

RIA Compliance Consultants

RIA Compliance Connection Conference

August 24 & 25, 2022

Omaha, NE

Form ADV – Keeping It Fresh

2022 RIA Compliance Connection

Strategic Alliance Sponsor



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Modern solution for financial professionals to fulfill their fiduciary responsibility to know and understand their client.

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Agenda

Name and
Define the
Different
Parts of Form
ADV

Examples of
When to
Update Form
ADV

Delivery
Requirements

Tips to Keep
Your Form
ADV Updated

Reminders

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Form ADV Contains 5 Parts:

1. ADV Part 1
(A and B)

2. ADV Part 2A
Firm Brochure

3. ADV Part 2
Appendix 1 (Wrap
Fee Brochure)

4. ADV Part 2B

5. ADV Part 3 or
Form CRS

ADV Part 1

(The application for Investment Adviser registration)

- The ADV Part 1 is used for:
 - Registration with the SEC
 - Registration with One or More State Securities Authorities
 - To Amend Registrations
 - To Report to the SEC as an Exempt Reporting Adviser
 - To Report to One or More State Securities Authorities as an Exempt Reporting Adviser
 - To Amend These Reports
 - To Submit a Final Report as an Exempt Reporting Adviser

ADV Part 1A

- Form ADV Part 1A requires answers about the Firm, its business practices, the persons who own and control the Firm, the persons who provide investment advice on the Firm's behalf, related persons and disciplinary events, among other information.

ADV Part 1B

- Form ADV Part 1B asks questions required by state securities authorities, which include additional disclosure questions, financial planning information, custody and billing questions and compliance with financial requirements of a state, if any.

ADV Part 2A

Form ADV Part 2A is the Firm Brochure designed to be prepared in a narrative format with 19 Required Items (18 For SEC Registered Firms). The Items are designed to promote effective communication between the Firm and its clients.

- Written in Plain English
- Language Should Be Concise and Direct
- Use Short Sentences with Everyday Words
- Use Tables and Bullet Points For Complex Material
- Avoid Legal Jargon and Highly Technical Terms
- Avoid Multiple Negatives
- Use Examples to Illustrate Your Practices and Policies

Form ADV Part 2 Appendix 1: *Wrap Fee Brochure* is an additional brochure (i.e., appendix to the Firm Brochure (Part 2A)) and is provided to clients of wrap fee programs. If your firm is the sponsor of a wrap fee program, you need to prepare this document. It has 10 required Items (9 for SEC registered firms).

ADV Part 2B

Form ADV Part 2B is the Brochure Supplement that contains information about your firm's Supervised Persons who:

- Formulate investment advice for a client and have direct client contact
- Have discretionary authority over a client's assets, even if no direct client contact
- No Brochure Supplement is required if no direct client contact and has discretionary authority only as part of a Team

Form ADV Part 2B has 7 Required Items (6 For SEC Registered Firms). The sections are designed to give clients material information about the Supervised Person providing investment advisory services.











ADV Part 3

Form ADV Part 3 or Form CRS is a written disclosure intended to provide “Retail Investors” with a clear, concise and brief summary about an investment adviser firm. It includes:

- The relationships and services the firm offers
- Fees and costs Retail Investors will pay
- Specific conflicts of interest
- Standards of conduct
- Disciplinary history




Form ADV Part 3 Relationship Summary is also designed to promote effective communication between the Firm and the Retail Investor, with 5 required Items as well as Conversation Starters. At this time, the Form ADV Part 3 is required for SEC registered firms and state registered firms with a primary office in Rhode Island.

Updating Form ADV

Document Type:	When should I update information?	
	Annually	Promptly When Information Becomes Materially Inaccurate
Form ADV Part 1		
Form ADV Part 2A		
Form ADV Part 2 Appendix 1 (Wrap Fee Program Brochure)		
Form ADV Part 2B		
Form ADV Part 3		

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Updating Form ADV

Document Type:	When should I update information?	
	Annually	Promptly When Information Becomes Materially Inaccurate
Form ADV Part 1	Item 1, 5 and 9 (if applicable) of Part 1A and Item 2.H of Part 1B	Item 1, 3, 9 and 11 of Part 1A, Item 1 and 2 of Part 1B (both with exceptions), Schedule R Section 1 or 3 and adding or removing a Relying Adviser – <u>Update when inaccurate in any way.</u> Item 4, 8, 10 of Part 1A, Item 2.G of Part 1B or Section 10 of Schedule R – <u>Update when materially inaccurate.</u>
Form ADV Part 2A	Item 4 – Assets Under Management	 Other-Than-Annual Amendment not required for AUM or fee schedule change only
Form ADV Part 2 Appendix 1 (Wrap Fee Program Brochure)	Item 4, if Assets Under Management are disclosed. Wrap Fee Brochure must be “confirmed” as part of the annual amendment submission	
Form ADV Part 2B	All ADV Part 2Bs uploaded via the IARD System	

When To Update ADVs

Example #1: Change in Custodian

1. Change to ADV Part 2A
2. Wrap Fee Program Brochure
3. ADV Part 3

Example #2: Change in Advisory Fee

1. Change to ADV Part 1
2. ADV Part 2A
3. Wrap Fee Program Brochure
4. ADV Part 3

Example #3: Adding an Outside Business Activity - Adding new IAR with Insurance License

- 1) Change to ADV Part 1
- 2) ADV Part 2A
- 3) Wrap Fee Program Brochure
- 4) ADV Part 2B
- 5) ADV Part 3

Example #4: No Longer Affiliated with BD or IA—

- 1) Change to ADV Part 1
- 2) ADV Part 2A
- 3) Wrap Fee Program Brochure
- 4) ADV Part 2B
- 5) ADV Part 3

Example #5: Adding a new Advisory Service

- 1) Change to ADV Part 1
- 2) ADV Part 2A
- 3) Wrap Fee Program Brochure
- 4) ADV Part 3

* A change to Form ADVs may prompt changes to your Advisory Agreements, Form U4s, marketing materials, Website, Email Disclosures, etc.

Delivering Form ADV

Form ADV Part 1:

- No Delivery Requirement

Form ADV Part 2A:

- All New Clients
- Existing Clients When Requested
- Existing Clients Within 120 Days of FYE if Material Changes Throughout the Year
- Existing Clients with Disciplinary Update in Item 9

Form ADV Part 2 Appendix 1 (Wrap Fee Brochure)

- All New Clients if in the Wrap Fee Program
- Existing Clients When Requested
- Existing Clients Within 120 Days of FYE if Material Changes Throughout Year
- Existing Clients with Disciplinary Update in Item 9

Delivering Form ADV

Form ADV Part 2B

- All New Clients
- Existing Clients with Disciplinary Update in Item 3
- Existing Clients When Requested

Form ADV Part 3

- All New Retail Investors - Oral or Written Agreement
- Within 60 Days After Material Updates Are Required to be Made
- When Opening A New Account That is Different From Client's Existing Account
- When Recommending Retail Investor Rollover Assets From Retirement Account to New or Existing Account
- When Recommending or Providing New IA Service or Investment That May Not Involve Opening a New Account and Will Not Be Held In An Existing Account
- Within 30 Days of Retail Investor's Request

Tips For “Keeping It Fresh”

- 1) Frequent meetings with your Compliance Team
- 2) Keep in touch and/or attend department meetings to determine when changes must be made:
 - Operations Department
 - Representative Selection Committee – Recruiting
 - Investment Committee
 - Sales Meetings
 - Management Meetings
 - Meet with Human Resources for Updates
 - Firm-Wide Meetings
- 3) Send Form U4s and ADV Part 2Bs to each supervised person for review
- 4) Ensure annual review of compliance program is done each year
- 5) Read industry publications and alerts from SEC or state authorities to identify upcoming rules, changes in regulatory guidance and enforcement actions
- 6) Attend compliance conferences, local roundtable discussions or other industry groups

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Reminders

Read the ADV Instructions! They clearly define all aspects of the Form ADV requirements.

Read your documents and know what they say. Help Clients understand the information in your brochures.

Do NOT wait until annual amendment season to review your firm's Form ADV documents. It may be too late!

Number 1 Question We Are Asked -

A material update in ADV Part 2A does not require the immediate delivery of the updated ADV Part 2A.

Use of a Consulting Firm/Consultant does not negate a firm's responsibility to understand and be familiar with every ADV document and their requirements.

Form ADV amendment submissions do not put a spotlight on your Firm. Firms are more likely to stay out of trouble.

As an Investment Adviser, your Firm is required to disclose accurate and current information, with full and fair disclosure, hence frequent amendments may be necessary. Out-of-date documents are worthless documents.

Tips For RIAs



Please Share How Your Firm Notifies
You of Changes...

Resources

- <https://www.iard.com/part1instructions>
- <https://www.iard.com/part2instructions>
- <https://www.sec.gov/about/forms/formadv-part3.pdf>
- www.sec.gov/news/extra/handbook.htm
- <https://www.ria-compliance-consultants.com/>

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