions of the New Jersey Uniform Securities Act. The Bureau may refer certain matters for criminal prosecution.

Please be advised that the Bureau does not have the specific authority to order restitution or the repayment of any monies which you may believe are due you.

Investor Information

Name:

Street Address:

City: State: ZIP Code:

Daytime Number: Evening Number: Fax:

Email Address:

Firm Information

Firm Name:

Street Address:

City: State: ZIP Code:

Telephone Number (1): Telephone Number (2):

Email Address:

Complaint Information

1. Type of firm (if known):

If other, please specify:

2. Name and title of firm's agents or employees with whom you dealt:

Name:

Title:

B.1 Example of Complaints

Example 1: Excessive Risk Taking

Reporting Source:	Individual
Investment Adviser:	Robert J Escamillo (CRD # 1159079)
Employing firm when activities occurred:	Webush Securities (CRD # 877)
Allegations:	Claimant alleges unsuitable trading, heavy use of margin, and speculation resulting in alleged losses. Complaint also includes claims for fraud, negligent misrepresentation, breach of fiduciary duty, and breach of covenants of good faith and fair dealing.
Product Type:	Equity Listed (Common & Preferred Stock)
Alleged Damages:	\$100,000
Alleged Damages Explanation:	Claimant requests award of compensatory/economic damages of \$100,000 or amount established at hearing and reimbursement of all filing and hearing fees as well as costs relating to expert witness, transcripts, and analysis.
Date Complaint Received:	November 13, 2012
Arbitration Forum:	FINRA
Status:	Settled
Settlement Date:	March 7, 2014
Monetary Compensation Amount:	\$45,000 (individual adviser contributed \$22,500)

Example 2: Under-diversification

Reporting Source:	Individual
Investment Adviser:	Athanasios Tomaras (CRD # 2722538)
Employing firm when activities occurred:	Fulcrum Securities, LLC (CRD # 131777)
Allegations:	Client claims that beginning late 2013 his account was overly concentrated in the energy sector and that Tomaras failed to execute stop loss orders as instructed by the client. Client claims \$63,874.13 in losses as a result of failure to execute stop loss orders in CLNE and PWE. Client also alleges unsuitable trades.
Product Type:	Equity-OTC Equity Listed (Common & Preferred Stock)
Alleged Damages:	\$63,874.13
Date Complaint Received:	April 27, 2015
Arbitration Forum:	FINRA
Status:	Settled
Settlement Date:	April 6, 2016
Monetary Compensation Amount:	\$25,000.00

Example 3: Fraudulent Sale

Reporting Source:	Individual
Investment Adviser:	Erryn Michael Barkett (CRD # 4102279)
Employing firm when activities occurred:	Next Financial Group, Inc. (CRD # 46214)
Allegations:	Customer alleges that registered representative sold her away from the firm a structured product that was proved to be fraudulent.
Product Type:	Structured Military Pension Product
Alleged Damages:	\$209,727.24
Date Complaint Received:	February 13, 2014
Arbitration Forum:	FINRA
Status:	Settled
Settlement Date:	June 16, 2014
Monetary Compensation Amount:	\$170,000.00 (\$56,666.67 contributed by Mr. Barkett)

Example 4: Unauthorized Trading

Reporting Source:	Individual
Investment Adviser:	Brett N Canarelli (CRD # 3243879)
Employing firm when activities occurred:	Fifth Third Securities, Inc. (CRD # 628)
Allegations:	Customer's attorney alleges that registered representative made an unauthorized purchase of a unit investment trust in January 2013.
Product Type:	Unit Investment Trust
Alleged Damages:	\$74,244.10
Date Complaint Received:	July 9, 2013
Arbitration Forum:	FINRA
Status:	Settled
Settlement Date:	September 23, 2015
Monetary Compensation Amount:	\$50,000.00

Example 5: Misappropriation of funds

Reporting Source:	Firm
Investment Adviser:	Bruce Martin Harada (CRD # 2324524)
Employing firm when activities occurred:	Financial Network Investment Corporation (CRD # 13572)
Allegations:	Customer seeking return of investment monies she alleges the representative fraudulently procured from her in October 2011 and are now unaccounted for. Also, requesting recovery of tax consequences incurred in funding the fictitious investment.
Product Type:	Fictitious Tax Free Investment
Alleged Damages:	\$25,000
Date Complaint Received:	August 21, 2012
Arbitration Forum:	FINRA
Status:	Settled
Settlement Date:	September 18, 2012
Monetary Compensation Amount:	\$26,886.00

B.2 State Securities Regulators

Table 13: State Securities Regulators

The table below shows the names of state securities regulator divisions and departments. Divisions are the smallest organizational entities that oversee securities regulation. The value is blank when a departmental hierarchy is not provided.

State	Division Name	Department Name
Alabama	Alabama Securities Commission	
Alaska	Banking and Securities Division	Department of Commerce, Community, and Economic Development
Arizona	Securities Division	Arizona Corporation Commission
Arkansas	Arkansas Securities Department	
California	Securities Regulation Division	Department of Business Oversight
Colorado	Division of Securities	Department of Regulatory Agencies
Connecticut	Securities and Business Investment Division	Department of Banking
Delaware	Investor Protection Unit	Attorney General
Florida	Division of Securities	Office of Financial Regulation
Georgia	Division of Securities	Secretary of State Office
Hawaii	Division of Securities	Department of Commerce and Consumer Affairs
Idaho	Securities Section	Department of Finance
Illinois	Securities Department	Secretary of State
Indiana	Securities Division	Secretary of State
Iowa	Securities Bureau	Insurance Division
Kansas	Office of the Securities Commissioner	
Kentucky	Securities Division	Department of Financial Institutions
Louisiana	Securities Division	Office of Financial Institutions
Maine	Office of Securities	Department of Professional and Financial Regulation
Maryland	Securities Division	Attorney General
Massachusetts	Securities Division	Secretary of Commonwealth
Michigan	Corporations, Securities, and Commercial Licensing Bureau	Department of Licensing and Regulatory Affairs
Minnesota	Securities, Franchises, and Subdivided Land	Department of Commerce
Mississippi	Securities Division	Secretary of State
Missouri	Securities Division	Secretary of State
Montana	Commissioner of Securities and Insurance	Office of the Montana State Auditor
Nebraska	Department of Banking and Finance	

Table 14: State Securities Regulators (continued)

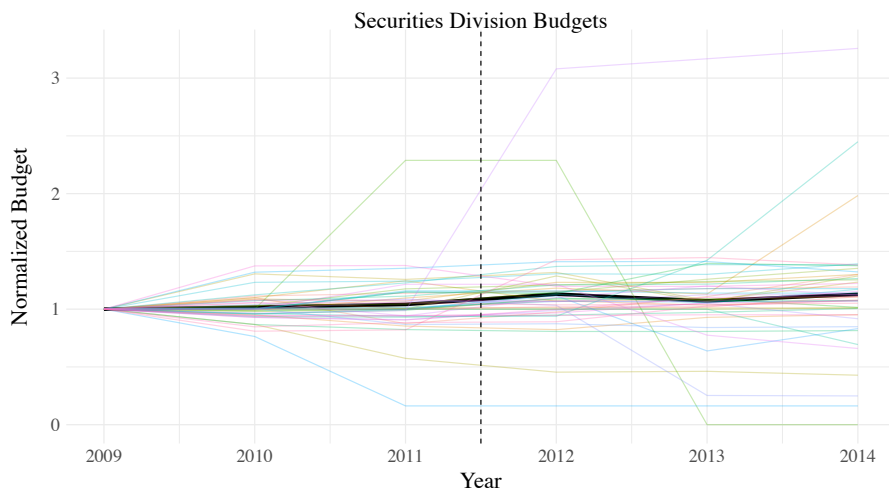
State	Division Name	Department Name
Nevada	Nevada Securities Center	Secretary of State
New Hampshire	Bureau of Securities Regulation	Secretary of State
New Jersey	Bureau of Securities	Division of Consumer Affairs
New Mexico	Securities Division	Regulation and Licensing Department
New York	Investor Protection Bureau	Attorney General
North Carolina	The Securities Division	Secretary of State
North Dakota	Securities Department	
Ohio	Division of Securities	Department of Commerce
Oklahoma	Department of Securities	
Oregon	Division of Financial Regulation	
Pennsylvania	Department of Banking and Securities	
Rhode Island	Department of Business Regulations	
South Carolina	Securities Division	Attorney General
South Dakota	Division of Securities	Division of Licensing and Regulation
Tennessee	Department of Commerce & Insurance	Department of Commerce & Insurance
Texas	State Securities Board	
Utah	Division of Securities	
Vermont	Securities Division	Department of Financial Regulation
Virginia	Division of Securities and Retail Franchising	State Corporation Commission
Washington	Division of Securities	Department of Financial Institutions
West Virginia	Securities Commission	State Auditor's Office
Wisconsin	Division of Securities	Department of Financial Institutions
Wyoming	Investing Center	Secretary of State

B.3 Redacting Client Complaints

One potential concern regarding our results is that redactions increased for RIAs that were transitioned relative to those that were not transitioned. First, state regulators may be more susceptible to regulatory capture, seeking to preserve the presence of investment advisers who may otherwise leave the state. Second, the inability of adviser representatives to redact their complaints drives our results, being in

Figure 9: State Regulator Budgets

The figure below shows the normalized proposed state securities regulator budgets so that the 2009 value is one. Most states report budgets biannually. The bold line is the average across all states. The figure makes clear that most states did not increase the budgets of the securities regulator, despite receiving extra fee revenues from transitioning advisers. During timing of the transition, states were fiscally constrained.



a state with more regulatory staff means more resources to process the complaints. Moreover, being farther from the corresponding state regulator would also mean redacting a complaint is more costly. We argue these alternatives are not likely in light of the legal environment through which redactions are processed.

Records are stored at FINRA through the CRD system. Complaints that have alleged damages over \$5,000 or resulted in some legal action are both reported in the system. Upon receiving a complaint, both the investment adviser RIAs and investment-adviser representative have to file a complaint disclosure to the CRD system. In August 2010, FINRA began disclosing all historic complaints, regardless of age. In the past, unproven allegations were not disclosed after two years. Specifically, investment-adviser representatives may want to remove over which advisers have little control:

1. **Denied client complaints.** Although denied client complaints may seem insignificant, accusations typically are accompanied by harsh words that remain on the CRD for at least two years (since 2009, accusations stay for 10 years). Even if an adviser's record shows patterns of denied rather than arbitrated or settled complaints, RIAs may be hesitant to affiliate with that adviser. Moreover, whether or not complaints are settled in the first place is mainly up to the RIA, not the representative.
2. **Termination explanations.** Broker-dealers may terminate advisers for any reason. Discrepancies can exist between the self-reported termination explanation and the RIA-reported explanation.

Investment advisers occasionally request expungement of client complaints. Because the records are stored in the CRD, FINRA handles all expungement requests. Nonetheless, other regulators are involved in the process. FINRA may agree to remove disclosures if brokers obtain a recommendation that is false, erroneous, or that the broker wasn't involved in the alleged misdeed. To obtain this recommendation, representatives must acquire a court confirmation after submitting an expungement request. Upon submission, the corresponding investment adviser regulator (SEC or state regulator) is informed, giving a chance to oppose the expungement. State regulators received a total of 519 requests in 2010, up from 110 in 2009. In total, the

process to expunge a complaint typically takes at least one year. Although FINRA claims to have tracked the number of expungements granted, they do not publicly disclose it.

Although the expungement process is fairly difficult, FINRA arbitrations could be settled subject to an agreement that claimants would not oppose the investment-adviser representative's subsequent efforts to seek expungement from a court of competent jurisdiction. Subsequently, representatives would initiate unopposed petitions for expungement in state courts that were often rubber-stamped. The judge's order would then be submitted to FINRA, and the arbitration disclosure would be expunged. In response to this practice, FINRA adopted Rule 2130 in 2004. One of the most significant changes was the need to name FINRA as an additional party challenging expungement. This meant FINRA also receives all appropriate documents with expungement, unambiguously increasing the cost of expungement requests. Moreover, although expungement requests from arbitrated cases are mostly granted, less than 8% of disclosures are expunged. Of the 7,621 arbitration cases from 2012 to 2014, only 563 records were expunged, according to the arbitration bar association.

Some of the surge in requests is also the result of new disclosure demands by FINRA. Until 2009, only brokers who were named as party to a case had to disclose a client complaint. Because most investors sue only the brokerage firm, large brokerage firms could shield individual brokers from direct accusations. However, firms might not have this incentive. Larger firms may also be more likely to place blame on an individual whom they could terminate, in order to shift blame to the individual. After 2009, FINRA modified this disclosure practice, requiring all brokers to report complaints regardless of whether or not they were named directly as a respondent.

The institutional setting suggests deletions of client complaints is not relevant for the timing of the Dodd-Frank Act. Our phone calls with three regulators: California, Maryland, the SEC also suggest expungement is not an issue. Moreover, the censoring bias from any deleted complaints should not be correlated with treatment either. Finally, our specifications with state-year fixed effects and firm fixed effects absorb a lot of the drivers of expungement.

B.4 Complaints Topics and Related Products

Table 15: Summary of Complaint Topics and Related Types

The table below shows the distribution of complaints by product and types according to IAPD classifications. The related products and reasons for complaints are not mutually exclusive; a client may file a single complaint for multiple reasons and associated with multiple products.

Product			Type		
	Number	% of Total		Number	% of Total
Annuity	7,122	28.32	Suitability	9,955	39.58
Variable Annuity	6,498	25.84	Misrepresentation	8,620	34.27
Mutual Fund	5,371	21.36	Fiduciary	1,943	7.73
Equity	5,040	20.04	Unauthorized Trading	1,827	7.26
Insurance	2,108	8.38	Fraud	1,484	5.90
Debt	2,051	8.16	Fees	1,306	5.19
Real Estate	1,941	7.72	Portfolio Allocation	669	2.66
OTC	1,105	4.39	Churning	567	2.25
Options	591	2.35			
Fixed Annuity	578	2.30			
Private Placements	409	1.63			