

# What Went Wrong: A \$13.1 million Reg BI Violation

## The Rule

The Regulation Best Interest Rule, also called **Reg BI**, went into effect in June 2020. The rule prohibits broker-dealers from placing their own financial interest ahead of their retail customers when making investment recommendations.

In other words, **the rule requires broker-dealers to make financial recommendations with their clients' best interest in mind**, rather than their **own** financial interests.



 **760**  
ENFORCEMENT  
ACTIONS

**\$ 6.4B**  
PENALTIES AND  
DISGORGEMENTS

## The case

In June 2022, the Securities and Exchange Commission (SEC) filed its first enforcement action in response to an alleged violation of the Reg BI Rule. The SEC alleged a brokerage firm sold **\$13.3 million worth of high-risk bonds to retirees and other retail investors**, people who often live on a fixed income.

On Nov. 15, 2022, the SEC announced this case was among the **760 enforcement actions** it filed during the fiscal year 2022, which **totaled \$6.4 billion in penalties and disgorgements**.

### According to the SEC, the firm:

Didn't exercise reasonable diligence, care or skill to understand the risks, rewards and costs of the bonds it recommended to its clients.



Didn't adequately establish, maintain and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI.



Didn't make the due diligence report, which outlined the steps needed to be followed to determine what bonds should be recommended when, available to broker-dealers and registered representatives. The firm had a due diligence report, but only the chief compliance officer had access to it.



Didn't offer broker-dealers and registered representatives up-to-date training on the bonds it offered.



## What can your firm do?



Create a due diligence report to determine what bonds should be recommended under what circumstances and make it available to all broker-dealers and registered representatives at your firm.



Provide specific and up-to-date training to the broker-dealers and registered representatives at your firm about the bonds your firm offers and under what circumstances they should be offered.



Write policies and procedures which thoroughly address the Reg BI's care obligation.