# Merrill Advisors Cry Foul As Firm Downplays Brokerage, Trims Commissions - AdvisorHub

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Merrill Lynch's plan to curtail the credit that brokers can earn on commissions has roiled many of the firm's 11,000 brokers, including some firm veterans and lifers who have said it will have far-reaching implications for their business.

The changes, which were announced internally on Thursday, penalize brokers who more heavily rely on commission revenue, which Merrill executives said has become less profitable and more risky than advisory fees. But many are "very unhappy," said a broker in the Northeast who has been at the firm for nearly three decades and spoke on condition of anonymity. Local managers are setting up meetings in effort to ameliorate concerns and explain the individual effects.

"They're a few steps from shutting down brokerage and becoming a registered investment advisor," quipped another broker with a large brokerage book and over 30 years at the firm.

Another company veteran in the Southeast whose production had qualified him for company recognition club trips said that he felt blindsided.

"Brokers feel lied to," said the same senior broker. "At the club trips, they only talked about the positives and none of the negatives."

Starting in March next year, Merrill will discount credits for most transactional revenue, including on equities and fixed income, by 5% to 25% depending on what portion of the client's assets are in brokerage versus flat-fee advisory. Those with a smaller portion in fee-based accounts would be penalized more heavily under the plan.

A spokesperson for Merrill declined to comment on the feedback.

While the industry has been nudging advisors to advisory accounts, Merrill's change is one of the most substantial compensation shifts in recent years to de-emphasize commissions, said Andy Tasnady, a compensation consultant in Long Island who regularly works with wirehouses on broker pay plans.

"I would suspect other firms would be tempted to look at it," Tasnady said.

The change will affect a large portion of the firm's assets. At Bank of America's Global Wealth division, which primarily comprises its Merrill unit but also includes Bank of America Private Bank, roughly 43%, or $1.41 trillion, of its $3.25 trillion in client assets, are in brokerage accounts, according to its third quarter earnings report.

The internal town hall drew a wide-range of immediate reactions that prompted Merrill President Andy Sieg to note that they "never get this many questions with call-ins," according to a person on the call.

Sieg justified the change to brokers by pointing to the decades-long industry shift to advisory business. Transactions account for less than 10% of Merrill's revenue, but expenses tied to brokerage have remained steady or increased, he said.

Brokerage also generates a disproportionate number of customer complaints and litigation risk, he said. Merrill has set aside $30 million to cover "errors" this year, and 80% of that total was tied to mistakes that occurred in brokerage accounts, he said.

"It's these changes around both risk and profitability" that have prompted Merrill to take a "fresh" look at brokerage pay, Sieg said, according to a person on the call. "This is, as a firm, a direction we have been going for quite some time."

Sieg also pointed to the Securities and Exchange Commission's two-year old Regulation Best Interest, which was issued two years ago and requires brokers to place the customers' interest ahead of their own when recommending commission-based products. The rule "has introduced much higher scrutiny around brokerage transactions," Sieg said.

Cutting payouts on brokerage reduces the potential for a conflict in cases where regulators could say higher payouts may have incentivized brokers to keep customers in a commission arrangement, Tasnady said.

"It's one of those win-wins for the firm because it might control the compliance issue, and it also happens to reduce compensation costs," Tasnady said.

Still, the 30-plus year Merrill veteran said the change will be a substantial cut to his pay and discourage him from using commission accounts even though they were likely cheaper for customers than an annual asset-based advisory fee. The resulting decline in brokerage payout will more than offset a 3% withholding that Merrill is rolling back next year, he said.

Another unidentified senior advisor left "multiple messages" for the CEO of Merrill's parent Bank of America, Brian Moynihan out of frustration, according to the broker in the Northeast.

Merrill is no stranger to making a first move on brokerage. In 2016, Merrill told brokers they would no longer be able to open commissions on retirement accounts in response to a now-defunct fiduciary rule proposed by the Department of Labor. But the plan, which went beyond what most peers had prescribed to comply with the DOL, was reversed two years later in part due to clients' reluctance to shift to advisory.

Merrill's overhaul comes as Wells Fargo Advisors and regional Raymond James & Associates unveiled plans to keep pay steady out of concern for agitating large producers. Merrill has also over the past year acknowledged its own issues with attrition, which Sieg earlier said remained "slightly" elevated last quarter. Two other wirehouse competitors, Morgan Stanley and UBS Wealth Management USA, have yet to announce changes.

Sieg had opted for no changes for the 2022 plan in acknowledgement of the rapid pace of change in prior years.