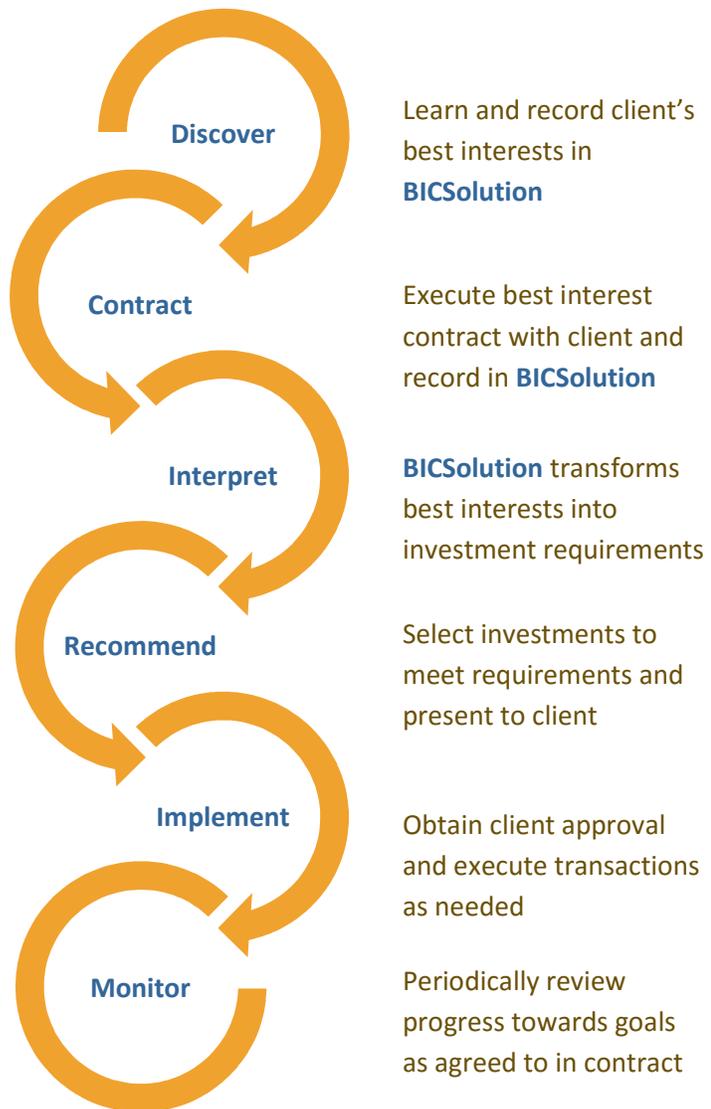


BEST INTEREST CONTRACT SOLUTION FOR BROKER/ DEALERS

Introduction

New Federal Regulations for Advisors (Best Interest Contracts) must have a customized integrated automated system to comply with its complex rules and requirements, avoid risks of inconsistencies, save time through automation, operate profitably with proper oversight and adequate controls and compete in the new technology era.

*A fully
documented
Process:*



Overview:

Regulatory changes require Broker/Dealers to adopt radically different business practices to retain current compensation and to be in compliance.

The changes are referred to as the **Conflict of Interest Rule** (“COIR”) and the **Best Interest Contract Exemption** (“BICE”).

- COIR redefines virtually all advisors as fiduciaries and
- BICE permits the fiduciaries to receive otherwise prohibited compensation under certain conditions.

Objectives:

The Best Interest Contract Solution (“*BICSolution*”) being proposed here delivers solutions to the major challenges of BICE:

- **Comply with BICE Requirements**
 - ...at a reasonable cost*
 - ...with manageable risk*
 - ...retaining revenue and profits*
 - ...leveraging existing investment expertise*
 - ...creating growth opportunities*
 - ...handling existing and new clients*
 - ...maintaining client satisfaction and retention*

Strategy:

BICSolution, the **Best Interest Contract Solution** is a computer based model consisting of modules that:

- Guides the client conversation to capture the necessary information
- Transforms client’s expressed needs, purposes and goals into investment requirements
- Delivers investment requirements for firm to provide recommendations
- Prepares recommendations for financial advisor to present to client
- Uses uniform and consistent rules while permitting changes
- Retains records needed for compliance and protection

against litigation

- Self-paced training for financial advisors on how to use BIS

1. BICE Challenges Addressed by BICSolution

In the era when the contractual obligation is to act in the client's best interest, investment decisions can no longer be based on the judgement of the individual advisor or a policy of the advisor's firm.

- In the case of the advisor's judgement, an enormous business risk is introduced if two clients with similar circumstances receive contradictory recommendations from advisors of the same firm.
- However, the use of a firm-wide policy for recommendations would be a violation of the best interest contract (BICE) that requires consideration of each client's needs, circumstances and situation.

The consequences of failing to comply with the best interest contract are severe but can be avoided by adopting practices that are prudent, loyal, and untainted by conflicts of interest, based on the client's best interest.

These practices, however, must be **uniform** and **consistently used** in order to offer any protection.

Prudence requires that the advisor and financial institution making the recommendation act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person would exercise based on the investment objectives, risk tolerance, financial circumstances and needs of the client, without regard to the financial or other interests of the advisor or financial institution.

Almost as important as complying with the best interest contract is the need to prove that **compliance**. The diagnosis that leads to each recommendation is a permanent record of what facts were known at the time of the recommendation and prevents claims of misconduct when future losses occur.

A further requirement of a best interest contract is that recommendations cannot be subject to conflicts of interest.

Complying with the no conflict requirement requires that the advisor and financial firm is able to show that recommendations were not influenced by payments or other compensation derived from the recommended investment.

It is therefore necessary to define how best interest is determined and then later proven. Practices to comply with best interest contract requirements can then be put in place.

2. Incentive Driven Practices

While BICE permits various forms of incentive compensation to advisors and financial firms, it is required that such compensation not influence which investments are recommended.

Examples of prohibitions are the making of recommendations based on the expectation of:

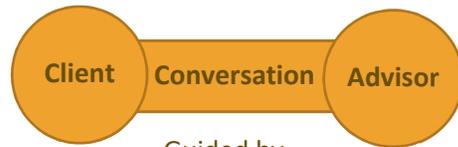
- Commissions
- 12-1 fees
- Finders fees
- Revenue sharing arrangements
- Bonuses or other payment
- Non-cash incentives

3. Prudent Practices

Communications are examined for any of these five elements that demonstrate prudent behavior:

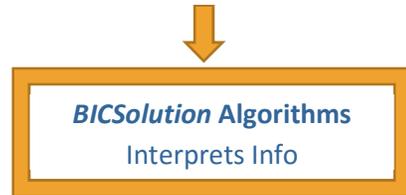
- Providing a clear understanding of the plan benefits
- Explaining costs
- Complying with regulations
- Using best practices
- Minimizing exposure to litigation

*How
BICSolution
Works*



Information captured by *BICSolution*

- Purposes, goals and preferences
- Risk tolerance and time horizon for each goal
- Likely investment behavior during stress
- Expectations for risks and returns
- Service and convenience desires
- Posture on fees and expenses
- Current holdings and future contributions
- Other assets, income and investments



Contact:

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