

Investment News

Lemonade from legislative lemons

New 'plain language' rules for Form ADV give advisers a chance to stand out

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Despite the government's best efforts, new regulations sometimes end up serving no one. The regulated parties see their costs go up, yet the public remains no wiser or better-protected.

Investment advisers fear that this will be the case with the Securities and Exchange Commission's unanimous decision to change requirements for Part 2 of the Form ADV — the document that registered investment advisers must make available to clients, explaining their qualifications, investment strategies and practices.

The new rules require that financial advisers convert their brochures from a series of multiple-choice and fill-in-the-blank questions to narratives that disclose more-precise information about their practices.

But it isn't just about new formatting. The revamped document must also use “plain language” that the average investor can understand to describe the adviser's business, including investment methodology and risks, conflicts of interest on fee structures, compensation, business activities and disciplinary history.

Registered investment advisers already are grouching about government intervention, the added expenses and the extra time that they will need to spend on compliance.

But the new rules offer advisers a marketing opportunity that shouldn't be squandered. Meeting the requirements provides advisers a chance to build their relationships with clients and prospects, and dispel the public's impression that the financial services industry provides more double talk than straight talk.

Advisers tend to fare better than financial services corporations when it comes to trust. However, according to a recent study of 815 Americans over 50 conducted by AARP:

- 92% favor requiring investment companies to disclose the costs, risks and benefits of all the financial products they market and sell, using plain language and a user-friendly format.
- 93% favor requiring companies that manage 401(k) retirement plans to explain their fees clearly on participants' annual statements.

- 93% favor allowing consumers to check an investment adviser's record for violations or professional misconduct.

The Edelman 2010 U.S. Financial Services Trust Barometer, presented at the Economic Summit in Davos, Switzerland, also emphasized the importance of trust and transparency. The majority of U.S. investor respondents — 83% — indicated that “transparent and honest practices” are twice as important as financial returns, and said that the broker/adviser is their most trusted source to provide accurate information on investments, investing or the markets. One of the survey's main conclusions: “Commit to transparency in communications and to excellence in customer service.”

Transparency in communications is in and of itself an accelerator of customer service. Increased trust means more clients and, subsequently, higher profits. And evidence shows that the use of plain language in financial documents increases trust and corporate reputations.

How can RIAs create documents that will meet the standard for plain language? It is simpler than you think.

“The SEC Handbook on Plain English” (1998) sets forth the writing guidelines. Here are some key points:

- Use short sentences, concrete words and an active voice.
- Avoid legal jargon or highly technical business terms.
- Include examples, tables and bulleted lists.
- Make material easy to reference since readers generally read the information that is most relevant to them rather than reading from the beginning to the end. Brochures also should be tested on members of the intended audience. Usability testing isn't expensive or time-consuming but can yield significant results for revision.

Financial services are already getting on board with the plain-language initiative. Bank of America Corp. has launched a “clarity commitment” campaign to promote the fact that its credit card statements and mortgage documents are now written (at least in part) in plain language.

Advisers who use plain language show respect for their clients. Most people select their broker through the recommendations of others.

What better recommendation would one friend give another than, “My adviser respects me enough to make sure I understand my investments and our relationship”?