

Client Alert

Current Issues Relevant to Our Clients

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SEC to Examine Never-Before-Examined Registered Investment Companies

The Securities and Exchange Commission (“SEC”) staff recently announced an initiative to conduct examinations of registered investment company complexes that have not previously been examined. The SEC staff will focus on open-end funds (i.e., mutual funds); closed-end funds; and underlying insurance funds. The emphasis will be on registered investment company complexes that were launched one or more years ago. The SEC staff’s Risk Alert describing the initiative is available [here](#).

What will the SEC exams cover?

The SEC exam initiative will consist of conducting focused, risk-based examinations of two or more of the following higher-risk areas:

- **Compliance Programs**—SEC staff will focus on proxy voting policies and procedures for both portfolio securities and fund shares, timeliness and accuracy of registration statement and other required periodic report filings and codes of ethics.
- **Annual Advisory and Sub-Advisory Contract Review**—SEC staff will focus on a fund board’s assessment of advisory fees and management of an adviser’s conflicts of interest with respect to its obligations to the fund and its fees.
- **Advertising and Distribution of Fund Shares**—SEC staff will review a fund’s advertisements and distribution of fund shares to assess policies, procedures and controls to review and approve advertising material. Staff will also review disclosure of sales charge breakpoint discounts and application of procedures to determine that breakpoints are correctly applied and monitored.
- **Valuation and NAV Calculation**—SEC staff will focus on fund policies, procedures and practices related to valuation of holdings and NAV calculation methodology and the fund board’s oversight processes.
- **Leverage and Use of Derivatives**—SEC staff will review compliance with asset coverage requirements of Section 18, asset segregation in relation to SEC staff-issued guidance and whether a fund’s disclosures appropriately convey the fund’s use of derivatives and risks.

While these are the primary focus areas for the SEC’s initiative, examiners may select additional topics based on

operational and other risks identified by the staff during the course of its examination.

What should I do now?

Registered investment companies 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. Leading up to an exam, the SEC staff will request copies of or access to an extensive list of books and records. 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 any member of the Investment Management Group.

For More Information

To discuss any topic covered in this Client Alert, please contact a member of the Investment Management Group or visit us online at chapman.com.

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