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Reviewing and Updating Form U4 and Form ADV Part 2B

June 23, 2022

Today's Slides

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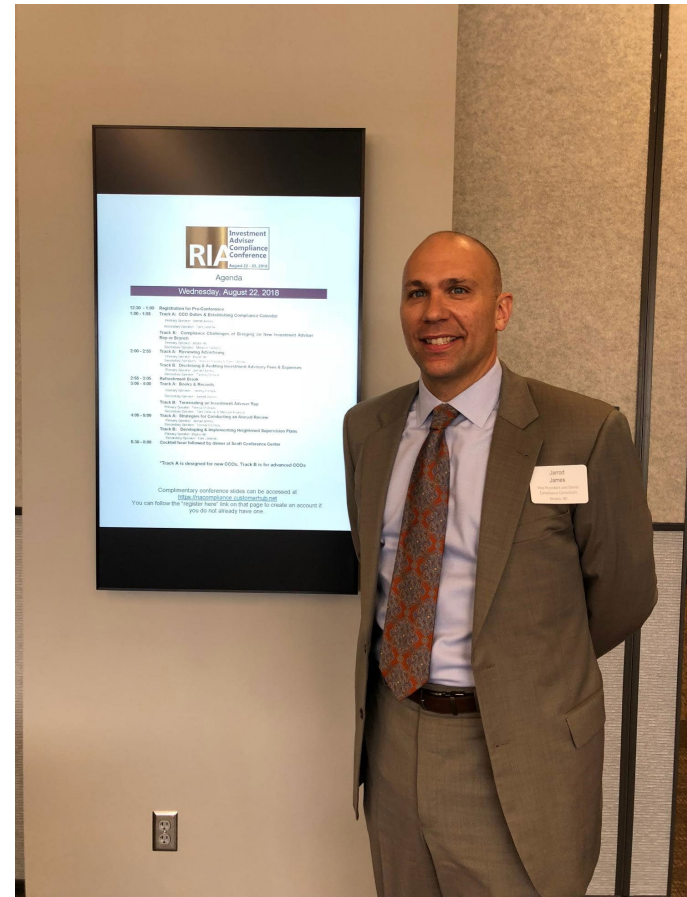


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TODAY'S PRESENTER

- Jarrod James
– Sr. Vice President



Agenda

Form U4

Form ADV Part
2B

Due Diligence
of Prospective
IARs

Suggested
Recordkeeping

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Background and Purpose

- Form U4 is the standard form used to register an investment adviser representative (IAR) with one or more state regulatory bodies. It is also used by broker/dealer firms to register their representatives (i.e., brokers)
- Must be filed initially through Web CRD to apply for registration as an IAR.
- Initial Form U4 must be reviewed, approved and signed by the Applicant and Firm Appropriate Signatory

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Background and Purpose (cont.)

- The Applicant is under a continuing obligation to amend and update information required by Form U4 as changes occur.
- Amendments must be filed electronically via Web CRD by updating the appropriate section of Form U4.
- All changes should be made promptly. An amendment is generally considered “promptly” filed when submitted within 30 days of the event requiring the change.
- A copy, with original signatures, of the initial Form U4 and amendments must be retained by the filing firm and must be made available for inspection upon regulatory request.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

1. General Information

- a) Employment Date – This should be the Applicant’s original start date with the firm and not simply the date Form U4 is submitted.
- b) Independent Contractor?
- c) Office of Employment Addresses (Private Residence – Yes or No)
 - i. Located At v. Supervised From
 - ii. System permits multiple locations. If the Applicant does not work from the Firm’s Main Office, you will list the Main Office as the address from where the Applicant is “Supervised From” and list the Applicant’s “branch” address as the location where the Applicant is “Located At”.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

2. Fingerprint Information

- a) The first two sections apply exclusively to Broker/Dealer firms.
- b) Skip to the *Investment Adviser Representative Only Applicants*
- c) The majority of states do not have fingerprint requirements, but it is important to know if the Applicant's state(s) requires fingerprints because failing to timely submit fingerprints will cause delays in the registration review process.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

3. Registration Requests With Unaffiliated Firms
 - a) Will applicant maintain registration with a broker-dealer that is not affiliated with the filing firm?
 - b) Will applicant maintain registration with an investment adviser that is not affiliated with the filing firm?

*Note – If you answer “yes” to either question, Web CRD will automatically change the Form U4 filing type to a *Dual* filing.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

4. SRO Registration

- a) Does *not* apply to investment adviser representative filings so you will skip this section and leave it incomplete.
- b) This section is for broker-dealer representative applications only.
- c) SRO stands for “Self Regulatory Organization” (e.g., FINRA, NYSE)

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

5. Jurisdiction Registration

- a) Check the appropriate jurisdiction (i.e., state regulatory body) for investment adviser representative requests. Web CRD uses “RA” to denote IAR registrations.
- b) IARs of SEC registered firms must IAR license in states where the IAR has an office location. Texas is an exception.
- c) IARs of state registered firms will need to IAR license in states where the IAR has an office location and also in states where the IAR maintains clients where the firm is registered.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

6. Registration Requests with Affiliated Firms

- a) Will applicant maintain registration with firm(s) under common ownership or control with the filing firm? If yes, you must complete this section.
- b) In order to complete this section, Web CRD functionality requires each firm to be listed on the other firm(s)'s Form ADV/Form BD.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

7. Examination Requests

- a) A Series 65 examination window will be automatically opened upon submission of an initial Form U4 when the applicant has not passed the exam within prior two-year period, has not been IAR approved within prior two-year period, and has not completed section 8. Professional Designations.
- b) Contains an option to list an exam passed using so-called Form U10 process.
- c) Can open additional Series 65 examination windows via Form U4 Amendment.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

8. Professional Designations

- a) Certified Financial Planning
- b) Chartered Financial Consultant (ChFC)
- c) Personal Financial Specialist (PFS)
- d) Chartered Financial Analyst (CFA)
- e) Chartered Investment Counselor (CIC)

*Accepted by all jurisdictions as qualifying designations in lieu of Series 65 Examination.

*Applicant will need to contact designation's sponsor organization to release his or her information to FINRA.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

9. Identifying Information/Name Change
 - a) Standard Identifying Information
 - b) Full Legal Name, State/Country of Birth, Date of Birth, Sex, Hair/Eye Color, Height & Weight

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

10. Other Names

- a) Enter all other names the Applicant has used or is using, or by which the Applicant is known or has been known, other than the legal name (listed in section 9), since the age of 18. This field must include, for example, nicknames, aliases, and names used before or after marriage.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

11. Residential History

- a) Provide residential addresses for the past five (5) years.
- b) Leave no gaps greater than three (3) months between addresses.
- c) Post Office boxes are not acceptable.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

12. Employment History

- a) Provide the Applicant's employment and personal history for the past ten (10) years. Leave no gaps greater than three (3) months between entries.
- b) All entries must include the beginning and end dates of employment. Begin by entering your current employment.
- c) Enter "Present" as the end date for current employment(s).
- d) Must include the filing firm (i.e., the investment adviser firm filing the Form U4).

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

12. Employment History

- e) Must include all other investment adviser firms and broker-dealer firms the Applicant has been registered or affiliated with during the prior ten (10) year period.
- f) Account for fulltime and part-time employment, self-employment, military service, and homemaking.
- g) Include unemployment, full-time education, extended travel, and other similar statuses.
- h) Entries with an end date longer than ten (10) years ago can be deleted.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

12. Employment History

- i) For each entry, provide from/to dates, name of the employer, city/state/county *where the applicant is/was employed in this position*
- j) Enter “yes” or “no” to indicate whether the employer is or was an investment-related business at the time of the applicant’s employment, regardless of the position the applicant held/holds
- k) Investment-related “Pertains to securities, commodities, banking, insurance, or real estate (including, but not limited to, acting as or being associated with a broker-dealer, issuer, investment company, investment adviser, futures sponsor, bank, or savings association).”
- l) Enter the Applicant’s last title or position held with the employer

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

13. Other Business

- a) Enter "yes" or "no" to indicate whether the Applicant currently is engaged in any other business, either as a proprietor, partner, officer, director, employee, trustee, agent, or otherwise.
- b) Exclude non-investment-related activity that is exclusively charitable, civic, religious or fraternal, and is recognized as tax exempt.

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

13. Other Business

c) If “yes” is answered, provide the following information.

- Name and address of the other business
- The nature of the other business, including whether it is investment-related
- Position, title, or association with the other business, including the applicant’s duties
- The start date of the applicant’s relationship with the other business
- The approximate number of hours per month the applicant devotes to the other business
- The number of hours the applicant devotes to the other business during securities trading hours

Form U4 – Uniform Application for Securities Industry Registration or Transfer – Completing Each Item

14. Disclosure Questions

- a) Criminal Disclosure
- b) Regulatory Action Disclosure
- c) Civil Judicial Disclosure
- d) Customer Complaint/Arbitration/Civil Litigation Disclosure
- e) Termination Disclosure
- f) Financial Disclosure

Form ADV Part 2B – Brochure Supplement – Background and Purpose

- Serves as a supplement to Form ADV Part 2A: *Firm Brochure*. It is a narrative brochure that must be written in plain-English, consistent with Form ADV Part 2A.
- Essentially, a resume for each IAR that works with clients.
- Who must have a brochure supplement?
 - i. Any supervised person who formulates investment advice for a client and has direct client contact;*
 - ii. Any supervised person who has discretionary authority over a client's assets, even if the supervised person has no direct client contact.*

Form ADV Part 2B – Brochure Supplement – Background and Purpose (cont.)

- You must deliver to a client the brochure supplements for each supervised person who provides advisory services to that client.
- You must deliver the supplement for a supervised person before or at the time that supervised person begins to provide advisory services to a client.
- You must deliver to clients any update to the supplement that amends information in Item 3 – Disciplinary Information.

Form ADV Part 2B – Brochure Supplement – Background and Purpose (cont.)

- You must update the brochure supplements promptly whenever any information in them becomes materially inaccurate.
- State-registered firms are required to file brochure supplements and amendments to brochure supplements electronically via the IARD system.
- SEC-registered firms are not required to file brochure supplements to the IARD system.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

1) Cover Page

- a) Must include the supervised person's name, business address and telephone number (if different from the firm's).
- b) Must include the firm's name, business address and telephone number.
- c) Date of the supplement

Form ADV Part 2B – Brochure Supplement – Completing Each Item

1) Cover Page

Display on the cover page statements containing the following or other clear and concise language conveying the same information, and identifying the document as a “brochure supplement:”

This brochure supplement provides information about [name of supervised person] that supplements the [name of advisory firm] brochure. You should have received a copy of that brochure. Please contact [service center or name and/or title of your contact person] if you did not receive [name of advisory firm]’s brochure or if you have any questions about the contents of this supplement.

***Additional information about [name of supervised person] is available on the SEC’s website at www.adviserinfo.sec.gov.**

***Include only if the supervised person is registered as an IAR through Web CRD.**

Form ADV Part 2B – Brochure Supplement – Completing Each Item

2) Educational Background and Business Experience

- “Disclose the supervised person’s name, age (or year of birth), formal education after high school, and business background (including an identification of the specific positions held) for the preceding five years. If the supervised person has no high school education, no formal education after high school, or no business background, disclose this fact. You may list any professional designations held by the supervised person, but if you do so, you must provide a sufficient explanation of the minimum qualifications required for each designation to allow clients to understand the value of the designation.”
- Very Important: Ensure all business experience listed at 12. Employment History of Form U4 is listed in this this section and vice-versa. Form U4 and Form ADV Part 2B must be consistent.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

3) Disciplinary Information

If there are legal or disciplinary events material to a client's or prospective client's evaluation of the supervised person, disclose all material facts regarding those events.

Items 3.A, 3.B, 3.C, and 3.D below list specific legal and disciplinary events presumed to be material for this Item. If the supervised person has been involved in one of these events, you must disclose it under this Item for **ten years** following the date of the event, **unless** (1) the event was resolved in the supervised person's favor, or was reversed, suspended or vacated, or (2) you have rebutted the presumption of materiality to determine that the event is not material (see Note below). *For purposes of calculating this ten-year period, the "date" of an event is the date the final order, judgment, or decree was entered, or the date any rights of appeal from preliminary orders, judgments or decrees lapsed.*

Form ADV Part 2B – Brochure Supplement – Completing Each Item

3) Disciplinary Information (cont.)

Items 3.A, 3.B, 3.C, and 3.D do not contain an exclusive list of material disciplinary events. If the supervised person has been involved in a legal or disciplinary event that is not listed in Items 3.A, 3.B, 3.C, or 3.D but is material to a client's or prospective client's evaluation of the supervised person's integrity, you must disclose the event. Similarly, even if more than ten years have passed since the date of the event, you must disclose the event if it is so serious that it remains currently material to a client's or prospective client's evaluation.

If you deliver a supplement electronically and if a particular disclosure required below for the supervised person is provided through either the Financial Industry Regulatory Authority's (FINRA) Broker Check system or the IAPD, you may satisfy that particular disclosure obligation by including in that supplement (i) a statement that the supervised person has a disciplinary history, the details of which can be found on FINRA's Broker Check system or the IAPD, and (ii) a hyperlink to the relevant system with a brief explanation of how the client can access the disciplinary history. The Broker Check link is www.finra.org/brokercheck; the IAPD link is www.adviserinfo.sec.gov.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

3) Disciplinary Information (cont.)

- A. A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which the supervised person
1. was convicted of, or pled guilty or nolo contendere (“no contest”) to (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;
 2. is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;
 3. was found to have been involved in a violation of an investment-related statute or regulation; or
 4. was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, the supervised person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

3) Disciplinary Information (cont.)

B. An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which the supervised person

1. was found to have caused an investment-related business to lose its authorization to do business; or
2. was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority
 - (a) denying, suspending, or revoking the authorization of the supervised person to act in an investment-related business;
 - (b) barring or suspending the supervised person's association with an investment-related business;
 - (c) otherwise significantly limiting the supervised person's investment-related activities; or
 - (d) imposing a civil money penalty of more than \$2,500 on the supervised person.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

3) Disciplinary Information (cont.)

C. A self-regulatory organization (SRO) proceeding in which the supervised person

1. was found to have caused an investment-related business to lose its authorization to do business; or
2. was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.

D. Any other hearing or formal adjudication in which a professional attainment, designation, or license of the supervised person was revoked or suspended because of a violation of rules relating to professional conduct. If the supervised person resigned (or otherwise relinquished the attainment, designation, or license) in anticipation of such a hearing or formal adjudication (and the adviser knows, or should have known, of such resignation or relinquishment), disclose the event.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

3) Disciplinary Information (cont.)

Note: You may, under certain circumstances, rebut the presumption that a disciplinary event is material. If an event is immaterial, you are not required to disclose it. When you review a legal or disciplinary event involving the supervised person to determine whether it is appropriate to rebut the presumption of materiality, you should consider all of the following factors: (1) the proximity of the supervised person to the advisory function; (2) the nature of the infraction that led to the disciplinary event; (3) the severity of the disciplinary sanction; and (4) the time elapsed since the date of the disciplinary event. If you conclude that the materiality presumption has been overcome, you must prepare and maintain a file memorandum of your determination in your records. See SEC rule 204-2(a)(14)(iii) and similar state rules.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

4) Other Business Activities

- Must disclose active investment-related businesses or occupations.
 - Registered Representative of a Broker/Dealer
 - Associated Person of a Futures Commission Merchant (“FCM”), Commodity Pool Operator (“CPO”), Commodity Trading Advisor (“CTA”)
- If the relationship between the advisory business and the supervised person’s other financial industry activities creates a material conflict of interest with clients, describe the nature of the conflict and generally how you address it.
 - municipal securities dealer, or government securities dealer or broker
 - investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)
 - other investment adviser or financial planner
 - futures commission merchant, commodity pool operator, or commodity trading advisor

Form ADV Part 2B – Brochure Supplement – Completing Each Item

4) Other Business Activities (cont.)

- If the relationship between the advisory business and the supervised person's other financial industry activities creates a material conflict of interest with clients, describe the nature of the conflict and generally how you address it.
 - banking or thrift institution
 - accountant or accounting firm
 - lawyer or law firm
 - insurance company or agency
 - pension consultant
 - real estate broker or dealer
 - sponsor or syndicator of limited partnerships.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

4) Other Business Activities (cont.)

- If the supervised person receives commissions, bonuses or other compensation based on the sale of securities or other investment products, including as a broker-dealer or registered representative, and including distribution or service (“trail”) fees from the sale of mutual funds, disclose this fact. If this compensation is not cash, explain what type of compensation the supervised person receives. Explain that this practice gives the supervised person an incentive to recommend investment products based on the compensation received, rather than on the client’s needs.
- If the supervised person is actively engaged in any non-investment related business or occupation for compensation, and the other business activity or activities provide a substantial source of the supervised person’s income or involve a substantial amount of the supervised person’s time, disclose this fact and describe the nature of that business. If the other business activities represent less than 10 percent of the supervised person’s time and income, you may presume that they are not substantial.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

5) Additional Compensation

- If someone who is not a client provides an economic benefit to the supervised person for providing advisory services, generally describe the arrangement. For purposes of this Item, economic benefits include sales awards and other prizes, but do not include the supervised person's regular salary. Any bonus that is based, at least in part, on the number or amount of sales, client referrals, or new accounts should be considered an economic benefit, but other regular bonuses should not.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

6) Supervision

- Explain how you supervise the supervised person, including how you monitor the advice the supervised person provides to clients. Provide the name, title and telephone number of the person responsible for supervising the supervised person's advisory activities on behalf of your firm.

Form ADV Part 2B – Brochure Supplement – Completing Each Item

7) Requirements for State-Registered Advisers

- “Disclose the supervised person’s name, age (or year of birth), formal education after high school, and business background (including an identification of the specific positions held) for the preceding five years. If the supervised person has no high school education, no formal education after high school, or no business background, disclose this fact. You may list any professional designations held by the supervised person, but if you do so, you must provide a sufficient explanation of the minimum qualifications required for each designation to allow clients to understand the value of the designation.”
- Very Important: Ensure all business experience listed at 12. Employment History of Form U4 is listed in this this section and vice-versa. Form U4 and Form ADV Part 2B must be consistent.

Due Diligence of Prospective Investment Adviser Representative Not All-Inclusive

- Perform an Internet search of the prospective IAR.
- Run an independent background check (in addition to the IAPD Public Report) of the public records for the last 10 years (in all counties where the prospective IAR has lived or worked).
- Perform a credit check. Past due on current obligations? High debt-to-income ratio? Review past compensation statements and financials. Current liens or compromises with creditors or bankruptcies?
- Include civil litigation and regulatory events in the background check. Look for and ask for all current and prior customer complaints, arbitrations and/or lawsuits as well as all prior and current regulatory examinations, investigations and enforcement actions.
 - If there are events, ask for all related documentation and consult legal counsel.
 - Will a heightened supervision plan be necessary?
 - Are all events disclosed on Form U4, if required?
 - Does the IAR have any disciplinary events that must be disclosed on Form ADV?

Due Diligence of Prospective Investment Adviser Representative Not All-Inclusive (cont.)

- Educational Degrees. Obtain copies of diplomas for any degrees of the prospective investment adviser representative or contact the higher education institution.
- Professional Licenses/Designations. Verify that the prospective investment adviser representative has obtained and is in good standing with such licensing authority/professional designation sponsor.
- Review and Approve or Reject Outside Business Activities (OBA).
 - Are all OBAs generally permitted by the firm?
 - Do any conflict with the firm's business model?
 - Do any create a conflict of interest with clients?
 - If the OBA will be approved, have disclosures been made/updated and how will it be mitigated?
 - Do any OBAs create a custody situation?
 - Does the OBA include or involve individuals who have been banned by a securities regulator or unlikely to be approved by a securities regulator to work in the investment business?

Due Diligence of Prospective Investment Adviser Representative Not All-Inclusive (cont.)

- Does the IAR's business plan make sense and will it correlate with the IA firm's business model?
- Is the prospective investment adviser representative's business and personal character compatible with investment adviser firm and his or her supervisor?
- If applicable, check the prospective IAR's website and marketing materials, including social media accounts, for compliance with the firm's procedures and advertising rules.
- Any associations with barred individuals? Family member, support staff, involved in OBA.
- Does the privacy policy of the prospective investment adviser representative's current investment adviser firm expressly or specifically permit the prospective investment adviser representative to take confidential client information when departing the current investment adviser firm? If not, consult with your local legal counsel.

Due Diligence of Prospective Investment Adviser Representative Not All-Inclusive (cont.)

- Does the IAR have previous professional liability errors and omissions insurance coverage? Check whether the E&O carrier will offer tail end coverage for prior acts? Is there any investments or strategies used by the prospective IAR that will be excluded under the investment adviser firm's current E&O policy?
- Will the prospective IAR share office space with an unaffiliated third-party?
- Will the services and fee arrangements to be provided by the prospective IAR be covered by existing Form ADV and client agreements or will the firm need to amend Form ADV and/or create new client agreements to accommodate the prospective IAR's service offerings.
- Does the prospective IAR or clients of prospective IAR require use of a certain qualified custodian? If so, is the investment adviser firm willing to utilize such qualified custodian?
- Review the prospective IAR's current client holdings and investment performance.

Suggested Recordkeeping

- Completed background checks, credit checks and internet searches conducted for due diligence purposes.
- All submitted and executed Initial Form U4s and Form U4 Amendments.
- Current and historical Form ADV Part 2B Brochure Supplements along with IAR's written confirmation that Part 2B information is accurate.
- Proof of registration in each state(s) where the IAR is approved – printed from Web CRD system.
- Proof of completion and good-standing of any professional designations used by the IAR.
- Confirmation/verification of education background.

Questions?

Thank You





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