

Kurt : We emailed the firms in the chart and asked the three questions below and - at the suggestion of one of the top securities regulators - cc'd the following regulators. We showed the firms the language from the PPM's that we have in this article and we showed the firms the chart above and the scrubbed Merrill Lynch statement.

Jennifer Duggins- SEC- Co head of private funds
 Mike Rufino- SEC- Co head of NYC Broker Dealers
 David Jaffe- SEC- liaison to Enforcement- past NYC FINRA General Counsel
 Joe Borg- NASAA- Co-Chair of Enforcement
 Ricky Locklar NASAA- Senior Investigator-Enforcement
 Lev Bagramian- Congress- Director of Investor Protection: Committee on Financial Services

1. Do you have any problem with our math of the fees in the example above?
2. Why are you putting customers in brokerage accounts and charging on the entire commitment amount as opposed to an advisory account where you charge only on what is invested?
3. If you feel the brokerage account is in the customer's best interest, have you told your customers about the advisory accounts and do you have documented conversations?

Blackstone	No Comment
ICapital	No Comment
Merrill Lynch	No Comment
Morgan Stanley	No Comment
UBS	Replied to the initial email on the first article but when they figured out what we were asking, they did not reply.
Wells Fargo	No Comment

Emails from SEC

Email 1

----- Forwarded message -----
 From: **Duggins, Jennifer** <dugginsj@sec.gov>
 Date: Tue, Mar 22, 2022 at 11:09 AM
 Subject: RE: Staff Request for Call--
 To: Kurt Stein <steinkurt@gmail.com>

Cc: Caravello, Brian <CaravelloB@sec.gov>

3/22/22 11am

Updated staff participation from the Division of Exams.

Jennifer Duggins- co head of Private Funds

Brian Caravello-

Michael Rufino-Co-head of NYC broker-dealers

David Jaffe- liaison to enforcement/ past Regional Chief counsel FINRA NYC

Jennifer Moldaver

Christine Sibille

Shane Cox

Email 2

----- Forwarded message -----

From: **Duggins, Jennifer** <dugginsj@sec.gov>

Date: Tue, Mar 22, 2022 at 1:20 PM

Subject: RE: **Morgan Stanley PPM- Reg BI as discussed-with explanation**

To: Kurt Stein <steinkurt@gmail.com>, Caravello, Brian <CaravelloB@sec.gov>,

Thank you Kurt

From: Kurt Stein <steinkurt@gmail.com>

Sent: Tuesday, March 22, 2022 1:16 PM

To: Duggins, Jennifer <dugginsj@SEC.GOV>; Caravello, Brian <CaravelloB@SEC.GOV>;

Subject: Morgan Stanley PPM- Reg BI as discussed-with explanation

Email 3

----- Forwarded message -----

From: Duggins, Jennifer <dugginsj@sec.gov>

Date: Tue, Mar 22, 2022 at 12:28 PM

Subject: **RE: REG BI Merrill docs- outline and ML PPM- totally goes against REG BI::**

To: Kurt Stein <steinkurt@gmail.com>, Caravello, Brian <CaravelloB@sec.gov>

Thank you Kurt we have shared with the Staff

From: Kurt Stein <steinkurt@gmail.com>

Sent: Tuesday, March 22, 2022 12:17 PM

To: Duggins, Jennifer <dugginsj@SEC.GOV>; Caravello, Brian <CaravelloB@SEC.GOV>

Subject: **REG BI Merrill docs- outline and ML PPM- totally goes against REG BI::**

Analysis of charges

		Blackstone Life Sciences		Blackstone Alternatives VII LP Tranche B
	Inception of Fund	7/6/2020		12/17/20
	Commitment	\$110,608		\$150,000
	Amount actually invested	\$17,697		\$8,250
	Months since inception as of 5/28/21 statement.	11		5.5
Brokerage account required charges	1% Annual fee on total commitment	\$1,106		\$1,500
Brokerage account optional charges	Broker discretion upfront fee up to 2.5% of commitment amount	\$2,765		\$3,750
Brokerage account optional charges	Possible one time Revenue Share from Blackstone to Merrill Lynch	Typical is 1% or \$1,106		Typical is 1% or \$1,500.
Advisory Account charges	1% on actual assets in account "Asset based fee"	\$177		\$83
Total (minimum) Brokerage account charge Year 1		\$2,606		
Total Advisory account charge Year 1		\$259		

FA-Mag: Can we see some of the language from the PPM's?

Kurt: Here is Merrill Lynch:

- a. Below is cut and pasted from pages 31-32 of 389 ML Blackstone PPM Blackstone Total Alternatives solution from 8/20.
 - i. *Generally, any Investor with a **Capital Commitment** of:less than \$3,000,000 will be issued Tranche B Interests- (and charged 1% on the entire commitment)*
 - ii. *The financial terms applicable to Tranche M Interests are customized for Investors subscribing through a TMA because such Investors are subject to an asset-based program fee equal to a percentage of the assets held in their TMA including amounts invested in the Tranche M Interests that is not applicable to Investors making a Capital Commitment through a **brokerage account**.*
 - iii. ML offers the M shares/advisory account for the same low \$100,000 minimum to its TMA (Trust Management Account) Fiduciary accounts. If you are in the M tranche/advisory account you only get charged on what is in the account, if you're in the brokerage account/B tranche, they gouge you on the entire commitment amount. They restrict the advisory shares to only a small number of clients.
 - iv. Regulation Best Interest requires them to recommend the lowest cost account type. (or have a real good reason why they are not recommending the lowest cost account) Merrill Lynch ignores the rule and charges the vast majority if its clients on the entire commitment amount..

Kurt: Here is Morgan Stanley

- b. **Morgan Stanley Language**
 - i. Page 13/380 or page 7 if looking at Doc itself: **Morgan Stanley Fundamental Partners 4-LP Overview First Quarter 2021**
 - ii. *The Investor Servicing Fee will be calculated using the following rates: (i) **0.75% for commitments less than \$5 million;***
 - iii. *Morgan Stanley Wealth Management will act as the placement agent for the Partnership. Morgan Stanley Wealth Management will receive a fee in an amount equal to **1.25% (“Manager Revenue Share”) of the aggregate **Commitment** of each Morgan Stanley Wealth Management client investing in the Partnership on a placement basis (“Placement Client”).***

Notwithstanding the above, Morgan Stanley Wealth Management shall not receive a Manager Revenue Share, Upfront Placement Fee or Investor Servicing

*Fee with respect to Morgan Stanley Wealth Management clients that participate in the Partnership through their **advisory program**,*

- iv. Morgan Stanley doesn't charge an investment servicing fee, a placement fee or A manager revenue share if it is in an **advisory account**. However, if it is a brokerage account, they charge on the entire commitment amount and take a manager revenue share and can charge a placement fee.
- v. **Since Reg BI is a standard of conduct, when does it ever make sense to put PE funds in a brokerage account. ?**