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# NASAA 2013 Coordinated Investment Adviser Examinations

Investment Adviser Operations Project Group  
NASAA Investment Adviser Section  
October 2013

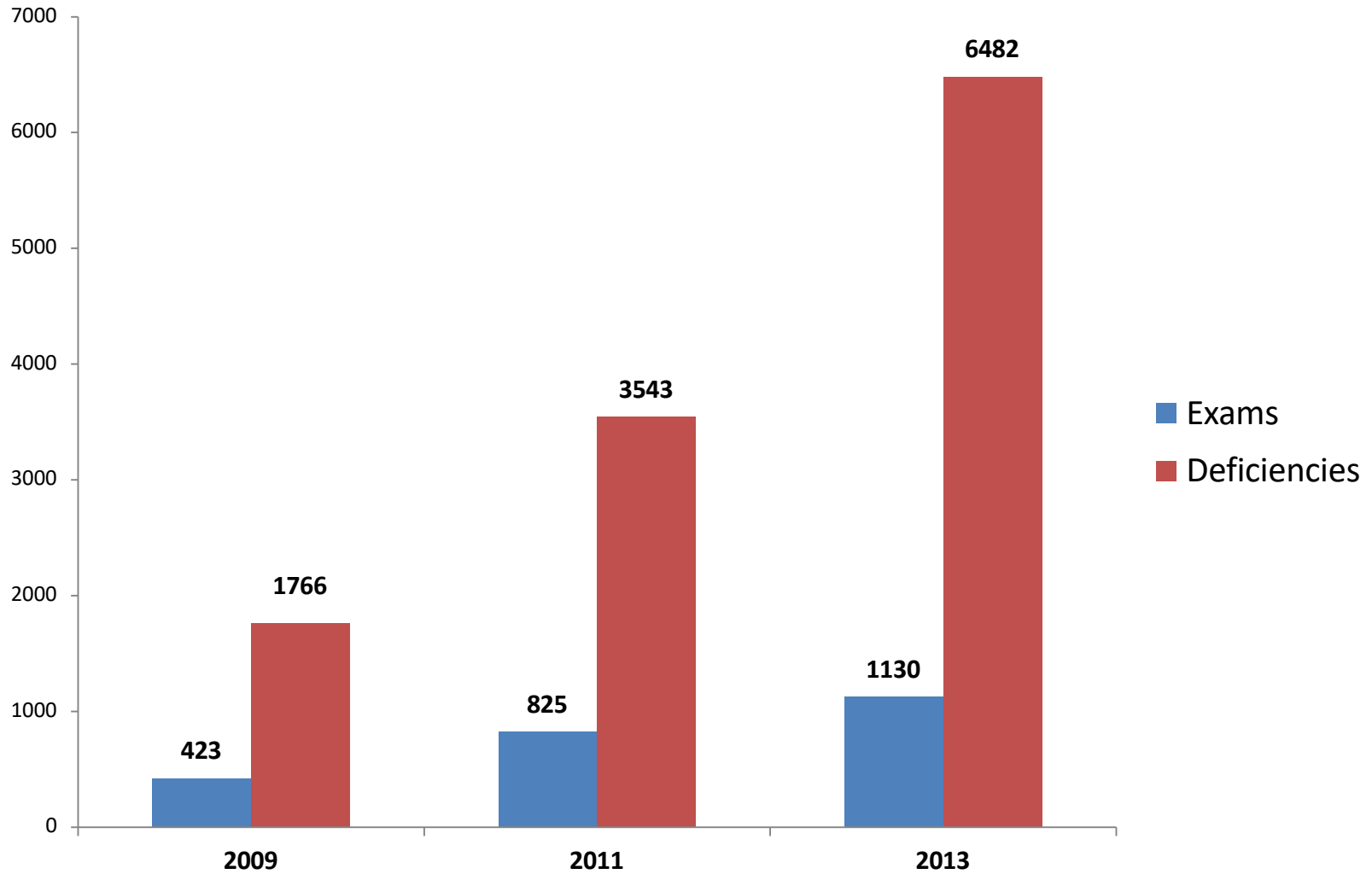
NASAA's Coordinated Exams Program is a biennial initiative conducted to identify common investment adviser deficiencies.



- 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.



# 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?

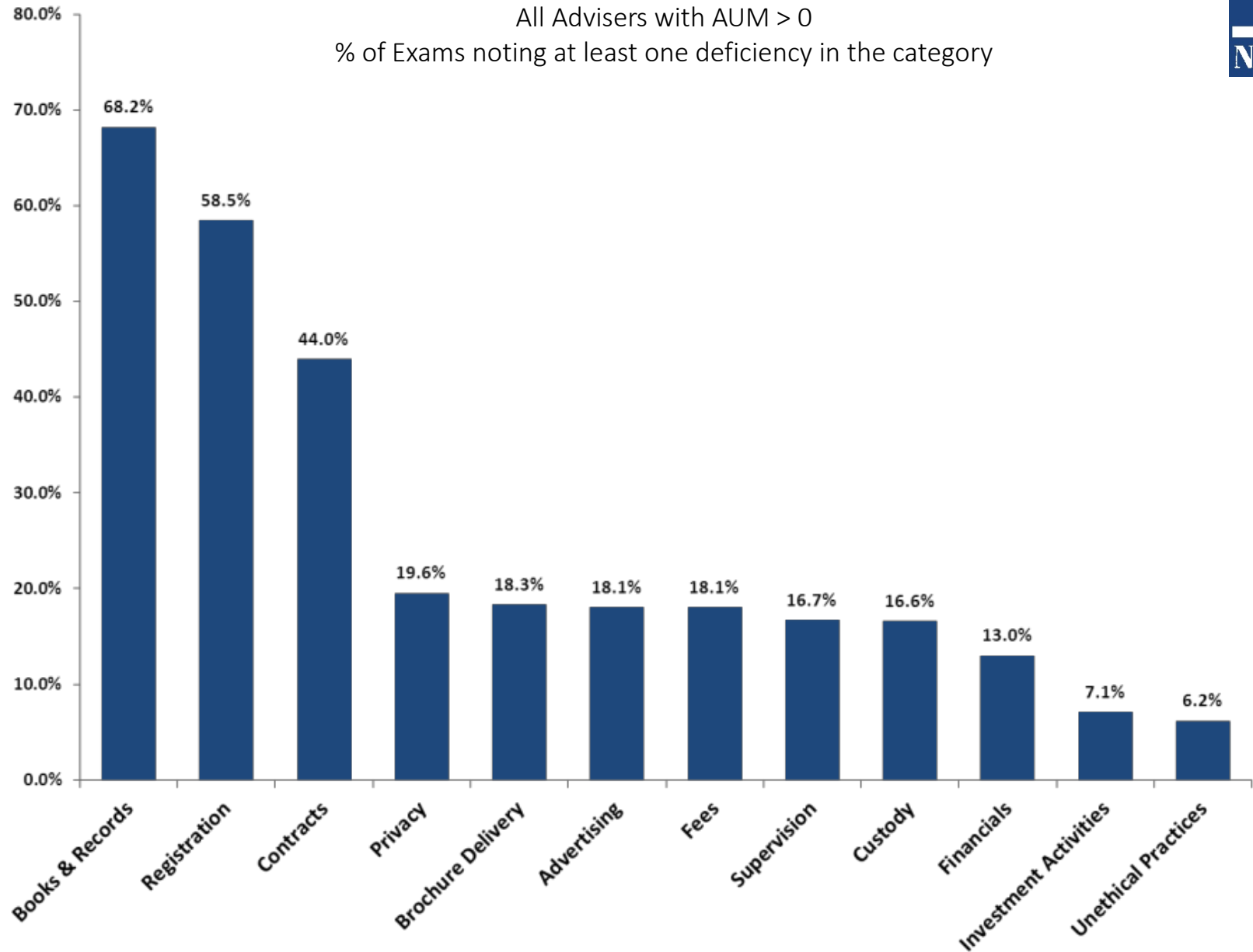
**6,482** deficiencies in 20 categories



# 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

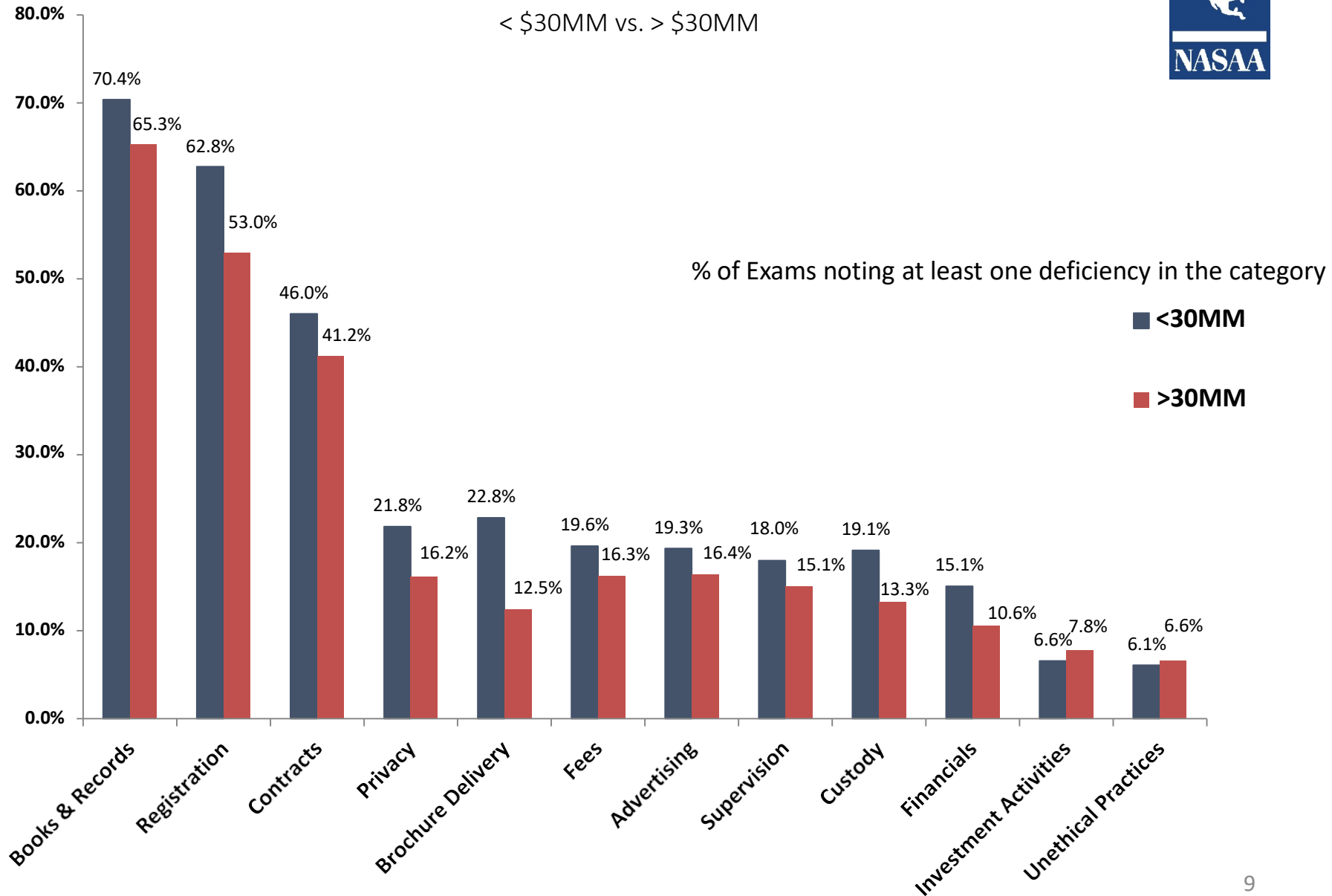




# Deficiencies Comparing AUM

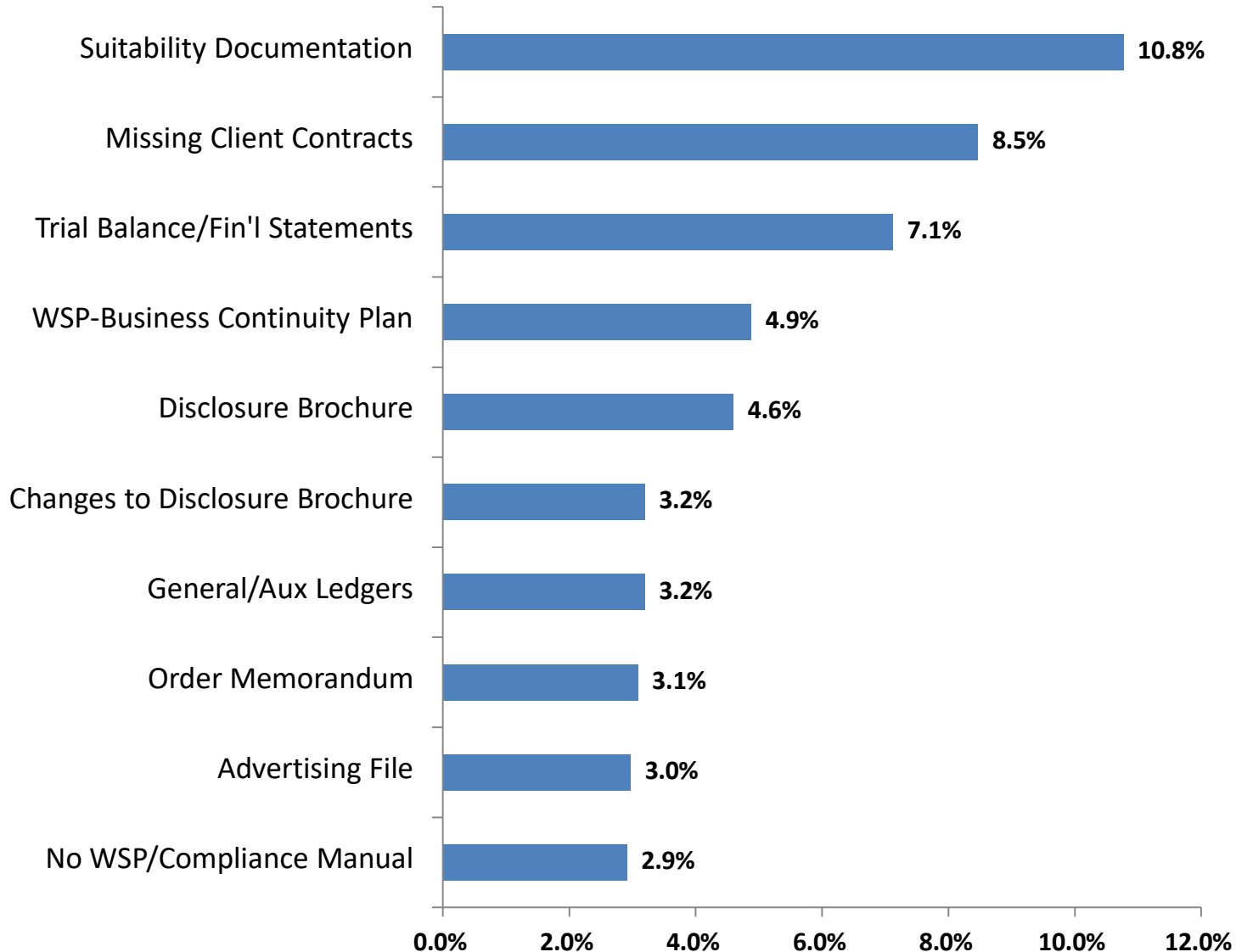


< \$30MM vs. > \$30MM



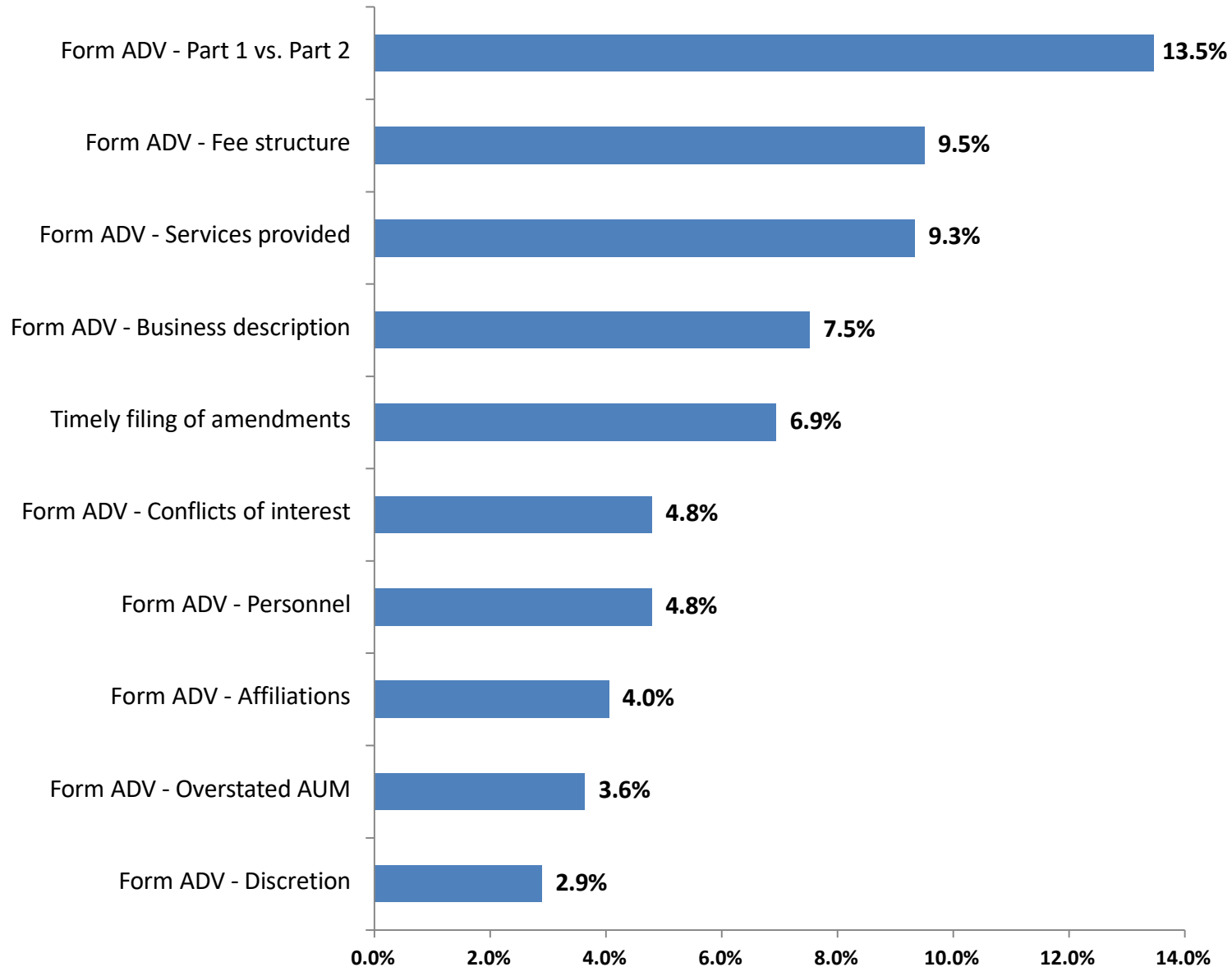
# Books and Records Deficiencies (1,783)

68.2% of all advisers with AUM > 0



# Registrations Deficiencies (1,211)

58.5% of all advisers with AUM > 0

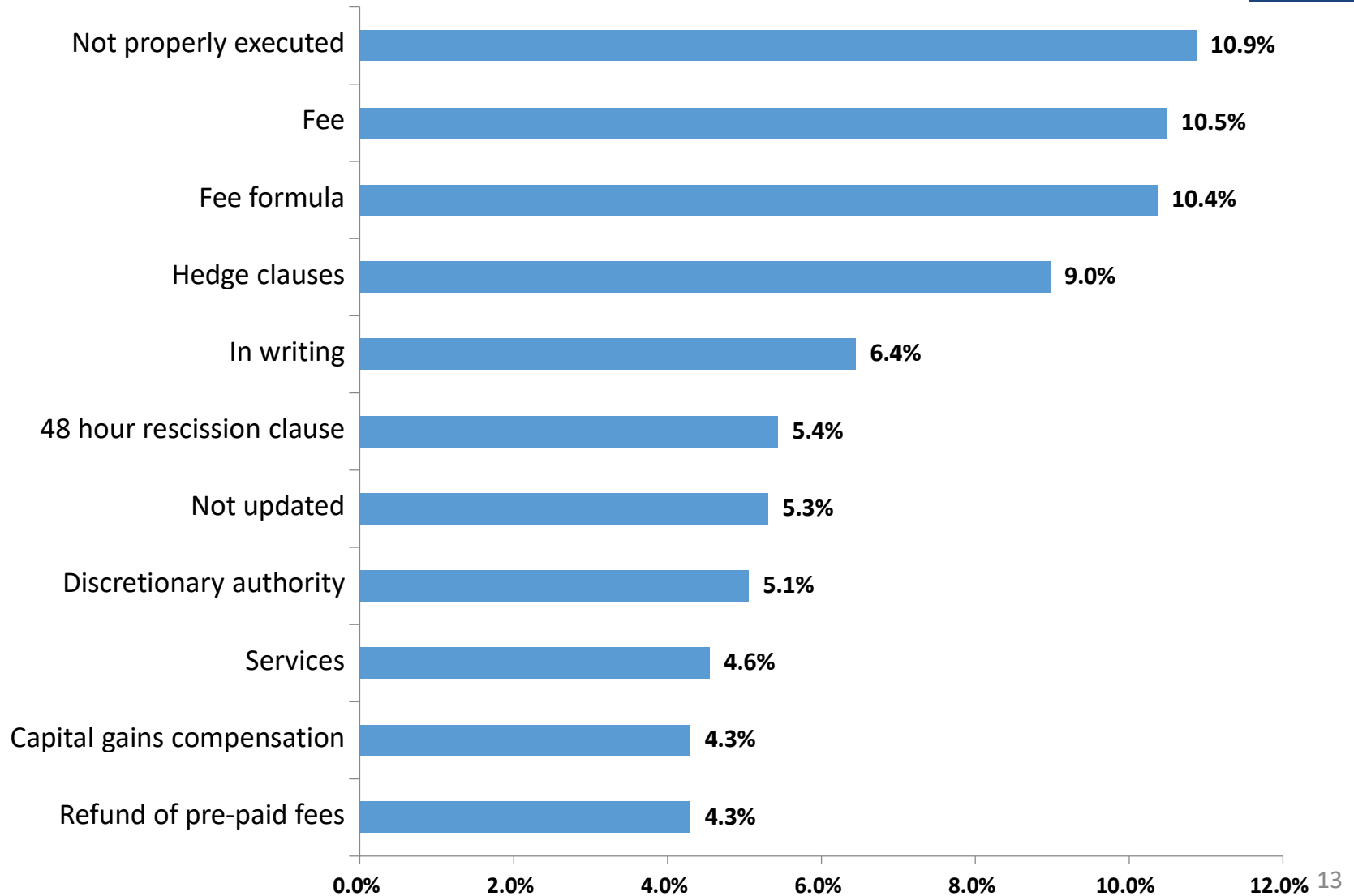


# ADV Cross-Reference Chart

<b>Topic</b>	<b>ADV I Item</b>	<b>ADV 2A Item</b>	<b>ADV 2B Item</b>
<b>Employees as Registered Reps</b>	5B(2)	10A	4A
<b>Employees are insurance agents</b>	5B(5)	10C	4B
<b>Use of solicitors</b>	5B(6), 8H	14B	
<b>Types of clients</b>	5D	7	
<b>Compensation</b>	5E	5A 5E 10D 14	4A, 4B
<b>Performance Fees</b>	5E	6, 19C	
<b>Assets under management</b>	5F	4 ( do not have to match, but must be w/in 90 days)	
<b>Services provided</b>	5G	4	
<b>Wrap Program</b>	5I	4D, if so, Appendix 1 is required	
<b>Advise on limited security types</b>	5J	4B	
<b>Other financial business</b>	6A	5E, 10A,10B, 10C	
<b>Other business or services</b>	6B	19B	
<b>Financial industry affiliations</b>	5B, 7A	10A, B, and/or C, 19E	
<b>Private Fund Adviser Please submit: LPA, PPM and Sub Docs</b>	7B	4, 5, 10C	
<b>Your interest in client trades</b>	8A	11B, 11C, 11D	
<b>Sales interest in client trades</b>	8B, 5B, 7B	11B	
<b>Discretion</b>	8C	4, 16, 18B	
<b>Related brokers</b>	8D, 8F	10A, 10C	
<b>Recommend brokers</b>	8E	12A	
<b>Soft dollars</b>	8F, 8G	12A	
<b>Receive pay for referrals</b>	8I	10D, 14A	5
<b>Custody</b>	9	15, 18B	
<b>Disciplinary disclosures</b>	11	9, 19D	3, 7
<b>Direct Owners</b>	Schedule A	4, 19A	

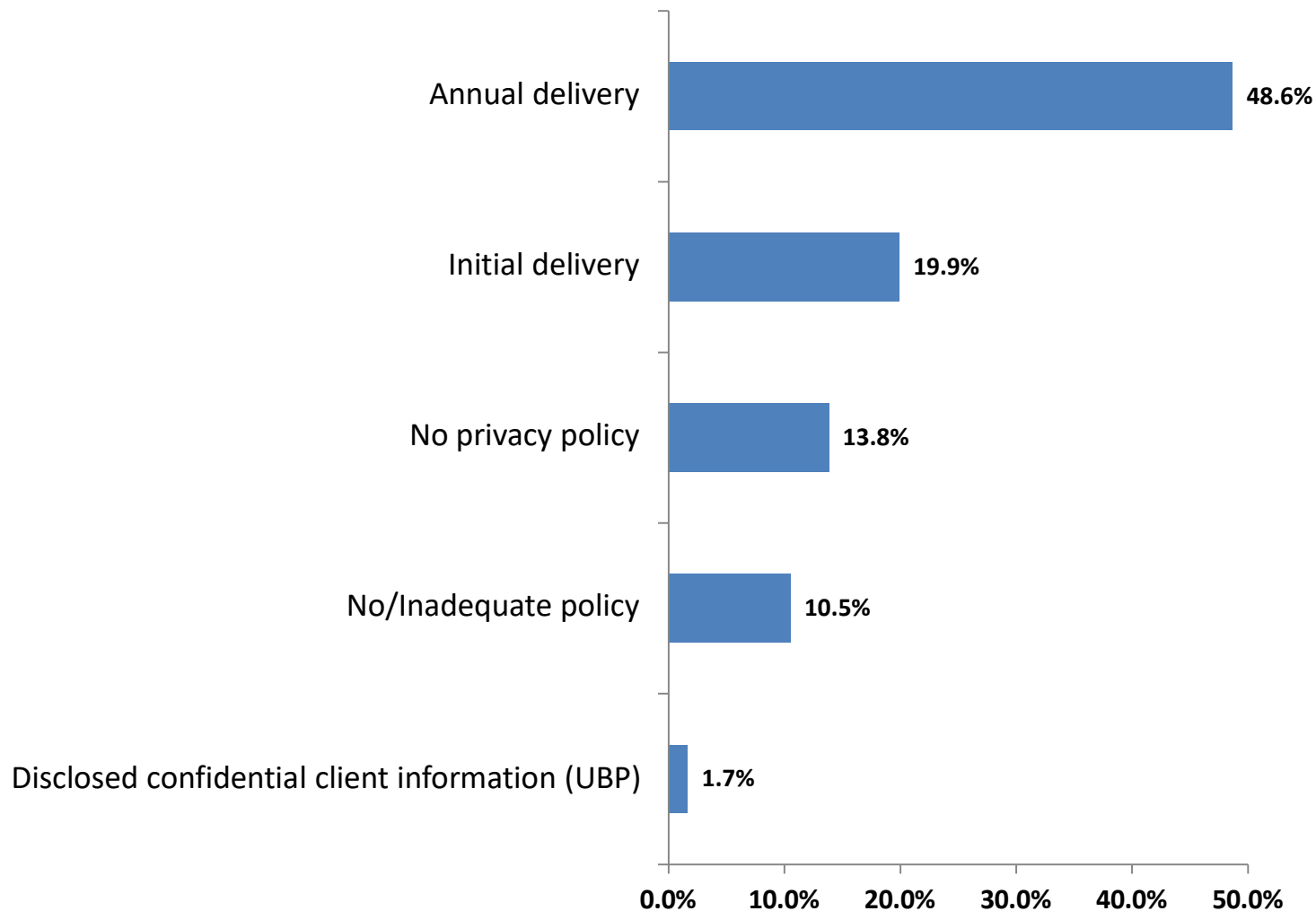
# Contracts Deficiencies (791)

44.0% of all advisers with AUM > 0



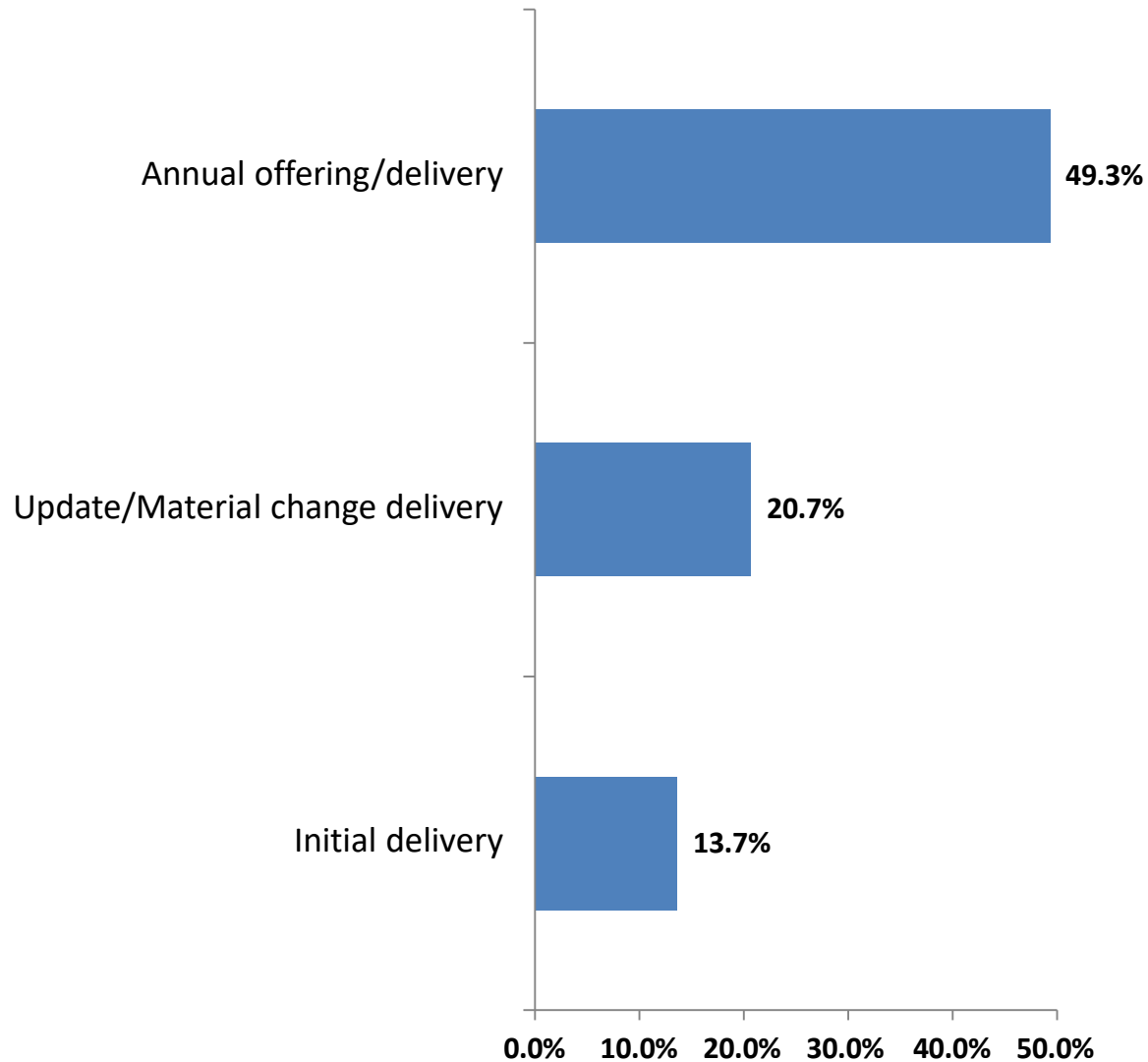
# Privacy Policy Deficiencies (181)

19.6% of all advisers with AUM > 0



# Brochure Delivery Deficiencies (227)

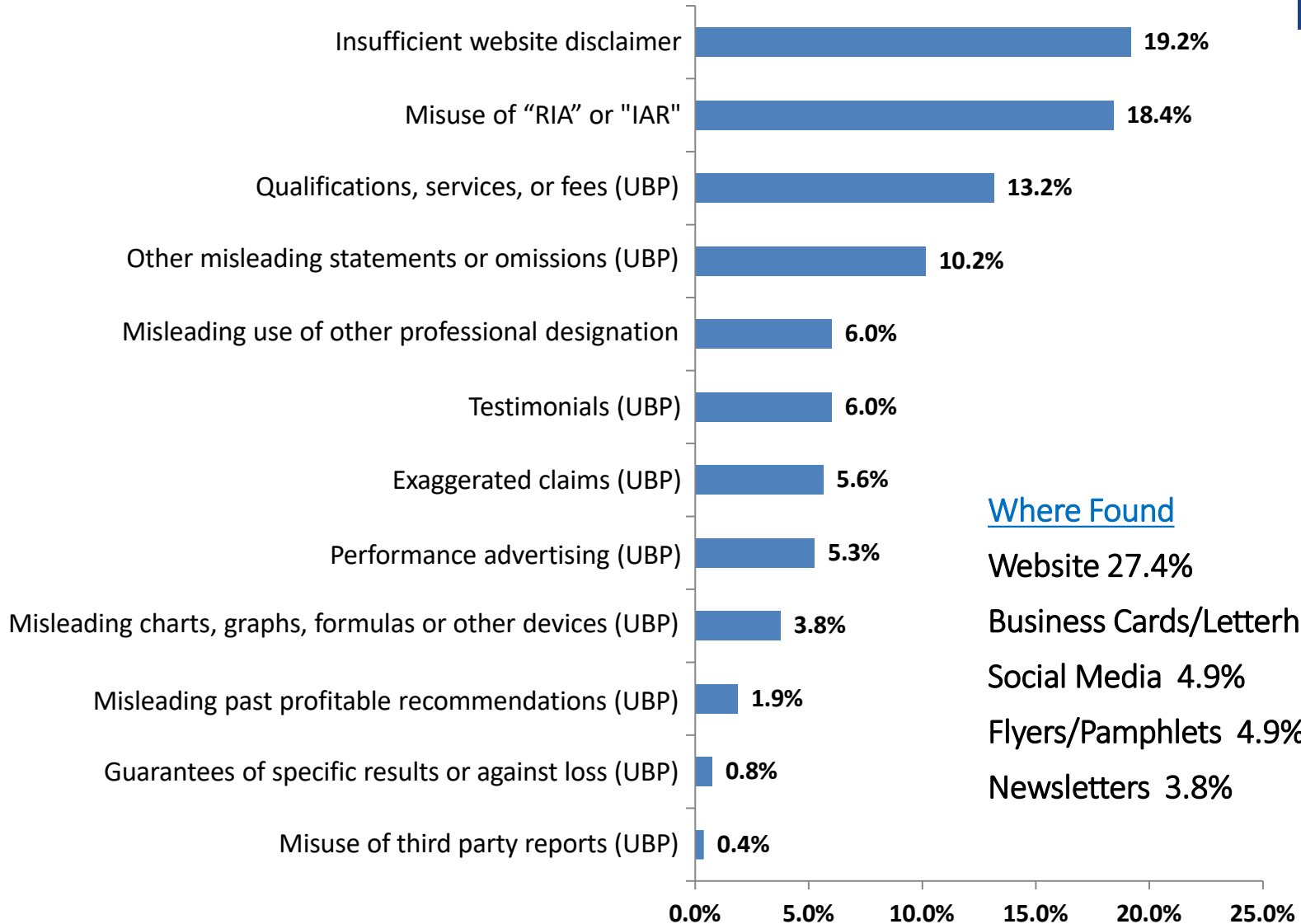
18.3% of all advisers with AUM > 0



# Advertising Deficiencies (266)



18.1% of all advisers with AUM > 0



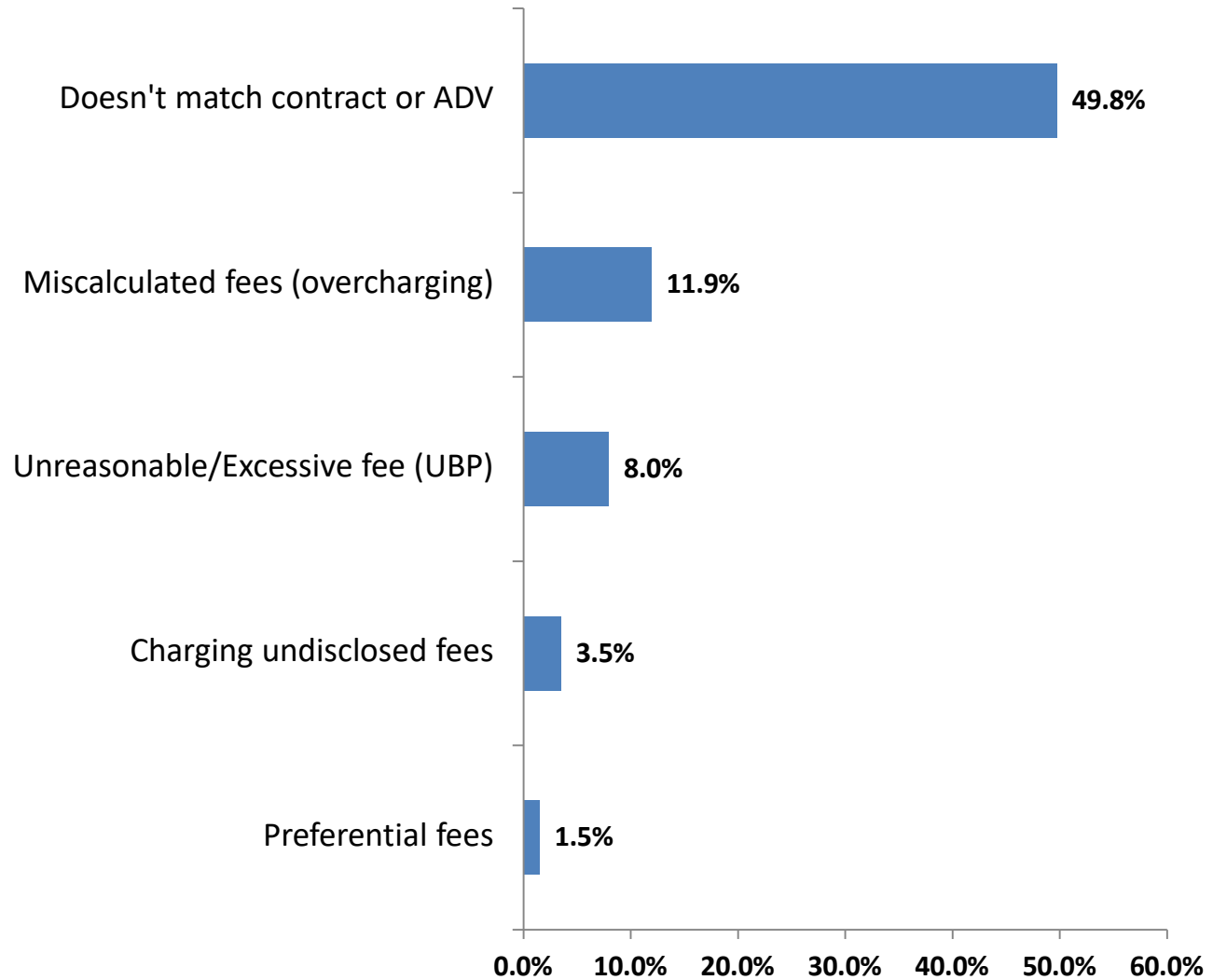
## Where Found

- Website 27.4%
- Business Cards/Letterhead 12.8%
- Social Media 4.9%
- Flyers/Pamphlets 4.9%
- Newsletters 3.8%



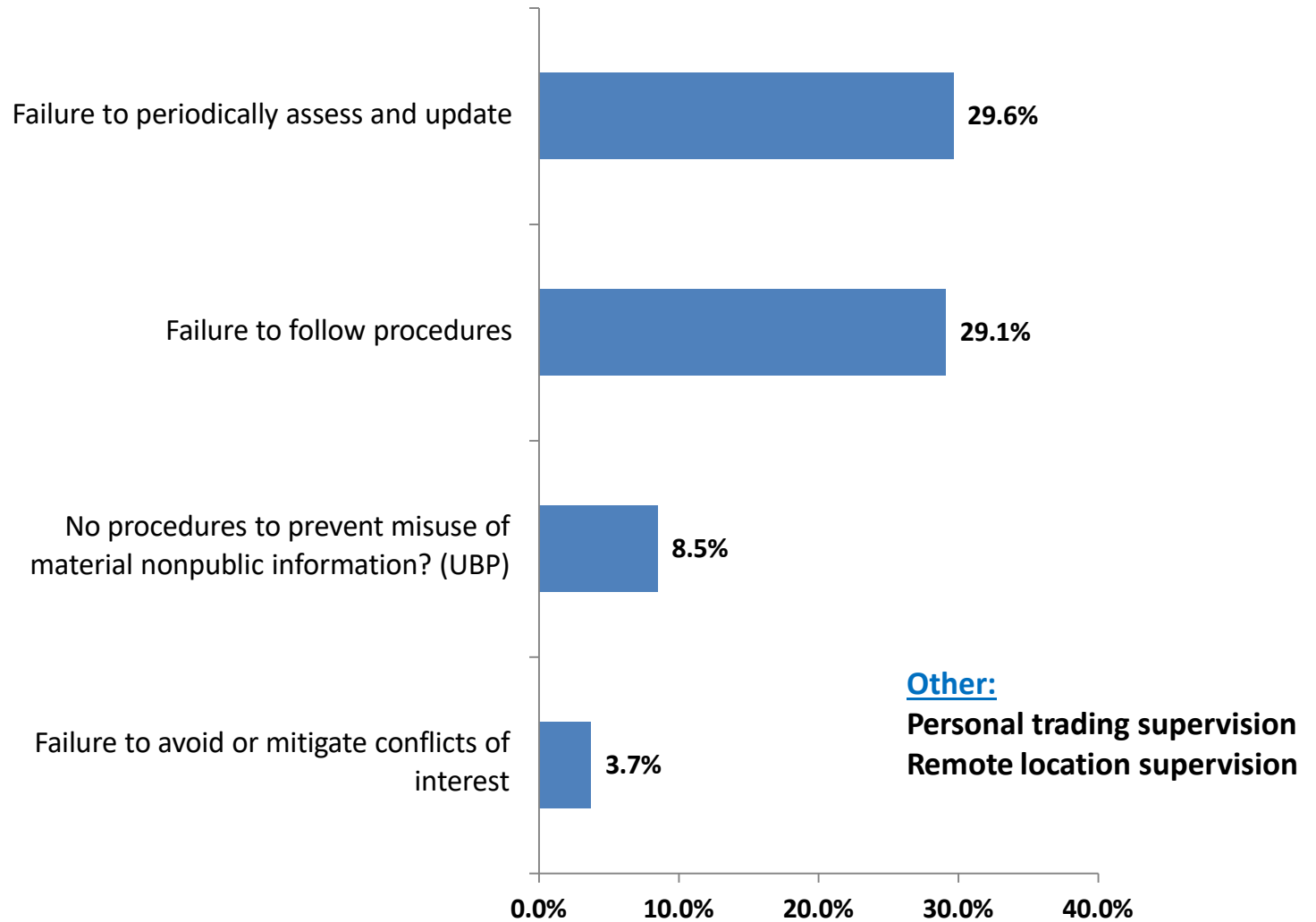
# Fees Deficiencies (201)

18.1% of all advisers with AUM > 0



# Supervision Deficiencies (189)

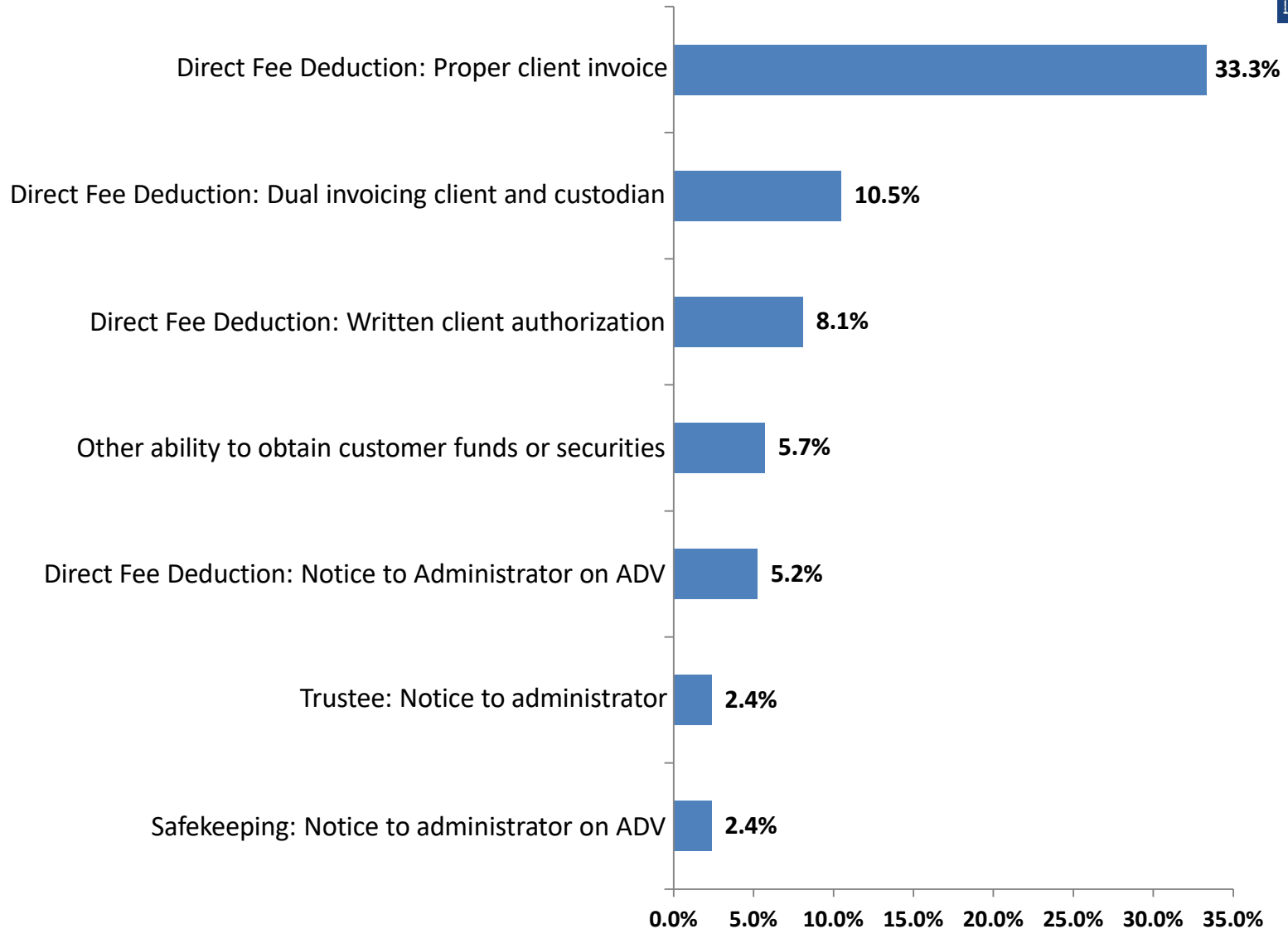
16.7% of all advisers with AUM > 0



# Custody Deficiencies (210)

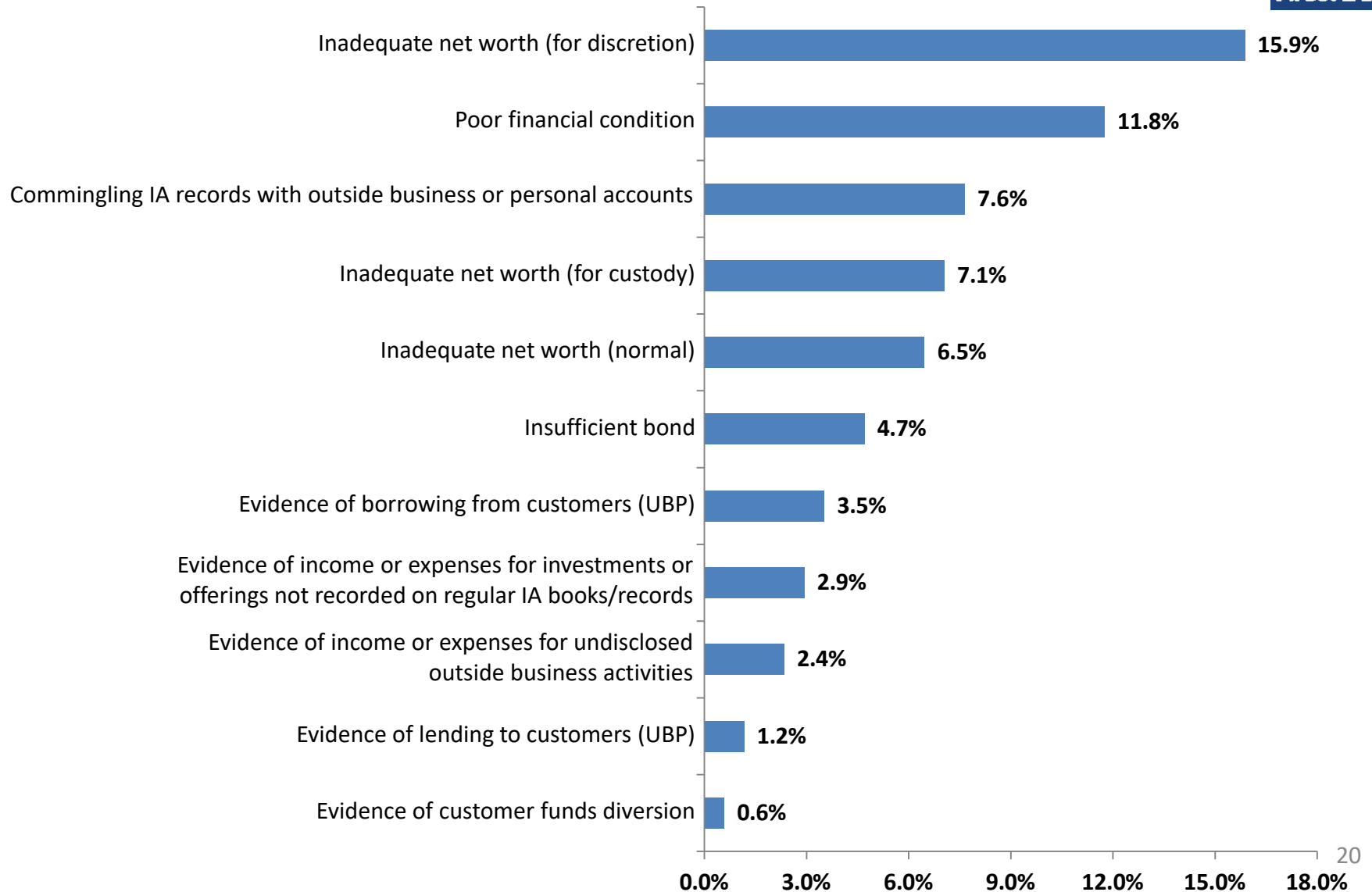


16.6% of all advisers with AUM > 0



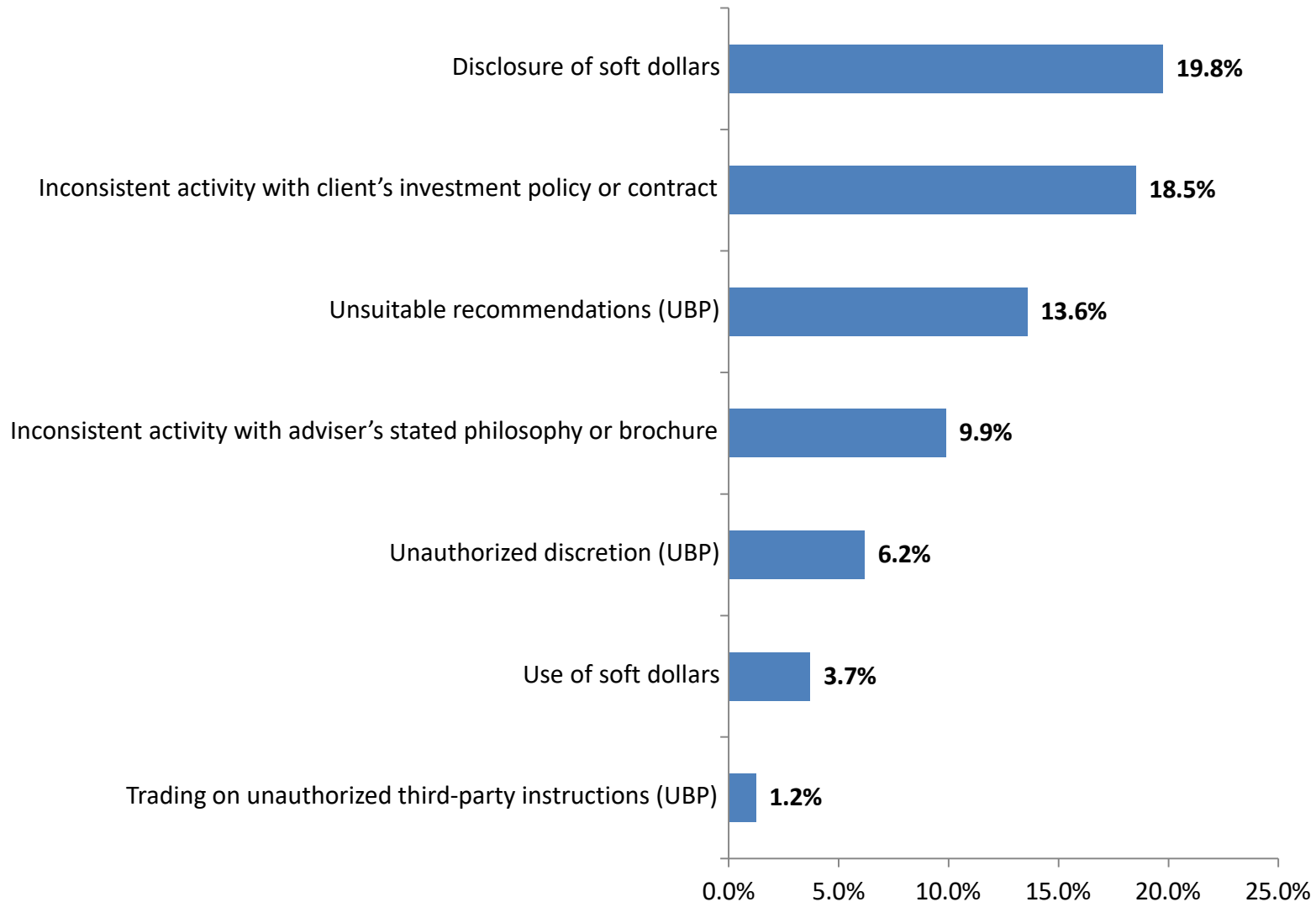
# Financials Deficiencies (170)

13% of all advisers with AUM > 0

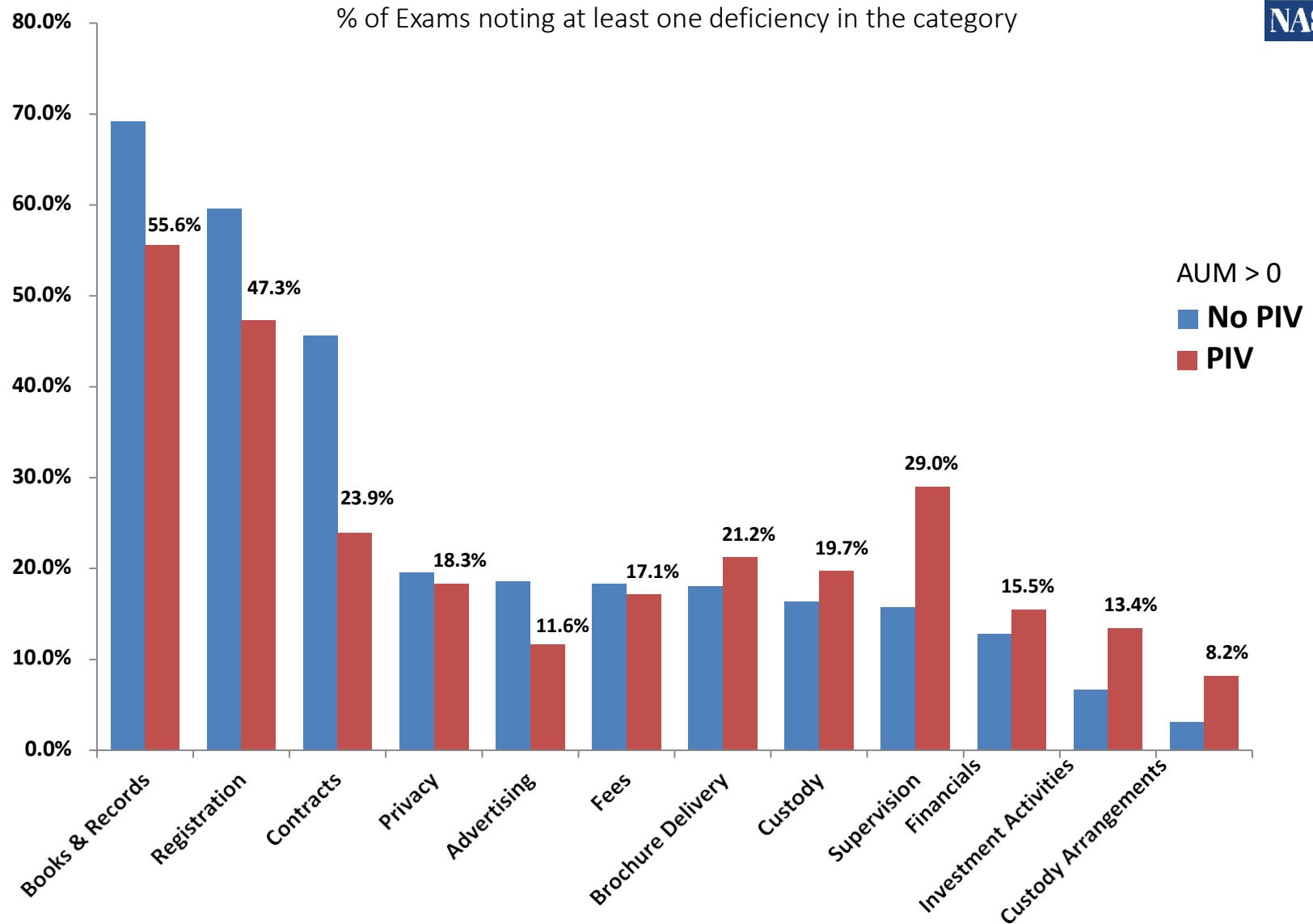


# Investment Activities Deficiencies (81)

7.1% of all advisers with AUM > 0



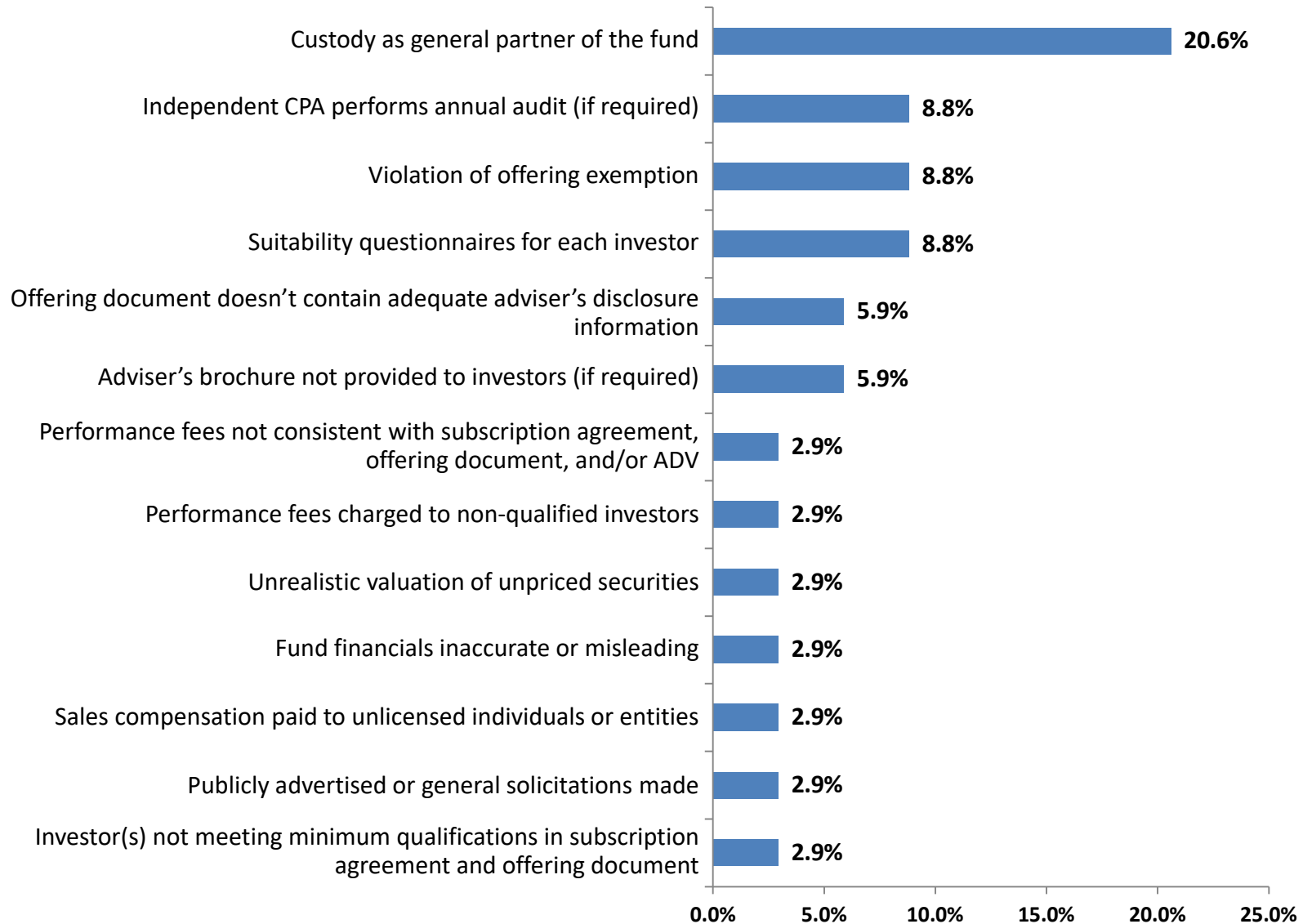
# Comparing Advisers of Non-Pooled Investments to Pooled Investments



# Pooled Investments Deficiencies



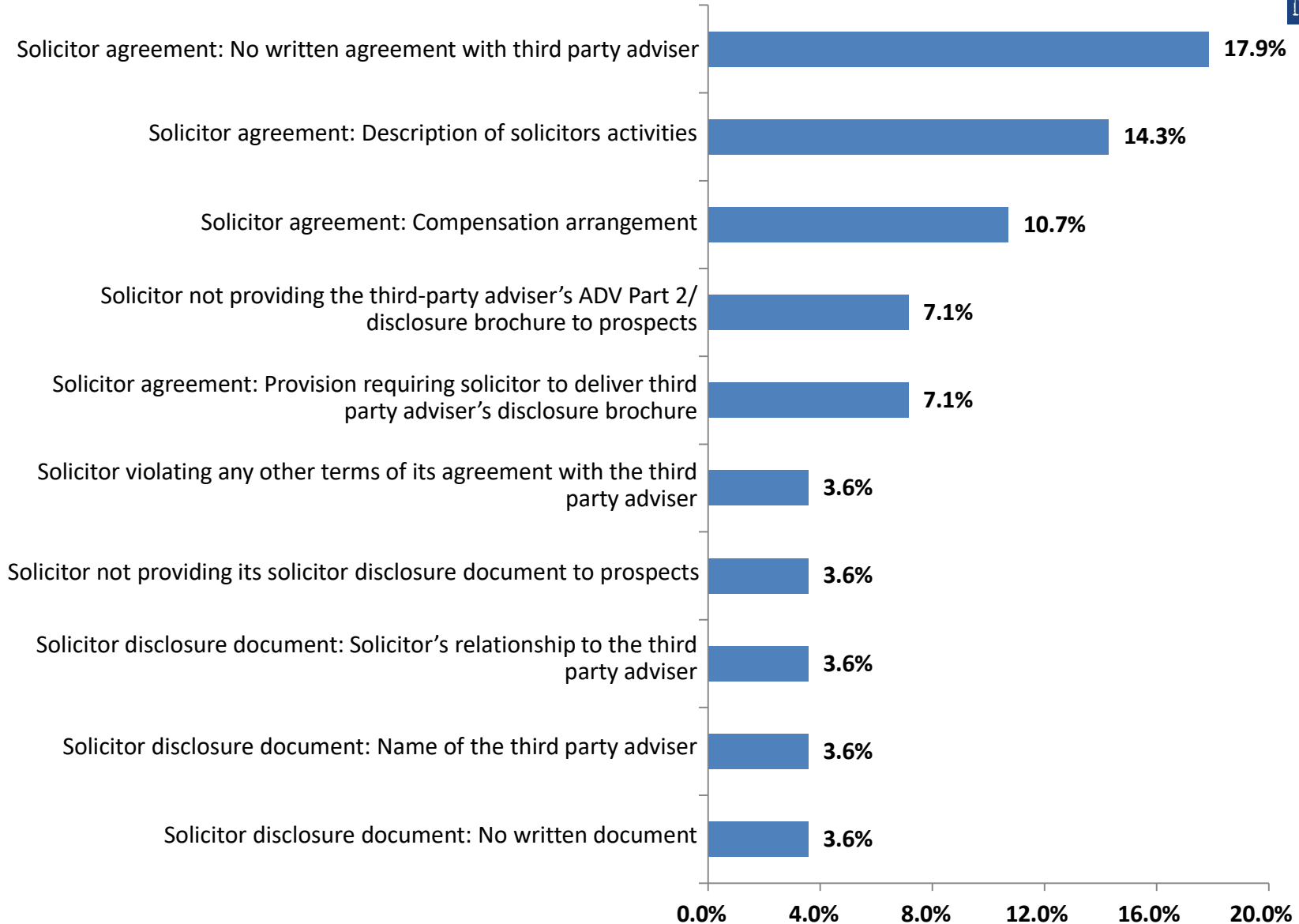
26.0% of all PIV advisers with AUM > 0



# Solicitor Deficiencies



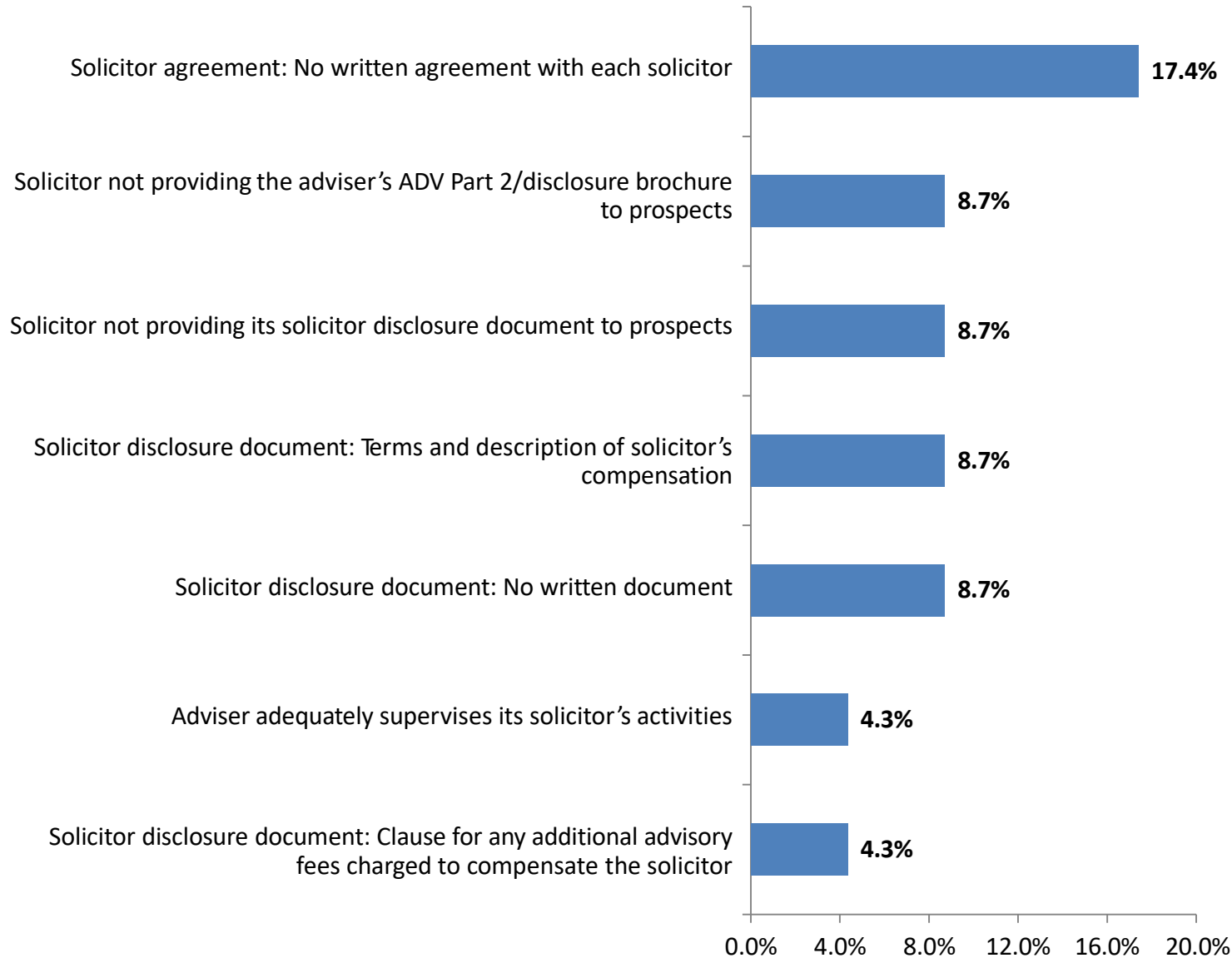
24.1% of all advisers who acted as solicitor





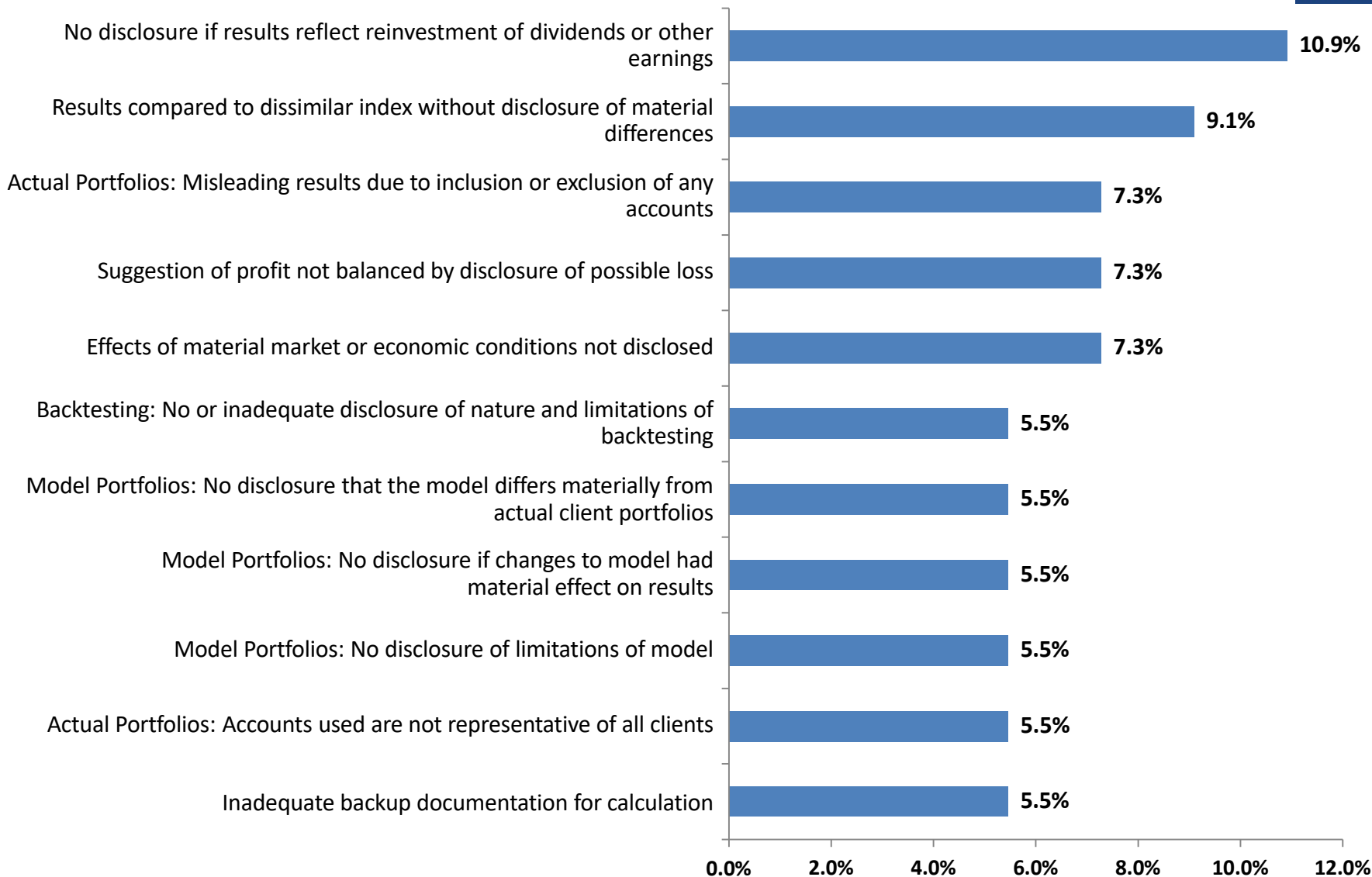
# Paying Solicitors Deficiencies

25.0% of all advisers who paid solicitors for referrals



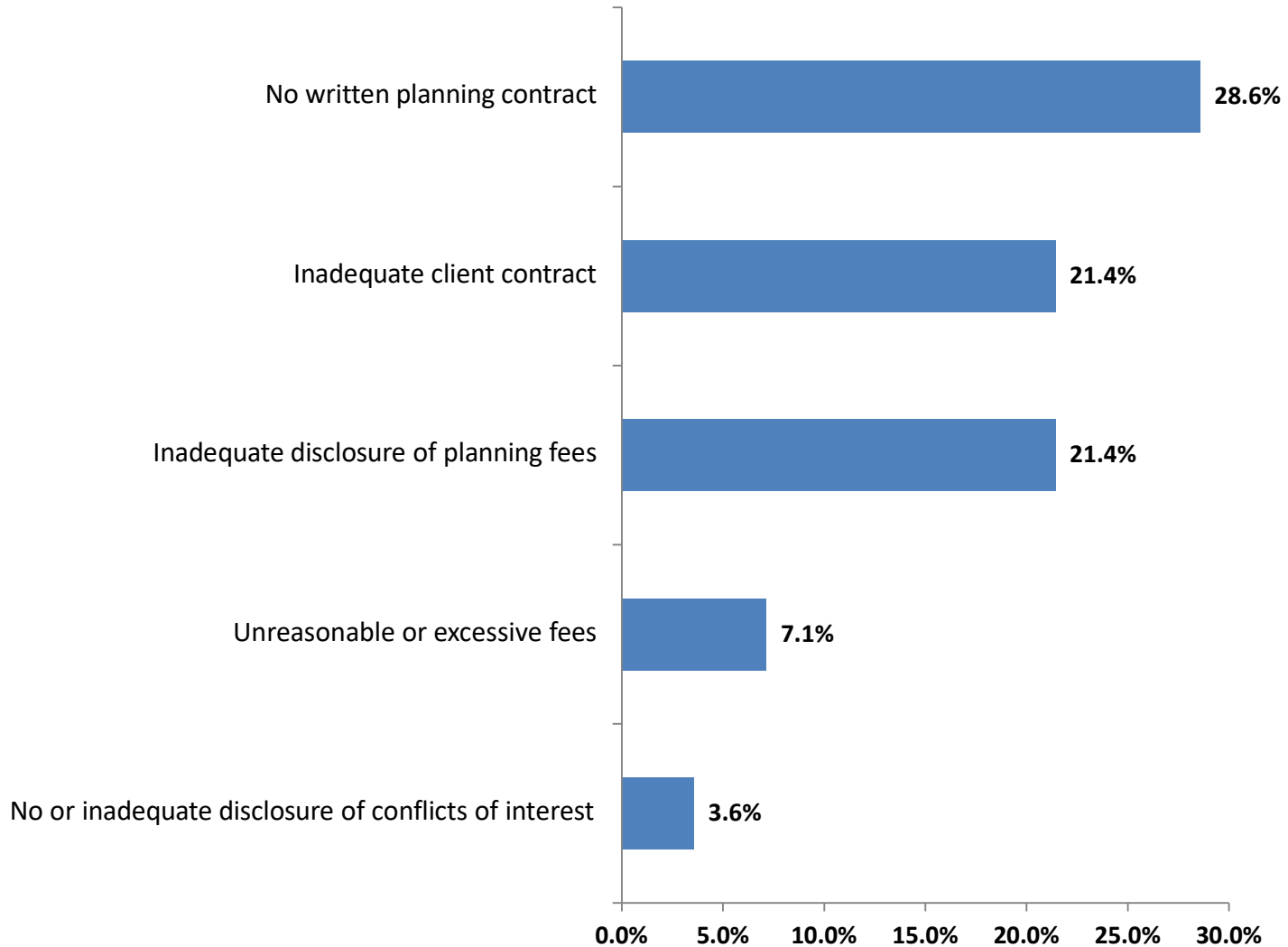
# Performance Advertising Deficiencies

32.7% of all advisers who advertised performance



# Financial Planning Deficiencies

8.3% of all advisers offering financial planning services





# 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