

## Form CRS Relationship Summary<sup>1</sup>

### **I. General Requirements**

- A. Registered broker-dealers (BDs) and registered investment advisers (IAs) will be required to provide a client or customer relationship summary ("Form CRS") to retail investors to inform them about:
1. The type of client and customer relationships and services the firm offers;
  2. The fees, costs, conflicts of interest, and required standard of conduct associated with those relationships and services;
  3. Whether the firm and its financial professionals currently have reportable legal or disciplinary history; and
  4. How to obtain additional information about the firm.

A firm's Form CRS must also include a link to the SEC's investor education page at [investor.gov/crs](https://investor.gov/crs).

- B. Form CRS will have to be provided at the beginning of the relationship with a firm, and updates will be required when there are material changes to the relationship or certain specified events occur.
- C. "Retail investor" is defined for purposes of Form CRS as "a natural person, or the legal representative of such natural person, who seeks to receive or receives services primarily for personal, family, or household purposes."
1. "Legal representative" means only a non-professional legal representative or trustee who represents the assets of a natural person, such as an executor, a conservator, or a person holding a power of attorney for a natural person.
    - a. Non-professional legal representatives would not include regulated financial professionals retained to exercise independent professional judgment.
  2. The definitions of "retail investor" in Form CRS and "retail customer" in Reg BI are similar but not identical. The Form CRS definition is intentionally broader in order to cover natural persons who are seeking services.
  3. Unlike FINRA rules, Form CRS does not include a net worth test to determine whether an individual is a retail investor or a commercial/institutional investor.
  4. Retirement savings are a personal, household, or family purpose, and therefore, a natural person seeking brokerage or advisory services for a retirement account (e.g., 401(k) plans, IRAs, and other tax-favored plans) are treated as retail investors for purposes of Form CRS.
    - a. Ordinary retirement plan elections that do not involve an IA or BD, such as the following, would not trigger a Form CRS delivery requirement:
      - (i) Enrollment in a workplace retirement plan

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<sup>1</sup> Resource: *Form CRS Relationship Summary; Amendments to Form ADV* <https://www.sec.gov/rules/final/2019/34-86032.pdf>

- (ii) Making or increasing plan contributions
  - (iii) Allocating contributions and plan account balances among different plans
- b. When the plan representative is a sole proprietor or other self-employed individual who will also participate in the plan, the plan representative is treated as a retail investor for purposes of Form CRS.

## **II. General Rules for Preparation of Form CRS**

### **A. Restrictions**

1. Firms are not permitted to use multiple negatives, legal jargon, or highly technical business terms without clearly explaining those terms.
2. The summary should be concise and direct, using plain English that takes into consideration a typical retail investor's lack of financial experience.
3. Firms may not include a disclosure in the relationship summary other than a disclosure that is required or permitted by the instructions.
4. The information contained in the relationship summary may not omit any material facts necessary in order to make the disclosures, in light of the circumstances under which they were made (considering the summary nature of the disclosure, the page limit requirement, and the presence of hyperlinks), not misleading.
5. Firms may not include exaggerated or unsubstantiated claims, vague and imprecise explanations, or disproportionate emphasis on possible investments or activities that are not made available to retail investors.

### **B. Electronic Formatting and Layered Disclosure**

1. Form CRS encourages the use of graphical and electronic formatting, as well as the use of layered disclosures through hyperlinks, as long as what is linked is not just an extension of the form itself (i.e., Part 2 of Form CRS).

### **C. Conversation Starters**

1. Form CRS must include suggested follow-up questions for retail investors to ask their financial professional. These questions must be integrated throughout the Form CRS as either section headings or as "conversation starters."
2. IAs or BDs that provide only automated services or online-only services must include a section on their website that answers each of the conversation starter questions and must include a link to the Form CRS. If a financial professional is available to discuss the firm's services, they must also be available to discuss the conversation starters.

### **D. CRS Forms for Dual Registrants**

1. Dual registrants are permitted to provide to separate CRS forms—one for IA services and the other for BD services—but they are encouraged to provide one combined relationship summary that would be limited to four pages rather than two.

2. However, whether the dual registrant provides one combined form or two, they must provide disclosures for both services at the same time and with equal prominence to each retail investor.
3. For purposes of Form CRS, “dual registrants” includes only firms that offer both BD and IA services to retail investors. Firms that provide both types of services but make one type available only to institutional clients are not treated as “dual registrants.”
4. Affiliated standalone firms may prepare a single combined relationship summary.
5. The availability of insurance, banking or retirement services may be explicitly referenced on a Form CRS so long as that information does not obscure the required disclosures.

### III. Required Content

#### A. Relationships and Services

1. **Required Heading:** “What investment services and advice can you provide me?”
2. **Description of Services:** State whether the firm offers IA services, BD services, or both to retail investors, and summarize the principal services, accounts, or investments the firm makes available to retail investors, including any material limitations to those services.
  - a. For BDs, this means including buying and selling securities, and whether they offer recommendations to retail investors, to distinguish from execution-only services.
  - b. Must address the following topics:
    - i. *Monitoring:* Whether it is being done, the frequency, any material limitations, and whether the monitoring services are part of the firm’s standard services. This pertains to monitoring services in general, not limited to monitoring for account performance.
    - ii. *Investment authority:* Firms that accept discretionary authority must describe those services and any material limitations. BDs may, not are not required to, state whether they accept limited discretionary authority. Firms that offer non-discretionary services must explain that the retail investor makes the ultimate decision regarding purchase or sale of investments.
    - iii. *Limited investment offerings:* Firms must disclose whether they make available or offer advice only with respect to proprietary products or a limited menu of products and must also explain how the products are limited.
    - iv. *Account minimums and other requirements:* Firms must explain whether they have any requirements for retail investors to open or maintain an account or establish a relationship, such as a minimum account size or investment amount.
  - c. Firms may, but are not required to, describe the frequency and method of their regular communications with retail investors.

3. **Additional Information:** Provide specific references to more detailed information about the firm's services, including, at a minimum, the same or equivalent information to that required by Form ADV, Part 2A brochure (Items 4 and 7 of Part 2A or Item 4.A and 5 of Part 2A Appendix 1) and Reg BI.

4. **Conversation Starters:**

- a. For BDs that are not dual registrants: "Given my financial situation, should I choose a brokerage service? Why or why not?"
- b. For IAs that are not dual registrants: "Given my financial situation, should I choose an investment advisory service? Why or why not?"
- c. For dual registrants: "Given my financial situation, should I choose an investment advisory service? Should I choose a brokerage service? Should I choose both types of services? Why or why not?"
- d. For ALL FIRMS:
  - i. "How will you choose investments to recommend to me?"
  - ii. "What is your relevant experience, including your licenses, education, and other qualifications? What do those qualifications mean?"

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

1. *Fees and Costs*

- a. **Required Heading:** "What fees will I pay?"
- b. **Description of Principal Fees and Costs:** Summarize the principal fees and costs that retail investors incur with respect to their brokerage and investment advisory accounts, and the conflicts they create.
- c. **Description of Other Fees and Costs:** Summarize all other fees and costs the retail investor will pay directly or indirectly, such as custodian fees, account maintenance fees, fees related to mutual funds and variable annuities, and other transactional fees and product-level fees.
  - i. State the following: "You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investment over time. Please make sure you understand what fees and costs you are paying."
  - ii. The firm's full fee schedule does not have to be included but must be cross-referenced.
  - iii. Provide a cross-reference to the information required by Form ADV Part 2A Items 5A, 5B, 5C, and 5D and Reg BI.
- d. **Conversation Starter:** "Help me understand how these fees and costs might affect my investments. If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?"

## 2. Legal Obligations

### a. **Required Heading:** Required headings for each firm type:

- i. For BDs: “What are your legal obligations to me when providing recommendations? How else does your firm make money and what conflicts of interest do you have?” (firm-level conflicts)
- ii. For IAs: “What are your legal obligations to me when acting as my investment adviser? How else does your firm make money and what conflicts of interest do you have?” (firm-level conflicts)
- iii. For dual registrants: “What are your legal obligations to me when providing recommendations as my broker-dealer or when acting as my investment adviser? How else does your firm make money and what conflicts of interest do you have?” (firm-level conflicts)

### b. **Standard of Conduct:** Describe their legal standard of conduct using the following prescribed wording:

- i. For BDs that provide recommendations subject to Reg BI (emphasis required):

*“When we provide you with a recommendation, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the recommendations we provide you. Here are some examples to help you understand what this means.”*

- ii. For BDs that do not provide recommendations subject to Reg BI (emphasis required):

*“We do not provide recommendations. The way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the services we provide you. Here are some examples to help you understand what this means.”*

- iii. For IAs (emphasis required):

*“When we act as your investment adviser, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the investment advice we provide you. Here are some examples to help you understand what this means.”*

- iv. For dual registrants that prepare a single Form CRS and provide recommendations subject to Reg BI as a BD (emphasis required):

*“When we provide you with a recommendation as your broker-dealer or act as your investment adviser, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the recommendations and investment advice we provide you. Here are some examples to help you understand what this means.”*

- v. For dual registrants that prepare a single Form CRS and do not provide recommendations subject to Reg BI as a BD (emphasis required):

*“We do not provide recommendations as your broker-dealer. When we act as your investment adviser, we have to act in your best interest and not put our interests ahead of yours. At the same time, the way we make money creates some conflicts with your interest. You should understand and ask us about these conflicts because they can affect the services and investment advice we provide you. Here are some examples to help you understand what this means.”*

- vi. For dual registrants that do not prepare a single Form CRS: Follow the applicable instructions for BDs and IAs when preparing the Form CRS for their BD and IA services, respectively.

- c. **Examples of Ways You Make Money and Conflicts of Interest**: Summarize how firms and their affiliates make money from BD or IA services and investments offered to retail investors. At least one material conflict affecting retail investors must be described, such as the following:

- i. Proprietary Products: Investments that are issued, sponsored, or managed by a firm or its affiliates
- ii. Third-Party Payments: Compensation received from third parties when a firm recommends or sells certain investments
- iii. Revenue Sharing: Investments where the manager or sponsor of those investments or another third party (such as an intermediary) shares with the firm revenue it earns on those investments
- iv. Principal Trading: Investments the firm buys from a retail investor, and/or investments the firm sells to a retail investor, for or from the firm’s own accounts, respectively

Firms must also provide cross-references to more detailed information about their conflicts that, at a minimum, meets the requirements of Form ADV, Part 2A and/or Reg BI.

- d. **Conversation Starter**: “How might your conflicts of interest affect me, and how will you address them?”

### 3. *Financial Professional Compensation*

- a. **Required Heading:** “How do your financial professionals make money?”
- b. **Description of How Financial Professionals Make Money:** Summarize how the firm’s financial professionals are compensated, including both cash and non-cash compensation.
  - i. Explain whether compensation is based on factors such as the amount of client assets they service, the time and complexity required to meet a client’s needs, the product sold (*i.e.*, differential compensation), product sales commissions, or revenue the firm earns from the financial professional’s advisory services or recommendations.
  - ii. This section is intended to distinguish financial-professional-level conflicts from firm-level conflicts, which can have different implications for retail investors.

### C. Disciplinary History

1. **Required Heading:** “Do you or your financial professionals have legal or disciplinary history?”
  - a. Firms will be required to explicitly answer either “Yes” or “No.”
  - b. State “Yes” if the firm or any of its financial professionals currently disclose, or are required to disclose, the following information:
    - i. For IAs: Disciplinary history on Form ADV (Item 11 of Part 1A or Item 9 of Part 2A)
    - ii. For BDs: Legal or disciplinary history on Form BD (Items 11A-K) (except to the extent that such information is not released to BrokerCheck pursuant to FINRA Rule 8312)
    - iii. For all financial professionals: Disclosures in Items 14 A–M on Form U4 (Uniform Application for Securities Industry Registration or Transfer), or in Items 7A or 7C–F of Form U5 (Uniform Termination Notice for Securities Industry Registration), or on Form U6 (Uniform Disciplinary Action Reporting Form) (except to the extent such information is not released to BrokerCheck, pursuant to FINRA Rule 8312).
  - c. State “No” if none of the above apply.
2. **Search tool:** Provide a link to [investor.gov/crs](https://investor.gov/crs), where retail investors can conduct more research on financial professionals.
3. **Conversation starter:** “As a financial professional, do you have any disciplinary history? For what type of conduct?” (This is designed to distinguish the financial professional’s disciplinary history, or lack thereof, from the firm’s.)

#### D. Additional Information

1. State where retail investors can find additional information about their brokerage or investment advisory services.
  - a. Firms are encouraged to use layered disclosure through the use of hyperlinks, QR codes, and other means of facilitating access to additional information.
2. Provide a telephone number where retail investors can request up-to-date information and request a copy of the relationship summary
  - a. The telephone number does not have to be toll-free.
3. **Conversation starter:** *“Who is my primary contact person? Is he or she a representative of an investment adviser or a broker-dealer? Who can I talk to if I have concerns about how this person is treating me?”*

#### IV. Filing, Delivery, and Updating Requirements

##### A. Firms will be required to:

1. File copies of their Form CRS with the Commission.
2. Update their Form CRS when the information becomes materially inaccurate.
3. Communicate any changes to their Form CRS to retail investors who are existing clients or customers.

##### B. Initial Delivery Obligation

1. **For BDs:** Deliver the Form CRS before or at the earliest of:
  - a. A recommendation of an account type, a securities transaction, or an investment strategy involving securities;
  - b. Placing an order for the retail investor; or
  - c. Opening a brokerage account for the retail investor.
2. **For IAs:** Deliver the Form CRS before or at the time the firm and the retail investor enter into an investment advisory contract, even if the agreement is oral.
3. **For dual registrants:** Deliver the Form CRS at the earlier of the delivery triggers for BDs and IAs.
4. The following are not considered to be “offering services to a retail investor” and therefore would not be required to offer a Form CRS:
  - a. Clearing and carrying broker-dealers
  - b. BDs serving solely as a principal underwriter to a mutual fund, variable annuity, or variable life insurance contract issuer.
5. Firms are encouraged to deliver the Form CRS at the first possible opportunity, which may be the initial point of contact, even for prospective clients.



### C. Subsequent Delivery Obligations

1. Firms will also deliver the Form CRS to existing retail investors:
  - a. Before or at the time firms open a new account that is different from the retail investor's existing account
  - b. When they recommend that the retail investor roll over assets from a retirement account
  - c. When they recommend or provide a new service or investment outside of a formal account (e.g. variable annuities).
2. Firms must deliver the Form CRS to a retail investor within 30 days upon the retail investor's request.

### D. Updates

1. Firms are required to update the Form CRS within 30 days of the information becoming materially inaccurate. Website links must be updated and the amended Form CRS must be filed with the SEC.
  - a. The information in an amended Form CRS must be communicated to retail investors within 60 days after the updates are required to be made.
  - b. Updated information may also be communicated through another disclosure document delivered to the retail investor (other than the Form CRS).
2. When a firm is required to provide an updated Form CRS to existing clients, the firm must also highlight the most recent changes by marking the revised text in some way or including a summary of material changes.
3. The summary or marked copy must be filed along with the unmarked amended relationship summary.
  - a. The summary or marked copy would not count towards the applicable page limit.

### E. Technical Filing Requirements

1. Firms must file the Form CRS in a text-searchable format, and the headings must be machine-readable.
2. BDs must file using Web CRD to file Form CRS.
3. Dual registrants will be required to file using both IARD and Web CRD.

### F. Form of Delivery

1. Firms will be able to deliver the Form CRS and amendments or updates within the framework of the SEC's existing electronic delivery guidance. The framework consists of the following:
  - a. Notice to the investor that information is available electronically

- b. 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
  - c. 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
- 2. The Form CRS should be delivered in a manner consistent with how a new or prospective client requested information about the firm or financial professional, as long as the delivery also complies with the above framework.
- 3. The Form CRS must be delivered in a prominent manner, such as with a direct link in an email, and it must also be displayed on the firm's website (if they have one) prominently.

## **V. Recordkeeping Amendments**

- A. IAs will be required to make and preserve a record of the dates that each Form CRS was given to any client or prospective client who subsequently becomes a client.
- B. BDs will be required to create a record of the date on which each Form CRS was provided to each retail investor, including any Form CRS provided before such retail investor opens an account.
- C. Both BDs and IAs will also be required to retain copies of each Form CRS, along with any amendments or revisions made thereto.

## **VI. Compliance Deadline and Transition Provisions**

- A. The compliance deadline is June 30, 2020.
- B. Firms that are already registered or IAs with a pending registration application must file their initial Form CRS between May 1 and June 30, 2020.
- C. After June 30, 2020, new BDs will be required to file their Form CRS by the date on which their registration becomes effective, and new IAs must include a Form CRS with their initial application.

## **VII. Additional Resources**

[Form CRS Instructions](#)

[Form ADV Instructions](#)