



What is the Fiduciary Rule?

A: The Department of Labor (DOL) recently issued the Retirement Security Rule, also known as the fiduciary rule. This rule defines the term *investment advice fiduciary* for purposes of the Employee Retirement Income Security Act. The new rule is the culmination of a long process, through which the DOL has attempted to better clarify what a fiduciary is and what constitutes fiduciary advice for retirement accounts like 401(k)s and individual retirement accounts. This may be one of the reasons you've heard the term a lot lately, but the concept of the fiduciary is not new. In fact, it dates to ancient Roman law.

In the context of personal finance and investments, registered investment advisors (RIAs) must adhere to a *fiduciary standard of care*. In other words, RIAs are legally bound to always act in your best interest.

This means that the investment advisor must always put your interest ahead of their own and must disclose any real or potential conflicts of interest. In other words, RIAs are required to provide advice and recommendations that are best for you, even if it means earning less for themselves or their firms. The fiduciary standard is the highest ethical standard in the financial services industry.

Another thing to know is that, in recent years, the U.S. Securities & Exchange Commission issued a separate rule called regulation best interest, which raised the standard applying to stockbrokers.

However, the primary difference between RIAs and brokerage firms still exists. Brokerage firms sell securities in exchange for commissions. This is a transaction-based business model. RIAs render investment advice in exchange for a fee that is not contingent on transactions. In general, investment advice from an RIA is rendered on an ongoing basis, so that the RIA's fiduciary obligation does not



end after a transaction takes place.

While *regulation best interest* imposed a new standard on brokerage firms, the incentive still exists for brokers to recommend products that generate higher commissions.

While these distinctions may seem subtle, understanding the difference can help you make better-informed decisions when seeking financial advice. When working with a financial professional, it's crucial to understand the standard under which they operate for the specific services you're seeking.

CAPTRUST is a fiduciary, first and foremost. We believe in the value of objective investment advice given solely in the best interests of our clients. The company has gone to great lengths to eliminate the kinds of conflicts of interest that are common in other parts of the financial services industry.

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