



What to Expect When Transitioning from a Broker Rep to a Registered Financial Advisor

This document helps Registered Representatives/Brokers employed by a brokerage firm learn how to become a Registered Investment Advisor (RIA). The information also applies to anybody who is NOT a Registered Investment Advisor (RIA) but would like to become one.

I. General Information

Registered Investment Advisors (RIAs) are people who provide investment advice to others for a fee and are required by the SEC or most states to register or become licensed. Some states use the term “register” and others use the term “license.” An RIA:

- Provides analysis or advice on securities either by making direct or indirect recommendations to clients or by providing research or opinions on securities or securities markets.
- Receives compensation in any form for the advice provided.
- Engages in a regular business of providing advice on securities.

Non-RIA vs. RIA

The following table compares a Non-RIA to an RIA.

Non-RIA	Registered Investment Advisor
Limited up to 15 accounts.*	No limit on the number of client accounts.
Limited to under \$25 million in assets.*	No limit on the amount of assets.
Some states limit the number of accounts on which you can charge fees.*	RIAs have no such limitation.

Advantages of Being a Registered Investment Advisor

The following table compares a Registered Representative to a Registered Investment Advisor.

Registered Representative	Registered Investment Advisor
Limited Payout (the firm takes part of the profit)	100% payout to RIA
Lack of autonomy	100% autonomy
Lack of discretion (must get client approval prior to any trade)	RIAs do not need prior client approval
Generally limited to products approved by the Firm.	Access to all products available to trade

* State limits vary. General information concerning state registration requirements and links to websites describing those requirements is available at http://www.interactivebrokers.com/en/p.php?f=advisorReg&ib_entity=inst.

Fiduciary Duties of an RIA

As an investment advisor, you are a fiduciary to your clients. This means that you have a fundamental obligation to always act in the best interests of your clients. You owe your clients a duty of undivided loyalty and utmost good faith. You should disclose any activity that may present a conflict of interest with any client and you should take steps reasonably necessary to fulfill your obligations. You should provide full and fair disclosure of all material facts to your clients and prospective clients. Facts are “material” if a reasonable investor would consider them to be important in making an investment decision.

Client Disclosure

Registered Investment Advisors are required to provide their advisory clients and prospective clients with a written disclosure document. As an RIA, you comply with this requirement by completing Part 2 of Form ADV, which requires an advisor to provide information about a variety of topics relating to his or her business practices.

Code of Ethics

As a Registered Investment Advisor, you are required to adopt a code of ethics. Your code of ethics should set forth the standards of business conduct expected of your “supervised persons” (i.e., your employees, officers, directors and other people that you are required to supervise), and it must address personal securities trading by these people. You are not required to adopt a particular standard of business ethics, but the standard that you choose should reflect your fiduciary obligations to your advisory clients and the fiduciary obligations of the people you supervise, and require compliance with the federal securities laws.

Your code of ethics should also include:

- Provisions relating to personal securities trading by advisory personnel.
- Written policies and procedures that are reasonably designed to prevent the misuse of material non-public information.

Books and Records

As a registered advisor, you must make and keep true, accurate and current certain books and records relating to your investment advisory business. The books and records that you must make and keep are summarized below.

- Advisory business financial and accounting record.
- Records about investment advice and transactions in client accounts with respect to such advice.
- Records that document your authority to conduct business in client accounts.
- Advertising and performance records.
- Records related to the Code of Ethics Rule.
- Records regarding the maintenance and delivery of your written disclosure document and disclosure documents provided by certain solicitors who seek clients on your behalf.
- Policies and procedures adopted and implemented under the Compliance Rule.

How Long Do I Have to Maintain Books and Records?

Generally, most books and records must be kept for five years from the last day of the fiscal year in which the last entry was made on the document or the document was disseminated. You may also be required to keep certain records for longer periods, such as records that support performance calculations used in advertisements (as described in Rule 204-2, paragraph (e)).

Where Should I Keep My Books and Records?

You must keep your records in an easily accessible location. In addition, for the first two of these years, you must keep your records in your office(s). If you maintain some of your original books and records somewhere other than your principal office and place of business, you must note this practice and identify the alternative location on your Form ADV. Many advisors store duplicate copies of their advisory records in a location separate from their principal office in order to ensure the continuity of their business in the case of a disaster.

You can store your original books and records on electronic media, including digital formats such as electronic text, digital images, proprietary and off-the-shelf software, and email. If you use email or instant messaging to make and keep the records that are required under the Advisors Act, you should keep the email, including all attachments that are required records, as examiners may request a copy of the complete record. In dealing with electronic records, you must also take precautions to ensure that they are secure from unauthorized access and theft or unintended destruction. In general, you should be able to promptly (generally within 24 hours) produce required electronic records that may be requested by the SEC staff, including email. In order to do so, the Advisors Act requires that you arrange and index required electronic records in a way that permits easy location, access, and retrieval of any particular electronic record.

II. SEC versus State Registration

Registered Investment Advisors in the United States are typically regulated by either the SEC or the states in which they have a place of business. Registration requirements for Registered Investment Advisors with operations in the US are as follows:

SEC Securities Registration

You generally must register with the SEC as an RIA (Registered Investment Advisor) if:

- You manage \$100 million or more in assets; or
- You serve as an investment advisor to a registered investment company; or
- Your “principal office of place of business” is in a state without an investment advisor statute; or that does not conduct examinations of advisors.

Contact the SEC directly at (202)-551-6999 or online at:
www.sec.gov/divisions/investment/iard/register.shtml

State Securities Registration

If you are an RIA that manages between \$25 million and \$100 million, the SEC generally requires you to register in your state(s). There may be other situations in which the SEC requires you to register in your state(s). In addition, state “blue sky” laws may require you to register in your state(s).

For more information regarding state registration requirements, please contact the North American Securities Administrators Association at (202) 737-0900 or online at <http://www.nasaa.org>. General information concerning state requirements and addresses of state websites describing those requirements is also available at: http://www.interactivebrokers.com/en/p.php?f=advisorReg&ib_entity=inst.

NFA Futures Registration: If you advise on commodities or forex, you may be required to register with the NFA, unless you qualify for an exemption.

III.

Process of Becoming a Registered Investment Advisor

The process of becoming a Registered Investment Advisor typically consists of the following steps:



Step #1 Establish a Limited Liability Corporation

A Registered Investment Advisor may set up a Limited Liability Corporation (LLC). When you form your LLC, obtain a TAX EIN letter. You can also form a Corporation, S Corp, or Partnership, but the most common legal structure for an RIA is an LLC.

You should be aware of the costs associated with establishing an LLC.

Step #2 Register with IARD

The Investment Advisor Registration Depository (IARD) is an electronic filing system that helps with RIA registration, regulatory review, and the public disclosure information of investment advisor firms. All advisors must now use IARD to register with the Securities Exchange Commission (SEC) or the states in which they wish to do business.

The first step in the registration process is to create an IARD account at <http://www.iard.com>. Once you have set up your IARD account, you can access, complete and submit Form ADV Part 1.

For additional information about IARD and registering with the SEC, see <http://www.sec.gov/iard>.

Step #3 Complete Form ADV

You must complete and submit Form ADV, which is available from your IARD account. This form is 73 pages long and the government has estimated that it will take the average advisor nine hours to complete.

You should review the form completely to gain an understanding of what is required both in the form and in structuring your Registered Investment Advisor firm.

Form ADV has two parts:

Part 1 asks for information about an advisor's business, the people who own or control the advisor, and whether the advisor or certain of its personnel have been sanctioned for violating the securities laws or other laws. Part 1 is available in electronic format and is both filed and amended through IARD. See the General Instructions to Form ADV (No. 4) for information on updating Form ADV.

Part 2 contains two sections: *Part 2A* and *2B*.

Part 2A of the Form (also called the "Brochure") requires an advisor to provide information about a variety of topics relating to an advisor's business practices, conflicts of interest, and the advisor's advisory business and types of clients. The Brochure also includes disclosure items such as a discussion of material changes in the Brochure since the last annual update, and disclosure of certain legal or disciplinary events. An advisor is required to specifically discuss the conflicts of interest created by certain of its business practices, and how the advisor addresses these conflicts. The Brochure contains an appendix for specialized disclosure relating to wrap fee programs. The Brochure must be filed electronically with the SEC, and will be publicly available on the SEC's website.

Part 2B (also called the "Brochure Supplement") requires an advisor to provide information about certain advisory personnel. For each person for whom an advisor is required to prepare a Brochure Supplement, the advisor must disclose, among other things:

- His or her formal education and business background.
- Certain legal or disciplinary events.
- Other capacities in which he or she participates in any investment-related business.
- Any compensation he or she receives based on the sales of securities or other investment products.
- Economic benefits he or she receives from someone other than a client for providing advisory services.
- How the firm monitors the advice he or she provides, including the name, title and telephone number of the supervisor. Brochure Supplements are not required to be filed electronically, and will not be publicly available on the SEC's website.

Step #4 Take and Pass the Series 65 or Series 66 Exam

While your Form ADV is being processed, you must successfully pass one of the following competency examinations:

- Uniform Investment Advisor Law Examination, commonly referred to as the Series 65 exam.
- Uniform Combined State Law Examination, commonly referred to as the Series 66 exam.

Generally, you can complete the Form ADV and the Series 65 or Series 66 exams at about the same time, but you must pass the exam before you can do business as an RIA.

Register for the exam online using Form U-10, Uniform Examination Request, available at the Financial Industry Regulatory Authority (FINRA) web site at <http://www.finra.org>. Note that there is a fee associated with each exam.

You can sign up for the actual exam online at Prometrics' web site at <http://www.prometric.com/default.htm>. In addition, you can sign up for a fee-based preparatory class provided by a training service, including one of the following:

- **Kaplan Financial** - <http://www.kaplanfinancial.com>
- **Securities Training Corporation** - <http://www.stcusa.com/>

You should be aware of the costs associated with taking the Series 65 or Series 66 exams.

Step #5 Check the Status of Your Registration on IARD

Log into your IARD account to check the status of your Form ADV submission (under Registration Status). The SEC will mail an Effective Order to you once your registration is declared effective.

The SEC generally has 45 days after receipt of your Form ADV to declare registration effective.

Additional State Requirements

In addition, while the requirements for maintaining the registration vary from state to state, there are some general requirements that apply to Registered Investment Advisors in all states:

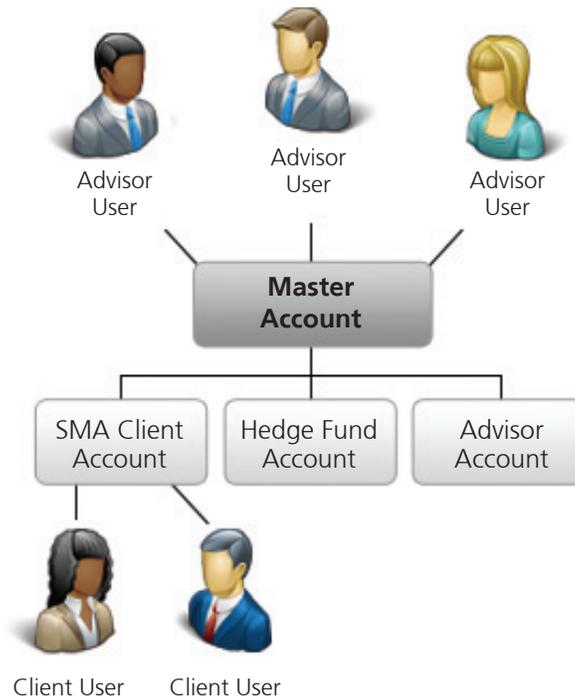
- You must be registered or licensed in the state in which you do business.
- Federal covered RIAs must make a notice filing of Form ADV.
- You must get a passing score on a competency examination.
- You must pay form-processing fees.
- You must submit certain disclosures to the proper securities agency and/or the public.
- You must register your branch offices.
- You must meet bond or minimum net capital requirements.

IV.

Interactive Brokers Professional Advisor Accounts

IB offers a complete turnkey solution that provides trading, clearing and reporting for Registered Investment Advisors of all sizes. RIAs enjoy the following benefits with an IB Professional Advisor account:

- Automated multi-client trade allocation and portfolio re-balance tools.
- The ability to fully White Brand statements, customer registration, and informational materials.
- Tax reporting for clients.
- A User Access Rights system that allows you to assign different managerial roles and client accounts to individual employees within your organization.
- Superior technology.
- Low client commissions.
- Access to global markets.



Advisor Getting Started PDF:

www.interactivebrokers.com/download/AdvisorsGetStarted.pdf

For additional information or to open an account, go to:

www.interactivebrokers.com/advisor