

## Breaking Down the Fiduciary Rule

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Most of us, if not all, need to make an appointment with a physician at some point in our lives. We trust physicians to provide care and make recommendations that are in the best interest of their patients. But, imagine for a moment if some physicians were held to a lower standard of care, one that only required their advice to be “suitable” for their patients, not necessarily in their patients’ best interest. While we thankfully do not live in a world with different standards of medical care, we do live in a world with different standards of service in investment advice.

On one hand, registered investment advisors are held to a “[best interest](#)” [standard of care](#), operating as fiduciaries on behalf of their clients. This standard of care means that 100 percent of an investment advisor’s loyalty must be devoted to his or her clients, rather than to the advisor’s own financial interests, their company’s bottom line or any outside company.

On the other hand, [broker-dealers are held to a “suitability” standard of care](#). A lower standard of care, the suitability standard arguably permits conflicts of interest to exist for brokers when they sell products and services to clients. Financial professionals operating as broker-dealers are not required to provide advice in a client’s best interest, but rather in a suitable manner. This conflict of interest has led to scrutiny by the media, consumer interest groups and ultimately, the Department of Labor, especially as it relates to retirement accounts.

In an effort to ensure that investors are receiving advice in their best interest regarding retirement accounts, the Department of Labor [issued a final rule this year](#), related to the definition of “investment advice fiduciary” under the Employee Retirement Income Security Act of 1974 (ERISA). The new rule, commonly referenced as the “[Fiduciary Rule](#),” expands the definition of “investment advice fiduciary” and treats investment advisors, broker-dealers, insurance agents and others providing advice as fiduciaries. Advice on retirement accounts, like IRAs and 401(k)s, must be given in an impartial manner, regardless of a financial professional’s business model.

This is a new world for many broker-dealers and insurance agents. It is already requiring changes in the advice they give, the products they offer and the way they receive compensation on retirement accounts. A significant focus of the Fiduciary Rule is on cost reduction and transparency. For example, commission-based financial products sold to an investor for a retirement account have more cumbersome documentation requirements to meet the Fiduciary Rule requirements, making commission-based products more difficult for financial professionals to market and sell.

Exencial Wealth Advisors has always operated as a fiduciary for clients. Both before and after the advent of the Department of Labor’s Fiduciary Rule, we have consistently put ourselves on the same side of the table as our clients. Our clients’ needs are Exencial’s complete focus, which is why we devote 100 percent of our efforts to help them reach their financial goals.

### Sources:

1. Fiduciary standard of care: <http://financialplanningcoalition.com/issues/fiduciary-standard-of-care/>



2. Choosing a financial advisor: Suitability vs. fiduciary standards <http://www.investopedia.com/articles/professionaleducation/11/suitability-fiduciary-standards.asp>
3. Department of Labor fact sheet on Fiduciary Rule: <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/dol-final-rule-to-address-conflicts-of-interest>
4. Fiduciary Rule definition: <http://www.investopedia.com/terms/f/fiduciary-rule.asp>

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