

## SEC STAFF PUBLISHES ITS “CORE INITIAL REQUEST” FOR INVESTMENT ADVISER EXAMINATIONS

The Securities and Exchange Commission’s Office of Compliance Inspections and Examinations (“OCIE”) recently published a description of the types of information its examiners will request prior to conducting routine on-site examinations of investment advisers. By publishing its “core initial request,” OCIE intends to inform advisers of the core set of documents examiners will use to understand the adviser’s business, the compliance risks the adviser faces, and the effectiveness of the adviser’s compliance controls.

OCIE describes the following five broad categories of information that form its initial request:

- General information about the adviser’s business and investment activities, including organizational charts, client demographics, a trade blotter, and information about any litigation or arbitrations.
- Information about the adviser’s compliance program, risk management, and internal controls, including information about the adviser’s ongoing self-assessment of its compliance risks, the adviser’s policies and procedures for addressing risks, internal audits, and client correspondence.
- Documents relating to the results of transactional and periodic testing performed by the adviser. This information includes forensic and quality control testing results and information about individual client accounts, portfolio management procedures, brokerage arrangements, and procedures for addressing insider trading and conflicts of interest.
- The results of actions taken by the adviser to address shortfalls or breaches of its compliance program. This information might include, for example, warnings to or disciplinary action of employees, changes in any policies or procedures, or redress to affected clients.
- Information about compliance in other areas, including performance advertising, custody, and financial records.

OCIE’s publication provides additional specific examples of the documents and other information that fall within each of these categories. The full text of the core initial request can be viewed at <http://sec.gov/info/cco/requestlistcore1108.htm>.

Publication of a standardized information request list has long been anticipated, but OCIE’s core initial request does not in our view represent a substantial change from the types of information

the SEC's examiners already have been requesting in recent months. Instead, OCIE appears to be using the publication to put advisers on notice of the minimum information they should expect examiners to request. In this regard, it is important to recognize that OCIE's core initial request is an "initial" request only. Advisers should anticipate that examiners will request additional materials, either because examiners have identified particular areas that they wish to explore further or because they want to test compliance controls.

In addition, OCIE says that it uses the core initial request for examinations of advisers that provide "traditional money management services to non-fund clients." Advisers engaging in other activities should expect examiners to request additional information relating specifically to those activities. Some examples cited by the staff of other activities that will result in additional information requests are managing registered or private funds, participating in PIPE offerings, participating in separately managed account (wrap-fee) programs, being registered as a broker-dealer, and operating as a manager of managers.

Finally, in publishing its initial core request for information, OCIE is attempting to explain why examiners request certain types of information, and to signal to the industry that examiners in all regions will be using a more standardized approach for their information requests. This is a welcome development and is consistent with other initiatives senior SEC staff have discussed recently, including, for example, standardizing key aspects of examiners' deficiency letters.

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