The Report on the Effectiveness of the SEC's Regulation Best Interest

Since 2015, when the Department of Labor published a fiduciary rule proposal, there has been a great deal of attention on the policies and procedures that financial services firms have in place to ensure that their financial professionals act in the best interests of their clients. Since then, the regulatory landscape has evolved, with federal and state regulators moving from a suitability standard to a best interest standard. Notably, the U.S. Securities and Exchange Commission ("SEC") adopted Regulation Best Interest (Reg BI), and several states have incorporated Reg BI directly into their state securities laws. In addition, 49 jurisdictions have now adopted rules that meet or exceed the current version of the National Association of Insurance Commissioners (NAIC) Suitability in Annuity Transactions Model Regulation, which was revised in 2020 to establish a best interest standard that aligns with Reg BI. Together, these regulations have created a robust structure that ensures financial professionals are always acting in the best interest of their clients. As a result of these rules, financial services companies have reported they have put in place a number of new policies and procedures. However, until this point, there has been no coordinated research to measure

1) the extent of the policies and procedures financial services companies have put in place to reflect the best interest standard and
2) the steps that have been taken since 2015, when a new focus was put on this area.

This study was put in place to measure the evolution of financial services firms' policies and procedures in this area since the enactment of Reg BI. Greenwald Research, an independent market research company that has expertise in issues pertaining to the distribution of investment and annuity products, collected information from nine leading companies. These companies employ 60,000 financial professionals and serve 13 million investors.

Following are the results of this study.

February 2025

Summary of Key Findings

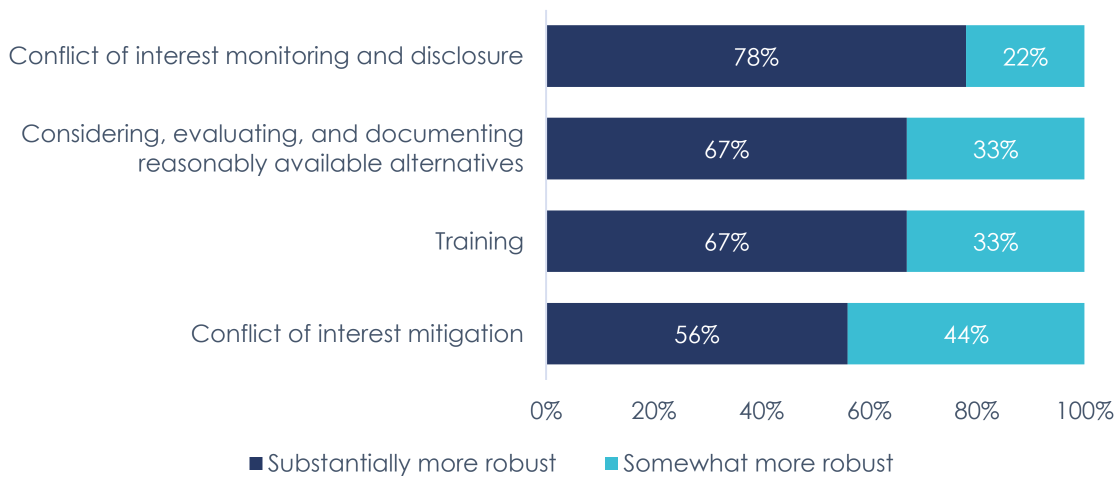
As summarized below, there have been dramatic changes in the way that recommendations regarding investment securities, variable annuities, and fixed annuities are made. The landscape of practices in this area has greatly changed for the better in the last 10 years, strengthening firm compliance and supervision programs. These meaningful changes are largely a result of Reg BI, indicating that the current regulatory regime has effectively resulted in positive change.

- Since 2015, 100% of all studied firms implemented more robust new policies and procedures in the following areas: 1) conflict of interest monitoring and disclosure, 2) considering, evaluating and documenting reasonably available alternatives, 3) training, and 4) conflict of interest mitigation.
- Unlike in 2015, no studied firm pays differential compensation on proprietary products.
- Unlike in 2015, all studied firms also require agents/representatives consider several factors when recommending an IRA or IRA rollover, including fees.
- Unlike in 2015, all firms now require agents/representatives (1) to discuss with clients the pros and cons of the recommended investments, (2) to document the rationale for any recommendations they make to clients, and (3) to inform clients of the compensation they will receive as a result of the client purchasing the product.
- Unlike in 2015, all studied firms consider seven key factors before making annuities available to agents/representatives.

Policies and Procedures

Since 2015, all of the firms that were studied implemented more robust new policies and procedures in the following areas: 1) conflict of interest monitoring and disclosure, 2) considering, evaluating and documenting reasonably available alternatives, 3) training, and 4) conflict of interest mitigation. In each area, most firms reported having substantially more robust policies and procedures than they did previously. These policies and procedures are important because they set the standard for effective compliance with the current best interest standard of conduct.

Changes to Policies and Procedures since 2015



Firms studied provided examples of how they have made their policies and procedures more robust.

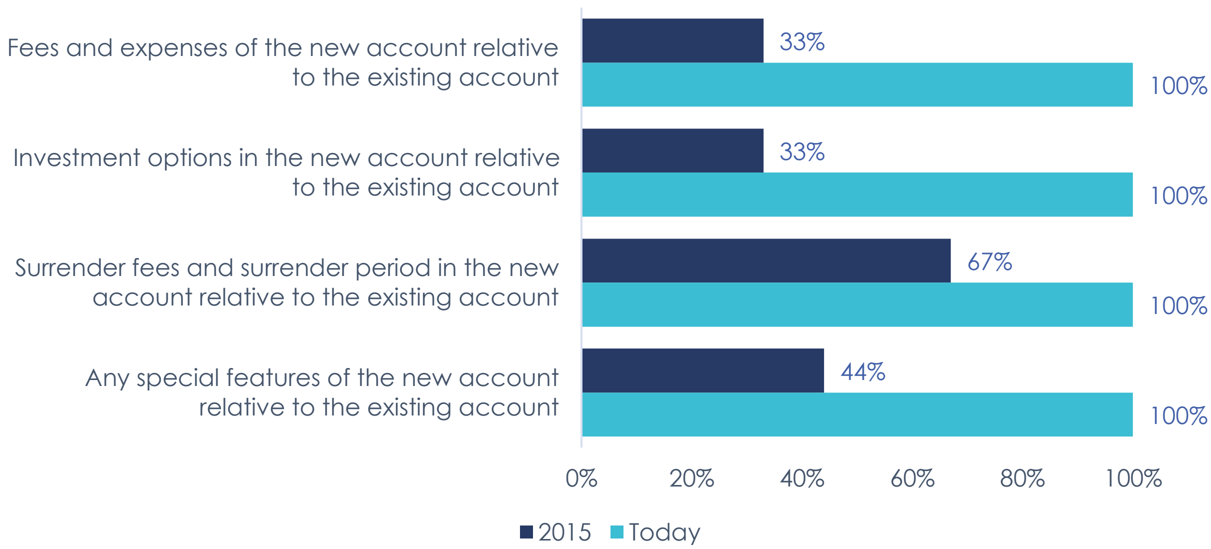
How Firms Have Made Policies and Procedures More Robust

Policy or Procedure	Examples
Conflict of interest monitoring and disclosure	• Creation of formal conflict of interest committees • Increased compensation disclosure • Training • Implemented Form CRS
Conflict of interest mitigation	• Compensation reforms • Eliminated products • Discontinued certain practices that created conflicts
Considering, evaluating, and documenting reasonably available alternatives	• Refined available product set • Provide product decision tree to clients • Require documentation of recommendations and rationale
Training	• Specific Reg BI training • Annual minimum training hours per rep

Among firms with proprietary products, in 2015 one in three firms paid higher compensation on the sale of proprietary annuities and one in four paid higher compensation on other proprietary products. By 2022, no firm paid differential compensation for proprietary products, effectively eliminating any incentive to sell proprietary products or annuities.

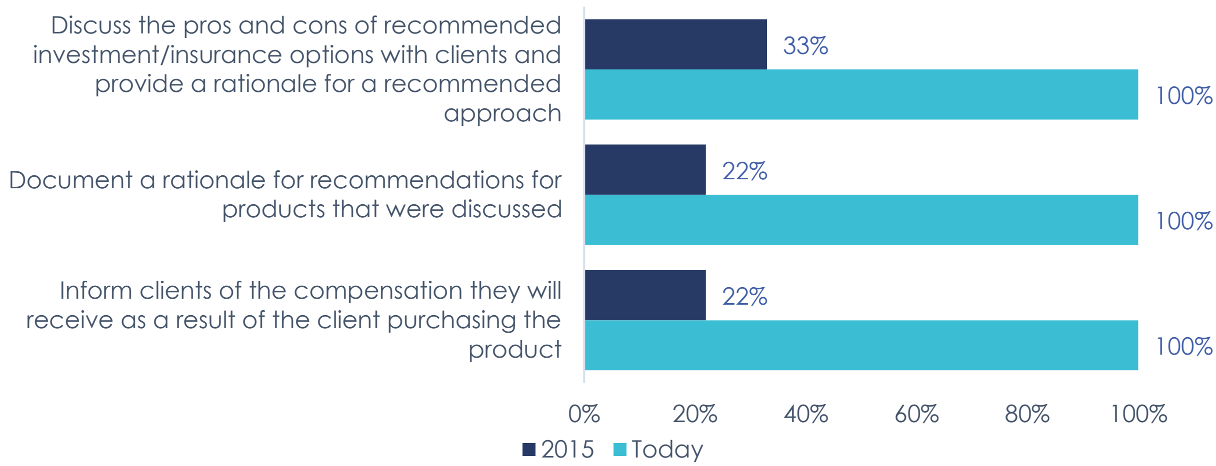
Without prescriptive, costly and product-specific new rules, it is now universal among reporting firms to require that their financial professionals consider each of four specific factors when recommending that a client open an IRA or roll assets into one.

Required Considerations Before Recommending an IRA/IRA Rollover



All firms now require financial professionals to document the rationale for products that they recommend, discuss the pros/cons of recommended investment options with clients, and discuss or otherwise disclose the compensation they will receive as a result of a product purchase.

Required Discussion and Recommendation Rationale



All firms now consider each of seven factors before making annuities available to their agents/representatives. In 2015 majorities, but not all firms, considered each of these seven factors. The remaining firms either did not consider these factors, or do not have documentation from 2015 to state definitively that they did.

Factors Considered Before Making Annuities Available to Agents/Representatives

	Variable Annuities		Fixed Annuities	
	2015	Today	2015	Today
The fees and expenses of the annuity	88%	100%	78%	100%
The objective of the annuity	75%	100%	78%	100%
The benefits and features of the annuity	88%	100%	78%	100%
The underlying investment options available in the annuity	75%	100%	78%	100%
The volatility of the annuity	88%	100%	78%	100%
The complexity of the annuity	88%	100%	78%	100%
The risk level of the annuity	88%	100%	78%	100%
Not sure	13%		22%	

Methodology

The Insured Retirement Institute (IRI) and several industry firms jointly sponsored a survey of major financial services firms' policies and practices. Greenwald Research conducted the survey. In total 9 firms completed the survey. All operate both a broker-dealer and SEC registered investment adviser. Collectively, participating firms represent:

- More than 13 million retail clients
- Nearly 60,000 agents or representatives

All firms offer non-annuity securities and investment products. All offer fixed annuities and all but one offer variable annuities. For purposes of the survey, registered index-linked annuities (RILAs) are included with variable annuities.