

Fiduciary Briefing

April 2017 Edition

This Fiduciary Brief provides you with updates on developments around the fiduciary rule. We are continuing to move forward developing the tools and standardized approaches that improve advisors' and members' experience and remain ready to implement disclosures or other Department of Labor (DOL) Fiduciary rule specific requirements.

It can never be said enough: Thank you for your patience and vigilance during these very fluid, and sometimes confusing, times. We will continue to strive to keep you informed and engaged throughout the next several months as this Rule and its requirements become clearer.

Fiduciary Rule Update.

The DOL Fiduciary Rule implementation is currently delayed by 60 days, pushing the applicability date to June 9, 2017. Like others in the industry, we believe this to be the first step in a multi-step process for the DOL to complete the required review of the Fiduciary Rule which ultimately may amend or rescind it.

At the time this delay was proposed (March 1), the DOL also announced a 45-day comment period that will close April 17, after which there may be an additional delay (beyond June 9) allowing for the DOL to review the comments they have received. Our firm's approach to an advice model that is centered on doing what is right for the member has not changed despite the fluidity of the enactment of the DOL Fiduciary rule.

The guidance accompanying the delay notice indicated that certain aspects of the rule, most notably its impartial standards requirements, will not be delayed longer than June 9. These items include the best interest standard for advice and recommendations, prohibition against misleading statements and requirement for reasonable compensation.

Regardless of the Fiduciary Rule's outlook, the heightened focus on customer interests it has ushered in should work in the favor of credit unions, your program and CUNA Brokerage Services, Inc. (CBSI). We believe the trend toward fee transparency, product value and a higher standard (fiduciary) will continue even if not in the form of the current regulation.

Please watch for notice of a special Fiduciary Chat session to be scheduled soon to update you on the latest developments and address your questions.

Sweitzer, Halevan Will Lead Fiduciary Rule Efforts.

David Sweitzer, Senior Vice President, Wealth Management, is the Fiduciary Rule project's new executive sponsor, and **Tim Halevan**, Vice President and Chief Compliance Officer, is the project's business sponsor, reflecting the ongoing recognition by CUNA Mutual Group and Wealth Management of the importance of this project to members, advisors, programs and the company. Halevan, as Business Sponsor, will lead the day-to-day Fiduciary Rule efforts of CBSI, and continue in his role as one of the organization's principal voices on Fiduciary Rule issues.

Tools and Process Changes Second Quarter.

As rollout plans become more firm, we will provide specific information to you surrounding dates and training. We expect that the following required tools and process changes will be implemented by end of second quarter:

Salesforce, Recommendations and Rationale

Our expectation is for advisors to capture their advice recommendations and rationale in Salesforce Notes. This will not only provide a uniform customer service experience for members and advisors, it will provide a single place for Field Compliance Managers, Program Managers and CBSI Sales managers to monitor and review recommendation rationale.

Rollover Recommendations

While development of a rollover recommendation tool was initiated by the Fiduciary Rule, the SEC and FINRA have also provided guidance that makes it clear that an assessment noted in Salesforce for every rollover recommendation is required. Our teams, as well as an advisor focus group, have worked on establishing needed criteria to ensure a rollover recommendation is in the client's best interest. We are taking that work and developing an online tool that advisors can input information into that will analyze the data and produce documentation for rollover recommendations.

New Approved Product List

Due diligence requirements and monitoring are important aspects of maintaining a product list in any environment. After examining our product list we determined that changes were needed to effectively provide the ongoing proper due diligence and oversight from a compliance perspective. We were able to maintain the vast majority of products and providers that are currently well represented in advisors' books of business. For example, over 95% of mutual fund assets members currently hold are in products that will continue to be on our approved product list. At this time we don't anticipate returning any products to our list once removed.

CBSI's revised approved product list will reflect careful consideration on the part of both clients' and advisors' interests. It will feature products that provide reasonable compensation, report sales and balance data electronically, offer competitive management/administrative expenses for CBSI (which lowers expenses for clients), and are provided by companies that are demonstrably strong, sound organizations.

Clients with assets in non-approved products will be able to keep those products if they wish. However, advisors will not be able to provide recommendations that include those products. For non-approved products with trail compensation, advisors can continue to receive this compensation. The advisor will however need to document this situation in their notes for the client's account.

Additional Anticipated Changes.

We are continuing analysis and development work on other tools and changes which will be implemented at a future date, including the online personal profile tool as well as the following:

Compensation

Our compensation grid will remain "as is" in 2017. We will revise the grid for 2018 if appropriate.

Our plans for commission rates in 2017 are to pursue a capping strategy at reasonable levels in accordance with industry norms. We will only offer as approved products in our new approved product listing those items that meet our reasonable compensation definitions.

In additional compensation issues, we initially announced that President's Council would be limited to non-qualified (non-IRA) product sales for 2018 (2017 production) to accommodate the mandates

of the DOL fiduciary rule. We have revisited that decision and recently announced that 2017 President's Council production criteria will remain the same as 2016, including qualified and non-qualified sales. We anticipate no further changes regarding this decision.

We continue to review other incentive and sales programs and will share decisions as they are made.

Use of Subscribe for Annuity Orders

We anticipate requiring annuity orders to be made through Subscribe, pending our ongoing analysis of various issues to streamline the process. Our goal with Subscribe is to provide a standardized process for all annuity orders, eliminate Fund Direct submissions, potentially post commissions sooner than Fund Direct, and aid compliance oversight of annuity transactions.

Financial Analysis

We believe it is an important best practice for advisors who make recommendations to clients have these recommendations accompanied by impartial rationale. During our analysis to identify tools and processes to help meet this best practice, CBSI engaged a group of advisors, financial planners, home office staff and leadership to vet and select a tool for these purposes. The choice was MoneyGuidePro as the preferred tool to use to provide financial analysis information to clients.

At this time, we will not be requiring MoneyGuidePro however we strongly encourage its use, and we will continue to offer MoneyGuidePro training opportunities.

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