

AOS, Inc. dba TradingBlock and MoneyBlock

About Regulation Best Interest (“Reg BI”)

The U.S. Securities and Exchange Commission (the SEC) adopted Regulation Best Interest (Reg BI), a new rule establishing a “best interest” standard of conduct applicable to broker-dealers and their associated persons (financial professionals) when making recommendations to their retail customers of: any securities transaction; investment strategy involving securities, the opening of an account (e.g., a brokerage vs. an investment advisory account, a brokerage vs. a direct account, among individual retirement accounts (IRAs), etc.); and account related features (e.g., options trading capability, margin, cash sweep option, etc.).

How are “best interest” obligations satisfied?

A broker-dealer and its financial professionals 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 financial professionals must provide a retail customer with full and fair disclosure, in writing, of (1) all material facts relating to the scope and terms of the relationship with the retail customer and (2) all material facts relating to conflicts of interest that are associated with the recommendation.

In addition to the Reg BI disclosure document and related disclosure obligations described above, as part of the SEC’s broader Reg BI rulemaking package, the SEC introduced a new Customer Relationship Summary or “Form CRS” requirement. Both SEC-registered broker-dealers and investment advisers are now required to deliver a Form CRS to their retail investors (both retail broker-dealer clients and investment advisory (fee-based clients) on or before the occurrence of certain specified Form CRS delivery triggers and must file their Form CRS with the SEC.

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 financial professionals to “exercise reasonable diligence, care, and skill” in making recommendations to a retail broker-dealer customer. The SEC made clear that a broker-dealer’s or financial professional’s compliance with

the care obligation “will be evaluated as of the time of the recommendation (and not in hindsight).”

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 “[h]ave 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.

Reasonably Available Alternatives—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.

Conflict 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, in accordance with [the disclosure obligation], or eliminate, all conflicts of interest associated with such recommendations” and to mitigate certain identified conflicts (if those conflicts were not otherwise eliminated). 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.

Additional Information

You can find additional information about our services and request a copy of the relationship summary by visiting www.tradingblock.com or www.moneyblock.com, by emailing phoeh@tradingblock.com, or by calling us at 312-253-0416.