

## Regulation Best Interest Disclosure

The Securities and Exchange Commission (the “SEC”) adopted Regulation Best Interest (“Reg BI”), a rule that establishes a “best interest” standard of conduct applicable to broker dealers and their associated persons when making recommendations to their retail customers. A broker-dealer and its associated persons satisfy their best interest obligation under Reg BI by satisfying each of the following four component obligations of Reg BI:

- **Disclosure**

Under Reg BI’s disclosure obligation, prior to or at the time of a recommendation of a securities transaction or an investment strategy involving securities, a broker-dealer and its associated persons must provide a retail customer with full and fair disclosure, in writing, of all material facts relating to the scope and terms of the relationship with the retail customer and all material facts relating to conflicts of interest that are associated with the recommendation. In addition, the SEC introduced a new Customer Relationship Summary or “Form CRS” requirement. As a registered broker dealer, we are required to deliver a Form CRS to our retail investors on or before the occurrence of certain specified Form CRS delivery triggers. Form CRS is a written disclosure statement that provides retail investors with succinct information about the relationships and services the firm offers to retail investors, fees and costs that retail investors will pay, specified conflicts of interest and standards of conduct, and disciplinary history, among other things.

- **Care**

Reg BI’s care obligation requires a broker-dealer and its associated persons to exercise reasonable diligence, care, and skill in making recommendations to retail customers. There are three underlying components of the care obligation that must be considered to act in a retail broker-dealer client’s best interest when making recommendations: a reasonable-basis obligation, a customer-specific obligation, and a quantitative obligation. The customer-specific obligation requires that a broker-dealer and its financial professionals have a reasonable basis to believe that the recommendation is in the best interest of a particular retail broker-dealer customer based on that retail broker-dealer 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 broker-dealer customer. To meet the customer-specific obligation, the financial professional needs to consider reasonably available alternatives offered by the broker-dealer. However, please note that this does not require a broker-dealer and its financial professional to evaluate every possible alternative, whether offered by the firm or available outside the firm.

- **Conflicts of Interest**

The conflict of interest obligation requires that a broker-dealer establishes, maintains, and enforces written policies and procedures reasonably designed to identify and at a minimum disclose or eliminate all conflicts of interest associated with such recommendations, and to mitigate certain identified conflicts. Reg BI identifies three specific conflicts that must be mitigated, prevented, or eliminated: (i) financial professional incentives; (ii) material limitations on products; and (iii) sales contests.

- **Compliance**

Reg BI requires broker-dealers to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI as a whole. As such, a broker-dealer firm's compliance policies and procedures will need to address not only the specific disclosure, care, and conflict of interest component obligations under Reg BI, but will also need to address the firm's compliance with Reg BI in its entirety.