

# Broker-Dealer Lift Out

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*Foreside creates cost savings and manages the regulatory risk.*

## **The Brief:**

An SEC-registered fund manager maintained a limited purpose broker-dealer (“BD”) to (i) serve as the legal underwriter to the manager’s 1940 Act products and (ii) maintain the FINRA licenses for employees who market and support the funds. The fund manager had issues sustaining this model for a variety of reasons, including:

- The BD was not a core function of the asset manager
- Staff wore several hats which took time away from their asset management duties
- The changing and heightened regulatory landscape to maintain a BD increased risk to the firm
- The fees and regulatory costs to maintain the BD took resources away from the asset manager’s core business

## **The Approach:**

- Foreside presented three possible options to address the asset manager’s concerns:
- (1) Foreside acquires the BD and performs the underwriting and registered rep services, operating the BD as a private label entity. Although owned and operated by Foreside, the BD’s name would remain the same under a licensing agreement.
- (2) Foreside lifts out the underwriting and registered rep services and provides them through an existing but unused Foreside BD which is renamed per the client’s direction. This approach is identical to the above option except that Foreside does not acquire the BD.
- (3) Foreside lifts out the underwriting and registered rep services which are then placed into an existing Foreside BD which provides services to multiple clients.

## **The Result:**

After meeting and consulting with the asset manager, it was determined that the asset manager would close down its BD and convert fund underwriting and registered rep services to a Foreside BD. Not only did this choice provide the greatest cost savings to the firm, but came with the added benefits of alleviating the asset manager’s staff from focusing their attention on broker-dealer regulatory matters and eliminating the regulatory risk associated with owning a broker-dealer.

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