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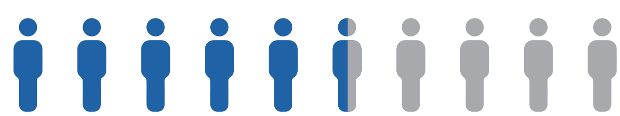
FOSTERING A CULTURE OF COMPLIANCE FOR THE DOL FIDUCIARY RULE

It's been seven years in the making, but the Department of Labor's Fiduciary Rule is finally here – in part.

After overcoming one of the most tumultuous political environments in recent memory, a portion of the rule requiring advisors who oversee retirement accounts to act in the best interest of their clients took effect on June 9, 2017. While a timeline for full implementation of the rule is still unclear, advisory firms are checking their processes and payment structures to make sure they're in compliance with the evolving rules.

This move from a suitability standard to a fiduciary standard represents a seismic shift for many advisory firms and broker-dealers in their approach to compliance. More than half of RIAs say the rule will increase the amount of time spent on compliance, according to a 2016 Fidelity survey. Under this new regulatory environment, compliance can be something of a moving target – firms are stuck trying to adhere to rules that may well change. In this new reality, reacting to new standards doesn't go far enough. Advisory firms must focus on developing a proactive risk mitigation strategy despite the rules that are defined by regulators.

INCREASE IN COMPLIANCE



55% of registered investment advisors feel the rule will increase time spent on compliance-related tasks

SOURCE: Expectations of Upcoming DOL Ruling, 2016 Fidelity® Insights on Advice program

Many advisory firms are turning to the latest technologies to create a culture of compliance, but determining which technology investments are right for their organization can be a challenge. Firms should focus on two key areas to create a unified approach to compliance and risk – surveillance monitoring and the design and control of investments.

MONITORING AND WORKFLOW

Under the new DOL rule, the burden of proof for demonstrating that advisors have acted in the best interest of their investors lies squarely with advisory organizations and broker-dealers. For many firms, this continuous monitoring requirement will demand significant updates to daily operations. Nearly seven in 10 advisors say accommodating workflow changes spurred by the DOL regulations will be somewhat or very difficult, according to research from the Aite Group. The survey also found that documentation, including more involved reporting requirements like validating decisions, is another key pain point for 64 percent of advisors.

Advisory firms and broker-dealers therefore need to adopt a streamlined process to manage the near-constant flow of auditable information and transactions. Gone are the days of advisors digging back through old emails and notes from phone conversations to show they have acted in a client's best interest. Compliance monitoring tools that enable advisors to automatically generate reports documenting their advice and investment decisions can create more transparency and set an organization-wide standard for reporting.

Compliance monitoring tools can also simplify workflow and account reviews. Exception-driven cases can be automatically flagged and tracked through completion and resolution. This consistency allows an organization to create a unified level of risk tolerance by ensuring all advisors are operating under the same standards and individual transactions are receiving the same level of scrutiny.

However, it's important to note there is no replacement for due diligence on the part of advisory firms and individual advisors. No amount of documentation or evidence will have any value unless firms are establishing the right processes and advisors are able to competently demonstrate they have acted in the best interest of their clients.

DESIGN AND CONTROL OF INVESTMENTS

New digital investment platforms are also rising up to meet the needs of advisory firms in light of the new DOL rule, especially when it comes to vetting and unifying investment product offerings.

Depending on an organization's risk tolerance level and Best Interest Contract Exemption considerations, there may be products advisors should not sell or offer to investors.

Digital investment platforms with private exchanges allow firms to restrict access to those products and only show advisors specific investments and providers that meet internal standards. At the same time, unbundled pricing for these services can create more transparency in pricing – a key objective of the DOL's fiduciary rule.

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Private investment exchanges enable organizations to establish an organization-wide proactive approach to risk where the highest levels of senior leadership are setting criteria for selecting providers and investment products. Rather than correcting decisions that conflicted with risk mitigation strategy, organizations can put controls in place to ensure compliance with external regulations and internal operating policies.

As the DOL fiduciary standard slowly rolls out, the most effective advisory firms will make strategic investments in the areas of compliance monitoring and investment product selection. Ultimately, the goal is to improve workflows and empower broker-dealers and all advisors to demonstrate they're acting in the best interest of their clients.

Learn more about compliance monitoring and reporting tools at www.investedge.com.

Learn more about digital investment exchanges at www.mmxchange.com.