

7/19/2023

RE: Charles Schwab Integration - **Billing Process Updates & Changes – Advisor Memo Only**

Dear Valued Advisor,

The purpose of this memo is to notify you of several billing process updates and changes related to the upcoming integration with Charles Schwab. The integration will be taking place automatically online over Labor Day weekend. Action is *not* required by advisors or clients, direct at TD or otherwise, for the integration unless notified by our office over the coming weeks.

Please expect an increase in memos and updates with instructions and answers to FAQs as we progress through each transition stage.

Memos sent to you as an advisor will differ from memos sent to clients. Advisors will always be notified and receive a copy of all client memos beforehand. We do *not* plan to send letters directly to clients unless there is a material change where we are required to do so. We will allow you to communicate with your clients at your discretion for most of the information regarding the transition.

Grace Period & Fixed Costs Discontinued

The "grace period" and "fixed cost" billing rules are being eliminated entirely as of our upcoming billing cycle in August. In short, this means an account will be eligible for billing starting when there is a balance in the account at the custodian, and all required paperwork is on file. Allocating a new account into an investment model is no longer a condition of applying monthly billing charges.

For advisors, this change means that monthly ACH fee payments will now include billing proceeds from all accounts with a balance at the custodian and required paperwork on file. Receiving billing proceeds from new accounts will no longer be delayed until submitting allocation tickets to invest in an account for the first time. Similarly, advisors will no longer be charged a penalty fee from their monthly payment for waiting longer than 30 days to allocate an account.

For clients, this means they can expect monthly charges to be applied to their new accounts right away once the assets arrive at the custodian and they have signed all required paperwork. It's important to note that this *does not change the overall amount clients will be charged annually*. The client will *not* be charged *more* in fees due to this change, but they will simply be charged fees on a different timeline. Billing a new account for the first time will no longer be delayed pending allocation decisions once assets are transferred into the custodian. Rather than postponing what can sometimes lead to multiple months' worth of calculated fees in the first billing charges applied to a new account, the same fees will be spread out by charging the account per month from the start.

Our goal is to simplify our billing process by eliminating outdated procedures and streamlining the process. Billing an account once assets are transferred into the custodian is a process that most firms in our industry use. With this change, clients will ultimately be charged the same amount they are today, but the calculations will be easier to interpret on both the client and advisor end. Nearly 100% of the questions and concerns surrounding the billing process we receive are related to "grace period" and "fixed costs." Our expected outcome is that both the client and advisor experience will be more straightforward while simultaneously making the Pay Report in Fusion easier to read.

This change has no impact on accounts that are actively being billed already. It only changes the billing timeframe on new accounts going forward or accounts where these billing rules are currently being applied to the system. For these situations, billing will now be switched "on" instead of postponed further. Our contracts and manuals will be revised to reflect this change going forward.

Lastly, we want to stress the importance of transferring assets to the custodian only when there is a clear path forward for investing the account. This has always been our message; however, it will become increasingly important to invest client assets as soon as possible upon the arrival of incoming transfers since accounts will be charged management fees immediately.

WWA and WRAP ABP Fee Changes

After conducting research with our TD and Schwab account managers related to our current WRAP ABP billing arrangement, it has become clear that keeping this WRAP ABP program moving forward at Charles Schwab will not be financially prudent for our clients. Therefore, we will be enrolling in the Non-WRAP TBP program instead. Once our account database is moved to Charles Schwab over Labor Day weekend, clients will now be charged their custodial fees based on billable transactions ("TBP") instead of billable asset balances held inside their accounts ("ABP"). Also, the charges will be applied directly from Schwab to the client account ("Non-WRAP") instead of being included in their monthly fees and passed through WWA ("WRAP").

Our position is that the Non-WRAP TBP program is the fairest and most accurate way for clients to pay their custodial fees going forward, given the recent changes in how custodial account charges are calculated. Charles Schwab does not charge any fees for transactions on equities, ETFs, NTF mutual funds, or cash. We anticipate that less than 10% of our account database will incur any TBP custodial charges at all. Over the next few weeks, we will provide each advisor with details showing the models on our system that will most likely incur transaction fees. Advisors can then re-allocate clients into different models if they choose to do so, however making allocation changes as a result of our billing changes is not required.

Please note that this change does not impact the total overall management fee rate that WWA will charge each client. The 10bps WRAP fee that was previously rolled into our RIA portion of the WWA minimum fee is still being collected as it has always been; however, it is now being added to the WWA RIA fee. In other words, the total minimum WWA fee will remain the same as usual at 77bps. Internally, however, the 10bps is no longer being used to pay custodial charges and is now being collected as part of our internal fee.



Firm costs have continued to grow substantially over the past several years while we have strived to expand investment options and improve infrastructure for our advisors. We have seen dramatically increased software expenses, insurance rates, and administrative overhead costs during this time. Our goal is to keep the monthly Advisor fees at affordable levels, and this billing adjustment will help us accomplish that.

Fortunately, clients will not experience any change to their annual WWA fees once we transition to Schwab. The total fee they agreed to will remain the same; the custodial WRAP fee is simply being eliminated while our internal RIA costs are increasing.

No action is required by clients or advisors due to this billing change. Note that technology fees will not change as part of these billing updates and will continue to be charged as usual.

Please use this month to ensure your understanding of the fees ahead of our Schwab integration over Labor Day weekend and let the Ops Team know of any clients for which you may need to make special arrangements. At this time we have not notified clients of this change directly, but we will communicate with you before sending out any client notices in the future.

As always, we appreciate each of you and sincerely thank you for your hard work and dedication to this great industry. We count it a privilege that you have chosen Wealth Watch Advisors as your RIA platform and will continue to work towards enhancing our structure and investment offerings in the years to come.

Thank you for your attention to this memo. Don't hesitate to get in touch with us with any questions.

Sincerely,

David A. Shields
CEO, Wealth Watch Advisors, Inc.