

Regulation Best Interest Client File Documentation

REFERENCE GUIDE

This guide details the minimum requirements for client file documentation to satisfy Regulation Best Interest (Reg BI) as well as includes instructions and best practices for storing client files electronically on Client360°.

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Minimum Requirements for Client File Documentation

Following these minimum guidelines ensures that registered representatives (reps) comply with Reg BI client file documentation requirement for **new business and subsequent transactions**. In certain cases, MML Investors Services (MMLIS) requires the submission of paperwork but for many subsequent transactions, including trading within NFS brokerage accounts, you are required to maintain detailed client files. Remember that the level of detail should generally be commensurate with the complexity of the recommendation and/or client's financial situation.

1. Document the date of any [disclosures](#) delivered to the client
2. RightBRIDGE Product Profiler reports (saved separately)
3. Document the rationale that the transaction/product recommendation is in the client's best interest
4. Detail how this/these recommended product(s) fit into the client's overall long-term financial strategy
5. Document any *alternative* products or solutions that were reviewed or recommended with the client including any less complex or less costly products that were considered (*should have at least one alternative and why it was recommended*)
6. Document why these *alternative* solutions were not selected by or recommended to the client
7. Be able to demonstrate what analysis was performed on the various options that were explored (e.g., sales tools reports, illustrations, Excel math, eMoney, wholesaler conversations, or sales manager/investment specialist conversations, etc.)

Refer to the [Reg BI Client File Matrix](#) for a complete listing of requirements.

MMLIS recommends [storing all files electronically](#), in this method, so that supervision is as efficient as possible.

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Additional Considerations

Here are some additional considerations for documenting best interest rationale:

- The extent of any rationale should generally align with the risk and complexity of the recommendation
- If recommending a yellow product category over any green (as indicated on the RightBRIDGE Product Profiler report), document the reasons including the advantage(s) the client is going to receive from moving into this product category
- For the recommended product category, address any red explanatory text (as indicated on the RightBRIDGE Product Profiler report)
- If recommending a product category and the client already has assets invested in that same product category (e.g., recommending a variable annuity and the client already owns a variable annuity), document why a new product is a better option than contributing to the existing product or account including any advantage(s) the client will receive from moving into this product category/new product as opposed to using the existing vehicle
- When submitting multiple transactions simultaneously, be sure to document all products and dollar amounts for which the client is investing in either on required submission forms (e.g., Transaction Detail Form) or in the client file as applicable

Documentation Examples

Examples of Poor Documentation

The below examples are from actual documentation submitted to MMLIS. These examples do not clearly articulate the rationale for the recommendation. Remember, the rationale should explain why the transaction is in the client's best interest.

- The client is rolling over their 401 (k). It is being shut down. We are parking this in the money market.
- IRA has more investment options than a 401 (k) (as the sole basis of the recommendation).
- N/A. There is no downside, and this is not a replacement.
- Only risk is the upfront transaction fee. Otherwise, they will have more ease and professional service for the Roth. (This statement is definitive that the fee is the only downside.)
- Source of funds is from a former employer's retirement plan. Client is no longer an employee; current retirement account is not compatible, and client would like to continue contributing for retirement.

Examples of Good Documentation

The following are examples of good documentation. These examples provide best interest rationale and illustrate the recommendation aligns with the client's financial strategy. Additionally, they include alternative products or solutions and provide an explanation for why the alternative options weren't selected. Furthermore, the examples identify risks and other considerations.

Example 1

Client is moving her current IRA to a managed IRA. While her existing brokerage account may be an appropriate choice, she does not want to manager her own assets. The managed account option will help diversify her funds into multiple ETFs that align with her risk tolerance and time horizon. This account will also provide additional oversight and require ongoing review with the advisor on an annual basis at a minimum.

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While the client and her spouse are retired, she is deferring her social security benefits for an additional 5 years. During this time, liquidity is important as the client and her spouse will use their investment accounts to supplement and cover their living expenses including any unexpected expenses. For this reason, products with a back-end sales charge, such as annuities, are not a suitable because she requires more liquidity than an annuity can offer and may need access to these funds within the next 5 years without penalty or early surrender charges. She also doesn't need a product with a living benefit such as a withdrawal benefit rider.

After viewing various advisory programs, Advisory Select appears most suitable as it provides the needed liquidity and allows the advisor to act with discretion. Again, she does not want to select investments or manage her assets. She is aware that she is subject to market risk and understands the advisory fees are higher than what she was paying for her IRA brokerage account. She also understands tax implications associated with withdrawals and by allowing the advisor discretionary trading, the positions the advisor selects may not coincide with her social economic concerns (e.g., socially responsible investing).

Example 2

Client recently retired and is looking to rollover his 401 (k) to a traditional IRA (advisory account) because he is looking for a more personal relationship with his advisor as he nears retirement. Since he is no longer working his employer, he cannot benefit from loan provision or deferring RMD to age 72, which he would normally benefit as an active participant. Client understands he will lose creditor protection associated with 401(k) due to ERISA. As advisory accounts provide active management, he understands the fees will result in higher overall expenses than his current plan. Rollover benefits include personalized investment advice, assistance with portfolio design, and ongoing management.

Discussed brokerage account and annuity options but he wants investment advice, ongoing management, and does not want to pay front-end sales charges but wants ability to rebalance among different fund managers without paying front-end loads so he elected not to go with brokerage account. VA was not chosen because he has no need for guarantees (e.g., death benefit, etc.) and in exchange, he will have liquidity due to no surrender penalties. VAs also have M&E charges on top of individual fund expenses.

Client is aware he is subject to market risk and understands the associated advisory fees are higher than his current 401 (k). He also understands there are no tax implications for the rollover since moving from 401 (k) to traditional IRA. Overall fees are higher, but he will not have front-end sales charges and will have active management, portfolio design, and ongoing advice as he nears retirement.

Recordkeeping Categories

Typically, client documentation is transactional or relationship. Refer to the [Field Compliance Manual](#) to learn more.

Transactional	Relationship
<ul style="list-style-type: none">Submitted to the home office for processing or memorializing activityOfficial record of the document is the company recordUpdates or changes made to a transactional document after the original is submitted to the home office; reps must	<ul style="list-style-type: none">Relate to a reps ongoing relationship with the clientOnly contained in the client file and are not submitted to the home officeOfficial record of the document is retained in the client fileExamples of relationship documents:<ul style="list-style-type: none">Fact finder/needs analysis

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Transactional	Relationship
<p>retain a copy of the modified document in the client file</p> <ul style="list-style-type: none"> Examples of transactional documents: <ul style="list-style-type: none"> New policy/account applications Supplemental forms Account-related disclosure forms Customer agreements (related to establishment of the account) 	<ul style="list-style-type: none"> Case notes RightBRIDGE reports Subsequent Transaction Documentation (NFS Brokerage) Copies of incoming and outgoing written correspondence with clients Signed copies of disclosure acknowledgement documents as applicable Supporting documentation

Storing Client File Documentation on Client360°

Access the client's household on Client360° then create a subfolder:

1. Select the **Documents** tab.
2. Select **Add Subfolder**.
3. A popup window displays.
 - a. Use the **Top-Level Folder dropdown menu** to choose **Other**, which adds a subfolder under the **No Processing Required/Other folder**.
 - See screenshot below for examples of the Annual Client Contact subfolder for advisory clients and the Reg BI Documents subfolder for Reg BI requirements, which is the preferred (17A-4) location for uploading relationship documents.
 - b. Enter the subfolder's name in the **Subfolder Name field**.
 - Users can only add a single level of subfolders.
 - Consider naming conventions for subfolder names for agency consistency and ease of doing business.
4. Select **Save**.

