



NASAA 2013 Coordinated Investment Adviser Examinations

Investment Adviser Operations Project Group
NASAA Investment Adviser Section
October, 2013



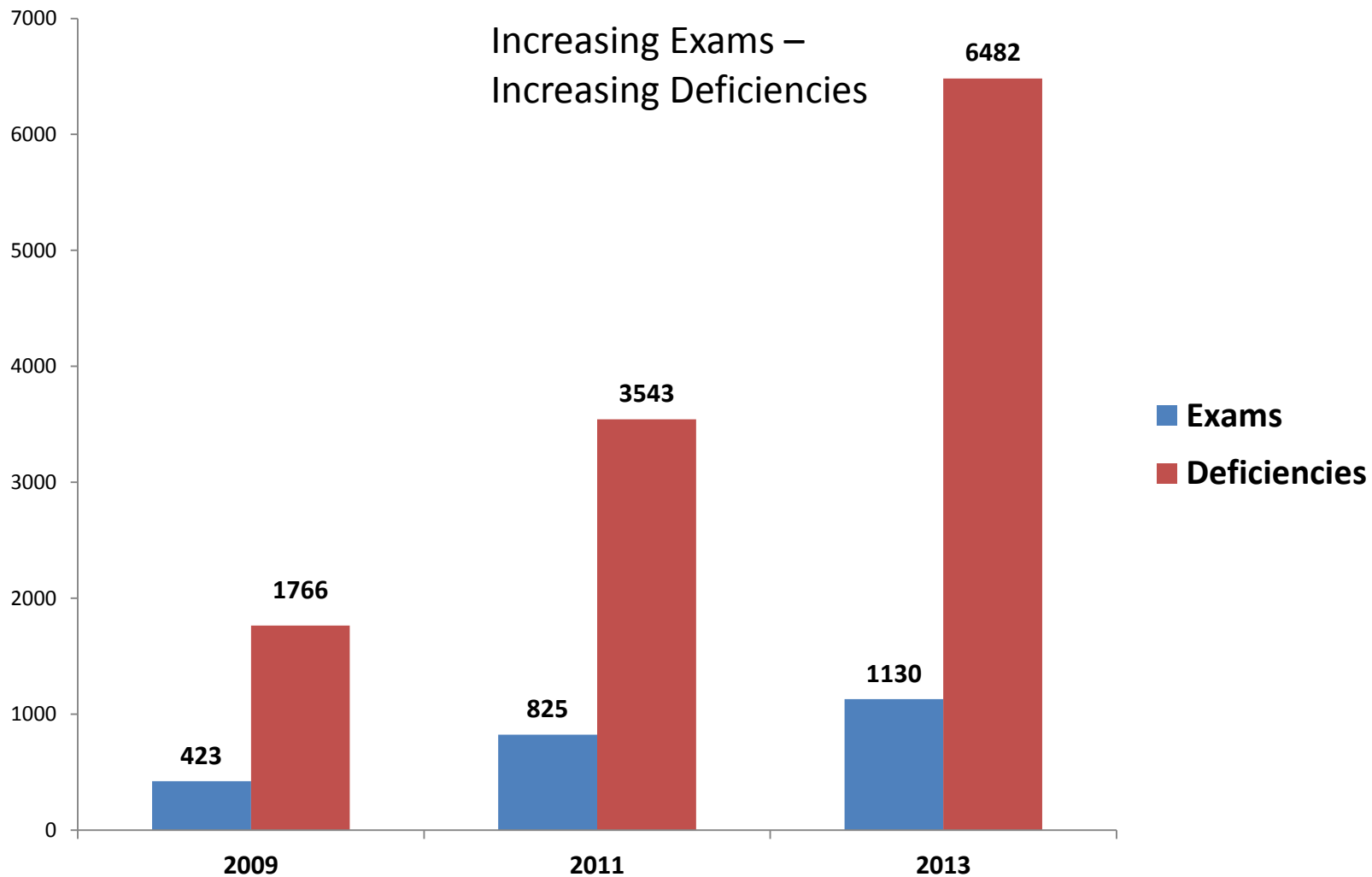
NASAA's Coordinated Exams Program is a biennial initiative conducted to identify common investment adviser deficiencies.

- The data draws from a sample of state-level investment-adviser examinations, reported by states.
- States report examinations on a voluntary basis.
- The number and types of exams reported by each state varies year-to-year and is at the discretion of each state.
- The goal of NASAA's Coordinated Exam Initiative is to draw from sample data to identify common regulatory deficiencies and develop best practices to avoid regulatory violations



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Increasing Exams – Increasing Deficiencies





2013 Reported Examinations

1,130 advisers between Jan. 1, 2013 and June 30, 2013*

- 183 advisers (16.2%) were affiliated with a BD
- 126 advisers (11.2%) used or acted as solicitors
- 74 advisers (6.5%) managed pooled investments
- 712 advisers (63%) had one IAR only
- 65 advisers (5.8%) had only financial planning clients
- 411 advisers (36.8%) had AUM >\$30MM

* In some instances, exams conducted in late Summer and Fall of 2012 were counted if the state had performed the majority of their exams prior to January 1, 2013.



Who Conducted the Exams?

Securities examiners from **44 jurisdictions** including Alberta, British Columbia, Ontario and Quebec, Canada

What Was Found?

6,482 deficiencies in 20 categories



The Categories

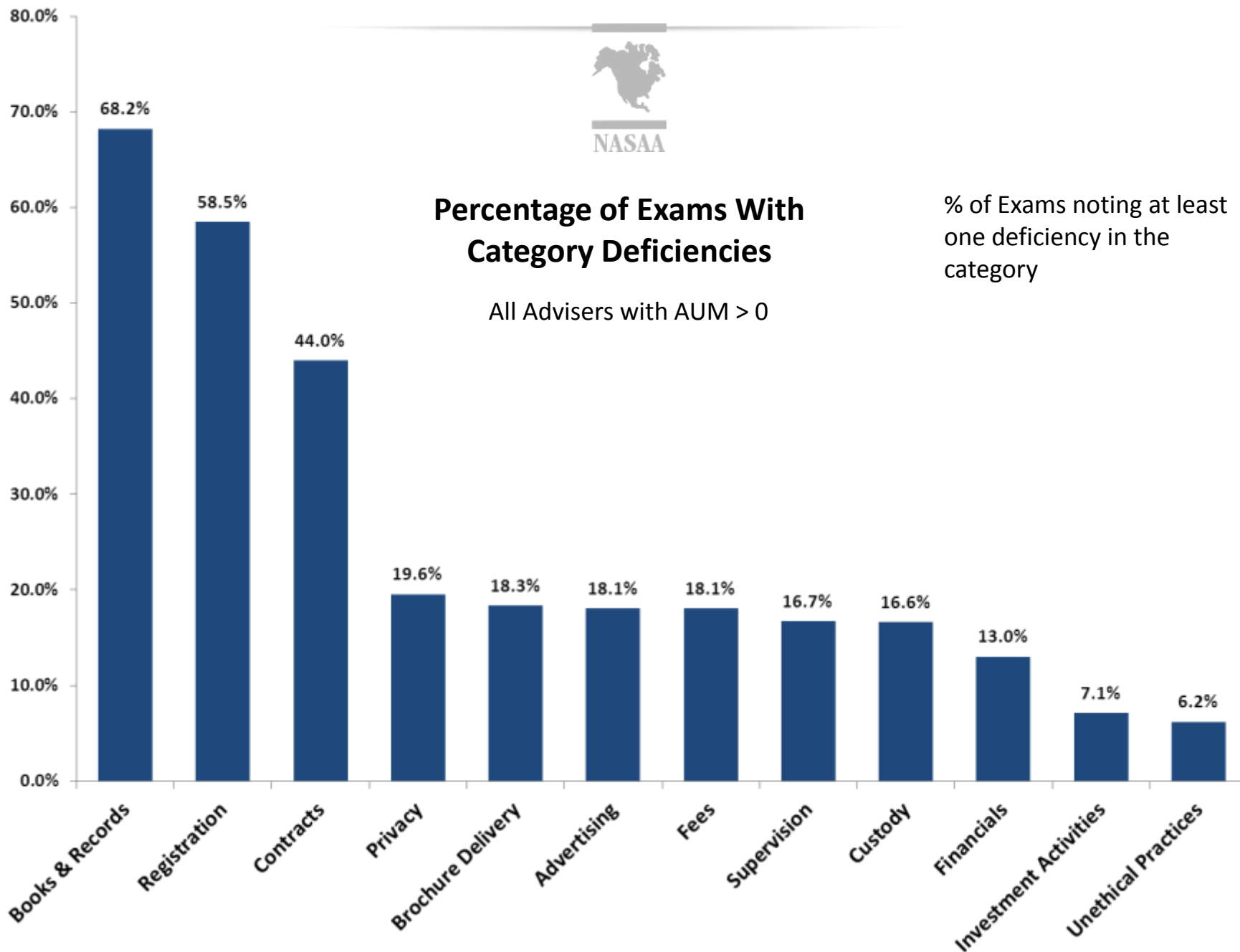
- Books and Records
- Financials
- Registration
 - ADV, U4, Firm, IARs, ADV Delivery
- Fees
- Contracts
- Advertising
 - Ads, Websites, Business Cards, Seminars,
- Privacy
- Supervisory/Compliance
 - Supervisory Procedures, Compliance Procedures
- Investment Activities
 - Adherence to Investment Policy, Fairness, Conflicts
- Performance Advertising
- Performance Reporting
- Custody
- Acting as Solicitor
- Paying Solicitors
- Pooled Investment Vehicles (Hedge Fund)
- Custodial Arrangements
- Unethical Practices
- Brochure Delivery
- Financial Planning
- IA/BD Crossover



Percentage of Exams With Category Deficiencies

All Advisers with AUM > 0

% of Exams noting at least one deficiency in the category

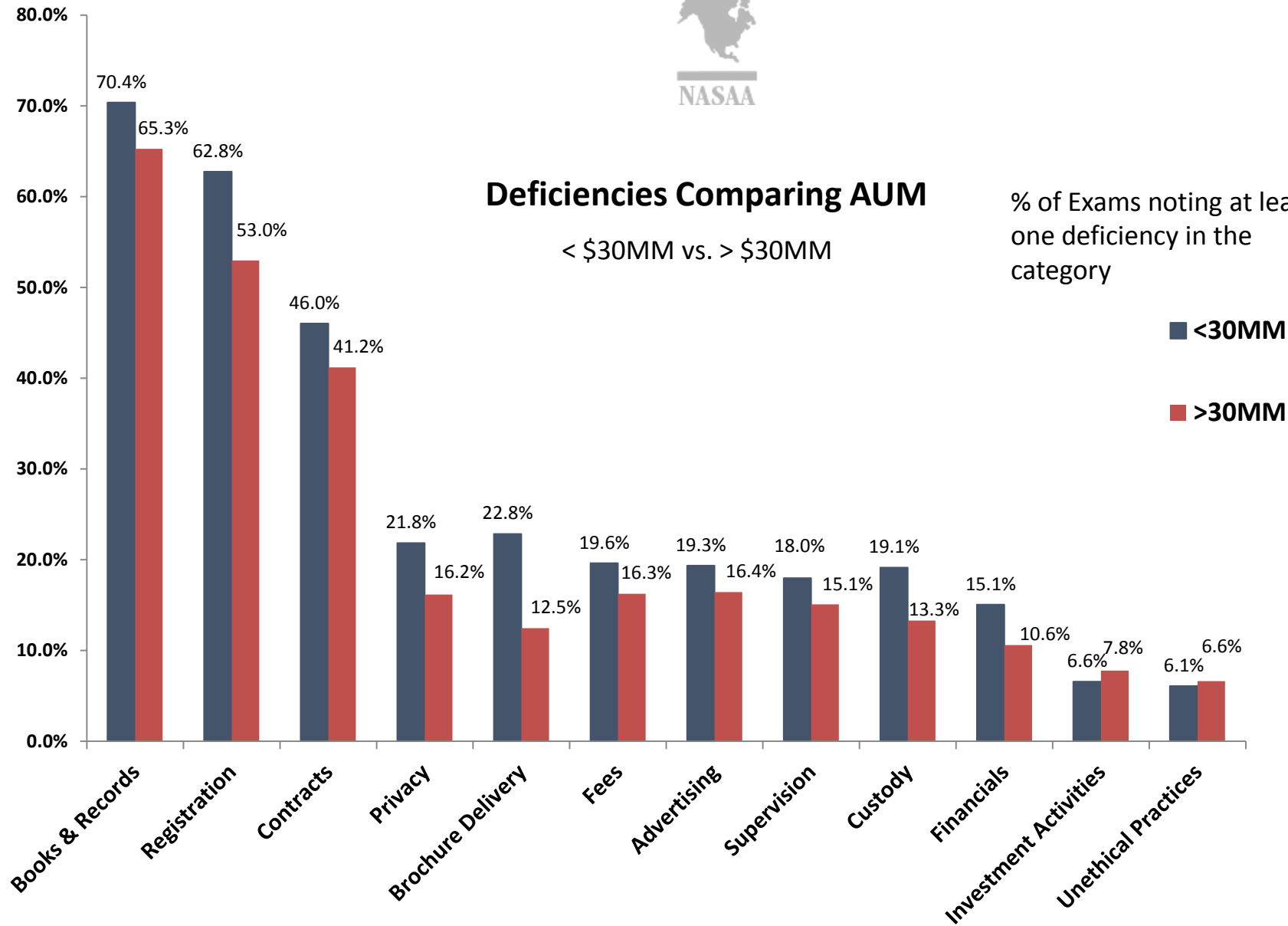




Deficiencies Comparing AUM

< \$30MM vs. > \$30MM

% of Exams noting at least one deficiency in the category

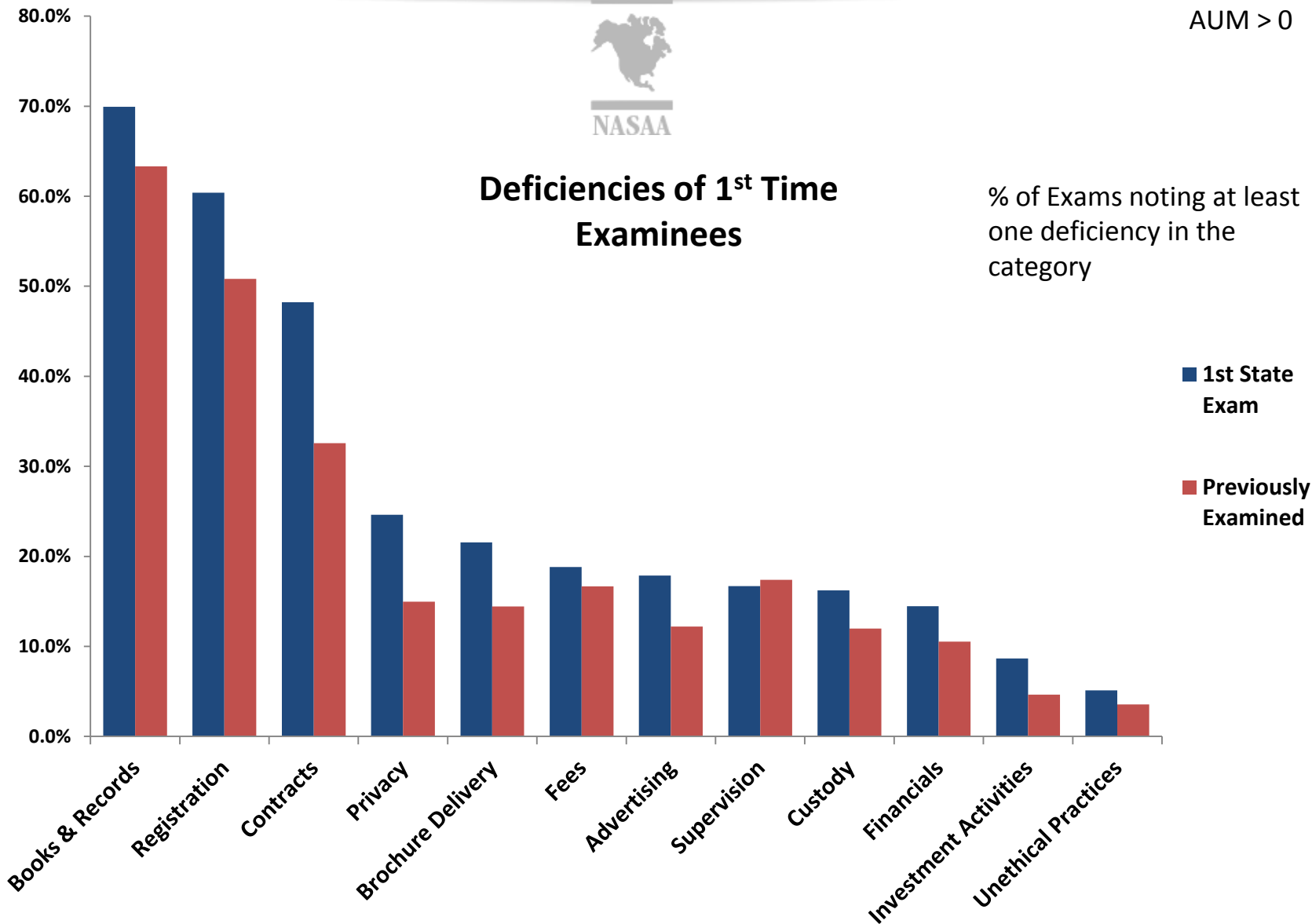




AUM > 0

Deficiencies of 1st Time Examinees

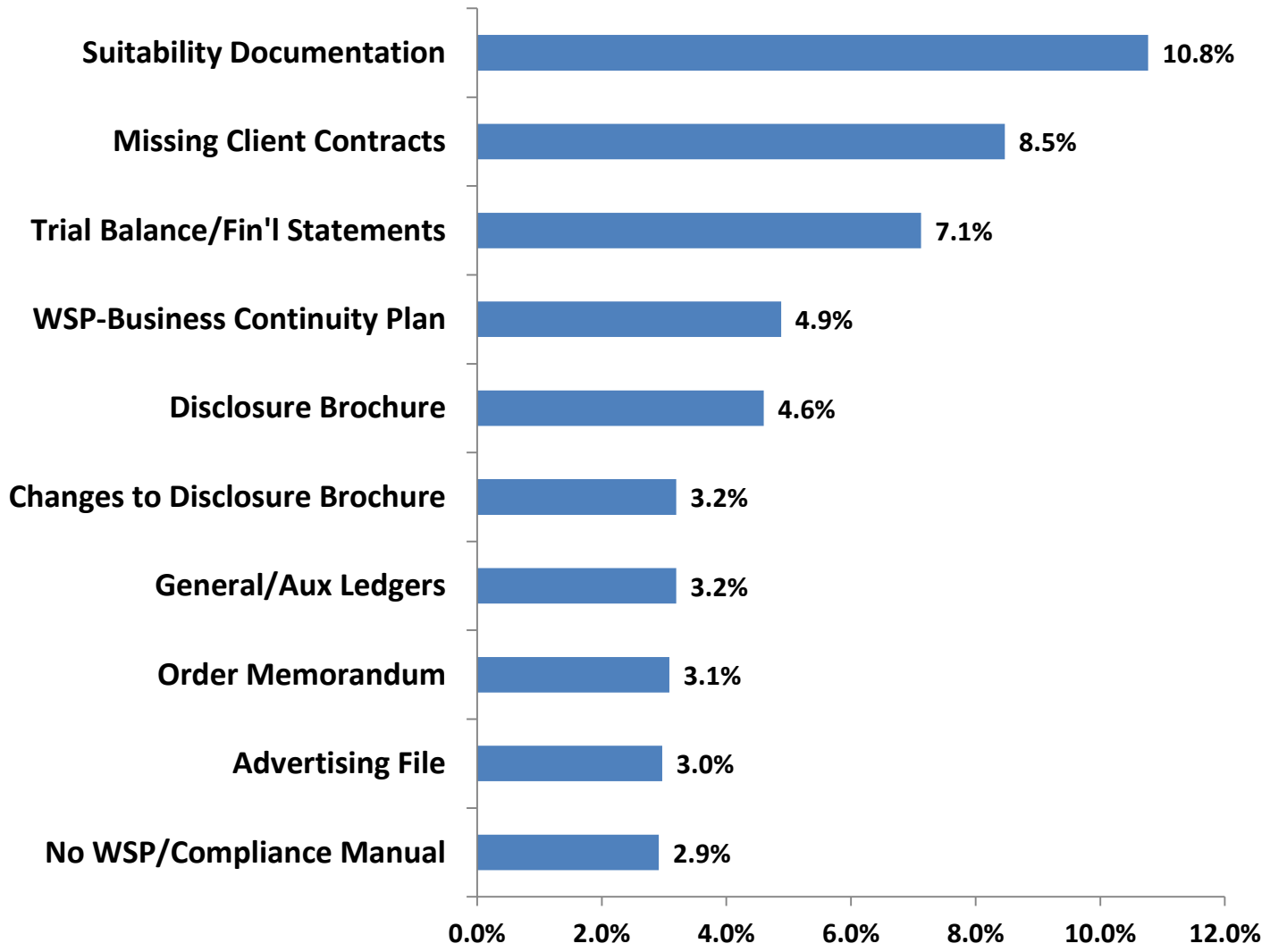
% of Exams noting at least one deficiency in the category





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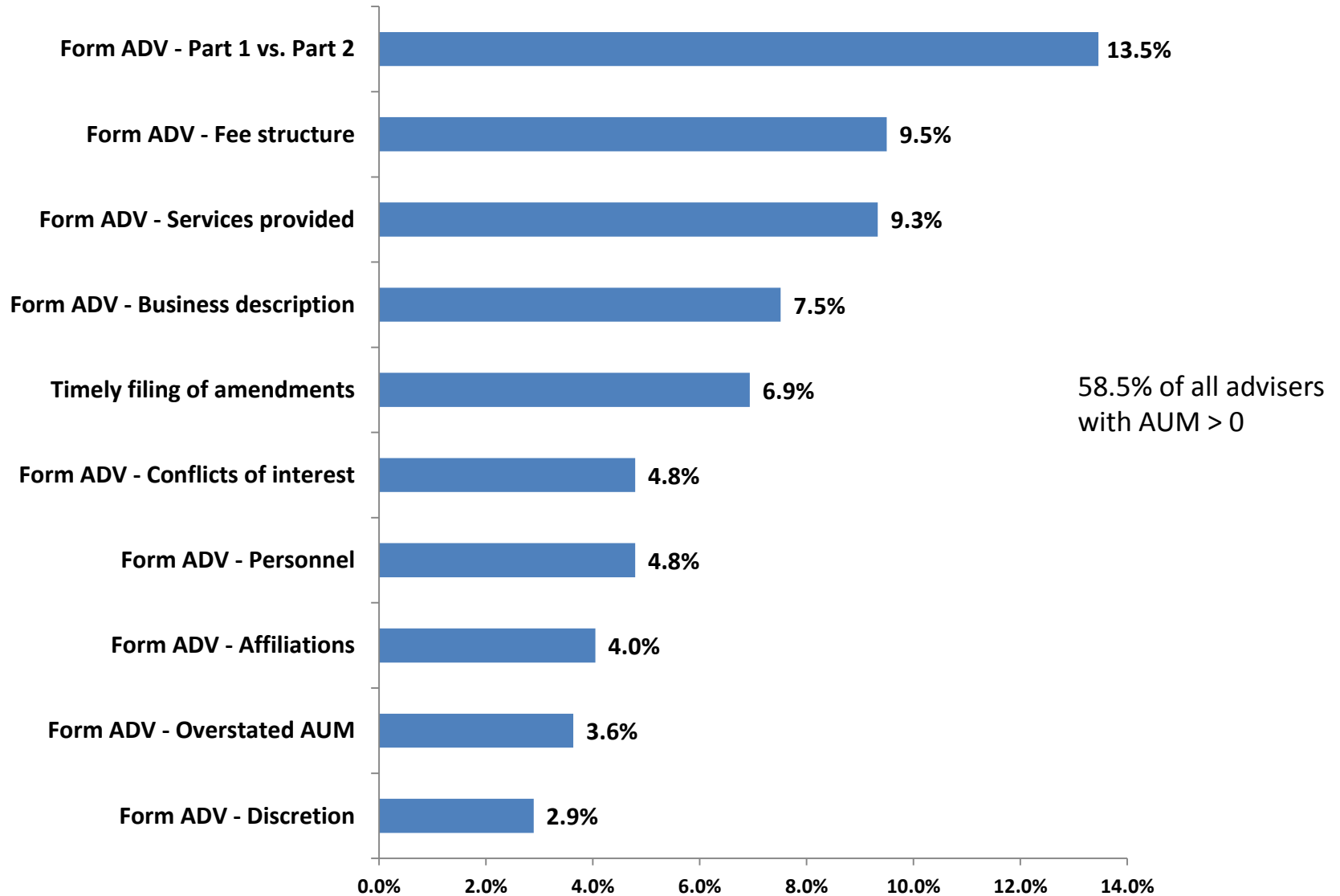
Books and Records Deficiencies (1,783)



68.2% of all advisers with AUM > 0



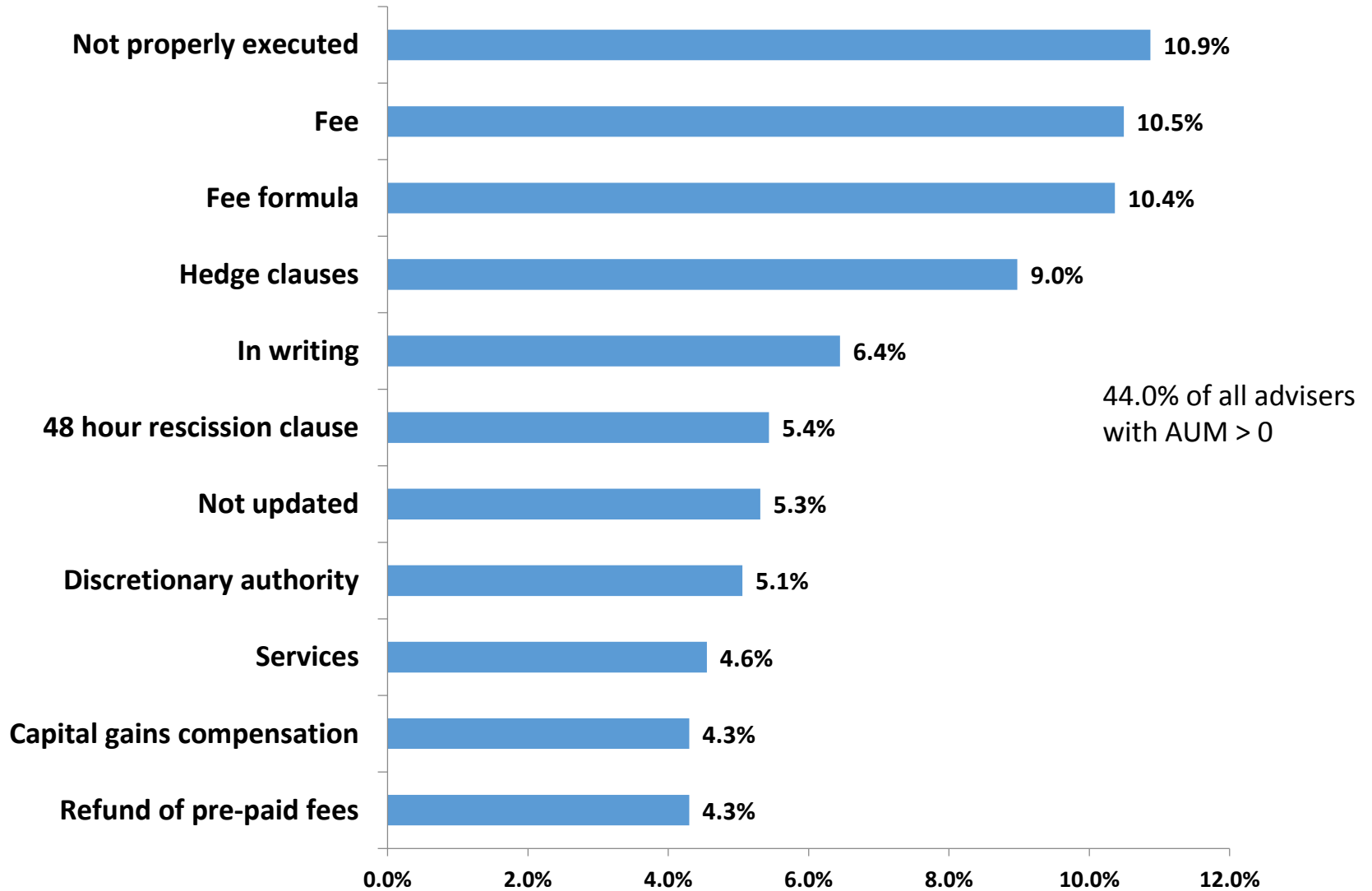
Registrations Deficiencies (1,211)





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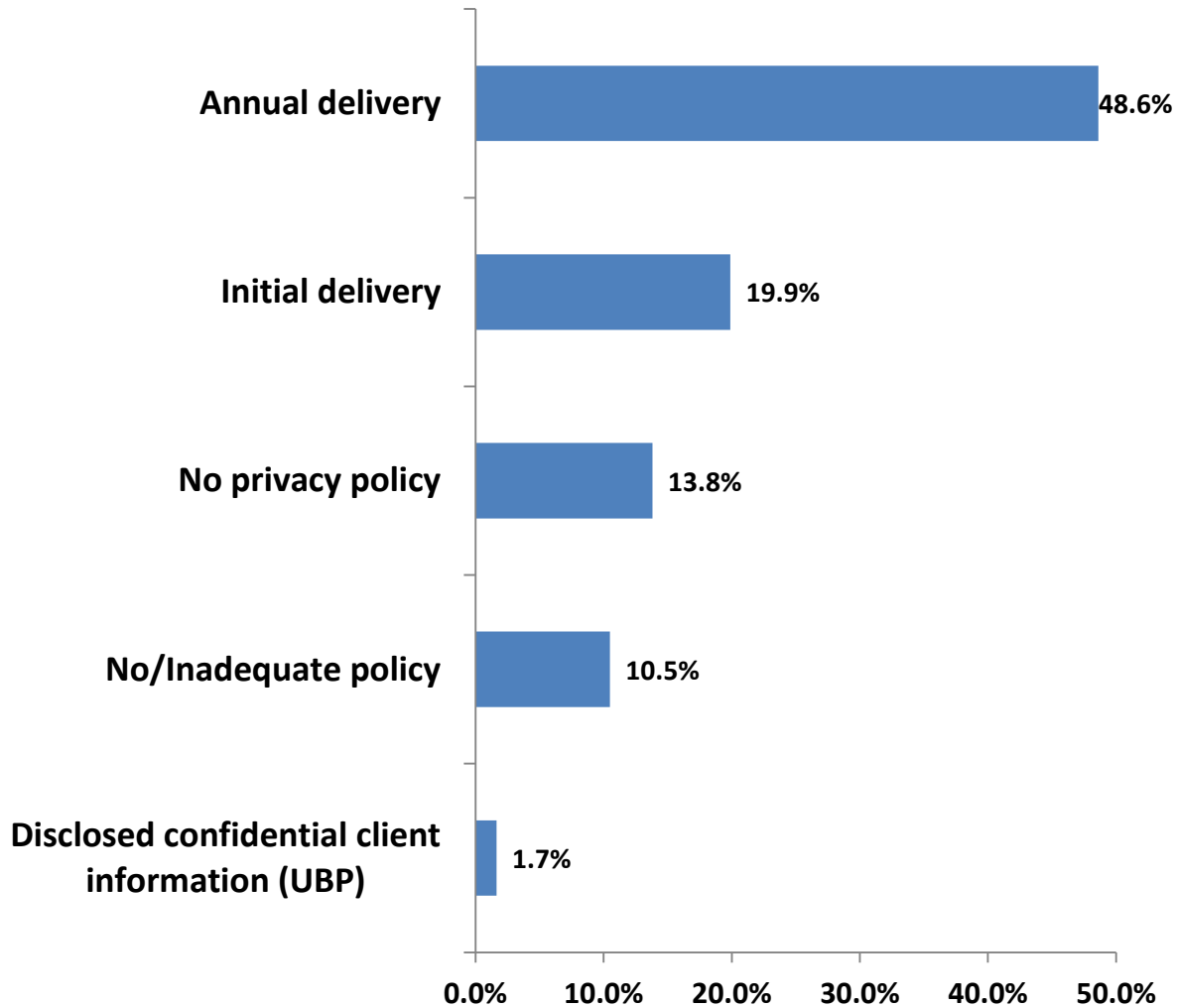
Contracts Deficiencies (791)





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Privacy Policy Deficiencies (181)

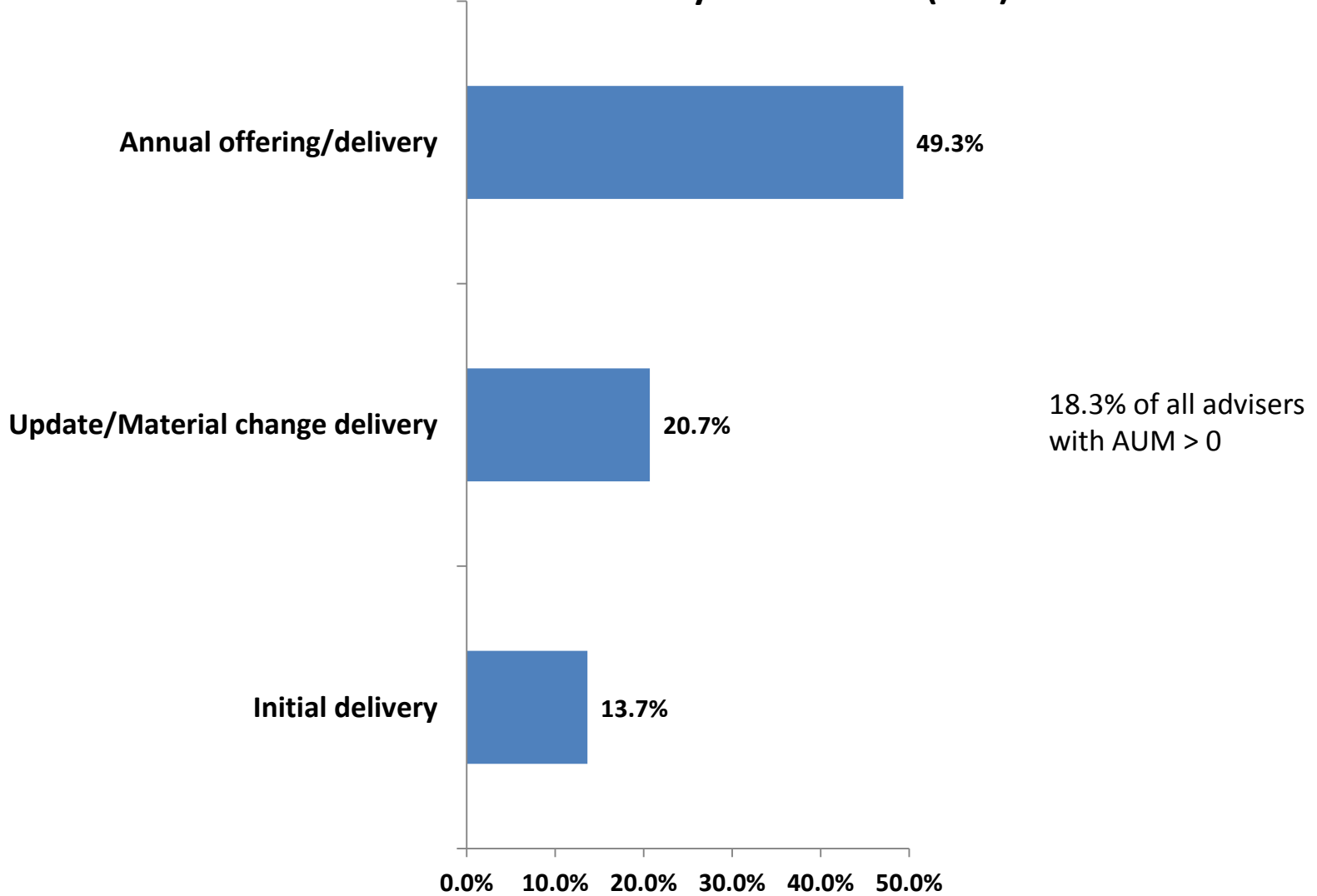


19.6% of all advisers
with AUM > 0



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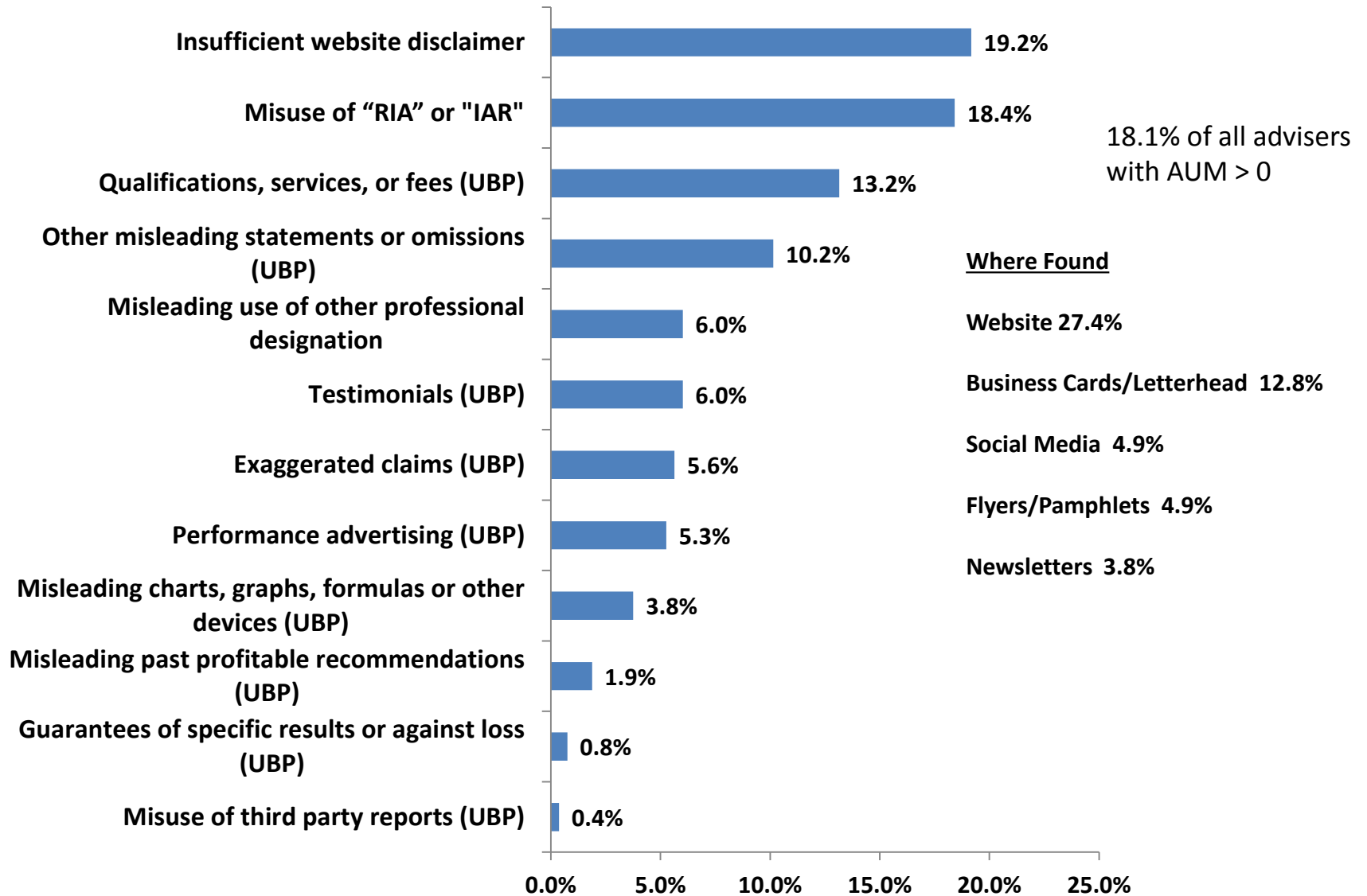
Brochure Delivery Deficiencies (227)





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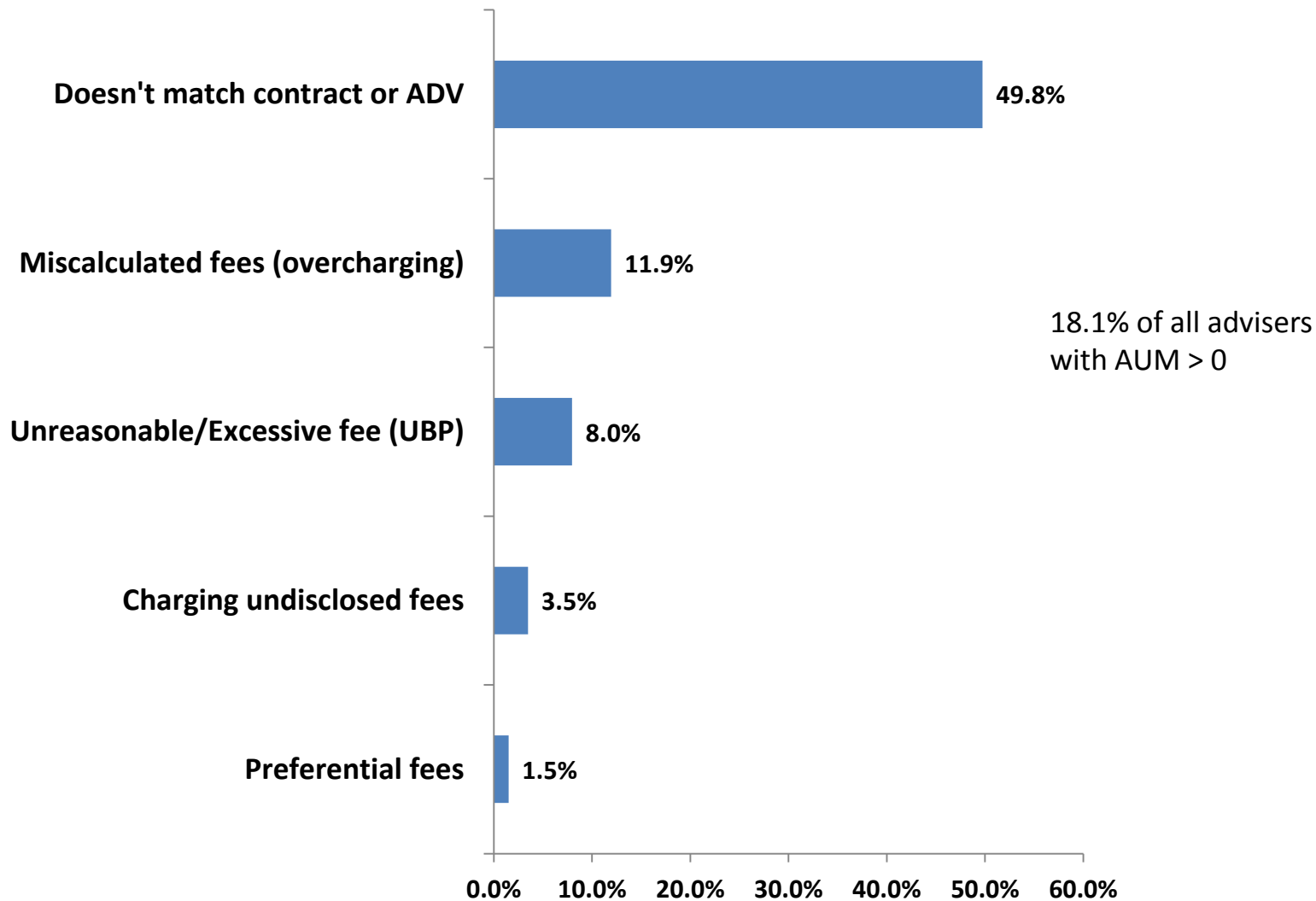
Advertising Deficiencies (266)





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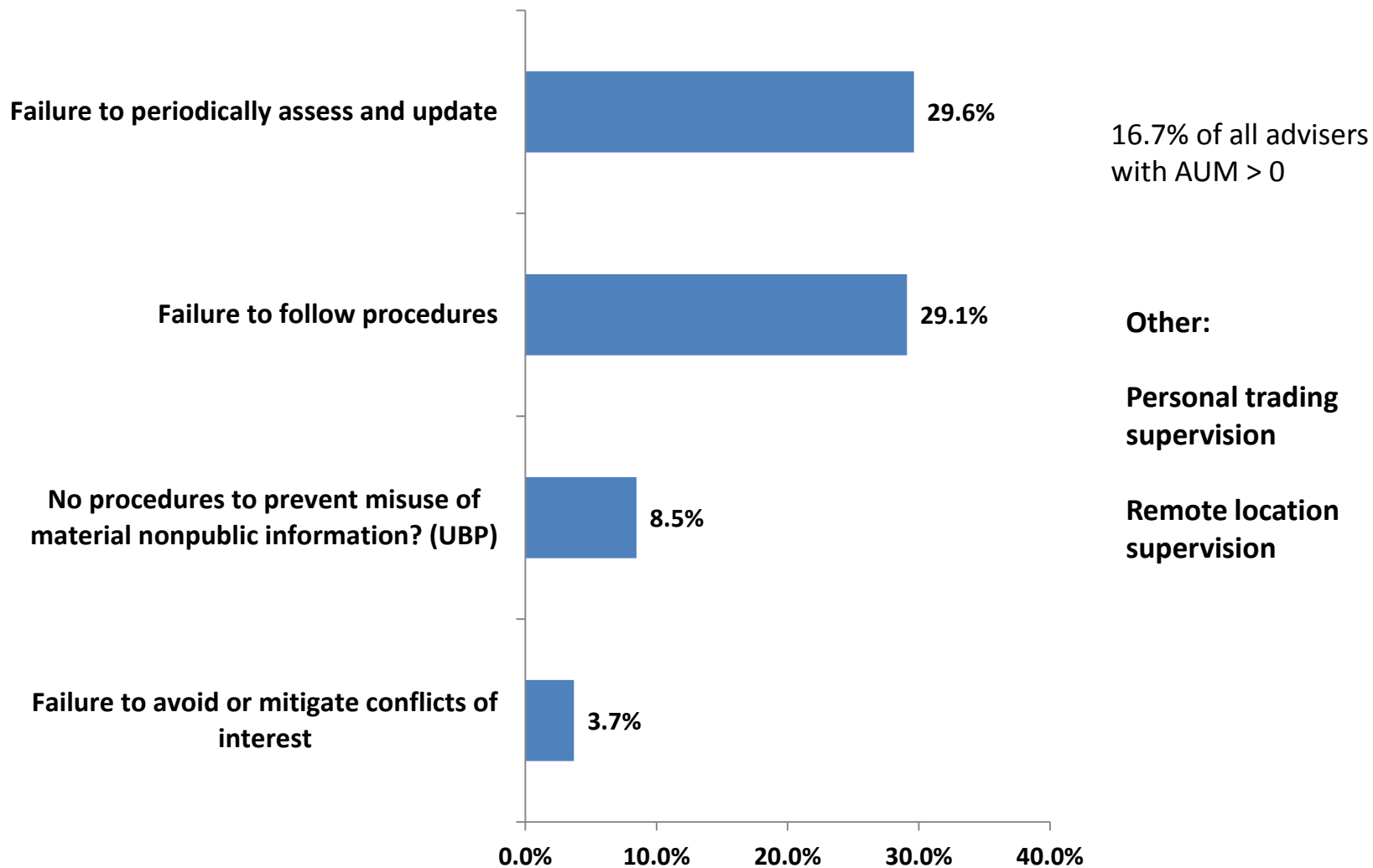
Fees Deficiencies (201)





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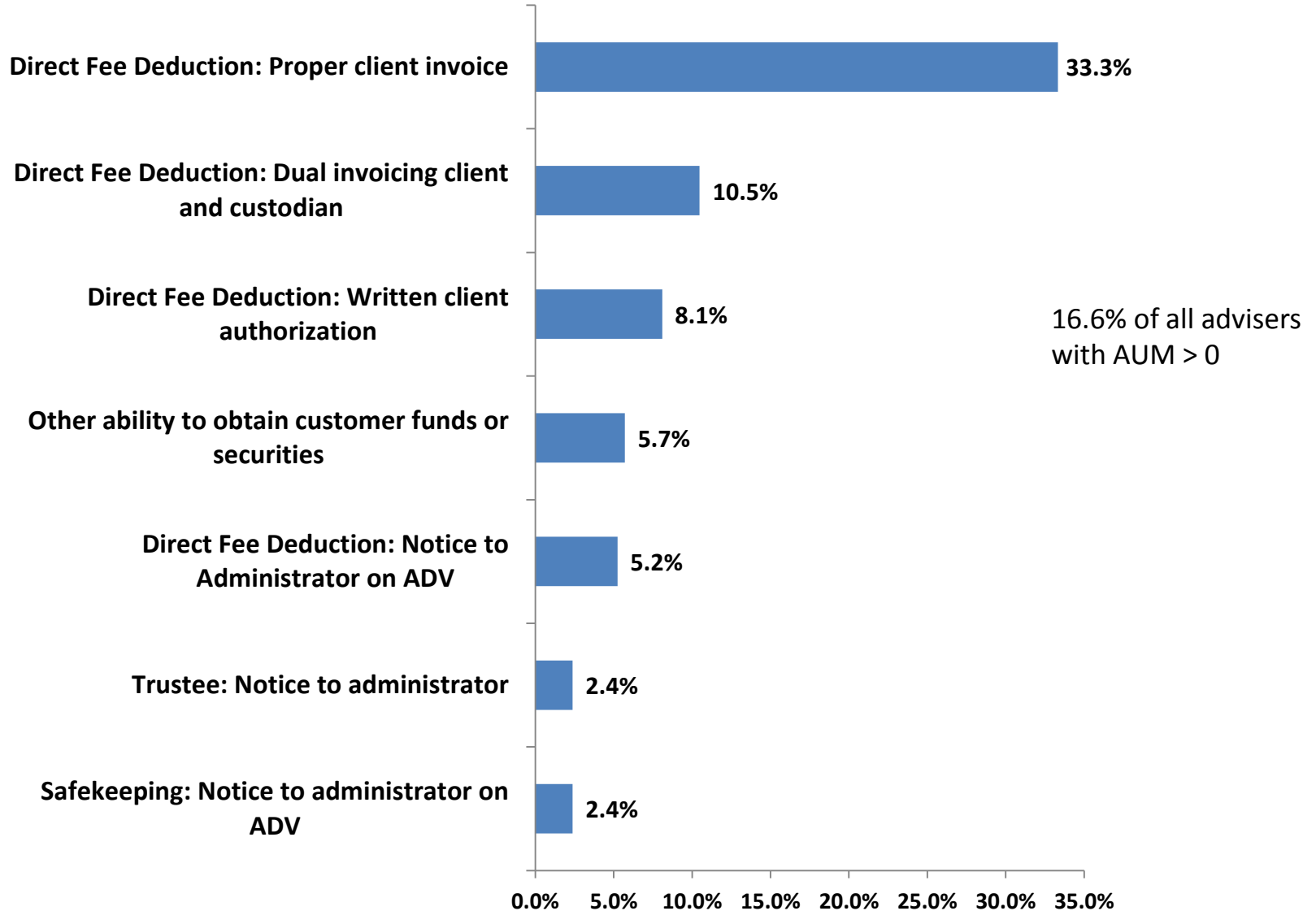
Supervision Deficiencies (189)





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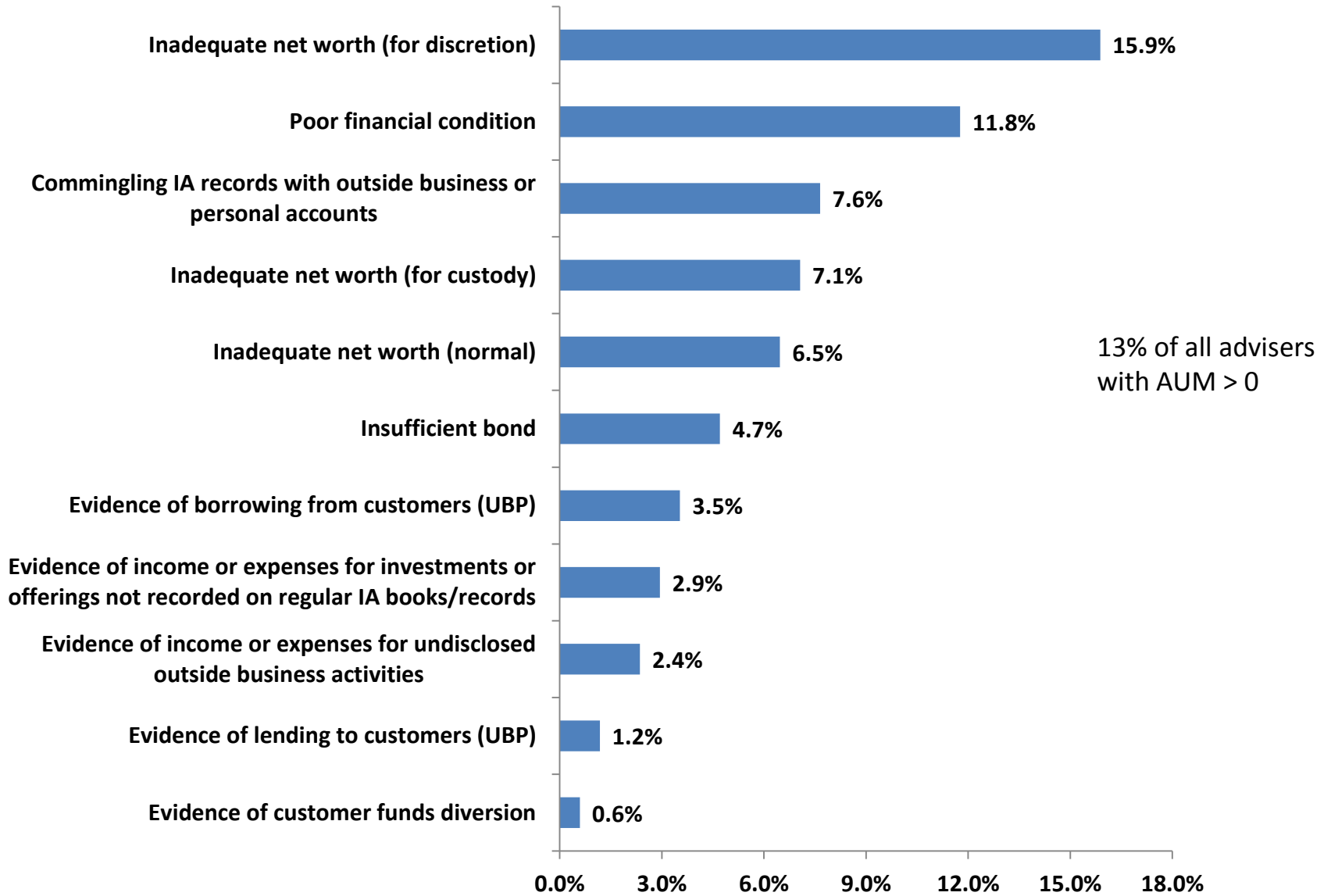
Custody Deficiencies (210)





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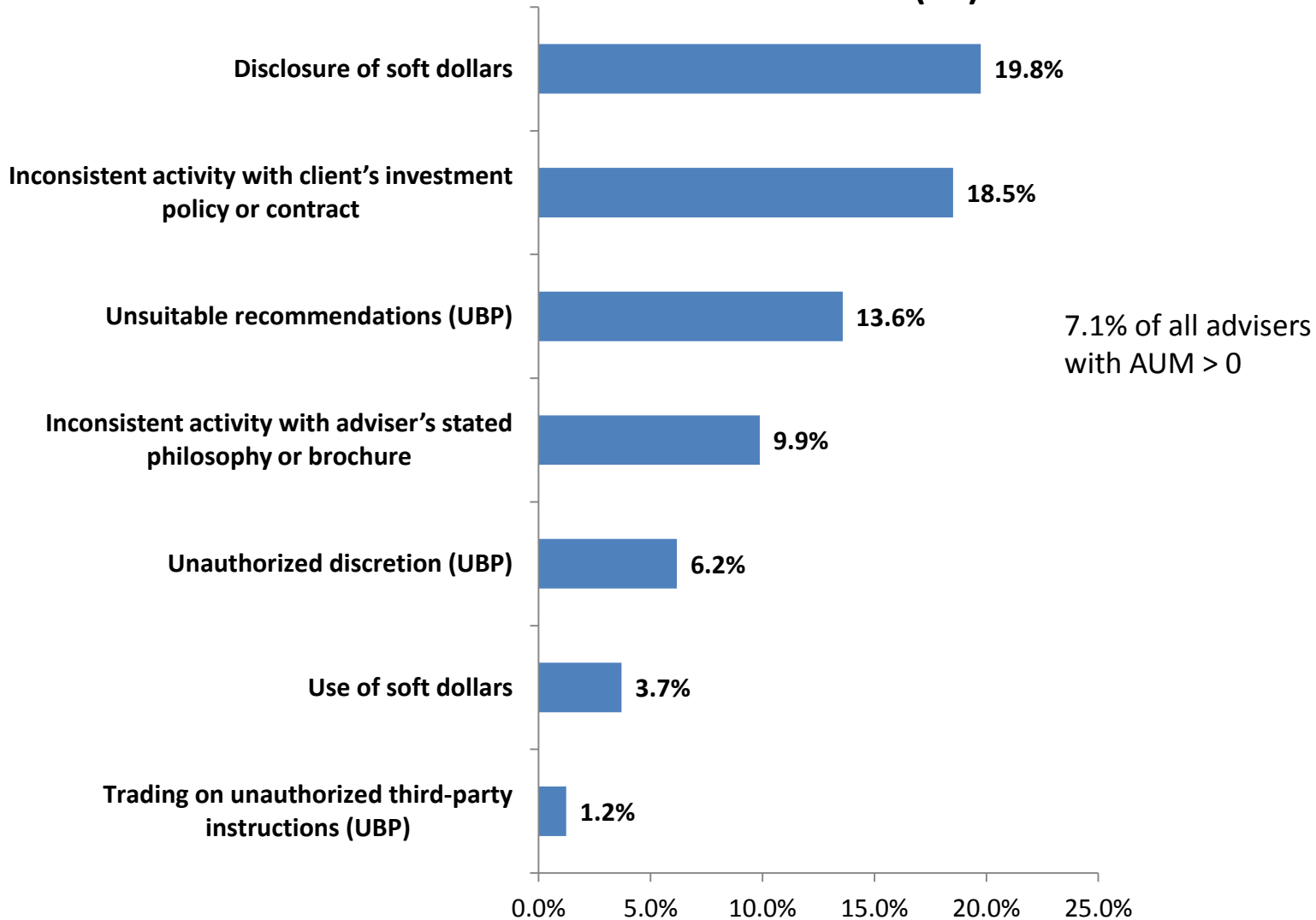
Financials Deficiencies (170)





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Investment Activities Deficiencies (81)





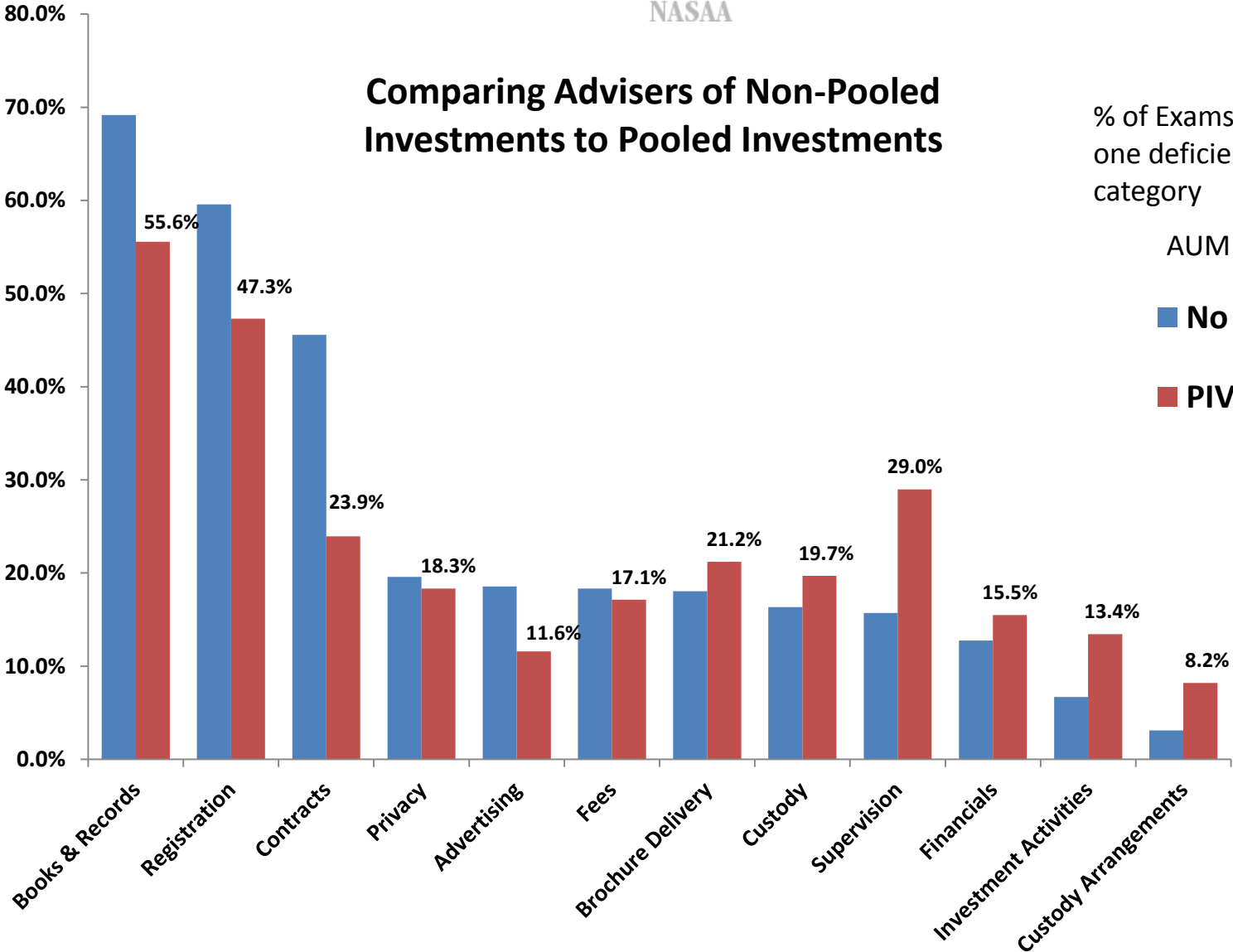
Comparing Advisers of Non-Pooled Investments to Pooled Investments

% of Exams noting at least one deficiency in the category

AUM > 0

No PIV

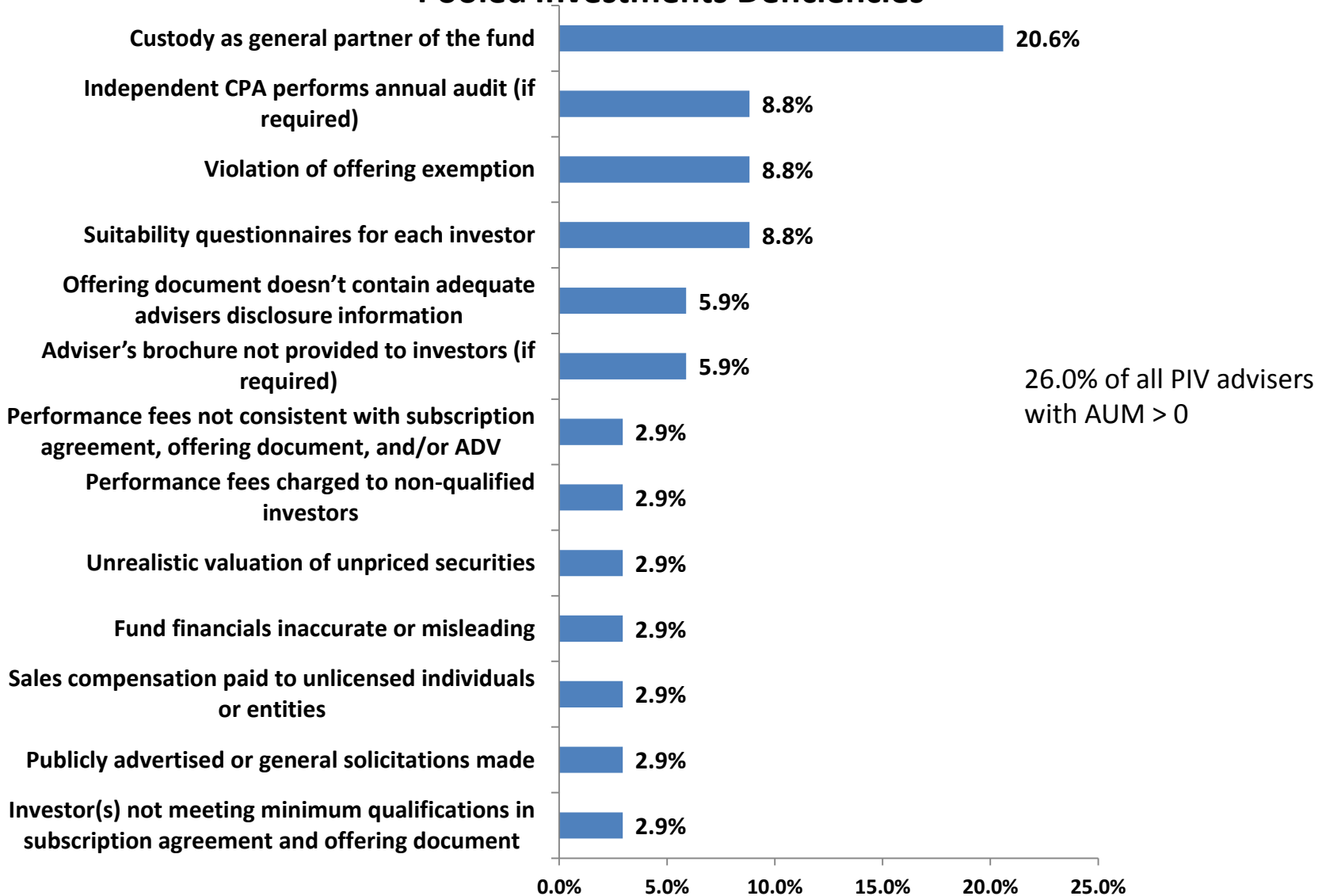
PIV





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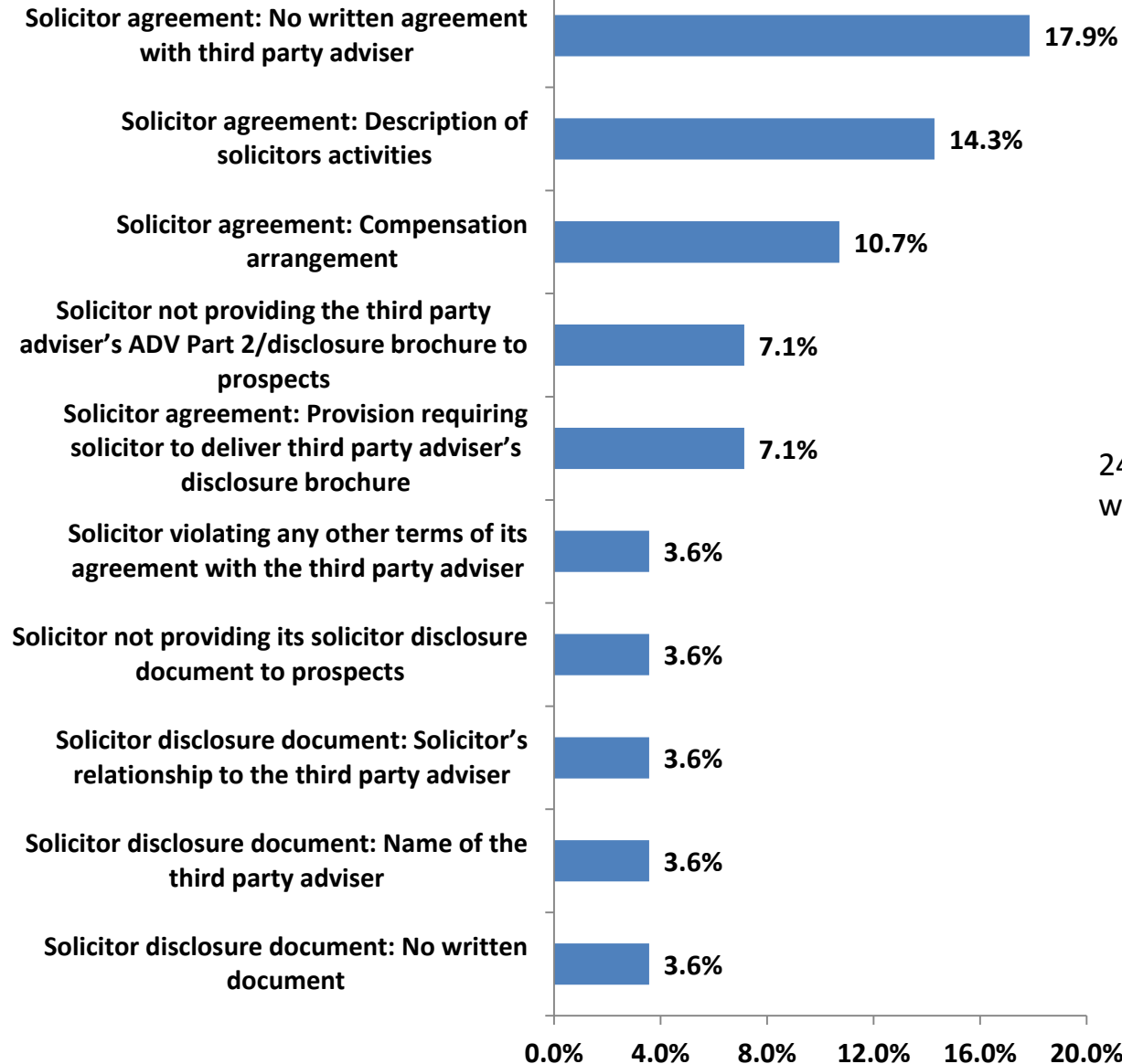
Pooled Investments Deficiencies





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Solicitor Deficiencies

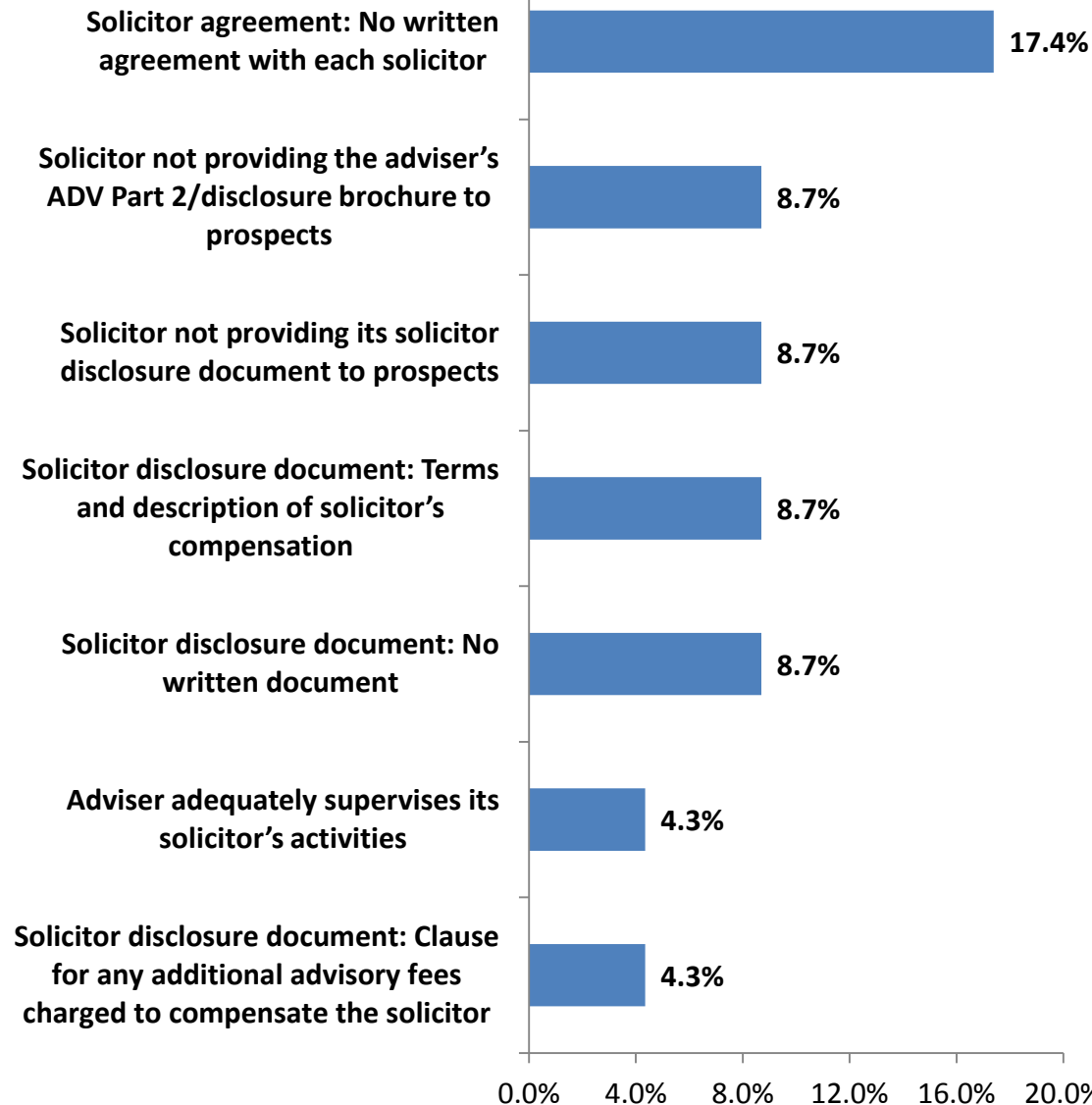


24.1% of all advisers who acted as solicitor



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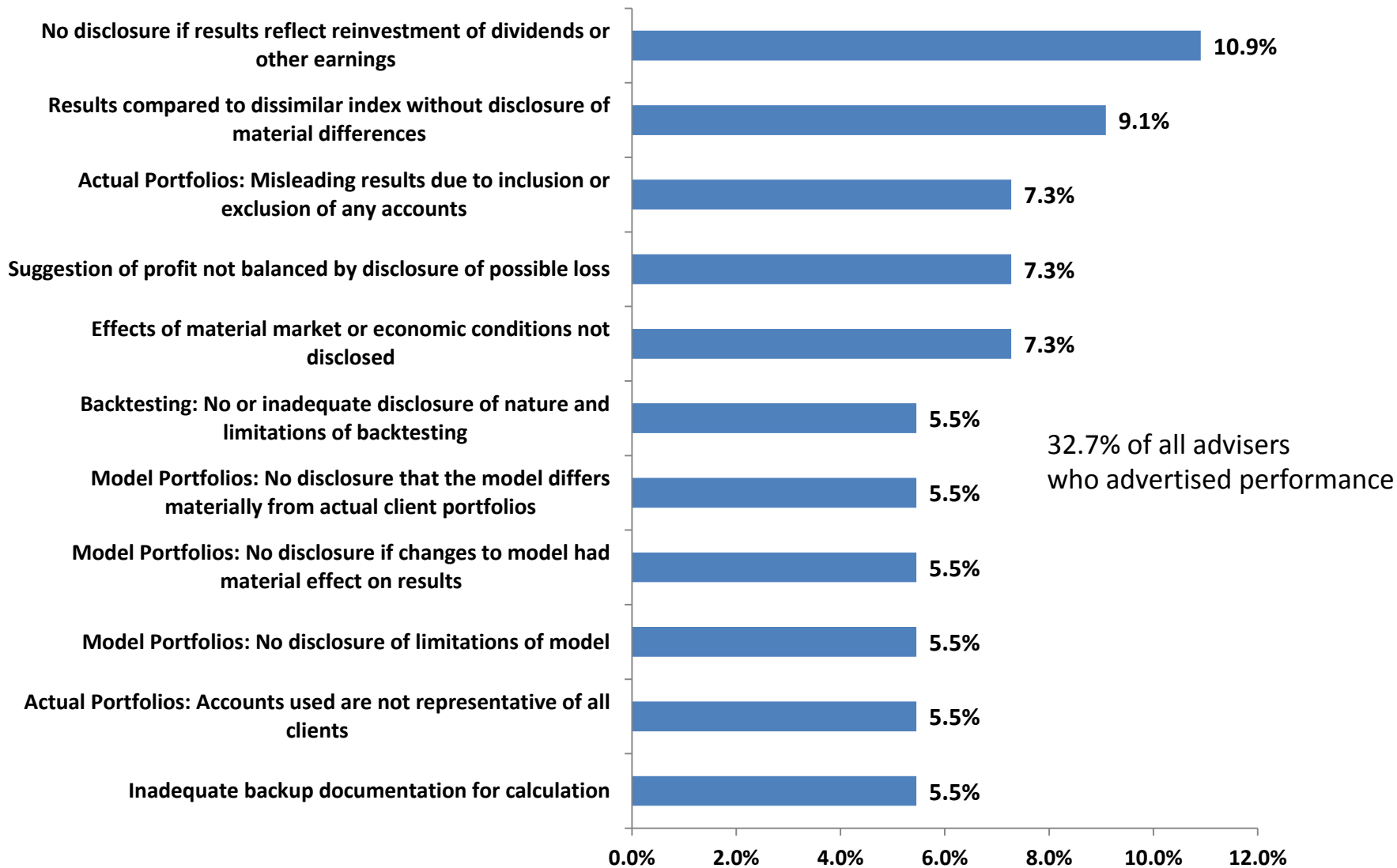
Paying Solicitors Deficiencies



25.0% of all advisers who paid solicitors for referrals



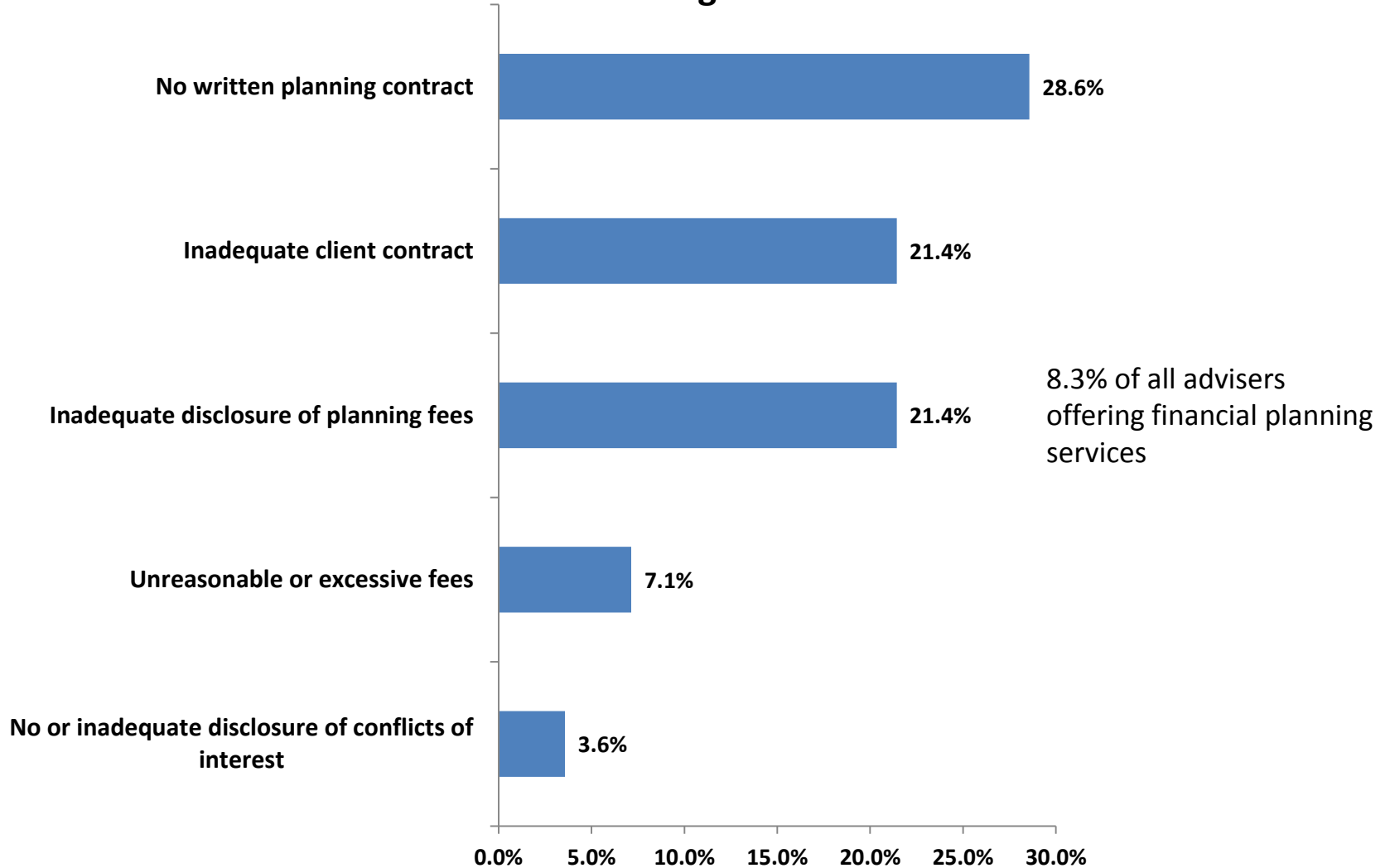
Performance Advertising Deficiencies





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Financial Planning Deficiencies





Suggested Best Practices

- Prepare and maintain all required records, including financial records. Back-up electronic data and protect records. Document checks forwarded.
- Review and revise Form ADV and disclosure brochure annually to reflect current and accurate information.
- Review and update all contracts.
- Prepare and distribute a privacy policy initially and annually.
- Deliver disclosure brochure initially and annually as required.



Suggested Best Practices

- Review all advertisements, including website and performance advertising, for accuracy.
- Calculate and document fees correctly in accordance with contracts and ADV.
- Prepare and maintain written compliance and supervisory procedures relevant to the type of business to include business continuity plan. Assess and update periodically.
- Implement appropriate custody safeguards, as applicable. Pay close attention to direct fee deduction invoices.



Suggested Best Practices

- Keep accurate financials. File timely with the jurisdiction. Maintain surety bond if required.
- Make sure client's investment policy and suitability information are current.
- Disclose soft dollars or benefits received.
- Prepare and maintain current client profiles.
- Review solicitor agreements, disclosure, and delivery procedures.



Investment Adviser Section Forum

October 7, 2013
NASAA Annual Fall Conference
Salt Lake City, UT