



SUMMIT
COMPLIANCE GROUP LLC

The background is a blurred photograph of two people shaking hands over a wooden table. On the table, there are several documents, including one with a pie chart. The lighting is warm and professional.

7 STEPS

to Starting
Your Own RIA

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BACKGROUND

Are you thinking about offering Investment Advisory services to your clients? As investors today continue to seek comprehensive and independent advice, the number of new Registered Investment Adviser (“RIA”) firms is growing at a record pace and existing RIA firms are thriving.

According to the Investment Adviser Industry Snapshot 2022, there were almost 15,000 SEC-registered RIAs in the U.S. in 2021, managing a total of \$128.4 trillion dollars¹ for clients.



Offering investment advisory services allows you to better serve your clients' complete financial and retirement needs and can add a significant revenue stream to your practice. As you envision your new RIA practice, you need to consider a variety of factors to ensure it's positioned to be both successful and rewarding. For example, you need to identify and prepare for some basic elements, such as:

- ▶ What is your anticipated business model? What types of services will you offer?
- ▶ Who is your target market? What unique value can you offer them?
- ▶ How will you manage the potentially considerable compliance requirements?

What is an RIA?

An RIA refers to an entity that is registered with the Securities and Exchange Commission (“SEC”) or a state securities division(s) to offer investment advice or services for compensation. In other words, an RIA is a Limited Liability Company (“LLC”) or corporation or other type of legal entity. An RIA is often referred to as a firm.

What is an IAR?

An Investment Adviser Representative (“IAR”) is a person who is registered with an RIA and is authorized to provide investment advice or services for compensation on behalf of the RIA firm. In other words, an IAR is a person who gives investment advice to clients. Every RIA must have at least one properly registered IAR.

Why get into the investment advice business?

Here are just a few of the reasons to get into the investment advice business:

- ▶ **Provide investment advice without fear of violating securities laws and regulations.** Investment advice can only be given by someone who is properly registered with the SEC or state securities division. Providing investment advice without being properly registered can lead to severe civil and criminal penalties.
- ▶ **Offer expanded services** to your clients. Investment advisers can manage entire client portfolios and provide financial planning services.
- ▶ **Increase your income** by gathering more client assets and charging fees for services provided, such as managing client assets or creating financial plans.
- ▶ **Market yourself in a way that isn’t otherwise allowed** (e.g., retirement planner, investment adviser, wealth manager, financial planner, fiduciary).

Factors to consider before getting into the investment advice business

ADDITIONAL REGULATION

If you are currently an independent, insurance-only licensed producer, you are subject to many insurance laws and regulations, but there typically isn't significant and direct oversight of your practice. In other words, no one is consistently and systematically supervising your compliance with applicable requirements.

It is important to understand that if you enter the investment adviser business, you subject yourself to an additional regulatory authority with many specific requirements. The RIA regulations do not replace the existing insurance regulations you are subject to but are an additional layer of rules and regulations you are required to follow.



FIDUCIARY DUTY

As an Investment Advisor Representative, you will be held to a fiduciary standard which is regulated by the SEC or state securities division(s) and requires you to put your client's interests above your own.

The rules include a duty of loyalty and care, as well as avoiding conflicts of interest where possible, and disclosing any remaining potential conflicts. You will want to ensure you are well versed in all the requirements of being a fiduciary. This is an area where an experienced compliance professional can assist you.

GO SOLO OR JOIN A TEAM

Determine if you want to start your own RIA or become an IAR with an existing RIA. It may be easier to join an existing RIA as one of their IARs because the existing RIA will already have completed the registration process and have systems and processes in place to conduct business. In addition, an existing RIA will have already established a compliance program. Finally, you won't have to manage third-party relationships, agreements and other documents have already been created for use, you won't have to supervise other IARs, etc.

Starting your own RIA comes with more responsibilities but also provides greater freedom and greater income potential.

You won't have to share fees like you do if you join an existing RIA and you will enjoy the freedom to make your own business decisions. You can also recruit other IARs to join your firm to increase your firm's revenue. (Keep in mind that if you are an IAR with an existing firm, you may need to manage any potential non-complete agreements before starting your own RIA).



STARTING YOUR OWN RIA

If you have decided to establish your own RIA, you will want to review the following information to get your new venture off on the right foot.

Step 1: Determine the Name of your RIA & Establish the Entity

It is generally recommended that you form a new company that is separate from your insurance agency or other lines of business. This is a best practice, but not a regulatory requirement. However, when you consider that it is relatively easy and inexpensive to form an LLC, obtain a tax ID for the new LLC, potentially reduce your liability, and enjoy the accounting and regulatory benefits of having the RIA business separate from your other lines of business, it makes a lot of sense to establish a new entity for your RIA.

You might choose to form a new corporation or other type of entity instead of an LLC. Whatever type of entity you choose to create, ensure it fits with your business model and liability needs. You will also want to manage your intellectual property, and file for any trademarks that might reflect unique value propositions for your practice, such as the name of your planning process, your company tagline, and more.

As an RIA, you have greater flexibility in naming your business. RIAs may use company names that are typically prohibited for insurance-only firms and can include terms such as wealth management, investment management, capital management, money management, financial planning, retirement planning, and more.

As an IAR, you are allowed to provide (and advertise) these more comprehensive types of services. In addition, becoming an IAR permits you to use the title of “Advisor” or “Adviser”. Only firms and individuals who are properly registered are permitted by law to use these terms in their title.

Additional steps may include setting up a new bank account and credit card(s) for the newly created entity, establishing a new domain name and setting up a new email address, and other steps that are common when establishing a new entity.

Step 2: Hire a Compliance Consultant

In addition to assisting with the registration documents and navigating the registration process, a good compliance consultant will be able to provide you with guidance on all the remaining steps to establishing your own RIA and provide you with ongoing compliance help. Unfortunately, RIA compliance is not necessarily intuitive.

If you have not held a compliance role before it is strongly recommended that you engage with a compliance professional who understands the regulations and can help you easily navigate them.

However, not all compliance consultants are created equal. Fees and services will vary. Look for a compliance consultant with plenty of experience in registering new RIAs and providing ongoing compliance services. Ask about what is included in the fee to register a new RIA and if there are any additional fees or charges, including costs to customize their services to your unique practice. Some compliance consultants will register your RIA and provide you with everything you need to start writing business (client agreements, disclosure forms, policies & procedures manual, etc.) for a flat fee. Others will charge you a separate fee for these additional items.

If you are insurance-licensed, ensure that the compliance consultant you engage also has expertise in insurance regulations. **Because you will now be subject to both RIA and insurance regulations, it is crucial that you receive guidance from experts who understand both sets of regulations and can help you integrate them into your practice.** Insurance and investment regulations often overlap, but sometimes contradict each other, so be sure your compliance consultant can help you manage both seamlessly. (“Summary” on page 21, below, for more information about ongoing compliance assistance.)



Step 3: Determine the Services You Will Offer and the Fees You Will Charge

Your compliance consultant can provide you with some guidance and assist you with decision-making in this area. Here are two common services offered by RIAs.

ASSET MANAGEMENT

This refers to managing your clients' assets and is often referred to as assets under management or "AUM" for short. Client assets can include, but are not limited to stocks, bonds, cash accounts, mutual funds, REITs, and ETFs. A fee is typically charged based on a percentage of AUM. For example, if you are managing \$1 million of a client's assets and charge a 1% annual AUM fee, you would charge \$10,000 for the year. If your client's assets grow to \$1.5 million, you would charge \$15,000.

If you offer asset management services for your clients, you need to decide if you will actively manage their investment portfolios yourself, or if you will "outsource" that service to professional portfolio managers.

If you already have experience with portfolio management and enjoy spending time analyzing securities and market trends, then you might choose to manage your clients' investment portfolios.



Many advisers, however, choose to utilize the services of Turnkey Asset Management Platforms (referred to as “TAMPs”) that utilize professional money managers to manage client investment portfolios. The benefits of using TAMPs include allowing the adviser to spend more time servicing existing clients, finding new clients, and offering clients the potential benefit of investment portfolio experts.

FINANCIAL PLANNING

Financial planning involves looking at a client’s entire financial picture and advising them on how to achieve their short- and long-term financial goals, usually resulting in a written plan that is implemented, monitored and updated over time. **The Financial planning process typically involves gathering financial information from clients and discussing their needs and goals to develop solutions unique to them.** Examples include saving for education expenses, retirement income planning, investing, managing taxes, legacy planning, and mitigating risks through insurance. Once created, financial plans are periodically reviewed and amended as needed to help the client stay on track to achieve their financial goals.

Step 4: Identify the Third Parties You Will Utilize

There are a variety of third parties that you may need to partner with to run your business. Your compliance consultant can help you determine which third parties may be needed for your firm. Here are a few examples of third party relationships that you might utilize:

CUSTODIAN

A custodian holds your clients' assets, which is important for client protection. A custodian also offers the means to open client accounts, make deposits/withdrawals from the accounts, track client trades and values, and assess client fees. Many custodians will integrate with an RIA's CRM and other technology tools. There are many custodians available to RIAs including Schwab, Fidelity, Shareholder Service Group, and Interactive Brokers, just to name a few.

TAMPS

As noted earlier, many advisers leverage TAMPs to manage client portfolios. There are many TAMPs to choose from including AssetMark, Brinker, Orion, SEI, and more.

OTHER TECHNOLOGY SOLUTIONS

Your compliance consultant can provide you with guidance on tools that may assist you with running your RIA like a CRM, email and social media monitoring tools, a trade monitoring solution, a compliance calendaring system, financial planning software, a client portal, etc.

INSURANCE

Various types of insurance are becoming a necessity due to the evolving risks inherent in the financial services industry. General business insurance, E&O insurance, and cybersecurity insurance are common ways to mitigate the different types of risks that face investment advisers today. If you already have insurance, check with your insurance provider to determine if you need a separate policy for your new RIA or if you can add your RIA to your existing coverage.

Step 5: Pass the Series 65 Exam (or hold an approved designation)

Passing the NASAA Series 65 exam (Investment Adviser Law Examination) is typically required to become an IAR. **The exam is administered by FINRA and consists of 130 scored questions that must be completed within 3 hours.** 94 of the 130 scored questions (72%) must be answered correctly to pass the exam. There are many study guides and prep classes available to help prepare for the exam including, but not limited to, Kaplan, Securities Institute of America, Securities Training Corporation, and NRS.

Many states will accept certain designations such as the Certified Financial Planner, Chartered Financial Analyst, Chartered Investment Counselor, Chartered Financial Consultant, and Personal Financial Specialist in lieu of the Series 65. Your compliance consultant can help you determine if this exemption is available to you.





Step 6: Register your RIA

An RIA must register with the SEC or the state(s) in which it will do business.

Registering your RIA involves submitting numerous required documents to the SEC or state(s) for approval. Neither your RIA nor any of its IARs may conduct investment advisory business until the RIA is approved and registered by the appropriate regulator(s).

Your compliance consultant will work with you to complete the necessary information and file the required documents. Your compliance consultant will also assist you with any follow-up questions or other items that need to be addressed once the applicable regulatory authority responds.

Each RIA is required to designate an individual who holds the Series 65 registration to act as the Chief Compliance Officer (“CCO”) of the RIA before your registration will be approved.

While an RIA may outsource a significant number of the CCO duties to a compliance consultant, the CCO is still ultimately responsible for ensuring compliance with applicable regulations and must be named on the ADV registration application.

SEC REGISTRATION

To register with the SEC, an RIA must have at least \$100 million in AUM, an expectation that it will have at least \$100 million in AUM within 120 days or would otherwise be required to register in at least 15 states. Firms with at least \$100 million in AUM (\$25 million in NY) are required to register with the SEC. If a firm registers with the SEC and does not have at least \$100 million within 180 days of the adviser's fiscal year-end, the SEC may choose to allow some leeway on the timing, but at some point will de-register the firm and require it to register with the individual state(s).

Documents

A firm that registers with the SEC must complete the following:

- ▶ ADV Part 1A (information about the firm) and applicable schedules (additional information as needed per ADV Part 1A)
- ▶ Upload Part 2A (firm brochure including services, fees, disclosures, etc. in narrative form)
- ▶ Prepare Part 2B although it does not need to be filed (brochure supplement which includes information about the IAR)
- ▶ Part 3 relationship summary (Form CRS)
- ▶ State notice filings if the RIA has an office location in the state or over 5 clients in the state (exceptions: TX, LA, NE, NH require notice filing prior to having 1 client)
- ▶ U4 filing in states for IARs (some state exceptions may apply)
- ▶ Policies and procedures manual
- ▶ Client advisory contract (consistent with services and fees in ADV)
- ▶ Privacy policy statement
- ▶ Code of ethics

Timing

The entire process typically takes 6-8 weeks from start to finish on a standard registration. Once the ADV registration application has been filed, the SEC has 45 days to approve the registration or begin proceedings to deny the registration, assuming that all the documents have been completed and filed. The SEC will return any ADV registration application that is not properly completed, and the 45-day period will begin again once the ADV registration application has been re-submitted.

STATE REGISTRATION

If your RIA is not eligible for SEC registration, then you must register instead with the individual state(s) in which you will conduct business. You must identify which state is your "home" state and that is where your firm will seek registration first. Additional state registrations (if needed) will be completed after registration is completed in your home state and will depend on:

- ▶ If your firm has a physical business location in the state
- ▶ If your firm has more than 5 clients in a 12-month period (exceptions for TX, LA, NH, VT)
- ▶ If your firm is actively soliciting business in the state

Documents

A firm that registers with a state generally must complete the following:

- ▶ ADV Part 1A (information about the firm) and applicable schedules (additional information as needed per ADV Part 1A)
- ▶ ADV Part 1B (for state registered firms only)
- ▶ Upload Part 2A (firm brochure including services, fees, disclosures, etc. in narrative form)
- ▶ Part 2B (brochure supplement for each IAR)
- ▶ Part 3 if required by the applicable state
- ▶ Financial statements if required by the applicable state
- ▶ Client advisory contact (consistent with services and fees in ADV)
- ▶ Other state specific forms
- ▶ U4 filing in states for IARs (some state exceptions may apply)
- ▶ Policies and procedures manual
- ▶ Client advisory contract (consistent with services and fees in ADV)
- ▶ Privacy policy statement
- ▶ Code of ethics

Timing

States determine the timing for approval or denial of an ADV registration application. Once the ADV registration application has been filed, individual states can take from a few weeks to several months to process. The timing varies among states because some states will inevitably ask several follow-up questions and some states are simply behind in processing new RIA registrations. Your compliance consultant should have an idea of which states are quicker and which states are slower, and can assist you in getting an approval as quickly as possible.

Step 7: Determine Ongoing Compliance Needs

Compliance is one of the biggest challenges for new RIA firms. Often, compliance creates a conflict when you're trying to prioritize compliance items along with the other first-year items that must be completed.

And for smaller RIA firms in particular, where the company President may also be the Chief Compliance Officer, compliance can be scary.

For those without a compliance background, the word “compliance” is often associated with terms such as “rules and regulations” and, even scarier, - “enforcement, fines and deficiencies.”

RIA COMPLIANCE REQUIREMENTS INCLUDE AREAS SUCH AS:

- ▶ IAR registration management
- ▶ ADV / ADV 2A amendments and other required reporting
- ▶ Annual CCO report
- ▶ Written compliance policies & procedures
- ▶ Advertising review
- ▶ Books and records maintenance
- ▶ Code of ethics
- ▶ Solicitor arrangements
- ▶ Contracts with clients
- ▶ Best price and execution
- ▶ Custody or possession of clients' funds or securities
- ▶ Supervision of other IARs
- ▶ Personal securities transactions
- ▶ Email review
- ▶ Client complaint resolution
- ▶ Managing regulatory examinations



RIA compliance may look intimidating, but you don't have to go it alone.

There are a number of options available to you when it comes to managing your compliance requirements:

1. Learn it all and do it yourself.

Most people who start their own RIA don't want to invest the time to do this, especially since this takes time away from other business needs such as marketing, meeting with clients and prospects, staying current with the markets and available products, managing the operations of the RIA firm, etc. However, if you are confident that you can manage the compliance requirements yourself, you may choose to do so.

2. Have another person at the RIA firm manage compliance for you.

RIAs have the option of assigning compliance responsibilities to an IAR within the firm. However, people with little or no compliance experience often struggle with learning and executing the compliance responsibilities. This is especially true when they have competing priorities (their "day job" vs. the additional responsibility of compliance). It is generally recommended that you not trust your RIA's future to a part-time compliance person with little to no experience.

3. Hire a full-time compliance officer.

This is a viable option for RIA firms that have sufficient revenue/profits to afford a competent compliance officer. A competent, full-time compliance officer can be a valuable asset to the firm, but it may take time to find and hire that individual. Also, the average salary for an RIA CCO is over \$100,000 per year and in some areas can be much higher.²

4. "Outsource" the compliance officer role.

The RIA firm must name a Chief Compliance Officer who is registered with the RIA and is ultimately responsible for compliance. However, managing and executing all of the day-to-day, monthly, and annual compliance tasks can be outsourced to a

¹ <https://investmentadviser.org/industry-snapshots/>

² <https://www.ziprecruiter.com/Jobs/Chief-Compliance-Officer-Ria>

compliance consultant. The cost of this outsourcing is typically much less expensive than hiring a full-time compliance officer and the level of expertise is very high.

5. Engage ongoing compliance consulting services.

Compliance consultants typically offer services in which they will handle a number of the required compliance tasks for you, such as the annual ADV filing, U4 filings, etc. In addition, you have access to compliance professionals who will typically provide you with a calendar of compliance tasks unique to your practice that need to be completed, keep you apprised of changes in laws and regulations, answer questions and provide you with guidance when it comes to your compliance program. The CCO remains responsible for the compliance tasks and is ultimately responsible for compliance.

The monthly fee for this type of compliance consulting is typically very reasonable. However, be advised that some compliance consultants require you to pay much higher fees for the ability to call or email the compliance consultant, to have a dedicated compliance representative, and/or to answer questions and give guidance on a regular basis. . This is not true of all compliance consultants so be sure to do your research and understand what you're getting for your money.

SUMMARY

You're now well versed in the key areas of consideration for registering a new RIA. Depending on your unique situation and type of registration, starting a new RIA can take time to establish. However, the rewards of having your own RIA can far outweigh the work required to get up and running. An experienced compliance consultant will make the process as painless as possible and allow you to spend more time running your business instead of managing the registration process.

YOUR “RIA READINESS” CHECKLIST

As you prepare to open your Registered Investment Advisory practice, the following items will help you track key items you need to manage to ensure a smooth and successful launch. Check these items off as you complete them:

- 1. DETERMINE THE NAME OF YOUR RIA AND ESTABLISH THE ENTITY**
Consider forming a new and separate entity for your RIA with its own Tax ID number
- 2. HIRE A COMPLIANCE CONSULTANT**
Engage a compliance consultant with experience registering new RIAs and establishing the required compliance program to conduct business.
- 3. DETERMINE THE SERVICES YOU WILL OFFER AND THE FEES YOU WILL CHARGE**
Some options include Asset Management (AUM), Financial Planning based on hourly or flat-fee rates, earning commissions for product sales, or some combination of these.
- 4. IDENTIFY THE THIRD PARTIES YOU WILL UTILIZE**
These may include a custodian to hold client funds, a TAMP program, operational tools such as a CRM, email/social media monitoring tools, a trade monitoring solution, a compliance calendaring system, and more. In addition, ensure your new practice is properly insured. You will want to consider options such as general business insurance, E&O insurance, and cybersecurity insurance.
- 5. PASS THE SERIES 65 EXAM (OR HOLD AN APPROVED DESIGNATION)**
Complete the licensing requirements and/or professional designation requirements for the states in which you will conduct business.
- 6. REGISTER YOUR RIA**
Complete and file the paperwork needed to register your firm with the SEC or state(s) as applicable, with the assistance of a compliance consultant,
- 7. DETERMINE ONGOING COMPLIANCE NEEDS**
Decide how you will manage the ongoing compliance requirements of your firm. This may entail acting as the CCO of your firm or outsourcing to a compliance consultant with expertise in RIA and insurance regulations.

START WRITING BUSINESS!

You did it! It's time to start meeting with clients to form advisory relationships to help them navigate towards retirement success. Ensure you have a plan to transition the right clients to your new practice. Create your vision for your new venture and get clients excited!

ABOUT SUMMIT COMPLIANCE GROUP

At Summit Compliance Group, we offer expert and personalized services to meet your compliance needs. We help you seamlessly navigate the Insurance, Securities and Investment Advisory regulations to ensure your practice is protected from unnecessary risk.

Forget the cookie-cutter approach of big box firms, confusing forms and templates that don't make sense for your business, and an "everything costs extra" approach. Our services address your distinctive needs and we offer software to manage your monthly, quarterly, and annual compliance requirements. Best of all? Our pricing is all-inclusive so you aren't surprised by extra fees & add-ons.

[SUMMITCOMPLIANCEGROUP.COM](https://summitcompliancegroup.com)

Summit Compliance Group, LLC

5838 Blackshire Path

Inver Grove Heights, MN 55076

612-308-6161

summitcompliancegroup.com

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