

Regulation Best Interest – FAQ's

What is Regulation Best Interest (Reg BI)?

Reg Best Interest is a rule issued by the SEC that requires broker-dealers and their associated persons to act in the best interest of the retail customer at the time an investment recommendation is made, without placing the financial or other interest of the broker-dealer ahead of the interests of the retail customer. This higher standard of conduct applies when recommending:

Securities transactions; or Investment strategies involving securities, including account types; or

- Opening IRA or brokerage account; or
- Rolling over assets from one account type to another
- The rule also requires broker-dealers to identify potential conflicts of interest and financial incentives the broker-dealer may have in making these types of recommendations.

Why is this regulation being implemented?

Reg BI was issued by the SEC to establish a new and higher conduct standard for broker-dealers when they are making investment recommendations.

Will all brokerage firms now be required to follow Reg BI?

Reg BI will require all brokerage firms that provide recommendations to retail investors to act in the investors' best interest when making the recommendations. In addition, both brokerage firms and investment advisors will be required to provide a new disclosure to retail investors, the Form CRS (Customer Relationship Summary).

When does Reg BI go into effect?

Reg BI goes into effect on June 30, 2020.

What types of accounts does Reg BI address?

Reg BI applies when broker-dealers are making a recommendation as to any type of retail brokerage account for retail investors as well as to investment advisory accounts.

Does Reg BI apply differently to brokerage services versus investment advisory services?

Yes. Reg BI itself applies only to broker-dealers. Investment advisors are subject to their own requirements under the Investment Advisers Act of 1940. But the Form CRS requirements apply to both brokers and investment advisors.

Does Reg BI apply just to new customers or existing clients as well?

Reg BI will apply to investment recommendations made to prospective customers, new customers, and existing clients for Monmouth Capital Management.

Who is considered a retail customer, according to Reg BI?

As defined in Regulation Best Interest, a “**retail customer**” is a natural person, or the legal representative of such natural person, who:

- 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
- Uses the recommendation primarily for personal, family, or household purposes.

How will Reg BI be enforced?

As with other SEC rules, the Financial Industry Regulatory Authority (FINRA), will examine for and enforce compliance with Reg BI based upon SEC guidance. FINRA will work with SEC staff to ensure consistency in examining broker-dealers and their associated persons for compliance with Reg BI. The SEC Office of Compliance Inspections and Examinations also will be involved in enforcement.

What is the Form CRS (Customer Relationship Summary) rule?

A rule requiring broker-dealers and registered investment advisors to deliver, to retail clients and prospects a brief relationship summary disclosing certain information about the firm(s).

The Form CRS requires 5 specific sections:

1. **Introduction:** clearly indicates that brokerage and investment advisory services and fees differ; and that it is important for a retail investor to understand the difference between the services and fees.
2. **Relationship & Services** - describes the relationship and services offered, including a discussion of whether the firm provides account monitoring services, potential investment authority, any limitations on offerings and account minimums.
3. **Fees, Costs, Conflicts, Standard of Conduct** - Firms must provide detailed descriptions about the fees and costs that their retail investors will pay, their conflicts of interest, and applicable standard of conduct in making investment recommendations to retail investors.
4. **Disciplinary History** - Firm must provide disclosures of disciplinary information regarding the firm and its financial professionals.
5. **Where to find additional information** - firm must provide instructions regarding where a retail investor can find more information about the firm and the services it offers.

When must the FORM CRS summary being delivered to a Client?

If you are working with a broker-dealer, you must receive the Form CRS before or at the earliest of: a recommendation of an account type, a securities transaction, or an investment strategy involving securities; the placing an order for you; or the opening of a brokerage account for you.

If you are working with an investment advisor, as of June 30, 2020 you must receive a Form CRS before or at the time you and your advisor enter an investment advisory relationship.

What is the goal of Form CRS?

To educate you on our offerings, services, fees, and costs and to provide you with information you need to help ask questions and initiate a conversation with us and our representatives. The disclosure is intended to be in simple English, be easy to understand, and help facilitate a conversation between you and our financial representative.

How will this impact how I work with Monmouth Capital Management?

At Monmouth Capital Management, we strive to put your needs first. We believe the new rules will help strengthen the relationship we have with our clients, by facilitating more open and straightforward dialogue between you and Monmouth Capital Management

Where can I get additional information about Reg BI?

FINRA's SEC Regulation Best Interest Webpage – includes links to the regulation, SEC resources, information about conferences, podcasts, and many other reference documents.

<https://www.finra.org/rules-guidance/key-topics/regulation-best-interest>