
Addendum: for use with the Securities Industry Essentials (SIE) course, and Series 6, 7, 24, and 26 courses per FINRA regulatory update effective 6/30/2020.

Regulation Best Interest

Regulation Best Interest, also called **Reg BI**, imposes an obligation on broker/dealers and registered representatives or associated persons to act in the best interest of individual retail customers at the time recommendations are made. Broker/dealers and associated persons must not put their financial or other interests ahead of those of the customer. This rule applies when recommending securities transactions (buy sell, or hold), investment strategies, and types of accounts. Reg BI took effect on June 30, 2020.

The *best interest* standard of conduct consists of 4 component obligations that broker/dealers must meet:

1. Disclosure — provide material terms of the relationship, fees, and conflicts of interest;
2. Care — exercise reasonable diligence, care, and skill in making recommendations;
3. Conflicts of interest — establish, maintain, and enforce policies and procedures reasonably designed to identify, disclose, and eliminate material conflicts of interest related to recommendations; and
4. Compliance — establish, maintain, and enforce policies and procedures to ensure compliance.

Broker/dealers and registered investment advisers (RIAs) are required to provide in writing a **customer relationship summary (Form CRS)** to each new or prospective retail investor. The customer relationship summary includes required disclosures that provide retail customers with the following information:

- Services offered by the firm;
- Fees and costs;
- Conflicts of interest;
- Required standards of conduct associated with the services offered;
- Legal or disciplinary history of the firm and its associated persons; and
- Instructions on how to obtain additional information about the firm.

Form CRS must provide a link to the SEC's Form CRS webpage, which contains educational material for investors about investment professionals.

Broker/dealers must provide Form CRS **before or when** (whichever is earlier):

- Recommending an account type, a security or an investment strategy;
- Pacing an order; or
- Opening a brokerage account.

The disclosures are required to be concise, clear, and understandable to promote effective communication between a broker/dealer and a customer. RIAs must provide the document to new or prospective retail investors before or when entering into an advisory agreement. In addition, firms must deliver the customer relationship summary when recommending that assets be rolled over from a retirement account into a new or existing account or investment. Existing retail investors must receive the document within 30 days of Reg BI's effective date, that is, by July 30, 2020. The customer relationship summary may be in either paper or electronic format, although electronic delivery requires prior customer consent. It must also be posted on the firm's public website. Finally, Form CRS must be updated within **30 days** of any material changes in customer information.