



2022 Annual Conference

May 16 –18 | Washington, DC | Hybrid Event

Regulation Best Interest: Lessons Learned

Tuesday, May 17, 2022

3:00 p.m. – 4:00 p.m.

Join FINRA staff and industry panelists as they discuss lessons learned from implementing Reg BI. Panelists share what worked, conflicts that have been identified, and examination experiences and expectations.

Moderator: James Wrona
Vice President & Associate General Counsel, Regulatory
FINRA Office of General Counsel

Panelists: Evan Charkes
Managing Director and Associate General Counsel
Bank of America

Nicole McCafferty
Senior Director, National Cause and Financial Crimes Detection Programs
FINRA Member Supervision

Linde Murphy
Chief Compliance Officer
M.E. Allison & Co., Inc.

Emily Westerberg Russell
Chief Counsel, Division of Trading and Markets
U.S. Securities and Exchange Commission (SEC)

Regulation Best Interest: Lessons Learned Panelists Bios:

Moderator:



James S. Wrona is Vice President and Associate General Counsel for FINRA in Washington, DC. In this role, he is responsible for various policy initiatives, rule changes and litigation regarding the securities industry. Mr. Wrona formerly was associated with the law firm of K&L Gates LLP, where his practice focused on complex federal litigation. He also previously served as a federal law clerk for the Honorable A. Andrew Hauk of the United States District Court for the Central District of California (Los Angeles). Mr. Wrona is a frequent speaker at securities and litigation conferences and author of numerous law review articles, including *The Best of Both Worlds: A Fact-Based Analysis of the Legal Obligations of Investment Advisers and Broker-Dealers and a Framework for Enhanced Investor Protection*, 68 Bus. Law. 1 (Nov. 2012); *The Securities Industry and the Internet: A Suitable Match?*, 2001 Colum. Bus. L. Rev. 601 (2001).

Panelists:



Evan Charkes is Managing Director and Associate General Counsel for Bank of America, and supports the US Merrill Lynch Wealth Management business, including as chief counsel to the firm's Private Wealth Management advisors. Mr. Charkes has spent a significant portion of his career supporting wealth management businesses, including at Citi, where he was a Managing Director and Deputy General Counsel for its Global Wealth Management business. Mr. Charkes started his career as a litigation associate in private practice in New York City. With respect to participating in industry organizations, Mr. Charkes has served on FINRA's National Adjudicatory Council and is a former member of the FINRA Compliance Advisory Committee and FINRA International Committee. Mr. Charkes also formerly served as the co-chair of the SIFMA Compliance and Regulatory Policy Committee and SIFMA Self-Regulation and Supervisory Practices Committee and has been a frequent speaker at the SIFMA Compliance & Legal Society annual seminar. Mr. Charkes also chaired the Insured Retirement Institute's Securities Committee and has contributed numerous articles to the *New York Law Journal* and *Wall Street Lawyer* regarding securities law. Mr. Charkes is a member of the Board of Directors of the Pro Bono Partnership, a non-profit organization that provides legal services to nonprofit organizations in Connecticut, New Jersey, and New York. Mr. Charkes is a graduate of Georgetown University Law Center and Columbia College.



Nicole McCafferty is Senior Director in FINRA's National Cause and Financial Crimes Detection Programs where she provides critical leadership and strategic support to the Executive Vice President to effectively achieve the goals and priorities of the department. In her prior role as Examination Director in FINRA's Member Supervision Department under the Retail firm grouping, she was responsible for managing a team of examination managers and examiners that executed examinations of member firms who primarily conducted business with retail investors. Ms. McCafferty has also held positions as an Examination Manager and Examiner in her 13-year tenure. Ms. McCafferty began her career at the NYSE as a Sales Practice Examiner in 2005 (merging into FINRA in 2007), joined Morgan Stanley's Internal Audit Department in 2009 and then rejoined FINRA in late 2012. She received her B.S. in Finance and Management from Manhattan College.



Linde Murphy currently serves as President and CCO at M.E. Allison & Co., Inc., a full-service broker/dealer and Texas registered investment adviser. Founded in 1946, the firm also provides municipalities with advisory and underwriting services. In 2012, Ms. Murphy joined Presidio Financial Services as they began the CMA process to join M.E. Allison & Co., Inc. Ms. Murphy started her career in investments on a trading desk in Chicago in 1999 and has held positions in compliance, sales, business development and management. In addition to the pertinent industry licenses, Ms. Murphy obtained the CRCP™ designation in 2014 after attending the FINRA Institute at Wharton on the FINRA Small Firm scholarship. She currently serves on the FINRA Board of Governors. She previously chaired the FINRA Small Firm Advisory Committee

and served on the District 6 Committee, the FINRA Fixed Income Committee and the FINRA Regulatory Advisory Committee.



Emily Westerberg Russell was named Chief Counsel of the SEC's Division of Trading and Markets in July 2019, after serving as a member of the Office of Chief Counsel for a decade. The Office of Chief Counsel provides legal and policy advice to the Commission on a variety of matters affecting broker-dealers and the operation of the securities markets. Among other things, the Office was responsible for developing and drafting key components of the Commission's recently adopted package of rulemakings and interpretations designed to enhance the quality and transparency of retail investors' relationships with investment advisers and broker-dealers, in particular, Regulation Best Interest. Ms. Russell received the SEC's Jay

Manning Award in 2019 in recognition of her commitment to excellence, dedication to fair and honest markets, and tireless pursuit of just and workable regulatory responses to practical business problems. She also was a joint recipient of the Chairman's Award for Excellence for her work on the IA/BD Team, and a joint recipient of the Law and Policy Award for her work on the Dodd-Frank Legislative Response Team. Prior to joining the SEC, she was a Senior Associate in the Financial Institutions Group at WilmerHale, where she advised broker-dealers and other financial institutions regarding compliance with a wide range of securities and banking laws, including anti-money laundering requirements. Ms. Russell received her J.D. from Columbia University School of Law, where she was a James Kent and a Harlan Fiske Stone Scholar, and served as Executive Editor of the *Columbia Journal of Transnational Law*. She earned her B.A., *summa cum laude*, in economics and international relations from Colgate University.

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Panelists

○ Moderator

- James Wrona, Vice President & Associate General Counsel, Regulatory, FINRA Office of General Counsel

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- Evan Charkes, Managing Director and Associate General Counsel, Bank of America
- Nicole McCafferty, Senior Director, National Cause and Financial Crimes Detection Programs, FINRA Member Supervision
- Linde Murphy, Chief Compliance Officer, M.E. Allison & Co., Inc.
- Emily Westerberg Russell, Chief Counsel, Division of Trading and Markets, U.S. Securities and Exchange Commission (SEC)



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Resources:

- SEC Staff Bulletin: Standards of Conduct for Broker-Dealers and Investment Advisers Account Recommendations for Retail Investors

www.sec.gov/tm/iabd-staff-bulletin

- 2022 Report on FINRA's Examination and Risk Monitoring Program (Reg BI and Form CRS Section)

www.finra.org/rules-guidance/guidance/reports/2022-finras-examination-and-risk-monitoring-program/reg-bi-form-crs

UNITED STATES¹
SECURITIES AND EXCHANGE COMMISSION

FORM CRS

OMB APPROVAL

OMB Number: 3235-0766
Expires: [Date]
Estimated average burden
hours per response: [xx.xx]

Sections 3, 10, 15, 15(c)(6), 15(l), 17, 23, and 36 of the Securities Exchange Act of 1934 (“Exchange Act”) and section 913(f) of Title IX of the Dodd-Frank Act authorize the Commission to require the collection of the information on Form CRS from brokers and dealers. *See* 15 U.S.C. 78c, 78j, 78o, 78o(c)(6), 78o(l), 78q, 78w and 78mm. Filing Form CRS is mandatory for every broker or dealer registered with the Commission pursuant to section 15 of the Exchange Act that offers services to a retail investor. *See* 17 CFR 240.17a-14. Intentional misstatements or omissions constitute federal criminal violations (*see* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a)). The Commission may use the information provided in Form CRS to manage its regulatory and examination programs. Form CRS is made publically available.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number. Any member of the public may direct to the Commission any comments concerning the accuracy of this burden estimate and any suggestions for reducing this burden. This collection of information has been reviewed by the Office of Management and Budget in accordance with the requirements of 44 U.S.C. 3507.

The information contained in the form is part of a system of records subject to the Privacy Act of 1974, as amended. The information may be disclosed as outlined above and in the routine uses listed in the applicable system of records notice, SEC-70, SEC’s Division of Trading and Markets Records, published in the Federal Register at 83 FR 6892 (February 15, 2018).

SEC 2942 (06-19)

¹ This cover page will be included for Form CRS (17 CFR 249.640) only.

[Form ADV, Part 3: Instructions to Form CRS]²

General Instructions

Under rule 17a-14 under the Securities Exchange Act of 1934 and rule 204-5 under the Investment Advisers Act of 1940, broker-dealers registered under section 15 of the Exchange Act and investment advisers registered under section 203 of the Advisers Act are required to deliver to *retail investors* a *relationship summary* disclosing certain information about the firm.³ Read all the General Instructions as well as the particular item requirements before preparing or updating the *relationship summary*.

If you do not have any *retail investors* to whom you must deliver a *relationship summary*, you are not required to prepare or file one. See also Advisers Act rule 204-5; Exchange Act rule 17a-14(a).

1. Format.

- A. The *relationship summary* must include the required items enumerated below. The items require you to provide specific information.
- B. You must respond to each item and must provide responses in the same order as the items appear in these instructions. You may not include disclosure in the *relationship summary* other than disclosure that is required or permitted by these Instructions and the applicable item.
- C. You must make a copy of the *relationship summary* available upon request without charge. In paper format, the *relationship summary* for broker-dealers and investment advisers must not exceed two pages. For *dual registrants* that include their brokerage services and investment advisory services in one *relationship summary*, it must not exceed four pages in paper format. *Dual registrants* and *affiliates* that prepare separate *relationship summaries* are limited to two pages for each *relationship summary*. See General Instruction 5. You must use reasonable paper size, font size, and margins. If delivered electronically, the *relationship summary* must not exceed the equivalent of two pages or four pages in paper format, as applicable.

2. Plain English; Fair Disclosure.

- A. The items of the *relationship summary* are designed to promote effective communication between you and *retail investors*. Write your *relationship summary* in plain English, taking into consideration *retail investors'* level of

² The bracketed text will be included for Form ADV, Part 3 (17 CFR 279.1) only.

³ Terms that are italicized in these instructions are defined in General Instruction 11.

financial experience. You should include white space and implement other design features to make the *relationship summary* easy to read. The *relationship summary* should be concise and direct. Specifically: (i) use short sentences and paragraphs; (ii) use definite, concrete, everyday words; (iii) use active voice; (iv) avoid legal jargon or highly technical business terms unless you clearly explain them; and (v) avoid multiple negatives. You must write your response to each item as if you are speaking to the *retail investor*, using “you,” “us,” “our firm,” etc.

Note: The SEC’s Office of Investor Education and Advocacy has published A Plain English Handbook. You may find the handbook helpful in writing your *relationship summary*. For a copy of this handbook, visit the SEC’s website at www.sec.gov/news/extra/handbook.htm.

- B. All information in your *relationship summary* must be true and may not omit any material facts necessary in order to make the disclosures required by these Instructions and the applicable Item, in light of the circumstances under which they were made, not misleading. If a required disclosure or conversation starter is inapplicable to your business or specific wording required by these Instructions is inaccurate, you may omit or modify that disclosure or conversation starter.
- C. Responses must be factual and provide balanced descriptions to help *retail investors* evaluate your services. For example, you may not include exaggerated or unsubstantiated claims, vague and imprecise “boilerplate” explanations, or disproportionate emphasis on possible investments or activities that are not offered to *retail investors*.
- D. Broker-dealers and investment advisers have disclosure and reporting obligations under state and federal laws, including, but not limited to, obligations under the Exchange Act, the Advisers Act, and the respective rules thereunder. Broker-dealers are also subject to disclosure obligations under the rules of self-regulatory organizations. Delivery of the *relationship summary* will not necessarily satisfy the additional requirements that you have under the federal securities laws and regulations or other laws or regulations.

3. Electronic And Graphical Formats.

- A. You are encouraged to use charts, graphs, tables, and other graphics or text features in order to respond to the required disclosures. You are also encouraged to use text features, text colors, and graphical cues, such as dual-column charts, to compare services, account characteristics, investments, fees, and conflicts of interest. For a *relationship summary* that is posted on your website or otherwise provided electronically, we encourage online tools that populate information in comparison boxes based on investor selections. You also may include: (i) a means of facilitating access to video or audio messages, or other forms of information (whether by hyperlink, website address, Quick Response Code (“QR code”), or other equivalent methods or technologies); (ii) mouse-over windows;

(iii) pop-up boxes; (iv) chat functionality; (v) fee calculators; or (vi) other forms of electronic media, communications, or tools designed to enhance a *retail investor's* understanding of the material in the *relationship summary*.

- B. In a *relationship summary* that is posted on your website or otherwise provided electronically, you must provide a means of facilitating access to any information that is referenced in the *relationship summary* if the information is available online, including, for example, hyperlinks to fee schedules, conflicts disclosures, the firm's narrative brochure required by Part 2A of Form ADV, or other regulatory disclosures. In a *relationship summary* that is delivered in paper format, you may include URL addresses, QR codes, or other means of facilitating access to such information.
- C. Explanatory or supplemental information included in the *relationship summary* pursuant to General Instructions 3.A. or 3.B.: (i) must be responsive to and meet the requirements in these instructions for the particular Item in which the information is placed; and (ii) may not, because of the nature, quantity, or manner of presentation, obscure or impede understanding of the information that must be included. When using interactive graphics or tools, you may include instructions on their use and interpretation.

4. **Formatting For Conversation Starters, Additional Information, and Standard of Conduct.**

- A. For the "conversation starters" required by Items 2, 3, 4, and 5 below, you must use text features to make the conversation starters more noticeable and prominent in relation to other discussion text, for example, by: using larger or different font, a text box around the heading or questions; bolded, italicized or underlined text; or lines to offset the questions from the other sections.
- B. Investment advisers that provide only automated investment advisory services or broker-dealers that provide services only online without a particular individual with whom a *retail investor* can discuss these conversation starters must include a section or page on their website that answers each of the questions and must provide in the *relationship summary* a means of facilitating access to that section or page. If you provide automated investment advisory or brokerage services but also make a financial professional available to discuss your services with a *retail investor*, a financial professional must be available to discuss these conversation starters with the *retail investor*.
- C. For references to additional information regarding services, fees, and conflicts of interest required by Items 2.C., 3.A.(iii), and 3.B.(iv) below, you must use text features to make this information more noticeable and prominent in relation to other discussion text, for example, by: using larger or different font, a text box around the heading or questions, bolded, italicized or underlined text, or lines to offset the information from the other sections. A *relationship summary* provided

electronically must include a hyperlink, QR code, or other means of facilitating access that leads directly to the relevant additional information.

5. Dual Registrants, Affiliates, and Additional Services.

- A. If you are a *dual registrant*, you are encouraged to prepare a single *relationship summary* discussing both your brokerage and investment advisory services. Alternatively, you may prepare two separate *relationship summaries* for brokerage services and investment advisory services. Whether you prepare a single *relationship summary* or two, you must present the brokerage and investment advisory information with equal prominence and in a manner that clearly distinguishes and facilitates comparison of the two types of services. If you prepare two separate *relationship summaries*, you must reference and provide a means of facilitating access to the other, and you must deliver to each *retail investor* both *relationship summaries* with equal prominence and at the same time, without regard to whether the particular *retail investor* qualifies for those retail services or accounts.
- B. If you are a broker-dealer or investment adviser and your *affiliate* also provides brokerage or investment advisory services to *retail investors*, you may prepare a single *relationship summary* discussing the services you and your *affiliate* provide. Alternatively, you may prepare separate *relationship summaries* for your services and your *affiliate's* services.
 - (i) Whether you prepare a single *relationship summary* or separate *relationship summaries*, you must design them in a manner that presents the brokerage and investment advisory information with equal prominence and clearly distinguishes and facilitates comparison of the two types of services.
 - (ii) If you prepare separate *relationship summaries*:
 - a. If a *dually licensed financial professional* provides brokerage and investment advisory services on behalf of you and your *affiliate*, you must deliver to each *retail investor* both your and your *affiliate's relationship summaries* with equal prominence and at the same time, without regard to whether the particular *retail investor* qualifies for those retail services or accounts. Each of the *relationship summaries* must reference and provide a means of facilitating access to the other.
 - b. If General Instruction 5.B.(ii)(a) does not apply, you may choose whether or not to reference and provide a means of facilitating access to your *affiliate's relationship summary* and whether or not to deliver your and your *affiliate's relationship summaries* to each *retail investor* with equal prominence and at the same time.

- C. You may acknowledge other financial services that you provide in addition to your services as a broker-dealer or investment adviser registered with the SEC, such as insurance, banking, or retirement services, or investment advice pursuant to state registration or licensing. You may include references and means of facilitating access to additional information about those services. Information not pertaining to brokerage or investment advisory services may not, because of the nature, quantity, or manner of presentation, obscure or impede understanding of the information that must be included. See also General Instruction 3.C.

6. Preserving Records.

- A. You must maintain records in accordance with Advisers Act rule 204-2(a)(14)(i) and/or Exchange Act rule 17a-4(e)(10), as applicable.

7. Initial Filing and Delivery; Transition Provisions.

A. Initial filing.

- (i) If you are an investment adviser and are required to deliver a *relationship summary* to a *retail investor*, you must file Form ADV, Part 3 (Form CRS) electronically with the Investment Adviser Registration Depository (IARD). If you are a registered broker-dealer and are required to deliver a *relationship summary* to a *retail investor*, you must file Form CRS electronically through the Central Registration Depository (“Web CRD®”) operated by the Financial Industry Regulatory Authority, Inc. (FINRA). If you are a *dual registrant* and are required to deliver a *relationship summary* to one or more *retail investor* clients or customers of both your investment advisory and brokerage businesses, you must file using IARD and Web CRD®. You must file Form CRS using a text-searchable format with machine-readable headings.
- (ii) Information for investment advisers on how to file with IARD is available on the SEC’s website at www.sec.gov/iard. Information for broker-dealers on how to file through Web CRD® is available on FINRA’s website at <http://www.finra.org/industry/web-crd/web-crd-system-links>.

B. Initial delivery.

- (i) *Investment Advisers:* If you are an investment adviser, you must deliver a *relationship summary* to each *retail investor* before or at the time you enter into an investment advisory contract with the *retail investor*. You must deliver the *relationship summary* even if your agreement with the *retail investor* is oral. See Advisers Act rule 204-5(b)(1).
- (ii) *Broker-Dealers:* If you are a broker-dealer, you must deliver a *relationship summary* to each *retail investor*, before or at the earliest of:
 - (i) a recommendation of an account type, a securities transaction, or an investment strategy involving securities;
 - (ii) placing an order for the *retail*

investor; or (iii) the opening of a brokerage account for the *retail investor*. See Exchange Act rule 17a-14(c)(1).

- (iii) *Dual Registrants*: A dual registrant must deliver the *relationship summary* at the earlier of the timing requirements in General Instruction 7.B.(i) or (ii).

C. Transition provisions for initial filing and delivery after the effective date of the new Form CRS requirements.

(i) *Filings for Investment Advisers*

- a. If you are already registered or have an application for registration pending with the SEC as an investment adviser before June 30, 2020 you must electronically file, in accordance with Instruction 7.A. above, your initial *relationship summary* beginning on May 1, 2020 and by no later than June 30, 2020 either as: (1) an other-than-annual amendment or (2) part of your initial application or *annual updating amendment*. See Advisers Act rules 203-1 and 204-1.
- b. If you file an application for registration with the SEC as an investment adviser on or after June 30, 2020, the Commission will not accept any initial application that does not include a *relationship summary*. See Advisers Act rule 203-1.

(ii) *Filings for Broker-Dealers*

- a. If you are already registered with the SEC as a broker-dealer before June 30, 2020, you must electronically file, in accordance with Instruction 7.A. above, your initial *relationship summary* beginning on May 1, 2020 and by no later than June 30, 2020. See Exchange Act rule 17a-14.
- b. If you file an application for registration or have an application pending with the SEC as a broker-dealer on or after June 30, 2020, you must file your *relationship summary* by no later than the date that your registration becomes effective. See Exchange Act rule 17a-14.

- (iii) *Delivery to New and Prospective Clients and Customers*: As of the date by which you are first required to electronically file your *relationship summary* with the SEC, you must begin to deliver your *relationship summary* to new and prospective clients and customers who are *retail investors* as required by Instruction 7.B. See Advisers Act rule 204-5 and Exchange Act rule 17a-14.

- (iv) *Delivery to Existing Clients and Customers*: Within 30 days after the date by which you are first required to electronically file your *relationship*

summary with the SEC, you must deliver your *relationship summary* to each of your existing clients and customers who are *retail investors*. See Advisers Act rule 204-5 and Exchange Act rule 17a-14.

8. Updating the *Relationship Summary* and Filing Amendments.

- A. You must update your *relationship summary* and file it in accordance with Instruction 7.A. above within 30 days whenever any information in the *relationship summary* becomes materially inaccurate. The filing must include an exhibit highlighting changes required by Instruction 8.C. below.
- B. You must communicate any changes in the updated *relationship summary* to *retail investors* who are existing clients or customers within 60 days after the updates are required to be made and without charge. You can make the communication by delivering the amended *relationship summary* or by communicating the information through another disclosure that is delivered to the *retail investor*.
- C. Each amended *relationship summary* that is delivered to a *retail investor* who is an existing client or customer must highlight the most recent changes by, for example, marking the revised text or including a summary of material changes. The additional disclosure showing revised text or summarizing the material changes must be attached as an exhibit to the unmarked amended *relationship summary*.

9. Additional Delivery Requirements to Existing Clients and Customers.

- A. You must deliver the most recent *relationship summary* to a *retail investor* who is an existing client or customer before or at the time you: (i) open a new account that is different from the *retail investor's* existing account(s); (ii) recommend that the *retail investor* roll over assets from a retirement account into a new or existing account or investment; or (iii) recommend or provide a new brokerage or investment advisory service or investment that does not necessarily involve the opening of a new account and would not be held in an existing account, for example, the first-time purchase of a direct-sold mutual fund or insurance product that is a security through a “check and application” process, *i.e.*, not held directly within an account.
- B. You also must deliver the *relationship summary* to a *retail investor* within 30 days upon the *retail investor's* request.

10. Electronic Posting and Manner of Delivery.

- A. You must post the current version of the *relationship summary* prominently on your public website, if you have one, in a location and format that is easily accessible for *retail investors*.

- B. You may deliver the *relationship summary* electronically, including updates, consistent with SEC guidance regarding electronic delivery, in particular Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information, which you can find at www.sec.gov/rules/concept/33-7288.txt. You may deliver the *relationship summary* to new or prospective clients or customers in a manner that is consistent with how the *retail investor* requested information about you or your financial professional consistent with SEC guidance, in particular Form CRS Relationship Summary; Amendments to Form ADV, which you can find at <https://www.sec.gov/rules/final/2019/34-86032.pdf>.
- C. If the *relationship summary* is delivered electronically, it must be presented prominently in the electronic medium, for example, as a direct link or in the body of an email or message, and must be easily accessible for *retail investors*.
- D. If the *relationship summary* is delivered in paper format as part of a package of documents, you must ensure that the *relationship summary* is the first among any documents that are delivered at that time.

11. **Definitions.**

For purposes of Form CRS and these Instructions, the following terms have the meanings ascribed to them below:

- A. **Affiliate:** Any persons directly or indirectly controlling or controlled by you or under common control with you.
- B. **Dually licensed financial professional:** A natural person who is both an associated person of a broker-dealer registered under section 15 of the Exchange Act, as defined in section 3(a)(18) of the Exchange Act, and a supervised person of an investment adviser registered under section 203 of the Advisers Act, as defined in section 202(a)(25) of the Advisers Act.
- C. **Dual registrant:** A firm that is dually registered as a broker-dealer under section 15 of the Exchange Act and an investment adviser under section 203 of the Advisers Act and offers services to *retail investors* as both a broker-dealer and an investment adviser. For example, if you are dually registered and offer investment advisory services to *retail investors*, but offer brokerage services only to institutional investors, you are not a *dual registrant* for purposes of Form CRS and these Instructions.
- D. **Relationship summary:** A written disclosure statement prepared in accordance with these Instructions that you must provide to *retail investors*. See Advisers Act rule 204-5; Exchange Act rule 17a-14; Form CRS.
- E. **Retail investor:** A natural person, or the legal representative of such natural person, who seeks to receive or receives services primarily for personal, family or household purposes.

Item Instructions

Item 1. Introduction

Include the date prominently at the beginning of the *relationship summary* (e.g., in the header or footer of the first page or in a similar location for a *relationship summary* provided electronically). Briefly discuss the following information in an introduction:

- A. State your name and whether you are registered with the Securities and Exchange Commission as a broker-dealer, investment adviser, or both. Also indicate that brokerage and investment advisory services and fees differ and that it is important for the *retail investor* to understand the differences. You may also include a reference to FINRA or Securities Investor Protection Corporation membership in a manner consistent with other rules or regulations (e.g., FINRA rule 2210).
- B. State that free and simple tools are available to research firms and financial professionals at Investor.gov/CRS, which also provides educational materials about broker-dealers, investment advisers, and investing.

Item 2. Relationships and Services

- A. Use the heading: “What investment services and advice can you provide me?”
- B. **Description of Services:** State that you offer brokerage services, investment advisory services, or both, to *retail investors*, and summarize the principal services, accounts, or investments you make available to *retail investors*, and any material limitations on such services. For broker-dealers, state the particular types of principal brokerage services you offer to *retail investors*, including buying and selling securities, and whether or not you offer recommendations to *retail investors*. For investment advisers, state the particular types of principal investment advisory services you offer to *retail investors*, including, for example, financial planning and wrap fee programs.

In your description you must address the following:

- (i) *Monitoring:* Explain whether or not you monitor *retail investors’* investments, including the frequency and any material limitations. If so, indicate whether or not the services described in response to this Item 2.B.(i) are offered as part of your standard services.
- (ii) *Investment Authority:* For investment advisers that accept discretionary authority, describe those services and any material limitations on that authority. Any such summary must include the specific circumstances that would trigger this authority and any material limitations on that authority (e.g., length of time). For investment advisers that offer non-discretionary services and broker-dealers, explain that the *retail investor* makes the ultimate decision regarding the purchase or sale of investments.

Broker-dealers may, but are not required to state whether you accept limited discretionary authority.

Note: If you are a broker-dealer offering recommendations, you should consider the applicability of the Investment Advisers Act of 1940, consistent with SEC guidance.

- (iii) *Limited Investment Offerings*: Explain whether or not you make available or offer advice only with respect to proprietary products, or a limited menu of products or types of investments, and if so, describe these limitations.
- (iv) *Account Minimums and Other Requirements*: Explain whether or not you have any requirements for *retail investors* to open or maintain an account or establish a relationship, such as minimum account size or investment amount.

C. **Additional Information:** Include specific references to more detailed information about your services that, at a minimum, include the same or equivalent information to that required by the Form ADV, Part 2A brochure (Items 4 and 7 of Part 2A or Items 4.A. and 5 of Part 2A Appendix 1) and Regulation Best Interest, as applicable. If you are a broker-dealer that does not provide recommendations subject to Regulation Best Interest, to the extent you prepare more detailed information about your services, you must include specific references to such information. You may include hyperlinks, mouse-over windows, or other means of facilitating access to this additional information and to any additional examples or explanations of such services.

D. **Conversation Starters:** Include the following additional questions for a *retail investor* to ask a financial professional and start a conversation about relationships and services:

- (i) If you are a broker-dealer and not a *dual registrant*, include: “Given my financial situation, should I choose a brokerage service? Why or why not?”
- (ii) If you are an investment adviser and not a *dual registrant*, include: “Given my financial situation, should I choose an investment advisory service? Why or why not?”
- (iii) If you are a *dual registrant*, include: “Given my financial situation, should I choose an investment advisory service? Should I choose a brokerage service? Should I choose both types of services? Why or why not?”
- (iv) “How will you choose investments to recommend to me?”
- (v) “What is your relevant experience, including your licenses, education and other qualifications? What do these qualifications mean?”

Item 3. Fees, Costs, Conflicts, and Standard of Conduct

A. Use the heading: “What fees will I pay?”

- (i) *Description of Principal Fees and Costs:* Summarize the principal fees and costs that *retail investors* will incur for your brokerage or investment advisory services, including how frequently they are assessed and the conflicts of interest they create.
 - a. Broker-dealers must describe their transaction-based fees. With respect to addressing conflicts of interest, a broker-dealer could, for example, include a statement that a *retail investor* would be charged more when there are more trades in his or her account, and that the firm may therefore have an incentive to encourage a *retail investor* to trade often.
 - b. Investment advisers must describe their ongoing asset-based fees, fixed fees, wrap fee program fees, or other direct fee arrangement. The principal fees for investment advisory services should align with the type of fee(s) that you report in response to Form ADV Part 1A, Item 5.E.
 - (1) Include information about each type of fee you report in Form ADV that is responsive to this Item 3.A. Investment advisers with wrap fee program fees are encouraged to explain that asset-based fees associated with the wrap fee program will include most transaction costs and fees to a broker-dealer or bank that has custody of these assets, and therefore are higher than a typical asset-based advisory fee.
 - (2) With respect to addressing conflicts of interest, an investment adviser that charges an asset-based fee could, for example, include a statement that the more assets there are in a *retail investor’s* advisory account, the more a *retail investor* will pay in fees, and the firm may therefore have an incentive to encourage the *retail investor* to increase the assets in his or her account.
- Note:** If you receive compensation in connection with the purchase or sale of securities, you should carefully consider the applicability of the broker-dealer registration requirements of the Securities Exchange Act of 1934 and any applicable state securities statutes.
- (ii) *Description of Other Fees and Costs:* Describe other fees and costs related to your brokerage or investment advisory services and investments in addition to the firm’s principal fees and costs disclosed in Item 3.A.(i) that the *retail investor* will pay directly or indirectly. List examples of the

categories of the most common fees and costs applicable to your *retail investors* (e.g., custodian fees, account maintenance fees, fees related to mutual funds and variable annuities, and other transactional fees and product-level fees).

- (iii) *Additional Information*: State “You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying.” You must include specific references to more detailed information about your fees and costs that, at a minimum, include the same or equivalent information to that required by the Form ADV, Part 2A brochure (specifically Items 5.A., B., C., and D.) and Regulation Best Interest, as applicable. If you are a broker-dealer that does not provide recommendations subject to Regulation Best Interest, to the extent you prepare more detailed information about your fees and costs, you must include specific references to such information. You may include hyperlinks, mouse-over windows, or other means of facilitating access to this additional information and to any additional examples or explanations of such fees and costs included in response to Item 3.A.(i) or (ii).
- (iv) *Conversation Starter*: Include the following question for a *retail investor* to ask a financial professional and start a conversation about the impact of fees and costs on investments: “Help me understand how these fees and costs might affect my investments. If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?”

B. If you are a broker-dealer, use the heading: “What are your legal obligations to me when providing recommendations? How else does your firm make money and what conflicts of interest do you have?” If you are an investment adviser, use the heading: “What are your legal obligations to me when acting as my investment adviser? How else does your firm make money and what conflicts of interest do you have?” If you are a *dual registrant* that prepares a single *relationship summary*, use the heading: “What are your legal obligations to me when providing recommendations as my broker-dealer or when acting as my investment adviser? How else does your firm make money and what conflicts of interest do you have?”

- (i) *Standard of Conduct*.
 - a. If you are a broker-dealer that provides recommendations subject to Regulation Best Interest, include (emphasis required): “*When we provide you with a recommendation, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because*

they can affect the recommendations we provide you. Here are some examples to help you understand what this means.” If you are a broker-dealer that does not provide recommendations subject to Regulation Best Interest, include (emphasis required): “We *do not* provide recommendations. The way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the services we provide you. Here are some examples to help you understand what this means.”

- b. If you are an investment adviser, include (emphasis required): “*When we act as your investment adviser*, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the investment advice we provide you. Here are some examples to help you understand what this means.”
- c. If you are a *dual registrant* that prepares a single *relationship summary* and you provide recommendations subject to Regulation Best Interest as a broker-dealer, include (emphasis required): “*When we provide you with a recommendation as your broker-dealer or act as your investment adviser*, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the recommendations and investment advice we provide you. Here are some examples to help you understand what this means.” If you are a *dual registrant* that prepares a single *relationship summary* and you do not provide recommendations subject to Regulation Best Interest as a broker-dealer, include (emphasis required): “We *do not* provide recommendations as your broker-dealer. *When we act as your investment adviser*, we have to act in your best interest and not put our interests ahead of yours. At the same time, the way we make money creates some conflicts with your interest. You should understand and ask us about these conflicts because they can affect the services and investment advice we provide you. Here are some examples to help you understand what this means.” If you are a *dual registrant* that prepares two separate *relationship summaries*, follow the instructions for broker-dealers and investment advisers in Items 3.B., 3.B.(i).a., and 3.B.(i).b.

- (ii) *Examples of Ways You Make Money and Conflicts of Interest:* If applicable to you, summarize the following other ways in which you and your *affiliates* make money from brokerage or investment advisory

services and investments you provide to *retail investors*. If none of these conflicts applies to you, summarize at least one other material conflict of interest that affects *retail investors*. Explain the incentives created by each of these examples.

- a. Proprietary Products: Investments that are issued, sponsored, or managed by you or your *affiliates*.
- b. Third-Party Payments: Compensation you receive from third parties when you recommend or sell certain investments.
- c. Revenue Sharing: Investments where the manager or sponsor of those investments or another third party (such as an intermediary) shares with you revenue it earns on those investments.
- d. Principal Trading: Investments you buy from a *retail investor*, and/or investments you sell to a *retail investor*, for or from your own accounts, respectively.

(iii) *Conversation Starter*: Include the following question for a *retail investor* to ask a financial professional and start a conversation about conflicts of interest: “How might your conflicts of interest affect me, and how will you address them?”

(iv) *Additional Information*: You must include specific references to more detailed information about your conflicts of interest that, at a minimum, include the same or equivalent information to that required by the Form ADV, Part 2A brochure and Regulation Best Interest, as applicable. If you are a broker-dealer that does not provide recommendations subject to Regulation Best Interest, to the extent you prepare more detailed information about your conflicts, you must include specific references to such information. You may include hyperlinks, mouse-over windows, or other means of facilitating access to this additional information and to any additional examples or explanations of such conflicts of interest.

C. Use the heading: “How do your financial professionals make money?”

(i) *Description of How Financial Professionals Make Money*: Summarize how your financial professionals are compensated, including cash and non-cash compensation, and the conflicts of interest those payments create.

(ii) *Required Topics in the Description*: Include, to the extent applicable, whether your financial professionals are compensated based on factors such as: the amount of client assets they service; the time and complexity required to meet a client’s needs; the product sold (*i.e.*, differential compensation); product sales commissions; or revenue the firm earns from the financial professional’s advisory services or recommendations.

Item 4. Disciplinary History

- A. Use the heading: “Do you or your financial professionals have legal or disciplinary history?”
- B. State “Yes” if you or any of your financial professionals currently disclose, or are required to disclose, the following information:
 - (i) Disciplinary information in your Form ADV (Item 11 of Part 1A or Item 9 of Part 2A).
 - (ii) Legal or disciplinary history in your Form BD (Items 11 A–K) (except to the extent such information is not released to BrokerCheck, pursuant to FINRA Rule 8312).
 - (iii) Disclosures for any of your financial professionals in Items 14 A–M on Form U4 (Uniform Application for Securities Industry Registration or Transfer), or in Items 7A or 7C–F of Form U5 (Uniform Termination Notice for Securities Industry Registration), or on Form U6 (Uniform Disciplinary Action Reporting Form) (except to the extent such information is not released to BrokerCheck, pursuant to FINRA Rule 8312).
- C. State “No” if neither you nor any of your financial professionals currently discloses, or is required to disclose, the information listed in Item 4.B.
- D. Regardless of your response to Item 4.B, you must:
 - (i) *Search Tool*: Direct the *retail investor* to visit [Investor.gov/CRS](https://www.investor.gov/CRS) for a free and simple search tool to research you and your financial professionals.
 - (ii) *Conversation Starter*: Include the following questions for a *retail investor* to ask a financial professional and start a conversation about the financial professional’s disciplinary history: “As a financial professional, do you have any disciplinary history? For what type of conduct?”

Item 5. Additional Information

- A. State where the *retail investor* can find additional information about your brokerage or investment advisory services and request a copy of the *relationship summary*. This information should be disclosed prominently at the end of the *relationship summary*.
- B. Include a telephone number where *retail investors* can request up-to-date information and request a copy of the *relationship summary*.

- C. **Conversation Starter:** Include the following questions for a *retail investor* to ask a financial professional and start a conversation about the contacts and complaints: “Who is my primary contact person? Is he or she a representative of an investment adviser or a broker-dealer? Who can I talk to if I have concerns about how this person is treating me?”



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Title 17: Commodity and Securities Exchanges
[PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934](#)

§240.15l-1 Regulation best interest.

(a) *Best interest obligation.* (1) A broker, dealer, or a natural person who is an associated person of a broker or dealer, when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer, shall act in the best interest of the retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or natural person who is an associated person of a broker or dealer making the recommendation ahead of the interest of the retail customer.

(2) The best interest obligation in paragraph (a)(1) of this section shall be satisfied if:

(i) *Disclosure obligation.* The broker, dealer, or natural person who is an associated person of a broker or dealer, prior to or at the time of the recommendation, provides the retail customer, in writing, full and fair disclosure of:

- (A) All material facts relating to the scope and terms of the relationship with the retail customer, including:
- (1) That the broker, dealer, or such natural person is acting as a broker, dealer, or an associated person of a broker or dealer with respect to the recommendation;
- (2) The material fees and costs that apply to the retail customer's transactions, holdings, and accounts; and
- (3) The type and scope of services provided to the retail customer, including any material limitations on the securities or investment strategies involving securities that may be recommended to the retail customer; and

(B) All material facts relating to conflicts of interest that are associated with the recommendation.

(ii) *Care obligation.* The broker, dealer, or natural person who is an associated person of a broker or dealer, in making the recommendation, exercises reasonable diligence, care, and skill to:

(A) Understand the potential risks, rewards, and costs associated with the recommendation, and have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail customers;

(B) Have a reasonable basis to believe that the recommendation is in the best interest of a particular retail customer based on that retail customer's investment profile and the potential risks, rewards, and costs associated with the recommendation and does not place the financial or other interest of the broker, dealer, or such natural person ahead of the interest of the retail customer;

(C) Have a reasonable basis to believe that a series of recommended transactions, even if in the retail customer's best interest when viewed in isolation, is not excessive and is in the retail customer's best interest when taken together in light of the retail customer's investment profile and does not place the financial or other interest of the broker, dealer, or such natural person making the series of recommendations ahead of the interest of the retail customer.

(iii) *Conflict of interest obligation.* The broker or dealer establishes, maintains, and enforces written policies and procedures reasonably designed to:

(A) Identify and at a minimum disclose, in accordance with paragraph (a)(2)(i) of this section, or eliminate, all conflicts of interest associated with such recommendations;

(B) Identify and mitigate any conflicts of interest associated with such recommendations that create an incentive for a natural person who is an associated person of a broker or dealer to place the interest of the broker, dealer, or such natural person ahead of the interest of the retail customer;

(C)(1) Identify and disclose any material limitations placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations, in accordance with subparagraph (a)(2)(i), and

(2) Prevent such limitations and associated conflicts of interest from causing the broker, dealer, or a natural person who is an associated person of the broker or dealer to make recommendations that place the interest of the broker, dealer, or such natural person ahead of the interest of the retail customer; and

(D) Identify and eliminate any sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sales of specific securities or specific types of securities within a limited period of time.

(iv) *Compliance obligation.* In addition to the policies and procedures required by paragraph (a)(2)(iii) of this section, the broker or dealer establishes, maintains, and enforces written policies and procedures reasonably designed to achieve compliance with Regulation Best Interest.

(b) *Definitions.* Unless otherwise provided, all terms used in this rule shall have the same meaning as in the Securities Exchange Act of 1934. In addition, the following definitions shall apply for purposes of this section:

- (1) *Retail customer* means a natural person, or the legal representative of such natural person, who:
- (i) Receives a recommendation of any securities transaction or investment strategy involving securities from a broker, dealer, or a natural person who is an associated person of a broker or dealer; and
- (ii) Uses the recommendation primarily for personal, family, or household purposes.
- (2) *Retail customer investment profile* includes, but is not limited to, the retail customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the retail customer may disclose to the broker, dealer, or a natural person who is an associated person of a broker or dealer in connection with a recommendation.
- (3) *Conflict of interest* means an interest that might incline a broker, dealer, or a natural person who is an associated person of a broker or dealer —consciously or unconsciously—to make a recommendation that is not disinterested.

[84 FR 33491, July 12, 2019]

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