

## Statement

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# Statement on Internet Investment Advisers



**Chair Gary Gensler**

**March 27, 2024**

Today, the Commission voted to adopt final rules regarding when investment advisers providing advisory services exclusively over the internet can register with the Securities and Exchange Commission. I was pleased to support these amendments because they modernize a 22-year-old rule to better protect investors in a digital age.

In 1996, Congress divided the responsibility for regulating investment advisers so that larger investment advisers with national presence would be regulated by the SEC while smaller advisers with sufficient local presence would be regulated by the states. We have a good working relationship with these state regulators; the markets benefit from this efficient allocation of resources.

That 1996 law came before the broad adoption of the internet and online finance. In 2002, the SEC granted what was intended to be a narrow exemption—the Internet Advisers Exemption—allowing internet-based advisers that provided substantially all of their advisory services over the internet to register with us instead of with the states.

A lot has changed in the 22 years since. I believe an exemption written in 2002 allows gaps in 2024. In recent years, staff have observed compliance deficiencies by advisers relying on this exemption. In a 2021 risk alert, staff noted that nearly half of the examined advisers that claimed the exemption in fact were ineligible.<sup>[1]</sup>

Thus, today's rules will modernize the Internet Advisers Exemption in two ways.

First, the amendments will require advisers seeking to rely on the Internet Advisers Exemption to have at all times an operational, interactive website through which the adviser provides digital investment advisory services on an ongoing basis to more than one client. That means firms that rely on the exemption—thus being regulated by the SEC rather than state securities regulators—actually will need to advise clients through the internet and do so from the moment the firms rely on this exemption. The website cannot be used as a prop, akin to how a person behind the curtain used props to pretend to be the Wizard of Oz.

Second, the amendments will require advisers seeking to rely on the Internet Advisers Exemption to provide advice to clients exclusively through this operational, interactive website. Currently, the rule allows advisers to qualify as internet advisers while, for instance, also serving a small number of investors in person, over the phone, or by other means.<sup>[2]</sup>

These changes better reflect what it means in 2024 truly to provide an exclusively internet-based service. This would better align registration requirements with modern technology and help the Commission in the efficient and effective oversight of registered investment advisers.

I'd like to thank members of the SEC staff for their work on these final rules, including:

- Natasha Vij Greiner, Sarah ten Siethoff, Melissa Rovers Harke, Sirimal R. Mukerjee, Blair B. Burnett, and Herman Brown in the Division of Investment Management;
- Megan Barbero, Meridith Mitchell, Natalie Shioji, Cathy Ahn, Alice Wang in the Office of the General Counsel;
- Jessica Wachter, Alex Schiller, Mengxin Zhao, and Rebecca Orban in the Division of Economic and Risk Analysis;
- Matthew Meyerhofer, Heather Marlow in the Division of Enforcement; and
- John Polise, Stephanie Bennett, Michael Hershaft, Carolyn O'Brien, Elizabeth Blase, and Keith Kanyan in the Division of Examinations.

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[1] See Securities and Exchange Commission Division of Examinations Staff, "Observations from Examinations of Advisers that Provide Electronic Investment Advice" (Nov. 9, 2021), *available at* <https://www.sec.gov/files/exams-eia-risk-alert.pdf>.

[2] The current rule allows advisers to qualify for the Internet Adviser Exemption even while serving a small number of non-internet clients (fewer than 15) in the previous 12 months.