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WAYS FIRMS ARE FAILING ON FORM CRS

We're a year and a half since the Regulation Best Interest rule went into effect and the industry is struggling to fully comply with the new standards.

According to a December 2021 statement from the Securities and Exchange Commission (SEC), wealth management and RIA firms are failing to meet Reg BI/Form CRS standards in several ways.

01

USE OF TECHNICAL LANGUAGE, INCLUDING DISCLAIMERS

SEC staff observed some relationship summaries that included disclaimers and hedging language (often placed in footnotes using small text and, in some cases, legal jargon) that are neither required nor permitted. Relationship summaries must be concise and direct, using plain English and taking into consideration retail investors' level of financial experience.



02

OMISSION OF REQUIRED INFORMATION

Some relationship summaries omitted required disclosures, such as headers, prescribed language, or conversation starters related to conflicts of interest, investment authority, monitoring services, and disciplinary history. Firms must generally include all required headings, conversation starters and prescribed language.



03

RELIANCE ON PROPOSED, RATHER THAN FINAL INSTRUCTIONS

Reliance on the proposed, rather than final instructions, creates differences that undermine the intended transparency, consistency, and comparability of information across the relationship summaries of different firms. Firms should confirm that the disclosures in their relationship summaries comply with the adopted instructions to Form CRS.



04

LACK OF SPECIFIC REFERENCES TO MORE DETAILED INFORMATION

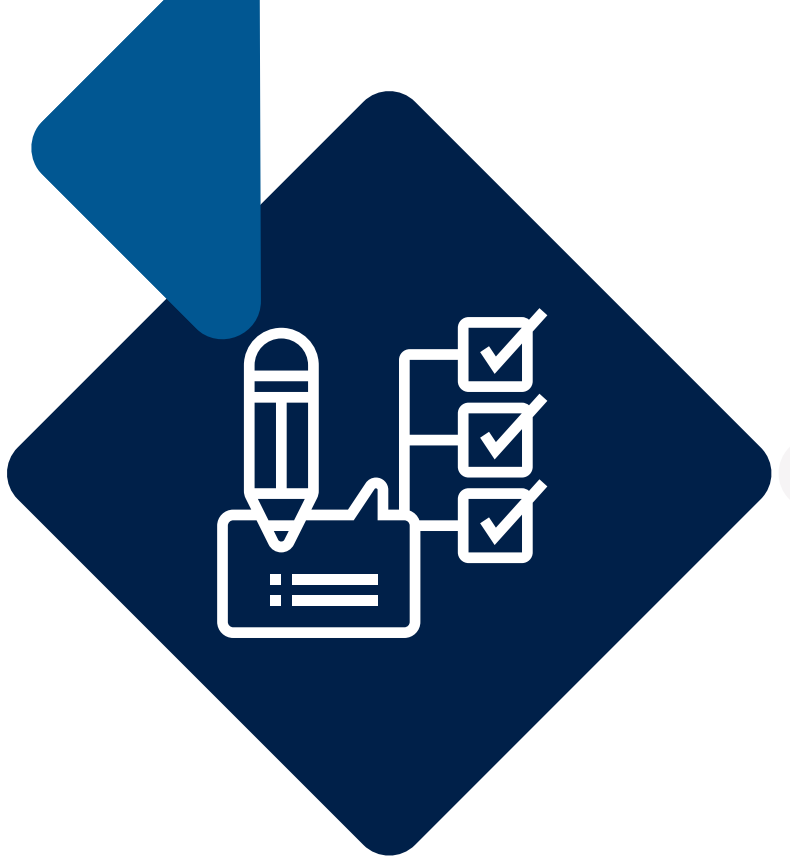
Firms must include specific references to more detailed information in the relationship summary sections describing the firm's services, fees and costs, and conflicts of interests. This allows firms to summarize this information while making available more detailed information for retail investors through layered disclosure.



05

SHORTCOMINGS IN DESCRIPTIONS OF RELATIONSHIPS & SERVICES; FEES, COSTS, CONFLICTS, & STANDARD OF CONDUCT

Firms are not permitted to include disclosures in their relationship summaries other than the disclosures that are required or permitted by the form's instructions and the applicable item. Also, all information in a relationship summary must be true and may not omit any material facts necessary in order to make the required disclosures, in light of the circumstances under which they were made, not misleading.



06

MODIFICATION AND/OR SUPPLEMENTATION OF THE DISCIPLINARY HISTORY DISCLOSURE

In some relationship summaries, firms omitted or modified the heading or the conversation starters and/or provided extraneous language explaining their response (beyond the permissible yes or no response). The form's instructions do not require or permit these omissions or modifications.



07

ISSUES WITH PROMINENTLY DISPLAYING RELATIONSHIP SUMMARY ON FIRM WEBSITE

In some cases, SEC examiners were unable to locate a relationship summary on the firm's website or was able to locate the relationship summary only after an extensive search of the firm's website. This undermines the goal of providing retail investors with ready access to the information as early as possible when deciding whether to engage the services of a firm or financial professional.



08

ISSUES WITH DESCRIPTION OF AFFILIATE RELATIONSHIPS

WM and RIA firms who have a single relationship summary must present the brokerage and investment advisory information with equal prominence, and clearly distinguish and facilitate comparison of the two types of services. Failure to do so undermines the ability of retail investors to learn about and compare the range of options available to them.



09

POOR DESIGN

The SEC expects firms to use white space and other design features, such as conversation starters and headers, to make the Form CRS more readable. Specifically, the SEC encourages firms to use charts, graphs, tables, and other graphics or text features to explain or compare different aspects of firms' offerings.



10

USE OF MARKETING LANGUAGE

SEC staff reviewed some relationship summaries that included marketing language, touted firms' abilities, or used superlatives or similar descriptors. Relationship summaries must be factual, balanced descriptions to help retail investors evaluate the firms' services.

11

BOILERPLATE

Firms aren't tailoring the services, fees, relationships or conflicts of the firm. Using boilerplate phrasing, such as "may have a particular conflict, undermines the regulation's goal of "highlighting the presence of conflicts and helping retail investors understand the incentives they create."

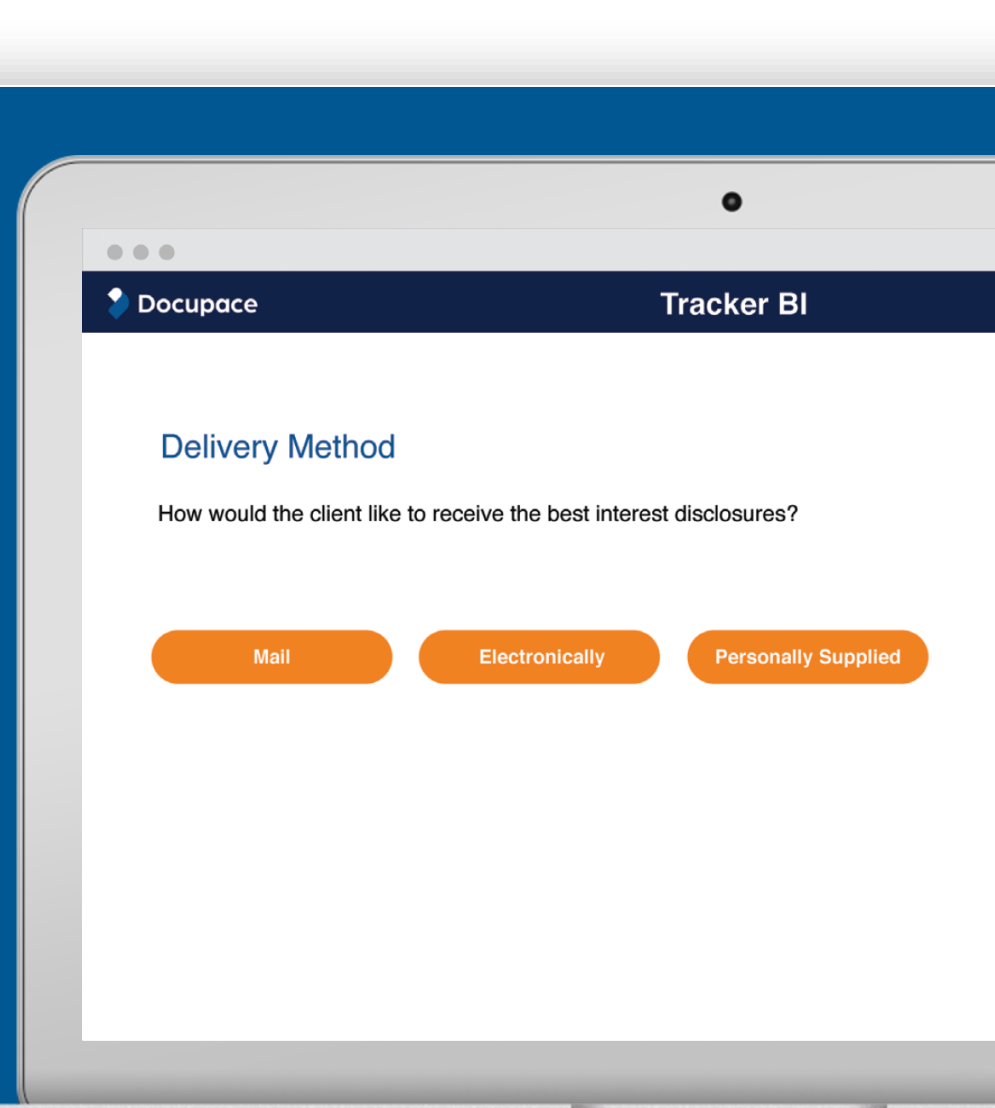


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FIRMS ARE NOT USING DOCUPACE

Docupace Streamlines Managing Reg BI Compliance for your Entire Firm.

With a centralized and secured cloud-based platform for managing digital operations, broker-dealers, RIAs, and advisors can simplify Reg BI compliance requirements with electronic delivery, workflow automation, compliant storage, digital experience, and acknowledgment capabilities.



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- Send Form CRS and disclosures electronically
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- Complies with SEC mandated requirements
- Full audit trail and reporting capabilities
- Auto-mail disclosures if investor does not view electronically
- Auditability with timestamped flag that the disclosures were delivered
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- Transform Form CRS from a few sheets of paper into a true digital workflow
- Enable advisors to easily capture information about the investor
- Automatic audit trail of digital delivery of the forms

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