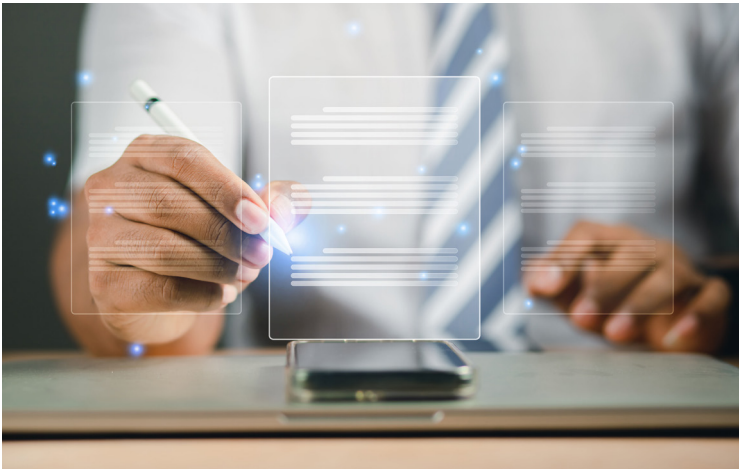


Are You an Informed Investor?

Investment Professional Disclosure Forms: What Should Investors Look For?



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Investment professionals in the United States and Canada are required to provide important documents to their customers and clients so that the public has access to material information about the professionals' backgrounds. Different categories of financial professionals have different disclosure requirements, but investors should pay careful attention to every document that they receive regardless of who they consider working with.

Who Sells Securities and Who Offers Advice About Them?

In the United States, broker-dealers and broker-dealer agents buy and sell securities on behalf of their customers. Broker-dealers and their agents may make recommendations about what securities their customers should trade, but they must make recommendations that are in their customers' best interests. Investment advisers and investment adviser representatives provide advice to their clients about what securities they should buy, sell, or hold within their accounts. Investment advisers and investment adviser representatives are fiduciaries who owe their clients heightened duties of care and loyalty, including a duty to make

investment recommendations in their clients' best interests. Broker-dealers, broker-dealer agents, investment advisers and investment adviser representatives must register with federal and/or state securities regulators in order to lawfully conduct business.

Canadian securities regulators also require financial firms and professionals to register to provide services. Registration categories include investment dealers that sell a broad range of investment products, mutual fund dealers that sell only mutual funds, other dealer types specific to education accounts, exempt market products, and others that may not neatly fit within another category. Portfolio managers provide advice to investment portfolios and buy and sell securities for

their investors, while investment fund managers manage funds. Individuals employed by these firms and providing services to Canadian investors must also be registered.

In the United States, information about registered firms and professionals is available for free online at BrokerCheck¹ and the Investment Adviser Public Disclosure (IAPD).² In Canada, this information is free and available online at National Registration Search.³ The Canadian Securities Administrators also identify individuals and firms that have faced disciplinary action—

1 See <https://brokercheck.finra.org/>.

2 See www.adviserinfo.sec.gov.

3 See <https://info.securities-administrators.ca/nrsmobile/nrssearch.aspx>.

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To learn more, contact the **Department of Financial Institutions:**
500 Mero St., 2SW19, Frankfort, KY 40601 | (800) 223-2579 | KFI.ky.gov



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the Disciplined List—through the SEDAR system.⁴

Some professionals may call themselves “financial advisors” or other similar titles. Investors should know that this is not a defined term under securities laws in the United States or Canada. A savvy consumer will clarify whether the person offering “financial advisory” services is registered to provide brokerage or advisory services, and in what capacity. Different registration categories carry different implications for investors, including the duty of care owed by the financial professional.

What Documents Should I Expect?

In the United States, broker-dealers register with regulatory authorities by filing a “Form BD” and a “Customer Relationship Summary” or “Form CRS”. The Form CRS is intended to provide a brief summary of the broker-dealer’s business and its customer relationships in no more than a few pages. It should disclose services offered, fees and costs of investing, conflicts of interest and how those conflicts are eliminated or mitigated, required standards of conduct for the firm and its employees, whether the firm or its

agents have any disciplinary history, and how to find more information out about the firm.

Investment advisers in the United States must be registered either with the United States Securities and Exchange Commission (“SEC”) or with the states where they provide services. All investment advisers must provide clients and prospective clients with their “Form ADV Part 2” or their “brochure” which comes in two parts, Part 2A and Part 2B. The Part 2A Brochure describes important information about the investment adviser firm, while the Part 2B describes the firm’s investment adviser representatives (“IARs”). These brochures describe the services provided, the fees and compensation, methods of analysis, investment strategies and risks, disciplinary information for the firm and its IARs, code of ethics, brokerage practices, and more. SEC-registered investment advisers must also provide a Form CRS to investors, which is known as Form ADV Part 3 (though most state-registered investment advisers are not required to provide an ADV Part 3).⁵ These brochures provide valuable information for investors and should be read carefully.

⁵ Rhode Island requires state-registered investment advisers to provide the Form CRS, also known as Form ADV Part 3.

In Canada, dealers and managers must provide customers with information about their services and the associated risks, costs, and benefits. Canadian investors should expect their financial professional to gather information to complete a “Know Your Client” form that they are required to make and keep updated. It’s also helpful for investors to make sure that they get in writing what services will be provided and at what cost, along with detailed disclosure of conflicts of interest.

What Should You Look for in Disclosure Documents?

- ▶ **What services do they offer and how will you pay?** It’s important to review the disclosure documents provided by investment professionals because they give you a better understanding of how their services could benefit you and your financial situation. It also helps you understand how you will be charged for those services, and whether they are worth it to you.
- ▶ **Have they had regulatory or customer complaint issues?** It’s relevant for investors to know if the firm or its employees have violated regulatory obligations

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⁴ See <https://bit.ly/3yQ55Wf>.

or caused harm to investors that resulted in complaints. Past results do not always guarantee future performance, but it does give investors a better idea of who they are considering hiring to handle their life's savings.

- ▶ **Do their methods, strategies, and risk assessments line up with yours?** Different financial professionals have different ways of approaching the markets in the same way that different investors may view the world and its risks differently. Making sure that the firm or individual you're considering hiring has views that suit your investing needs is important. Your parents' investment professional might be wonderful for them and their needs but may not line up with what you and your circumstances require. One size does not fit all and asking questions is important.

How to Protect Yourself When Hiring an Investment Professional

- ▶ **Are they registered? If so, with whom?** Check legitimate registration sources and contact your state or provincial securities regulator to ensure

you're investing with someone authorized to engage in the activity.

- ▶ **Review disciplinary histories.** In the United States, research investment professionals on BrokerCheck or IAPD to verify their bona fides. In Canada, investors can review information about investment professionals through the National Registration Search and the Disciplined List.
- ▶ **Do independent research.** Prepare before you meet with a professional and bring relevant questions to understand their business and whether it is a good fit for your investing needs. The SEC Office of Investor Education and Advocacy has a comprehensive list of questions you can ask a financial professional.⁶ With some preparation, you can come up with more on your own, too!
- ▶ **Don't skip the disclosures.** It is tempting to treat these documents as "boilerplate" and skip them over. Don't! These disclosures are required because they provide important

⁶ See <https://bit.ly/3MhiGZM>.

information for investors to make informed decisions. It can be costly to find out too late that the fees and services provided weren't right for your investing needs!

- ▶ **Remember to read it!** Carefully read everything that a financial professional provides you and be prepared to ask questions. The documents that brokers and advisers are required to provide you come with a wealth of information to help you make an informed investment decision!

Bottom Line

Be independently prepared to ask questions and understand the differences between financial professionals before you agree to hire one. Read everything the financial firm or professional gives you and focus on how their services will affect your financial future, including how much those services will cost. Contact your state or provincial securities regulator for resources to understand how to research investment professionals where you live.