

TIPS FROM YOUR FINANCIAL COACH

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The SEC Adopts “Regulation Best Interest” What has changed?





If you find yourself in need of investment advice, you’re in luck. There are now more financial professionals required to act in your “best interest” than ever before. However, what is truly in your best interest is understanding precisely what this term means and how it may affect the financial recommendations you receive from an investment professional.

The financial services industry is often viewed as being separated into two parts:

The first part is comprised of investment advisers who manage wealth and make objective financial recommendations on behalf of their clients for a flat fee or a fee based on a percentage of assets under management. These advisers tend to work for Registered Investment Advisers (RIAs), trust companies or act as Independent Advisor Representatives (IARs) and are regulated by the Securities and Exchange Commission (SEC) or state regulatory agencies.

The second part is comprised of financial advisers typically acting as licensed stockbrokers or insurance agents who frequently sell investment products and execute trades for a transactional fee or commission. These individuals tend to work for Wirehouses, Broker-Dealer firms or insurance agencies and are regulated by a private group known as the Financial Industry Regulatory Authority (FINRA) or the state insurance authority.

While compensation structure is a fundamental variable between these two parts, another key differentiator is the standard to which each are legally required to act on behalf of their clients. Investment advisers, working as IARs or for RIAs and trust companies, including state-chartered trust banks like Tri-Star, must adhere to a strict fiduciary duty to act in their clients’ best interest continuously and unequivocally. Financial advisers, including licensed securities brokers and insurance agents, are duty-bound to recommend an investment and offer advice that is suitable, based on the client’s unique needs and circumstances. That is until recently.

RIA, IAR & Trust Company		Wirehouse, BD & Insurance Agency
Flat Fee or Asset Management Fee		Transactional Fee or Commission
Fiduciary Duty		Best Interest Standard
SEC & State Regulator		FINRA & State Insurance Authority

On June 30, 2020, the Securities and Exchange Commission (SEC) approved a set of rules related to financial guidance called “Regulation Best Interest” (Reg-BI). Reg-BI places new standards of conduct on all financial professionals and dictates that insurance agents and securities brokers are legally required to recommend actions and execute trades that are not only suitable, but also in their client’s best interest. To adhere to this new rule the financial adviser must now meet four obligations:

- 1) **Duty of Care** – exercising reasonable diligence, care, skill, loyalty, and the ability to articulate risks and rewards when making a financial recommendation
- 2) **Conflicts of Interest** – establishing, maintaining, and enforcing policies and procedures to address, disclose and mitigate any conflicts of interest
- 3) **Compliance** – establishing, maintaining, and enforcing internal policies and procedures to assist financial advisers in abiding by Reg-BI
- 4) **Disclosure** – providing documents, such as the Client Relationship Summary (CRS), before or at the time of making a recommendation, which reveals key information about the firm including fee structure, conflicts of interest, standards of conduct and disciplinary history

The SEC believes that Reg-BI is an overall improvement, a meaningful step in the right direction. It increases transparency and elevates financial advisers from a suitability standard to a best interest standard at minimum. It offers individual investors protection from product recommendations and investment advice that may benefit the adviser as much or more than the consumer.

Yet, Reg-BI does not entirely level the playing field. It does surpass the suitability requirement, but it falls short of the gold standard, fiduciary duty. Consequently, there have been mixed reviews on the effectiveness of Reg-BI. Several consumer advocate groups believe the new rule is ambiguous and will cause confusion, especially considering that some brokers are dually licensed and may simultaneously be registered with the SEC as an investment adviser and also with FINRA as a broker. Critics believe this “hybrid” status may impose the burden onto the individual investor to determine the capacity to which the adviser is acting during each transaction or interaction.

By in large, most investment professionals from brokers to investment advisers adhere to the highest fiduciary standard of care on behalf of their clients, whether the mandate to do so is explicitly written and legal, or implicitly unwritten and moral. Regardless of which type of firm you do business, the key is to work with an adviser you trust.

As a privately and publicly audited, state-chartered trust bank, Tri-Star Trust has not been affected by the recent passing of Regulation Best Interest. Since we opened our doors twenty years ago, we have adhered to a stringent **fiduciary duty** on behalf of our clients.

We are proud to offer our clients complete objectivity, full transparency, and an unwavering commitment to follow these fiduciary principles at all times:

- 1) We will put your best interest first, and always ahead of our own.
- 2) We will act with prudence, skill, care, diligence, loyalty, and good judgment.
- 3) We will not mislead you and will provide full and fair disclosure of all important facts.
- 4) We will avoid conflicts of interest, and will fully disclose and fairly manage, in your favor, any unavoidable conflicts.



If you have any questions regarding our fiduciary duty and the steps we take each day to ensure we are prioritizing our client's interests first and foremost, please reach out to your Tri-Star Relationship Officer to begin that conversation at 989.921.0010.

Fiduciary Duty vs Best Interest

Fiduciary Duty

Recommendations in the client's best interest and always ahead of the adviser's best interest.

Best Interest

Recommendations in the client's best interest that may also be in the adviser's best interest.



SAGINAW
2000



FRANKENMUTH
2004



LANSING
2010



MIDLAND
2014