

Regulation Best Interest – MMLIS Changes

REFERENCE SHEET

Overview

MMLIS Changes

Regulation Best Interest (Reg BI) establishes a best interest standard of conduct for registered representatives (RR) that goes beyond the prior “suitability” standard. It levels the playing field for registered representatives and investment adviser representatives (IARs) and involves the need to demonstrate that recommendations and advice given to retail clients are in their best interest. This includes the need for prior approval for all new accounts before any transfer / surrenders / withdrawals are initiated. The requirement covers securities recommendations for all new investments / new accounts for retail investors (not entity investors) in Retail Brokerage, VUL, Annuities and Direct mutual fund accounts, as well as all types of Advisory business. Entity accounts are excluded from these requirements, and there is a grid for greater detail that should be consulted for more information regarding entity accounts. With this new Regulation Best Interest, an RR must obtain and document more detail than was previously required, including detail surrounding rollovers of assets from a qualified plan.

“Advisor” / “Adviser” Changes

Another important change to note is the need to draw a distinction between Registered Representatives and Financial Advisors. Reg BI brings the need to ensure we are not using these terms interchangeably, and field associates who are not affiliated with MMLIS's RIA will not be able to use the title Financial Advisor.

Mutual Fund Changes

MMLIS has enhanced its approved mutual fund list to remove low-performing mutual funds with significantly higher than average expenses. “Load” Mutual Funds with both a Morningstar overall rating of 1 Star and a Morningstar fee level of ‘High’ will not be available on the buy list going forward. In addition, the compensation paid to registered reps on mutual fund transactions will be capped at 5%. Which means that the lesser of either 5% or the actual load on a mutual fund will be paid through the MMLIS grid. No Load funds will only be allowed on an unsolicited basis.

Variable Annuities and Variable Life Insurance Changes

MMLIS reviewed our current Variable Annuity and Variable Life Scoring Model and Methodology. The overall scoring methodology considers up to four factors in the various models. These include:

- Credit Quality
- Expenses
- Performance of Sub Accounts
- Product Features

In reviewing, it was determined that our current Insurance carriers and product offerings for both the MMLIS Variable Annuities and Variable Life Products meet the minimum acceptable criteria, so no change is currently needed. We will continue to maintain the harmonized commission schedules that currently exist for non-prop VA business. MMLIS will continue to evaluate the current product shelf and carriers on a regular basis.

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Regulation Best Interest New Business Sales Process



1 Complete Required Regulation Best Interest (Reg BI) Training

2 Registered Representative (RR) Fact Finding and Disclosure delivery meeting with Client

RR conducts **fact finding** meeting and delivers **Form CRS, disclosures** (using Reg BI **DidUSign** template and the **guide** for disclosure delivery), ADV2B (as applicable) and discuss goals, objective, and current investments in order to make recommendation.



4 Registered Representative Recommendation

RR meets with the client to propose recommendation and get paperwork signed. **Required paperwork will vary by line of business and transaction type***.

3 Registered Representative completes RightBRIDGE

RR completes **RightBRIDGE**, which includes adding the date that the **Form CRS** was delivered to the client. RR can run RightBRIDGE either to validate a recommendation they are looking to make, or to get a list of the options that are in the client's best interest for further vetting with the client.

Note: If recommendation is red, RR reevaluates

The paperwork is then submitted to the home office. If processing through DidUSign RR must complete signing process and paperwork, which will be transferred to BPM. The RR at this point documents any yellow recommendations on the TDF or in the client file.



6 Home Office Best Interest Principal Review

- ✓ The principal will review the case for best interest looking at factors such a risk tolerance versus investment, liquidity, time horizon, etc.
- ✓ If the selection is green on the RightBRIDGE Product Profiler Report no further documentation is required as to why that particular investment was selected in lieu of another.
- ✓ If a Yellow product/rollover is submitted, the documentation of the rationale must be provided in the rationale section of the TDF, CAT form or document in the client file must be completed depending on transaction type* and the RR must provide additional details as to why the yellow option is in the best interest of the client instead of the green options that were present on the report.
- ✓ If approved the paperwork is mailed out to the carrier. If rejected the principal will reach out to the ASO/RR and provide an explanation as to why the case did not pass the home office principal review.

<u>Brokerage-Required Forms</u>	<u>Advisory-Required Forms</u>	<u>Direct-Required Forms</u>
Application Transaction Detail Form (if applicable)	Application CRIA Asset Transition Form (If applicable)	Application Investor Account Form and AHA
Additional Forms TOA/Journal Form Account Registration Specific forms such as TCIP, POA Affidavit, 529 Addendum, etc.	SIS or applicable Advisory Agreement Additional Forms TOA/Journal Form Account Registration Specific forms such as TCIP, POA Affidavit, etc.	Transaction Detail Form (if applicable) Additional Forms TOA/Journal Form Account Registration Specific forms such as Certification of Trust form, C-Share Disclosure, 529 Addendum, etc.

Funds should not be surrendered, withdrawn, or transferred before the case has been approved for best interest/suitability. Funds moved prior to home office approval in a case that is rejected can result in financial harm to the client and RR.



5 Paperwork Review by Home Office

Paperwork is received by the home office and a good order check is done to make sure that all forms are present and completed before it submitted to a principal for review. Review the **Brokerage/WMS** and **Direct Business NIGO** Reference Sheets.

* To determine which forms are required based on transaction type review the [Regulation Best Interest New Business and Subsequent Transactions Reference Sheet](#).

Regulation Best Interest Employer Sponsored Plans (e.g. 401ks) Subsequent Rollover Process



1 Complete Required Reg BI Training



Note: If recommendation is, Red RR reevaluates.

2 Registered Representative uses RightBRIDGE Product Profiler for Recommendation

Following the identification of the need, RR enters profile into RightBRIDGE to validate the rollover source. Includes existing account types/product(s) intended to recommend. Determines recommendation may be in the client's best interest.



4 Registered Representative Provides Documentation to Agency Supervisor

RR provides documentation (through DidUSign) to Agency Supervisor which includes:

- ✓ Completed TDF or CAT (with rationale section completed with additional details for Yellow submissions), and
- ✓ Any other required documentation/forms, and source of funds documentation (i.e. current statement)
- ✓ Also, RightBRIDGE Product Profiler Report is kept in client file.



3 Registered Representative Recommendation Phase

- ✓ RR meets with client and provides Form CRS and capacity disclosure and recommendations to client (review the guide for disclosure delivery)
- ✓ Completes the Transaction Detail Form (TDF)/CRIA Asset Transition Form (CAT) and any other required documentation (e.g. TOA, Journal, Annuity Surrender Form and etc.) using DidUSign or Forms Center
- ✓ Obtains client signatures (through DidUSign)

Funds should not be surrendered, withdrawn, or transferred before the case has been approved for best interest/suitability. Funds moved prior to home office approval in a case that is rejected can result in financial harm to the client and RR.

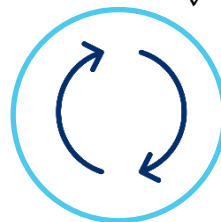


5 Agency Supervisor Reviews and Determines

This review includes review of:

- ✓ Completed TDF or CAT
- ✓ Any other required documentation forms
- ✓ In good order review, and
- ✓ Recommendations is in the client's best interest

Note: if documents are not in good order or recommendation does not appear to be in the best interest. The Rollover request is not processed, and the RR reevaluates recommendation.



6 Rollover Request is Processed

The rollover request can be processed, and the documentation imaged if:

- ✓ All documents are in good order
- ✓ Recommendation is in best interest
- ✓ RR signs (in DidUSign)
- ✓ Agency Supervisor signs TDF or CAT (in DidUSign)

Regulation Best Interest Subsequent Replacement Process



1 Complete Required Reg BI Training



2 Registered Representative Recommendation

Following the identification of the need, RR believes the recommendation is in the client's best interest.



4 Registered Representative Provides Documentation to Agency Supervisor

RR provides documentation to agency (through DidUSign) supervisor which includes:

- ✓ Completed TDF or CAT (with rationale section completed with additional details for Yellow submissions) and
- ✓ Any other required documentation/forms



3 Registered Representative Recommendation Phase

- ✓ RR Completes the Transaction Detail Form (TDF)/CRIA Asset Transition Form (CAT) and any other required documentation (e.g. TOA, Journal, Annuity Surrender Form and etc.) using **DidUSign** or **Forms Center**
- ✓ Obtains client signatures (through DidUSign)

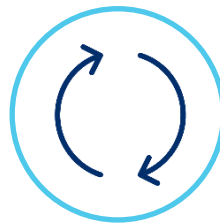


5 Agency Supervisor Reviews and Determines

This review includes review of:

- ✓ Completed TDF or CAT
- ✓ Any other required documentation/forms
- ✓ In good order, and
- ✓ Recommendation is in the client's best interest

Note: if documents are not in good order or recommendation does not appear to be in the best interest. The Rollover/Replacement request is not processed, and the RR reevaluates recommendation.



6 Rollover/Replacement Request is Processed

The rollover/replacement request can be processed, and the documentation imaged if:

- ✓ All documents are in good order,
- ✓ Recommendation is in best interest,
- ✓ RR signs (in DidUSign)
- ✓ Agency Supervisor signs TDF or CAT (in DidUSign)