

RIA Compliance Group's Guide to the Form CRS – Client Relationship Summary (ADV Part 3)

Introduction

The Form CRS is a relatively complex, 2-page, disclosure document that must be used by all broker-dealers and SEC-registered investment advisers who serve retail investors. RIA Compliance Group, LLC is providing this guide to using the Form CRS to assist you in meeting your Form CRS drafting, filing, and delivery requirements. In addition to implementing updated written policies and procedures for Form CRS, we urge you to read this guide in its entirety to familiarize yourself and others with these new requirements. For example, you will need to establish delivery and documentation procedures. Additionally, you should prepare response guidelines and suggested responses for each “conversation starter” listed in the firm’s Form CRS as applicable to your specific firm and its policies and procedures. This will help to provide consistency in the responses provided by your firm’s financial professionals (i.e., individuals providing investment advisory services on behalf of your firm).

Filing and Delivery Timelines for Form CRS

- All SEC-registered RIAs that serve retail investors must adopt and upload their Form CRS onto the IARD website.
- If your firm or financial professionals maintain one or more public websites that offer advisory services through your firm, you must post the current version of Form CRS prominently on each of those public websites in a location and format that is easily accessible to retail investors. You must post Form CRS concurrently with the submission/filing of Form CRS.
- You must deliver the Form CRS to all existing clients who are retail investors promptly upon approval of your SEC- registration.
- You must deliver the Form CRS to each new retail investor before or at the time you enter into an investment advisory contract with the retail investor.
- You must also deliver the Form CRS to existing clients each time a new service is provided or a new account is opened for the client, including IRA rollovers (see specific delivery details below).

Important Delivery Details

RIAs may deliver Form CRS to existing retail investors (see definition of retail investor below) in a separate mailing or as part of a delivery of the annual Form ADV update, account statement, or other periodic report.

If Form CRS is delivered in paper format, it must be the first of any documents that are delivered at that time. If the Form CRS is delivered electronically, it must be presented prominently in the electronic medium, for example, as a direct link, a prominent attachment, or in the body of an email or message, and must be easily accessible to retail investors.

In a Form CRS that is posted on your website or otherwise provided electronically, you must provide a means of facilitating access to any information that is referenced in the Form CRS if the information is available online, including, for example, hyperlinks to fee schedules, conflicts disclosures, the firm’s narrative brochure document(s) required by Part 2A of Form ADV, or other regulatory disclosures.

Additionally, you must deliver the most recent Form CRS to a retail investor who is an existing client before or at the time you:

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- open a new account that is different from the retail investor’s existing account(s);
- recommend that the retail investor roll over assets from a retirement account into a new or existing account or investment; or
- recommend or provide a new brokerage or investment advisory service or investment that does not necessarily involve the opening of a new account and would not be held in an existing account, for example, the first-time purchase of a direct-sold mutual fund or insurance product that is a security through a “check and application” process, *i.e.*, not held directly within an account.

You also must deliver the relationship summary to a retail investor within 30 days upon the retail investor’s request.

Who is a Retail Investor

Form CRS defines a “retail investor” as “a natural person or legal representative of such natural person, who seeks to receive or receives services primarily for personal, family, or household purposes.” RIAs should also note that all natural persons, regardless of net worth or sophistication, are included in the definition of “retail investor.” Thus, the Form CRS requirement applies when retail investors seek retirement account services, including IRAs, workplace retirement plans, such as 401(k) plans, and other tax-favored retirement plans.

Exemptions from the Definition of Retail Investor

The following types of clients are not considered retail investors:

- Participants in 401(k) plans and other workplace retirement plans will not be retail investors for purposes of the Form CRS delivery obligation when making certain ordinary plan elections that do not involve selecting or retaining an RIA to provide advisory services. Even if a financial professional or other firm representative assists a participant directly, *e.g.*, at an enrollment meeting or through a call center interaction, the participant generally would not be making the type of account or firm choice contemplated by Form CRS because the plan’s sponsor or another designated representative (*e.g.*, a trustee, other fiduciary, or other responsible party), a “plan representative”, already has selected the firm, negotiated the terms of service, and remains responsible for supervising the RIA. Accordingly, plan participants should not be viewed as “seeking or receiving services” for purposes of the Form CRS definition of retail investor when they are merely electing among plan features offered by firms and financial professionals retained and supervised by a plan representative. This includes a participant’s decision to invest his or her account balance through an in-plan self-directed brokerage account option or to select an in-plan managed account service option, where a plan representative retains and supervises the broker-dealer or investment advisory firm providing such services to the plan.
- Hedge funds, private equity funds, and venture capital funds are not a “natural person, or the legal representative of such natural person who seeks to receive or receives primarily for personal family or household purpose.” Therefore, firms are not obligated to deliver relationship summaries to those investment vehicles.

Updating and Filing requirements for the Form CRS

There is no annual updating requirement for Form CRS. However:

- You must update Form CRS and file it within 30 days whenever any information in the Form CRS becomes materially inaccurate. The filing must include an exhibit highlighting the changes made.
- The updated Form CRS must be posted prominently on your public website.
- You must communicate any changes in the updated Form CRS to retail investors who are existing clients within 60 days after the updates are required to be made and without charge. You can make the communication by delivering the amended Form CRS or by communicating the information through another

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disclosure that is delivered to the retail investor.

- Each amended Form CRS that is delivered to a retail investor who is an existing client must highlight the most recent changes by, for example, marking the revised text or including a summary of material changes. The additional disclosure showing revised text or summarizing the material changes must be attached as an exhibit to the unmarked amended Form CRS.

Note: It is important to ensure that at all times your Form CRS is consistent with your other disclosures, policies and procedures, advisory agreements, websites, social media, and other advertising materials, as well as your actual practices. You must also make sure all hyperlinks provided remain accurate and functional.

Conclusion

Although RIA Compliance Group, LLC has drafted the Form CRS, we urge you to review the SEC's guidance and the Form CRS Instructions below to make sure all required information is provided and the document remains current.

Additional Resources for the Form CRS

The SEC's Office of Compliance Inspections and Examinations has published a Risk Alert to provide SEC-registered investment advisers and broker-dealers with further information about Form CRS. The Risk Alert can be found at:

<https://www.sec.gov/files/Risk%20Alert%20-%20Form%20CRS%20Exams.pdf>.

The specific requirements of Form CRS can be found in the Form CRS Adopting Release:

<https://www.sec.gov/rules/final/2019/34-86032.pdf>

FAQs on Form CRS can be found at:

<https://www.sec.gov/investment/form-crs-faq>

The SEC has also published a Small Entity Compliance Guide:

<https://www.sec.gov/info/smallbus/secg/form-crs-relationship-summary>.

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