

CIOs AND CCOs - KNOW THE BASIC RULES

It is important to know and understand the application of the basic rules governing investment advisers before becoming a participant in the business. Here are three elementary rules:

1. **Know:** Some states require a state registered investment adviser with a principal place of business in the state in which the adviser transacts business to renew its registration annually. This registration renewal is in addition to the Annual Amendment filing of Form ADV. A lapse in renewing the registration could be fatal to the advisory business. Registration renewal is more of a revenue raising scheme. The Annual Amendment is the method by which the state and the prospective clients or clients of the advisory firm are educated concerning the adviser's business and personnel.

2. **Know:** The basic general rule, is that the Chief Compliance Officer of a SEC or state registered investment advisory firm is required, unless an exemption from registration is available, to register as an investment adviser representative in the state in which the firm maintains its principal place of business. Whether an individual's experience or certifications satisfies the state's registration requirement is a different question.

3. **Know:** Some states require the Chief Investment Officer to register as an investment adviser representative on the basis of the CIO's role in the firm.

Failure to comply with the above rules may be considered minor rule violations by some advisers, but in the long run such violations can have a negative impact on the firm's balance sheet. Firms should view these violations from the perspective of either an existing client or a prospective client who will ask: can I trust this adviser?

Not long ago the State of Connecticut entered into a Consent Order with an investment adviser that violated the Connecticut Uniform Securities Act requirement that certain adviser personnel must register as investment adviser representatives. These violations cost the firm a total of \$5,000 in fines and fees. **Remember.** State authorities, like many others who use the Internet, are interested in disclosing their business to the public. Under these circumstances, YOUR business is the state authorities business. **Guard your firm's reputation.**

The above violations should not occur. If the person running the firm is not knowledgeable or does not understand the rules of the advisory business, the individual has three options: (1) contact an attorney who has knowledge of the investment advisory rules and regulations; (2) contact and investment adviser compliance firm or (3) Conduct his or her own research.

Contact Dalkis D. Muir Law Office with your investment advisory business questions.

P: 617-440-7499

F: 855.758.3784

Email: dalkis@dmuirlaw.com