

2021 Form ADV Filing Season - Helpful Hints from Convergence

The 2021 Form ADV filing season is here and we want to #statistics and observations about the quality of the Form ADVs filed for year-end 2020:

1. Study Group - 16,144 filers (existed and filed on 12/31/2029)
2. Filed On-Time - 15,873
3. Filed Late - 271
4. Filed with Errors and Omissions – 15,623 of 16,144 filers, or 97%, had >1 error or omission
5. Filing Consistency – 10,658, or 66%, filed interim and annual updates and 5,487 filers, or 34%, filed only an annual update.
6. Filing Frequency – 4,127 of 10,657 interim filers filed more often than the midpoint of their peers

Convergence Observations on Form ADV Quality

Filing Accuracy and Omissions

The quality of annual Form ADV filings for the year ended 2020 declined over 2019. This is not unexpected given the virtual work environment the number of ADV's filed that contained "material" accuracy and omission problems jumped to 2,833 advisers. We consider an adviser to have "serious" accuracy and omission problems when 84% of all other advisers have higher accuracy and omission scores than the filing adviser. This is a big jump over 2019 and indicates that advisers are experiencing compliance stress.

Filing Consistency

Of the 5,487 filers of annual filers, 4,178, or 76%, should have filed an interim update to be consistent with the filing behavior of the majority of interim filers (> 50% of Interim filers). This suggests that the CCOs of these advisers are coming to different decisions about what constitutes a "material change" and thus requires an interim update from their previously filed ADV than the majority of their peers.

Filing Frequency

4,127 of 10,657 interim filers filed more often than the midpoint of their peer groups. Advisers filing more often than their peers are likely correcting errors and/or experiencing material changes to their business. Advisers who file more often than their peers are burning more time and money than needed.

Summary

While the SEC publicly states that it does not check Form ADV filings for errors, omissions, consistency and frequency Convergence doe.. However, the SEC seems to be paying more attention to quality. In fact, on January 27th, the SEC published a Risk Alert "Observations from Examinations of Private Fund Advisers" where they cite the following items that support Convergence's quality finding: 1) Failing to act consistently with material disclosures to clients or investors, 2) Providing investors or prospective investors misleading disclosures on performance or marketing, 3) Due diligence shortcomings, 4) Use of potentially misleading "hedge clauses" that improperly purport to waive or limit the Advisers Act fiduciary duty. #fundadministration, #audit and #compliance firms should all take note and work with your clients to improve the accuracy of their ADV filings for the upcoming filing season. For more information on the most frequent Form ADV quality problems, what is causing them and how they can be avoided email jphinney@convergenceinc.com.