

2015 Investment Adviser Coordinated Exams



North American Securities Administrators Association

Exams Overview

- 1170 routine investment adviser examinations
- January – June 2015
- 42 Jurisdictions
- 823 Advisers had AUM
- 232 had AUM > \$30MM
- 591 had AUM < \$30MM
- 324 first time examined by the state



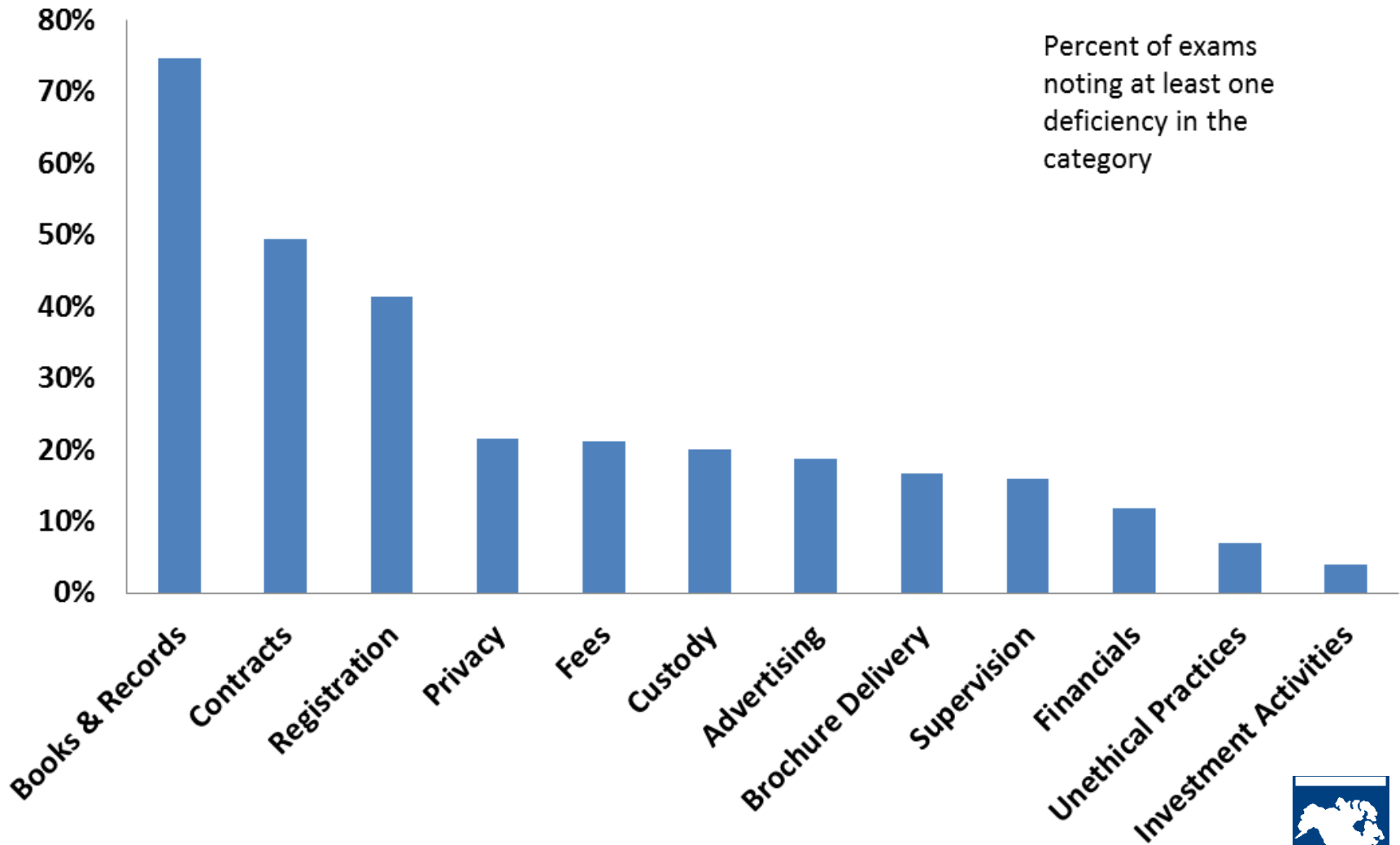
Adviser Stats

- 738 advisers had 1 IAR
- 191 advisers had 2 IARs
- 97 affiliated with a BD firm
- 38 advised a pooled investment vehicle
- 414 offered financial planning services
- 95 acted as solicitors for other advisers
- 21 payed solicitors for referrals



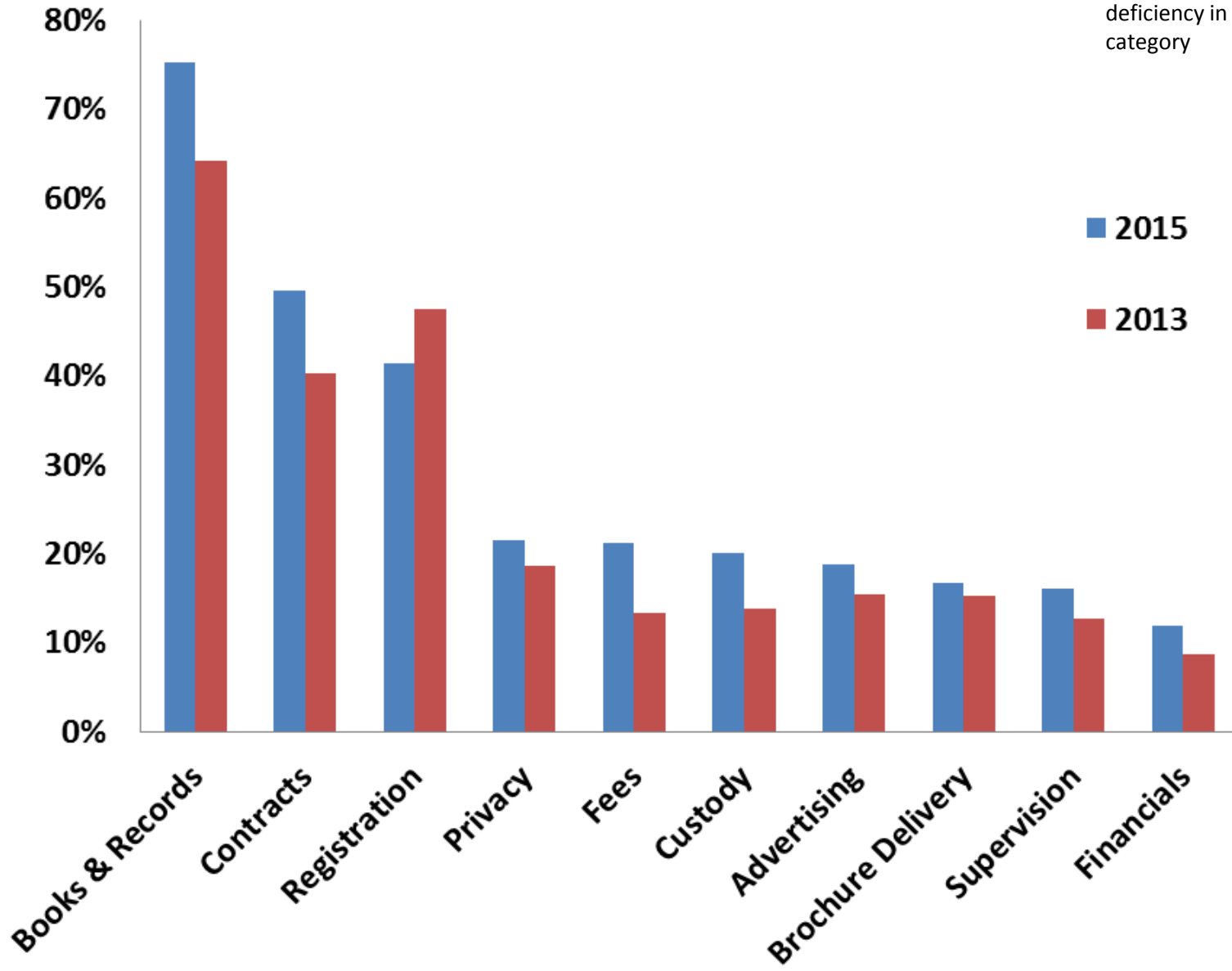
Percent of Exams With Category Deficiencies

All Advsers with AUM >0



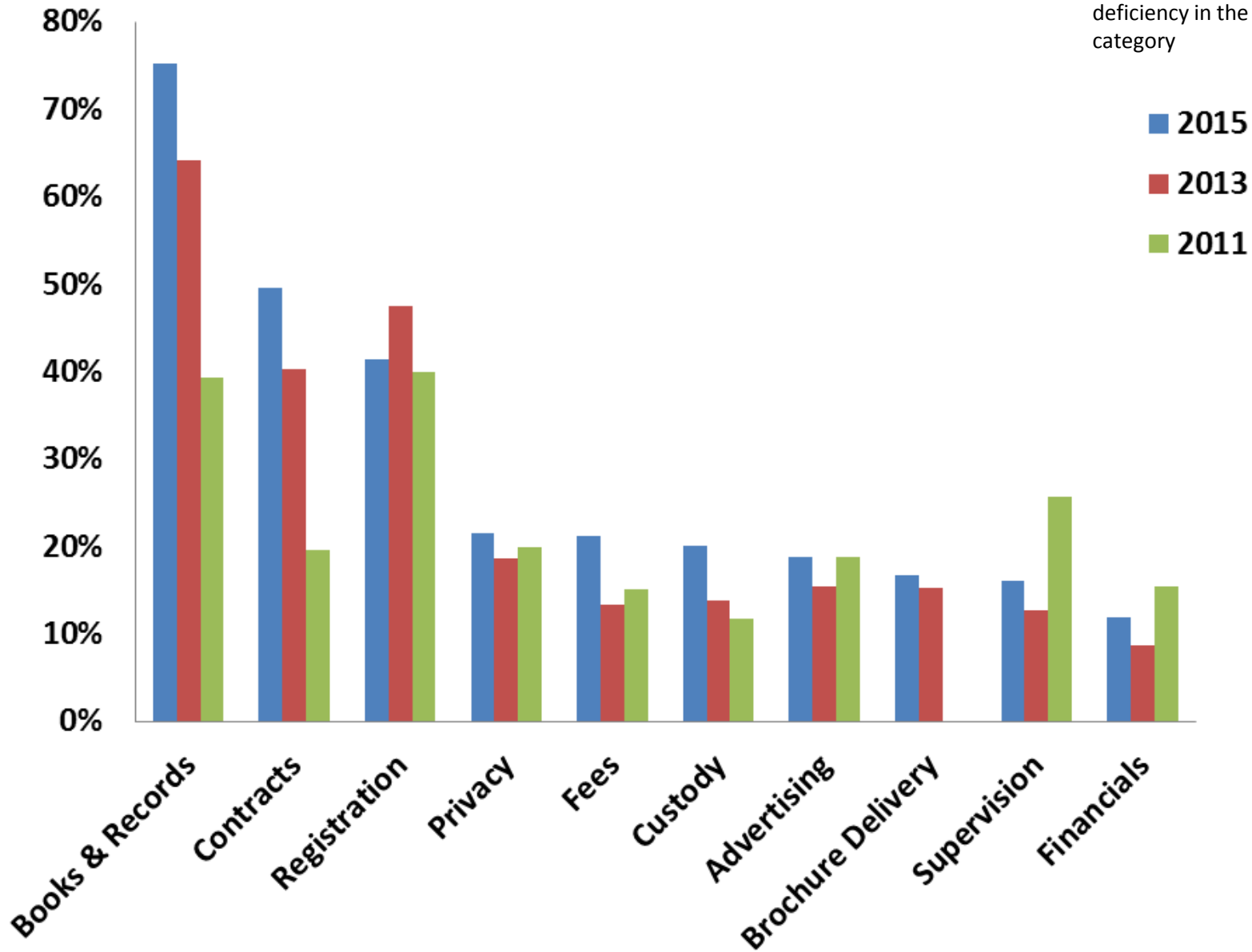
2015 Compared to 2013

Percent of exams noting at least one deficiency in the category



2015 Compared to 2013 and 2011

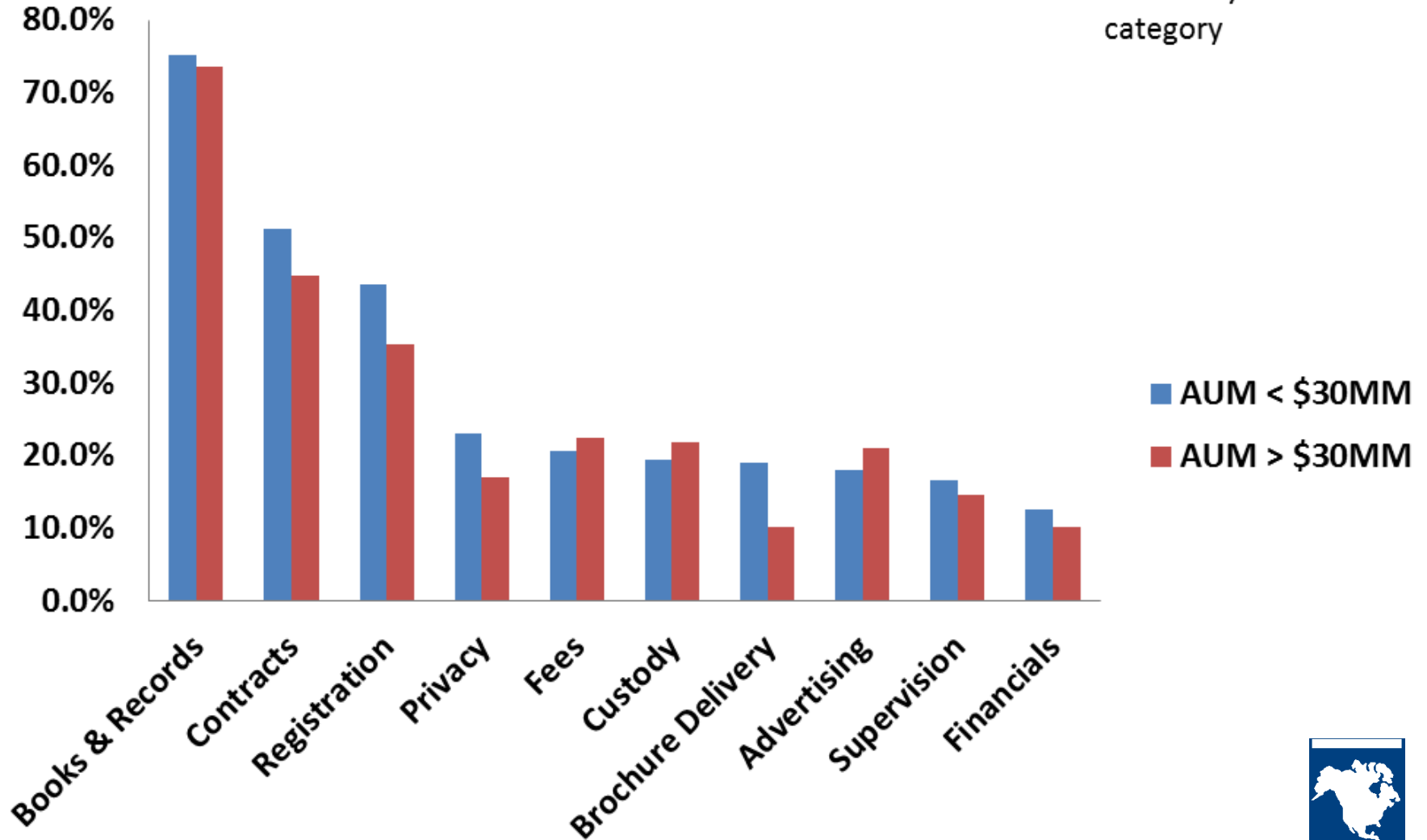
Percent of exams noting at least one deficiency in the category



AUM Comparison

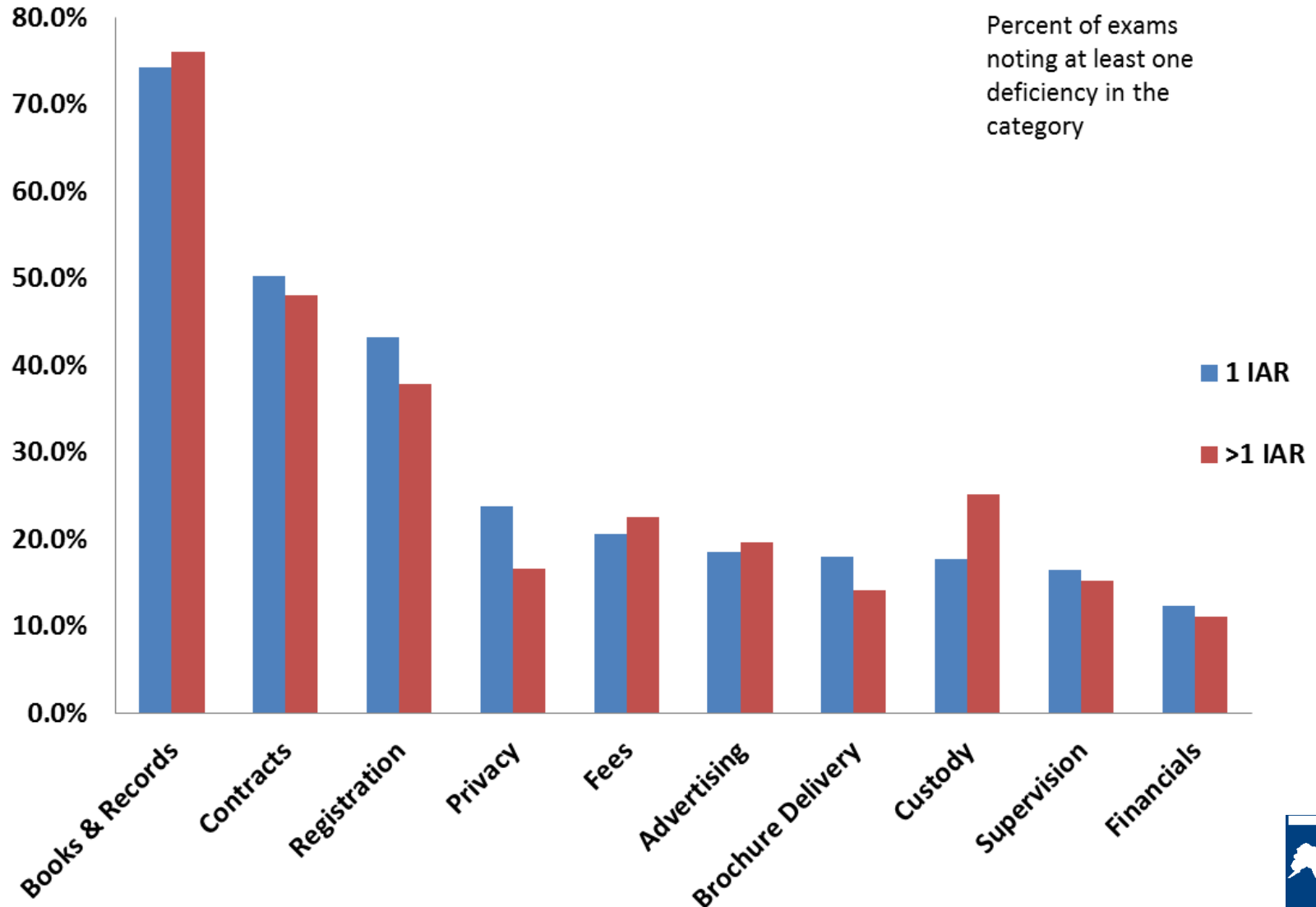
All Advisers with AUM > \$0

Percent of exams noting at least one deficiency in the category



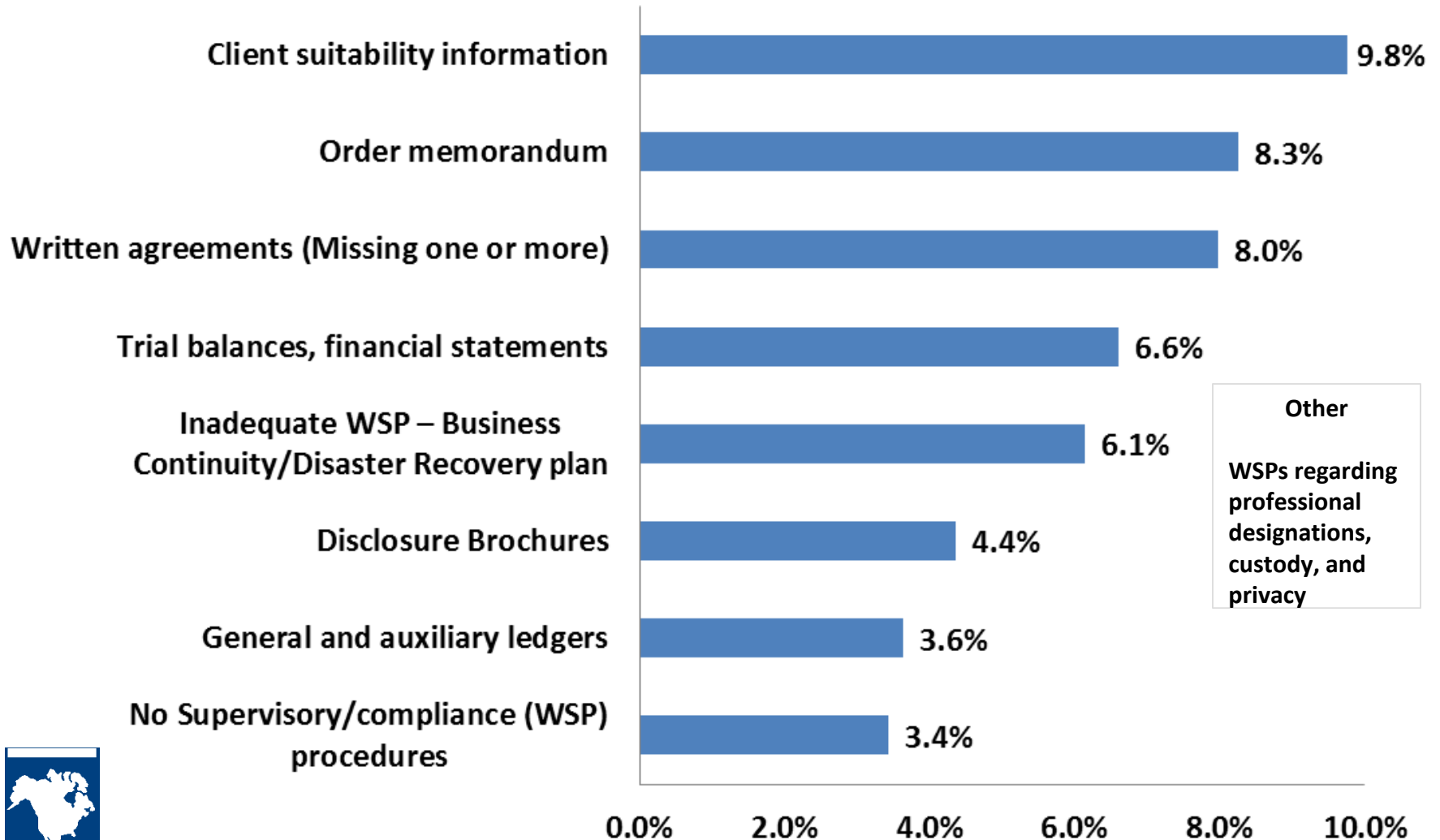
1 IAR vs. >1 IAR

Percent of exams noting at least one deficiency in the category



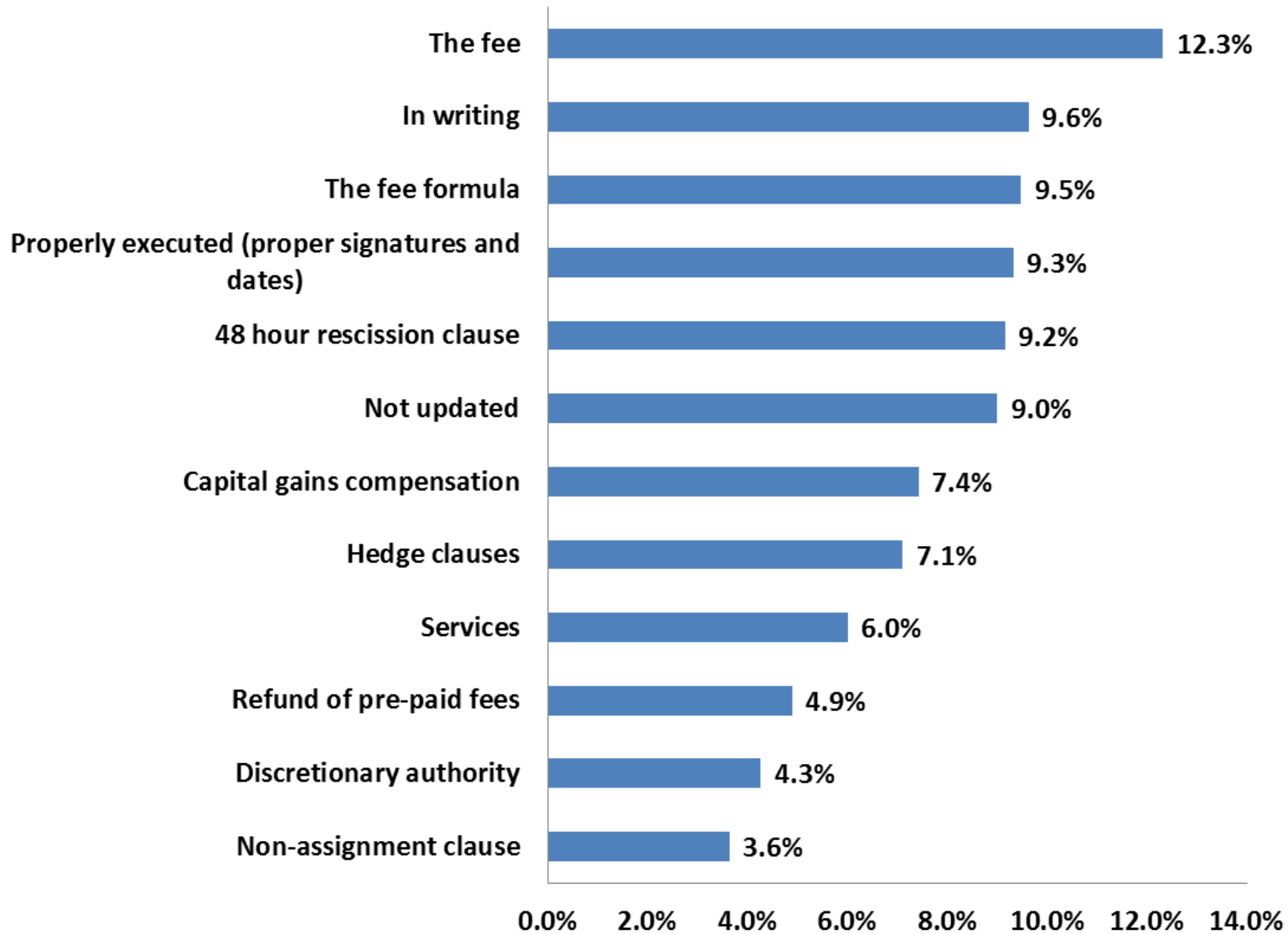
Books and Records

1515 Deficiencies
74.8 % of Advisers with AUM



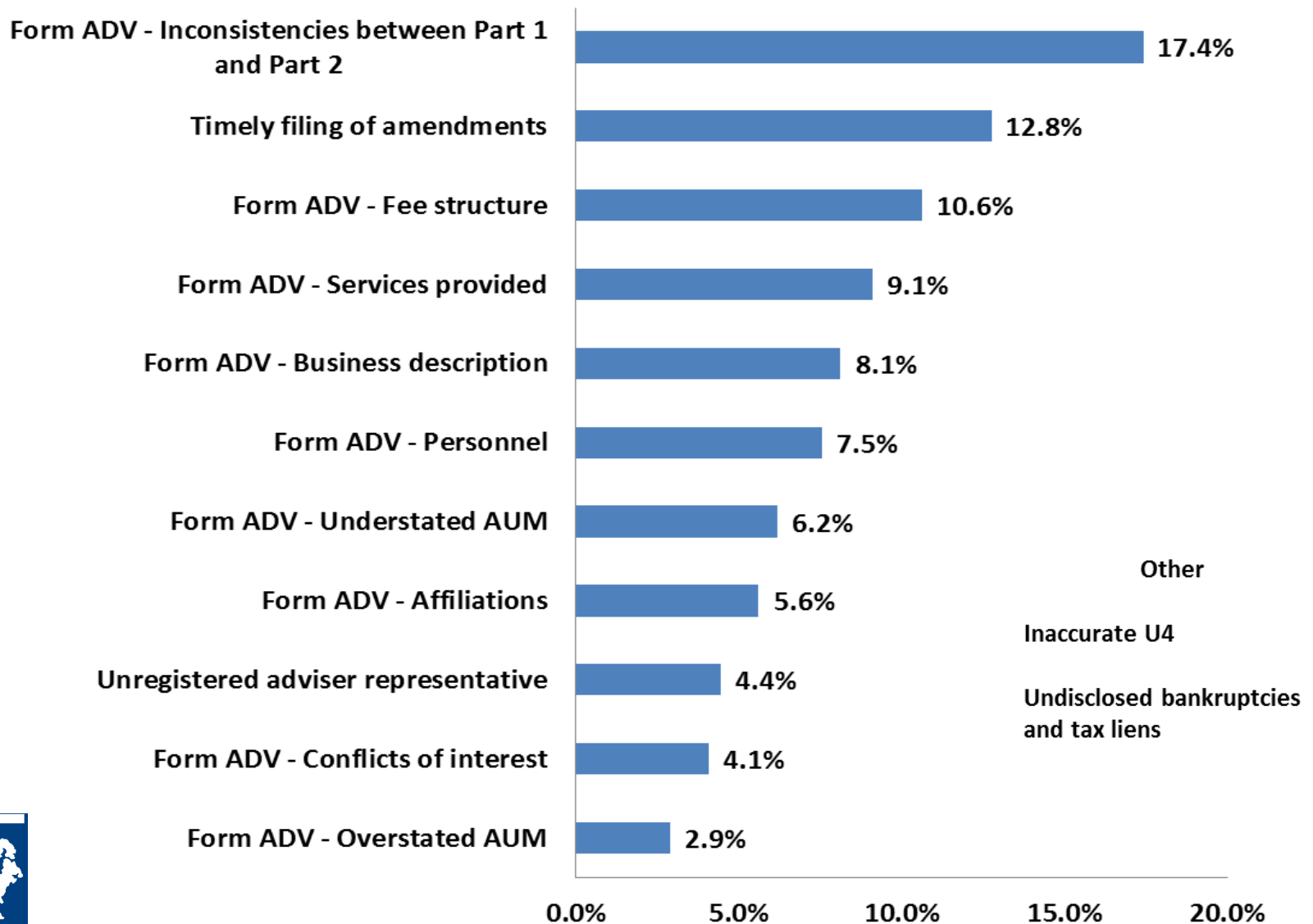
Contracts

633 Deficiencies
49.5 % of Advisers with AUM



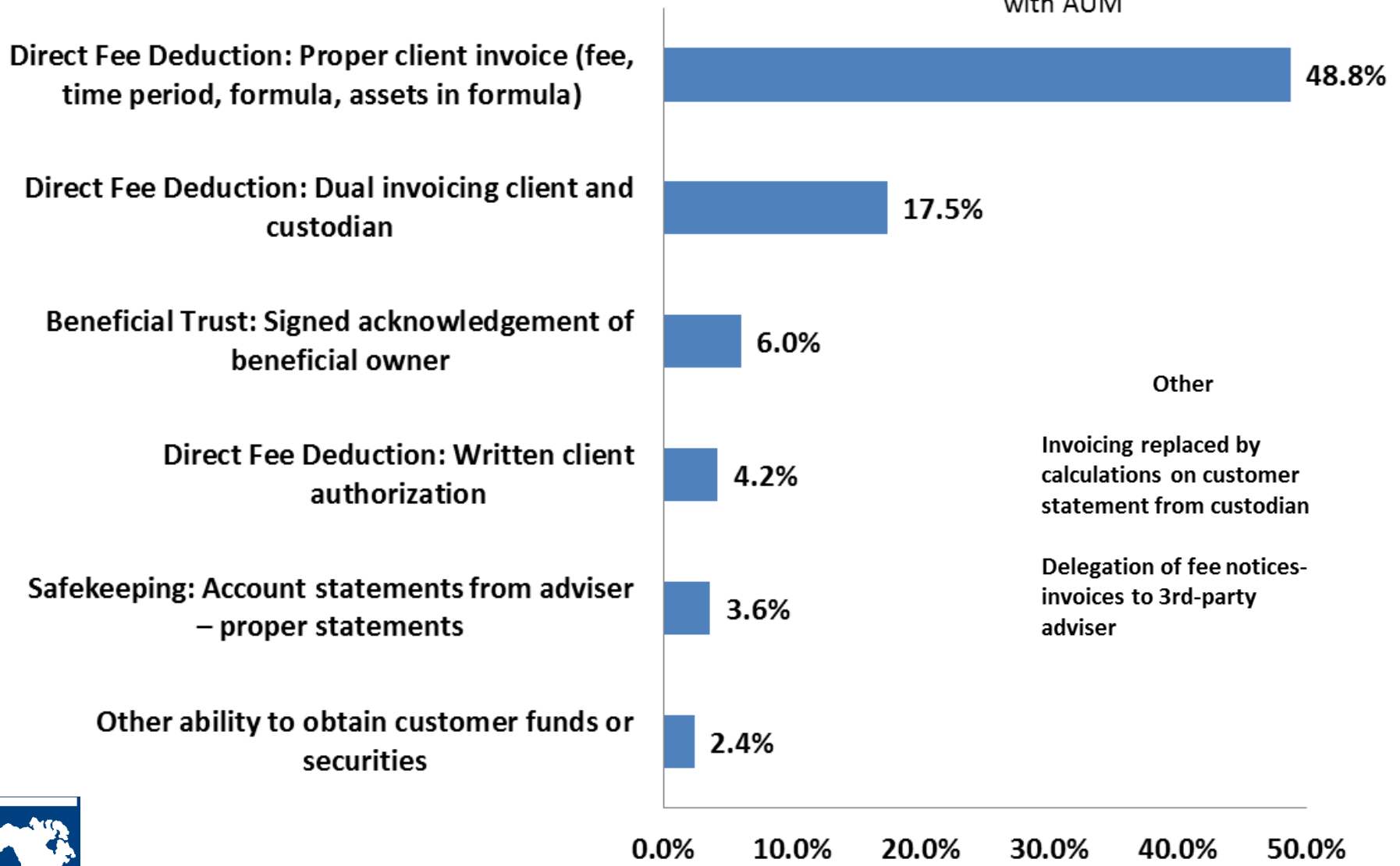
Registration

517 Deficiencies
41.5 % of Advisers with AUM



Custody

166 Deficiencies
20.1 % of Advisers
with AUM



Fees

166 Deficiencies
21.2 % of Advisers
with AUM

Fee charged doesn't match contract or ADV

54.8%

Unreasonable/Excessive fee (UBP)

17.5%

Charging miscalculated fees (overcharging)

12.7%

Charging undisclosed fees

5.4%

Preferential fees without reasonable justification or disclosure

4.2%

Performance fees charged to non-qualified clients

3.0%

Other

Retainer fees

Inaccurate refunds

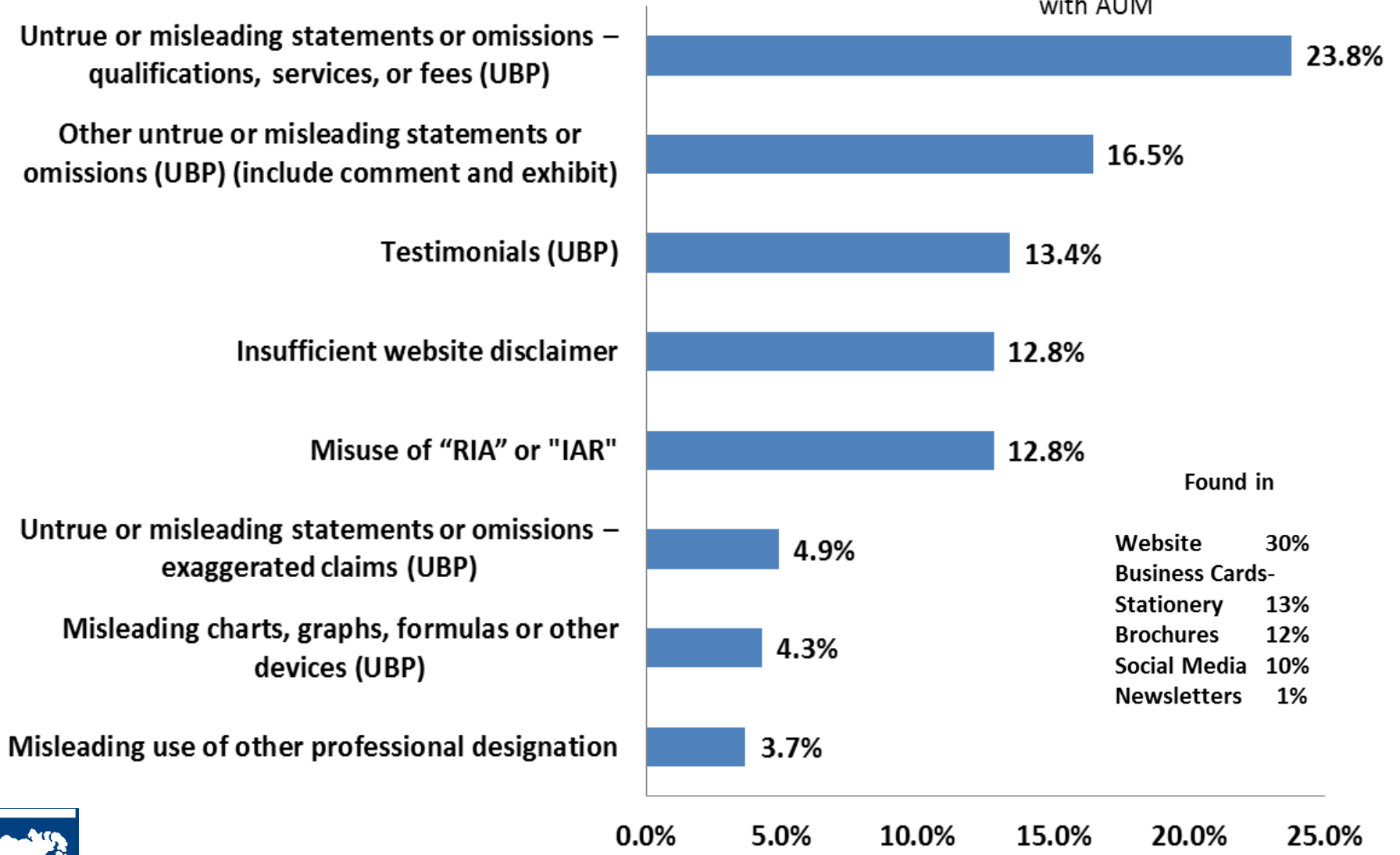
Fees charged on large cash holdings

0.0% 15.0% 30.0% 45.0% 60.0%



Advertising

164 Deficiencies
18.8 % of Advisers
with AUM



Found in

Website	30%
Business Cards-	
Stationery	13%
Brochures	12%
Social Media	10%
Newsletters	1%



Privacy

157 Deficiencies
21.5 % of Advisers
with AUM

Annual delivery of privacy policy



50.3%

Initial delivery of privacy policy



21.7%

No privacy policy



14.0%

Inadequate privacy policy



11.5%

Disclosed confidential client
information without proper
authorization (UBP)



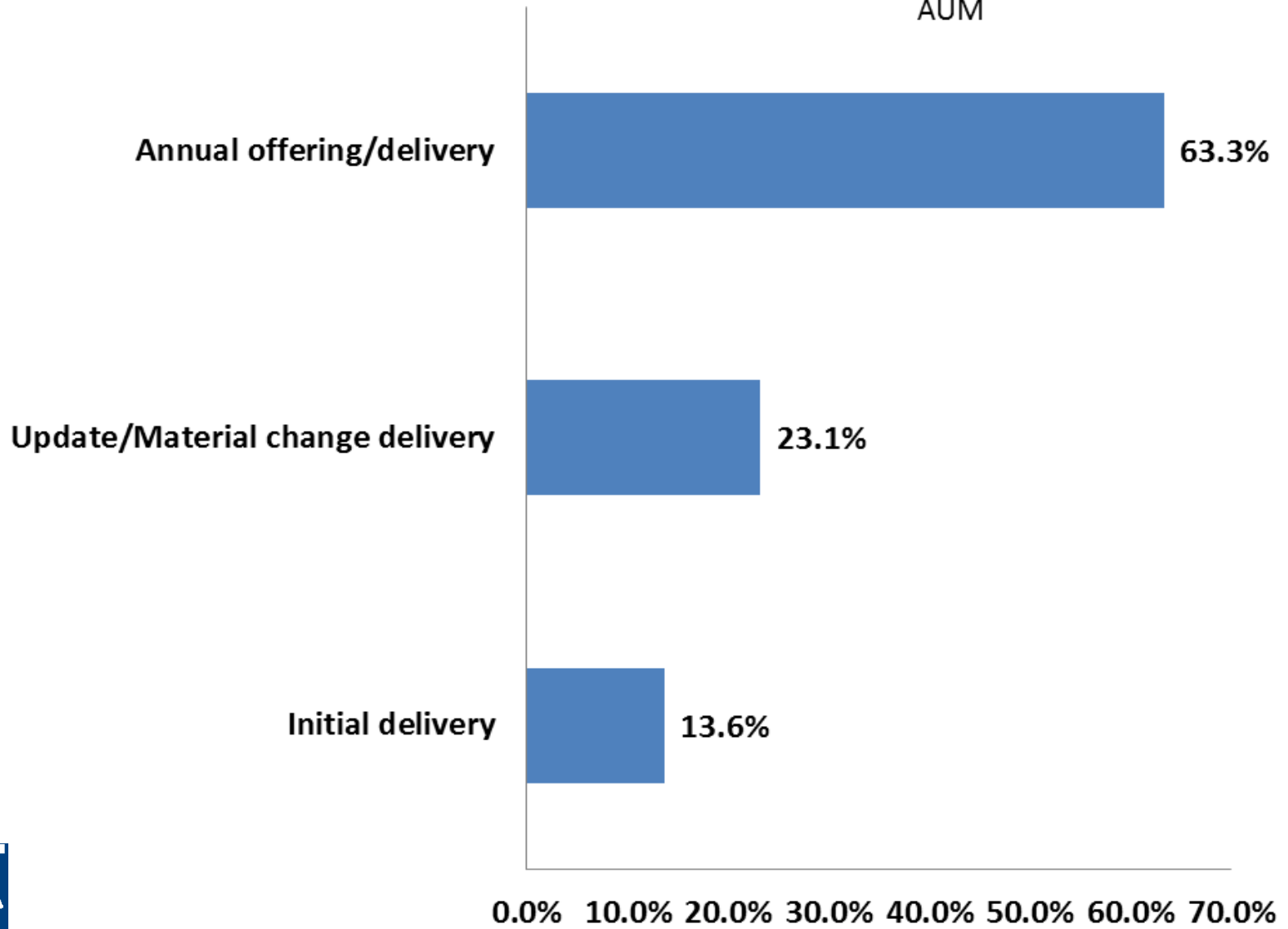
2.5%

0.0% 10.0% 20.0% 30.0% 40.0% 50.0% 60.0%



Brochure Delivery

147 Deficiencies
16.7 % of Advisers with
AUM



Compliance/Supervision

113 Deficiencies
16.0 % of Advisers
with AUM

Failure to have procedures to preventing the misuse of material nonpublic information (UBP)

38.9%

Failure to periodically assess and update compliance/supervisory program

31.0%

Failure to follow compliance/supervisory procedures

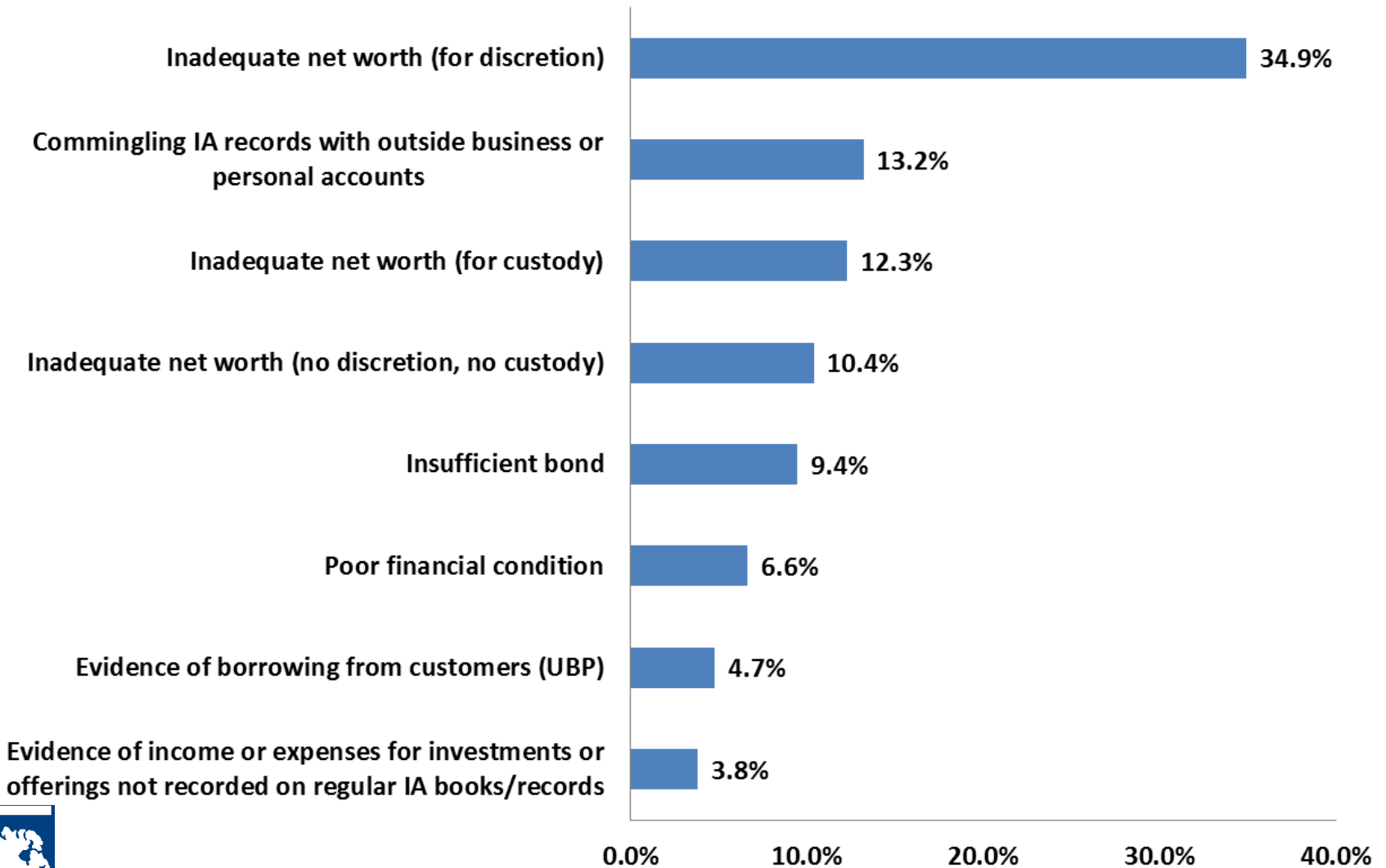
27.4%

0.0% 10.0% 20.0% 30.0% 40.0%



Financial Matters

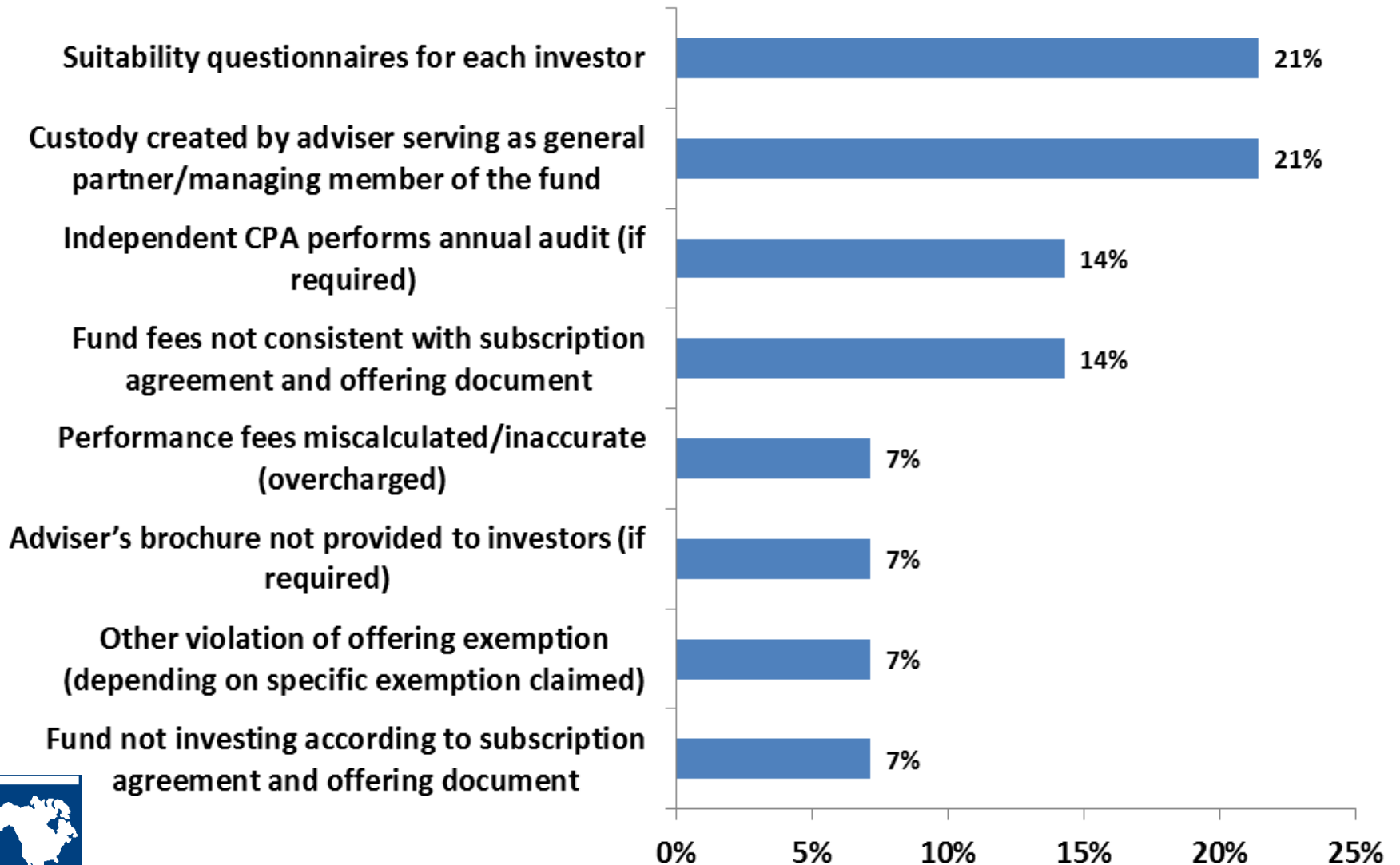
106 Deficiencies
11.9 % of Advisers with
AUM



Pooled Investment Deficiencies

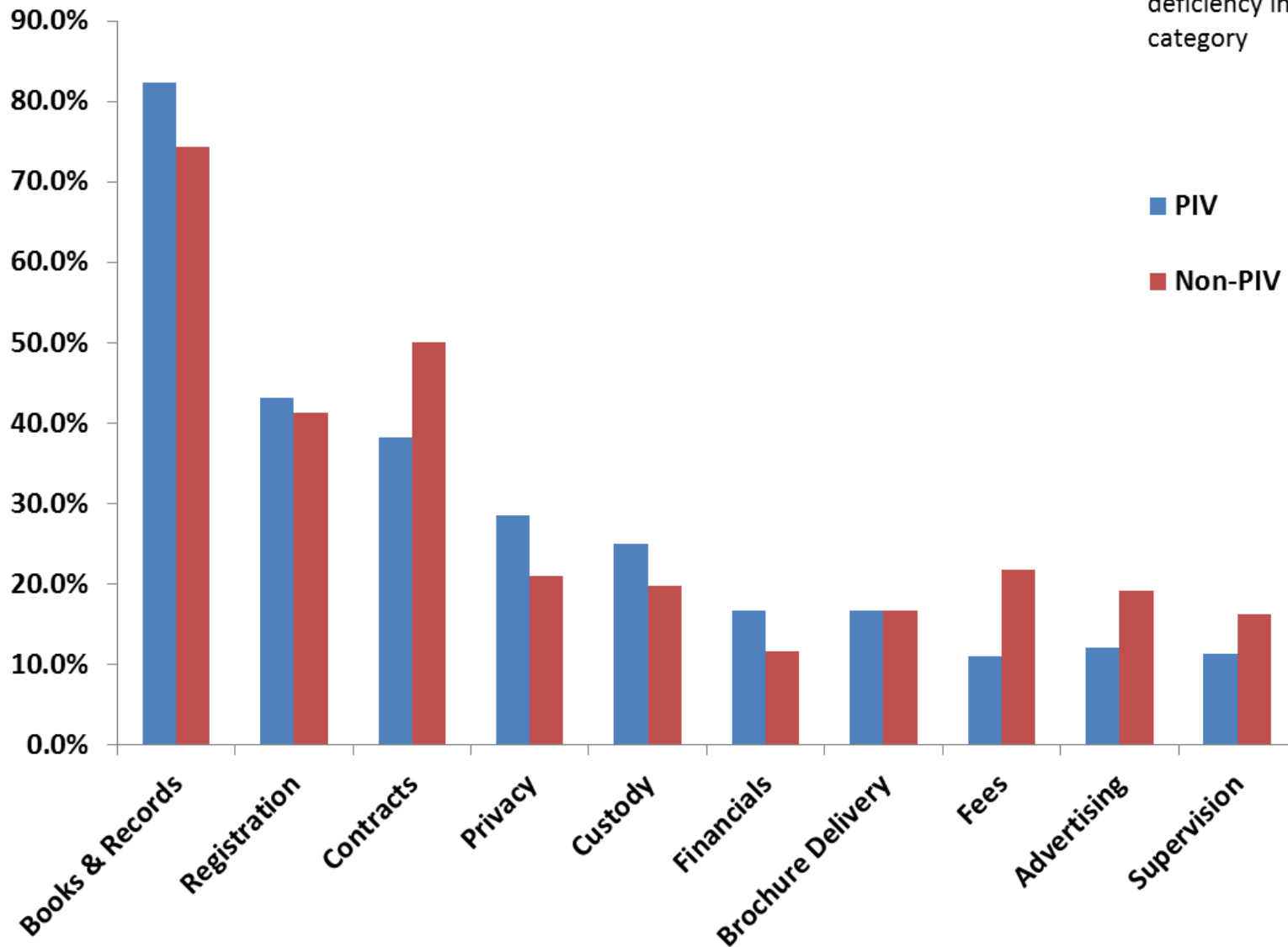
14 Deficiencies

23.7 % of all PIV Managers



PIV Managers vs. Non-PIV Managers

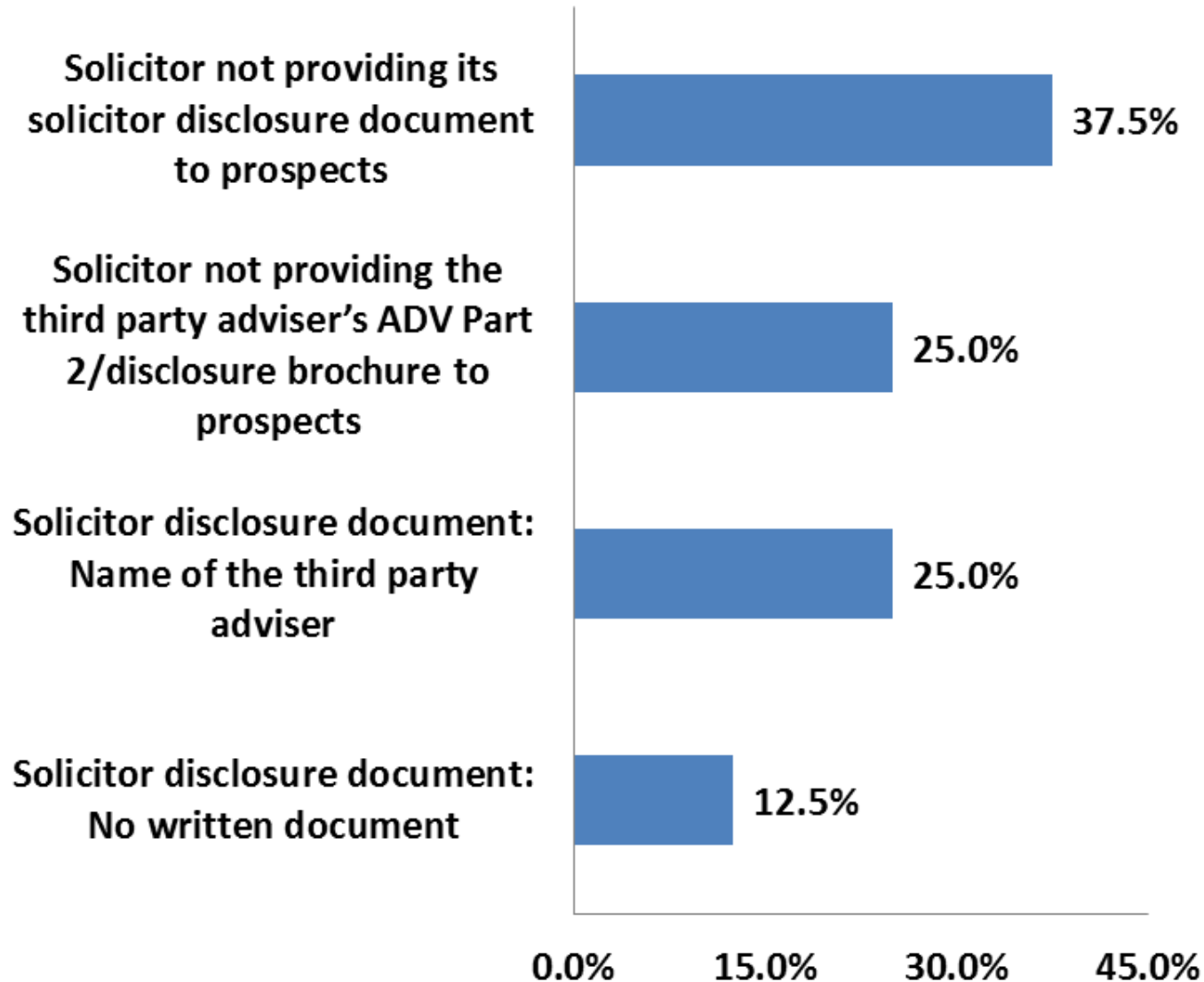
Percent of exams noting at least one deficiency in the category



IA Acts As a Solicitor

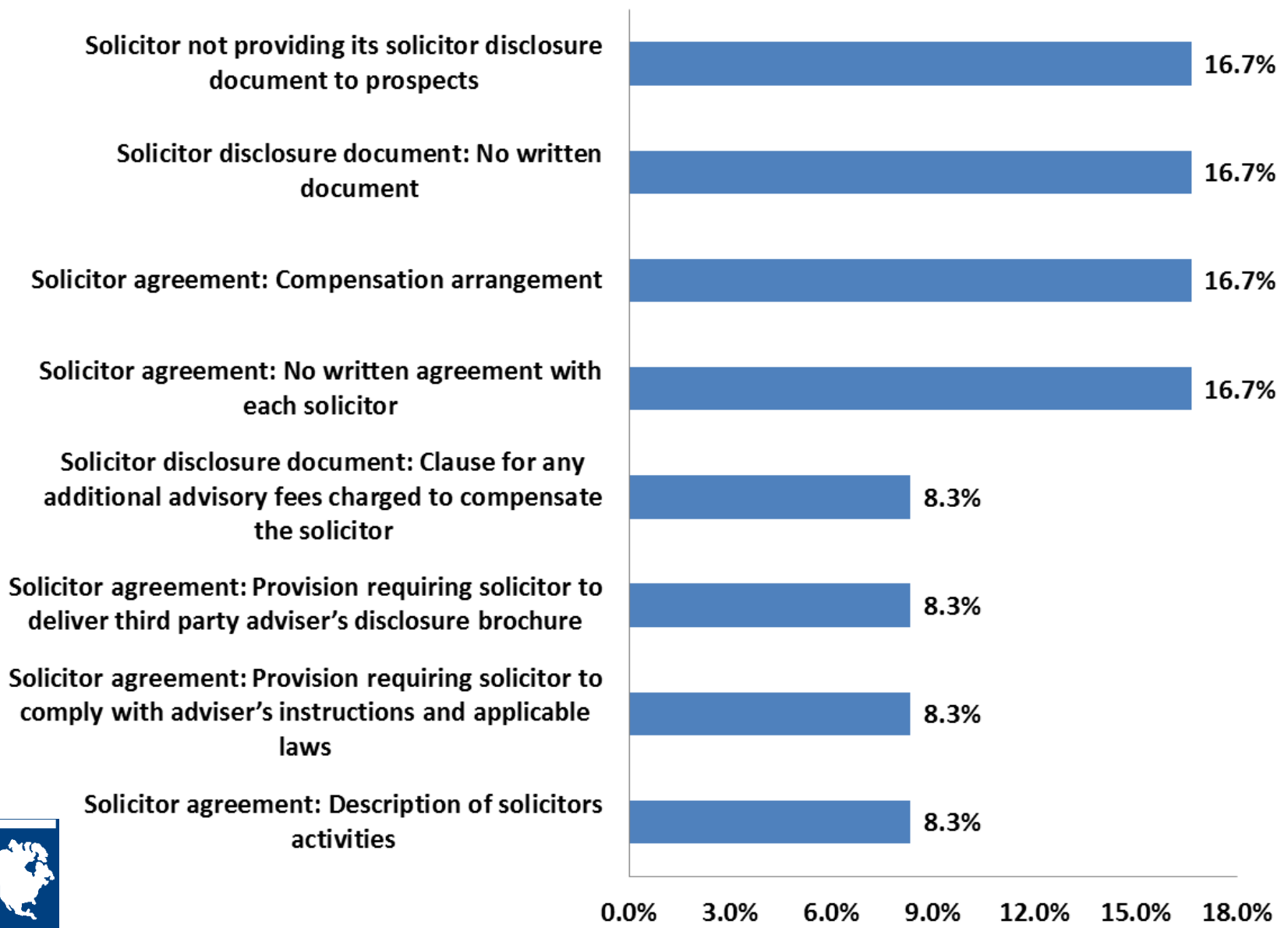
8 Deficiencies

5.7% of Advisers Acting as Solicitors



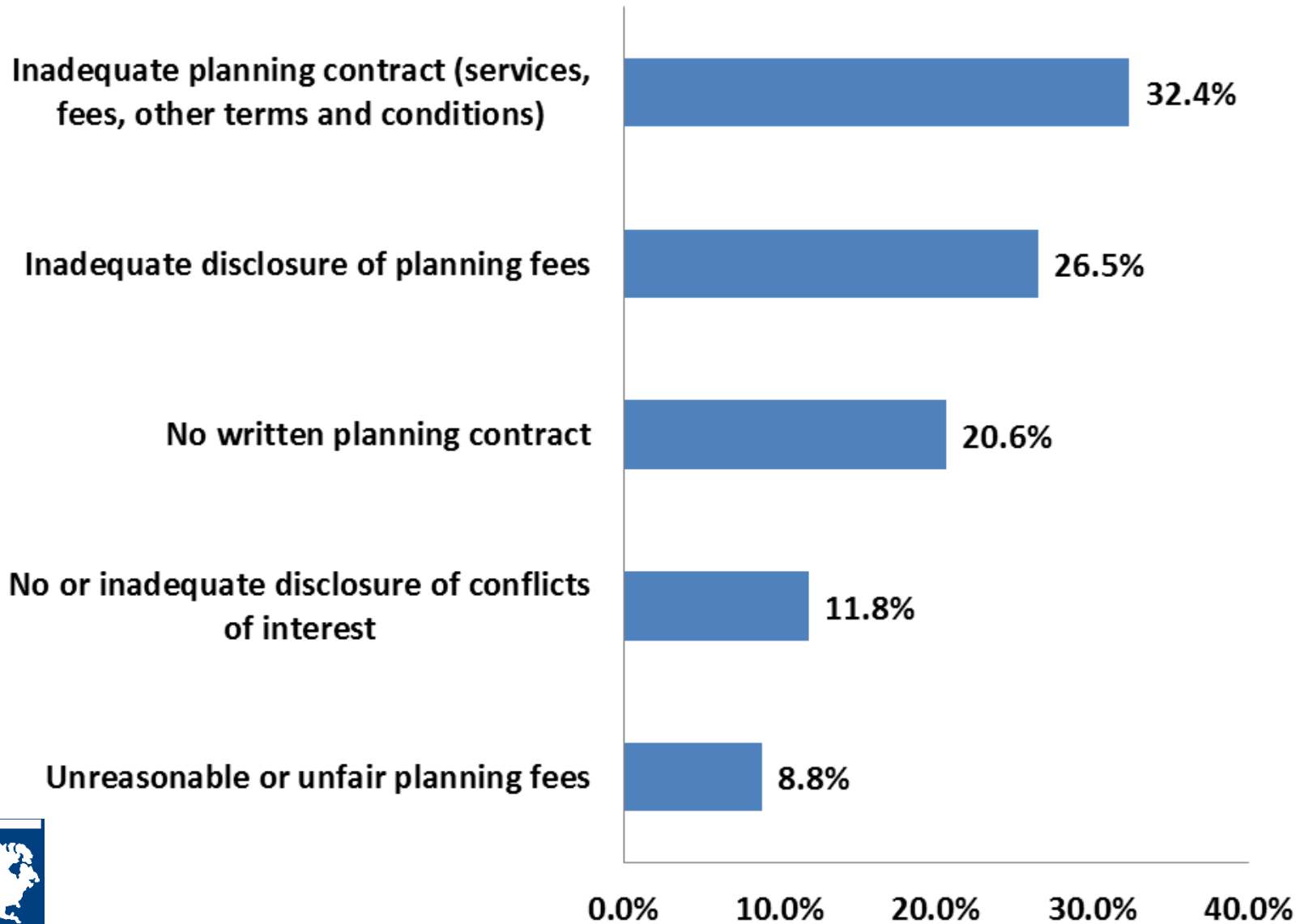
Paying Solicitors For Referrals

12 Deficiencies
15.0% of Advisers Paying Solicitors



Financial Planning

34 Deficiencies
9.1% of Financial Planners



Best Practices for Investment Advisers

- Prepare and maintain all required records, including financial records. Back-up electronic data and protect records.
- Prepare and maintain client profiles or other client suitability info.
- Review and update all contracts. Make sure all fees are clearly noted and adequately explained in the contract.
- Review and revise Form ADV and disclosure brochure annually to reflect current and accurate information. File amendments in a timely manner.
- Prepare and distribute a privacy policy initially and annually.
- Calculate and document fees correctly in accordance with contracts and ADV.

Best Practices for Investment Advisers

- Keep accurate financials. File timely with the jurisdiction. Maintain surety bond if required.
- Implement appropriate custody safeguards, paying attention to direct fee deduction if applicable.
- Review all advertisements, including website and performance advertising, for accuracy.
- Provide disclosure brochure to clients initially, then provide updates and offers to deliver afterwards as required.
- Prepare a written compliance and supervisory procedures manual relevant to the type of business to include a business continuity plan.
- Keep accurate financials. File timely with the jurisdiction. Maintain surety bond if required.
- Review solicitor agreements, disclosures, and delivery procedures.