

Guide for Investment Advisers



Illinois
Securities
Department

Jesse White
Secretary of State

Congratulations on your recent registration as an investment adviser with the Illinois Securities Department.



This booklet contains information on registration renewal, required documentation, and other information about maintaining your registration as an investment adviser and ensuring compliance with requirements of the Illinois Securities Law.

For details on specific sections of the law and its accompanying rules and regulations, please visit the Secretary of State's website at www.cyberdriveillinois.com (click Departments, then Securities).

For more information on registration requirements, please contact the Securities Department at 800-628-7937 or the website listed above. We look forward to serving you.

A handwritten signature in cursive script that reads "Jesse White".

Jesse White
Secretary of State

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Printed by authority of the State of Illinois. Nov. 2015 — 1 — SEC 341.1

Illinois Securities Law of 1953

The following are sections of the law that pertain specifically to investment advisers and investment adviser representatives:

- 2.11 Definition of investment adviser
- 2.12a Definition of a principal of an investment adviser
- 2.12b Definition of an investment adviser representative
- 8.D Registration requirements of an investment adviser
- 8.D-5 Registration requirements of an investment adviser representative
- 8.E Violations of the Act
- 8.H Annual renewal provisions
- 8.I Record keeping provisions
- 8.J Fees
- 8.K Abandonment of applications

Administrative Rules to the Illinois Securities Law

The following are sections of the Administrative Rules that pertain specifically to investment advisers and investment adviser representatives:

- 130.281 Definition of investment adviser branch office
- 130.805 Exemption from registration
- 130.839 Registration procedures for investment adviser representatives
- 130.840 Registration procedures for investment advisers
- 130.841 Reporting branch office locations
- 130.842 Examinations required of principals
- 130.843 Examinations required of investment adviser representatives
- 130.844 Custody and pre-payment of fees
- 130.845 Records requirements
- 130.846 Written disclosures
- 130.847 Financial and disciplinary disclosure
- 130.852 Compensation
- 130.853 Account transactions
- 130.854 Use of the term Investment Counsel
- 130.860 Additional Fees
- 130.873 Abandonment of investment adviser applications

For more information on these sections, please visit www.cyberdriveillinois.com (click Departments, then Securities).

Following is an overview of various requirements for investment advisers registered with the Illinois Securities Department. Please note that this is not a complete listing of all legal requirements under the Illinois Securities Law of 1953 or its Administrative Rules.

Annual Renewal

Initial registration as an investment adviser with the Illinois Securities Department is valid from the date of registration approval, as notified by the department, through December 31 of the same year. Registration must be renewed each year for the next subsequent calendar year. The Securities Department emails complete renewal instructions in late October each year. Registration may be renewed between mid-November and the first week in December.

To renew your registration, you must submit payment to FINRA (formerly NASD) for all required registration and filing fees. You also may terminate the registration of any investment adviser representative(s) whom you do not wish to renew for the next calendar year. (This is also emailed to advisers.)

In addition, an update must be filed with the Illinois Securities Department of a firm's designated principal and branch offices in Illinois. (This is also emailed to advisers.)

Books and Records

Investment advisers are required to maintain a number of records for the protection of clients, and to ensure compliance with the provisions of the Illinois Securities Law. Generally, registered investment advisers must maintain required records for at least three years.

The Securities Department's Audit Compliance Division conducts audits of registered investment advisers. Audits may be scheduled in advance or conducted unannounced. To ensure the timely completion of an audit, firms should provide timely access to the requested documents and cooperate with auditors.

For a complete list of required books and records, see Section 130.845 of the Administrative Rules.

Branch Offices

If a firm opens a branch office in Illinois (different from the main office), this location must be reported to the Securities Department, and any such branch must be

included on Form ADV, Schedule D, Item 1F. A new branch office, or the closure of an existing branch office, must be reported within 10 business days of occurrence.

Change in Assets Under Management

Under state and federal law, state-registered investment advisers are defined as investment advisers with assets under management not exceeding \$100 million. Once a firm's assets under management exceeds \$100 million, the firm must register with the U.S. Securities and Exchange Commission (SEC) by following these procedures:

- 1) File an amendment on the IARD system to amend Form ADV, Part 1A, Item 2A, to indicate the firm is seeking registration with the SEC. At the same time, the investment adviser must review Part 1A, Item 2B, to ensure that the appropriate states are selected in which the investment adviser will operate once SEC registration is approved.
- 2) Upon receipt of confirmation that your firm is registered with the SEC, the Securities Department will approve the "switch" and grant notice for the investment adviser in Illinois.
- 3) The Securities Department will terminate your firm's state registration status on the IARD system (this does not affect your firm's newly approved status as a notice filer).

There is no state filing fee in Illinois for switching to SEC-registered status. For more information regarding changing registration status, please contact Lynne Bednarko at 217-785-4938 or lbednarko@ilsos.net.

Designated Principal

Registered investment advisers are required at all times to have a designated principal for the firm. The designated principal is responsible for ensuring that the investment adviser and other employees of the firm are compliant with the provisions of the Illinois Securities Law and its related Administrative Rules. If the designated principal changes, the firm must notify the Illinois Securities Department in writing and appoint a new designated principal who is examination qualified.

Form ADV, Parts 1 and 2

Part 1 — If any information contained on Form ADV changes, an amendment (Part 1) must be filed on the IARD system within 10 business days of occurrence.

Part 2 — A copy of Part 2 of Form ADV, also referred to as the “Disclosure Document” or “Brochure,” must be provided to clients when first engaged as well as on an annual basis. The services provided by the firm and the fees charged to clients must be fully disclosed within Part 2 Form ADV.

Form of Organization

If a firm changes its legal form of organization, an amendment must be filed on the IARD system to reflect this change, and a \$200 fee must be paid to the Securities Department.

Investment Adviser Representatives

All investment adviser representatives employed by your firm, including those who solicit customers on behalf of the firm, also must be registered with the Securities Department.

FINRA

FINRA (formerly NASD) operates the IARD system under an agreement with state securities regulators, such as the Illinois Securities Department, and the U.S. Securities and Exchange Commission. For assistance or more information about the IARD system, please call the FINRA Call Center at 240-386-4848.

Privacy Policy

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which requires financial institutions, including state-registered investment advisers, to maintain a written policy regarding the treatment of nonpublic personal information about consumers. A copy of your firm’s privacy policy must be provided to each client for whom your firm provides investment advisory services.

Records Required of Investment Advisers (Section 130.845)

Section 130.845 of the Administrative Rules to the Illinois Securities Law outlines many of the required records that investment advisers are legally required to maintain and are detailed below.

- a) Except as provided in subsection (d) of this Section, every investment adviser registered by the Secretary of State shall keep the books and records set out in this Section unless otherwise designated by the Secretary of State:
 - 1) ledgers (or other records) reflecting all assets and liabilities, income and expense, and capital accounts;
 - 2) a record showing all payments received, including date of receipt, purpose and from whom received, and all disbursements, including date paid, purpose and to whom made;
 - 3) a record showing all receivables and payables;
 - 4) records showing separately for each client the securities purchased or sold, and, to the extent it has been made available to the investment adviser, the date and amount of and price at which such purchases or sales were executed. If available to the investment adviser, this record should also show the name of the security dealer who handled the transaction;
 - 5) records showing separately all securities acquired by the clients of the investment adviser and indicating thereon the proper identification of this individual account, the date, amount and price at which such securities were purchased or sold by or for each client; or, in the alternative, a record showing all securities (other than securities enumerated in Section 3.A of the Act) bought or sold by or for the accounts of all clients of the investment adviser in each month, the total number of shares or principal amount of each security bought or sold and the lowest and highest price at which purchases or sales were made during the month;
 - 6) copies of dealer's confirmations of all transactions placed by the investment adviser for any account, and the other dealer's confirmations as may be supplied to the investment adviser by a client or dealer;
 - 7) a list showing all accounts in which the investment adviser is vested with discretionary power, unless the records required by subsections (a)(4) and (5) of this Section are maintained in such manner as to disclose which are discretionary accounts, provided that the provisions of subsections (a)(4) and (5) of this Section shall not apply:
 - A) to any securities with respect to which the investment adviser renders no services of a supervisory or other nature; or

- B) to any securities or transactions which a client declines to disclose to the investment adviser;

and provided further that the provisions of subsections (a)(4), (5), (6) and (7) above shall not apply to the accounts of any investment adviser where the services consist solely of the distribution of written or printed publications on a subscription basis.

b) Additional Records

- 1) Every investment adviser registered by the Secretary of State shall preserve for a period of not less than 3 years, the first 2 years in an easily accessible place, all records required by subsection (a) of this Section and the following additional records:
 - A) all check books, bank statements, cancelled checks and cash reconciliations;
 - B) all bills or statements (or copies thereof), paid or unpaid, relating to the business of such investment adviser;
 - C) originals of all communications received and copies of all communications sent by such investment adviser relating to the business of the investment adviser;
 - D) all power of attorneys and other evidence of the granting of any discretionary authority in any account, and copies of resolutions empowering an agent to act on behalf of any client;
 - E) all written agreements (or copies thereof), entered into by an investment adviser relating to the business of the investment adviser, including agreements with respect to any account, which agreements shall set forth the fees to be charged and the manner of computation and method of payment thereof.
- 2) For a period of not less than 3 years after the closing of any client's account, all required records relating to such account shall be preserved by every registered investment adviser.
- 3) Every registered investment adviser shall preserve, during the life of the enterprise and of any successor enterprise, all partnership agreements, certificates or articles, or, in the case of a corporation, all articles of incorporation or charter, minute books and stock certificate books.
- 4) After a record or other document has been preserved for 2 years, a photograph thereof on film may be substituted for the balance of the required time.

- c) Any records required by this Section may be maintained:
 - 1) in such manner that the identity of any client or clients to whom a registered investment adviser renders investment supervisory service is indicated by numerical, alphabetical, code or similar designations, or
 - 2) in duplicate with one set of the records having the identity of any client or clients to whom a registered investment adviser renders investment supervisory service deleted or indicated by numerical, alphabetical, code or similar designation, as may be appropriate to the record required.

- d) This Section shall not apply to any investment adviser that is registered or licensed as such in the state in which it maintains its principal place of business and is in compliance with the applicable books and records requirements of the state in which it maintains its principal place of business.

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