# Fiduciary Solutions for Success

## Opportunities for every "best interest" outcome


### Executive summary

Regardless of what the new administration may or may not do to the Department of Labor Conflict of Interest rule, trends indicate that many key aspects of the fiduciary standard are set to prevail.

Investors' eyes are now open to the concept of their "best interests", and financial institutions are under pressure to deliver. Firms now need to be able to rationalize their selling agreements and provide transparency to the costs of all the proprietary products on their product shelf. Transitioning retirement investors from commission-based to fee-based products continues to accelerate, and compensation for the field will continue to evolve.

To remain competitive, broker-dealer firms need to take action now.


**In this report, you'll discover:**

- Which aspects of the fiduciary rule are most likely to prevail
- What the industry's most significant fiduciary challenges are
- How to maintain your competitive position

### Fiduciary rule realities: prepping for prosperity

According to a recent study by the Financial Services Institute, firms will spend an estimated $3.9 billion[1] preparing to comply with the DOL's Conflict of Interest rule, which may not go ahead exactly as planned.

While the ruling has drawn much criticism from within the industry, it has caused many firms to take a fresh look at their business models. Firms are making many positive changes that will better equip them for the future of investment advice.

Market forces driving change in the retirement industry were already in play before the DOL issued its final fiduciary rule. For example:

- A consumer-driven trend toward passive investments and lower-cost funds took effect well before the most recent regulations were finalized. 85% of net new assets that flowed into funds in 2016 went into passive versus active products.[2]
- Some industry leaders, such as Bank of America Merrill Lynch[3] and TransAmerica[4] are already in the process of eliminating commission-based products or adding new fee-based options for retirement accounts.
- Generation X and Millennial consumers are increasingly more comfortable paying a transparent fee for service than previous generations were. They are also just as comfortable interacting with a computer or device as with a human being.
- Over 60% of Americans already access personal account information via the cloud, continuing a trend toward multi-channel engagement.

What's more, all of these trends appear set to continue, regardless of what Congress does or does not do to the fiduciary rule.

To better understand the forces now reshaping the financial advice industry, organizations need to reconsider the best interest standards that now prevail. Going forward, growth and investor satisfaction will likely require competence in three core capabilities:

1. Ensure that recommendations meet best interest standards today and in the future.
2. Engage investors with total transparency.
3. Avoid all conflicts of interest—both real and perceived.

Forward-thinking asset managers are looking beyond the compliance factor and embracing this regulatory change as a catalyst for changing their business models.

### Ensuring suitability

As investors become increasingly more aware of their best interest entitlements, many firms are proactively making sure their investment offerings closely follow the suitability rule. They are evaluating their fund lineups for expenses, risk and performance. They're making sure that their advisors' product shelf includes only those funds that are potentially in the investors' best interest. What's more, they are also taking steps to ensure that only the most cost-efficient, suitable share classes are ever included in an investor's recommendation.

Firms and advisors should also take the time to re-examine their client base. They should analyze the wants and needs of each segment and revise their product offerings and communication strategies accordingly. Also, to fully ensure that advisors "have a reasonable basis to believe" that each recommendation is suitable for each customer, workflows should give advisors some way of capturing, analyzing and archiving each client's investment profile as fully and efficiently as possible.

### Delivering transparency

It's now virtually impossible to become a client's "trusted advisor" if you're unable to show that you consistently put their interests ahead of your own. This means firms need to provide clients with better visibility into data, particularly around product expenses and assets held away. You must be able to rationalize all your selling agreements and be completely transparent about the costs of all the mutual funds, ETFs, variable annuities and other manufactured products on your product shelf. You must also be able to alleviate any concerns about offering similar products at a higher or lower price than your competitors.

Firms also need the tools and systems to prepare the complex array of new contracts and disclosures that must now be communicated to clients. It is important to put systems in place to properly archive these documents and capture investor signatures at the point of sale.

### Avoiding conflicts

The increasing awareness of "best interest" standards among investors is, understandably, coupled with an increase in the threat of costly litigation. To this point, it is essential that firms continuously monitor client accounts and advisor activity to ensure best interest standards are continually upheld. To proactively manage risk, organizations need to identify and address conflicts of interest with third-party compensation both at the firm and advisor level, by eliminating, restructuring or "leveling" compensation and/or fees.

Many firms are already moving toward more streamlined commission grids and taking a closer look at how best to compensate financial advisors without eroding their individual incomes. As firms wean themselves off of commission-based revenue, the imminent loss of some revenue streams and a decline in short-term profits are naturally an industry-wide cause for concern. But, in light of recent industry events, it appears that such short-term sacrifices are essential for long-term gain.

***Simplify compliance, reduce costs and strengthen relationships with state-of-the-art technology.***

In this newly competitive arena, the need to differentiate your firm from the competition is greater than ever. It is apparent that technology is key to living up to the fiduciary expectations of your clients. It is also key to shielding your firm from risk as much as possible in a world where lawsuits could prove difficult to defend.

To help broker-dealers conquer these challenges, Broadridge has developed an end-to-end suite of technology-driven solutions. These offerings—DOL Fiduciary Solutions, DOL Customer Communications and DOL Commissions Compensation—can help firms validate, communicate and comply with the new rule and all well-established trends.

### Solutions to ensure suitability

To ensure that best interest standards are met and upheld, advisors need to exercise prudence, diligence and skill when recommending products to customers. Broadridge's Fiduciary Solutions, built on our industry-leading FundPOINT® platform, can help advisors standardize and simplify the process for capturing recommendations for funds and annuities as well as investor signatures.

Using FundPOINT and the gold-standard data it provides across mutual funds, variable annuities and ETFs, your firm can regularly monitor your existing sell list for more suitable investment products and rerun the analysis as new funds become available. Advisors can use powerful screening tools to ensure that all recommendations are in a client's best interests, and that they are clearly understood.

Another fully-modular solution that your advisors can use to effectively manage client data is Broadridge's Investigo®. This gives firms access to the highest quality aggregated data, providing both the enterprise and their field forces with the broadest possible view of their total relationship with any individual client or household. This data can be used to run compliance and other downstream systems in both traditional commission-driven or fee-for-advice environments. Firms that use Investigo for data aggregation are able to focus on higher level business challenges and place direct accountability for timeliness and accuracy with Broadridge.

### Solutions to deliver transparency

The new fiduciary standards that now prevail throughout the industry add new layers of complexity to your client communications. Firms are now required to produce, distribute and archive all disclosures, transaction documents, regulatory documents and advisor recommendations. What's more, all of these communications must have updated data sourced from multiple databases, which must be checked for accuracy.

Broadridge's Customer Communications solutions, such as the Communications Cloud℠, leverage our existing communications connectivity across the breadth of the financial industry to easily allow for composition, multi-channel print and digital delivery, as well as tracking and archival capabilities for compliance. The Communications Cloud enables you to transform all kinds of documents into engaging multi-channel experiences from one integrated platform. All fiduciary-related communications can be turned into targeted messages that support your brand, strengthen customer relationships and drive new revenue streams.

LEVERAGING EXISTING COMMUNICATIONS CONNECTIVITY ACROSS THE FINANCIAL INDUSTRY

Communications Cloud

**Easily allows for:**

- Composition
- Multi-channel print and digital delivery
- Tracking for compliance
- Archiving for compliance

### Solutions to avoid conflicts of interest

As fee types and schedules continue to become more complex and regulators push for more transparency, firms are finding new ways to increase automation, reduce costs and add control. This means replacing time-consuming, error-prone manual processes and Excel-based solutions. With the right revenue and expense management solution, it becomes possible to automate complex fee calculations, enable better oversight and control—and generate significant savings.

Broadridge's Commissions Compensation module, built on Broadridge's scalable RevPort revenue and expense management solution, provides firms with the ability to manage and reconcile the most complex selling agreements with product manufacturers. It centralizes and automates calculation, reconciliation and allocation of a wide range of fees and payments, including management and advisory fees, 12b-1, revenue sharing and commissions. Potential conflicts of interest are addressed in line with strategy, and payments to advisors are streamlined, reconciled and completely auditable. In addition, RevPort functionality provides firms with the ability to track, tag and filter third-party revenue and/or compensation related to retirement assets, and process these in accordance with compliance rules while generating general ledger accounting entries and a corresponding audit trail.

Advisor Compensation Solutions is another suitability solution that would benefit firms moving toward more streamlined commission grids. Previously known as M&O Systems, this state-of-the-art technology promotes an integrated approach to compensation across asset classes. It does this by helping advisors simplify their client onboarding process and allows financial institutions to manage across legacy, new and hybrid compensation models supporting the most complex firm-driven business rules.

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### Future-proof your firm

Get ready. As things stand, the DOL fiduciary rule will come into effect as planned on April 10, 2017 and regulatory scrutiny will certainly be intense. Even if the rule is delayed or altered, any best interest changes made by firms ahead of the deadline can only lead to greater trust for the financial services industry, and of course will provide those firms with a competitive edge. Broadridge has developed a full suite of solutions to help firms conquer their specific fiduciary challenges while remaining fully competitive. Whether you require a full-service solution or standalone capabilities, we can offer you proven ways to simplify compliance, reduce costs and strengthen relationships.

To learn more, call +1 800 353 0103 or visit broadridge.com/DOL-solutions.

[1] Oxford Economics (August 2015) ECONOMIC CONSEQUENCES of the US Department of Labor's Proposed New Fiduciary Standard. http://www.financialservices.org/uploadedFiles/FSI_Content/Advocacy_Action_Center/DOL/FSI-OE-Economic-Impact-Study.PDF

[2] Broadridge Fund Distribution Intelligence™ report: "Distribution of Mutual Fund and ETF Assets" (12/30/16).

[3] Wursthorn, M. (2016, October 7). Merrill Imposes Fees on Retirement Accounts. http://www.foxbusiness.com/features/2016/10/07/merrill-imposes-fees-on-retirement-accounts.html

[4] Zulz, E. (2017, January 20). Transamerica Launches Fee-Based Variable Annuity: Top Portfolio Products. http://www.thinkadvisor.com/2017/01/20/transamerica-launches-fee-based-variable-annuity-t

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