

SEC Launches Online Investment Adviser Database

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The SEC and an association of state securities administrators have formally introduced a Web-based depository of information on investment advisory firms, ushering in a new phase of the digital age for both advisers and investors. The new system will enable the firms, which manage more than \$18 trillion in assets, and the individuals who represent them to satisfy federal and state registration and notice requirements with one electronic filing and give investors convenient access—free of charge—to detailed information on the advisers' services, fees and disciplinary records. Investment advisers also will be able to pay state filing fees online by approving debits from accounts they set up and fund for that purpose.

Phyllis J. Bernstein, director of the AICPA personal financial planning division, said, "The efficiencies of electronic filing will help ease the regulatory burden on advisers, who eventually will be able to do all their filings through their office computers."

The SEC said investment advisers will be able to register themselves and update their information via the new system by early 2001, but their employees will not be able to apply for or renew registrations online until later in the year.

Although the National Association of Securities Dealers Regulation, Inc., will operate and maintain the system, it will not have a policy-making role.

The SEC also is introducing a revised version of form ADV, which investment advisers use to register their firms and their employees with the SEC or with state securities authorities or to amend such registrations.

A pilot implementation of the system, known as the Investment Adviser Registration Depository (IARD), ended November 3. More than 100 investment advisory firms of all sizes participated in the pilot program.

In September the SEC approved rules and amendments that require most of the approximately 8,000 investment advisory firms registered with it to use the IARD to submit any filings they make after April 2001, as follows:

- Advisers managing more than \$25 million in assets are required to register with the SEC.
- Advisers managing less than \$25 million in assets must register with the securities regulator in the state where their principal office is located. (They are not permitted to register with the SEC.)
- All advisers in Wyoming, regardless of the asset amount they manage, must register with the SEC because the state has no securities regulator.

State-registered advisers will be limited to paper-based registration until their respective states implement the IARD program.

After January 1, 2001, advisers who wish to register with the SEC must submit their applications (part 1 of form ADV) electronically through the IARD. Currently registered advisers who want to amend their registrations will be required, through an incremental schedule, to make the transition to electronic filing during the first four months of 2001. Limited hardship exemptions from this requirement are available to advisers who qualify.

Advisory firms may encounter a variety of hurdles in gearing up for IARD use. However, the SEC said it would grant a “temporary hardship exemption,” extending the registration deadline for seven business days, to anyone who requests one because of computer malfunctions or other unexpected difficulties that hinder use of the IARD.

But a “continuing hardship exemption” is available only to what the SEC refers to as a “small business.” In addition, the SEC will grant such an exemption only to an investment adviser who can demonstrate filing electronically would constitute an undue hardship because, for example, he or she does not have a computer and cannot afford to use a filing service.

The roughly 12,000 state-registered advisers will not be able to make the transition to electronic filing until state officials pass regulations to implement the IARD. In the meantime, the system is generating enthusiasm.

Marc Beauchamp, executive director of the North American Securities Administrators Association, said his organization and its members are “very bullish” on the IARD. The NASAA represents state securities agencies and collaborated with the SEC to establish the new system. “We expect that by early in 2001 the majority of states will pass rules or legislation supporting the IARD,” he added.

Although advisers, investors and regulators gave the IARD a warm reception, the SEC’s proposed revisions to form ADV received mixed reviews. Several people commented that the requirement for public access to personal information raised privacy issues.

The SEC made final the revisions to form ADV's part 1, which requests information about investment advisory firms, the individual advisers they employ and their disciplinary history, as well as other data, where applicable, required by state regulators. The revisions facilitate electronic filing and conform to new laws affecting investment advisers.

The SEC also had proposed revisions to part 2 of the form, which specifies the information advisers must include in a brochure to clients about their business practices, fees and possible conflicts of interests. But objections from many advisers, who believe the proposed form's questions are intrusive, onerous and not beneficial to investors, have persuaded the SEC to indefinitely defer adoption of its proposed amendments to part 2.

SEC-registered advisers no longer have to file part 2 with the SEC but instead must keep a copy of it in their files and distribute it to new clients and offer it annually to all clients. Whenever part 2 information becomes materially inaccurate, they are required to update it and offer it to their clients.

Advisers who register with their state authority, however, must continue to file part 2 with the state, regardless of whether they file part 1 on paper or electronically through the IARD.

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