

Reg BI and Form CRS Offer Opportunities to Deepen Trust with Clients



On June 30, 2020, Regulation Best Interest — or “Reg BI,” as it’s become known — and the associated Form CRS rule took effect. According to the Securities and Exchange Commission (SEC), the new requirements were part of a package of rulemakings and interpretations passed in June 2019 designed to “enhance the quality and transparency of retail investors’ relationships with investment advisers and broker/dealers.” The goal was to help investors understand the differences between the investment advisory and brokerage relationships and to choose between them.

Although they may appear to be nothing more than additional burdens placed on the retail investment industry, Reg BI and Form CRS may actually offer opportunities for financial professionals to deepen trust and broaden relationships among both prospective and current clients.

REG BI

Under Reg BI, broker-dealers are now required to act in the best interest of their clients. The regulation expands the previous “suitability standard” under which brokers were required to conduct business. That standard stated that broker-dealers must have a reasonable basis to believe that recommendations and transactions are suitable given a client’s specific circumstances. While following the rule, a financial professional could theoretically have recommended a product with the most lucrative commission structure as long as it was believed to be suitable given the client’s portfolio, objectives, age, time frame, risk tolerance, liquidity needs, and investment experience.

By contrast, Reg BI is intended to ensure that any transaction or recommendation (including recommendations for account types, such as IRAs) puts a client’s interests ahead of the financial professional’s own. Any recommendation or transaction must therefore now account for the overall cost of the product or service as well as the other important factors listed above. Such costs include those assessed after the initial sale or investment, such as deferred sales charges and liquidation fees. Note that Reg BI does not necessarily preclude a financial professional from recommending a higher-cost product if it is ultimately deemed to be in the client’s best interest, but it does require that costs factor into the overall decision.

Financial professionals should document clearly, in detail, the rationale for making a particular recommendation for product or account type.

FORM CRS (CUSTOMER RELATIONSHIP SUMMARY)

Along with Reg BI, the SEC is now requiring broker-dealers and investment advisers to send out a relationship summary document at certain designated points throughout a client relationship, including pre-sale and point-of-sale (prior to or at the same time as a recommendation); any time a material change is made to the Form CRS language; and for certain account changes, such as an IRA rollover. In addition, the form must be posted on the organization’s website.

The form is intended to provide a concise, plain-English summary of the nature of the relationship with the financial professional (i.e., brokerage, investment adviser, or both) and includes details on the types of services and investments offered, limitations in product offerings, fees, applicable standards of conduct, potential conflicts of interest, disciplinary history, and details describing how investors can find additional information.



USING REG BI AND FORM CRS TO FOSTER RELATIONSHIPS

The most successful financial professionals recognize that the retail investment business is not one of purely closing one sale after another. It is a long-term commitment that relies on building trust and cultivating relationships, which lead to mutual success. Reg BI and Form CRS actually offer opportunities to achieve those objectives.

Where can these opportunities be found? The answer lies in conversations. For example, Reg BI offers the chance to have frank and honest discussions about what it means to work with a broker-dealer, comparing the previous suitability standard with the more stringent requirements contained in Reg BI. While the suitability standard was designed to ensure that the client's needs and interests were thoroughly addressed, Reg BI adds a new dimension to that objective. A financial professional who emphasizes the new regulation's cost analyses part of the decision making can further reassure prospects and clients that their interests are paramount in any transaction or recommendation.

Similarly, Form CRS offers an opportunity to have an in-depth conversation with a prospect or client about the overall nature of the brokerage or investment adviser relationship and the value of the financial professional's role in helping clients pursue their goals. Upon delivery of the form, the financial professional can review its contents in detail during a meeting or call, highlighting important points and answering any questions the prospect or client may have. Importantly, should there be any disciplinary history noted on the form, the financial professional can lead an honest conversation that directly addresses any lingering skepticism that may exist in the prospect's or client's mind.

As with any change faced in one's personal and career life, a positive attitude often produces the best possible results. Financial professionals who view Reg BI and Form CRS as opportunities for fostering deeper relationships with prospects and clients may discover that these new rules become useful tools in their practice-management toolbox.



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