



U.S. Securities and Exchange Commission

Office of Compliance Inspections and Examinations¹ Investment Adviser Examinations: Core Initial Request for Information

November 2008

The content of our initial request for information reflects the nature and extent of an adviser's business. For an adviser that provides only traditional money management services to non-fund clients, our initial request for information reflects the core services and related controls that typically exist in that environment. If an adviser's business has other features, the information initially requested will include both the core set of information described below and additional information that will allow the examination staff to evaluate compliance activities for these additional activities and relationships. Some of these additional activities and relationships include sponsoring a family of registered investment companies, sponsoring one or more privately offered funds, participating in PIPES offerings, participating in a separately managed account (wrap-fee) program, being also registered as a broker-dealer and being a manager of managers.

Background Regarding Requested Information

Each investment adviser registered with the Commission is required to adopt and implement written policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 (the "Advisers Act"), to review those policies and procedures at least annually for their adequacy and the effectiveness of their implementation, and to designate a chief compliance officer who is responsible for administering the policies and procedures (the "Compliance Rule" provisions are located in Rule 206(4)-7 under Advisers Act). The Compliance Rule is designed to protect investors by mandating that all advisers have internal programs to promote compliance with the Advisers Act. Each adviser should adopt policies and procedures that take into consideration the nature of that firm's operations. The policies and procedures should be designed to prevent violations from occurring, detect violations that have occurred, and correct promptly any violations that have occurred.

The initial phase of an examination includes a review of the firm's business and investment activities, its organizational affiliations and its corresponding compliance policies and procedures. The staff will request information and documents and speak with the firm's employees to ensure an understanding of the firm's business and investment activities and the operation of its

compliance program. Using the information obtained, the staff will assess whether the firm's compliance policies and procedures appear to effectively address the firm's compliance risks. This work includes testing the firm's compliance program in particular areas.

The following points provide an overview of the core information the staff requests:

- Certain general information to provide an understanding of the firm's business and investment activities, including organizational charts, demographic and other data regarding advisory clients, and a record of all trades placed for its clients (trade blotter).
- Information about the compliance risks that the firm has identified (e. g., an inventory of compliance risks) and the written policies and procedures the firm has established and implemented to address each of those risks to provide an understanding of the firm's compliance risks and corresponding controls.
- Documents relating to the results of and output from the various transactional (quality control) and period (forensic) testing conducted to provide an understanding of how effectively a firm has implemented its compliance policies and procedures. This includes the results of any compliance reviews, quality control analyses, surveillance, forensic or transactional tests the firm has used to determine if activities have been performed as expected and to identify activities or transactions that have fallen short of or breached related policies and procedures.
- Information regarding the results of any tests and follow-up actions taken by the firm to address shortfalls or breaches revealed by such tests to provide an understanding of steps taken by the firm to address the results of compliance reviews, quality control, forensic or transactional tests conducted. This information might include, for example, warnings to or disciplinary action of employees, changes in policies or procedures, redress to affected clients, or other measures.
- Information to perform testing for compliance in various areas.

Core Initial Information Examiners Request

Described below are the types of core information that examiners will request during a routine examination of a typical money manager that does not engage in additional activities and/or have additional relationships. Also, for some of the items, a copy (either electronic or hard copy) may be requested, while examiners may only request access to other items.

General Information

- Organizational structure, affiliations, and control persons.

- Current and former officers and/or directors.
- Standard client advisory contracts or agreements.
- Sub-advisory agreements executed with other investment advisers.
- Fees and payments for services rendered.
- Power of attorney obtained from clients.
- Joint ventures or other businesses (with respect to the firm or any officer, director, portfolio manager, or trader).
- Disclosure documents and filings with regulators.
- Service providers and the services they perform.
- Remedial actions taken against supervised persons.
- Threatened, pending and settled litigation or arbitration involving the Adviser or any supervised person.

Information Regarding the Compliance Program, Risk Management and Internal Controls

- Compliance Program
 - Compliance policies and procedures in effect during the examination period.
 - Tests performed (i.e., compliance reviews, quality control analyses, surveillance, and/or forensic or transactional tests performed by the firm).
- On-going Risk Identification and Assessment
 - Inventory of compliance risks that forms the basis for policies and procedures and notations regarding changes made to the inventory.
 - Documents mapping the inventory of risks to written policies and procedures.
 - Written guidance provided to employees regarding compliance risk assessment process and procedures to mitigate and manage compliance risks.

- Internal audit review schedules and completed audits.
- Remote office and/or independent advisory contractor oversight process.
- Client complaints and correspondence and the process for monitoring such communications.
- Annual and/or interim reviews of policies and procedures, including interim reports.
- Record of non-compliance with the Code of Ethics.
- Valuation
 - Pricing services, quotation services, and externally-acquired portfolio accounting systems used in the valuation process and payment information.
 - Fair-valued and illiquid securities held by clients.
 - Advisory fee calculations.
- Information Processing, Reporting, and Protection
 - Regulation S-P guidance.
 - Controls of employee access to physical locations containing customer information.
 - Electronic access controls.
 - Business continuity plan.

Information to Facilitate Testing with Respect to Advisory Trading Activities

- Trade blotter.
- Advisory Information for Individual Clients
 - Current advisory client information regarding: account inception, type, balance, and management discretion; affiliation with the firm; custodial arrangements; account statement delivery; firm trading authority; services provided; investment strategy; portfolio manager; participation in composites; brokerage arrangements; fee computation; fee payment arrangements; and consultant related to obtaining the client, if any.

- Advisory clients lost during review period.
- Portfolio Management
 - Securities held in all client portfolios, including information identifying each client holding an interest, the amount owned by each client, the aggregate number of shares or principal and/or notional amount held and total market value of the position.
 - Investment and/or portfolio management committee meetings and minutes, if held and maintained.
 - Publicly traded companies for which employees of the Adviser or its affiliates serve as officers and/or directors.
 - Companies for which employees of the adviser or its affiliates serve on creditors' committees.
 - Most profitable and least profitable investment decisions.
- Brokerage Arrangements
 - Brokerage arrangements and best execution evaluation documentation.
 - Soft dollar budget and products and services obtained using clients' brokerage commissions.
 - Commission-sharing arrangements.
 - Affiliated broker-dealers.
 - Securities in which the Adviser or an affiliate was a market maker.
 - Securities purchased for clients in which the firm or an affiliate underwrote or participated as underwriting manager, purchase group, and/or syndicate or selling group.
 - Trade errors and related information.
- Trade allocation information regarding initial public offerings and secondary offerings in which clients, proprietary accounts or access persons participated.
- Conflicts of Interest and/or Insider Trading
 - Code of Ethics and insider trading policies and procedures for

firm and affiliates.

- Exemptions from Code of Ethics for supervised persons.
- Personal trading policies and procedures of contract employees and temporary employees.
- Reports of securities transactions reported by access persons.
- Non-public information control and monitoring procedures.
- Fee splitting or revenue sharing arrangements.

Information to Perform Testing for Compliance in Various Areas

- Performance Advertising and/or Marketing
 - Pitch books, one-on-one presentations, pamphlets, brochures, and other promotional and/or marketing materials used for each investment strategy and/or mandate.
 - Advertisements used to inform or solicit clients.
 - Website access, if restricted.
 - Composite performance returns.
 - Accounts included in each composite and specific client account performance and supporting documentation for such clients.
 - Accounts not included in a composite.
 - Terminated composites.
 - Persons paying and compensation received for referring clients.
 - Third-party solicitor agreements, correspondence, compensation paid, and separate disclosure document.
 - Requests for proposals.
 - Third-party consultant questionnaires.
 - Global Investment Performance Standards compliance documentation.
- Financial Records

- Balance sheet, trial balance, income statement, and cash flow statements.
- Cash receipts and disbursements journal.
- General ledger and chart of accounts.
- Loans and sales of firm or affiliate's stock.
- Custody
 - Custodial confirmation that account statements are sent directly to clients.
 - Custodial confirmation of positions for specific clients.
- Anti-Money Laundering
 - Office of Foreign Assets Control ("OFAC") policies and procedures.
 - Internal Revenue Code ("IRC") and Bank Secrecy Act ("BSA") reporting procedures.

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<http://www.sec.gov/info/cco/requestlistcore1108.htm>

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