Unlocking Mobility: Broker Protocol and Market Competition in Financial Advisory Industry

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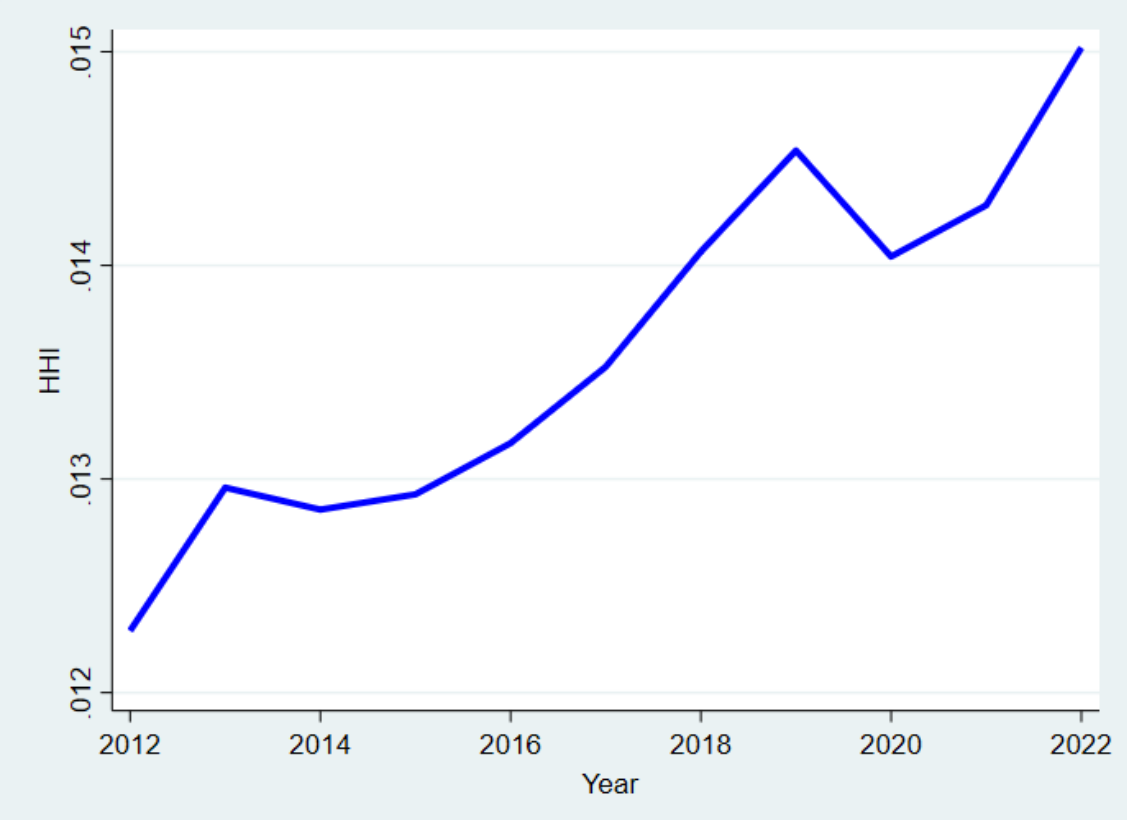
Research motivation

Financial advisory industry in the U.S.

According to the Investment Adviser Association report:

- 15,870 registered adviser firms in 2024
- About 300,000 financial advisors in 2025, with projected growth of 10% between 2024–2034
- Manage $144.6 trillion in assets across 68.4 million client accounts

Rising concentration (HHI) in financial advisory industry



Consequences: deteriorating customer service, reduced product diversity, and increased incidence of misconduct (Bennett et al., 2013; Saidi and Streitz, 2021)

Research question

Research question

- The effect of a labor market institution on industry competition
- Protocol for Broker Recruiting (the "Broker Protocol"): a voluntary firm agreement governing the ownership and solicitation of client relationships in advisor movement.

Broker Protocol

- Launched in 2004 by Merrill Lynch, Smith Barney (now Morgan Stanley), and UBS to mitigate costly and disruptive legal battles over client solicitation when advisors leave one firm for another.
- A voluntary agreement among participating firms that standardizes rules for adviser mobility
- Allow departing advisers to take basic client information, such as names, addresses, phone numbers, email addresses, and account titles, when moving to another signatory firm without facing legal action.

Why Firms Choose to Join Broker Protocol

- Streamlined Transitions: Joining reduces litigation risks when advisors switch firms—no lawsuits over basic client contact info.
- Competitive Advantage in Recruiting: Firms can advertise a smoother, litigation-free onboarding process, making them more attractive to top advisors.
- Client Privacy & Stability: The protocol helps preserve client–advisor continuity, enhancing trust and reducing disruption during advisor moves.

Impact of Broker Protocol

- Relaxing firms' property rights over client relationships
- Smoother client transitions and enhances adviser mobility (Gurun et al., 2021)
- Incentivize advisers to improve professional qualification (Clifford and Gerken, 2021)

Hypothesis development

Broker Protocol and Industry Competition

How Broker Protocol affect industry competition?

- Labor mobility hypothesis
- Scale advantage hypothesis

How Broker Protocol affect industry competition?

Labor mobility hypothesis: INCREASE competition

- Shift residual control over client relationships from firms to advisers → mitigates hold-up problems (Grossman and Hart, 1986; Hart and Moore, 1990) → reduce firms' monopsony power in the labor market and weakening their product-market dominance.
- Enhance adviser mobility and client portability → facilitates cross-firm knowledge spillovers → mobile advisers transfer best practices, ranging from risk management and compliance innovations to fintech solutions → undermine incumbents' informational advantages and lower entry barriers → disrupt entrenched knowledge monopolies (Jovanovic and Rob, 1989).

How Broker Protocol affect industry competition?

Scale advantage hypothesis: REDUCE competition

- Network effects theory (Katz and Shapiro, 1985): standardized portability rules could disproportionately benefit larger firms by enabling them to leverage extensive client networks and brand recognition. $\rightarrow$ top advisory talent concentrates at dominant firms.
- Superstar effects (Rosen, 1981): allow high-performing advisers capture disproportionate returns on scalable platforms $\rightarrow$ intensify market concentration and threaten mid-sized and smaller firms' viability.

Main findings

Adviser data: Using more than 6 million adviser-year observations for 711 unique commuting zones.

- Greater local penetration of Protocol-member firms intensifies market competition,
- The effect remains robust when we exploit exogenous shocks to the Protocol's marginal value.
- Small entrants to the Protocol experience significant growth in assets under management (AUM) and employment,
- Large incumbents disproportionately lose more advisers.

Protocol reallocates human capital toward smaller firms, reshaping industry dynamics

Contribution

- Impact of Broker Protocol: effects on adviser-level behaviors, including misconduct (Gurun et al., 2021) and professional certification incentives (Clifford and Gerken, 2021), we shift the focus to its broader market-level implications.
- Determinants of local market competition: structural drivers including sunk costs (Stiglitz et al., 1987), economies of scale (Wright, 1978), firm entry barriers (Fama and Laffer, 1972; Stiglitz, 1987; Bresnahan and Reiss, 1991), foreign competition (Claessens and Laeven, 2004; Owen et al., 2007), and technological diffusion (Hauswald and Marquez, 2015; Vives and Ye, 2025), regulatory barriers. We introduce the effect of labor market institutions on industry competition.

Data and empirical design

Data

- Adviser data: the Securities and Exchange Commission (SEC) Investment Adviser Public Disclosure (IAPD) database and Financial Industry Regulatory Authority (FINRA) BrokerCheck website.
- Geographic unit of analysis: Commuting zones, because they more accurately reflect economically integrated labor and client service markets than traditional administrative boundaries such as counties.
- Local economic data: BEA or BLS

Empirical design

- Control for within commuting zone
- Control for year FE
- Local characteristics: average firm size, average firm age, size of adviser employment, local adviser growth
- State economic conditions: GDP and per capita income

Empirical results

Broker Protocol and industry competition

- Increase industry competition

	Local HHI		
	(1)	(2)	(3)
Local Protocol firms	-6.203***	-6.762***	-3.230**
	(-3.11)	(-3.43)	(-2.47)
Controls	Yes	Yes	Yes
Year FE	No	Yes	Yes
CZs FE	No	No	Yes
N	7,729	7,729	7,729
Adj. R^2	0.620	0.626	0.949

Endogeneity tests

Firms may endogenously join the Broker Protocol in response to local competitive conditions, for example, to facilitate adviser poaching in anticipation of heightened market pressures.

- Multi-branch firms
- Diverse competitive firms
- Exogenous shocks: Non-compete agreement (NCA)

Multi-branch firms

- Remove single-branch firm to mitigate the endogenous effect of Protocol joining decision

	Local HHI		
	(1)	(2)	(3)
Local Protocol firms - Multi	-6.138***	-6.723***	-3.268**
	(-3.15)	(-3.49)	(-2.53)
Controls	Yes	Yes	Yes
Year FE	No	Yes	Yes
CZs FE	No	No	Yes
Observation	7,729	7,729	7,729
Adj. R^2	0.620	0.626	0.949

Competition-diversed firms

- Keep firms operating in diverse competitive environments. Firms with local HHI-range within the top decile of observed range across all firms.

	Local HHI		
	(1)	(2)	(3)
Local Protocol firms - Diverse	-6.138***	-6.723***	-3.268**
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Exogenous shock - NCA

- Variation in state-level noncompete agreement (NCA) enforceability
- NCAs, covenants not to compete, restrict employees from joining or establishing competing firms within a defined geographic area for a specified period, typically one to two years after departure.

	Local HHI		
	(1)	(2)	(3)
Local Protocol firms × NCI shock	-14.657**	-15.473***	-5.664*
	(-2.54)	(-2.68)	(-1.66)
NCI shock	6.281***	7.094***	2.533*
	(2.62)	(2.91)	(1.74)
Local Protocol firms	-6.365***	-6.707***	-3.143**
	(-3.08)	(-3.28)	(-2.24)
Controls	Yes	Yes	Yes
Year FE	No	Yes	Yes
CZs FE	No	No	Yes
Observation	7,019	7,019	7,019
Adj. R^2	0.626	0.630	0.951

Post-Protocol effects

- Improve employment and AUM

	Firm employment		Firm AUM	
	(1)	(2)	(3)	(4)
Protocol - Firm	0.227***	0.179***	0.423***	0.200***
	(13.41)	(10.64)	(14.94)	(7.73)
Firm × Cohort FE	Yes	Yes	Yes	Yes
Year × Cohort FE	No	Yes	No	Yes
N	291,035	291,035	97,184	97,184
Adj. R^2	0.957	0.958	0.946	0.955

Broker Protocol, firm performance, and firm size

- Improvement in employment is larger for small firms

	Firm employment			
	(1)	(2)	(3)	(4)
Protocol - Firm × Small firm	0.834**	0.781**		
	(2.56)	(2.43)		
Small firm	-0.240***	-0.218***		
	(-18.04)	(-16.60)		
Protocol - Firm × Large firm			0.008	0.014
			(0.09)	(0.16)
Large firm			0.114***	0.086***
			(16.87)	(12.80)
Protocol - Firm	0.297***	0.217***	0.288***	0.204**
	(13.61)	(10.05)	(3.17)	(2.28)
Firm × Cohort FE	Yes	Yes	Yes	Yes
Year × Cohort FE	No	Yes	No	Yes
Observation	97,637	97,637	97,637	97,637
Adj. R^2	0.946	0.947	0.946	0.947

Broker Protocol, firm performance, and firm size

- Improvement in AUM is larger for small firms

	Firm AUM			
	(1)	(2)	(3)	(4)
Protocol - Firm × Small firm	1.073***	0.967***		
	(2.71)	(2.69)		
Small firm	-1.870***	-1.816***		
	(-99.95)	(-107.25)		
Protocol - Firm × Large firm			-0.138	-0.095
			(-1.24)	(-0.94)
Large firm			0.914***	0.835***
			(109.64)	(108.85)
Protocol - Firm	0.391***	0.174***	0.504***	0.258**
	(14.69)	(7.21)	(4.56)	(2.55)
Firm × Cohort FE	Yes	Yes	Yes	Yes
Year × Cohort FE	No	Yes	No	Yes
Observation	97,184	97,184	97,184	97,184
Adj. R^2	0.953	0.961	0.954	0.961

Underlying channels

Underlying channels

- Turnover of star advisers
- Turnover destination - from large to small firms

Turnover of star advisers

Turnover of star advisers → cross-firm knowledge spillovers: best practices, such as risk management and compliance innovations to fintech solutions → undermining incumbents' informational advantages and lowering entry barriers.

Turnover of star advisers

- Increase in turnover of star advisers after Protocol

	Workplace turnover					
	Trusted adviser			Credentialed adviser		
	(1)	(2)	(3)	(4)	(5)	(6)
Protocol - Adviser × Trusted adviser	0.631**	1.631***	1.330***			
	(2.38)	(4.85)	(4.50)			
Trusted adviser	-3.189***	-4.723***	-0.887***			
	(-15.77)	(-13.34)	(-4.05)			
Protocol - Adviser × Credentialed adviser				2.473***	3.128***	2.394***
				(12.79)	(19.18)	(11.78)
Credentialed adviser				-1.464***	-2.154***	-2.449***
				(-5.12)	(-10.96)	(-12.04)
Protocol - Adviser	-8.503***	-0.337	-0.363	-8.121***	1.023***	0.721
	(-4.38)	(-0.72)	(-0.37)	(-4.30)	(4.30)	(0.78)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
CZ FE	No	Yes	No	No	Yes	No
Firm FE	Yes	No	No	Yes	No	No
Adviser FE	No	No	Yes	No	No	Yes
Observation	6,467,839	6,467,839	6,467,839	6,467,839	6,467,839	6,467,839
Adj. R^2	0.050	0.013	0.060	0.050	0.013	0.060

Turnover destination - from large to small firms

- Turnover from large to small firms increases after Protocol

	Turnover from large to small firm		
	(1)	(2)	(3)
Protocol - Adviser	0.007***	0.004***	0.003***
	(4.02)	(3.06)	(2.72)
Controls	Yes	Yes	Yes
Year FE	No	No	Yes
CZ FE	No	Yes	No
Firm FE	Yes	No	No
Observation	6,536,352	6,536,352	6,536,352
Adj. R^2	0.057	0.022	0.024

Conclusion

- Broker Protocol increases industry competition
- Small entrants to the Protocol experience significant growth in assets under management (AUM) and employment,
- Large incumbents disproportionately lose more advisers.

Implications

- By relaxing legal constraints on adviser movement, the Protocol promotes more equitable access to talent and contributes to greater market decentralization. T
- This voluntary institutional mechanism facilitates labor mobility without direct regulatory intervention and provides a compelling case of how reconfiguring property rights over human capital can foster more competitive and dynamic market environments.
- Particularly important for human-capital-intensive industries where talent is a key source of competitive advantage and market power is concentrated.

Thank you

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