

Client Alert

Current Issues Relevant to Our Clients

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Investment Advisers—Never Had a SEC Exam? You Might Have One Soon.

If your firm is a registered investment adviser that has never been examined by the Securities and Exchange Commission (the “SEC”), you might want to prepare to see SEC examiners in the near future. The SEC staff recently announced an initiative to conduct examinations of a significant percentage of advisers that have not been examined since they registered with the SEC. The SEC staff will focus on advisers that have been registered for three years or more. Private fund advisers are not part of this exam initiative because these advisers are already subject to a separate “presence exam” initiative launched in 2012. If your firm has never had a SEC adviser exam, you will likely receive a letter from the SEC staff describing the exam initiative which is available [here](#).

What Will SEC Exams Cover?

The SEC exam initiative will consist of two approaches: risk-assessments and focused reviews. Risk assessments will include a high-level review of an adviser’s overall business activities, focusing on the compliance program and essential documents needed to assess representations made in disclosure documents. The focused review approach will be a more comprehensive, risk-based examination of one or more of the following areas:

- compliance program effectiveness;
- SEC filings and client disclosures;
- marketing;
- portfolio management, including allocation of investment opportunities and other conflicts of interest; and
- safety of client assets (custody rule).

What Should I Do Now?

Advisers that have never had a SEC exam should review their compliance programs to ensure that policies and procedures are current and being followed. You should review all books and records to ensure that they are maintained properly and in an organized manner. About two weeks before an exam, the SEC staff will request copies of or access to most of your books and records, including advisory agreements, results of compliance reviews, valuation records, trade blotters, marketing and

performance records, and other information. The SEC generally does not grant delays. Being able to respond to requests quickly and in an organized, professional way is a significant part of making the exam process go smoothly. If you need help preparing for an exam, reviewing compliance policies or just want additional insight into the typical SEC exam process, contact your regular Chapman and Cutler attorney who can coordinate with our Investment Management group.

For More Information

To discuss any topic covered here, please contact any member of the Investment Management Group, or visit us at chapman.com.

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