FINRA has amended its suitability rule, Capital Acquisition Broker (CAB) suitability rule, and non-cash compensation rules to align with the SEC's Regulation Best Interest (Reg BI), effective June 30, 2020. The amendments clarify that FINRA Rule 2111 does not apply to recommendations governed by Reg BI, which establishes a "best interest" standard for broker-dealers when recommending securities transactions or investment strategies to retail customers. Reg BI requires broker-dealers to implement written policies to eliminate sales contests and non-cash compensation based on specific securities sales within a limited timeframe. Consequently, FINRA has updated its non-cash compensation rules to ensure consistency with Reg BI.

Rule 2111 outlines three main suitability obligations: reasonable-basis, customer-specific, and quantitative suitability. While Reg BI's Care Obligation addresses similar conduct, it employs a best interest standard. To avoid duplication, FINRA has amended Rule 2111 to exclude recommendations subject to Reg BI and has removed the control element from the quantitative suitability obligation. The CAB suitability rule has also been conformed to these amendments.

FINRA's rules on non-cash compensation, including Rules 2310, 2320, 2341, and 5110, restrict the acceptance of non-cash compensation in connection with securities sales. These rules now require that non-cash compensation arrangements comply with Reg BI's requirements. The amendments aim to ensure that the limitations on non-cash compensation are interpreted consistently with Reg BI, which includes provisions for permissible non-cash compensation arrangements.

Overall, these changes are designed to enhance clarity and compliance in the context of broker-dealer recommendations and compensation practices, ensuring that they align with the best interest standard established by Reg BI.