

**MEMO# 31815**

June 19, 2019

# Summary of Final SEC Rulemakings on Standards of Conduct for Investment Professionals

[31815]

June 19, 2019 TO: ICI Members

Investment Company Directors

ICI Global Members

Bank, Trust and Retirement Advisory Committee

Broker/Dealer Advisory Committee

Chief Compliance Officer Committee

Internal Audit Committee

Investment Advisers Committee

Operations Committee

Pension Committee

Pension Operations Advisory Committee

SEC Rules Committee

Small Funds Committee

Transfer Agent Advisory Committee

Variable Insurance Products Advisory Committee SUBJECTS: Compensation/Remuneration  
Compliance

Disclosure

Distribution

Fees and Expenses

Investment Advisers

Operations

Pension

Recordkeeping

State Issues

Transfer Agency RE: Summary of Final SEC Rulemakings on Standards of Conduct for Investment Professionals

On June 5, 2019, the Securities and Exchange Commission adopted its long-awaited rulemakings regarding standards of conduct for broker-dealers and investment advisers, in a 3-1 vote.[\[1\]](#) The Commission adopted two final rules and two interpretations: Regulation Best Interest, the Form CRS relationship summary, an interpretation of an investment adviser's fiduciary duty, and an interpretation of the "solely incidental" exclusion for

broker-dealers under the Investment Advisers Act of 1940 (“Advisers Act”). The Commission’s rules and interpretations are intended to enhance the quality and transparency of retail investors’ relationships with investment advisers and broker-dealers, bringing the legal requirements and mandated disclosures in line with reasonable investor expectations, while preserving investor access to a variety of investment services and products.

We have summarized those aspects of the rulemakings most relevant to registered funds, highlighting key changes from the Commission’s proposals.[\[2\]](#) **For your convenience, our detailed summaries of each rulemaking are attached, below, as separate appendices to this memorandum.**

*Regulation Best Interest:* Regulation Best Interest imposes an enhanced standard of conduct on broker-dealers when they provide recommendations to retail customers regarding a securities transaction or an investment strategy involving securities. Under Regulation Best Interest, a broker-dealer must act in the retail customer’s best interest and cannot place its own interests ahead of the customer’s interests. A broker-dealer satisfies Regulation Best Interest by meeting its four component obligations: the Disclosure Obligation, the Care Obligation, the Conflict Obligation, and the Compliance Obligation.

*Form CRS Relationship Summary:* Investment advisers and broker-dealers will be required to deliver a relationship summary to retail investors at the beginning of the relationship. The relationship summary, which will be in a standardized question-and-answer format, will provide investors with information about a firm’s services, fees and costs, conflicts of interest, applicable legal standard of conduct, and disciplinary history.

*Interpretation of Standard of Conduct for Investment Advisers:* The Commission issued an interpretation that is intended to reaffirm and, in some cases clarify, the fiduciary duty that an investment adviser owes to its clients under the Advisers Act.

*Interpretation of “Solely Incidental”:* The Commission issued an interpretation regarding the scope of advice a broker-dealer may provide while relying on the “broker-dealer exclusion” under the Advisers Act, which excludes from the definition of “investment adviser” a broker or dealer whose performance of advisory services is “solely incidental” to the conduct of its business as a broker or dealer and who receives no special compensation for those services.

*Compliance Dates:* The Commission’s interpretations will be effective upon publication in the Federal Register. The Commission has provided a compliance date of June 30, 2020 for registered broker-dealers to comply with Regulation Best Interest, and for registered broker-dealers and registered advisers to prepare, deliver to retail investors, and file a Form CRS relationship summary.

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Associate General Counsel

[Attachment No. 1](#)

[Attachment No. 2](#)

[Attachment No. 3](#)

[Attachment No. 4](#)

**endnotes**

[1] Commissioner Jackson dissented from the vote. All of the commissioners' statements are *available at* <https://www.sec.gov/news/statements>.

[2] For a summary of the proposals, *please see* ICI Memorandum No. 31185 (Apr. 26, 2018), *available at* [https://www.ici.org/my\\_ici/memorandum/memo31185](https://www.ici.org/my_ici/memorandum/memo31185). ICI's August 2018 comment letter on the proposals is *available at* [https://www.ici.org/pdf/18\\_regulation\\_best\\_interest\\_ltr.pdf](https://www.ici.org/pdf/18_regulation_best_interest_ltr.pdf).

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