

Cost Savings Under A Firm-Only Registration System

Christina Wolf
Economist
New Legislation Project

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BCSC

A NEW WAY TO REGULATE

BRITISH COLUMBIA SECURITIES COMMISSION

About This Study

This study is among a series of studies prepared by the British Columbia Securities Commission to analyze the impact of significant elements of proposed new securities legislation for British Columbia. Under proposed new rules, today's registration of both securities firms and their individual representatives would be replaced by a firm-only registration system. This study quantifies the potential savings to firms under this proposal.

The other studies in the series are also posted on the BCSC website at www.bcsc.bc.ca/policy:

- *Better Disclosure, Lower Costs – A Cost-Benefit Analysis of the Continuous Market Access System* (October 2002)
- *Strong and Efficient Investor Protection: Dealers and Advisers under the BC Model – A Regulatory Impact Analysis* (November 2003)
- *Investor Remedies in Securities Legislation – A Regulatory Impact Analysis* (May 2004)
- *Enforcement of Outcomes-Based Securities Legislation* (May 2004)

About The Author

Christina Wolf, Economist, New Legislation Project, has studied the regulatory impact, including the costs and benefits accruing to industry and investors, associated with proposed new securities regulation for British Columbia. Ms. Wolf graduated *cum laude* from Harvard College in economics, and holds an MBA from the Stanford Graduate School of Business. Prior to joining the Commission in 2002, Ms. Wolf spent 10 years with The Boston Consulting Group.

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Executive Summary

This report summarizes a study conducted by the British Columbia Securities Commission on a “firm-only” registration system (FOR) considered for inclusion in securities legislation. The study was part of a process begun in October 2001 to replace the current *Securities Act* with more modern and effective legislation. The new legislation (Bill 38 *Securities Act*) was introduced in the British Columbia Legislative Assembly on May 5, 2004.

The FOR proposal represents a significant shift in how the Commission would register securities dealers and advisers. Individuals who work for registered firms would no longer need separate registration. Instead, firms would be responsible for ensuring that those they hire are suitable to work in the industry. Ethical and proficiency requirements would still apply to representatives and the Commission would still have power to oversee, discipline, and sanction these individuals.

The FOR proposal is one of the components of one of the four key elements of the BCSC’s approach to securities regulation: creating a culture of compliance. It will strengthen the focus of regulatory compliance responsibility on registered firms while maintaining the Commission’s ability to set standards for and regulate the conduct of individual representatives. We also expected it would generate significant cost savings for industry by eliminating the time-consuming process associated with obtaining individual registrations and keeping them current. This paper contains the results of the analysis we conducted to determine if the system would in fact save costs and, if so, to quantify them.

The study was based on an industry survey and data from other sources. The study was to answer two questions:

1. What cost savings would be realized across Canada if FOR were adopted nationally?
2. What cost savings would be realized for those registered in British Columbia if FOR were adopted only in British Columbia?

These are our conclusions.

1. ***If adopted nationally, firm-only registration would save registered firms \$12.6 million – 49% of their current internal costs related to individual registrations.***

Before the recent introduction of the National Registration Database (NRD), registered firms in Canada spent about \$28 million annually in internal costs associated with registering individuals. Since the implementation of NRD, these costs have fallen by about \$2 million, to \$26 million.¹

¹ This is only internal cost. Firms now have to pay NRD user fees, estimated to be \$10 million annually.

Eliminating individual registration entirely through FOR would lower annual internal costs from \$26 million to an estimated \$13.4 million – a saving of \$12.6 million, or 49% of current costs.

2. If adopted in British Columbia alone, firm-only registration would save British Columbia registered firms 43% of their current internal costs related to BC expenses.

Today, firms spend \$3.7 million annually on internal costs related to registering in British Columbia. FOR would lower these costs to \$2 million – a saving of \$1.7 million. These savings are offset by \$0.2 million of new process costs. Total savings under FOR are therefore \$1.5 million annually, or 43% of current internal cost.

However, given the marginal role of BC registration cost in the national context, some unquantifiable part of the projected savings for national firms could be offset by the inefficiency of running a unique registration process in BC.

I. Methodology

Our study was to determine whether firms and representatives could save costs in a firm-only registration (FOR) environment and, if so, to quantify those costs.

Data drawn from a detailed national survey of dealers and advisers

In the summer of 2003 we surveyed registered firms across Canada, asking questions in three main areas:

- their internal costs (primarily salaries) for registering individuals before the National Registration Database (NRD) system came on-line in March 2003
- their internal costs for registering individuals since NRD came on line, and
- what new costs they would incur in an FOR environment

Costs before NRD. This is the environment that survey respondents knew best, as NRD had been in operation only a few months at the time of the survey. We asked each firm:

- how many individuals it had registered
- how many of those individuals were registered in British Columbia
- how many individuals were registered in more than one province
- how many staff resources were dedicated to the registration function and the allocation of those resources among various tasks (for example, initial registration in primary and secondary jurisdictions, renewals, transfers)

Costs after NRD. NRD is now in place and is therefore part of the status quo. Using this base we estimated the potential cost savings under FOR. At the time of the survey, firms were in the middle of the transition to the NRD system. We asked them questions designed to differentiate the costs of transition from costs that would continue in a steady-state NRD environment.

New costs in an FOR environment. In the current regime, securities regulators perform criminal records checks. This is not mandated under FOR, but we assumed that, with the greater accountability firms have under FOR for those they hire, they will do their own criminal records checks and credit checks. A requirement that firms maintain a current list of their representatives on their website is also being considered. To determine what new costs firms would incur in operating under FOR, the survey asked questions to establish what firms were doing today in these areas.

We invited 862 firms to participate in the survey.² These firms employed 98,603 registered individuals. The 147 firms (17%) that responded employed 48,720 (49%) of the registered individuals. Table 1 shows survey responses broken down by firm size. The large firms are the best-represented segment in the survey.

² We believe this represents almost all firms registered in Canada, other than 136 firms we did not include in the survey. The excluded firms include limited market dealers registered only in Ontario and some small subsidiaries of foreign firms.

Table 1: Survey Response Rate

	Invited	Responded	Response rate
Large (500 or more individuals)			
- Firms	24	11	46%
- Related Individuals ³	78,425	43,703	56%
Medium (50 to 499 individuals)			
- Firms	88	22	25%
- Related Individuals	14,138	3,956	28%
Small (49 or fewer individuals)			
- Firms	750	114	15%
- Related Individuals	6,040	1,032	17%
Total			
- Firms	862	147	17%
- Related Individuals	98,603	48,691	49%

Other data

We researched the number of registrants for each firm we were able to identify. Including firms not invited to participate in the survey (see note 2), this came to 998 firms employing 99,223 registered individuals. This is the number of individuals we used to size up the cost savings to a national industry-wide number.^{4, 5}

A comment on NRD

When we first suggested that FOR could generate significant cost savings, some questioned the idea because they believed that the advent of NRD would capture most of the savings available, and thus the incremental costs saved by FOR would be negligible. The data we gathered suggests this may not be the case.

NRD is a system designed primarily to register individuals. A cost-benefit study done when NRD was being developed showed potential net benefits to the industry of about \$85 million over a five-year period. Not all of this benefit came from reduced registration costs. Firms were surveyed and asked to provide their own estimates of economic

³ "Related Individuals" refers to individual registrants employed by the firms in this segment.

⁴ For the 147 firms that responded to our survey, we used the data they supplied to us. For another 106 firms, we used IDA data. These 253 firms represent 25% of the firms and employ 55,733, or 56%, of the individuals. For the remaining 745 firms we used data from NRD.

⁵ Our estimated total of 99,223 registered individuals is very close to the 102,000 registrants found in the original study of NRD benefits. A pure comparison of pre- and post-NRD costs would exclude internal costs associated with individuals registered in Quebec, because Quebec does not participate in NRD. Our estimate for the 253 firms described in note 4 is based on data that includes individuals who work only in Quebec but this data does not separately quantify the Quebec-registered individuals. Our analysis suggests that our estimate of 99,223 may include up to 8,000 individuals who work solely in Quebec. However, any over-counting would affect cost estimates both before and after the implementation of an FOR system, so the percentage savings would be the same: only the absolute dollar savings would differ.

benefit, which was defined in the survey to include any incremental value to the firm over NRD's costs. Firms were not asked to identify whether they included both internal costs and those associated with registration delays under the then-current system. Our study is based on an analysis only of the internal costs of registration.

We have not attempted to analyze the validity of the NRD cost-benefit analysis. However, our survey data suggests that, so far, industry has realized annual savings of only \$2 million, and we estimate that NRD fees (imposed on industry to recover the \$31 million cost of developing the system) for the first year of operation total about \$11 million.⁶ This means that the impact so far has been to increase registration costs by about \$9 million annually.

It is too soon to know whether the benefits predicted for NRD will materialize, and it is worth noting that our survey was conducted at the beginning of the transition to the NRD system. However, for NRD to deliver the \$85 million of net benefits cited in the original study, every transferring representative would have to realize commissions of \$6,100 in the marginal time saved by the system, and firms would have to cut an additional 10% per year in internal cost from the system.⁷ If these benefits do not materialize, it will likely be because of one or more of the following factors:

- The potential for improvement in the speed of registration may be less than expected. Based on our survey data, it would take a time saving of six days to generate the \$6,100 in commissions to break even under NRD.⁸ However, transfers were already being expedited before NRD. For example, in British Columbia, the average time to process a transfer before NRD was 3 days and after NRD was 1 day – a time saving of only 2 days. Nationally, the average turn-around time for transfers is 4.8 days. Even if this were reduced to zero, the time savings would still be short of the 6 days required to generate the \$6,100 in commissions.⁹
- The revenue capture from lost commissions may be less than expected. Not all transferring representatives have an existing book and can be productive immediately upon registration. Indeed, 52% of survey respondents indicated that they believe the marginal revenue for transfers is zero in the first weeks (many pointing out their business is not based on commissions paid for each trade.) Furthermore, to create these commissions in the first days on the job, the transferring representative's book would have to be transferred quickly. In reality, this is limited by how quickly client assets can be transferred.
- Firms may not reduce their internal costs at the rate of 10% per year. This study shows that as of July 2003 they projected an overall savings in internal costs of

⁶ NRD has collected \$9.25 million in 2004 annual NRD fees, and will collect more NRD fees throughout 2004 for new and transfer registrations. In 2003, these additional fees totaled \$1.85 million.

⁷ We assumed only transferring representatives would be in a position to earn revenue early in their employment as new employees have no prior book and their authority to open client accounts and trade is usually restricted until they complete a training program.

⁸ Survey data shows that, on average, new transferees earn \$5,500 in commissions per week.

⁹ FOR would reduce the transfer times to zero. Under any other system, transfer time is dependent on the regulator's efficiency in processing applications. In our review of all June transfer applications, average processing times ranged from one day in British Columbia to 15 days in Manitoba.

about 7%.¹⁰ Further savings may be possible once firms become more familiar with the NRD process, although for NRD to yield a net financial benefit, these firms would have to achieve annual compound savings of 10% for about 5 years.

- At the time of our survey, NRD had not yet significantly reduced the extra time it takes to process a registration in additional jurisdictions. Tracking NRD response times for the period June through August 2003, we found:
 - It took almost as long for secondary regulators to approve an individual's registration as it did the primary regulator.¹¹
 - A significant number of files remained open at the end of the period,¹² which may explain the substantial cost still associated at that time with registering individuals in multiple jurisdictions.
 - A relatively small number of registered individuals generated a disproportionate amount of all registration activity.¹³

Repeating this analysis at a later date would help determine whether these response times improve.

¹⁰ Registering through NRD is still time-consuming. Of the firms in our survey, 33% said the process was faster under NRD, 47% said it was the same, and 20% said it took longer. NRD automated the registration form, but the NRD form is longer than the forms it replaced.

¹¹ An average of 11 days after the primary regulator's approval. Primary approvals took, on average, 14 days.

¹² 13.5% awaiting primary approval and 32% awaiting secondary approval.

¹³ The 8% of individuals who applied for registration in one or more provinces outside their home jurisdiction accounted for 38% of all registration applications. (Our data shows that the 20% of individuals who are registered in multiple jurisdictions account for 48% of all registrations.)

II. Savings From A National FOR System

Moving the entire market to firm-only registration would reduce current internal cost from \$26 million to \$13.4 million – a saving of 49%. This chapter reviews the detail of the analysis to arrive at this conclusion.

A. Costs Of Today's System

1. Introduction

Our study focused solely on registered firms' internal costs associated with registration. Firms also pay registration fees and NRD fees. We did not factor either of these into our analysis of the potential savings of FOR. Registration fees are an important source of revenue for regulators and are used to fund regulatory oversight and enforcement. We have assumed for the purposes of the study that, if FOR is adopted, industry will still pay equivalent fees to regulators in some form to fund these functions.

As for NRD fees, the NRD system has been built and must be paid for, even if FOR is implemented and, as a result, the system becomes unnecessary. In that event, the portion of NRD costs associated with its maintenance could be discontinued, and once the development costs were recovered, NRD fees would end. However, these events, if they happen at all, will be far into the future, so we attributed no savings to a reduction in NRD fees.

We estimate that the industry-wide internal costs of registration under NRD are \$26 million annually. We broke down this cost in two ways: by firm type and by activity.

Firm type

We sorted the firms in our survey by size. The \$26 million internal cost is distributed as follows:

Large (over 500 registrants):	\$12.6 million	(\$523,000 per firm, \$160 per registrant)
Medium (50-499 registrants):	\$ 8.9 million	(\$100,000 per firm, \$620 per registrant)
Small (1-49 registrants):	\$ 4.5 million	(\$5,000 per firm, \$700 per registrant)

Activity

Our survey gathered information on how staff time was spent on various registration tasks. This information allowed us to determine the costs associated with those tasks. The \$26 million internal cost is distributed by activity as follows:

New registrations in primary jurisdictions:	\$9.5 million (36%)
New registrations in other jurisdictions:	\$5.5 million (21%)
Updates and renewals of existing registrations:	\$8.2 million (32%)
Dealer registration cost:	\$2.8 million (11%)

2. Current internal costs

The total estimated current internal cost of \$26 million was built up separately for large and medium firms and for small firms. This section describes how we calculated the current internal cost of registration with NRD in place (\$21.5 million for the large and medium firms and \$4.5 million for the small firms).¹⁴

Large and medium firms

To find the cost of registering individuals through the current NRD-based system for large and medium firms we used data from our survey about internal registration costs before NRD and expected adjustments to those internal costs under the NRD system.

We estimated costs before NRD by asking for the number of full-time equivalents (FTEs) in the registration, compliance, and accounting departments that were dedicated to registration issues before NRD. We also asked for average salaries for each department.¹⁵ Finally, we asked for administrative costs tied to registration.

We grossed up the survey results to all large and medium firms to arrive at an internal pre-NRD cost for this group of \$23.1 million.

To adjust this cost to a post-NRD number, we used a two-step process. First, we used the data from this question in the survey:

“Assuming registration volumes similar to 2002, how would you staff your registration department under NRD?”

In response to this question, many firms said they would require more resources for registration after NRD than they did before NRD. Of the 33 large and medium firms that participated in the survey:

- 18% said their FTEs would decrease as a result of NRD
- 42% said their FTEs would remain exactly the same as before NRD
- 40% said their FTEs would increase as a result of NRD

Using the post-NRD headcount responses from the survey resulted in an internal post-NRD cost for this group of \$24.5 million.

On checking with firms that said they would increase their headcount from NRD, we saw that some of these firms were hiring long-term temporary employees to absorb the extra work that NRD currently generates for registration departments. Some were unable to determine how many of these positions were needed solely for transition work and how

¹⁴ We applied one broad assumption when building the cost estimate of the registration system from the survey data: in some instances, firms stated they had more management and compliance FTEs dedicated to registration than registration staff. For example, 2 FTE in registration staff and 6 FTE in management/compliance dedicated to registration. Because the mismatch appeared so large, the model was adjusted so that in no case could the management staff exceed the registration staff for registration issues. Making this assumption is a conservative approach because its effect, if any, would be to understate today's costs.

¹⁵ Where the respondents did not give us salaries, we used the average from the other respondents.

many would be needed on an ongoing basis. This led us to the second step in calculating the post-NRD cost.

In order to give full credit to NRD for the savings we were able to document, we removed the start up costs for data entry and cleanup from the steady-state costs our surveyed firms attributed to NRD in the first question.¹⁶ We used the data from another question in the survey to make this adjustment:

"What do you estimate the approximate start-up costs will be for your organization to implement NRD?: Initial data entry/data cleanup (state months of work times salary of data entry workers)."

Firms reported start-up costs that, when sized up to the market, reduce the internal cost for these segments by \$3 million. The end result is an estimate that the large and medium firm segments are today bearing internal registration costs of \$21.5 million.

Small firms

Small firms generally have less than one FTE involved in registration tasks, but the responses from our survey were not uniform enough to use.¹⁷ Since firms with fewer than 50 employees constituted over half of the 998 firms included in the study, we needed to find another method to estimate their current internal costs. So instead of using the survey data for the small firm segment, we multiplied the medium firm unit costs for each activity by the activity volumes at the small firms. This approach assumes that actual unit costs in small firms are no higher than in medium firms, which we consider to be the low end of their actual cost.¹⁸ The results are summarized in Table Two.

Table 2: Average Activity Costs

Activity	Unit	Medium firm unit cost (\$)	Small firm activity volume
New registrations in primary jurisdiction	Cost per new registrant	330	3,217
New registrations in other jurisdictions	Cost per new registration in multiple jurisdictions	578	2,560
Update/renewal of existing registrations	Cost per registrant	225	6,395

Applying these unit costs to small firm activities and considering that 11% of their total costs were related to firm registration, we estimated small firm costs under the current NRD-based system at \$4.5 million.

¹⁶ Even with this adjustment four firms showed an increase in cost after NRD.

¹⁷ About 25% of the respondents with fewer than 10 employees rounded up to a whole FTE. Another 25% rounded down to 0.

¹⁸ Small firms may have even less scale than medium firms, and their unit costs could well be higher than we use in this study. This is a conservative approach because its effect, if any would be to understate today's costs.

All firms

The total estimated current internal cost is therefore \$26 million (\$21.5 million for the large and medium firms and \$4.5 million for the small firms.)

B. Costs Under A National FOR System

Our estimates of the costs of FOR are dependent on the assumptions we made about the tasks that would no longer be required for firms operating in an FOR system. These assumptions are described below.

1. New registrations in primary jurisdictions

We estimate the cost of new registrations in primary jurisdictions to be \$5.8 million under FOR, a saving of \$3.7 million. We based this estimate on the assumption that this expense would be cut by 59% for employees who are not partners, directors, and officers.¹⁹ These are the factors that led us to use the 50% assumption:

- Firms would still collect much of the same information for hiring decisions that they collect now for registration applications, but under FOR they could do it more efficiently. Putting firms in charge of screening their employees would allow them to gather information about the individual throughout the hiring process and to document their review in one place. Under FOR, firms could prepare an employee's file in a way streamlined with the rest of their normal hiring process.
- Firms would likely not need answers to all the questions on the NRD form. (For example, instead of asking whether an applicant has ever had a debt of over \$500 overdue for more than 30 days, a firm might rely on the credit check, which can reveal payment history.) If firms chose to continue asking all NRD questions, they could do it in any format and at any point in the hiring process.
- NRD, though electronic, is still a time-consuming process to administer. At the time of our survey, it was taking, on average, 15 days for firms to create an employee's file and send it to the regulators.²⁰ Once the application is submitted, firms may need to ask employees further questions to satisfy regulator inquiries. Under FOR, the file, once complete, would require no further work.

Several implications of FOR suggest a large potential savings in time: no regulatory vetting, the ability for a firm to design a more streamlined application process, the elimination of duplication between the firm's registration and human resources departments in the collection of information and the completion of criminal records and credit checks. Yet there is still work in creating each employee's file, filing personal information forms for partners, directors, and officers, reviewing criminal records and credit checks, and maintaining lists of employees and what they are qualified to sell. Given these dynamics, we chose 50% as a conservative assumption of the potential time savings.

¹⁹ Current cost is \$9.5 million.

²⁰ This data comes directly from 1,115 files that were created on NRD in June 2003.

Changing the assumption for the cost reduction by 20% either way would change the \$3.7 million in savings by \$1.5 million.

2. New registrations in other jurisdictions

We estimate the cost of new registrations in other jurisdictions to be zero under FOR.²¹ Under firm-only registration the firm does not need to duplicate its internal information at even one regulator, never mind others. The only requirement FOR would place on a firm for a representative operating in another province is to report that individual to the relevant regulator as active in the province.

3. Updates and renewals of existing registrations

We estimate the cost of this function will be \$4.1 million under FOR, a saving of \$4.1 million. We based this estimate on the assumption that this expense would be cut by 50%.²² These are the factors that led us to use the 50% assumption:

- The major causes of updates to individual registrations are changes that would be routinely reported to the firm's human resources department, such as a change of address, name, or branch assignment. No additional steps would be required under FOR.
- Some information required on the NRD form that therefore requires updating when it changes, such as memberships in professional organizations outside the financial services industry, may not be seen by some firms as worth collecting, and therefore would not require updating.
- When information collected by the firm did change, under FOR the firm would update only its own files, eliminating the time currently spent on preparing an NRD update. (Firms that rely on the regulatory update requirements to obtain information about changes would have to develop an alternative process.)

Based on the above items, we feel a 50% reduction in these costs is conservative. We recognize that some of the time now spent by firms on the regulatory update and renewal processes would be spent on regulatory audits of the firms' employment files (firms would have to show that they have evaluated an employee's qualifications and that the employment files are being appropriately maintained).

Changing the assumption for the cost reduction by 20% either way would change the \$4.1 million in savings by \$1.6 million.

4. Dealer registration cost

Firm-only registration would not affect activities related to firms registering themselves. This cost of \$2.8 million would remain.

²¹ Current cost is \$5.5 million.

²² Current cost is \$8.2 million.

C. Cost Savings Under A National FOR System

1. Savings from current system

Table 3 compares the costs of the current system (see Section A) to those estimated for an FOR system (see Section B):

Table 3: Internal Cost Comparison For National FOR System

Function	Current costs (\$M)	FOR costs (\$M)	Savings (\$M)
New registrations – primary	9.5	5.8	3.7
New registrations – other	5.5	0.0	5.5
Updates and renewals	8.2	4.1	4.1
Dealer registration	2.8	2.8	0.0
Total	26.0	12.6	13.3

However, a move to FOR would add costs associated with new hiring practices. These are estimated in the next section.

2. Calculating the cost of new processes

Background checks

Firm-only registration would leave firms to decide what checks are necessary when hiring a representative. Although the new legislation would require firms only to ensure that their employees are “suitable for work in the securities industry,” the guidance suggests firms should do criminal records and credit checks on prospective employees.

From the industry surveys, we know that firms accounting for 78% of registered individuals currently perform criminal records checks on new hires and 76% do credit checks. It seems reasonable to conclude that, in an FOR environment, nearly all firms will do these checks and we have assumed that they will, to take a conservative approach to determining the net benefits of FOR.

We estimate the cost of doing criminal records checks by firms not already doing so will be \$500,000. This assumes a cost of \$45 per person.^{23, 24}

We estimate the costs of doing credit checks by firms not already doing so will be \$152,000. This assumes a cost of \$12.75/person.²⁵

²³ The fee for a criminal records check ranges from \$25 to \$50, depending on the province. This figure is a blend of the various provincial fees.

²⁴ The new registration data from British Columbia implies there were 50,000 new registrants in 2002. This number seems high, but we used it here as it is a conservative approach.

²⁵ This is the typical cost for a credit check with a reputable agency. Larger firms can bring their marginal costs down by paying a fixed registration fee and a lower cost per check.

Websites

One aspect of the FOR proposal under consideration is a requirement that each firm maintain a website that lists its trading and advising representatives. To be conservative, we assumed that this requirement will be imposed. We estimate that 222 of the 998 firms we included in this study do not have websites and another 542 firms do not list their representatives on their websites.²⁶

For regulatory purposes, a firm with no website would need only a home page and a list of its representatives. Firms with websites would have to create new web pages to list their representatives. There are both start-up and ongoing costs.²⁷

We estimated the startup cost for all firms without websites to be \$229,000, based on the following costs per firm:

- Software: \$500
- Basic web design: \$500²⁸
- Initial cost to list representatives: \$1,000²⁹

For firms that have websites, we estimated the startup cost for all firms of developing new web pages to list their registrants to be \$222,000, based on the following:

- For firms with 1,000 representatives or more: \$5,000³⁰
- For firms with 100 – 999 representatives: \$1,000³¹
- For firms with less than 100 representatives: \$100³²

Website-related start up costs would therefore total \$451,000.

The ongoing cost for all firms is estimated at \$64,000 per year based on the following costs per firm that would need to launch a website:

- For firms with over 1,000 registrants, \$50 for the domain name and \$100 per month for hosting.
- For firms with 100-999 employees, \$50 for the domain name and \$50 per month for hosting.
- For firms with under 100 people, \$50 for the domain name and \$10 per month for hosting.

²⁶ This number comes from a physical count of every large and medium firm in our sample (113), and the surveys from small dealers (another 113 firms).

²⁷ Associated costs, such as reprinting letterhead or business cards to include the website address, are not included.

²⁸ This cost includes outsourcing costs for a home page and the pages for listing registrants, with data and logos provided by the firm. Two large firms (1,000 representatives or more) have no websites; for these firms we estimated this cost at \$1,000.

²⁹ Medium firms only. The costs for small firms we expect to be negligible. For the two large firms we estimated \$5,000.

³⁰ This is the estimated cost of using a search engine supported by an employee database, which we expect would be a more sensible basic solution.

³¹ Outsourcing costs for designing the web pages and installing initial data

³² Outsourcing costs for designing the web pages and installing initial data.

We included no incremental ongoing costs for firms with websites that do not currently list their representatives on those sites because the change will not affect domain name or hosting charges, and existing staff can change the information on these pages without outsourced help.

Total Cost of New Processes

The total cost of new processes is therefore \$716,000:

Criminal records checks:	\$500,000
Credit checks:	\$152,000
Website ongoing costs:	<u>\$ 64,000</u>
Total:	<u>\$716,000</u>

3. Net cost savings

The net cost savings associated with a national FOR system would be as follows:

Internal cost savings:	\$13.3 million
Cost of new processes:	<u>(\$ 0.7 million)</u>
Total	<u>\$12.6 million</u>

This \$12.6 million in savings would only be \$9.7 million if the 50% savings assumed for new registrations and maintaining registrations turn out to be 30%, and would rise to \$15.7 million if the 50% savings turn out to be 70%. Table 4 shows the range of these savings.

Table 4: Range Of Savings For National FOR Under Varying Assumptions

Savings from initial registrations and maintaining registrations	FOR savings (\$M)	FOR savings (%)
Conservative assumptions (30%)	9.7	37%
Assumptions used in this Report (50%)	12.6	49%
Aggressive assumptions (70%)	15.7	61%

D. Conclusion

The analysis above estimates that a national FOR system would save firms \$12.6 million, or 49% of the current cost of \$26 million. The likely range of savings is between \$9.7 and \$15.7 million. Savings in the first year would be reduced by \$451,000 in website startup costs.

III. Savings From A BC-Only FOR System

Implementing firm-only registration only in British Columbia would reduce current internal costs or registration generated in BC from \$3.7 million to \$2.2 million – a saving of 43%.

A. Costs Of Today's System

In addition to breaking down the current internal costs by size of firm and by activity as described in Part II, we also broke down the \$26 million internal cost among registrants according to their connection with British Columbia, as shown in Table 5.

Table 5: Internal Cost For BC-related Activity

Representative's relation to BC	Costs for individuals related to BC (\$M)	Costs for registration in BC (\$M)
Individuals registered only in BC	2.4	2.4
Individuals resident in BC and registered in BC and one or more other jurisdictions	1.4	0.7
Individuals not resident in BC but registered in BC	3.2	0.6
Total	7.0	3.7

The remaining \$19.0 million in internal costs estimated in the previous section is related to individuals registered in other provinces but not registered in British Columbia.

Of the \$7 million in costs associated with individuals connected to British Columbia, only \$3.7M of this cost is related to British Columbia activity. The \$3.7 million of current internal costs is allocated by function as follows:

New registration in BC for BC residents:	\$1.5 million
New registration in BC for non-BC residents:	\$0.6 million
Renewals and updates of existing registrations:	\$1.2 million
Dealer registration:	\$0.4 million

B. Costs Under A BC-Only FOR System

Except where stated otherwise, our estimates of the costs of FOR use the same assumptions we made in Part II, for the same reasons.

The savings we quantify in this section illustrate the potential benefits for operating under FOR in British Columbia. It assumes that firms will develop procedures so that they can use FOR, even though they must continue to use NRD for their representatives

who require registration in jurisdictions outside British Columbia.³³ However, some firms (particularly large national firms) may choose to continue to use the NRD system and forms when hiring individuals to work only in British Columbia (even though they would not submit the forms for approval). To the extent that a firm documents new hires to NRD standards its savings will be reduced. If a firm that chooses this approach also happens to be among the minority of firms that are not currently doing criminal records checks and credit checks, it will also incur the additional costs associated with these processes. For those firms, their costs may increase.

1. New registrations in BC for BC residents

New entrants seeking registration solely in BC would see the same 50% savings described in Part II.³⁴ Partners, directors, and officers (PDOs) are not factored into this section because very few PDOs are registered only in British Columbia.³⁵ The resulting estimate for this element of internal costs is \$0.9 million, a saving of \$0.6 million.³⁶ Changing the assumption for the cost reduction by 20% either way would change the \$0.6 million in savings by \$0.25 million.

2. New registrations in BC for non-BC residents

The incremental expense associated with registration in British Columbia for non-BC residents would be eliminated.³⁷ By removing the registration requirement for British Columbia, the cost of duplication is reduced by one province, a saving of \$0.6 million.³⁸

3. Updates/renewals of existing registrations

This expense would be cut in half only for representatives registered only in British Columbia (individuals registered in BC and other provinces still need to update all information on NRD). This results in an internal cost for this function of \$725,000, a saving of \$475,000. Changing the assumption for the cost reduction by 20% either way would change the \$475,000 in savings by \$190,000.

4. Dealer registration cost

There is no change to the dealer registration cost of \$350,000.³⁹

³³ For this reason, we did not include any savings attributable to registrations outside British Columbia.

³⁴ The 50% savings assumed for this element of internal costs may not be captured by all firms.

³⁵ Only about 9% of partners, directors and officers registered in BC are with firms that operate only in British Columbia. Under current registration requirements, partners, directors and officers of firms that operate in multiple jurisdictions have to be registered in every jurisdiction in which the firms operates.

³⁶ Current cost is \$1.5 million.

³⁷ Current cost is \$0.6 million.

³⁸ Using the marginal labor cost data for registering in additional jurisdictions derived from our survey data.

³⁹ This dealer cost is the proportionate share of firms' total firm cost based on their representatives residing in British Columbia.

C. Cost Savings Under A BC-Only FOR System

1. Savings from current system

Table 6 compares the costs of the current system (see Section A above) to those estimated for an FOR system (see Section B above):

Table 6: Internal Cost Comparison for BC-Only FOR System

Function	Current costs (\$M)	FOR costs (\$M)	FOR savings (\$M)
New registrations – BC residents	1.5	0.9	0.6
New registrations – non-BC residents	0.6	0.0	0.6
Updates and renewals	1.2	0.7	0.5
Dealer registration	0.4	0.4	0.0
Total	3.7	2.0	1.7

However, a move to FOR would add costs associated with new hiring practices. These are estimated in the next section.

2. Calculating the cost of new processes

Except where stated otherwise, our estimates of the costs of new processes associated with FOR use the same assumptions we made in Part III, for the same reasons.

The total cost of new processes limited to the BC-only scenario is as follows:

Criminal records checks: ⁴⁰	\$112,000
Credit checks:	\$ 32,000
Website ongoing costs: ⁴¹	<u>\$ 20,000</u>
Total:	<u>\$164,000</u>

Website startup costs are estimated at \$198,000.

⁴⁰ Criminal records checks cost \$50 in British Columbia so the per-registrant cost is higher in this analysis. These checks are not necessary for registrants in two or more provinces because NRD will still cover them. However, the percentage in British Columbia of individuals whose firms currently get criminal records checks is 10% lower than the national average, due primarily to a lower percentage of BC individual registrants being employed by bank-owned dealers.

⁴¹ 69 firms operating in BC do not have websites.

3. Net cost savings

The net cost savings associated with a national FOR system would be as follows:

Internal cost savings:	\$1.7 million
Cost of new processes:	<u>(\$0.2 million)</u>
Total:	<u>\$1.5 million</u>

This \$1.5 million in savings would fall to \$1.1 million if the 50% savings assumed for both new registrations and maintaining registrations turn out to be 30%, and would rise to \$2 million if the 50% savings turn out to be 70%. Table 7 shows the range of these savings.

Table 7: Range of Savings For BC-Only FOR Under Varying Assumptions

Savings from initial registrations and from maintaining registrations	FOR savings (\$M)	FOR savings (%)
Conservative assumptions (30%)	1.1	31%
Assumptions used in this Report (50%)	1.5	43%
Aggressive assumptions (70%)	2.0	55%

D. Conclusion

The analysis above estimates that a BC-only FOR system will save firms \$1.5 million – 43% of the current cost of \$3.7 million. The likely range of savings is between \$1.1 and \$2 million. Savings in the first year would be reduced by \$198,000 in website start-up costs.