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Form ADV Part 1A Updates  
**Resolving Frequently Asked Questions**

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**Agenda**


- Provide Background on:
  - New and Revised Questions in Item 1/Section 1 – Identifying Information
    - Office Information
    - Social Media Reporting
  - New and Revised Questions in Item 5/Section 5 – Information about Your Advisory Business
    - “Separately Managed Account” Reporting
      - Calculating Regulatory Assets Under Management
      - Asset Breakdown, Use of Borrowings and Derivatives, and Key Custodians
    - Wrap Fee Program Reporting
  - Custody Reporting and Standing Letters of Authorization

# Item 1 and Section 1 of Schedule D – Identifying Information

- Identifying Information
  - New Section 1.F of Schedule D requires advisers to list their largest twenty-five offices.
    - By employee totals
    - As of year-end
    - Disclose activities conducted at these offices
    - FINRA branch CRD number
  - Item 1.F(5) now requires advisers to disclose their total number of offices at which they conduct investment advisory business.
    - As of year-end
    - Excluding their primary office



- Websites and Social Media Account Disclosures
  - Amended Item 1.I. – “Do you have one or more websites or accounts on publicly available social media platforms (including, but not limited to, Twitter, Facebook and LinkedIn)?”
    - Advisers now required to disclose the address for each social media account
    - SEC Guidance –FAQs - Concept of “Control”
      - Third Party Social Media Site
      - Parent Company
      - Employee Social Media Accounts



- Amendment to Item 5.C.
  - “To approximately how many clients for whom you do not have regulatory assets under management did you provide investment advisory services during your most recently completed fiscal year?”
    - Financial Planning Only Clients
    - Discrete Investment Advice – No RAUM
    - Retirement Plan Consulting Clients

- Amendment to Item 5.D.
  - “Indicate the approximate number of your clients and amount of your total regulatory assets under management (reported in Item 5.F. below) attributable to each of the following type of client.”
  - 14 Categories of Clients
  - Fewer Than Five Client Privacy Protection
  - Definition of RAUM – Form ADV
    - Instruction #5 for Part 1A
    - Continuous and Regular Supervision or Management Services
  - Amount of RAUM attributable to each category

- Additional Information Regarding Wrap-Fee Programs
  - More detailed information requests in Item 5.I
    - Amount of Assets Attributable to Sponsoring a Wrap Fee Program
    - Amount of Assets Attributable to Serving as Portfolio Manager of a Wrap Fee Program
    - Amount of Assets Attributable to Serving as Sponsor and Portfolio Manager of a Wrap Fee Program

- Item 5.G.(3) – “Portfolio management for investment companies (as well as “business development companies” that have made an election pursuant to section 54 of the Investment Company Act of 1940)”
  - An adviser providing these types of services is now required to complete a new question in Section 5.G.(3) of Schedule D
    - “Provide the RAUM of all parallel managed accounts related to a registered investment company (or series thereof) or business development company that you advise.”

## Item 5/Section 5 – Information about “Separately Managed Accounts”

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- **New Defined Term** - Separately Managed Accounts (“SMAs”) - any type of client account that is not itself an Investment Company, Business Development Company, or Pooled Investment Vehicles
- **Old Defined Term** – Regulatory Assets Under Management
- Entirely New Questions in Item 5.K.(1) – (4)
  - (1) Do you have RAUM attributable to SMAs?
    - If yes, complete Section 5.K.(1)
  - (2) Do you engage in **borrowing** transactions on behalf of SMAs you advise?
    - If yes, complete Section 5.K.(2)
      - Interpretive Guidance – FAQs on Form ADV
  - (3) Do you engage in **derivative** transactions on behalf of SMAs you advise?
    - If yes, complete Section 5.K.(2)
      - Interpretive Guidance – Adopting Release
  - (4) Does any custodian hold ten percent or more of your RAUM attributable to SMAs?
    - If yes, complete Section 5.K.(3)

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- **Section 5.K.(1)**
  - **Mid-Year and End of Year Reporting**
    - **> \$10 Billion in RAUM Requires Mid-Year Reporting**
    - **< \$10 Billion in RAUM only End of Year Reporting**
  - **12 Categories of Asset Types**
  - “Some assets could be classified into more than one category or require discretion about which category applies. You may use your **own internal methodologies** and the **conventions of your service providers** in determining how to categorize assets, so long as the methodologies or conventions are **consistently applied** and **consistent with information you report internally and to current and prospective clients**. However, you should not double count assets, and your responses must be consistent with any instructions or other guidance relating to this Section.”

- Section 5.K.(2)
  - Reporting Threshold > \$500 million of SMA assets
    - Must Complete Section (b)
    - Information Requested on **Gross Notional Exposure**, RAUM and Borrowings for SMA Accounts
    - \$10 million account reporting requirement
  - Reporting Threshold for Advisers with > \$10 billion of SMA assets
    - More granular reporting of Derivative Exposure
- Gross Notional Exposure of an account = dollar amount of **borrowings** + the **gross notional value** of derivatives / RAUM of the account
- **Gross Notional Value:** The gross nominal or notional value of all transactions that have been entered into but not yet settled as of the reporting date. For contracts with variable nominal or notional principal amounts, the basis for reporting is the nominal or notional principal amounts as of the reporting date. *For options, use delta adjusted notional value.*
- **Borrowings:** Borrowings include secured borrowings and unsecured borrowings, collectively

# Custody Reporting and Standing Letters of Authorization


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- Definition of Custody
  - Custody means holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them. You have custody if a related person holds, directly or indirectly, client funds or securities, or has any authority to obtain possession of them, in connection with advisory services you provide to clients. Custody includes:
    - ... **(ii) Any arrangement (including a general power of attorney) under which you are authorized or permitted to withdraw client funds or securities maintained with a custodian upon your instruction to the custodian;** and


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- Staff Responses to Questions About the Custody Rule
- Question II.4
- **Q:** Does an adviser have custody if it has authority to transfer client funds or securities between two or more of a client's accounts maintained with the same qualified custodian or different qualified custodians?
- **A:** Under rule 206(4)-2(d)(2)(ii), an adviser has custody if it has the authority to withdraw client assets maintained with a qualified custodian upon the adviser's instruction to the custodian. We do not interpret the authority to withdraw assets to include the limited authority to transfer a client's assets between the client's accounts maintained at one or more qualified custodians if the client has authorized the adviser in writing to make such transfers and a copy of that authorization is provided to the qualified custodians, specifying the client accounts maintained with qualified custodians. **In the staff's view, "specifying" would mean that the written authorization signed by the client and provided to the sending custodian states with particularity the name and account numbers on sending and receiving accounts (including the ABA routing number(s) or name(s) of the receiving custodian) such that the sending custodian has a record that the client has identified the accounts for which the transfer is being effected as belonging to the client. That authorization does not need to be provided to the receiving custodian. Moreover, in the staff's view, an adviser's authority to transfer client assets between the client's accounts at the same qualified custodian or between affiliated qualified custodians that both have access to the sending and receiving account numbers and client account name (e.g., to make first-party journal entries) does not constitute custody and does not require further specification of client accounts in the authorization. (Modified February 21, 2017.)**






- No Action Letter Request on behalf of the Investment Adviser Association (Feb. 21, 2017)
  - Standing Letter of Authorization or asset transfer authorization arrangements established by a client with a qualified custodian
  - Custody, but no requirement to obtain a surprise independent verification if...
  - 7 Conditions (on Following Slide)
  - Form ADV Reporting at Item 9




- The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
- The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
- The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
- The client has the ability to terminate or change the instruction to the client's qualified custodian.
- The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
- **The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.**
- The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.



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# Thank You



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# Questions?