

REGULATION BEST INTEREST

(REG BI)

DIFFERENT RULES FOR DIFFERENT ADVISORS

RIAs are already considered a fiduciary and as such, are obligated to act in the best interest of the investor and should already have much of this regulation in place. For RIAs much of the change comes from the regulations surrounding disclosure and any potential conflict of interest.

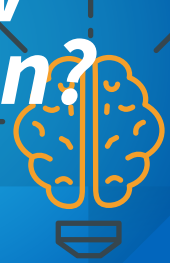
What is REG BI?



There are two main components to this nearly 1,400-page document handed down by the SEC. First comes recommending suitable investments and second comes the disclosure rules. In a nutshell, they can't recommend something strictly because of high fees or any benefits to themselves or their firms. Under the rules, broker-dealers must understand all the potential risks, rewards and costs; recognize a customer's investment profile; and show that transactions are not considered excessive for each client.

Given the complex nature of how consumers receive investment advice, many clients don't actually know how they're paying for the advice. Commissions, flat rates and hourly fees can confuse the investor so the SEC implemented a wide-spread set of rules that clear the air and force best-interest practices. Further, under the old rules broker-dealers were held to recommending investments suitable for clients but perhaps not always in their best interest.

Why is there new regulation?



How will REG BI impact me & my firm?



Get ready for a complete overhaul of the business model. While the rules are designed to keep RIAs and BDs separate choices for consumers, the implication of the rules are vast on the BD side.

What steps do I take to implement Reg BI?



Implement Form CRS immediately. This document will provide a real schedule and explain the fees and costs associated with the investment. It'll spell out how commissions are paid per buy or sell decision, yearly management costs, and more. The form will also include some interesting side information about whether or not a firm and its financial brokers currently have any reportable legal or disciplinary history with the SEC.

How much time do I have to get prepared?



Regulation Best Interest took effect on June 30, 2020. Train your advisors, get your procedures in place immediately, and prepare the Form CRS. [FINRA offers a checklist here.](#)

Are there penalties or fines if I make mistakes?



The SEC will likely bring enforcement actions against investment advisors and broker-dealers for a failure to provide adequate disclosure of the information required under the Form CRS Relationship Summary. FINRA will likely bring similar enforcement actions against broker-dealers.

What do I tell my clients?



Transparency is going to be necessary in all communications. There are many financial professionals seeking to manage your client's portfolio so be open to discussing how the new rules hold you to a higher standard. Assure clients that your compensation structure isn't being driven by your investment recommendations and explain how Reg BI ensures this for all future transactions. Be ready to answer questions about past transactions and understand that your client may feel it falls into a grey area because the regulations were different.

Where can I go for more answers?



The SEC has an [FAQ page](#) that covers most questions. The SEC Compliance Guide for more [in-depth details](#).



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