

**MEMO# 31790**

June 5, 2019

# **SEC Adopts Final Rulemakings Regarding Standards of Conduct for Investment Professionals**

[31790]

June 5, 2019 TO: ICI Members  
Investment Company Directors

ICI Global Members

Broker/Dealer Advisory Committee

Pension Committee

Pension Operations Advisory Committee

SEC Rules Committee

Small Funds Committee

Transfer Agent Advisory Committee SUBJECTS: Compensation/Remuneration  
Compliance

Disclosure

Distribution

Fees and Expenses

Intermediary Oversight

Investment Advisers

Operations

Pension

State Issues

Transfer Agency RE: SEC Adopts Final Rulemakings Regarding Standards of Conduct for Investment Professionals

The SEC has adopted its long-awaited rulemakings regarding standards of conduct for investment professionals. The rulemaking was adopted in a 3-1 vote by the Commission, and is intended to enhance the protections that apply to retail investors when they receive recommendations from investment professionals.[\[1\]](#) We have highlighted, below, the two final rules and two interpretations the Commission adopted today. We will circulate a more detailed memorandum after we review the Commission releases.[\[2\]](#)

*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.

*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 has 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 Investment Advisers Act of 1940 ("Advisers Act").

*Interpretation of "Solely Incidental:"* The Commission has issued an interpretation of the "broker-dealer exclusion" under the Advisers Act, which provides that 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 is excluded from the definition of "investment adviser."

*Compliance Dates:* The Commission's final rules and forms will be effective 60 days after publication in the *Federal Register*. The 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 relationship summary.

The Commission has established an inter-divisional Standards of Conduct Implementation Committee to assist firms in complying with the new rules, and encourages firms to actively engage with the committee as implementation questions arise.

Sarah A. Bessin  
Associate General Counsel

#### **endnotes**

[1] The press release and fact sheet summarizing the rulemaking is available at <https://www.sec.gov/news/press-release/2019-89>. Commissioner Jackson dissented from the vote. All of the commissioners' statements are available at <https://www.sec.gov/news/statements>.

[2] The Commission releases are available at:

*Regulation Best Interest:* <https://www.sec.gov/rules/final/2019/34-86031.pdf>;

*Form CRS Relationship Summary and Form ADV Amendments:*  
<https://www.sec.gov/rules/final/2019/34-86032.pdf>;

Commission Interpretation Regarding Standard of Conduct for Investment Advisers:  
<https://www.sec.gov/rules/interp/2019/ia-5248.pdf>; and

*Commission Interpretation Regarding the Solely Incidental Prong of the Broker-Dealer  
Exclusion from the Definition of Investment Adviser:*  
<https://www.sec.gov/rules/interp/2019/ia-5249.pdf>.

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