



DREW J. BREAKSPEAR
COMMISSIONER

November 26, 2012

Ken Plante, Coordinator
Joint Administrative Procedures Committee
680 Pepper Building
111 W. Madison Street
Tallahassee, Florida 32399-1400

RE: Final Report for Compliance Economic Review, Group 1 Rules
Florida Statutes § 120.745

Dear Mr. Plante:

Please accept this letter as certification that the Office of Financial Regulation has completed its Final Report for its Group 1 rules as required by Fla. Stat. §120.745(5)(d). The report is published on the Office's website at:

http://www.flofr.com/2011_Rule_Review/

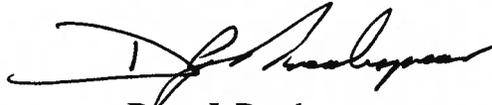
The Office identified a total of five rules requiring economic review as required under Fla. Stat. §120.745(2)(g). Three of the rules were selected for Group 1 for reporting in 2012:

- 69W-600.0132: Custody Requirements for Investment Advisers
- 69W-600.015: Financial Reporting Requirements - Statement of Financial Condition - Dealers and Investment Advisers
- 69W-600.016: Net Capital Requirements for Dealers and Investment Advisers

Enclosed please find the text and the Compliance Economic Reviews for these rules. The Office of Financial Regulation has not received any lower regulatory cost alternatives related to Compliance Economic Reviews of the Group 1 rules. As no alternatives have been received, the Office suggests to retain the rules without amendment.

The remaining two rules, 69U-120.730: Bank and Trust Company Assessments, and 69U-140.020: Semi-annual Assessments, are selected for Group 2 and will be reported by May 1, 2013.

Respectfully,

A handwritten signature in black ink, appearing to read "Drew J. Breakspear", written in a cursive style.

Drew J. Breakspear
Commissioner

Enclosure

Copy furnished to:

Office of Fiscal Accountability and Regulatory Reform
Executive Office of the Governor
1702 The Capitol
Tallahassee, Florida 32399

FINANCIAL SERVICES COMMISSION, OFFICE OF FINANCIAL REGULATION

Compliance Economic Review, Group 1 Rules

2011 Enhanced Biennial Review, Section 120.745, Florida Statutes

RULE

Rule 69W-600.015, F.A.C.

Financial Reporting Requirements- Statement of Financial Condition – Dealers and Investment Advisers

TEXT OF RULE

69W-600.015 Financial Reporting Requirements – Statement of Financial Condition – Dealers and Investment Advisers.

(1) Except as otherwise specifically noted in this rule, an applicant filing an application for registration as a dealer or investment adviser shall file a balance sheet in accordance with Rule 69W-300.002, F.A.C.

(2) Every dealer registered pursuant to Section 517.12, F.S., and rules thereunder shall file annually with the Office of Financial Regulation, within ninety (90) days after the conclusion of said registrant's fiscal year, audited financial statements as prepared by an independent outside auditor, unless exempted under Rule 69W-300.002, F.A.C.

(a) The Office of Financial Regulation will allow up to a thirty (30) day extension of the filing requirement as set forth in this paragraph provided written request is made prior to the date such audited report is due to be filed, and provided further that good cause for such delay is shown. Good cause shall include excusable neglect or circumstances beyond the control of the registrant.

(b) Every dealer defined as a broker/dealer under Rule 69W-300.002, F.A.C., shall be required to include in such audited financial statements filed verification of said broker/dealer's compliance with the provisions of Rules 69W-600.016 and 69W-600.017, F.A.C.

(c) In lieu of the provisions of paragraph (b) above, the Office of Financial Regulation will accept those statements prepared and filed by a dealer in accordance with the provisions of SEC Rule 17a-5 (17 C.F.R. § 240.17a-5 (2010)) and SEC Rule 17a-10 (17 C.F.R. § 240.17a-10 (2010)).

(3) Every investment adviser registered pursuant to Section 517.12, F.S., and rules thereunder shall file annually with the Office of Financial Regulation, within ninety (90) days after the conclusion of said registrant's fiscal year, financial statements as of fiscal year end, such statements prepared in accordance with the provisions of Rule 69W-300.002, F.A.C.

(4) The provisions of paragraph (2)(a) of this rule apply to the filing requirements set forth in subsection (3).

(5) The federal regulations referenced in this rule are hereby incorporated by reference and may be obtained by mail from the Florida Office of Financial Regulation, Division of Securities, 200 E. Gaines Street, Tallahassee, Florida 32399. Copies of the Code of Federal Regulation are also available online through the U.S. Government Printing Office via GPO Access: <http://www.gpoaccess.gov/cfr/index.html>.

Rulemaking Authority 517.03(1), 517.12(9), 517.121(2) FS. Law Implemented 517.12(9), 517.121(2) FS. History—New 12-5-79, Amended 9-20-82, Formerly 3E-600.15, Amended 6-16-92, 10-30-03, 4-8-04, Formerly 3E-600.015, Amended 11-22-10.

STATEMENT OF JUSTIFICATION

Rule 69W-600.015, F.A.C., implements Sections 517.12(9) and 517.12, F.S. Section 517.12(9), F.S., provides the commission may by rule require dealers to file with the Office of Financial Regulation

(the "Office") any financial or operational information that is required to be filed by the SEC Exchange Act of 1934 or rules under it. Section 517.12(2), F.S., authorizes the Office to examine at intermittent periods the affairs, books and records of registrants, including investment advisers. The Office may require such records and reports to be submitted to it as required by rule of the commission. Under the rule, investment advisers are required to file annual financial statements with the Office, and dealers are required to file annual audited financial statements unless exempted under Rule 69W-300.002, F.A.C.

The public benefit of the rule is to assure adequate protection for the investing public, by enabling the Office to analyze the financial conditions of registered entities and ensuring that dealers and investment advisers are financially fit to conduct business in Florida. See, e.g., *United States v. Arthur Young & Co.*, 465 U.S. 805, 819 (1984) ("The SEC requires the filing of audited financial statements in order to obviate the fear of loss from reliance on inaccurate information, thereby encouraging public investment in the nation's industries.").

STATEMENT OF REGULATORY COSTS

Section 120.541, F.S., sets forth the requirements that agencies must follow in preparing Statements of Estimated Regulatory Costs (SERC). Specifically, paragraphs 120.541(2)(a) through (f), F.S., provide that certain information must be addressed in any SERC. The information requirements as they appear in the statute are cited below, modified for the five-year time period provided by Section 120.745(1)(b)2.a. and (1)(b)2.b., with the Office's response to each as related to Rule 69W-600.015, F.A.C., Financial Reporting Requirements - Statement of Financial Condition – Dealers and Investment Advisers.

(a) 1. Is the rule directly or indirectly likely to have an adverse impact on economic growth, private sector job creation or employment, or private sector investment in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

No. The rule requires dealers and investment adviser registrants physically domiciled in Florida to file annually within 90 days of the registrant's fiscal year end, financial statements necessary for the Office of Financial Regulation to determine compliance with 517.12(9), F.S. and 69W-600.016, F.A.C. This information is basic data that the dealers and investment advisers already create and keep as part of their regular business practices. In addition, when registering, issuer dealer and investment adviser applicants are required to submit a balance sheet with their application.

2. Is the rule directly or indirectly likely to have an adverse impact on business competitiveness, including the ability of persons doing business in the state to compete with persons doing business in other states or domestic markets, productivity, or innovation in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

No. The rule requires all dealer and investment adviser registrants in the state or outside of the state to maintain the same minimum information in their records for the Office to determine compliance with 517.12(9), F.S. and 69W-600.016, F.A.C. This information is basic data that the dealers and investment advisers already create and keep as part of their regular business practices.

3. Is the rule directly or indirectly likely to increase regulatory costs, including any transactional costs, in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

Yes. The Office has estimated that dealer and investment adviser registrants spend approximately \$8.5 million over a 5 year period when providing the Office with their financial statements annually. State investment advisers typically file unaudited financial statements which are prepared at minimal costs compared to the issuer dealers that are required to file audited financial statements each year. Based on this estimate, the Office projects that regulatory costs of the rule will exceed \$1 million in the five-year period beginning July 1, 2011.

(See attached Exhibit 1 for data calculations concerning this item.)

However, although there is a cost to submitting financial statements to the Office, the rule requires all dealer and investment adviser registrants in the state or outside of the state to maintain the same minimum information in their records for the Office to determine compliance with 517.12(9), F.S. and 69W-600.016, F.A.C. This information is basic data that the dealers and investment advisers already create and keep as part of their regular business practices.

(b) A good faith estimate of the number of individuals and entities likely to be required to comply with the rule, together with a general description of the types of individuals likely to be affected by the rule.

As of October 19, 2011, the Office of Financial Regulation has approximately 1,214 registered investment advisers and will be receiving an additional approximately an additional 530 investment adviser registrants in January 2012. In addition, there are approximately 2,906 dealers and 83 issuer dealers registered. Registration is required of any person, dealer and/or or investment adviser, who service financial industry services customers through the opening, servicing and managing of customer accounts whether initiated from within or outside this state.

The term "dealer" includes any person, other than an associated person registered under this chapter, who engages, either for all or part of her or his time, directly or indirectly, as broker or principal in the business of offering, buying, selling, or otherwise dealing or trading in securities issued by another person or any issuer who through persons directly compensated or controlled by the issuer engages, either for all or part of her or his time, directly or indirectly, in the business of offering or selling securities which are issued or are proposed to be issued by the issuer. The term "investment adviser" includes any person who receives compensation, directly or indirectly, and engages for all or part of her or his time, directly or indirectly, or through publications or writings, in the business of advising others as to the value of securities or as to the advisability of investments in, purchasing of, or selling of securities, except a dealer whose performance of these services is solely incidental to the conduct of her or his business as a dealer and who receives no special compensation for such services.

(c) A good faith estimate of the cost to the agency, and to any other state and local government entities, of implementing and enforcing the proposed rule, and any anticipated effect on state or local revenues.

The rule does not impose any additional costs on the agency. Further, the implementation and enforcement of the rule is solely the responsibility of the Office of Financial Regulation. Accordingly, no other state or local agencies will be impacted by the proposed rule. There are no anticipated effects on state or local revenue.

(d) A good faith estimate of the transactional costs likely to be incurred by individuals and entities, including local government entities, required to comply with the requirements of the rule. As used in this section, “transactional costs” are direct costs that are readily ascertainable based upon standard business practices, and include filing fees, the cost of obtaining a license, the cost of equipment required to be installed or used or procedures required to be employed in complying with the rule, additional operating costs incurred, the cost of monitoring and reporting, and any other costs necessary to comply with the rule.

There are no transactional costs associated with the implementation of this rule.

(e) An analysis of the impact on small businesses as defined by s. 288.703, and an analysis of the impact on small counties and small cities as defined in s. 120.52. The impact analysis for small businesses must include the basis for the agency’s decision not to implement alternatives that would reduce adverse impacts on small businesses.

The rule requires all dealer and investment adviser registrants in the state or outside of the state to maintain the same minimum information in their records for the Office to determine compliance with 517.121(1), F.S. and 69W-600.016, F.A.C. This information is basic data that dealers and investment advisers should be already keeping as part of their regular business practices. Some of these agencies may be small businesses.

There will no impact on small counties or small cities.

(f) Any additional information that the agency determines may be useful.

None.

(g) In the statement or revised statement, whichever applies, a description of any regulatory alternatives submitted under paragraph (1)(a) and a statement adopting the alternative or a statement of the reasons for rejecting the alternative in favor of the proposed rule.

No lower cost regulatory alternative to the proposed rule has been submitted to the Office.

EXHIBIT 1

69W-600.015 Financial Reporting

Group 1: Dealers = not required to file financial statements with the state of Florida.

- Dealers file quarterly focus reports and Fiscal Year End statements directly with FINRA.

Group 2: Investment Advisers = those physically domiciled in Florida file annual financial statements directly with the state of Florida.

(As of October 2011) **528** file unaudited financial statements
23 file audited financial statements

220 from Dodd-Frank legislation expected to file financial statements
(assuming 50% will file audited = 110 investment advisers audited)

Group 3: Issuer Dealers = all file annual audited financial statements directly with the state of Florida.

(As of October 2011) **83** file audited financial statements

Economic Impact Calculation:

Group 2:

528 IAs x \$200 (Quick Books comparable software)
+ (\$0.50 x 5 years for postage x 528 IAs) = \$106,920

23 IAs audited financials x (\$20,000 per year for audit x 5 years)
+ (\$0.50 x 5 years for postage x 23 IAs) = \$2,300,057.50

110 Dodd-Frank IAs x \$200 (Quick Books comparable software)
+ (\$0.50 x 5 years for postage x 110 IAs) = \$22,275

110 Dodd-Frank IAs x (\$20,000 per year for audit x 5 years)
+ (\$0.50 x 5 years for postage x 110 IAs) = \$11,000,275

Total IA Impact = **\$13,429,527.50**

Group 3:

83 IDs x (\$20,000 per year for audit x 5 years)
+ (\$0.50 x 5 years for postage x 83 IDs) = \$8,300,207.50

Total ID Impact = **\$8,300,207.50**

TOTAL ECONOMIC IMPACT = \$21,729,735

FINANCIAL SERVICES COMMISSION, OFFICE OF FINANCIAL REGULATION

Compliance Economic Review, Group 1 Rules

2011 Enhanced Biennial Review, Section 120.745, Florida Statutes

RULE

**Rule 69W-600.016, F.A.C.
Net Capital Requirements For Dealers and Investment Advisers**

TEXT OF RULE

69W-600.016 Net Capital Requirements for Dealers and Investment Advisers.

(1) The net capital of an applicant or registrant under Section 517.12, F.S., shall be maintained at a level required by this rule.

(2) All dealer applicants and registrants shall meet and at all times maintain the net capital and ratio requirements as prescribed by SEC Rule 15c3-1 including any appendices thereto (17 C.F.R. § 240.15c3-1, 240.15c3-1a, 240.15c3-1b, 240.15c3-1c and 240.15c3-1d (2010)), computed in accordance with said rule.

(a) All reporting requirements as specified in (17 C.F.R. § 240.17a-11 (2010)), when such regulation is referred in SEC Rule 15c3-1 shall be applicable with the exception that such reports and notifications required by said rule shall be forwarded to the Office of Financial Regulation as well as the other regulatory agencies specified, if applicable.

(b) All references to (17 C.F.R. § 240.17a-3 (2010)) and (17 C.F.R. § 240.17a-4 (2010)), in the foregoing and subsequent provisions of Office of Financial Regulation or SEC Rules as adopted by the Office of Financial Regulation, shall be read as to mean Office of Financial Regulation, Rule 69W-600.014, F.A.C.

(3) Issuer/dealer or investment adviser applicants or registrants shall meet the net capital requirements of this section:

(a) Investment advisers who have custody of client funds or securities or who receive payment of advisory fees six months or more in advance and in excess of \$500 per client shall maintain net capital in the amount of \$25,000 calculated as prescribed by SEC Rule 15c3-1 (17 C.F.R. § 240.15c3-1 (2010)), including any ratio requirements and appendices thereto.

(b) Investment advisers who do not have custody of client funds or securities or who do not receive payment for advisory services six months or more in advance and in excess of \$500 per client shall maintain net capital: (1) in the amount of \$5,000 calculated as prescribed by SEC Rule 15c3-1 (17 C.F.R. § 240.15c3-1 (2010)), including any ratio requirements and appendices thereto; or (2) of at least \$2,500. For purposes of option (2) of this subsection, net capital shall be defined as assets minus liabilities in accordance with United States Generally Accepted Accounting Principles.

(c) Investment advisers who compute net capital in accordance with SEC Rule 15c3-1, may exclude liabilities which are subordinated to the claims of creditors pursuant to a subordination agreement, provided such agreement complies with all terms and conditions specified in Appendix D to SEC Rule 15c3-1 (17 C.F.R. § 240.15c3-1 and 240.15c3-1d (2010)), except for the requirement that such agreement be filed with and approved by the Securities and Exchange Commission. Those investment advisers who have subordination agreements in effect prior to the effective date of this subsection shall not be required to comply with the conditions specified in Appendix D to SEC Rule 15c3-1. Should the investment adviser renegotiate or enter into a new subordination agreement, the agreement must comply with the provisions of Appendix D of SEC Rule 15c3-1.

(d) An issuer/dealer shall maintain net capital, defined as assets minus liabilities and computed in accordance with United States Generally Accepted Accounting Principles, of at least \$5,000, unless required elsewhere by these rules to maintain a greater minimum net capital.

(4) The Office of Financial Regulation may examine the financial statements, general ledgers, journals, source documents, general correspondence, contracts and other pertinent data and receive testimony from employees of entities

associated or affiliated with, or controlling or controlled by, a dealer or investment adviser applicant or registrant.

(5) Any dealer, issuer/dealer or investment adviser who fails to maintain the minimum net capital as required under this rule shall, in addition to the financial reporting requirements set forth in paragraph (2)(a) above, give the Office of Financial Regulation telegraphic or facsimile notice within 24 hours that such entity's net capital is less than required under the rule and immediately suspend business operations. Such entity shall not resume operations unless and until financial statements which verify compliance with this rule have been submitted and approved by the Office of Financial Regulation in writing.

(6) The federal regulations referenced in this rule are hereby incorporated by reference and may be obtained by mail from the Florida Office of Financial Regulation, Division of Securities, 200 E. Gaines Street, Tallahassee, Florida 32399. Copies of the Code of Federal Regulation are also available online through the U.S. Government Printing Office via GPO Access: <http://www.gpoaccess.gov/cfr/index.html>.

Rulemaking Authority 517.03(1) FS. Law Implemented 517.12(9), (16) FS. History—New 12-5-79, Amended 9-20-82, Formerly 3E-600.16, Amended 10-15-86, 8-1-91, 6-29-93, 11-22-93, Formerly 3E-600.016, Amended 11-22-10.

STATEMENT OF JUSTIFICATION

Rule 69W-600.016, F.A.C. is promulgated pursuant to Section 517.12(9), F.S., which authorizes the commission to: (1) adopt rules requiring regulated securities dealers to file with the Office of Financial Regulation (the "Office") any financial or operational information required to be filed under the SEC Exchange Act or its rules, and (2) adopt rules requiring the maintenance of a minimum net capital (or prescribe a ratio between net capital and aggregate indebtedness) for regulated securities dealers and investment advisers.

The public benefit of the rule is, as stated in the statute, "to assure adequate protection for the investing public," by ensuring that dealers and investment advisers are maintaining sufficient net capital to conduct business in the state of Florida. The minimum net capital requirements set by the rule adopt those set by SEC Rule 15c3-1 (17 C.F.R. § 240.15c3-1)

STATEMENT OF ESTIMATED REGULATORY COSTS

Section 120.541, F.S., sets forth the requirements that agencies must follow in preparing Statements of Estimated Regulatory Costs (SERC). Specifically, paragraphs 120.541(2)(a) through (f), F.S., provide that certain information must be addressed in any SERC. The information requirements as they appear in the statute are cited below, modified for the five-year time period provided by Section 120.745(1)(b)2.a. and (1)(b)2.b., with the Office's response to each as related to Rule 69W-600.016, F.A.C., Net Capital Requirements For Dealers and Investment Advisers.

(a) 1. Is the rule directly or indirectly likely to have an adverse impact on economic growth, private sector job creation or employment, or private sector investment in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

No. The rule requires all dealer applicants and registrants located in and out of the state of Florida and investment adviser applicants and registrants physically domiciled in Florida to maintain minimum net capital amounts as prescribed by Rule 69W-600.016, F.A.C. For dealers, this net capital requirement is also prescribed by SEC Rule 15c3-1. Therefore, dealers registered in Florida already maintain net capital levels prescribed by the federal rule. For state covered investment advisers,

applicants and registrants are required to keep a minimum net capital of either \$2,500 or \$25,000, which is determined by the adherence to safekeeping requirements detailed in Rule 69W-600.0132, F.A.C. and/or if these investment advisory firms charge fees over \$500 more than six months in advance. Issuer /dealer applicants and registrants maintain a net capital of \$5,000 or greater. The Office believes the rule has an overall positive impact on economic growth, private sector job creation/employment, and private sector investment by assuring the investing public that dealers and investment advisers it deals with are sufficiently capitalized.

2. Is the rule directly or indirectly likely to have an adverse impact on business competitiveness, including the ability of persons doing business in the state to compete with persons doing business in other states or domestic markets, productivity, or innovation in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

No. The rule requires all dealer applicants and registrants located in and out of the state of Florida and those investment adviser applicants and registrants physically domiciled in Florida to maintain minimum net capital amounts as prescribed by this rule. For dealers, this net capital requirement is also prescribed by SEC Rule 15c3-1. Therefore, dealers registered in Florida already maintain net capital levels prescribed by the federal rule. For state covered investment advisers physically located in Florida, applicants and registrants are required to keep a minimum net capital of either \$2,500 or \$25,000, which is determined by the adherence to safekeeping requirements detailed in Rule 69W-600.0132, F.A.C. ¹ and/or if these investment advisory firms charge fees over \$500 more than six months in advance. Issuer /dealer applicants and registrants maintain a net capital of \$5,000 or greater. The Office believes the rule does not have an adverse impact on business competitiveness, interstate or otherwise, because the net worth requirements in the rule are equivalent to federal standards enforced nationally.

3. Is the rule directly or indirectly likely to have regulatory costs, including any transactional costs, in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

Yes. The Office has estimated that dealer registrants, state covered investment adviser registrants physically domiciled in Florida and issuer/dealer registrants spend approximately \$5.3 million over a 5 year period when maintaining the minimum net capital required by Rule 69W-600.016, F.A.C. Based on this estimate, the Office projects that regulatory costs of the rule will exceed \$1 million in the five-year period beginning July 1, 2011.

(See attached Exhibit 1 for data calculations concerning this item.)

(b) A good faith estimate of the number of individuals and entities likely to be required to comply with the rule, together with a general description of the types of individuals likely to be affected by the rule.

¹ OFR is also providing an economic impact and cost analysis associated with Rule 69W-600.0132, F.A.C. Custody Requirements for Investment Advisers.

As of October 19, 2011, the Office of Financial Regulation has approximately 543 registered investment advisers and will be receiving approximately an additional 220 physically domiciled investment adviser registrants in January 2012. In addition, there are approximately 2,906 dealers and 83 issuer dealers currently registered. Registration is required of any person, dealer and/or investment adviser, who service financial industry services customers through the opening, servicing and managing of customer accounts whether initiated from within or outside this state.

The term “dealer” includes any person, other than an associated person registered under this chapter, who engages, either for all or part of her or his time, directly or indirectly, as broker or principal in the business of offering, buying, selling, or otherwise dealing or trading in securities issued by another person or any issuer who through persons directly compensated or controlled by the issuer engages, either for all or part of her or his time, directly or indirectly, in the business of offering or selling securities which are issued or are proposed to be issued by the issuer. The term “investment adviser” includes any person who receives compensation, directly or indirectly, and engages for all or part of her or his time, directly or indirectly, or through publications or writings, in the business of advising others as to the value of securities or as to the advisability of investments in, purchasing of, or selling of securities, except a dealer whose performance of these services is solely incidental to the conduct of her or his business as a dealer and who receives no special compensation for such services.

(c) A good faith estimate of the cost to the agency, and to any other state and local government entities, of implementing and enforcing the proposed rule, and any anticipated effect on state or local revenues.

The rule does not impose any additional costs on the agency. Further, the implementation and enforcement of the rule is solely the responsibility of the Office of Financial Regulation. Accordingly, no other state or local agencies will be impacted by the proposed rule. There are no anticipated effects on state or local revenue.

(d) A good faith estimate of the transactional costs likely to be incurred by individuals and entities, including local government entities, required to comply with the requirements of the rule. As used in this section, “transactional costs” are direct costs that are readily ascertainable based upon standard business practices, and include filing fees, the cost of obtaining a license, the cost of equipment required to be installed or used or procedures required to be employed in complying with the rule, additional operating costs incurred, the cost of monitoring and reporting, and any other costs necessary to comply with the rule.

There are no transactional costs associated with the implementation of this rule.

(e) An analysis of the impact on small businesses as defined by s. 288.703, and an analysis of the impact on small counties and small cities as defined in s. 120.52. The impact analysis for small businesses must include the basis for the agency’s decision not to implement alternatives that would reduce adverse impacts on small businesses.

The rule requires all dealer applicants and registrants and investment adviser applicants and registrants who are physically domiciled in the state to maintain the same minimum information in their records for the Office to determine compliance with 517.12(9), F.S. and 69W-600.016, F.A.C. This

information is basic data that dealers and investment advisers should be already keeping as part of their regular business practices. Some of these agencies may be small businesses.

There will no impact on small counties or small cities.

(f) Any additional information that the agency determines may be useful.

None.

(g) In the statement or revised statement, whichever applies, a description of any regulatory alternatives submitted under paragraph (1)(a) and a statement adopting the alternative or a statement of the reasons for rejecting the alternative in favor of the proposed rule.

No lower cost regulatory alternative to the proposed rule has been submitted to the Office.

EXHIBIT 1

69W-600.016 Net Capital Requirement For Dealers and Investment Advisers

Group 1: Dealers = required to maintain net capital requirements with the state of Florida,

Group 2: Investment Advisers = those physically domiciled in Florida are required to maintain the net capital requirements prescribed by this rule.

(As of October 2011) **528** file unaudited financial statements

23 file audited financial statements

220 (domiciled) from Dodd-Frank legislation expected to file financial statements
(assuming 50% will file audited = 110 investment advisers audited)

Group 3: Issuer Dealers = all file annual audited financial statements directly with the state of Florida.

(As of October 2011) **83** file audited financial statements

Economic Impact Calculation:

Group 1: None.

- Already required by SEC Rule 15c3-1 and FINRA rules.

Group 2:

528 IAs x \$ 2,500 minimum net capital = \$1,320,000

23 IAs x \$25,000 minimum net capital = \$ 575,000

110 IAs Dodd-Frank x \$ 2,500 minimum net capital = \$ 275,000

110 IAs Dodd-Frank x \$25,000 minimum net capital = \$2,750,000

Total IA Impact = **\$4,920,000**

Group 3:

83 IDs x \$5,000 minimum net capital = **\$415,000**

TOTAL ECONOMIC IMPACT = **\$5,335,000**

FINANCIAL SERVICES COMMISSION, OFFICE OF FINANCIAL REGULATION

Compliance Economic Review, Group 1 Rules

2011 Enhanced Biennial Review, Section 120.745, Florida Statutes

RULE

**Rule 69W-600.0132, F.A.C.
Custody Requirements For Investment Advisers**

TEXT OF RULE

69W-600.0132 Custody Requirements for Investment Advisers.

(1) Definitions. For purposes of this section:

(a) "Custody" means holding directly or indirectly, client funds or securities, or having any authority to obtain possession of them or has the ability to appropriate them.

1. Custody includes:

a. Possession of client funds or securities unless received inadvertently and returned to the sender promptly, but in any case within three business days of receiving them;

b. Any arrangement (including a general power of attorney) under which the investment adviser is authorized or permitted to withdraw client funds or securities maintained with a custodian upon the investment adviser's instruction to the custodian; and

c. Any capacity (such as general partner of a limited partnership, managing member of a limited liability company or a comparable position for another type of pooled investment vehicle, or trustee of a trust) that gives the investment adviser or the investment adviser's supervised person legal ownership of or access to client funds or securities.

2. Receipt of checks drawn by clients and made payable to unrelated third parties will not meet the definition of custody if forwarded to the third party within 24 hours of receipt and the adviser maintains the records required under subsections 69W-600.014(3)-(7), F.A.C.;

(b) "Independent representative" means a person who:

1. Acts as agent for an advisory client, including in the case of a pooled investment vehicle, for limited partners of a limited partnership, members of a limited liability company, or other beneficial owners of another type of pooled investment vehicle and by law or contract is obliged to act in the best interest of the advisory client or the limited partners (or members, or other beneficial owners);

2. Does not control, is not controlled by, and is not under common control with the investment adviser; and

3. Does not have, and has not had within the past two years, a material business relationship with the investment adviser.

(c) "Qualified custodian" means the following independent institutions or entities that are not affiliated with the adviser by any direct or indirect common control and have not had a material business relationship with the adviser in the previous two years:

1. A bank or savings association that has deposits insured by the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act;

2. A registered broker-dealer holding the client assets in customer accounts;

3. A registered futures commission merchant registered under Section 4f(a) of the Commodity Exchange Act (7 U.S.C. § 6f (2006 & Supp. III)), holding the client assets in customer accounts, but only with respect to clients' funds and security futures, or other securities incidental to transactions in contracts for the purchase or sale of a commodity for future delivery and options thereon; and

4. A foreign financial institution that customarily holds financial assets for its customers, provided that the foreign financial institution keeps the advisory clients' assets in customer accounts segregated from its proprietary assets.

(2) Safekeeping required. If the investment adviser is registered or required to be registered, it is unlawful and deemed to be a fraudulent, deceptive, or manipulative act, practice or course of business for the investment adviser to have custody of client funds or securities unless:

(a) Notice to Office. The investment adviser notifies the Office of Financial Regulation promptly in writing that the investment adviser has or may have custody. Such notification is required to be given on Form ADV, which is incorporated by reference in subsection 69W-301.002(7), F.A.C.;

(b) Qualified Custodian. A qualified custodian maintains those funds and securities in a separate account for each client under that client's name or in accounts that contain only the investment adviser's clients' funds and securities, under the investment adviser's name as agent or trustee for the clients;

(c) Notice to Clients. If the investment adviser opens an account with a qualified custodian on their client's behalf, either under the client's name or under the investment adviser's name as agent, the investment adviser must notify the client in writing of the qualified custodian's name, address, and the manner in which the funds or securities are maintained, promptly when the account is opened and following any changes to this information.

(d) Account statements must be sent to clients, either:

1. By a qualified custodian for which the investment adviser has a reasonable basis for believing that the qualified custodian sends an account statement, at least quarterly, to each of the adviser's clients for which it maintains funds or securities, identifying the amount of funds and of each security in the account at the end of the period and setting forth all transactions in the account during that period; or

2. By the adviser who sends an account statement, at least quarterly, to each client for whom the adviser has custody of funds or securities, identifying the amount of funds and of each security of which the adviser has custody at the end of the period and setting forth all transactions during that period; and an independent certified public accountant verifies all client funds and securities by actual examination at least once during each calendar year at a time chosen by the accountant without prior notice or announcement to the adviser and that is irregular from year to year, and files a copy of the auditors report and financial statements with the Office of Financial Regulation within 30 days after the completion of the examination, along with a letter stating that it has examined the funds and securities and describing the nature and extent of the examination; and the independent certified public accountant, upon finding any material discrepancies during the course of the examination, notifies the Office of Financial Regulation within one business day of the finding, by means of a facsimile transmission or electronic mail, followed by first class mail, directed to the attention of the Office of Financial Regulation;

3. If the investment adviser is a general partner of a limited partnership (or managing member of a limited liability company, or holds a comparable position for another type of pooled investment vehicle), the account statements required under paragraph (d) of this subsection must be sent to each limited partner (or member or other beneficial owner or their independent representative).

(e) Independent Representative. A client may designate an independent representative to receive, on his behalf, notices and account statements as required under paragraphs (c) and (d) of this subsection.

(f) Direct Fee Deduction. An adviser who has custody as defined in sub-subparagraph (1)(a)1.b. of this rule by having fees directly deducted from client accounts must also provide the following safeguards:

1. Written Authorization. The adviser must have written authorization from the client to deduct advisory fees from the account held with the qualified custodian;

2. Notice of Fee Deduction. Each time a fee is directly deducted from a client account, the adviser must concurrently:

a. Send the qualified custodian an invoice of the amount of the fee to be deducted from the client's account; and

b. Send the client an invoice itemizing the fee. Itemization includes the formula used to calculate the fee, the amount of assets under managements the fee is based on, and the time period covered by the fee.

3. Notice of Safeguards. The investment adviser notifies the Office of Financial Regulation in writing that the investment adviser intends to use the safeguards provided above. Such notification is required to be given on Form ADV, which is incorporated by reference in subsection 69W-301.002(7), F.A.C.

4. Waiver of Net Capital Requirement. An investment adviser having custody solely because it meets the definition of custody as defined in sub-subparagraph (1)(a)1.b. of this rule and who complies with the safekeeping requirements in

paragraphs (2)(a)-(f) of this rule will not be required to meet the financial requirements for custodial advisers as set forth in paragraph 69W-600.016(3)(a), F.A.C.

5. Waiver of Audited Financial Statements. An investment adviser having custody solely because it meets the definition of custody as defined in sub-subparagraph (1)(a)1.b. of this rule and who complies with the safekeeping requirements in paragraphs (2)(a)-(f) of this rule may file unaudited financial statements and must comply with the requirements as set forth in paragraph 69W-300.002(4)(c), F.A.C.

(g) Pooled Investments. An investment adviser who has custody as defined in sub-subparagraph (1)(a)1.c. of this rule and who does not meet the exception provided under paragraph (3)(c) of this rule must, in addition to the safeguards set forth in paragraphs (a) through (e) of this subsection, also comply with the following:

1. Engage an Independent Party. Hire an independent party to review all fees, expenses and capital withdrawals from the pooled accounts;

2. Review of Fees. Send all invoices or receipts to the independent party, detailing the amount of the fee, expenses or capital withdrawal and the method of calculation such that the independent party can determine that the payment is in accordance with the pooled investment vehicle standards (generally the partnership agreement or membership agreement) and forward, to the qualified custodian, approval for payment of the invoice with a copy to the investment adviser.

3. For purposes of this rule section, an Independent Party means a person that: is engaged by an investment adviser to act as a gatekeeper for the payment of fees, expenses and capital withdrawals from the pooled investment; does not control and is not controlled by and is not under common control with the investment adviser; and does not have, and has not had within the past two years, a material business relationship with the investment adviser. This shall not prohibit renewal of contracts with an existing independent third party.

4. Notice of Safeguards. The investment adviser notifies the Office of Financial Regulation in writing that the investment adviser intends to use the safeguards provided above. Such notification is required to be given on Form ADV, which is incorporated by reference in subsection 69W-301.002(7), F.A.C.

5. Waiver of Net Worth or Bonding Requirements and Audited Financial Statement. An investment adviser having custody solely because it meets the definition of custody as defined in sub-subparagraph (1)(a)1.c. of this rule and who complies with the safekeeping requirements under paragraphs (2)(a)-(e) and (g) of this rule, will not be required to meet the financial requirements as set forth in paragraph 69W-600.016(3)(a), F.A.C.

(h) Investment Adviser or Investment Adviser as Trustee. When a trust retains an investment adviser, investment adviser representative or employee, director or owner of an investment adviser as trustee and the investment adviser acts as the investment adviser to that trust, the investment adviser will instruct the qualified custodian of the trust as follows:

1. Payment of fees. The qualified custodian will not deliver trust securities to the investment adviser, any investment adviser representative or employee, director or owner of the investment adviser, nor will the investment adviser instruct the qualified custodian to transmit any funds to the investment adviser, any investment adviser representative or employee, director or owner of the investment adviser, except that the qualified custodian may pay trustees' fees to the trustee and investment management or advisory fees to investment adviser, provided that:

a. The grantor of the trust or attorneys for the trust, if it is a testamentary trust, the co-trustee (other than the investment adviser, investment adviser representative or employee, director or owner of the investment adviser), or a defined beneficiary of the trust has authorized the qualified custodian in writing to pay those fees;

b. The statements for those fees show the amount of the fees for the trustee and, in the case of statements for investment management or advisory fees, show the value of the trust assets on which the fee is based and the manner in which the fee was calculated; and

c. The qualified custodian agrees to send to the grantor of the trust, the attorneys for a testamentary trust, the co-trustee (other than the investment adviser, investment adviser representative or employee, director or owner of the investment adviser), or a defined beneficiary of the trust, at least quarterly, a statement of all disbursements from the account of the trust, including the amount of investment management fees paid to the investment adviser and the amount of trustees' fees paid to the trustee.

2. Distribution of Assets. Except as otherwise set forth in sub-subparagraph a. below, the qualified custodian may transfer funds or securities, or both, of the trust only upon the direction of the trustee (who may be the investment adviser, investment adviser representative or employee, director or owner of the investment adviser), who the investment adviser has

duly accepted as an authorized signatory. The grantor of the trust or attorneys for the trust, if it is a testamentary trust, the co-trustee (other than the investment adviser, investment adviser representative or employee, director or owner of the investment adviser), or a defined beneficiary of the trust, must designate the authorized signatory for management of the trust. The direction to transfer funds or securities, or both, can only be made to the following:

a. To a trust company, bank trust department or brokerage firm independent of the investment adviser for the account of the trust to which the assets relate;

b. To the named grantors or to the named beneficiaries of the trust;

c. To a third person independent of the investment adviser in payment of the fees or charges of the third person including, but not limited to:

(I) Attorney's accountant's or custodian's fees for the trust; and

(II) Taxes, interest, maintenance or other expenses, if there is property other than securities or cash owned by the trust;

d. To third persons independent of the investment adviser for any other purpose legitimately associated with the management of the trust; or

e. To a dealer in the normal course of portfolio purchases and sales, provided that the transfer is made on payment against delivery basis or payment against trust receipt.

3. Statements. If the qualified custodian agrees to these instructions and is authorized to pay the fees, the investment adviser will send to the grantor of the trust, the attorney of the trust if it is a testamentary trust, the co-trustee (other than the investment adviser, investment adviser representative or employee, director or owner of the investment adviser), or a defined beneficiary of the trust, at the same time that it sends any statement to the qualified custodian, a statement showing the amount of the trustees' fees or investment management or advisory fee, the value of the assets on which the fees were based, and the specific manner in which the fees were calculated.

4. Notice of Safeguards. The investment adviser notifies the Office of Financial Regulation in writing that the investment adviser intends to use the safeguards provided above. Such notification is required to be given on Form ADV, which is incorporated by reference in subsection 69W-301.002(7), F.A.C.

5. Waiver of Net Capital Requirements. An investment adviser having custody solely because it meets the definition of custody as defined in sub-subparagraph (1)(a)1.c. of this rule and who complies with the safekeeping requirements under paragraphs (2)(a)-(e) and (h) of this rule, will not be required to meet the financial requirements for custodial advisers as set forth in paragraph 69W-600.016(3)(a), F.A.C.

(3) Exceptions.

(a) Shares of mutual funds. With respect to shares of an "open-end company" as defined in Section 5(a)(1) of the Investment Company Act of 1940, (15 U.S.C. § 80a-5(a)(1) (2006 & Supp. III)), ("mutual fund"), the investment adviser may use the mutual fund's transfer agent in lieu of a qualified custodian for purposes of complying with subsection (2) of this rule;

(b) Certain privately offered securities.

1. The investment adviser is not required to comply with subsection (2) of this rule with respect to securities that are:

a. Acquired from the issuer in a transaction or chain of transactions not involving any public offering;

b. Uncertificated, and ownership thereof is recorded only on books of the issuer or its transfer agent in the name of the client; and

c. Transferable only with prior consent of the issuer or holders of the outstanding securities of the issuer.

2. Notwithstanding subparagraph (b)1. of this subsection, the provisions of paragraph (b) of this subsection are available with respect to securities held for the account of a limited partnership (or limited liability company, or other type of pooled investment vehicle) only if the limited partnership is audited, the audited financial statements are distributed, as described in paragraph (c) of this subsection and the investment adviser notifies the Office of Financial Regulation in writing that the investment adviser intends to provide audited financial statements, as described above. Such notification is required to be given on Form ADV, which is incorporated by reference in subsection 69W-301.002(7), F.A.C.

(c) Limited partnerships subject to annual audit. The investment adviser is not required to comply with paragraph (2)(d) of this rule with respect to the account of a limited partnership (or limited liability company, or another type of pooled investment vehicle) that is subject to audit at least annually and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all limited partners (or members or other beneficial owners)

within 120 days of the end of its fiscal year. The investment adviser must also notify the Office of Financial Regulation in writing that the investment adviser intends to employ the use of the audit safeguards described above. Such notification is required to be given on Form ADV, which is incorporated by reference in subsection 69W-301.002(7), F.A.C.

(d) Registered investment companies. The investment adviser is not required to comply with this rule with respect to the account of an investment company registered under the Investment Company Act of 1940 (15 U.S.C. § 80a-1 through 80a-64 (2006 & Supp. III)).

(e) Beneficial Trusts. The investment adviser is not required to comply with safekeeping requirements of subsection (2) of this rule or the net capital requirements of paragraph 69W-600.016(3)(a), F.A.C., if the investment adviser has custody solely because the investment adviser, investment adviser representative or employee, director or owner of the investment adviser is the trustee for a beneficial trust, if all of the following conditions are met for each trust:

1. The beneficial owner of the trust is a parent, a grandparent, a spouse, a sibling, a child or a grandchild of the trustee. These relationships shall include "step" relationships.

2. For each account under subparagraph 1. the investment adviser complies with the following:

a. Provide a written statement to each beneficial owner of the account setting forth a description of the requirements of subsection (2) of this rule and the reasons why the investment adviser will not be complying with those requirements;

b. Obtain from each beneficial owner a signed and dated statement acknowledging the receipt of the written statement required under sub-subparagraph a. above;

c. Maintain a copy of both documents described in sub-subparagraphs a. and b. above until the account is closed or the investment adviser is no longer trustee.

(f) Any investment adviser who intends to have custody of client funds or securities, but does not utilize a qualified custodian as defined in subsection (1) of this rule must obtain approval from the Office of Financial Regulation before conducting business in this manner. Any investment adviser who seeks to conduct business in this manner must submit such request to the Office using OFR Form IA-CF-01, Application to Maintain Custody of Client Funds or Securities Without Utilizing a Qualified Custodian, effective October, 2006, which is incorporated by reference. The Office will approve the request if the investment adviser agrees to comply with all of the applicable safekeeping provisions under subsection (2) of this rule, including taking responsibility for those provisions that are designated to be performed by a qualified custodian.

(4) The federal statutes referenced in this rule are hereby incorporated by reference and may be obtained by mail from the Office of Financial Regulation, Bureau of Securities Regulation, 200 E. Gaines Street, Tallahassee, Florida 32399-0374. Copies of the United States Code are also available online through the U.S. House of Representatives, Office of the Law Revision Counsel: <http://uscode.house.gov/download/downloadPDF.shtml>.

Rulemaking Authority 517.03(1), 517.1215 FS. Law Implemented 517.1215 FS. History—New 10-23-06, Amended 11-22-10.

STATEMENT OF JUSTIFICATION

Rule 69W-600.0132, F.A.C. implements Section 517.1215, F.S., which requires the commission to specify by rule requirements for investment advisers deemed to have custody of client funds, concerning (1) notification, maintenance, and safeguard requirements; (2) communications with clients and independent representatives; (3) requirements for investment advisers who have custody of pooled investments; and (4) exceptions. The statute requires that the commission shall consider the rules and regulations of the SEC and the North American Securities Administrators Association.

The rule substantially implements federal standards under Rule 206(4)-2 of the Investment Advisers Act of 1940 (17 C.F.R. § 275.206(4)-2) for federal covered advisers. The public benefit of the rule is to mitigate the added risk of advisers who have custody of client securities or funds, by requiring

them to “implement a set of controls designed to protect those client assets from being lost, misused, misappropriated or subject to the advisers' financial reverses.”¹

STATEMENT OF REGULATORY COSTS

Section 120.541, F.S., sets forth the requirements that agencies must follow in preparing Statements of Estimated Regulatory Costs (SERC). Specifically, paragraphs 120.541(2)(a) through (f), F.S., provide that certain information must be addressed in any SERC. The information requirements as they appear in the statute are cited below, modified for the five-year time period provided by Section 120.745(1)(b)2.a. and (1)(b)2.b., with the Office's response to each as related to Rule 69W-600.0132, F.A.C., Custody Requirements For Investment Advisers.

(a) 1. Is the rule directly or indirectly likely to have an adverse impact on economic growth, private sector job creation or employment, or private sector investment in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

No. The rule requires all investment adviser registrants located in and outside of the state of Florida who have custody of client funds to follow the safekeeping requirements prescribed by Rule 69W-600.0132, F.A.C. These requirements include: (1) notifying the Office of Financial Regulation that the firm has custody of client funds, (2) retaining a qualified custodian to maintain client funds, (3) notifying clients when the investment adviser has opened accounts on their behalf with the qualified custodian or any time changes are made to the arrangement with the custodian and (4) sending account statements to clients either by themselves or through a qualified custodian. The Office believes the rule has an overall positive impact on economic growth, private sector job creation/employment, and private sector investment by implementing safeguards for the assets of the investing public.

2. Is the rule directly or indirectly likely to have an adverse impact on business competitiveness, including the ability of persons doing business in the state to compete with persons doing business in other states or domestic markets, productivity, or innovation in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

No. The rule requires all investment adviser registrants located in and outside of the state of Florida who have custody of client funds to follow the safekeeping requirements prescribed by Rule 69W-600.0132, F.A.C. These requirements include: (1) notifying the Office of Financial Regulation that the firm has custody of client funds, (2) retaining a qualified custodian to maintain client funds, (3) notifying clients when the investment adviser has opened accounts on their behalf with the qualified custodian or any time changes are made to the arrangement with the custodian and (4) sending account statements to clients either by themselves or through a qualified custodian. The rule substantially implements federal standards under Rule 206(4)-2 of the Investment Advisers Act of 1940 and is unlikely to have a direct or indirect adverse impact of business competitiveness, interstate or otherwise, in Florida.

¹ See SEC Release No. IA-2176, “Custody of Funds or Securities of Clients by Investment Advisers,” November 5, 2003. <http://www.sec.gov/rules/final/ia-2176.htm>.

3. Is the rule directly or indirectly likely to increase regulatory costs, including any transactional costs, in excess of \$1 million in the aggregate in the five-year period beginning on July 1, 2011?

Yes. The Office of Financial Regulation has estimated that state covered investment adviser registrants in Florida spend approximately \$31,765,065 million over a 5 year period when adhering to custody requirements required by Rule 69W-600.0132, F.A.C. Based on this estimate, the Office projects that regulatory costs of the rule will exceed \$1 million in the five-year period beginning July 1, 2011.

(See attached Exhibit 1 for data calculations concerning this item.)

(b) A good faith estimate of the number of individuals and entities likely to be required to comply with the rule, together with a general description of the types of individuals likely to be affected by the rule.

As of October 19, 2011, the Office of Financial Regulation has approximately 1,111 registered investment advisers and will be receiving approximately an estimated additional 550 investment adviser registrants in June 2012 as a result of the Dodd-Frank legislation. According to their Form ADVs, the investment advisers have reported that approximately 1188 investment advisers have custody of client funds and securities and/or adhere to the safekeeping requirements as set forth in Rule 69W-600.0132, F.A.C. The Office estimates another 500 investment advisers who have custody of cash and/or securities and/or who adhere to the safekeeping requirements in Rule 69W-600.0132, F.A.C. will be subject to the Office's jurisdiction as a result of the Dodd-Frank legislation.

Registration is required of any person and/or investment adviser who services financial industry services customers through the opening, servicing and managing of customer accounts whether initiated from within or outside of this state.

The term "investment adviser" includes any person who receives compensation, directly or indirectly, and engages for all or part of her or his time, directly or indirectly, or through publications or writings, in the business of advising others as to the value of securities or as to the advisability of investments in, purchasing of, or selling of securities, except a dealer whose performance of these services is solely incidental to the conduct of her or his business as a dealer and who receives no special compensation for such services.

(c) A good faith estimate of the cost to the agency, and to any other state and local government entities, of implementing and enforcing the proposed rule, and any anticipated effect on state or local revenues.

The rule does not impose any additional costs on the agency. Further, the implementation and enforcement of the rule is solely the responsibility of the Office of Financial Regulation. Accordingly, no other state or local agencies will be impacted by the proposed rule. There are no anticipated effects on state or local revenue.

(d) A good faith estimate of the transactional costs likely to be incurred by individuals and entities, including local government entities, required to comply with the requirements of the rule. As used in this section, “transactional costs” are direct costs that are readily ascertainable based upon standard business practices, and include filing fees, the cost of obtaining a license, the cost of equipment required to be installed or used or procedures required to be employed in complying with the rule, additional operating costs incurred, the cost of monitoring and reporting, and any other costs necessary to comply with the rule.

There are no transactional costs associated with the implementation of this rule.

(e) An analysis of the impact on small businesses as defined by s. 288.703, and an analysis of the impact on small counties and small cities as defined in s. 120.52. The impact analysis for small businesses must include the basis for the agency’s decision not to implement alternatives that would reduce adverse impacts on small businesses.

The rule requires all investment adviser registrants who maintain custody of client funds to adhere to the safekeeping requirements prescribed by Rule 69W-600.0132, F.A.C.

There will no impact on small counties or small cities.

(f) Any additional information that the agency determines may be useful.

Under Rule 206(4)-2 of the Investment Advisers Act of 1940, the Securities and Exchange Commission already imposes similar regulations concerning custody of client funds for investment advisers registered with the Commission and adopted a rule in September 2003. Federally covered investment advisers are now subject to a custody rule similar to Florida custody Rule 69W-600.0132, F.A.C.

When adopting this rule, the Securities and Exchange Commission conducted its own cost analysis. They determined that although the amendments requiring all client funds or securities to be maintained with qualified custodians may impose a cost to the investment adviser who currently has physical possession of client assets, this cost would be minimal as most advisers already maintain client assets with banks or broker-dealers.

Finally, investment advisers who retain a custodian to hold customer funds pay approximately \$1,200 a quarter for custodial services. These services include but are not limited to the following: trading platforms and tools, account management, asset management programs, product research and performance reporting, client web access and customer statement mailings, and holding customer funds.

(g) In the statement or revised statement, whichever applies, a description of any regulatory alternatives submitted under paragraph (1)(a) and a statement adopting the alternative or a statement of the reasons for rejecting the alternative in favor of the proposed rule.

No lower cost regulatory alternative to the proposed rule has been submitted to the Office.

EXHIBIT 1

69W-600.0132 Custody Requirements For Investment Advisers

Group 1: Direct Fee Deduction = majority of IAs

- Send the qualified custodian an invoice for each client- (generally electronically)
- Send the client invoice itemizing fee deducted- (\$0.44 x number of clients)

Group 2: Pooled Investments =

- Hire independent party to review all fees, expenses and capital withdrawals
- Send all invoices or receipts to independent party for review (generally electronically)

Group 3: Investment Adviser as Trustee =

- Send calculation/fee statement to grantor, attorney, co-trustee, or beneficiary of trust
- Send calculation/fee statement to qualified custodian (generally electronically)

Florida Investment Advisers = Total is 1088

(As of October 2011) Number of advisers who direct fee deduct =	821
Number of advisers who offer pooled investments =	13
Number of advisers as Trustees =	37
Number of advisers who do not use a qualified custodian =	0

Dodd-Frank IA estimates:

Number of Dodd-Frank investment advisers expected for Florida =	500
Estimated Number of Dodd-Frank investment advisers who direct fee deduct =	285
Estimated Number of Dodd-Frank investment advisers who offer pooled investments =	5
Estimated Number of Dodd-Frank investment advisers who act as Trustees =	15

Economic Impact Calculation:

Group 1: Direct Fee Deduction

63,081 (number of total clients) x \$0.44 x (4 quarters) x 5 years = \$555,113

28,500 (avg. # clients Dodd-Frank = 100 each & 57% direct fee) x \$0.44 x (4 quarters) x 5 years =
\$250,800

Total IA Impact = **\$805,913**

Group 2: Pooled Investments

13 IAs x \$10,000 (cost for independent party for 1 year) x 5 years = \$650,000
5 Dodd-Frank IAs (1 %) x \$10,000 (cost for independent party for 1 year) x 5 years = \$250,000

- 13 IAs have notified Florida their pooled investment funds are audited annually and that they provide these audits to the participants in these funds. Therefore, the IAs do not have to adhere to section 2(d) of Rule 69W-600.0123, F.A.C., sending account statements to clients by a qualified custodian or by the IA.

13 IAs x \$20,000 (avg. cost of audit by CPA) x 5 years = \$1,300,000
Subtracting 2(d) Impact: 993 clients x \$0.44 x 4 quarters x 5 years = \$8,738
Total = \$1,291,262

Total IA Impact = **\$2,191,262**

Group 3: Investment Adviser as Trustee

3033 (number client grantor/attorney/co-trustee/beneficiary) x \$0.44 x 4 quarters x 5 years = \$26,690
1500 (avg. 3% Dodd-Frank IA grantor/attorney/co-trustee/beneficiary) x \$0.44 x 4 quarters x 5 years =
\$13,200

Total IA Impact = **\$39,890**

IA Cost for Custodial Services = (842 + 355 @ 71%) investment advisers x \$1,200 quarterly x 5 years = \$28,728,000

TOTAL ECONOMIC IMPACT = \$31,765,065