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Anna Ulrichshofer, Markus Walzl

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Contact address of the editor:  
research platform "Empirical and Experimental Economics"  
University of Innsbruck  
Universitaetsstrasse 15  
A-6020 Innsbruck  
Austria  
Tel: + 43 512 507 71022  
Fax: + 43 512 507 2970  
E-mail: [eeecon@uibk.ac.at](mailto:eeecon@uibk.ac.at)

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# Customer Disputes, Misconduct, and Reputation Building in the Market for Financial Advice\*

Anna Ulrichshofer<sup>†</sup> and Markus Walzl<sup>‡</sup>

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## Abstract

We analyze the impact of records of denied and withdrawn customer complaints on job separation in a dataset based on FINRA’s Broker-Check database with more than 1 mio. financial advisers. Compared to misconduct that actually leads to a conviction of the adviser, denied and withdrawn complaints are more likely to be repetitive (an adviser with a record is six times more likely to have another incidence of the same kind than the average adviser). This is in-line with the observation that advisers with a record are only slightly ( $\sim 5\%$ ) more likely to lose their job. In contrast, an adviser with a record is 20 times more likely to be re-employed compared to advisers without a record. Moreover, re-employment probabilities display a gender-gap but not a gender-punishment gap: There is a 25% smaller reemployment probability for female compared to male employees but this gender-gap is insensitive to the existence of a record of a customer dispute.

**JEL Classification:** G34, J44, J71, M51.

**Keywords:** Financial advice, misconduct, job-mobility, gender-gap, discrimination, credence goods.

## 1 Introduction

**Financial advice as a credence good** Individuals and households often delegate decision making and transaction services to financial professionals or ”money doctors”. E.g., financial advisers in the US help manage over 30 trillion dollars of investible assets, and represent approximately 10% of total employment of the finance and insurance sector (Egan et al., 2019). The United States Department of Labor has estimated that billions of dollars are saved per year because advice is delegated to financial advisers (Turner and Muir, 2014). But financial advice is a credence good (Darby and Karni, 1973): The expert often knows better than the client what the client actually needs, and even if the client is fully aware of her needs, she may not be able to verify ex-post that the adviser did his best to cater her preferences.<sup>1</sup> Based on these informational asymmetries, recent theoretical contributions emphasize the impact of monetary and non-monetary incentives on fraud and efficiency in markets for financial advice (Inderst and

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<sup>†</sup>Innsbruck University, Universitaetsstr. 15, 6020 Innsbruck, Austria, E-mail: anna.ulrichshofer@uibk.ac.at

<sup>‡</sup>Innsbruck University, Universitaetsstr. 15, 6020 Innsbruck, Austria, E-mail: markus.walzl@uibk.ac.at

<sup>1</sup>In the terminology of Balafoutas and Kerschbamer (forthcoming) financial advice is an expert *and* a label credence good.

Ottaviani, 2012*a,b,c*). While indeed the financial service industry ranks last with respect to trust among all sectors in Edelman’s Trust Barometer (2019), evidence on an economy wide extent of misconduct has only recently been collected (see Egan et al. (2017), Egan et al. (2019), and the literature overview below). These studies, however, focus on misconduct that eventually leads to a conviction of the adviser (or at least a settlement), i.e., addresses cases where the pertinent information asymmetry of a credence goods market is resolved and misbehavior is ultimately verified. Our paper complements this approach with a focus on cases where the credence goods nature of financial advice remains intact and informational asymmetries are not resolved after a customer’s complaint – and the adviser either was innocent or ”gets away with it”.

**This study** In our paper we examine the labor market consequences of misconduct by financial advisers that does not lead to the conviction of the adviser, and study adviser allocation across firms following this type of misconduct. To this end, we construct a panel database of all financial advisers (about 1.2 million) registered in the US from 2005 to 2015. The data set contains the employment history of each adviser. We collect all customer disputes, disciplinary events, or financial matters from advisers’ disclosure statements during that period. The disciplinary events include civil, criminal, and regulatory events, and disclosed investigations. We find that an adviser with a record of customer disputes that have been withdrawn or denied is six times more likely to ”do it again” (which is significantly more than for violations that lead to a conviction). Correspondingly, we observe a small ( $\sim 5\%$ ) impact of such a record on employment separation. In contrast, an adviser with such a record is 20 times more likely to be re-employed compared to advisers without a record. This is in contrast to misconduct that leads to a conviction of the adviser or a settlement where re-employment is less likely with a record than without. We also find a certain degree of specialization: Firms with a higher share of advisers with a record are more tolerant regarding misconduct when it comes to hiring and firing decisions. Finally, we observe a ”gender-gap” but not a ”gender-punishment gap”: There is a 25% smaller reemployment probability for female compared to male employees but this gap is unaltered by a record of withdrawn or denied customer disputes.

**Literature Overview** Our paper contributes to several branches of the literature.

First, our study complements a growing body of the literature using the FINRA’s Broker-Check database to examine financial misconduct and the associated labour market consequences. Since the publication by FINRA’s economists (Qureshi and Sokobin, 2015), the FINRA BrokerCheck database has been extensively used in the economic and accounting literature (see, e.g., Charoenwong et al. (2019); Clifford and Gerken (2017); Dimcock et al. (2018); Dimcock and Gerken (2018); Dimcock et al. (2019); Egan et al. (2019); Gurun et al. (2019); Honigsberg and Jacob (2019); Law and Mills (2019)). Qureshi and Sokobin (2015) find that information on the record of financial advisers can be useful for retail investors as prior records on misconduct are indicative of recidivism and the probabilities of disclosure events are positively correlated among co-workers. Dimcock et al. (2018) consider merger cases as exogenous shocks to advisers to identify the causality behind the latter finding. They find that an adviser who leaves an office due to the merger is more likely to have a record of misconduct in subsequent years if the fraction of his/her co-workers with a record at the new office is above average. Most closely related to our paper, Egan et al. (2019) built on the work by Qureshi and Sokobin (2015) providing a comprehensive, systematic analysis of the ”market for financial adviser misconduct”. They find that misconduct is prevalent and persistent over time and across firms. In particular, the authors demonstrate that some firms are more tolerant with respect to records of misconduct than other firms. Partly, this ”specialization” of firms can be attributed to a large heterogeneity in customer

sophistication (i.e., financial literacy) across regions. In our paper, we analyze in how far these findings on misconduct that ultimately leads to a conviction or settlement translates to customer disputes that are denied or withdrawn.

Second, our paper contributes to the discussion of a gender gap in labor markets. While the gender gap with respect to education, labour market participation, and wages has declined over decades (Blau and Kahn, 2000, 2017), it persists and can be partly attributed to wage penalties for career interruptions (Betrand et al., 2010; Betrand and Dufflo, 2017). For financial advisers, Egan et al. (2017) identify a "gender punishment gap" against female financial advisers, and demonstrate that this punishment gap is not driven by gender differences in productivity (i.e., assets under management and quality rating at the individual level), but rather can be attributed to in-group favoritism.<sup>2</sup> Our study also observes a significant gender gap with respect to re-employment but does not identify a gender punishment gap (i.e., a differential impact of a record of customer disputes on job separation and re-employment). This contributes to the long history of studies on discrimination in labor markets based on various methods ranging from audit studies and (pseudo-)experiments to correspondence studies with a focus on hiring or employee selection (see several excellent surveys by, e.g., Darity and Mason (1998); Altonji and Blank (1999); Lang and Lehmann (2012); Betrand and Dufflo (2017); Neumark (2018); Lang and Spitzer (2020)).

The outline of the remainder of the manuscript is the following. Section 2 contains a description of the dataset. In Section 3 we define the type of financial adviser misbehavior, we are interested in, minor misconduct. Results are displayed in Section 4 with Section 4.1 addressing recidivism, Section 4.2 discussing the impact of records on job separation and re-employment, Section 4.3 analyzing the heterogeneity of firms' responses to a record, and Section 4.4 documenting our gender-related findings. Section 5 includes robustness checks (in particular regarding an alternative definition of financial adviser misbehavior).

## 2 Data Construction and Descriptive Statistics

This paper considers records of customer disputes that did not lead to a conviction of a financial adviser. To this end, we use a different definition of a record of misconduct compared to Egan et al. (2019) and Egan et al. (2017) who focus on misconduct that eventually leads to a conviction or settlement. To allow for a comparison with their findings we use the same estimation techniques for a dataset that is as similar as possible. Therefore, we create a database for the same time span and following the same approach as Egan et al. (2019) and Egan et al. (2017). However, our database does not include exactly the same data due to a variation of the data over time. For example, a pending disclosure may have been settled or denied in the meantime. As a consequence, we compare our findings to our own replication of the analysis in Egan et al. (2019) and Egan et al. (2017) rather than their results and discuss explicitly any significant difference between replication and original study.

### 2.1 Data construction

We construct a database including all advisers in the US in the period of 2000-2018. To this end, we downloaded all adviser and firm reports as of February 2018 from FINRA's BrokerCheck website. FINRA (Financial Industry Regulatory Authority) is a government-authorized not-for-profit organization that oversees U.S. broker-dealers. On the BrokerCheck website by FINRA

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<sup>2</sup>See Honda (2020) for a detailed discussion of the origin of the gender-punishment gap in FINRA Broker Check data.

(<https://brokercheck.finra.org/>) one can search for information on brokers and firms by their name or using the broker's or firm's CRD number (Central Registration Depository), which every broker and firm is required to have. The adviser reports include an adviser's employment history, his or her registration history, information on the qualification he or she holds, and disclosure statements. Firm reports include among others information about the firm's history, the firm names and locations, the firm's direct owners and executive officers, and disclosure statements. We automatically extract the information from the adviser and firm reports using PYTHON. Our database includes a yearly unbalanced panel of advisers and firms over the period 2000-2018, which we restrict for this paper to the period 2005-2015 to be as close as possible to Egan et al. (2019) and Egan et al. (2017). Additionally to the information obtained from the FINRA reports we match advisers' gender by their first name using the R package *Gender* with its database "The US Social Security Administration".<sup>3</sup>

## 2.2 Descriptive Statistics

We observe information on 1,166,143 financial advisers over the period 2005-2015. About one third of advisers 403,915 in our sample are observable over the whole period of time. An adviser is present in our database for an average number of 6.87 years. Moreover, the median number of advisers per year is 706,617 with standard deviation of around 31,960 advisers. Table 1a shows the summary statistics for financial advisers in our database. Advisers have on average 10.95 years of experience. They hold on average three qualifications. 22.94% of advisers hold the Series 66 and 21.58% the Series 65, which qualify advisers to register as investment advisers. The Series 63 exam is held by 77.9% and is required by almost all US states, and covers state securities regulations. 16.67% hold a Series 24, which qualifies them to act as a supervisor in a general securities firm. 69.35% hold a Series 7 exam, which qualifies an adviser to sell all types of securities products except commodities and futures. 39.9% hold a Series 6 qualifying them to sell mutual fund, variable annuities and insurance. The above mentioned exams are the six most popular exams among financial advisers. 12.42% of advisers have a record of current or past disclosure, while the yearly flow of disclosures is 1.67%.

Table 1b shows the summary statistics for financial advisory firms. We restrict our sample to the 4,388 firms active in 2015. We have an unbalanced yearly panel over the period 2005-2015. 21.8% of firms are registered as investment advisory firms and the average firm age is 15.44 years. Firms have on average 5.49 business lines and around 176 employees.

## 3 Minor Misconduct

In this section we first define the type of disclosure events that we focus on throughout our study. All US brokers must be registered and licensed by FINRA. The broker's report must disclose information "about customer disputes, disciplinary events, and certain criminal and financial matters on the broker's record". We observe disclosure reports for all registered advisers during the period 2000-2018, but as mentioned above restrict our sample to the period 2005-2015.

FINRA categorizes 23 types of disclosures, for which definitions can be found in Appendix A.2. Table 2 gives an overview of the share of financial advisers, who received one or more disclosures in a given year (Flow of New Disclosure), and the share of advisers, who received one or more disclosure in a given year or previous years (Stock of Disclosure). Egan et al. (2017) and

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<sup>3</sup>Statistic analysis was done using R and regression tables with the help of the R package *stargazer* Hlavac (2018).

Egan et al. (2019) classify six out of the 23 disclosure types as misconduct: Customer Dispute - Settled, Regulatory - Final, Employment Separation After Allegations, Customer Dispute - Award/Judgment, Criminal - Final Disposition, Civil - Final. These categories comprise of disclosures that were resolved (at least partially) against the financial adviser. We will henceforth refer to this type of misconduct as *major misconduct*. In contrast, we define *minor misconduct* as any "consumer-initiated, investment-related complaint, arbitration proceeding or civil suit containing allegations of sale practice violations against the individual adviser that was dismissed, withdrawn, or denied". Thus, minor misconduct includes the following four types of disclosures: Customer Dispute - Closed-No Action/Withdrawn/Dismissed/Denied. Note, we do not observe disclosures of the type Customer Dispute - Final, which is why we exclude it from our definition of minor misconduct.

We argue that our definition of minor misconduct captures the characteristics of a customer dispute in a credence goods market: First, the definition focuses on customer disputes (rather than regulatory or criminal infringements). Second, we do not include Customer Dispute - Award/Judgment, Customer Dispute - Pending, and Customer Dispute - Settled. For Customer Dispute - Award/Judgment we argue that the adviser's misbehavior was proven or verified, i.e., the informational asymmetry that defines a credence goods market has been resolved. We do not include Customer Dispute - Pending since the adviser's guilt still has to be determined - and the informational asymmetry may be resolved in the future. Finally, we also exclude the case of Customer Dispute - Settled. One could certainly argue that this category of disclosure is related to credence goods. The parties may settle precisely because it will take a long trial to verify the adviser's misbehavior or innocence. However, parties may also settle to save legal fees or other costs even though misbehavior or innocence is not too difficult to verify. In a sense, excluding Customer Dispute - Settled may yield a measure for credence goods related customer disputes that underestimates the actual number of cases. But it allows for a clean comparison with major misconduct as this category includes Customer Dispute - Settled according to the definition of Egan et al. (2017) and Egan et al. (2019). In section 5 we show robustness checks including an alternative definition of minor misconduct including Customer Dispute - Settled.

As mentioned above, Table 2 gives an overview of the share of advisers, who received one or more disclosures in a given year (Flow of New Disclosure), and the share of advisers, who received one or more disclosures in a given year or previous years (Stock of Disclosure). Flow of new disclosure is a binary variable, which is 1 if an adviser received one or more disclosures in a given year, and 0 otherwise. The flow of minor misconduct is 0.399% with the biggest contributor being Customer Dispute - Denied. In Table A1, our replication of Egan et al. (2019) and Egan et al. (2017), the flow of major misconduct is 0.624% with the main contributor being Customer Dispute - Settled. This difference is not too surprising since there are less (and different) types of disclosures included in minor misconduct than in major misconduct. Moreover, minor misconduct events are initiated by a customer complaint, which requires a certain initiative of the customer rather than one of e.g. a regulator (Regulatory - Final), who is tasked with overlooking financial advisers. Stock of new disclosure is also a binary variable, which is 1 if the adviser received one or more disclosures in a given year or previous years, and 0 otherwise. Again, the stock of minor misconduct 4.02% is smaller than the stock of major misconduct 7.36%, which suggests that major misconduct is more common than minor misconduct. Either advisers engage less in minor misconduct than in major, or misbehavior related to minor misconduct is less likely to be detected.

## 4 Results

### 4.1 Repeat Offenders

According to our definition of minor misconduct, we consider customer disputes that were dismissed, withdrawn, or denied. This suggests either that there was no wrongdoing by the adviser or that misbehavior could not be verified. This raises the question, whether receiving a minor misconduct disclosure causes the financial adviser to change her behavior. A proxy for this is whether previous minor misconduct predicts future minor misconduct. Therefore, we estimate – analogously to Egan et al. (2019) – the following linear probability model for the probability that adviser  $i$ , at firm  $j$ , in county  $l$  is reprimanded for minor misconduct at time  $t$ ,

$$MinorMisconduct_{ijlt} = \beta_0 + \beta_1 PriorMinorMisconduct_{ijlt} + \beta X_{it} + \mu_{jlt} + \epsilon_{ijlt}, \quad (1)$$

where  $MinorMisconduct_{ijlt}$  is a dummy variable measuring the flow of minor misconduct in year  $t$ , i.e. flow of minor misconduct is 1 if an adviser received one or more minor misconduct disclosures in year  $t$ , and 0 otherwise.  $PriorMinorMisconduct_{ijlt}$  is a dummy indicating whether the adviser received one or more minor misconduct related disclosures prior to time  $t$ , i.e. 1 if the adviser has received at least one minor misconduct disclosure prior to time  $t$ , and 0 otherwise.  $X_{it}$  denotes additional adviser characteristics including the adviser experience and information regarding the exams he holds, and  $\mu_{jlt}$  are year-firm-county fixed effects. Table 3 shows our regression results. The coefficient of 2.223 percentage points suggests given that the baseline rate for minor misconduct is 0.399% that an adviser with a minor misconduct stock is six times more likely to engage in minor misconduct than an adviser who has no minor misconduct record prior to time  $t$ . In our replication of Egan et al. (2019) (see Table A2) we find a coefficient of 2.442 percentage points with corresponding baseline rate of major misconduct 0.624% implying that an adviser with a prior major misconduct record is five times more likely to engage in major misconduct compared to one without a record.

As mentioned above, one possible explanation for this difference could be that due to the credence goods nature of minor misconduct disclosures, it is often unclear whether there was some wrongdoing by the adviser. The category Customer Dispute often includes allegations such as unsuitable advise, misrepresentation or omission of key facts, which could also stem from a lack of expertise of the adviser or a lack of sophistication or financial literacy by the advisee. Proving such allegations is often not easy and requires a certain level of customers' sophistication. Hence, receiving a minor misconduct disclosure could be considered by an adviser as getting off cheaply compared to other types of disclosure (e.g. Customer Dispute - Settled, Regulatory - Final, Criminal - Final Disposition) which makes her less reluctant to misbehave again.

### 4.2 Labor Market Consequences of Minor Misconduct

In this section, we look at labor market consequences of minor misconduct and compare them to the case of major misconduct. Later, we focus on the firms' side, and whether there are differences in firms' tolerance of minor misconduct. To start, recall the findings of section 4.1 that repeat offenders seem to be more common considering minor rather than major misconduct disclosures. This raises the questions of whether advisers are less disciplined for engaging in such disclosures than for major misconduct. Therefore, we take a look at the relationship between minor misconduct and job turnover of advisers.



### 4.2.1 Employment Separation

Table 4a shows the average job turnover among financial advisers broken down by whether they have engaged in minor misconduct in the previous year. In stark contrast to the results of Egan et al. (2019) (see the replication in Table A3a) having received a minor misconduct disclosure in the previous year has hardly any effect on whether an adviser remains at a firm. We again follow Egan et al. (2019) and estimate the following linear probability model

$$Separation_{ijlt+1} = \beta_0 + \beta_1 MinorMisconduct_{ijlt} + \beta X_{it} + \mu_{jlt} + \epsilon_{ijlt}, \quad (2)$$

where  $Separation_{ijlt+1}$  is dummy variable indicating that adviser  $i$  is not employed at firm  $j$  in county  $l$  in year  $t + 1$ . Observations are at the adviser by year level.  $MinorMisconduct_{ijlt}$  is a dummy for whether the adviser received a minor misconduct disclosure at time  $t$ ,  $X_{it}$  denotes other adviser controls including adviser experience and qualifications. Regression results are shown in Table 4b. The estimates in Table 4b range from 3.348-6.146 percentage points depending on specification such as fixed effects and included controls. The coefficient of 4.542 percentage points in column (1) of Table 4b suggests that advisers with a minor misconduct disclosure have a 4.542 percentage points higher probability of an employment separation than those without a minor misconduct disclosure, which is also in line with observations in Table 4a. Considering the baseline rate of employment separation is 16.99% an adviser with a minor misconduct is about 1.2 times more likely to be separated from her firm than one without a minor misconduct in the previous year. Comparing this to the analogous analysis of Egan et al. (2019) (see Table A3b for the replication results), we find that advisers with major misconduct are more than 2.5 times more likely to lose their job than advisers without a major misconduct. These findings seem to be in line with the above-described explanation that advisers consider receiving a minor misconduct disclosure as getting off cheaply.

### 4.2.2 Reemployment

Due to the findings in Table 4a we now want to take a look at reemployment of advisers who have left their firm in the previous year. Therefore, we estimate the following probability model

$$NewEmployment_{ij't+1} = \beta_0 + \beta_1 MinorMisconduct_{ijlt} + \beta X_{it} + \mu_{jlt} + \epsilon_{ijlt}, \quad (3)$$

where the dependent variable  $NewEmployment_{ij't}$  is a dummy that is equal to 1 if adviser  $i$  in county  $l$  switched from firm  $j$  to firm  $j'$  between time  $t$  to  $t + 1$ . Observations are at the adviser by year level.  $MinorMisconduct_{ijlt}$  is a dummy for whether the adviser received a minor misconduct at time  $t$ ,  $X_{it}$  denotes other adviser controls including her experience and qualifications. Regression estimates are shown in Table 4c. The estimates in Table 4c range from 8.324-21.846 percentage points depending on the specifications. The coefficient of 21.846 percentage points suggests that an adviser with a minor misconduct record has a 21.856 higher probability of finding a job than one without a record. Considering that the baseline rate of reemployment is 53.72% about 62.04-75.566% of advisers with a minor misconduct record find a new job within a year. This is in stark contrast to the findings in our replication of Egan et al. (2019) (see Table A3c), where we find a highly significant negative effect of major misconduct on an adviser's reemployment chances.

## 4.3 Firms' Tolerance towards Minor Misconduct

In Table 5 the 20 firms with the highest incidence of firm employee minor misconduct rates are shown. Minor misconduct measures the percentage of advisers working for a firm that received a

minor misconduct disclosure in the past. The sample is restricted to the 106 firms active in 2015 with more than 1,000 advisers. If we compare Table 5 to our replication of Egan et al. (2019) Table A4 we find that 15 out of the 20 firms are in both rankings.

The rates of minor misconduct in Table 5 range from 7.69% to 13.43%, while the mean share of advisers in a firm with past records of minor misconduct is 1.92% with a standard deviation of 6.41% in Table 1b. This suggests that there is some heterogeneity in firms' tolerance of minor misconduct. To analyze this further we estimate the following linear probability model

$$\begin{aligned} \text{Separation}_{ijlt+1} = & \beta_0 + \beta_1 \text{MinorMisconduct}_{ijlt} \\ & + \beta_2 \text{FirmEmployeeMinorMisconduct}_{jt} \times \text{MinorMisconduct}_{ijlt} \\ & + \beta_3 X_{it} + \mu_{jlt} + \epsilon_{ijlt}, \end{aligned} \quad (4)$$

where the dependent variable is a dummy indicating that adviser  $i$  in county  $l$  is not employed at firm  $j$  at time  $t + 1$ . Observations are adviser by year.  $\text{MinorMisconduct}_{ijlt}$  is 1 if the adviser engaged in minor misconduct at time  $t$ .  $\text{FirmEmployeeMinorMisconduct}_{jt}$  measures the share of advisers at firm  $j$  that receive a minor misconduct disclosure at time  $t$ .  $X_{it}$  denote other adviser characteristics and  $\mu_{jlt}$  are firm-county-year fixed effects. The coefficient of interest is  $\beta_2$ , and measures how firm punishment of minor misconduct varies with the share of advisers with minor misconduct records in a firm. Regression results are shown in Table 6a. We find a negative and highly significant coefficient suggesting that firms with a larger share of advisers with a minor misconduct record punish less. An adviser engaging in minor misconduct at a firm with a minor misconduct rate that is 1 percentage point higher than the mean rate of firm employee minor misconduct 0.13%, has only about a 1.9 percentage points higher probability of being fired than an adviser without a minor misconduct record. Therefore, an increase of 1 percentage points of the firm employee minor misconduct rate reduces the sensitivity of the firm towards minor misconduct to less than half of that of an average firm.

This raises the question whether firms with higher rates of firm employee minor misconduct are also more likely to hire an adviser with a minor misconduct record. Therefore, we estimate the following linear probability model

$$\text{ShareDisciplinedNewHires}_{jt+1} = \beta_0 + \beta_1 \text{FirmEmployeeMinorMisconduct}_{jt} + X_{jt} + \mu_t + \epsilon_{jt}, \quad (5)$$

where the dependent variable indicates the share of new hires at firm  $j$  at time  $t + 1$ , who received a minor misconduct disclosure at time  $t$ . Observations are firm by year and we restrict the sample to those observations where a firm hired new advisers in a given year. The variable  $\text{FirmEmployeeMinorMisconduct}_{jt}$  is again the share of advisers at firm  $j$  that received a misconduct disclosure at time  $t$ .  $X_{jt}$  denote other firm controls e.g. firm age and number of advisers within a firm. Regression estimates are shown in Table 6b. The results suggest that a 1 percentage point increase in the firm employee minor misconduct rate leads to a 0.455 percentage points higher probability of being reemployed with a minor misconduct record. The last two results suggest that firms with a higher share of advisers with minor misconduct records are more tolerant towards minor misconduct both in their firing and hiring decisions.<sup>4</sup>

#### 4.4 Gender Differences in Minor Misconduct

Table 7 displays the flow and stock of disclosure broken down by gender. We find a higher flow and stock of minor misconduct for male than for female. Moreover results from our replication

<sup>4</sup>As in Egan et al. (2019) it is difficult to disentangle this explanation from peer-dynamics as emphasized in Dimcock et al. (2018).

of Egan et al. (2019) in Table A6 show that the flow of misconduct for both male 0.477% and female 0.191% are smaller than those of major misconduct (male 0.740% and female 0.315%) as well as the stock of minor misconduct is smaller (male 4.82% and female 1.87%) than the stock of major misconduct (male 8.95% and female 3.14%).

To analyze gender differences in minor misconduct we estimate the following linear probability model

$$MinorMisconduct_{ijlt} = \alpha Female_{ijlt} + \beta X_{it} + \mu_{jlt} + \epsilon_{ijlt}, \quad (6)$$

observations are adviser by year. The dependent variable is a dummy indicating whether or not adviser  $i$  at time  $t$  working for firm  $j$  in county  $l$  received a minor misconduct disclosure.  $Female_{ijlt}$  is a dummy indicating the adviser's gender,  $X_{it}$  denotes other adviser controls such as qualifications and experience in the industry, and  $\mu_{jlt}$  are firm  $\times$  county  $\times$  year fixed effects. Table 8 displays the regression results. The coefficient of  $-0.286$  percentage points suggests given that the base rate for male minor misconduct is 0.477% that female advisers' probability of engaging in minor misconduct is 40% of that of male. In Table A7 our replication of Egan et al. (2017) yields a coefficient of  $-0.425$  percentage points. Given the base rate of 0.740% for male major misconduct this suggests that the probability of female advisers to engage in major misconduct is 42.57% that of male, which is slightly higher than the one for minor misconduct.

Table 9a shows the average job turnover among financial advisers broken down by gender and whether they engaged in minor misconduct in the year prior to the job transition. Similar to our findings in Section 4.2 having received a minor misconduct disclosure in the previous year has hardly any effect on whether an adviser remains at a firm (male 83.0% vs 78.4%, female 83.2% vs 79.0%). Additionally Table 9a suggests that conditional on leaving a firm having a record of minor misconduct improves an adviser's chances to be reemployed within a year (male 55.1% vs 76.0%, female 49.6% vs 71.5%). Moreover, gender hardly affects whether an adviser remains at a firm (male 83.0% and 78.4% vs. female 83.2% and 79.0%). We do find that conditional on having left a firm more female advisers (50.4% and 28.5%) leave the industry than male (44.9% and 24.0%).

To analyze this more systematically we estimate the following linear probability model similar to eq. (2)

$$Separation_{ijlt+1} = \beta_1 Female_{ijlt} + \beta_2 MinorMisconduct_{ijlt} + \beta_3 MinorMisconduct_{ijlt} \times Female_{ijlt} + \beta_4 X_{it} + \mu_{jlt} + \epsilon_{ijlt}, \quad (7)$$

where the independent variable is a dummy indicating whether adviser  $i$  in county  $l$  is not employed at firm  $j$  at time  $t + 1$ .  $MinorMisconduct_{ijlt}$  is again 1 if an adviser has received a minor misconduct disclosure at time  $t$  and  $Female_{ijlt}$  is a gender dummy.  $X_{it}$  denote adviser characteristics such as the qualifications an adviser holds. The coefficient of interest is  $\beta_3$ , which measures the gender difference in punishment of minor misconduct. Regression results are shown in Table 9b. We do not find a significant effect on the interaction term. The coefficient of 4.564 percentage points suggests that a male adviser who engaged in minor misconduct has a 4.564 percentage points higher probability of an employment separation than an average male adviser. This finding is in line with our findings in previous sections. Moreover, we find that female advisers have a  $-0.218$  percentage points lower probability of experiencing an employment separation than male advisers. In our replications of Egan et al. (2017) Table A8b we find a significant positive coefficient of 8.595 percentage points on the interaction term, which suggests that relative to male advisers female advisers are about 30% more likely to lose their job after a major misconduct

disclosure.

As in Section 4.2, we now examine how minor misconduct influences reemployment chances of advisers and especially whether there are gender differences. Therefore, we estimate the following linear probability model

$$\begin{aligned} NewEmployment_{ijt+1} = & \beta_1 Female_{ijt} + \beta_2 MinorMisconduct_{ijt} \\ & + \beta_3 MinorMisconduct_{ijt} \times Female_{ijt} + \beta_4 X_{it} + \mu_{jlt} + \epsilon_{ijt}, \end{aligned} \quad (8)$$

where the independent variable is a dummy indicating whether adviser  $i$  in county  $l$  switched jobs from firm  $j$  to firm  $j'$  between  $t$  and  $t + 1$ . We restrict the sample to those advisers who left their firm at time  $t$ . As above  $Female_{ijt}$  is a gender dummy and  $MinorMisconduct_{ijt}$  indicates whether adviser  $i$  in county  $l$  at firm  $j$  at time  $t$  engaged in minor misconduct. The dependent variable of interest is  $MinorMisconduct_{ijt} \times Female_{ijt}$ , which measures the gender differences in minor misconduct tolerance in firms' hiring decisions. Regression results are shown in Table 9c. As above we do not find a significant coefficient on the interaction term, but a significant coefficient on the gender dummy that ranges between  $-1.014$  and  $-5.557$  percentage points suggesting that female advisers are less likely to be reemployed within a year. Furthermore the coefficients of  $8.251 - 20.904$  percentage points suggest that minor misconduct improves a male adviser's chances of being reemployed. The coefficients in column (3) of Table 9c imply that a female adviser has a 25% smaller probability of being reemployed within a year than a male.

## 5 Robustness

### 5.1 Alternative Minor Misconduct Definition

Recall our definition of minor misconduct includes the disclosure categories Customer Dispute - Closed-No Action/Withdrawn/Dismissed/Denied. Since the category Customer Dispute - Settled is part of the major misconduct definition in Egan et al. (2019) and Egan et al. (2017), we excluded it from the minor misconduct definition to achieve a clear distinction between minor and major misconduct. Customer Dispute - Settled has clearly characteristics related to credence goods. Therefore, we redefine minor misconduct by including Customer Dispute - Settled. The results of our analysis are shown in Table 10.

Table 10a shows the alternative minor misconduct stock and flow, and the firm employee alternative minor misconduct stock and flow. Since our alternative minor misconduct definition includes one disclosure category more than minor misconduct these are all higher than the corresponding ones for minor misconduct in Table 1. In column (1) of Table 10b the coefficient of 3.039 percentage points suggest together with the base rate of alternative minor misconduct of 0.70% that an adviser with a record of alternative minor misconduct is more than five times more likely to engage in alternative minor misconduct again than one without a record, which is about the same as with minor misconduct.

Column (2) and (3) of Table 10b show regression results for linear probability models (eq. (2) and (3)) for the alternative minor misconduct definition. The coefficients of 4.724 and 5.824 percentage points suggest that firms are less tolerant towards alternative minor misconduct than towards minor misconduct in both their firing and hiring decisions. Table 10c suggest further that a 1 percentage point increase in the firm employee alternative minor misconduct rate reduces the probability of being punished for alternative minor misconduct by 20%.

The results in Table 10d suggest that gender differences in the tolerance towards advisers' misbehavior are not dependent on the definition we use. The results for the alternative minor misconduct definition in Table 10d are qualitatively the same as in Section 4.4.

## 5.2 Comparison to Advisers with a Clean Record

In Section 4.2 we analyzed the labor market consequences of minor misconduct. We compared advisers with minor misconduct disclosures to the rest of the sample. Especially, the positive coefficients in Table 4c raise the question whether those advisers in the sample who engaged in major misconduct but not in minor are partly driving our results. Therefore, we restrict the sample to those advisers who did not engage in major misconduct. Table 11b and 11c show regression results for linear probability models (eq. (2) and (3)). The coefficient of 1.815 percentage points in Table 11b suggests that excluding advisers with major misconduct disclosures reduces the punishment of minor misconduct. Moreover, the coefficient of 10.584 percentage points in Table 11c suggests that advisers with a minor misconduct disclosure are even more likely to find a new job compared to advisers with a clean record. Therefore, the positive coefficient in Table 4c seems not to be driven by the advisers with major misconduct records. Nevertheless, the quantitative differences between Table 4 and 11 could be driven by advisers who received a minor and major misconduct disclosure within one year.

## 6 Conclusion

In terms of the origin of customer disputes and the relevance of informational asymmetries associated with the credence goods nature of financial advice, our contribution offers three main findings: First, advisers with a record of denied or withdrawn customer disputes are likely to "do-it-again". Second, these records have almost no impact on job separation, but - third - there is a strong demand for advisers with a record by "specializing" firms. These three insights help to disentangle different theories about the origin of customer dispute.

If customer disputes are purely driven by customer characteristics that are unrelated to the search process of an adviser (e.g., costs of conflict, psychological disposition etc.), neither repeated offense nor a demand for advisers with a record (and also no labor market disciplining) should be expected. If customers who are more likely to initiate a dispute search a particular type of adviser (i.e., an adviser with certain characteristics), we would indeed expect repeated offense (and possibly more job separation in response to a record), but surely not a strong demand for advisers with a record. If, however, customer disputes reflect a credence goods situation in which a customer feels mistreated but can not verify misconduct by the adviser, we expect repeated offense (after the adviser experienced that she "gets away with it"), do not necessarily expect more job separation in response to a record (unless the firm wants to establish a clean record), and we expect demand for advisers with such a record by firms who are willing to accept a certain amount of customer disputes in exchange for leverage of the informational asymmetry. In this sense, our findings lend support to a credence goods background of customer disputes - in particular, these findings point towards negative welfare effects of publicly available records of customer disputes. On the one hand, these records offer a disciplining device and facilitate search for advisers by firms who wish to maintain clean records. On the other hand, the availability of records offers an opportunity of firms who aim at an exploitation of the informational asymmetries in a credence goods market to search for advisers who had been successful with such an exploitation in the past.

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Table 1: Summary Statistics

## (a) Adviser Statistics

Variable	Obs	Mean	Std. Dev.	Median
Experience(years)	8,008,188	10.95	9.27	9.00
Disclosures:				
Disclosures (flow in one year)	8,008,188	1.67%		
Minor Misconduct (flow in one year)	8,008,188	0.40%		
Disclosure (stock)	8,008,188	12.42%		
Minor Misconduct (stock)	8,008,188	4.02%		
Exams and Qualifications (Series):				
No. Qualifications	8,008,188	3.01	1.39	3.00
Series 63	8,008,188	77.90%		
Series 7	8,008,188	69.35%		
Series 6	8,008,188	39.90%		
Series 66	8,008,188	22.94%		
Series 65	8,008,188	21.58%		
Series 24	8,008,188	16.67%		

## (b) Firm statistics

Variable	No.Firms	Obs	Mean	Std.Dev.	Median
Investment Advisory Firm	4,388	40,958	21.8%		
Firm Age	4,388	40,958	15.44	13.31	12
No.Business Lines	4,388	40,958	5.49	4.35	4
Number of Advisers	4,388	40,958	176.3	1,217.31	10
Firm Employee Minor Misconduct (flow in one year)	4,388	40,958	0.13%	0.98%	0.00%
Firm Employee Minor Misconduct (stock)	4,388	40,958	1.92%	6.41%	0.00%

Table 1a shows the summary statistic for financial advisers in our dataset. Observations are at the adviser by year level over the period 2005-2015.

Table 1b shows the summary statistic for financial advisory firms in our dataset. Observations are firm by year over the period 2005-2015. We restrict the sample to those firms active in 2015.



Table 2: Financial Adviser Disclosures and Credence

Disclosure	Disclosure	
	Flow of New Disclosure	Stock of Disclosure
<b>Minor Misconduct Disclosures:</b>		
Customer Dispute - Denied	0.312%	3.14%
Customer Dispute - Closed	0.075%	0.97%
Customer Dispute - Withdrawn	0.016%	0.16%
Customer Dispute - Dismissed	0.001%	0.02%
Any Minor Misconduct Related Disclosure	0.399%	4.02%
<b>Other Disclosures:</b>		
Customer Dispute - Settled	0.325%	3.65%
Financial - Final	0.388%	1.72%
Judgment/ Lien	0.270%	1.09%
Employment Separation After Allegations	0.177%	0.98%
Regulatory - Final	0.109%	1.29%
Financial - Pending	0.033%	0.09%
Criminal - Final	0.030%	2.12%
Customer Dispute - Pending	0.025%	0.21%
Customer Dispute - Award/ Judgment	0.018%	0.57%
Criminal - Pending	0.007%	0.01%
Investigation	0.005%	0.02%
Civil - Final	0.004%	0.03%
Civil Bond	0.002%	0.02%
Regulatory - Pending	0.002%	0.01%
Regulatory - On Appeal	0.001%	0.00%
Civil - Pending	0.001%	0.00%
Civil - On Appeal	0.000%	0.00%
Criminal - On Appeal	0.000%	0.00%
Any Disclosure:	1.671%	12.42%

Observations are at the adviser by year level for 2005 - 2015. Flow of new disclosures indicates the share of advisers who received a disclosure in a given year. Stock of disclosures is the share of advisers who received a disclosure in a given year or have received a disclosure in the past.

Table 3: Adviser Minor Misconduct

	Minor Misconduct		
	(1)	(2)	(3)
Prior Minor Misconduct	2.223*** (0.012)	1.983*** (0.012)	1.789*** (0.013)
Experience		0.150*** (0.003)	0.159*** (0.003)
Series 65/66		0.342*** (0.005)	0.268*** (0.007)
Series 63		0.103*** (0.006)	0.125*** (0.007)
Series 7		0.102*** (0.007)	0.128*** (0.008)
Series 6		0.036*** (0.006)	0.026*** (0.008)
Series 24		-0.108*** (0.007)	-0.098*** (0.007)
No. Other Qual.		-0.459*** (0.028)	-0.315*** (0.032)
Year×Firm×County F.E.			X
Observations	7,470,813	7,470,813	6,937,098
R <sup>2</sup>	0.004	0.006	0.010

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Regression results for a linear probability model (eq. (1)). The dependent variable is a dummy indicating whether the adviser received a minor misconduct disclosure in a given year. The independent variable Experience and No.Other Qual. are measured in tens of years and tens of qualifications respectively. Coefficient units are percentage points. Observations are adviser by year over the period 2005 - 2015.

Table 4: Labor Market Consequences of Minor Misconduct

(a) Job Turnover

	No Minor Misconduct	Minor Misconduct
Remain with the Firm	83.03%	78.49%
Leave the Firm	16.97%	21.51%
Conditional on Leaving the Firm:		
Leave the Industry	46.40%	24.55%
Join a Different Firm (within 1 year)	53.60%	75.45%

(b) Employment Separation

	Employment Separation		
	(1)	(2)	(3)
Minor Misconduct	4.542*** (0.211)	6.146*** (0.211)	3.348*** (0.207)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	7,666,273	7,666,273	7,457,027
R <sup>2</sup>	0.0001	0.006	0.085

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

(c) Reemployment

	Reemployment		
	(1)	(2)	(3)
Minor Misconduct	21.846*** (0.604)	11.263*** (0.566)	8.324*** (0.535)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	1,302,472	1,302,472	1,281,199
R <sup>2</sup>	0.001	0.127	0.245

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 4a displays the average Job Turnover among financial advisers in the period 2005-2015. Leave the Industry is defined as an adviser not being employed for at least one year. Join a Different Firm is a dummy for whether the adviser joined a new firm within a year. The job turnover is broken down by whether the adviser engaged in minor misconduct in the previous year.

Table 4b and Table 4c show regression results for linear probability models (eq. (2)-(3)). The dependent variable in Table 4b is a dummy for whether the adviser left her firm in a given year or not (eq. (2)). In Table 4c we restrict the sample to advisers who have left their firm in a given year. The dependent variable in Table 4c is a dummy for whether the adviser joined a new firm within a year (eq. (3)). Coefficient units are percentage points. Adviser Controls include the qualifications of the adviser and her industry experience. Observations are at the adviser by year level over the period 2005-2015.

Table 5: Firms with the Highest Incidence of Minor Misconduct

Rank	Firm Name	Firm CRD#	#Advisers	Minor Misconduct
1	AMERIPRISE FINANCIAL SERVICES, LLC	6363	14,015	13.43%
2	WELLS FARGO ADVISORS FINANCIAL NETWORK, LLC	11025	1,870	12.46%
3	OPPENHEIMER & CO. INC.	249	2,431	11.07%
4	UBS FINANCIAL SERVICES INC.	8174	12,527	11.00%
5	WOODBURY FINANCIAL SERVICES, INC.	421	1,400	10.79%
6	MORGAN STANLEY	149777	24,519	10.62%
7	FIRST ALLIED SECURITIES, INC.	32444	1,128	10.55%
8	WELLS FARGO CLEARING SERVICES, LLC	19616	27,405	9.58%
9	RAYMOND JAMES & ASSOCIATES, INC.	705	5,677	9.41%
10	CETERA ADVISORS LLC	10299	1,529	9.16%
11	STIFEL, NICOLAUS & COMPANY, INCORPORATED	793	4,093	8.75%
12	JANNEY MONTGOMERY SCOTT LLC	463	1,446	8.71%
13	LINCOLN FINANCIAL SECURITIES CORPORATION	3870	1,097	8.57%
14	MSI FINANCIAL SERVICES, INC.	14251	6,112	8.56%
15	SUNTRUST INVESTMENT SERVICES, INC.	17499	1,719	8.49%
16	NATIONAL PLANNING CORPORATION	29604	1,797	8.18%
17	RAYMOND JAMES FINANCIAL SERVICES, INC.	6694	5,274	8.08%
18	NEW ENGLAND SECURITIES	615	1,645	7.90%
19	PURSHE KAPLAN STERLING INVESTMENTS	35747	1,326	7.69%
20	LPL FINANCIAL LLC	6413	18,557	7.69%

U.S. Firms with the highest employee minor misconduct rates active in 2015. Minor Misconduct measures the percentage of advisers working for a firm that have received a minor misconduct disclosure in the past. We restrict the sample to the 106 firms with at least 1,000 advisers.

Table 6: Firm Difference in Minor Misconduct Tolerance

## (a) Employment Separation

	Employment Separation		
	(1)	(2)	(3)
Minor Misconduct	4.910*** (0.275)	7.202*** (0.274)	4.970*** (0.274)
Firm Employee Minor Misconduct	4.217*** (0.026)	4.746*** (0.026)	1.763*** (0.041)
Firm Employee Minor Misconduct $\times$ Minor Misconduct	-3.024*** (0.159)	-3.659*** (0.158)	-1.724*** (0.161)
Adviser Controls		X	X
Year $\times$ Firm $\times$ County F.E.			X
Observations	7,210,110	7,210,110	7,008,297
R <sup>2</sup>	0.004	0.011	0.067

Note:

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

## (b) Hiring

	New Hires	
	(1)	(2)
Firm Employee Minor Misconduct <sub>t-1</sub>	0.455*** (0.029)	0.422*** (0.030)
Firm Controls	X	X
Year F.E.		X
Observations	17,438	17,438
R <sup>2</sup>	0.023	0.027

Note:

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

Table 6a shows the regression results for a linear probability model (eq. (4)) analyzing whether firms with a higher share of advisers with minor misconduct records are more tolerant towards minor misconduct in their separation decisions. The dependent variable is a dummy for whether the adviser left her firm in a given year. *FirmEmployeeMinorMisconduct* is the share of advisers in a firm with a minor misconduct disclosure in a given year. Coefficient units are percentage points. Adviser Controls include the qualifications of the adviser and her industry experience. Observations are at the adviser by year level over the period 2005-2015.

Table 6b shows the regression results for a linear probability model (eq. (5)) analyzing whether firms with a higher share of advisers with minor misconduct records are more tolerant towards minor misconduct in their hiring decisions. The dependent variable measures the share of financial advisers hired by a firm with a minor misconduct disclosure in the previous year. Coefficient units are percentage points. Observations are at the firm by year level over the period 2005-2015. We restrict the sample to the 4,388 firms active in 2015 and those that hired new advisers. Firm Controls include the firm age, the number of advisers, information on the ownership (direct/indirect, foreign, individual etc.), whether it is an investment advisory firm, whether it is affiliated with a financial institution, and the number of business lines. Each observations is weighted by the square root of the number of advisers in the firm.

Table 7: Summary Statistics

(a) Adviser Summary Statistics

Variable	Male		Female	
	Obs	Mean	Obs	Mean
Experience (years)	5,822,752	11.65	2,185,436	9.08
Currently Registered	5,822,752	61.66%	2,185,436	57.48%
Disclosures:				
Disclosures(flow)	5,822,752	1.87%	2,185,436	1.13%
Minor Misconduct(flow)	5,822,752	0.48%	2,185,436	0.19%
Disclosure (stock)	5,822,752	14.37%	2,185,436	7.20%
Minor Misconduct(stock)	5,822,752	4.82%	2,185,436	1.87%
Exams and Qualifications (Series):				
No.Qualifications	5,822,752	3.11	2,185,436	2.74
Series 63	5,822,752	79.40%	2,185,436	73.92%
Series 7	5,822,752	71.22%	2,185,436	64.38%
Series 6	5,822,752	37.79%	2,185,436	45.52%
Series 66	5,822,752	22.86%	2,185,436	23.14%
Series 65	5,822,752	23.83%	2,185,436	15.57%
Series 24	5,822,752	18.23%	2,185,436	12.51%

(b) Financial Adviser Disclosures and Minor Misconduct

Type	Disclosure/Minor Misconduct			
	Flow		Stock	
	Male	Female	Male	Female
<b>Minor Misconduct Disclosures:</b>				
Customer Dispute - Denied	0.371%	0.154%	3.76%	1.51%
Customer Dispute - Closed	0.092%	0.031%	1.19%	0.39%
Customer Dispute - Withdrawn	0.020%	0.007%	0.20%	0.07%
Customer Dispute - Dismissed	0.002%	0.000%	0.02%	0.00%
Any Minor Misconduct	0.477%	0.191%	4.82%	1.87%
<b>Other Disclosures:</b>				
Customer Dispute - Settled	0.396%	0.136%	4.51%	1.37%
Financial - Final	0.372%	0.429%	1.63%	1.97%
Judgment/Lien	0.306%	0.176%	1.19%	0.81%
Employment Separation After Allegations	0.196%	0.126%	1.18%	0.45%
Regulatory - Final	0.133%	0.046%	1.64%	0.39%
Customer Dispute - Pending	0.031%	0.009%	0.26%	0.07%
Criminal - Final Disposition	0.035%	0.014%	2.52%	1.06%
Customer Dispute - Award/Judgment	0.023%	0.007%	0.72%	0.15%
Financial - Pending	0.031%	0.038%	0.08%	0.10%
Criminal - Pending	0.009%	0.004%	0.02%	0.01%
Investigation	0.006%	0.002%	0.02%	0.01%
Civil - Final	0.005%	0.001%	0.04%	0.01%
Regulatory - Pending	0.002%	0.001%	0.01%	0.00%
Civil Bond	0.002%	0.001%	0.03%	0.01%
Civil - Pending	0.001%	0.000%	0.00%	0.00%
Regulatory - On Appeal	0.001%	0.000%	0.00%	0.00%
Civil - On Appeal	0.000%	0.000%	0.00%	0.00%
Criminal - On Appeal	0.000%	0.000%	0.00%	0.00%
<b>Any Disclosure:</b>	<b>1.875%</b>	<b>1.128%</b>	<b>14.37%</b>	<b>7.20%</b>

Table 7a shows the summary statistic for male and female advisers in our dataset. Observations are at the adviser by year level over the period 2005-2015.

Table 7b displays the flow and stock of disclosures broken down by gender. The column flow indicates the share of advisers who received a disclosure in a given year. The column stock corresponds to the share of advisers who received a disclosure in a given year or have received a disclosure in the past. Observations are at the adviser by year level over the period 2005 - 2015.

Table 8: Incidence of Minor Misconduct

	Minor Misconduct		
	(1)	(2)	(3)
Female	-0.286*** (0.005)	-0.205*** (0.005)	-0.228*** (0.005)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	8,008,188	8,008,188	7,457,027
R <sup>2</sup>	0.0004	0.003	0.008

*Note:* \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Regression results for a linear probability model (eq. (6)). The dependent variable is a dummy variable indicating whether or not an adviser received a minor misconduct disclosure in year  $t$ . Coefficients are in percentage points. Observations are adviser by year over the period 2005-2015.

Table 9: Gender Differences in Labor Market Consequences of Minor Misconduct

## (a) Job Turnover

	No Minor Misconduct		Minor Misconduct	
	Male	Female	Male	Female
Remain with the Firm	83.0%	83.2%	78.4%	79.0%
Leave the Firm	17.0%	16.8%	21.6%	21.0%
Conditional on Leaving the Firm:				
Leave the Industry	44.9%	50.4%	24.0%	28.5%
Join a Different Firm (within 1 year)	55.1%	49.6%	76.0%	71.5%

## (b) Employment Separation

	Employment Separation		
	(1)	(2)	(3)
Minor Misconduct	4.564*** (0.226)	6.069*** (0.226)	3.356*** (0.221)
Minor Misconduct × Female	-0.410 (0.627)	-0.206 (0.625)	-0.657 (0.611)
Female	-0.218*** (0.030)	-1.035*** (0.031)	-0.755*** (0.031)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	7,666,273	7,666,273	7,457,027
R <sup>2</sup>	0.0001	0.006	0.085

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

## (c) Reemployment

	Reemployment		
	(1)	(2)	(3)
Minor Misconduct	20.904*** (0.646)	11.415*** (0.606)	8.251*** (0.573)
Minor Misconduct × Female	1.082 (1.811)	-2.030 (1.695)	-1.291 (1.601)
Female	-5.557*** (0.098)	-1.014*** (0.093)	-2.124*** (0.090)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	1,302,472	1,302,472	1,281,199
R <sup>2</sup>	0.003	0.127	0.246

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 9a displays the average Job Turnover among financial advisers in the period 2005-2015. Leave the Industry is defined as an adviser not being employed for at least one year. Join a Different Firm is a dummy for whether the adviser joined a new firm within a year. The job turnover is broken down by whether the adviser engaged in minor misconduct in the previous year and by gender.

Table 9b and Table 9c show regression results for linear probability models (eq. (7) and (8)). The dependent variable in Table 9b is a dummy for whether the adviser left her firm in a given year or not (eq. (7)). In Table 9c we restrict the sample to advisers who have left their firm in a given year. The dependent variable in Table 9c is a dummy for whether the adviser joined a new firm within a year (eq. (8)). Coefficient units are percentage points. Adviser Controls include the qualifications of the adviser and her industry experience. Observations are at the adviser by year level over the period 2005-2015.



Table 10: Alternative Minor Misconduct Definition

## (a) Summary Statistics

Variable	Observations	Mean	St.Dev.	Median
Alternative Minor Misconduct (flow in one year)	8,008,188	0.70%		
Alternative Minor Misconduct (stock)	8,008,188	6.64%		
Firm Employee Alternative Minor Misconduct (flow in one year)	40,958	0.35%	2.35%	0.00%
Firm Employee Alternative Minor Misconduct (stock)	40,958	4.69%	11.05%	0.00%

## (b) Repeat Offenders and Labor Market Consequences

	Alternative Minor Misconduct (1)	Employment Separation (2)	Reemployment (3)
Prior Alternative Minor Misc.	3.039*** (0.014)		
Alternative Minor Misconduct		4.724*** (0.157)	5.824*** (0.395)
Adviser Controls	X	X	X
Year×Firm×County F.E.	X	X	X
Observations	6,937,098	7,457,027	1,281,199
R <sup>2</sup>	0.020	0.085	0.245

Note:

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

## (c) Firm Employee Alternative Minor Misconduct

	Employment Separation (1)	New Hires (2)
Alternative Minor Misc.	6.668*** (0.198)	
Firm Employee Alt. Min. Misc.	1.207*** (0.023)	
Firm Employee Alt. Min. Misc. × Alt. Min. Misc.	-1.232*** (0.061)	
Firm Employee Alt. Min. Misc. <sub>t-1</sub>		0.575*** (0.024)
Adviser Controls	X	
Firm Controls		X
Year×Firm×County F.E.	X	
Year F.E.		X
Observations	7,008,297	17,438
R <sup>2</sup>	0.068	0.053

Note:

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

Table 10: Alternative Minor Misconduct Definition (cond.)

(d) Gender differences

	Alternative Minor Misconduct	Employment Separation	Reemployment
	(1)	(2)	(3)
Female	-0.405*** (0.007)	-0.743*** (0.031)	-2.113*** (0.090)
Alternative Minor Misconduct		4.712*** (0.167)	5.727*** (0.421)
Alternative Minor Misc.×Female		-0.531 (0.472)	-1.246 (1.204)
Adviser Controls	X	X	X
Year×Firm×County F.E.	X	X	X
Observations	7,457,027	7,457,027	1,281,199
R <sup>2</sup>	0.013	0.085	0.246

*Note:*

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

Table 10a shows the stock and flow of alternative minor misconduct. Stock of alternative minor misconduct is a dummy measuring whether an adviser has a record of alternative minor misconduct. Flow of alternative minor misconduct is 1 if an adviser has received one or more alternative minor misconduct disclosures in a given year. Observations are adviser by year over the period 2005-2015. Stock and flow of firm employee alternative minor misconduct measures the share of advisers in a firm that have a record of alternative minor misconduct (stock) and received an alternative minor misconduct in a given year (flow). Observations are firm by year and we restrict the sample to those firms active in 2015.

Table 10b shows regression results for linear probability models (eq. (1)-(3)) with the alternative minor misconduct definition. The dependent variable in column (1) is a dummy indicating whether an adviser received one or more alternative minor misconduct disclosures in a given year. In column (2) the dependent variable is a dummy whether an adviser left her firm in a given year. In column (3) of Table 10b we restrict the sample to those advisers who left their firm in a given year, and the dependent variable is a dummy for whether the adviser found a new job within a year. Coefficient units are in percentage points. Adviser Controls include an adviser's experience and the qualifications she holds. Observations are adviser per year over the period 2005-2015.

Table 10c shows regression estimates for linear probability models (eq. (4) and (5)). The dependent variable in column (1) is a dummy for whether an adviser left her firm in a given year. In column (2) the dependent variable is the share of new hires by a firm that received an alternative minor misconduct disclosure in the year prior. In column (2) we restrict the sample to those firms that hired advisers in a given year. In column (2) observations are weighted by the square root of the number of advisers in a firm. In column (1) observations are advisers by year over the period 2005-2015. In column (2) observations are firm by year where we restrict our sample to the 4,388 firms active in 2015. Coefficient units are in percentage points. Adviser Controls include an adviser's experience and her qualifications. Firm Controls include among others the firm age and whether or not the firm is affiliated with a financial institute.

Table 10d shows regression results for linear probability models (eq. (6)-(8)) with the alternative minor misconduct definition. In column (1) the dependent variable is a dummy indicating whether an adviser received an alternative minor misconduct disclosure in a given year. The dependent variable in column (2) is a dummy for whether an adviser left a firm in a given year. In column (3) we restrict the sample to those advisers that left their firm in the previous year. The dependent variable is a dummy for whether the advisers found a new job within a year. Adviser Controls include an adviser's experience and her qualifications. Coefficient units are percentage points. Observations are adviser by year over the period 2005-2015.

Table 11: Labor Market Consequences of Minor Misconduct - Comparison to Advisers with a Clean Record

(a) Job Turnover

	No Minor Misconduct	Minor Misconduct
Remain with the Firm	83.19%	80.28%
Leave the Firm	16.81%	19.72%
Conditional on Leaving the Firm:		
Leave the Industry	46.15%	20.63%
Join a Different Firm (within 1 year)	53.85%	79.37%

(b) Employment Separation

	Employment Separation		
	(1)	(2)	(3)
Minor Misconduct	2.911*** (0.213)	4.537*** (0.213)	1.815*** (0.209)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	7,641,174	7,641,174	7,432,446
R <sup>2</sup>	0.00002	0.006	0.085

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

(c) Reemployment

	Reemployment		
	(1)	(2)	(3)
Minor Misconduct	25.517*** (0.640)	14.311*** (0.599)	10.584*** (0.566)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	1,285,073	1,285,073	1,264,110
R <sup>2</sup>	0.001	0.128	0.247

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 11a displays the average Job Turnover among financial advisers in the period 2005-2015. Leave the Industry is defined as an adviser not being employed for at least one year. Join a Different Firm is a dummy for whether the adviser joined a new firm within a year. The job turnover is broken down by whether the adviser engaged in minor misconduct in the previous year. Financial advisers with a major misconduct record are excluded from the sample.

Table 11b and Table 11c show regression results for linear probability models (eq. (2) and (3)). The dependent variable in Table 11b is a dummy for whether the adviser left her firm in a given year or not (eq. (2)). In Table 11c we restrict the sample to advisers who left their firm in a given year. The dependent variable in Table 11c is a dummy for whether the adviser joined a new firm within a year (eq. (3)). Coefficient units are percentage points. Adviser Controls include the qualifications of the adviser and her industry experience. Financial advisers with a major misconduct record are excluded from the sample in both Table 11b and 11c. Observations are at the adviser by year level over the period 2005-2015.

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# A Appendix

## A.1 Replications of Egan et al. (2019) and Egan et al. (2017)

Table A1: Financial Adviser Disclosures and Major Misconduct

Disclosure	Disclosure	
	Flow of New Disclosure	Stock of Disclosure
<b>Major Misconduct Disclosures:</b>		
Customer Dispute - Settled	0.325%	3.65%
Employment Separation After Allegations	0.177%	0.98%
Regulatory - Final	0.109%	1.29%
Criminal - Final Disposition	0.030%	2.12%
Customer Dispute - Award/Judgment	0.018%	0.57%
Civil - Final	0.004%	0.03%
Any Major Misconduct Related Disclosure	0.624%	7.36%
<b>Other Disclosures:</b>		
Financial - Final	0.388%	1.72%
Customer Dispute - Denied	0.312%	3.14%
Judgment/Lien	0.270%	1.09%
Customer Dispute - Closed-No Action	0.075%	0.97%
Financial - Pending	0.033%	0.09%
Customer Dispute - Pending	0.025%	0.21%
Customer Dispute - Withdrawn	0.016%	0.16%
Criminal - Pending Charge	0.007%	0.01%
Investigation	0.005%	0.02%
Regulatory - Pending	0.002%	0.01%
Civil - Pending	0.001%	0.00%
Customer Dispute - Dismissed	0.001%	0.02%
Civil Bond	0.002%	0.02%
Regulatory - On Appeal	0.001%	0.00%
Criminal - On Appeal	0.000%	0.00%
Civil - On Appeal	0.000%	0.00%
<b>Any Disclosure</b>	<b>1.671%</b>	<b>12.42%</b>

Observations are at the adviser by year level for 2005 - 2015. Flow of new disclosures indicates the share of advisers who received a disclosure in a given year. Stock of disclosures is the share of advisers who received a disclosure in a given year or have received a disclosure in the past.

Table A2: Adviser Major Misconduct

	Major Misconduct		
	(1)	(2)	(3)
Prior Major Misconduct	2.442*** (0.011)	2.306*** (0.012)	2.025*** (0.012)
Experience		0.123*** (0.004)	0.106*** (0.004)
Series 65/66		0.305*** (0.007)	0.247*** (0.008)
Series 63		0.124*** (0.008)	0.143*** (0.009)
Series 7		0.044*** (0.009)	0.050*** (0.010)
Series 6		-0.007 (0.008)	0.058*** (0.010)
Series 24		-0.001 (0.008)	-0.012 (0.009)
Total No. Qual.		-0.526*** (0.035)	-0.451*** (0.039)
Year×Firm×County F.E.			X
Observations	7,470,813	7,470,813	6,937,098
R <sup>2</sup>	0.006	0.007	0.016

*Note:*

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

Regression results for a linear probability model (eq. (1)). The dependent variable is a dummy indicating whether the adviser received a major misconduct disclosure in a given year. The independent variable Experience and No.Other Qual. are measured in tens of years and tens of qualifications respectively. Coefficient units are percentage points. Observations are adviser by year over the period 2005 - 2015.

Table A3: Table 7: Labor Market Consequences of Major Misconduct

## (a) Job Turnover

	No Major Misconduct	Major Misconduct
Remain with the Firm	83.2%	54.0%
Leave the Firm	16.8%	46.0%
Conditional on Leaving the Firm:		
Leave the Industry	46.1%	55.9%
Join a Different Firm (within 1 year)	53.9%	44.1%

## (b) Employment Separation

	Employment Separation		
	(1)	(2)	(3)
Major Misconduct	29.200*** (0.169)	30.476*** (0.169)	27.336*** (0.166)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	7,666,273	7,666,273	7,457,027
R <sup>2</sup>	0.004	0.010	0.088

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

## (c) Reemployment

	Reemployment		
	(1)	(2)	(3)
Major Misconduct	-9.783*** (0.334)	-13.431*** (0.312)	-11.551*** (0.297)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	1,302,472	1,302,472	1,281,199
R <sup>2</sup>	0.001	0.128	0.246

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table A3a displays the average Job Turnover among financial advisers in the period 2005-2015. Leave the Industry is defined as an adviser not being employed for at least one year. Join a Different Firm is a dummy for whether the adviser joined a new firm within a year. The job turnover is broken down by whether the adviser engaged in major misconduct in the previous year.

Table A3b and Table A3c show regression results for linear probability models (eq. (2)-(3)). The dependent variable in Table A3b is a dummy for whether the adviser left her firm in a given year or not (eq. (2)). In Table A3c we restrict the sample to advisers who have left their firm in a given year. The dependent variable in Table A3c is a dummy for whether the adviser joined a new firm within a year (eq. (3)). Coefficient units are percentage points. Adviser Controls include the qualifications of the adviser and her industry experience. Observations are at the adviser by year level over the period 2005-2015.



Table A4: Firms with the Highest Incidence of Major Misconduct

Rank	Firm	Firm CRD#	#Advisers	Major Misconduct
1	OPPENHEIMER & CO. INC	249	2,431	19.29%
2	FIRST ALLIED SECURITIES, INC.	32444	1,128	17.91%
3	UBS FINANCIAL SERVICES INC.	8174	12,527	14.74%
4	WELLS FARGO ADVISORS FINANCIAL NETWORK, LLC	11025	1,870	14.71%
5	NATIONAL PLANNING CORPORATION	29604	1,797	14.02%
6	CETERA ADVISORS LLC	10299	1,529	13.87%
7	SECURITIES AMERICA, INC.	10205	2,610	13.72%
8	JANNEY MONTGOMERY SCOTT LLC	463	1,446	13.21%
9	RAYMOND JAMES & ASSOCIATES, INC.	705	5,677	13.00%
10	STIFEL, NICOLAUS & COMPANY, INCORPORATED	793	4,093	13.00%
11	MORGAN STANLEY	149777	24,519	12.64%
12	WELLS FARGO CLEARING SERVICES, LLC	19616	27,405	11.56%
13	SAGEPOINT FINANCIAL, INC.	133763	2,215	11.38%
14	FSC SECURITIES CORPORATION	7461	1,436	11.35%
15	ROYAL ALLIANCE ASSOCIATES, INC.	23131	1,993	11.19%
16	WOODBURY FINANCIAL SERVICES, INC.	421	1,400	11.00%
17	RAYMOND JAMES FINANCIAL SERVICES, INC.	6694	5,274	10.79%
18	PURSHE KAPLAN STERLING INVESTMENTS	35747	1,326	10.48%
19	INVEST FINANCIAL CORPORATION	12984	1,516	10.22%
20	AMERIPRISE FINANCIAL SERVICES, INC.	6363	14,015	10.15%

U.S. Firms with the highest employee major misconduct rates active in 2015. Major misconduct measures the percentage of advisers working for a firm that have received a major misconduct disclosure in the past. We restrict the sample to the 106 firms with at least 1,000 advisers.

Table A5: Firm Difference in Major Misconduct Tolerance

## (a) Employment Separation

	Employment Separation		
	(1)	(2)	(3)
Major Misconduct	32.572*** (0.199)	34.165*** (0.199)	31.891*** (0.198)
Firm Employee Major Misconduct	2.031*** (0.016)	2.348*** (0.016)	0.895*** (0.022)
Firm Employee Major Misconduct $\times$ Major Misconduct	-2.629*** (0.044)	-2.910*** (0.044)	-1.748*** (0.046)
Advisers Controls Year $\times$ Firm $\times$ County F.E.		X	X
Observations	6,653,147	6,653,147	6,463,544
R <sup>2</sup>	0.007	0.015	0.076

Note:

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

## (b) Hiring

	New Hires	
	(1)	(2)
Firm Employee Major Misconduct <sub>t-1</sub>	0.730*** (0.030)	0.721*** (0.030)
Firm Controls Year F.E.	X	X
Observations	17,438	17,438
R <sup>2</sup>	0.048	0.050

Note:

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

Table A5a shows the regression results for a linear probability model (eq. (4)) analyzing whether firms with a higher share of advisers with major misconduct records are more tolerant towards major misconduct in their separation decisions. The dependent variable is a dummy for whether the adviser left her firm in a given year. *FirmEmployeeMajorMisconduct* is the share of advisers in a firm with a major misconduct disclosure in a given year. Coefficient units are percentage points. Adviser Controls include the qualifications of the adviser and her industry experience. Observations are at the adviser by year level over the period 2005-2015.

Table A5b shows the regression results for a linear probability model (eq. (5)) analyzing whether firms with a higher share of advisers with major misconduct records are more tolerant towards major misconduct in their hiring decisions. The dependent variable measures the share of financial advisers hired by a firm with a major misconduct disclosure in the previous year. Coefficient units are percentage points. Observations are at the firm by year level over the period 2005-2015. We restrict the sample to the 4,388 firms active in 2015. Firm Controls include the firm age, the number of advisers, information on the ownership (direct/indirect, foreign, individual etc.), whether it is an investment advisory firm, whether it is affiliated with a financial institution, and the number of business lines. Each observations is weighted by the square root of the number of advisers in the firm.

Table A6: Financial Adviser Disclosures and Major Misconduct

Disclosure	Disclosure/ Major Misconduct			
	Flow		Stock	
	Male	Female	Male	Female
<b>Major Misconduct Disclosures:</b>				
Customer Dispute - Settled	0.396%	0.136%	4.51%	1.37%
Employment Separation After Allegations	0.196%	0.126%	1.18%	0.45%
Regulatory - Final	0.133%	0.046%	1.64%	0.39%
Criminal - Final Disposition	0.035%	0.014%	2.52%	1.06%
Customer Dispute - Award/Judgment	0.023%	0.007%	0.72%	0.15%
Civil - Final	0.005%	0.001%	0.04%	0.01%
<b>Any Major Misconduct Related Disclosure</b>	<b>0.740%</b>	<b>0.315%</b>	<b>8.95%</b>	<b>3.14%</b>
<b>Other Disclosures:</b>				
Financial - Final	0.372%	0.429%	1.63%	1.97%
Customer Dispute - Denied	0.371%	0.154%	3.76%	1.51%
Judgment/Lien	0.306%	0.176%	1.19%	0.81%
Customer Dispute - Closed-No Action	0.092%	0.031%	1.19%	0.39%
Financial - Pending	0.031%	0.038%	0.08%	0.10%
Customer Dispute - Pending	0.031%	0.009%	0.26%	0.07%
Customer Dispute - Withdrawn	0.020%	0.007%	0.20%	0.07%
Criminal - Pending Charge	0.009%	0.004%	0.02%	0.01%
Investigation	0.006%	0.002%	0.02%	0.01%
Regulatory - Pending	0.002%	0.001%	0.01%	0.00%
Civil- Pending	0.001%	0.000%	0.00%	0.00%
Customer Dispute - Dismissed	0.002%	0.000%	0.02%	0.00%
Civil Bond	0.002%	0.001%	0.03%	0.01%
Regulatory - On Appeal	0.001%	0.000%	0.00%	0.00%
Criminal - On Appeal	0.000%	0.000%	0.00%	0.00%
Civil - On Appeal	0.000%	0.000%	0.00%	0.00%
<b>Total</b>	<b>1.875%</b>	<b>1.128%</b>	<b>14.37%</b>	<b>7.20%</b>

Table A6 displays flow and stock of disclosures broken down by gender. The column flow indicates the share of advisers who received a disclosure in a given year. The column stock corresponds to the share of advisers who received a disclosure in a given year or have received a disclosure in the past. Observations are at the adviser by year level over the period 2005 - 2015.

Table A7: Incidence of Major Misconduct

	<i>Dependent variable:</i>		
	Major Misconduct		
	(1)	(2)	(3)
Female	-0.425*** (0.006)	-0.331*** (0.006)	-0.343*** (0.007)
Adviser Controls		X	X
Year×Firm×County F.E.			X
Observations	8,008,188	8,008,188	7,457,027
R <sup>2</sup>	0.001	0.002	0.012

*Note:* \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Regression results for a linear probability model (eq. (6)). The dependent variable is a dummy variable indicating whether or not an adviser received a major misconduct disclosure in year  $t$ . Coefficients are in percentage points. Observations are adviser by year over the period 2005-2015. (As in Table 8)

Table A8: Gender Differences in Labor Market Consequences of Major Misconduct

## (a) Job Turnover

	No Major Misconduct		Major Misconduct	
	Male	Female	Male	Female
Remain with the Firm	83.2%	83.3%	55.2%	46.7%
Leave the Firm	16.8%	16.7%	44.8%	53.3%
Conditional on Leaving the Firm:				
Leave the Industry	44.6%	50.2%	54.0%	65.8%
Join a Different Firm (within 1 year)	55.4%	49.8%	46.0%	34.2%

## (b) Employment Separation

	Employment Separation		
	(1)	(2)	(3)
Major Misconduct	27.992*** (0.182)	29.197*** (0.182)	25.955*** (0.179)
Major Misconduct × Female	8.595*** (0.490)	8.500*** (0.488)	9.439*** (0.477)
Female	-0.138*** (0.030)	-0.978*** (0.031)	-0.707*** (0.031)
Advisers Controls		X	X
Year×Firm×County F.E.			X
Observations	7,666,273	7,666,273	7,457,027
R <sup>2</sup>	0.004	0.010	0.088

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

## (c) Reemployment

	Reemployment		
	(1)	(2)	(3)
Major Misconduct	-9.436*** (0.364)	-12.795*** (0.341)	-11.236*** (0.324)
Major Misconduct × Female	-6.142*** (0.906)	-4.624*** (0.847)	-3.284*** (0.802)
Female	-5.663*** (0.099)	-1.111*** (0.093)	-2.216*** (0.090)
Advisers Controls		X	X
Year×Firm×County F.E.			X
Observations	1,302,472	1,302,472	1,281,199
R <sup>2</sup>	0.003	0.128	0.246

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 9a displays the average Job Turnover among financial advisers in the period 2005-2015. Leave the Industry is defined as an adviser not being employed for at least one year. Join a Different Firm is a dummy for whether the adviser joined a new firm within a year. The job turnover is broken down by whether the adviser engaged in major misconduct in the previous year and by gender.

Table 9b and Table 9c show regression results for linear probability models (eq. (7) and (8)). The dependent variable in Table 9b is a dummy for whether the adviser left her firm in a given year or not (eq. (7)). In Table 9c we restrict the sample to advisers who left their firm in a given year. The dependent variable in Table 9c is a dummy for whether the adviser joined a new firm within a year (eq. (8)). Coefficient units are percentage points. Adviser Controls include the qualifications of the adviser and her industry experience. Observations are at the adviser by year level over the period 2005-2015.

## A.2 Disclosure Definitions

Definitions for the 23 types of disclosure as given by FINRA's BrokerCheck.

- **Civil-Final:** This type of disclosure event involves (1) an injunction issued by a court in connection with investment-related activity, (2) a finding by a court of a violation of any investment-related statute or regulation, or (3) an action brought by a state or foreign financial regulatory authority that is dismissed by a court pursuant to a settlement agreement.
- **Civil - Pending:** This type of disclosure event involves a pending civil court action that seeks an injunction in connection with any investment-related activity or alleges a violation of any investment-related statute or regulation.
- **Customer Dispute - Award/Judgment:** This type of disclosure event involves a final, consumer-initiated, investment-related arbitration or civil suit containing allegations of sales practice violations against the adviser that resulted in an arbitration award or civil judgment for the customer.
- **Customer Dispute - Settled:** This type of disclosure event involves a consumer-initiated, investment-related complaint, arbitration proceeding or civil suit containing allegations of sales practice violations against the adviser that resulted in a monetary settlement to the customer.
- **Customer Dispute - Closed-No Action/Withdrawn/Dismissed/Denied/Final:** This type of disclosure event involves (1) a consumer-initiated, investment-related arbitration or civil suit containing allegations of sales practice violations against the individual adviser that was dismissed, withdrawn, or denied; or (2) a consumer-initiated, investment-related written complaint containing allegations that the adviser engaged in sales practice violations resulting in compensatory damages of at least \$5,000, forgery, theft, or misappropriation, or conversion of funds or securities, which was closed without action, withdrawn, or denied.
- **Customer Dispute - Pending:** This type of disclosure event involves (1) a pending consumer-initiated, investment-related arbitration or civil suit that contains allegations of sales practice violations against the adviser; or (2) a pending, consumer-initiated, investment-related written complaint containing allegations that the adviser engaged in, sales practice violations resulting in compensatory damages of at least \$5,000, forgery, theft, or misappropriation, or conversion of funds or securities.
- **Employment Separation After Allegations:** This type of disclosure event involves a situation where the adviser voluntarily resigned, was discharged, or was permitted to resign after being accused of (1) violating investment-related statutes, regulations, rules or industry standards of conduct; (2) fraud or the wrongful taking of property; or (3) failure to supervise in connection with investment-related statutes, regulations, rules, or industry standards of conduct.
- **Judgment/Lien:** This type of disclosure event involves an unsatisfied and outstanding judgments or liens against the adviser.
- **Criminal - Final Disposition:** This type of disclosure event involves a criminal charge against the adviser that has resulted in a conviction, acquittal, dismissal, or plea. The criminal matter may pertain to any felony or certain misdemeanor offenses, including bribery, perjury, forgery, counterfeiting, extortion, fraud, and wrongful taking of property.

- **Financial - Final:** This type of disclosure event involves a bankruptcy, compromise with one or more creditors, or Securities Investor Protection Corporation liquidation involving the adviser or an organization the adviser controlled that occurred within the last 10 years.
- **Financial - Pending:** This type of disclosure event involves a pending bankruptcy, compromise with one or more creditors, or Securities Investor Protection Corporation liquidation involving the adviser or an organization the adviser controlled that occurred within the last 10 years.
- **Investigation:** This type of disclosure event involves any ongoing formal investigation by an entity such as a grand jury state or federal agency, self-regulatory organization or foreign regulatory authority. Subpoenas, preliminary or routine regulatory inquiries, and general requests by a regulatory entity for information are not considered investigations and therefore are not included in a BrokerCheck report.
- **Regulatory - Final:** This type of disclosure event may involves (1) a final, formal proceeding initiated by a regulatory authority (e.g., a state securities agency, self-regulatory organization, federal regulatory such as the Securities and Exchange Commission, foreign financial regulatory body) for a violation of investment-related rules or regulations; or (2) a revocation or suspension of an adviser's authority to act as an attorney, accountant, or federal contractor.
- **Civil Bond:** This type of disclosure event involves a civil bond for the adviser that has been denied, paid, or revoked by a bonding company.
- **Criminal - On Appeal:** This type of disclosure event involves a conviction for any felony or certain misdemeanor offenses, including bribery, perjury, forgery, counterfeiting, extortion, fraud, and wrongful taking of property that is currently on appeal.
- **Criminal - Pending Charge:** This type of disclosure event involves a formal charge for a crime involving a felony or certain misdemeanor offenses, including bribery, perjury, forgery, counterfeiting, extortion, fraud, and wrongful taking of property that is currently pending.
- **Regulatory - On Appeal:** This type of disclosure event may involves (1) a formal proceeding initiated by a regulatory authority (e.g., a state securities agency, self-regulatory organization, federal regulator such as the Securities and Exchange Commission, foreign financial regulatory body) for a violation of investment-related rules or regulations that is currently on appeal; or (2) a revocation or suspension of an adviser's authority to act as an attorney, accountant, or federal contractor that is currently on appeal.
- **Regulatory - Pending:** This type of disclosure event involves a pending formal proceeding initiated by a regulatory authority (e.g., a state securities agency, self-regulatory organization, federal regulatory agency such as the Securities and Exchange Commission, foreign financial regulatory body) for alleged violations of investment-related rules or regulations.
- **Civil - On Appeal:** This type of disclosure event involves an injunction issued by a court in connection with investment-related activity or a finding by a court of a violation of any investment-related statute or regulation that is currently on appeal.

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Anna Ulrichshofer, Markus Walzl

Customer Disputes, Misconduct, and Reputation Building in the Market for Financial Advice

**Abstract**

We analyze the impact of records of denied and withdrawn customer complaints on job separation in a dataset based on FINRA's Broker-Check database with more than 3 mio. financial advisers. Compared to misconduct that actually leads to a conviction of the adviser, denied and withdrawn complaints are more likely to be repetitive (an adviser with a record is six times more likely to have another incidence of the same kind than the average adviser). This is in-line with the observation that advisers with a record are only slightly (~5%) more likely to loose their job. In contrast, an adviser with a record is 42 times more likely to be re-employed compared to advisers without a record. Moreover, reemployment probabilities display a gender-gap but not a gender-punishment gap : There is a 47% smaller reemployment probability for female compared to male employees but this gender-gap is insensitive to the existence of a record of a customer dispute.

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