



Harbor Implementation of Regulation Best Interest

May 14, 2020

Topics We Will Cover

1. Regulation BI Background

2. New Obligations

3. Conflicts & Disclosures

4. Form CRS Workflow

5. Care Obligation & Documentation

6. CRM Training

7. Impact and Regulatory Expectations

On April 18, 2018, the SEC proposed a regulatory framework designed to provide clarity for RETAIL customers of broker dealers and investment advisers.



June 5, 2019: the SEC passed Regulation Best Interest ("Reg BI") and Form CRS which impacts broker-dealers and registered investment advisers. Intent of new rules is to help retail customers gain a greater knowledge and understanding to help them choose:

Type of professional they choose to work with

Services they will receive

How they pay for services



Reg BI expands the current suitability standard by requiring broker-dealers to put customers interest before their own. It is also more expansive than the suitability standard, as it applies to recommendations on rollovers, distributions, securities strategies and certain "hold" recommendations.



As part of managing Reg BI, firms must address three key obligations of the rule:

Disclosures

Duty of Care

Conflicts of Interest

Reg BI-Background

Regulation Best Interest Defined

Reg BI provides a new standard of conduct that is not an explicit fiduciary standard, but that does draw upon certain fiduciary concepts found in the Advisers Act. The intent was to create a “fiduciary-like” standard, while accommodating and preserving the broker-dealer model.

The distinction between Broker-Dealers (BD) and Registered Investment Advisors (RIA) will remain, and with respect to RETAIL customers, a financial services firm will apply Reg BI’s standard of conduct when acting as a BD and the fiduciary standard under the Advisers Act when acting as an RIA.

At the heart of Reg BI:

When making a recommendation of a securities transaction or an investment strategy involving securities, a broker-dealer must act in the retail customer’s best interest and cannot place its own interest ahead of the customer’s interests.

Definitions

On June 5, 2019, the Securities and Exchange Commission (“SEC”) approved a package of new rules and interpretations designed to improve transparency for retail investors. These included:

- Regulation Best Interest (Reg BI) is a new standard of conduct for broker-dealers and their associated persons when making recommendations to RETAIL customers regarding securities transactions or investment strategies.
- New Form CRS Relationship Summary (Form CRS) is a disclosure document which provides prospective and existing clients with certain specified information about a broker-dealer or investment adviser.
- The Investment Adviser Interpretation clarifies certain aspects of the standard of care applicable to registered investment advisers under the Investment Advisers Act of 1940 (“Advisers Act”).
- A Solely Incidental Interpretation is intended to clarify the broker-dealer exclusion from the definition of the Investment Adviser under the Advisers Act.

Who is a “Retail” client

Reg BI covers recommendations to a “retail customer”. A retail customer is an individual or their legal representative, who:

- Receives a recommendation of any securities transaction or investment strategy involving securities from a broker-dealer; and
- Uses the recommendation primarily for personal, family or household purposes.

A retail customer does NOT include the representative of an ERISA covered plan, provided the representative is acting on behalf of the plan. However, Reg BI DOES apply to participants in *retirement plans receiving recommendations involving investment of plan assets in their individual accounts*. These accounts would include 401(k), 403(b) or 457 plans, IRAs, Coverdell education savings accounts as well as taxable and non-qualified accounts. It also applies to recommendations to rollover distributions from retirement plans.

Conflicts of Interest

- Mitigate/Eliminate conflicts that incentivize financial professionals to place their own interests before their clients.
- Prevent material limitations on offerings
- Eliminate sales contest and non-cash compensations that are tied to specific securities or types of securities within a limited period.

Disclosures

- Broker-dealers must disclose material facts about their relationship with the client and recommendations, including any limitations
- Disclose the nature of the relationship which they are acting
- Provided at or before making the recommendations, especially any conflicts of interest (specifically financial related conflicts)

Duty of Care

- Broker-dealers must exercise reasonable due diligence, care and skill making recommendations to a retail customer
- Broker-dealers must understand potential risks, rewards and costs associated with the recommendation
- Must consider the above considering customer suitability information
- **Requires the broker-dealer to consider costs as part of its decision**

Reg BI – New Obligations

Conflicts of Interest

- Mitigate/Eliminate conflicts that incentivize financial professionals to place their own interests before their clients.
- Prevent material limitations on offerings
- Eliminate sales contest and non-cash compensations that are tied to specific securities or types of securities within a limited period.
- Broker-dealers must exercise reasonable due diligence, care and skill making recommendations to a retail customer

Reg BI – New Obligations

Conflicts of Interest- Individual

1. Gifts and Entertainment
2. Political Contributions
3. Policies for Ethical conduct, insider trading, anti-bribery, anti-money laundering, and prohibited activities
4. Charitable giving
5. Personal Securities transactions
6. Outside Business Activities
7. Board Positions
8. Material Non-Public Information
9. Best Execution
10. Trading Ahead of Customer Orders

Follow the money.....

Override payments

Differently priced products

Sponsored meetings

12b-1 fees

Product Promotions

Service fees

Asset Movement fees

Rollover/transfer fees

Broker Dealer services

Web based administration, contract management, and commission tracking

Marketing and administrative support

Interest on non-qualified 401K products

Carrier reimbursement

Subadvisor payments

Incentive trips

Software

FMO/IMO bonus payments

Platform fees

Vested compensation

Trade execution fees

Consulting and technical sales support

System fees

Diversification of business investments

Compensation from carriers based on sales

Investment income

Mitigating or Eliminating Conflicts of Interest-

Compensation Conflicts

Disclosures

- Broker-dealers must disclose material facts about their relationship with the client and recommendations, including any limitations
- Disclose the nature of the relationship which they are acting
- Provided at or before making the recommendations, especially any conflicts of interest (specifically financial related conflicts)

Reg BI – New Obligations

Reg BI Disclosures

Form CRS

- Firm Specific- Books and Records Requirement
- Required Client Conversation Starter Questions

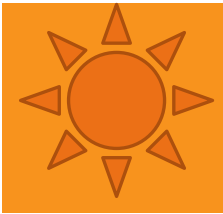
Important Investor Information

- Firm Specific: Services, Products, Fees, Conflicts

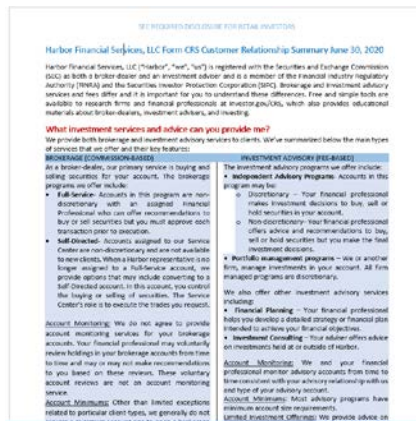
Rep Disclosures

- Rep Specific: Service/Product limitations, Additional Compensation, Conflicts

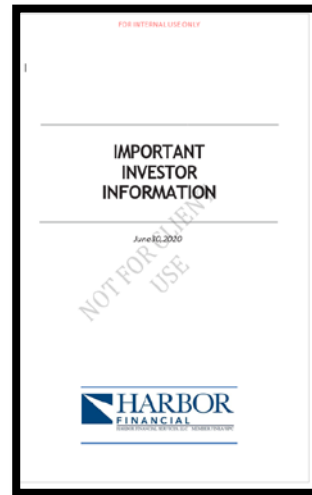
Disclosures



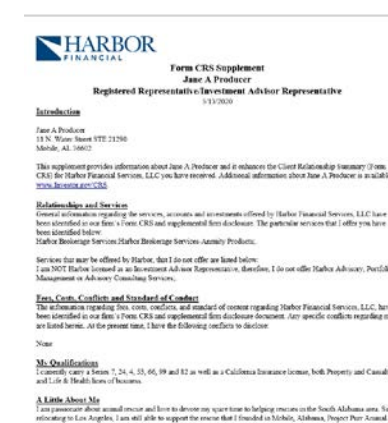
Form CRS



Supplemental Disclosure



Rep Disclosure



Customer Relationship Summary (Form CRS)

- 4 pages for dually licensed firms (BD/IA)
- Geared to RETAIL audience, prescribed language is in each section
- **Contains “conversation starters”**
- Public document with searchability

Disclosure Delivery Requirements

Harbor

- File and post Form CRS and Important Investor Information on Firm website by June 30, 2020

Harbor

- Deliver initial Form CRS and Important Investor Information to all existing RETAIL clients by July 30, 2020
- Deliver Form CRS to all RETAIL clients when amended

Rep

- Deliver Form CRS and Important Investor Information to all RETAIL prospects and current clients **prior to new recommendation***

Harbor Reg BI Disclosure Delivery FAQs

Harbor Reg BI Disclosure Delivery Requirements FAQs 5-11-2020

1. What are my recordkeeping obligations when I deliver Form CRS and the Important Investor Information (“III”) disclosures, and how do I satisfy those obligations?

The SEC designated the Form CRS to be an “official book and record” of the firm, no different than required recordkeeping related to events such as account opening, account activity, and trade confirmations. As a result, the SEC requires us to record certain data points in a specified format regarding the delivery of the Form CRS.

For Form CRS, each time that you deliver it, you must also record (1) the name for the person(s) receiving the Form CRS, and (2) the date of delivery. **In order to meet the recordkeeping requirements described above, these data points must be recorded in Digital Form HF019-CRS tool discussed below in these FAQs.** If you use the Digital HF019-CRS tool to electronically deliver the Form CRS and III, and enter the name of the person(s) to whom it is being delivered, then the tool will automatically log all of the required information in the required format.

2. What do I need to deliver to a prospective Retail Investor (a prospect or current client)?

You must deliver the Form CRS and the III before or at the time that you recommend any account type, security, or investment strategy involving securities. As a practical matter, that will mean delivering the Form CRS and the III to the investor prior to having any substantive conversation regarding the specific services you recommend providing to that investor.

3. How will I be able to deliver the Form CRS and/or III when I am required to do so?

For a variety of reasons, including ease of meeting the recordkeeping requirements of Form CRS, **we require using the new Digital Form HF019-CRS.**

a) We strongly recommend electing email delivery to the Retail Investor’s email address. You must obtain investor consent (which can be oral) for purposes of delivering these particular disclosures electronically. Electing

- Reference your action item details in this FAQ
- FAQ located in “Reg BI” at www.Harborfs1.com
- Anticipate focused training announcements for Disclosure Delivery

Form CRS Delivery & Documentation



HF019-CRS ver 6.30.20

Complete prior to any new account recommendation (BD Cash, BD Margin, BD Option, Advisory, Direct,) for each registration type (Joint, Individual, Trust etc.)

Purpose: Best Interest Checklist - Determine if delivery of Form CRS is required, document delivery of Form CRS, in addition to enhanced due diligence documentation requirements.

* Required

1. Branch ID *

2. FA# *

- Digital Intake Form
- Computer or Mobile Data Compatible
- Access from URL address/Harbor Web, or Access from QR code
- Automatic workflow
 - logs- Books and Records compliant
 - Delivery by email option
- Average intake, processing and delivery less than 5 minutes.

5. Identify if the Investor is a prospect or a current client. *

6. Is this a Retail Investor (per Reg BI)? *

Regulation Best Interest defines a "retail investor" as "a natural person or legal representative of such natural person, who seeks to receive or receives services primarily for personal, family, or household purposes."

- All natural persons, regardless of net worth or sophistication, are included in the definition of "retail investor."*
- Includes "existing" retail clients and "prospective" retail clients.*
- Excludes institutional investors.*

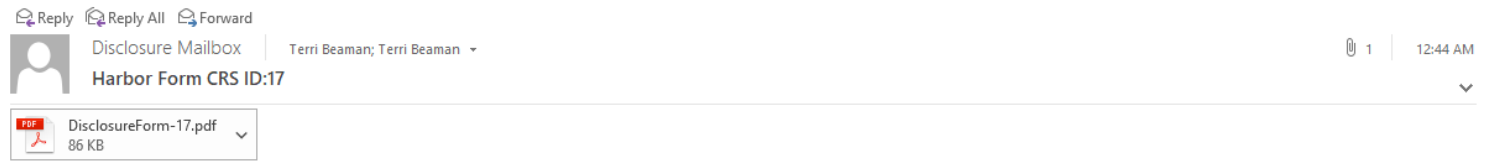
7. Document delivery of Harbor's Form CRS to investor prior to recommendation. *

Each recommendation of an account type to a retail client or prospect must be preceded by delivery of Harbor's Form CRS and Important Investor Information disclosure. <insert link to Harbor's Current Form CRS and III>

- Please deliver Harbor's current Form CRS Packet by email to the investor.
- I mailed Harbor's current Form CRS Packet to the investor.
- I hand delivered Harbor's current Form CRS Packet to the investor.

Sample Delivery by Email

1. Investor Name in salutation
2. Email delivery to Investor and Representative
3. Body includes representative contact



Attachment: Harbor Form CRS (0030)Sample File.pdf

Dear John Wayne,

Thank you for your interest in learning more about Harbor Financial Services.

This email includes a copy of Harbor's disclosures that detail what it means to work with Bill Gates and Harbor, including the types of relationships and services offered to clients. The disclosures also address fees and costs, conflicts, as well as some conversation starters that you may want to discuss with Bill Gates.

As we discuss any specific recommendations, it will be important to consider this important information in order to make an informed decision.

With that in mind, if you have any questions, please feel free to contact Bill Gates at tbeaman@harborfs.com.

Kindest regards,

Harbor Financial Services, LLC
RSA Battlehouse Tower
[11 North Water Street, STE 21290](#)
Mobile, AL 36602
251-281-2007 (Fax)
888-397-7358 (Toll Free)

We cannot accept any orders and/or instructions regarding your account by email, voice mail, fax or any alternate method. Securities and advisory services offered through Harbor Financial Services, LLC Member FINRA/SIPC accounts carried by Raymond James & Associates, Inc. Member New York Stock Exchange/SIPC. E-mail sent through the internet is not secure or confidential. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this message in error, please contact the sender immediately and delete the material from your computer.

HF019-CRS Demo

- Point your mobile device camera on the QR symbol below.
 - Your camera will respond by providing a pop up option to “tap here to go to forms.office.com in your browser”
 - Tap as instructed.
 - You will be redirected to the mobile digital form. Completion time averages less than 3 minutes.
-



Current Client Disclosure Delivery

Harbor

- Initial Delivery by 7/30/20
 - Mail or Email
- Ongoing amendment deliveries

Representative Resource

Pre-CRS Notification
Form Letter Available

1. Optional
2. Provides clients advance notice of the initial mailing
3. Anticipates client questions and opens dialogue with you.

Located in “Reg BI” at
www.Harborfs1.com

(Must be printed on approved letterhead)

May 13, 2020

«AddressBlock»

SEC Regulation Best Interest: Important Disclosure Documents

Dear «Informal Salutation»«Formal Salutation»:

The Securities and Exchange Commission (SEC) recently adopted new regulations, including Regulation Best Interest, which I believe aligns well with my longstanding core value of putting clients first.

Effective June 30, 2020, all broker-dealers and investment advisers must provide clients with important disclosures to help with their investment decisions.

In the coming weeks, you will receive a disclosure package from Harbor Financial Services that includes two new disclosures:

- **Form CRS (Client Relationship Summary)** – A four-page document that describes accounts and services available as well as fees, charges and potential conflicts of interest associated with certain account types.
- **Important Investor Information** – A booklet that provides additional details about the topics addressed in Form CRS, as well as further information regarding available investment products and services.

Rep Disclosure Document

1. [Complete Rep Disclosure Survey](#) by Wednesday, May 20th
Access by QR mobile scan below or hyperlink above.



2. Harbor will draft your Rep Reg BI Disclosure to use for oral discussion or separate delivery to investor.

HARBOR FINANCIAL Sample Draft

Form CRS Supplement
Jane A Producer
Registered Representative Investment Advisor Representative
5/13/2020

Introduction

Jane A Producer
11 N. Water Street STE 21290
Mobile, AL 36602

This supplement provides information about Jane A Producer and it enhances the Client Relationship Summary (Form CRS) for Harbor Financial Services, LLC you have received. Additional information about Jane A Producer is available at www.investor.gov/CRS.

Relationships and Services

General information regarding the services, accounts and investments offered by Harbor Financial Services, LLC have been identified in our firm's Form CRS and supplemental firm disclosures. The particular services that I offer you have been identified below:
Harbor Brokerage Services, Harbor Brokerage Services-Annuity Products.

Services that may be offered by Harbor, that I do not offer are listed below:
I am NOT Harbor licensed as an Investment Advisor Representative, therefore, I do not offer Harbor Advisory, Portfolio Management or Advisory Consulting Services.

Fees, Costs, Conflicts and Standard of Conduct

The information regarding fees, costs, conflicts, and standard of conduct regarding Harbor Financial Services, LLC, have been identified in our firm's Form CRS and supplemental firm disclosure document. Any specific conflicts regarding me are listed herein. At the present time, I have the following conflicts to disclose:

None

My Qualifications

I currently carry a Series 7, 24, 4, 53, 66, 99 and 82 as well as a California Insurance license, both Property and Casualty and Life & Health lines of business.

A Little About Me

I am passionate about animal rescue and love to devote my spare time to helping rescues in the South Alabama area. Since relocating to Los Angeles, I am still able to support the rescue that I founded in Mobile, Alabama, Project Purr Animal

Duty of Care

- Broker-dealers must exercise reasonable due diligence, care and skill making recommendations to a retail customer
- Broker-dealers must understand potential risks, rewards and costs associated with the recommendation
- Must consider the above considering customer suitability information
- **Requires the broker-dealer to consider costs as part of its decision**

Reg BI – New Obligations

Care Obligation

1

Recommendations

Every recommendation must be in the investor's best interest.



2

Your Process

Ensure you are leveraging a repeatable, documentable process for each investment recommendation.



3

Document

Evidence your rationale for providing advice through enhanced documentation in RJ CRM.

What information is important to document?

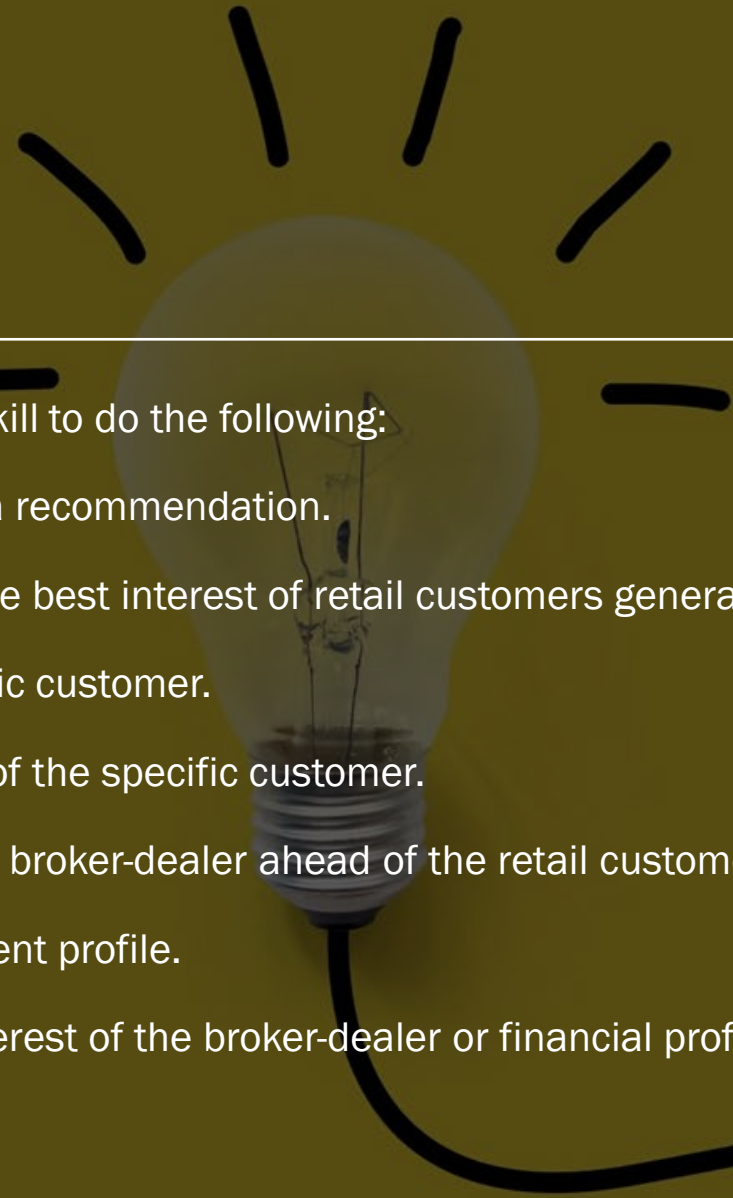
We know Reg BI will impose duties on registered representatives that **exceed the current suitability standard** for retail brokerage clients as follows:

- Explicitly requires that recommendations be made in the client's best interest
- Explicitly requires that costs be considered when making a recommendation.
- Requires a RR to consider “reasonably available alternatives” when making a recommendation.

Care Obligation

A Broker-Dealer must exercise reasonable due diligence, care and skill to do the following:

- Understand the potential risk, rewards and costs associated with a recommendation.
- Have a reasonable basis to believe that a recommendation is in the best interest of retail customers generally.
- Believe that a recommendation is in the best interest of the specific customer.
- Believe that a series of recommendations are in the best interest of the specific customer.
- Believe that a recommendation would not place the interest of the broker-dealer ahead of the retail customer.
- The recommendation should be based on the customer's investment profile.
- The recommendation must not place the financial or any other interest of the broker-dealer or financial professional ahead of the customer.



Biggest Challenge for Producers

A. Changing documentation from notepads and moving into electronic format

B. Creating a repeatable processes

- Process Step 1 Example- Complete Needs analysis questionnaire
- Process Step 2 Example- Complete goal planning & monitoring
- Process Step 3 Example – Use portfolio management and resources
- **Process Step 4 Example- Capture documentation, notes and decisions in RJ CRM- Required**
- Process Step 5 Example– Prepare and retain meeting agendas
- Process Step 6 Example- Send Letter to client with meeting notes/action steps
- **Process Step 7 Example- Review fee-based accounts annually and document electronically in RJ CRM- Required.** Best practice to review brokerage annually to reinforce the relationship.

Why is this important?

Remember, without documentation (contemporaneous notes or Harbor forms), you are exposed to enforcement actions as well as negligence claims under current FINRA suitability standards.

(The Industry anticipates an increase in claims under the stricter Reg BI's standards.*)

*See, e.g. *Scott v. Dime Savings Bank*, 866 F. Supp. 1073, 1080-81 (S.D. N.Y. 1985) (violation of NASD "suitability rules" could be viewed as evidence of whether broker-dealer acted reasonably under negligence claim).

CRM Training Resources

Your recommendations and rationale obligation:

Ensure you are leveraging a repeatable, documentable process for each investment recommendation, and evidence the rationale for providing advice to clients using RJ CRM.

RJ CRM provides:

Centralized technology for heightened supervision requirements

Full integration with client records/transactions

REG BI TRAINING RESOURCES

1. Harbor Reg BI Zoom Meeting 5-14-20
2. Quest Reg BI-Ch.1 (For internal use only)
3. Harbor Compliance Meeting 9-13-19
4. RJ CRM Training
 - RJ CRM Getting Started WebX
 - RJ CRM Intro to Workflow WebX
 - RJ CRM Outlook and Activities WebX
5. Additional RJ CRM training- RJ Advisor Access required
 - [Advanced Search How To Guide](#) (PDF)
 - [RJ CRM 103 Advanced Search Overview](#) (6 min.)
 - [Saving Searches](#) (1:10 min)
 - [Modifying Searches](#) (00:43 min)
 - [Creating Multi-Contact Tasks](#) (00:42 min)

Impact on Sales

Product and Compensation
Structure Changes

Future Sales Practices and
Strategies

Uncertain Litigation
Environment

Processes for Product Suitability
and Product Shelf Size

Technology Solutions for Data
Capture, Products and BI
Determinations

Key Considerations



Business/Financial

Compensation models will have to align to BI

Dual registrants will have to decide on a single standard of care

Recommendations of rollovers vs. education only



Operations

Current gaps in data collection and data sources including collection and tracking of fee information, contracts

Books and records requirements, including documentation processes



Compliance/Supervision

New Standard of care, disclosures and policies and procedures

New supervisory processes

Additional compliance resources and surveillance

Training and education

What should I be doing now?

Follow	For recommendations with a Harbor specific review/disclosure form, follow form instructions to document your recommendation. Anticipate form revisions.
Train and Use	For recommendations without a Harbor Form, start using RJ CRM to contemporaneously document your considerations and verbal disclosures to clients. RJ CRM will be mandatory as of 6/30/20. Start CRM Training now. Anticipate including costs and alternatives as standard considerations.
Continue	Continue to work with clients to update investment profiles (missing or outdated information). Anticipate NIGOs (not-in-good-order) rejections of new business with missing data.
Develop	Develop a repeatable business process that establishes consistency in your practice and demonstrates actions you take in clients' best interest on a regular basis.
Complete	Complete your Rep Disclosure Survey by Wednesday May 20th. Participate in continued training and follow additional Firm instructions, FAQs, and guides.

Regulator Expectations

- SEC/FINRA Exams will include:
 - Does the firm and associated person apply the best interest standards?
 - Are recommendations to retail customers following “express new elements of care, skill and costs?”
 - Do customer recommendations take into consideration reasonably alternative alternatives?
 - Are there controls in place to prevent and identify excessive trading?
 - Conflict disclosures
 - Content and delivery of Form CRS
- **Implementation Deadline June 30, 2020**

How can I access Harbor Reg BI information?



- Harborfs1.com
New – Reg BI tab
- Attend Meetings
and read notices
- Ask Compliance

Q&A