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Form CRS Relationship Summary

On June 5, 2019, The Securities and Exchange Commission (the “SEC” or “Commission”) adopted a new rule requiring advisers to develop and submit a client relationship summary (“Form CRS”). Form CRS, also known as Form ADV Part 3, is intended to provide an overview of the adviser’s “investment related services, fees, and conflicts of interest.”

Form CRS is intended to act as the initial disclosure document, providing concise information to customers about the advisory relationship and services provided by the RIA. The purpose of the form is to eliminate confusion surrounding the distinction between advisory and brokerage services for retail investors. The form is also intended to aid retail investors “decide whether to establish an investment advisory relationship, engage a particular firm or financial professional, or terminate or switch a relationship or specific service.” Firms must establish new processes for drafting, filing and delivering Form CRS to clients.

Form CRS must be filed with the SEC by June 30, 2020.

Every investment adviser registered under Section 203 under the Investment Advisers Act of 1940 that offers services to a retail investor must file Form CRS with the Commission and deliver a copy to each retail investor. The Commission defines a retail investor as “a natural person, or the legal representative of such person, who seeks to receive or receives services primarily for personal, family or household purposes.”¹

Firms that do not have retail investors or offer services to retail investors are not required to prepare, file, or deliver Form CRS. A dual registration that does not offer both brokerage and investment advisory services to retail investors would not fall in the definition of dual registrant for the purpose of Form CRS.

Some of the disclosure obligations under Form ADV Part 2 could be used to build some if not all of the content for Form CRS:

- The firm should ensure consistency between the additional material facts and conflicts disclosed in the Form ADV brochure and the information presented in Form CRS.

Form CRS is structured to contain five items:

I. Introduction

¹ See, Securities and Exchange Commission, *Form CRS Relationship Summary; Amendments to Form ADV, A Small Entity Compliance Guide*, 1 (Sept. 19, 2020), available at <https://www.sec.gov/info/smallbus/secg/form-crs-relationship-summary>.



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- II. Summary of Relationship and Services
- III. Summary of Fees, Costs, Conflicts, and Standard of Conduct;
- IV. Disciplinary History; and
- V. Additional Information

The relationship summary is intended to inform Retail Investors about:

- The types of clients and customer relationships and services the firm offers;
- The fees, costs, conflicts of interest, and required standard of conduct associated with those relationships and services;
- Whether the firm and its financial professionals currently have reportable legal or disciplinary history; and
- How to obtain additional information about the firm.

The relationship summary will also reference [investor.gov/CRS](https://www.investor.gov/CRS), a page on the Commission's investor education website, [Investor.gov](https://www.investor.gov), which offers education information to investors about investment advisers, broker-dealers, and individual financial professionals and other materials.

Retail investors will receive a relationship summary at the beginning of a relationship with a firm, communications of updated information following a material change to the relationship summary, and an updated relationship summary upon certain events. The relationship summary is subject to Commission filing and recordkeeping requirements.



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Form CRS Sections.

Introduction.

- This section should include the following information:
 - firm name;
 - SEC registration status (broker-dealer, registered investment advisers, dual registrant); and
 - an indication that brokerage and advisory services differ and reference to Investor.gov/CRS

Relationship and Services.

- This section acts as a summary of relationships and services offered to retail investors. It should include the following:
 - A description of the firm's brokerage services, investment advisory services, or both (as applicable);
 - the topics of monitoring, investment authority, limited investment offerings, account minimums, and other requirements;
 - cross-references to additional detailed information about the firm's services (e.g., hyperlinks to additional information); and
 - standardized conversation starters related to the firm's brokerage and/or advisory experience and how firms would recommend investments to retail investors in different capacities.

Summary of Fees, Costs, Conflicts, and Standard of Conduct.

- This section is intended to serve as a summary of principal and other fees/costs that retail investors will pay for brokerage or investment advisory services. It should include the following:
 - A description of the firm's legal standard of conduct and summary of the ways in which firms and their affiliates make money from brokerage and/or investment advisory services;
 - Charging frequency of fees and associated conflicts of interest;
 - A short explanation discussing how the firm's financial professionals are compensated and all associated conflicts of interest created by those payments;
 - Cross-references to additional detailed information about the firm's fees (e.g., hyperlinks to additional information); and
 - Standardized conversation starters related to the firm's fees and costs, how conflicts of interest affect their investments and how the firm would address these conflicts.



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Disciplinary History.

- This section is intended to disclose whether the firm and/or its financial professionals have reportable disciplinary histories and references for further research on any listed disciplinary events;
- Refer retail investors to [Investor.gov/CRS](https://www.investor.gov/crs); and
- Standardized conversation starters related to the firm's disciplinary history and the conduct that resulted in such history.

Additional Information.

- Form CRS also must include the following:
 - References to indicate where retail investors can find additional information about the firm's brokerage or investment advisory services and request a copy of the relationship summary;
 - The firm's telephone number where retail investors can request up-to-date information and request a copy of the relationship summary;
 - Standardized conversation starters related to the firm's primary contact person; and
 - The name of the contact person to submit concerns on the treatment provided by the primary contact person.



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Amendments to Form ADV

RIAs are required/must submit the Form CRS as Part 3 of their Form ADV filing. The SEC has provided instructions and FAQs to help RIAs in satisfying the requirements to update the Form ADV and Form CRS (<https://www.sec.gov/about/forms/formadv-instructions.pdf>)

RIAs have the following options to file their Form CRS:

- File an amendment Form CRS as an-other-than-annual amendment within the 30 days required to file the amendment; or
- Submit amended versions of the Form CRS required by Part 3 as part of their annual updating amendment.

RIAs will need to file Part 3 of their Form ADV with the SEC and deliver such documents to retail investors in accordance with Form CRS instructions. Firms will be able to deliver the relationship summary (including updates) within the framework of the Commission's existing guidance regarding electronic delivery. The framework consists of the following elements:

- I. Notice to the investor that information is available electronically;
- II. Access to information comparable to that which would have been provided in paper form and that is not so burdensome that the intended recipients cannot effectively access it; and
- III. Evidence to show delivery, i.e., reason to believe that electronically delivered information will result in the satisfaction of the delivery requirements under the federal securities laws.

Format.

For the initial delivery, a firm would be able to deliver the relationship summary to new or prospective clients or customers in a manner that is consistent with how the retail investor requested information about the firm or financial professional, and that this method of initial delivery for the relationship summary would be consistent with the Commission's electronic delivery guidance.

This approach applies only to the *initial delivery* of the relationship summary to new or prospective clients or customers, and not to any other delivery obligation of any other required disclosure with respect to existing clients or customers, as proposed, firms should deliver the relationship summary in a manner consistent with the firm's existing arrangements with that client or customer and with the Commission's electronic delivery guidance.



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Retail investors can request a copy of the relationship summary in a format they prefer and can establish their delivery preferences with the firm once they have entered into a relationship.

The relationship summary is designed to be delivered when a retail investor selects a firm or financial professional and which service to receive, including updated versions upon certain events when retail investors are again making decisions about whether to invest through an advisory account or a brokerage account.

The relationship summary, delivered electronically, must be presented prominently in the electronic medium and must be easily accessible for retail investors. For example, a firm can use a direct link or provide the relationship in the body of an email or message. Firms must post the current version of the relationship summary prominently on their public website, if they have one.

In a relationship summary that is delivered in paper format, firms may link to additional information by including URL address, QR code, or other means of facilitating access to such information. If a relationship summary is delivered in paper format as part of a package of documents, the firm must ensure that the relationship summary is the first among any document that are delivered at that time.² All firms must make a copy of the relationship summary available on request without charge. Firms are not required to make the relationship summary available in paper format.

The relationship summary in paper format must not exceed two pages, or the equivalent in electronic format. Dual registrants may choose to prepare a single relationship summary having up to four pages for both their brokerage and advisory services.

Initial Delivery.

An investment adviser registered with the SEC is required to deliver a relationship summary to each retail investor before or at the time the firm enters into an investment advisory contract, even if the agreement is oral.

Broker-Dealers are required to deliver the relationship summary to each retail investor before or at the earliest of:

- i. A recommendation of an account type, a securities transaction, or an investment strategy involving securities transaction, or an investment strategy involving securities;

² General Instruction 10.D. to Form CRS. "If the relationship summary is delivered on paper and not as a standalone document, you must ensure that the relationship summary is the first among any documents that are delivered at that time."



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- ii. Placing an order for the retail investor; or
- iii. The opening of a brokerage account for the retail investor.

After an initial delivery of the relationship summary to exiting clients and customers who are retail investors, firms will be required to deliver the most recent version of the relationship summary to a retail investor if they:

- i. Open a new account that is different from the retail investor's existing account(s);
- ii. Recommend that the retail investor roll over assets from a retirement account into a new or existing account into a new or existing account or investment; or
- iii. 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.

A firm must deliver the relationship summary when opening any new account that is different from the retail investor's existing account(s). Firms are required to deliver a relationship summary to existing clients and customers when recommending that the retail investor roll over assets from a retirement account, or recommending or providing 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.

Updating.

Firms are required to update the relationship summary within 30 days whenever the relationship summary becomes materially inaccurate. Firms also must post the latest version on their website (if they have one), and electronically file the relationship summary with the Commission.

Firms must, without charge to the retail investor, communicate updated information by delivering the amended relationship summary or by communicating the information through another disclosure, disclosure which must be delivered to the retail investor. Firms must highlight the changes in an amended relationship summary by, for example, marking the revised text or including a summary of material changes. Generally, firms must deliver the Form CRS to clients in the following instances:

- Any time the firm opens a new account that is different from the client's existing account(s);



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- When the firm recommends that the client roll over assets from a retirement account into a new or existing account or investment;
- When the firm recommends or provides a new 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;
- Within 30 days of a client's request to receive Form CRS; or
- Within 60 days of making a material amendment to Form CRS.

Conflicts and Cross References.

One of the goals of Form CRS is to plainly disclose to retail investors conflicts of interest associated with the firm's fees and compensation arrangements with the firm's representatives. Firms should consider conflicts related to the specific types of fees such as asset-based fees, performance fees, wraps fees, flat fees, incentive-based compensation as well as compensation the firm may receive from the sale of proprietary products, revenue-sharing arrangements, principal trading, or third parties in connection with the sale of certain products.

Form CRS also requires advisers to disclose any conflicts associated with the compensation structures of their representatives. Specifically, adviser must disclose if their representatives are receiving compensation based on the amount of client assets under management, products sold, and commissions.

The principal fees for the brokerage and/or investment advisory services should align with the type of fees reported in the firm's response to Form ADV Part 1A, Item 5.E. The firm must also make sure to disclose any other fees and/or costs related to the firm's brokerage or advisory services in addition to the firm's principal fees and costs that the retail investor will pay directly or indirectly. The contents of Form CRS echo those of ADV Parts 1 and 2. In the instance that the disclosures are redundant, advisers will cross reference Form ADV in Form CRS, for more detailed information about the firm's fees, services, and conflicts of interest. Firms should ensure that their Form ADV brochures are accurate, complete, and consistent with the contents of Form CRS. Cross references to the Form ADV brochures may be made via hyperlink, in text citations, or other electronic means. In the event that a firm must provide a hard copy of Form CRS, any URLs must be spelled out to facilitate access to the referenced material.

Conversation Starters.

Standalone investment advisers must include prescribed conversation starters in their Form CRS. The conversation starters are designed to help facilitate a discussion between current and prospective retail investors and the adviser. Firms are not required to prepare written responses to the conversation starters.