



COLORADO

Department of
Regulatory Agencies

Division of Securities

Colorado Division of Securities 2025 Investment Adviser Examination Priorities

The Examination Staff of the Colorado Division of Securities is issuing its 2025 investment adviser examination priorities.¹ These priorities are a non-exhaustive list of compliance matters based on commonly identified and/or high-risk deficiencies revealed during examinations that the Staff plans to focus on in the new year. This year's examinations will also focus on the new investment adviser representative continuing education (IAR CE) requirements.

Find additional information on the Division's website page: [For Firms and Industry Professionals](#). Here are the Staff 2025 Investment Adviser Examination Priorities:

1. Written Suitability Information Rule 51-4.6(IA)(A)(17) and Rule 51-4.8 (IA)(A)

Investment advisers must maintain written information that supports all recommendations. This “suitability” information generally forms the basis of an adviser's individually tailored recommendations to clients and is requested and reviewed on all examinations. Suitability information provides the firm with documentation to support and prove the validity of their recommendations to regulators and to clients alike.

Advisers should consider the following:

- Advisers are expected to update and maintain written suitability information throughout the client relationship and not only at inception of the relationship. Common deficiencies include failure to continually update suitability information and failure to have written documentation.
- Client notes (meeting notes, phone call notes, emails, etc.) may be helpful and should be kept in a suitability file. If there are no suitability changes, make a note that you reviewed suitability and that there were no changes.

¹ The views expressed herein are those of the Staff and intended to be informational and not inclusive of an investment adviser's responsibilities. The investment adviser is responsible for and must comply with all required rules and regulations. This document does not supersede any part of the Colorado Revised Statutes, Colorado Securities Act, and/or the related rules. The contents of this document do not constitute legal advice.

- Advisers must capture significantly robust suitability information for clients. For example, the custodian account opening form may not include sufficient information to form a basis for the adviser's recommendations. In that case, an adviser would be responsible for gathering additional information.
- Advisers that recommend complex products or riskier or unusual trading strategies should maintain adequately robust written information to support their recommendations, particularly if the clients' funds may be subject to substantial losses.
- When giving advice to a client to transfer their brokerage account(s) or rollover an employer-sponsored plan to the adviser's custodian, the Staff will look for documentation to verify that advisers have reviewed relevant information, including analysis of the employer plan, to support this advice.
- Advisers that offer financial planning or consulting should also maintain written information that is the basis for their recommendations to clients if those recommendations are in connection with their investment advisory activity.
- Suitability information must be maintained and preserved in an easily accessible place for a period of not less than five years from the end of the client relationship.

Rules relevant to suitability include:

- **Rule 51-4.6(IA)(A)(17)** which requires advisers to maintain written information about each investment advisory client that is the basis for making any recommendation or providing any investment advice to such client.
- **Rule 51-4.8 (IA)(A)** which states that dishonest and unethical conduct includes recommending to a client, to whom investment supervisory, management or consulting services are provided, the purchase, sale, or exchange of any security without reasonable grounds to believe that the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry concerning the client's investment objectives, financial situation and needs, and any other information known by the investment adviser.

2. Client Agreements (“Contracts”) Rule 51-4.6(IA)(A)(10) and Rule 51-4.8 (IA)(P)

Investment advisers must maintain a written advisory contract for all clients. The advisory contract outlines the advisory relationship, must be accurate, and is requested and reviewed on all examinations.

Advisers should consider the following:

- Contracts must be fully executed (signed by all parties) at the inception of the business relationship and copies of the contracts retained. The Staff has observed instances where advisers were unable to produce contracts, or the contracts were not fully executed.
- Advisers must have a contract directly with the client. Relying solely on third-party adviser contracts between your client and the third-party or custodian contracts between your client and the custodian does not meet the requirement.
- The terms and services must be clearly stated in the contract. The contract must also clearly disclose the fees the adviser charges which includes the formula for computing the fee.
- To assure accurate fees were charged, the Staff recommends that the investment adviser periodically reviews a sample of fees charged to clients and compare them with the fee agreed to in the contract. The Division has observed fees being deducted that were different than the contracted amount particularly when the advisers are using a third-party billing service or if the client billing is automated. Copies of contracts must be maintained and preserved in an easily accessible place for a period of not less than five years from the end of the client relationship.

Rules relevant to the advisory contract include:

- **Rule 51-4.6(IA)(A)(10)** requires advisers to maintain a copy in writing of each agreement or investment advisory contract entered into by the investment adviser with any client, and all other written agreements otherwise relating to the investment adviser's business as an investment adviser.
- **Rule 51-4.8(IA)(P)** states that dishonest and unethical conducts includes entering into, extending, or renewing any investment advisory contract, unless such contract is in writing and discloses, in substance, the services to be provided, the term of the contract, the advisory fee, the formula for computing the fee, the amount of prepaid fee to be returned in the event of contract termination or non-performance, whether the contract grants discretionary power to the adviser and that no assignment of such contract shall be made by the investment adviser without the consent of the other party to the contract.

3. Client Invoicing for Fees Rule 51-4.10(IA)(B)(2) and Rule 51-4.8(IA)(W)

Investment advisers are required to provide a notice of fee deduction (invoice) each time an investment adviser charges a fee directly to a client or directly

deducts a fee from a client account.

The invoice must be itemized so the client can clearly understand what fee was charged, how the fee was calculated, the time frame covered by the fee, and what services were provided for the fee. The Staff requests copies of invoices on all investment adviser examinations. Advisers should consider the following:

- The adviser is responsible for ensuring that invoices are timely sent to the adviser's clients and fee calculations are accurate.
- The invoices must contain an itemization of the fee. To help you assess the invoice's adequacy, review invoices with the mindset that a client should have enough information to easily verify the fee's accuracy (formula provided with all of the information clearly labeled to complete the formula), the services covered by the fee and the time frame covered by the fee.
- Advisers have communicated to Staff that they (incorrectly) understood that custodian statements were sufficient in meeting the invoice rule. Custodian statements rarely meet the invoicing requirements of itemization.
- The adviser should review the adequacy of invoices when using a third party for billing and invoicing.
- Copies of invoices must be maintained and preserved in an easily accessible place for a period of not less than five years from the end of the fiscal year.

Rules relevant to the fee invoicing include:

- **51-4.10(IA)(B)(2)** states that each time a fee is charged directly to a client or directly deducted from a client account the investment adviser must send the client an invoice specifying and itemizing the fee. Itemization includes the formula used to calculate the fee, the amount of assets under management or investment advisory services the fee is based on, the amount of time charged, and the services provided for hourly billing, and the time period covered by the fee.
- **51-4.8(IA)(W)** states that is dishonest and unethical by failing to provide advisory fee billing information to each client in compliance with the requirements of Rule 51-4.10(IA)(B)(2).

4. Financial Statements Rule 51-4.6(IA)(A)(6)

This rule requires investment advisers to maintain financial statements according to Generally Accepted Accounting Principles (GAAP), which requires all internal audit working papers to be prepared utilizing the accrual basis, not cash basis.

Complete financial statements consist of a balance sheet, trial balance, general ledger, cash receipts and disbursements journal, income statement, and cash flow statements. Advisers should consider the following:

- The requirement is that financial statements are prepared according to GAAP.
- All advisers are required to maintain financial statements including sole proprietors.
- The Staff will generally utilize an investment adviser's financial statements to determine whether the investment advisers maintain an adequate liquid net worth. Rule 51-4.13(IA) sets out investment advisers liquid net worth requirements, which vary depending on whether the investment adviser has discretionary authority and/or custody.
- Copies of financial statements must be maintained and preserved in an easily accessible place for a period of not less than five years from the end of the fiscal year.

Rules relevant to the financial statements include:

- **Rule 51-4.6(IA)(A)(6)** requires investment advisers to keep true, accurate, and current all trial balances, financial statements (prepared in accordance with generally accepted accounting principles i.e., accrual basis), and internal audit working papers relating to the investment adviser's business as an investment adviser. [For purposes of this subsection, the term "financial statements" means a balance sheet, an income statement, and a cash flow statement prepared in accordance with generally accepted accounting principles.]

5. Investment Adviser Continuing Education Requirement Rule 51-4.4.1(IA)

Rule 51-4.4.1(IA) created an annual continuing education (CE) requirement for all licensed investment adviser representatives (IAR). The first reporting period began in 2024 with 12 CE credits required by December 31, 2024. The Division will be reviewing CE compliance. See the Staff's [IAR CE FAQs](#) for more information about the CE requirement.

- Every IAR licensed in Colorado is subject to CE requirements.
- An Authorized Provider must provide the courses. Authorized Providers are approved by the North American Securities Administrators Association (NASAA). You will find updated lists of Authorized Providers on [NASAA's website](#).

- The Authorized Provider will report to the Central Registration Depository (CRD) a roster of IARs that successfully completed the course.
- IARs will be able to monitor their IAR CE through the Financial Industry Regulatory Authority's (FINRA) FinPro system. Sign up for a [FinPro account](#).

Rules relevant to IAR CE

- **Rule 51-4.4.1(IA)(A)(A)** states that every investment adviser representative registered under 11-51-401(1.5), C.R.S. must complete the following IAR continuing education requirements each Reporting Period:
 1. IAR Ethics and Professional Responsibility Requirement. An investment adviser representative must complete six credits of IAR Regulatory and Ethics Content offered by an Authorized Provider, with at least three hours covering the topic of ethics; and
 2. IAR Products and Practice Requirement. An investment adviser representative must complete six Credits of IAR Products and Practice Content offered by an Authorized Provider.

Reach Out: Investment advisers can always call or email the Division with questions. If you call, ask the main desk to speak with an Examination Staff member. We interact with hundreds of investment advisers every year and while the Staff cannot offer legal advice, we can offer best practice recommendations on complying with certain regulations and direct you to relevant rules to review. The Division can be reached at 303-894-2320 or by email at dora_SecuritiesWebsite@state.co.us.