

The logo for HedgeOp Compliance, featuring a blue swoosh above the text "HEDGEOP COMPLIANCE" in a serif font.

HEDGEOP COMPLIANCE[™]

Next Steps to Registration and Compliance for Private Fund Advisors

William G. Mulligan

Patrick F. Shea

Jordan Schwartz

HedgeOp Compliance, LLC

July 28, 2010

via Webex

Agenda

- Introduction to HedgeOp
- Mechanics of SEC registration
 - What does the process involve?
- Top 10 things Private Fund Advisors need to think about in developing an Adviser's Act compliance program.?
- How can technology help you in the process?
- Q&A

Introduction to HedgeOp Compliance, LLC

- HedgeOp provides regular, varying levels of pro-active compliance support to private fund advisors with over \$65B in AUM. HedgeOp also provides project-based compliance support services and due diligence research and reporting services. This includes assisting private fund advisors with SEC registration and the development of a practical compliance program.
- HedgeOp has also developed an innovative compliance workflow, monitoring and reporting software application that is used by approximately 80 firms – ComplianceTrak.
- HedgeOp has a staff of about 40 people working in offices in NYC and Boston.

Mechanics of SEC Registration

- Who must register with the SEC under the “Dodd-Frank Wall Street Reform and Consumer Protection Act”?
 - Generally, private fund advisors that have assets of \$150 million or more. NOTE – private fund advisors that also advise other clients (i.e., through managed accounts) will be required to register if they have more than \$100M in AUM.
 - Key exemptions include:
 - advisors with under \$150M in US assets who act as advisors solely to “private funds”
 - those that act as advisors solely to VC funds
 - advisors to family offices
 - Limited exemption for foreign private advisors
 - Most importantly, Dodd-Frank eliminates the “private advisor” exemption that is currently available to investment advisors who have fewer than 15 clients and who do not advise RICs.

Mechanics of SEC Registration

Step One

- Establish Investment Advisors Registration Depository (“IARD”) User Account
 - Complete and submit forms contained in the IARD Entitlement Packet
 - Designate Super Account Administrator (“SAA”)
 - Upon receipt of completed entitlement form, FINRA will create an SAA account for your firm and provide IARD access by sending confirmation emails containing user ID and initial password

Mechanics of SEC Registration

Step Two

- Complete Form ADV Part 1 on-line via the IARD system
 - Input information regarding your firm, including the firm's business practices, persons who own and control the firm, persons who provide investment advice on behalf of the firm, the firm's affiliates and the firm's regulatory disciplinary history.

Mechanics of SEC Registration

Step Three

- Deposit funds into your financial account
 - You will NOT be able to submit an electronic filing until funds are deposited into your financial account.
 - Submit either by Web E-pay, wire transfer or check

Mechanics of SEC Registration

Step Four

- Develop your Firm's Form ADV Part 2 ("Brochure")
 - Principal document that advisors must provide to clients and prospects
 - Includes descriptions of qualifications, investment strategy, fees, business practices and important disclosures
 - SEC recently adopted significant amendments to the Part 2
 - Generally effective Q1 2011
 - Moving from: check-the-box to a "plain English" narrative approach
 - Electronically filed and publicly available
 - Expanded content
 - New updating requirements
 - Brochure supplements about key personnel (resume-like disclosures)

Mechanics of SEC Registration

Step Five

- Develop a Compliance Infrastructure that meets Adviser's Act requirements

Compliance Manual

- Must have a Compliance Manual in place as soon as you become registered
- Must be customized for your business and include detailed policies, such as:
 - Maintaining Form ADV
 - Portfolio management processes
 - Trading and brokerage practices
 - Custody of advisory client assets
 - Record keeping
 - Marketing activities
 - Valuation practices
 - Annual compliance review
 - Proxy voting
 - Oversight of political contributions by the firm and its employees

Mechanics of SEC Registration

Step 5 (continued)

Designate the Firm's CCO

- CCO is disclosed to public via Form ADV
- Designate a person internally who is primarily responsible for compliance
- Influence within the firm necessary to implement and enforce compliance procedures

Adopt a Code of Ethics

- Address conflicts of interest and policies regarding personal trading

Books and Records

- Develop process for maintaining books and records in accordance with the Adviser's Act "Record Keeping Rule"

Top 10 Things to Think About

(1) One size does NOT fit all

- Your program needs to be unique to your firm and its investment activities
 - Concerns of long/short equity are different than a fixed income shop
 - Why would a fund of funds need to have best execution or soft dollar review procedures?
- “Off the shelf manuals” can be dangerous

Top 10 Things to Think About

(2) Talk to others who have gone through the process

- Start with colleagues in the business – how did they do it?
 - No need to reinvent the wheel on the process – lots of firms have done it.
- Who should you be working with?
- Do you have the in-house talent to do it yourself?

Top 10 Things to Think About

(3) Assign ownership from the start – who is going to do what?

- Absolutely key
- Create a matrix or calendar of what needs to be done each month and who is going to do it.
 - Use it as review tool

Top 10 Things to Think About

(4) Culture is VERY important! “Culture of Compliance” MUST come from the “top”

- Senior management has to be part of the process
- No one will follow the rules until the head honcho does!
- Create a system of regular reporting on a variety of compliance review issues to senior management

Top 10 Things to Think About

(5) Disclosure can protect you!

- Theory behind US regulatory regime and ADV
- Key aspect of compliance program should be regular review of disclosures vs. practice
- Any inconsistencies or gaps?
- Key areas of disclosure
 - Conflicts
 - Personal trading
 - Receipt of gifts, business entertainment
 - Transactions between affiliates
 - Risks

Top 10 Things to Think About

(6) Open up the process and create a dialogue regarding the personal trading rules and restrictions.

- Get your people to understand why there are prohibitions
- Explain the rhyme and reason behind the rule
- What are strict rules better for the firm? What would you expect if you were an investor?

Top 10 Things to Think About

(7) Importance of IT Controls

- Email retention
- Record-keeping
- Information security controls
 - Passwords/locking
 - Access to investor data
 - Transportation of data outside of secure environment

Top 10 Things to Think About

(8) Adopt system of reminders and regular checks

- Make sure that there are regular reminders and check-ins with employees on compliance requirements
 - Need to be organized!
- Demonstrate that you are adequately supervising your people

Top 10 Things to Think About

(9) Train your staff about the parameters of the compliance program!

- Force people to get involved and ask questions
- Any weak areas identified as part of annual reviews should be focused on during training?
- Sign in sheets and attestations

Top 10 Things to Think About

(10) Be ready to prove that you do what you say you will do!

- Be ready for the auditor to come through the door!
 - Review the audit request list
 - Tell your own story!
- Audit should be a non-event
- Do NOT let mole hills turn into mountains!

How Can Technology Help You?

- A solid compliance program is about disclosure, organization, and preparedness.
- There are lots of moving parts which can become burdensome if not organized properly:
 - Compliance manual
 - Code of ethics
 - Form ADV
 - Fund documents
 - Investor communications, etc.

How Can Technology Help You?

- The key to organization is building out solid internal processes – technology can help!
 - We will look at several examples of where software tools can make your life as CCO easier.

How Can Technology Help You?

- Managing Your Manual

- Your compliance manual may be the most important compliance document that you have. But, how do you ensure that you are doing what your manual outlines for you?
- Create a compliance calendar
 - An electronic compliance calendar let's you track, monitor and archive your compliance program.
 - Reminders can ensure that you never forget a task.
 - Create an audit trail and document archive so you can easily retrieve and evidence your various compliance tasks.

How Can Technology Help You?

- Certain tools can also provide you with background regulatory information on compliance tasks to help you through their completion.

How Can Technology Help You?

- Code of Ethics Compliance
 - One of the biggest burden's for CCO's is code of ethics compliance.
 - Every firm needs to monitor the personal trading activities of its employees.
 - The review of broker statements and personal trades can take hours of time, even for a small firm.
 - Technology solutions can help alleviate that burden by automating the personal trading review process.

How Can Technology Help You?

- Electronic links to employee brokerage accounts
 - Automated trade review and screening processes
 - Electronic pre-approval of trades
 - Seamless reporting
- All of these things make the audit process, much, much smoother and free up time for the CCO to focus on other tasks.

How Can Technology Help You?

- Investor / Private Fund Compliance
 - MUST track investor correspondence for Reg D and record keeping purposes
 - Using a customer relationship management (CRM) tool
 - Can use software for tracking / calculating ERISA, 3(c)(1) / 3(c)(7), AML, investor eligibility, etc.
- Record-Keeping
 - Email archiving tools are affordable and easy to use
 - Makes email screening and record keeping much easier

How Can Technology Help You?

Compliance**TRAK**

Compliance **ELF**
Employee Level Filing System

How Can Technology Help You?

- HedgeOp's Suite of Software Tools
 - Tracking, monitoring, reporting
 - Interactive compliance calendar
 - Personal trading monitoring
 - Links to over 2,800 brokerage institutions!
 - GREAT tools for CCO's

How Can Technology Help You?

Quarterly Transactions for Jordan Schwartz

Quarterly Transactions Filings > Q3, 2010 Quarterly Transactions for Jordan Schwartz

Filing Info This report has not yet been filed.

Documents This report contains:

Exceptions - 0 exceptions
- 0 documents [Show More](#)

Transactions: [Import](#) [Add Manually](#)

Status	Trans. Date	Title	Type	Symbol	Trans. Type	Shares	Price	Broker / Dealer	Details	Delete	Edit
✓	Jul 14, 2010	Bank of America Preferred E	Equity	BAC PRE	Sell	10	\$17.72 USD	TD Ameritrade: 756596979	View		

[Leave a comment](#)

Allow the editor to see your comment

+ Personal Trading Accounts Setup: Adding a Brokerage

Step 1 Step 2

Search for a brokerage:

Or, select a popular brokerage

Ameriprise Financial	E*TRAD
Ameritrade Plus	Fidelity.c
Charles Schwab	

- Fidelity - Advisors & Institutional Investors
- Fidelity - Charitable Gift Fund
- Fidelity - Mysmart Cash - Investment
- Fidelity 403b.com
- Fidelity Account View
- Fidelity Advisor (Advisor.fidelity.com)
- Fidelity Advisor Channel
- Fidelity Connect
- Fidelity Investments (India)

[Can't find your brokerage or don't v](#)

How Can Technology Help You?

Task Setup

Active: Yes

Name: **ADV Part 1 Update**

The Form ADV Part 1 annual update must be completed and filed no later than after each fiscal year end.

Recurrence Pattern:

Daily

Every **February** **1**

Weekly

The **first** **Monday** of **January**

Monthly

The **first** **weekday** of **January**

Quarterly

The annual holdings report due date [**January 31**]

Yearly

Range of recurrence:

Start: **02/01/2008** No end date

End after: occurrences

End by:

Task Information

Rule 204-1(a)(1) requires SEC Registered Investment Advisers to annually review and update all information required to be disclosed in Form ADV Part 1 via the IARD system.

Task Color: Priority: **High**

There are **0** reminders [Add](#)

Email recipients every day this task is past due.

There are **0** reminder recipients [Add](#)

There are **0** documents [Add](#)

Comments (Do not appear on calendar)

[Cancel](#) [Save](#)

Questions & Answers

- Thanks for your interest.
- If you would like to setup a demo of ComplianceTrak / ELF, or speak to us about registration support, please email us at: info@hedgeop.com.

HedgeOp Compliance, LLC

www.hedgeop.com

www.complianceavenue.com

Disclaimer

This information has been prepared by HedgeOp Compliance, LLC for general informational purposes only. HedgeOp Compliance, LLC, nor any of its employees, has not and does not render legal, tax or accounting advice or offer legal, tax or accounting assistance. Accordingly, no statements or representations by HedgeOp Compliance, LLC or its employees should be construed to be legal, tax or accounting advice and advises consultation with an attorney regarding the legalities of all investment offerings, registrations or filings. This information is presented without any representation or warranty whatsoever as to the accuracy or completeness of the information.