

Maybe, Just Maybe, the SEC Is Onto Something: Form CRS

Oh joy, yet another form advisors need to provide their clients. But this one might really work.

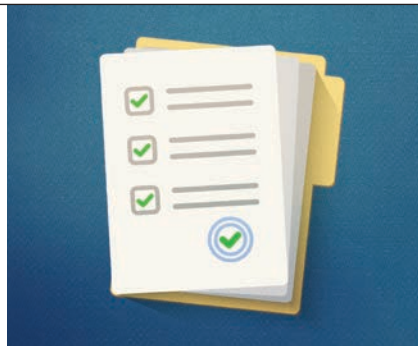
Ready or not, the Form ADV family is growing with newly introduced Form CRS (Customer Relationship Summary). Just when you thought it was safe to go outside, the Securities and Exchange Commission has brought us yet another regulatory disclosure document. I have been saying for years that Form ADV is both way too long and complicated (from the predecessor Part II format to its current successor Part 2A), resulting in a disclosure document that is read by few retail investors.

If a retail investor endeavored to read Part 2A (regardless of the current *plain english* format), I submit that a small minority would have the ability to understand it, and if that small minority started to read it, even a smaller number would finish reading it. Not to say that institutional investors do not need to receive a disclosure document, but, isn't the primary intended audience the retail investor?

Perhaps the SEC finally got it right. Keep it simple, stupid. The disclosure document now truly can serve as a basis to help the retail client understand the important issues relative to engaging an investment advisor — services, fees, conflicts, and any disciplinary history!

However, with the introduction of Form CRS (also referred as Form ADV Part 3), advisors have yet another regulatory filing to worry about and, naturally, a host of questions about the form itself, timing of the filing, and disclosure requirements.

To understand this new document that advisors will have to provide their retail clients and prospects, I spoke to my partner, Steve Galletto, who provided background. The Form CRS is



intended to provide “succinct information about the relationships and services the firm offers to retail investors, fees and costs that retail investors will pay, specified conflicts of interest and standards of conduct, and disciplinary history, among other things,” he explained.

In short, he said, the form is “designed to reduce retail investor confusion in the marketplace for brokerage and investment advisory services and to assist retail investors with the process of deciding whether to engage, or to continue to engage, a particular firm or financial professional and whether to establish, or to continue to maintain, an investment advisory or brokerage relationship.”

But here's the twist: Steve said that Form CRS is required to be filed not only by investment advisors, but also broker-dealers and dual registrants. The disclosure requirements and overall length of the document will differ depending on the type of registered entity — investment advisor vs. broker-dealer.

As to delivery timing, advisors must deliver Form CRS to new retail investor clients when they enter into a contractual engagement. Delivery to existing clients will depend upon other factors

(i.e., opening of a new account, providing a new service offering, etc.).

Filing windows for the Form CRS will open through the Investment Adviser Registration Depository for advisors and through the Central Registration Depository (Web CRD) for broker-dealers on May 1, 2020. All registered firms generally will be required to file the initial Form CRS by June 30, 2020.

For advisors applying for registration, the SEC has stated that it “will not accept any initial application that does not include a [Form CRS]” on or after June 30, 2020. For BDs in the process of registering with the SEC, the SEC mandates that the Form CRS be filed “no later than the date that [the firm's] registration becomes effective.”

Steve finally advised that although the Form CRS filing likely won't be due until June 30, 2020 for advisors, he encouraged them to begin to review the drafting process.

What is to come of Part 2A? Might Form CRS replace Part 2A as the primary disclosure document, such that the Part 2A can be offered, in the *unlikely* event that the retail client requires additional information not included on Form CRS? Stop dreaming, that would be way too practical. **IA**

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