

This represents basic information to assist you in responding to client questions – information that you can tailor to your firm's business.

# How Will the SEC's New Standards of Conduct Rulemakings Affect Investment Advisers and their Clients?

## Has Investment Advisers' standard of conduct changed?

No. Investment advisers continue to be fiduciaries, and their longstanding fiduciary duty under law and regulation has been reaffirmed by the SEC's rulemakings.

## Has my Firm's obligations to you changed?

No. As a fiduciary under the Investment Advisers Act of 1940, we are required to put your interests first in all aspects of our advisory relationship. In addition, RIAs must not only disclose any conflicts they have to their clients, they must manage and mitigate those conflicts so they do not taint the advice they give their clients. As fiduciaries, RIAs continue to have an affirmative duty of care, loyalty, honesty and utmost good faith to act in the best interests of their clients.

## Will Investment Advisers have to do anything differently now?

Just one main thing. Beginning in June 2020, investment advisers and broker-dealers will be required to provide clients with a new two-page disclosure document called Form CRS (for Client Relationship Summary). On Form CRS, firms will be required to explain their services, professional obligations, disciplinary history and conflicts of interest in a simple question-and-answer format. While this is a totally new requirement for broker-dealers, investment advisers have long been required to make these types of disclosures in a narrative brochure (Form ADV). Beginning in June 2020, advisers will be making those disclosures in the new format along with their brochures.

## If Advisers' conduct standards and client obligations haven't changed, what has?

The SEC's rulemaking was aimed primarily at raising conduct standards for broker-dealers, not investment advisers. Broker-dealers have a distinctly different business model from investment advisers and are governed by different federal law and regulations. Broker-dealers make recommendations and sell securities and financial products and are paid by commissions on those sales. RIAs provide ongoing investment advice and portfolio management for a fee – typically a percentage of the client's portfolio value.

The centerpiece of the new SEC rulemaking applies to broker-dealers. It's called Regulation Best Interest, or Reg BI, and it requires broker-dealers to make sales recommendations that are in their customers' best interest – but that obligation exists only for a specific transaction and only at the time of that transaction. On the other hand, investment advisers' fiduciary duty is broad, ongoing and applies to the entire relationship between the adviser and its client.