

Black Oak Securities, Inc.

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Regulation Best Interest

On June 5, 2019 the Securities Exchange Commission (SEC) adopted **Regulation Best Interest** (Reg-BI), which establishes a new standard of conduct under the Securities Exchange Act of 1934 for broker-dealers and investment advisers when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer. This new program was implemented in the summer of 2020. Reg-BI makes the roles and responsibilities of financial services professional more dynamic and evolved than ever. Black Oak Securities, Inc. (BOS) intends to use this clause to establish an ethical working relationship with the client. As our Firm has always strived to act in the best interest of our clientele, we are well-positioned to work under the intent of the new rule. BOS has a firm culture of putting the client's needs first, which is not only best for the client but, in turn, is the key to the success of the representatives and the firm.

Black Oak Securities, Inc. (BOS) is registered with the Securities and Exchange Commission (SEC) as a broker-dealer (BD) and is a member of the Financial Industry Regulatory Authority (FINRA). Brokerage and investment advisory (RIA) fees differ, and it is important for you to understand how they differ. It is also important to have a basic understanding of how services differ. In general, a BD makes recommendations to buy, sell or hold, usually for a transactional based commission; while an RIA typically manages and advises and receives fees accordingly. Free and simple tools are available to research firms and financial professionals at Investor.gov/CRS, which also provides educational materials about broker-dealers, investment advisors, and investing.

When making a recommendation to a retail customer we will act in the **best interest** of the retail customer at the time the recommendation is made, without placing our financial or other interest ahead of you (the retail customer). We will satisfy this by fulfilling the four components that make up the:

Best Interest General Obligations

1. **Disclosure Obligation** - We will provide required disclosures before or at the time of the recommendation, about the recommendation and the relationship between our Registered Representative (RR) and you (the retail customer). We will accomplish this by disclosing the following items:
 - A. All fees and costs associated with the retail customer's transactions, holdings, and accounts
 - B. The types and scale of services provided including vulnerabilities and drawbacks of securities or investment strategies that may be recommended to the retail customer
 - C. Any conflicts of interest between BD and the recommended security
 - D. We will voluntarily, and without any agreement with the Customer review the holdings in Retail customer accounts for the purposes of determining whether to provide a recommendation to the customer. This voluntary review is not considered to be "account monitoring" and does not create an implied agreement with the customer to monitor the account. This voluntary review will be done through a service known as DST Vision. This service provides daily updates on all clients' accounts in areas such as holdings, risk, expense level, sustainability, value, diversity, liquidity, ratings, share price, client data, tax information, statements, transactions, management teams, benchmarks and index comparability. The program also shows returns in frequencies of

year to date, one-year, five-year, ten-year and duration.

- E. That our Firm does not maintain custody or hold client account funds or securities.
- F. That BOS is **not** a full-service brokerage nor an investment advisor. BOS works in a limited market in a limited capacity with mutual funds and annuities. As such the RR at BOS receives compensation in the form of commission that is set and paid via the mutual fund or annuity company. The RR is paid on the new dollar invested. Exchanges performed within a fund family are typically done at net asset value (without charge). Shares in the "A" category (which 98% plus of our sales are) allow the reinvestment of dividends and capital gains at net asset value due to the BOS membership agreement with FINRA, the firm does not impose separate cost and fees. The costs and fees are set by the mutual fund and annuity issuer. The typical common costs are listed in the prospectus and are made up of initial sales charge, annual service charge, management fee, and annual custodial fee. The links to all fees may be found at www.blackoaksecurities.com. The service charge is calculated on total assets and therefore could be determined to be a conflict of interest as assets are encouraged to grow.
- G. In conjunction with (F) it is important to note that the firm has no proprietary products.
- H. Provide all materials facts to the scope and terms of the relationship with the retail customers.

2. Care Obligation - We will exercise reasonable diligence, care, prudence and skill in making recommendations. We will accomplish this by doing the following things:

- A. By understanding potential risks and rewards associated with the recommendation and have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail customers;
- B. By having a reasonable basis to believe that the recommendation is in the best interest of a particular customer. The belief will be based on each customer's investment profile and the potential risks and rewards associated with that recommendation; and
- C. By having a reasonable basis to believe that a series of transactions remain in the retail customers best interest when viewed independently. So, each and the combination of all transactions cannot be viewed as excessive but in the retail customer's best interest when taken in the light of the retail customer's investment profile.
- D. By considering all important factors, such as, the securities characteristics, investment objectives, likely performance in a variety of economic and market conditions; liquidity, risk, volatility, & expected returns.

3. Conflict of Interest Obligation - we will establish, maintain, and enforce written policies and procedures to identify, disclose, mitigate, or eliminate conflicts of interest. At present BOS has one conflict of interest.

- A. As previously stated, BOS by virtue of its agreement with FINRA is limited in the scope of our products. As we are limited, we have the one conflict of interest in that we receive a service fee commonly referred to as 12(b)(1). This fee is a conflict in that it is another way that we truly do receive additional income. The fee is paid on assets, if the assets decline our pay declines, if it increases then our compensation increases. This fact will be addressed through open and honest full disclosure. It is also fair and reasonable to point out that there are positive points to being limited in product scope such as: high product knowledge and understanding, best interest is not challenged by

things like selling "stock of the month", pushing a volume, required minimums, revenue sharing, excessive trading, churning, incentive programs, bonuses, proprietary products, etc. Our work force is not incentivized with trips, bonuses-by sale size, volume, proprietary products or any other method that would classify as conflict of interest.

B. To maintain continued compliance, we will have ongoing product review, we will limit the offerings and thereby training will be more pinpointed and experience more reliable. The training and needs analysis the firm has in place will bolster product training. In addition, wholesale reps are a reliable resource. The needs analysis helps the reps stay focused and up to date on offerings, rules, regs and related industry information.

C. If a future conflict arises these documents will be amended timely

4. Compliance Obligation – we will establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg-BI.

A. As stated above the nature of the business of BOS is a limited securities firm by agreement with FINRA. We maintain written supervisory procedures that specifically monitor and direct our actions.

B. Continual training, frequent conversations, review, testing, audits and monitoring are all processes we use to prevent violations, detect violations, and correct violations.

***Note** – we will also comply with new record-making and recordkeeping requirements – some releases and guidance have suggested that this is the **fifth obligation**

Firm Commitment

BOS registered representatives (RR's) will act diligently on your behalf as recommendations for compensation are being made. It is their duty to act in a trustworthy manner and to give their best efforts to provide the following to all clients:

- > To act in a loyal and ethical manner
- > To make prudent account type recommendations
- > To identify the customers investment goals and use all pertinent suitability to plan and achieve
- > To do what a prudent person would do
- > To be transparent regarding all present costs, projected costs, fees, and compensation
- > Consider alternative account types available
- > Discuss all service and cost
- > To charge reasonable compensation
- > To provide a website with links to verify reasonable compensation
- > To provide a website link to our Customer Relationship Summary (CRS)
- > To be honest, trustworthy, timely, truthful, and reliable
- > To provide information requests such as licenses, education, qualifications, etc.
- > To maintain customer privacy and collect Trusted Contact Information (TCI)
- > To disclose any conflicts of interest
- > To consider all available courses of action
- > To consult experts where appropriate
- > We will provide record retention for at least six years after account closing
- > When dealing with IRA or rollover IRA to discuss and document pertinent items such as: special features, holding of employer stock, application of required minimum distributions, available investment options, ability to take penalty-free withdrawals, fees, expenses, level of services, protections from

creditors and legal judgements

BOS compensation grids are those of the long-established mutual fund industry. BOS does not use any escalating or volume compensation grid to enrich RR compensation. The fund families charge within a reasonable range depending upon category variables such as equity or bond. The funds charges are of the "level by category" variety. BOS believes that the fund families offered share nearly identical compensation levels. This will be of great value as we make recommendations unaffected by pay grades and compensation. BOS continues to use marketplace standards and benchmarks to stay within standard compensation ranges. It is the intent of BOS to be totally upfront regarding all issues but namely reasonable compensation.

BOS has always and will always be committed to working within your best interests.

Definitions:

1. *Retail Customer* – Reg-BI only applies to recommendations to “retail customers.” Reg-BI defines a “retail customer” as a natural person, or the legal representative of such person, who: (a) receives a recommendation for any securities transaction or investment strategy from a BD or associated person (AP); and (b) uses the recommendation primarily for personal, family or household purposes.
2. *Legal Representative* – “Legal Representative” includes the non-professional legal representatives of such a natural person, e.g., a non-professional trustee that represents the assets of a natural person. Reg-BI would not apply when the legal representative is acting in a professional capacity as a regulated financial services industry professional retained to exercise independent professional judgment. Therefore, recommendations to registered IAs and BDs or corporate fiduciaries would not trigger Reg-BI. On the other hand, recommendations to non-professional trustees, executors, conservators, and persons holding power of attorney that represent natural person are covered.
3. *Recommendation* – The final rule release for Reg-BI states that this is keyed off of the guidance for FINRA’s suitability rule. The FINRA Rule remains difficult but in essence it states that “the determination of the existence of a recommendation has always been based on the facts and circumstances of the particular case.” Context and presentation are important aspects. There are some key principles that designate a moment of communication as a recommendation:
 - a. individualized presentation
 - b. aggregated communications may constitute
 - c. initiated by a person or a computer makes no difference
 - d. anything that elicits a “call to action” has explicitly attached as a recommendation by the SEC.
 - e. anything that would influence an investor to trade a particular security or group of securities
4. *Investment Strategy* – The final rule release for Reg-BI states that this is keyed off of the guidance for the FINRA suitability rule; this will include recommendations of types of accounts.
5. *Receives and Uses* – The SEC has stated that “use” means when, as a result of the recommendation:
 - a. The retail customer opens a brokerage account with the BD, regardless of whether the BD receives compensation;
 - b. The retail customer has an existing account with the BD and receives recommendations from the BD, regardless of whether the BD receives or will receive compensation, directly or indirectly, as a result of the recommendation; or
 - c. The BD receives or will receive compensation, directly or indirectly, as a result of that

recommendation, even if the retail customer does not have an account at the firm.

6. *Personal, Family, or Household Purposes* – the phrase ‘primarily for personal , family or household purposes’ covers any recommendation to the natural person for his or her account, other than recommendations to a natural person seeking these service for commercial or business purposes. Reg-BI would not cover, for example, an employee seeking services for an employer or an individual seeking services for a small business or on behalf of another non-natural person entity, such as a charitable trust.
7. *Conflict of Interest* – A conflict of interest is an interest that might incline a BD or AP – consciously or unconsciously – to make a recommendation that is not disinterested.
8. *Full and Fair* – Sufficient information to enable a retail customer to make an informed decision with regards to a recommendation.

Prohibited: as a BD I am prohibited from using the term “advisor” or “adviser”