

2011 COORDINATED INVESTMENT ADVISER EXAMS

North American Securities
Administrators Association





Who Was Examined?

825 State-level advisers, of which...

155 advisers (18.8%) were affiliated with a BD

75 advisers (9.1%) used or acted as solicitors

71 advisers (8.6%) managed pooled investments

98 advisers (11.9%) had financial only planning clients

594 advisers (72%) had one IAR only



Who Conducted the Exams?

Securities examiners from 45 jurisdictions including British Columbia, Ontario, Nova Scotia, Quebec, and Saskatchewan, Canada

What Was Found?

3543 total deficiencies in 13 categories

The Categories

- Books and Records
- Financials
- Registration
 - *ADV, U4, Firm, IARs, ADV Delivery*
- Fees
- Advertising
 - *Ads, Websites, Business Cards, Seminars*
- Privacy
- Supervisory/Compliance
 - *Supervisory Procedures, Compliance Procedures, Policies*
- Investment Activities
 - *Adherence to Investment Policy, Fairness, Conflicts*
- Performance Reporting
- Custody
- Solicitors
- Pooled Investment Vehicles (Hedge Fund)
- Unethical Business Practices
 - *21 from NASAA Model Rule 120(a)(4)-1*
 - ***Unsuitable Recommendations***
 - ***Contracts***
 - ***Unauthorized trades***
 - ***Excessive Fees***
 - ***Borrowing from client***
 - ***Etc...***

The "Average" Adviser

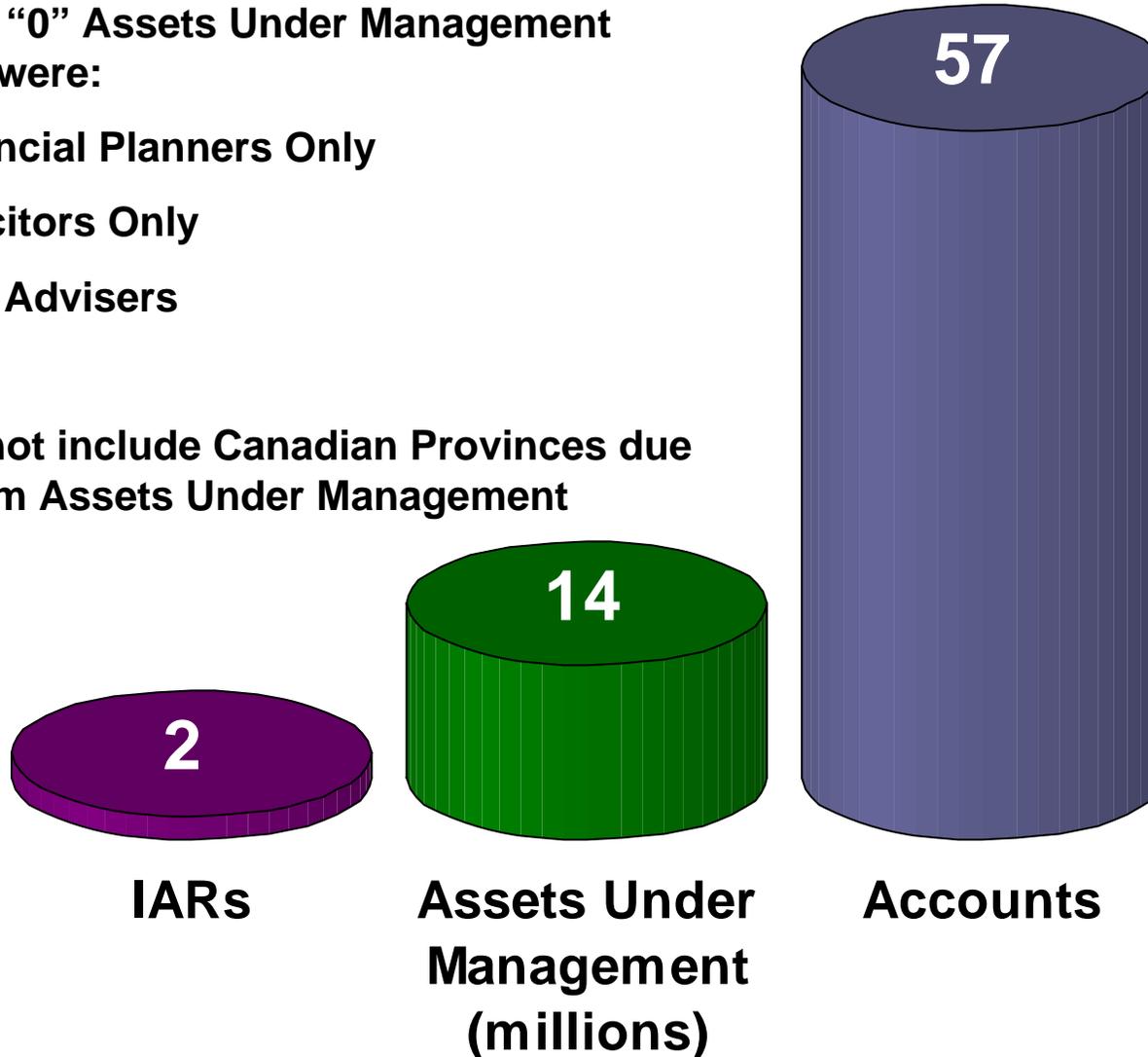
Averages do not include advisers which had "0" Accounts and "0" Assets Under Management because they were:

Financial Planners Only

Solicitors Only

New Advisers

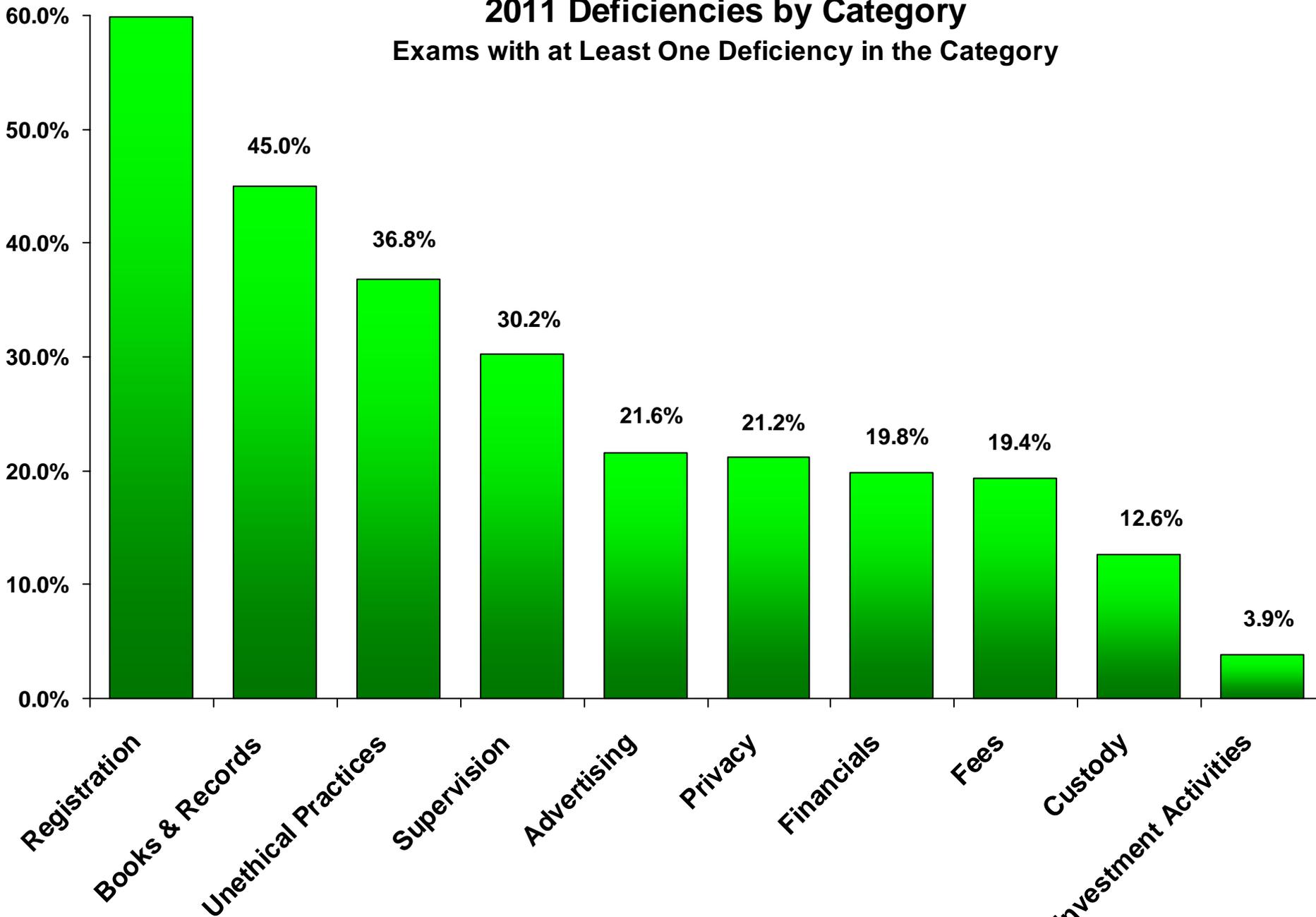
Averages do not include Canadian Provinces due to no maximum Assets Under Management





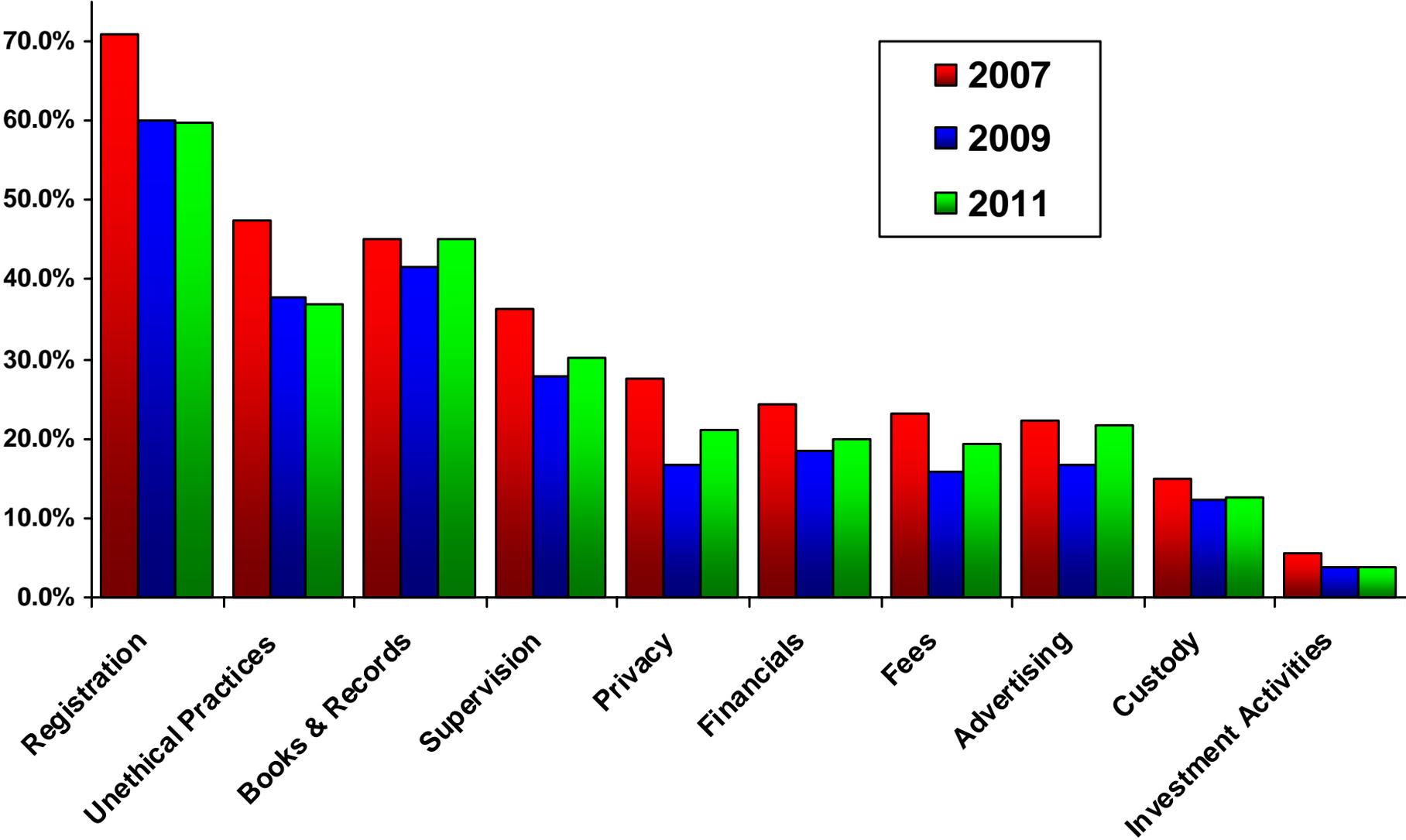
2011 Deficiencies by Category

Exams with at Least One Deficiency in the Category



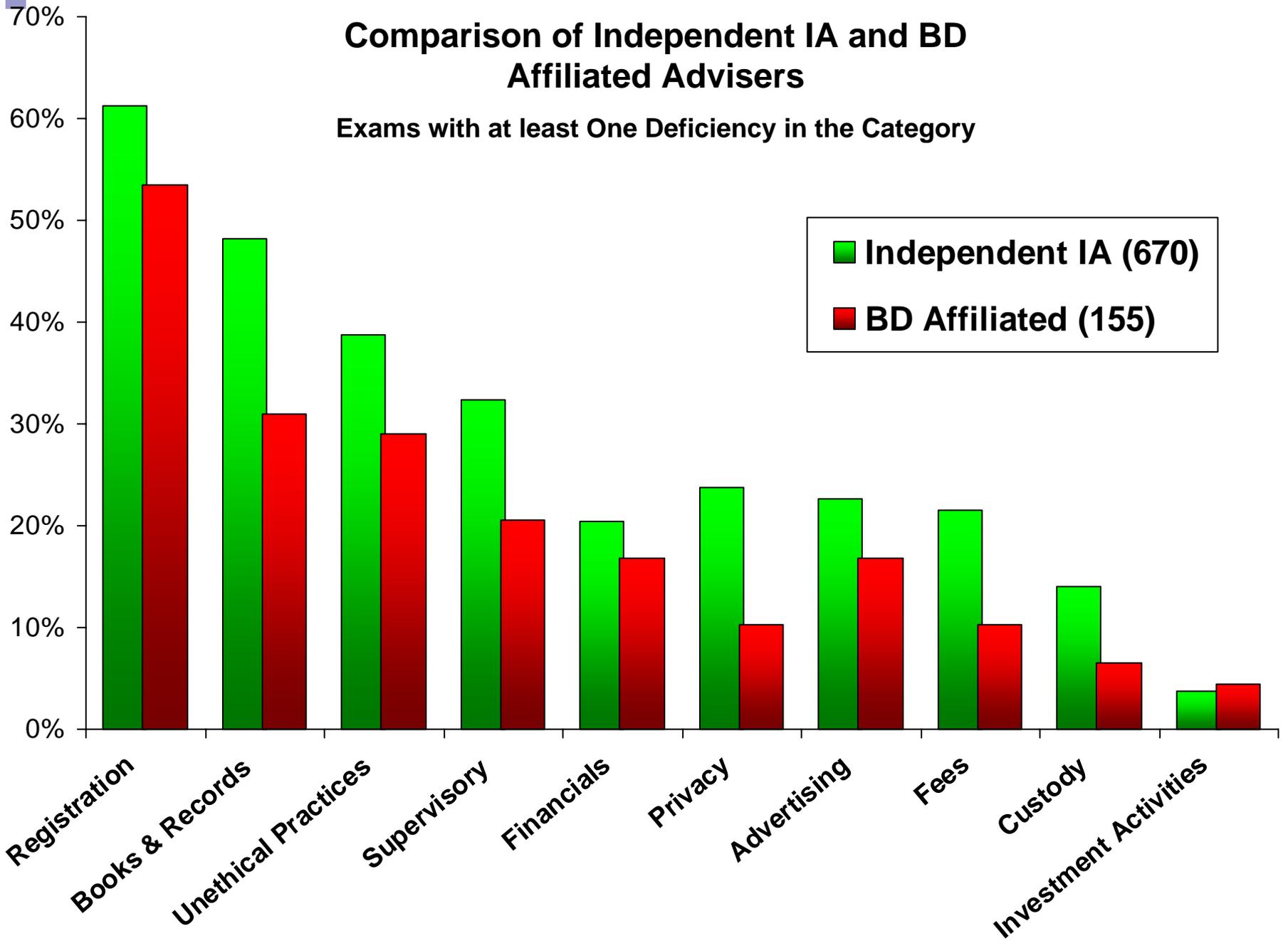
Comparing 2007, 2009, & 2011 Deficiencies

Exams with at Least One Deficiency in the Category



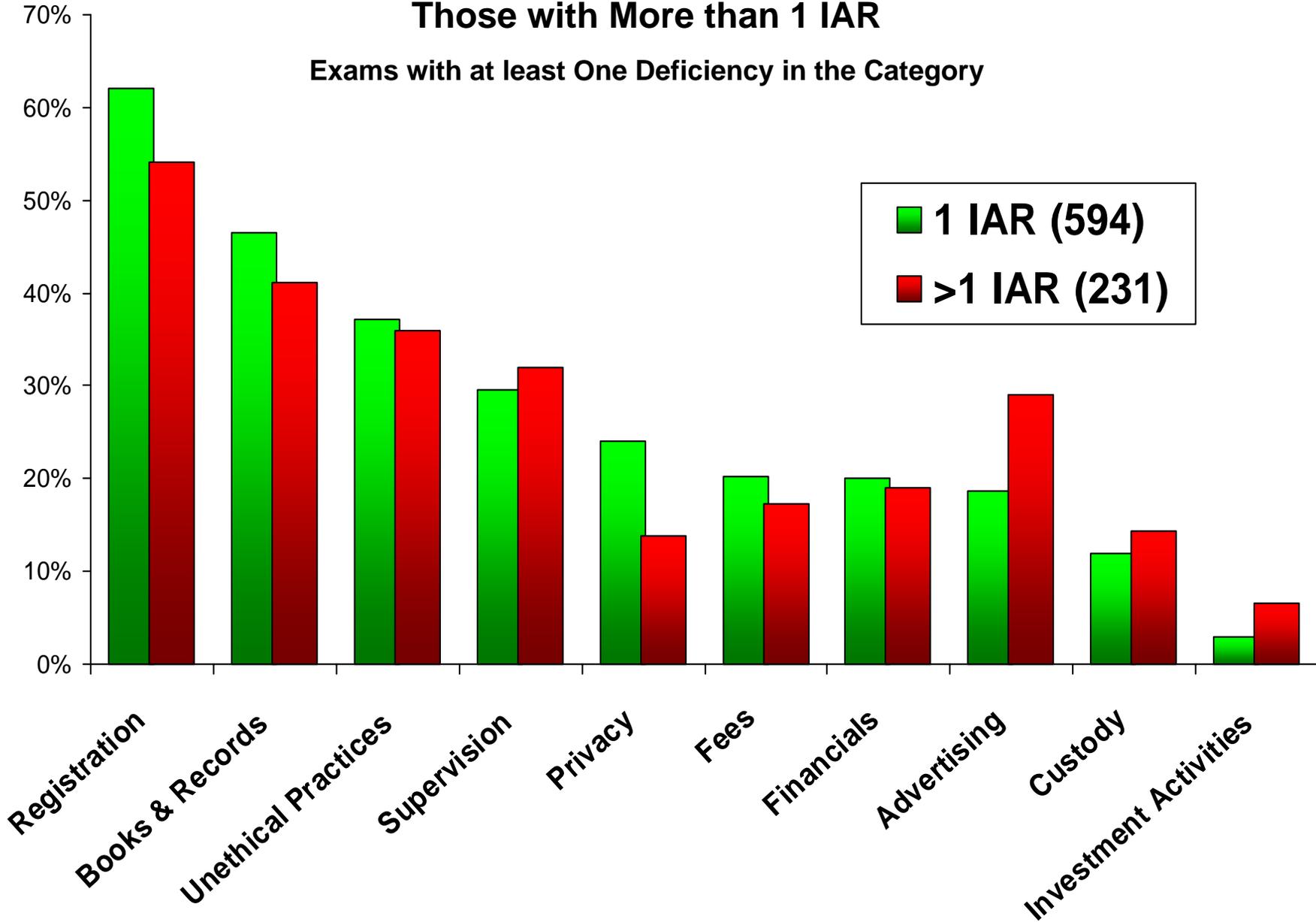
Comparison of Independent IA and BD Affiliated Advisers

Exams with at least One Deficiency in the Category



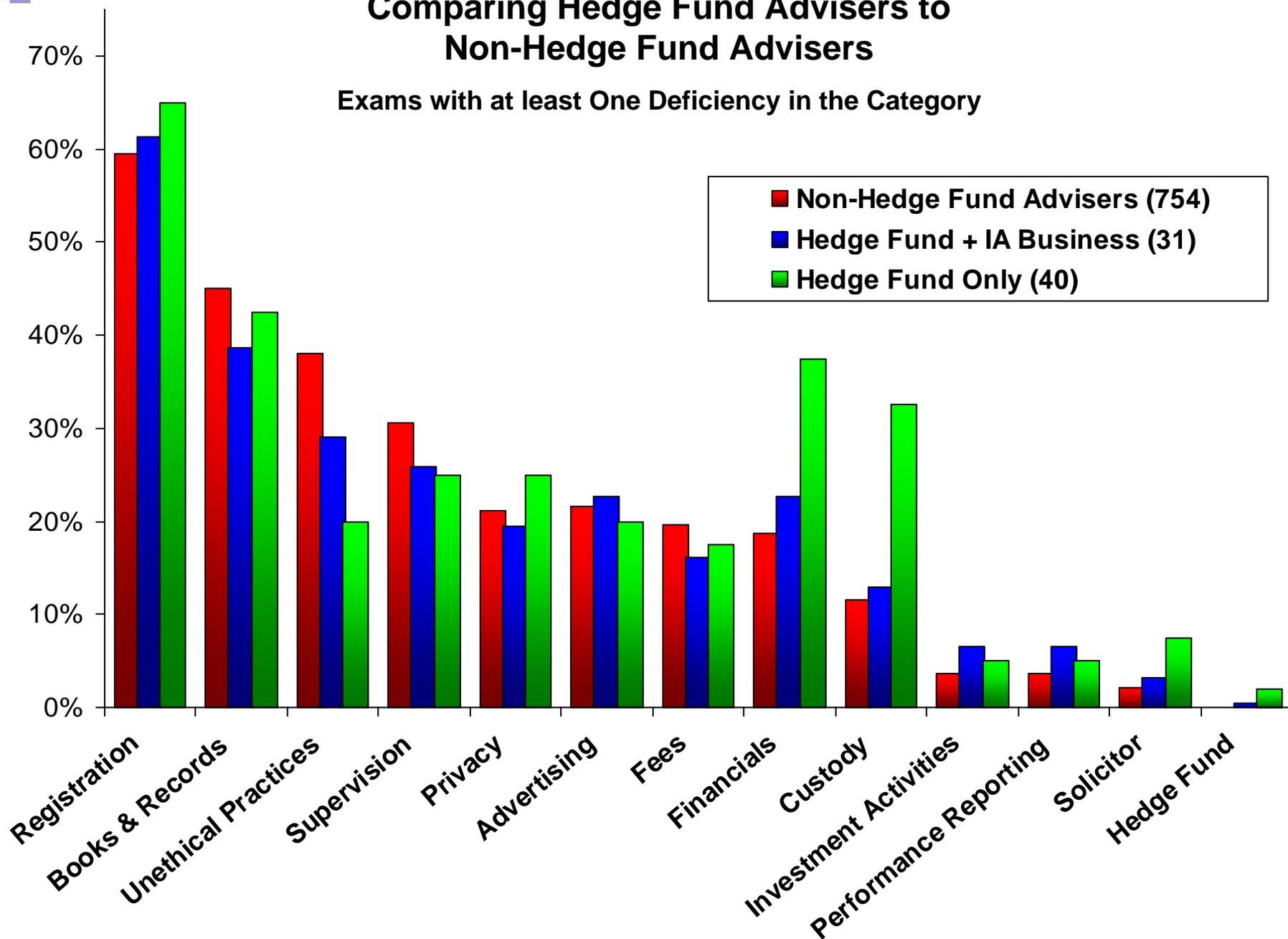
Comparing Advisers with 1 IAR to Those with More than 1 IAR

Exams with at least One Deficiency in the Category



Comparing Hedge Fund Advisers to Non-Hedge Fund Advisers

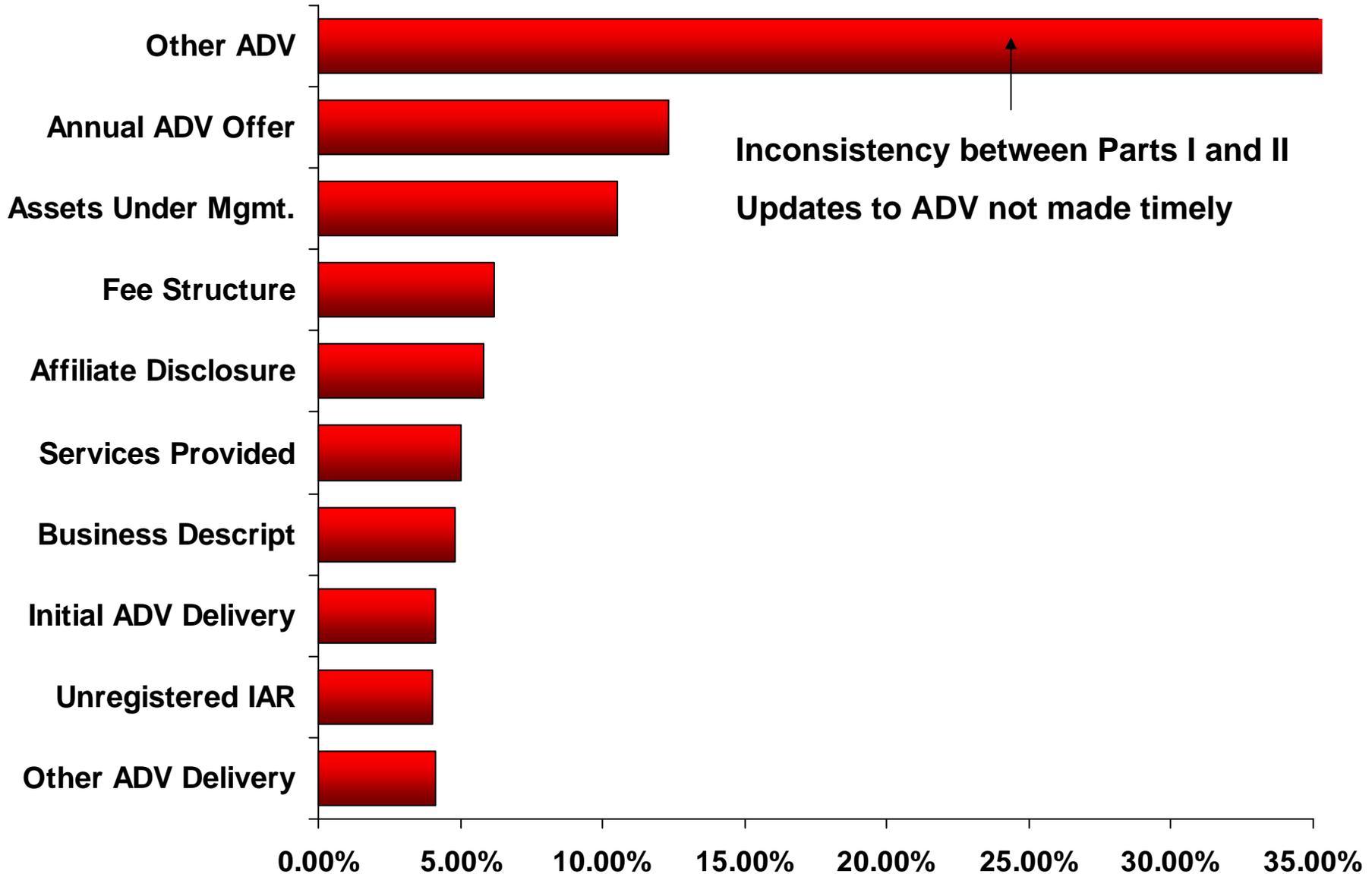
Exams with at least One Deficiency in the Category



Registration

894 Deficiencies

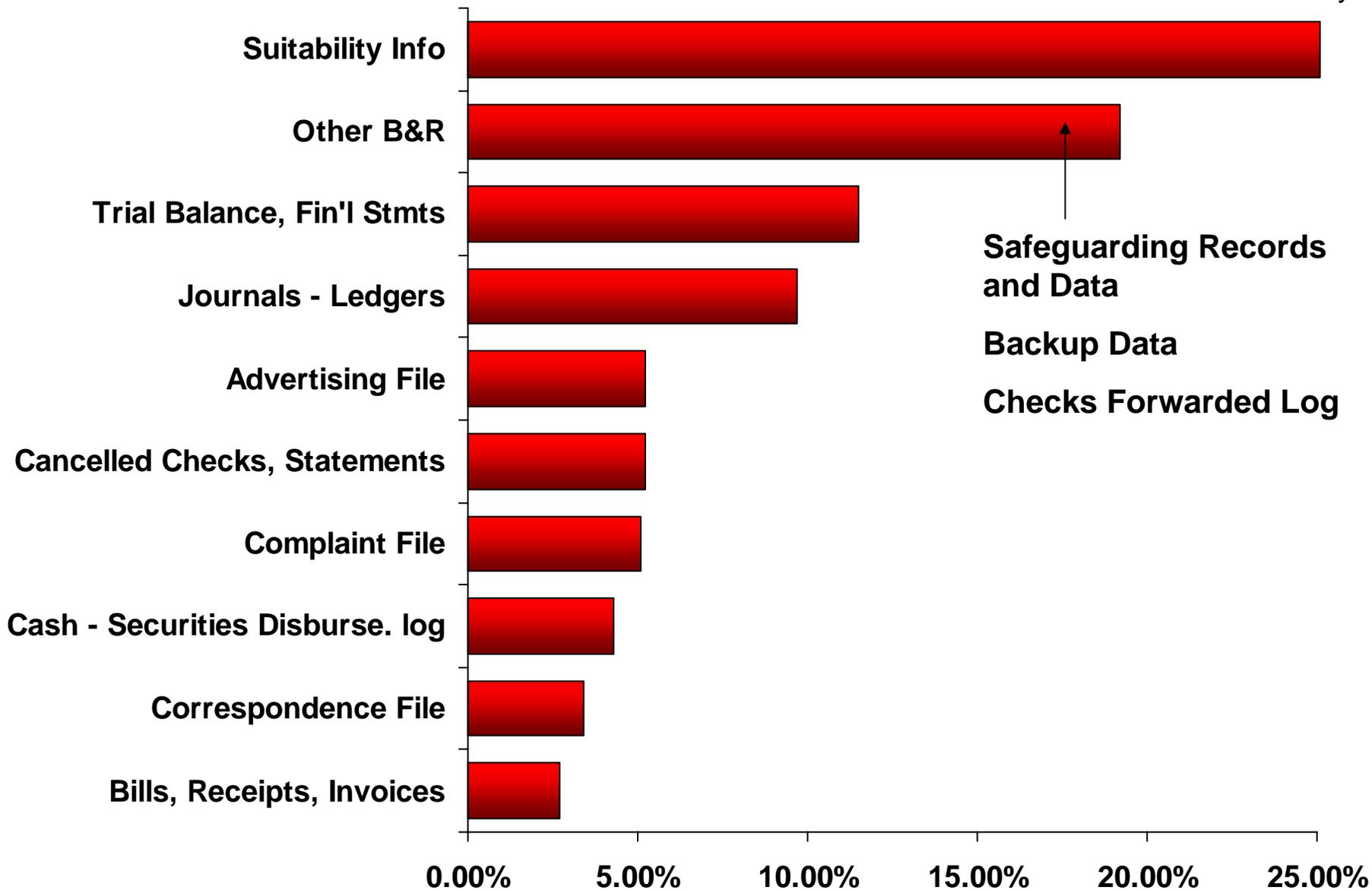
59.9% of all advisers had at least one deficiency.



Books and Records

668 Deficiencies

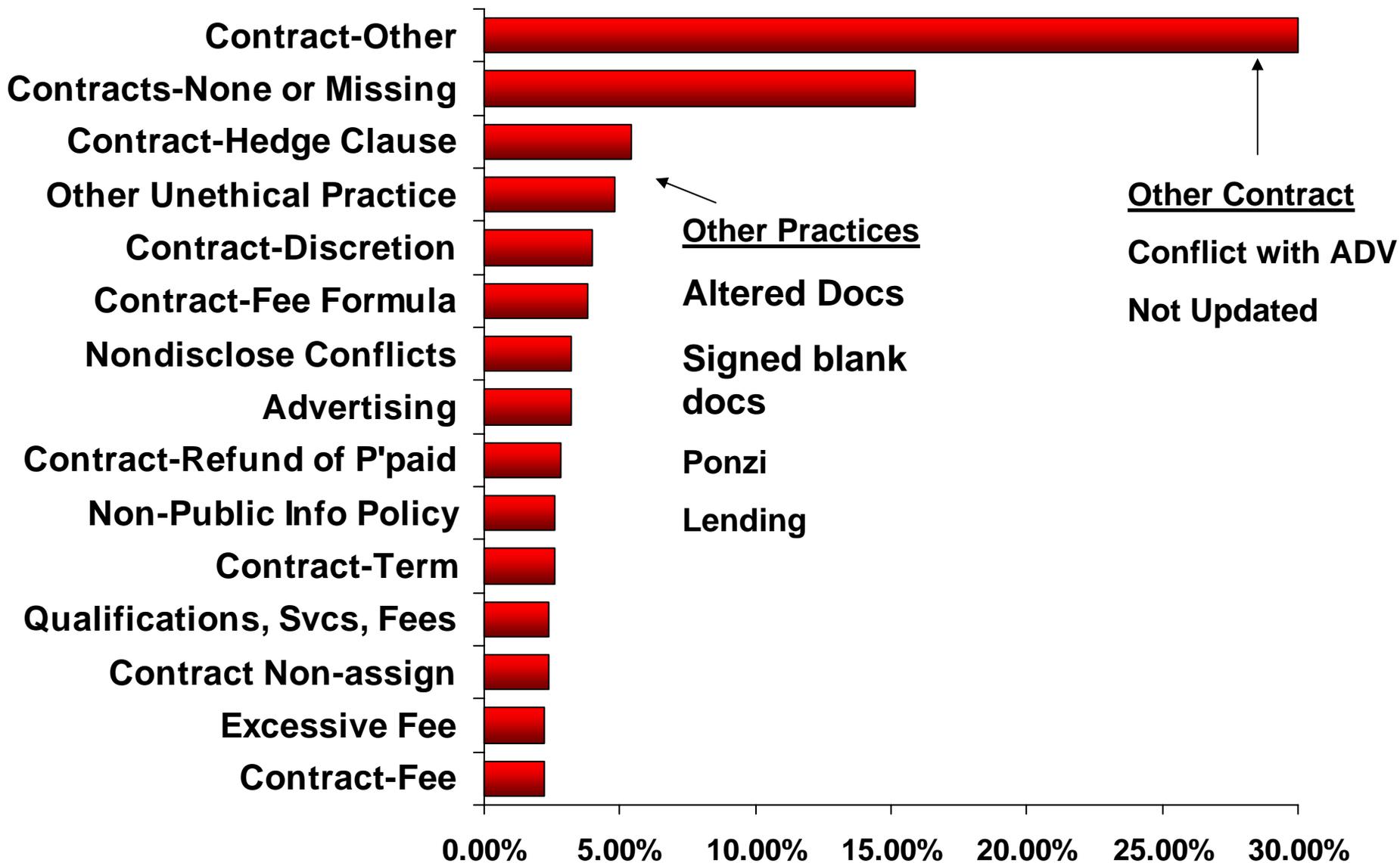
45% of all advisers had at least one deficiency.



Unethical Practices

504 Deficiencies

36.8% of all advisers had at least one deficiency.

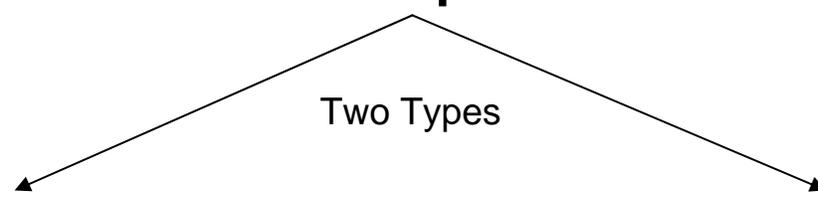


Unethical Business Practices

504 Deficiencies

304 exams (36.8%) noted at least one unethical business practice deficiency

Two Types



■ Advisory Contracts

- 264 exams (32%) noted at least one contract deficiency*
- 371 (74%) of the 504 UBP deficiencies

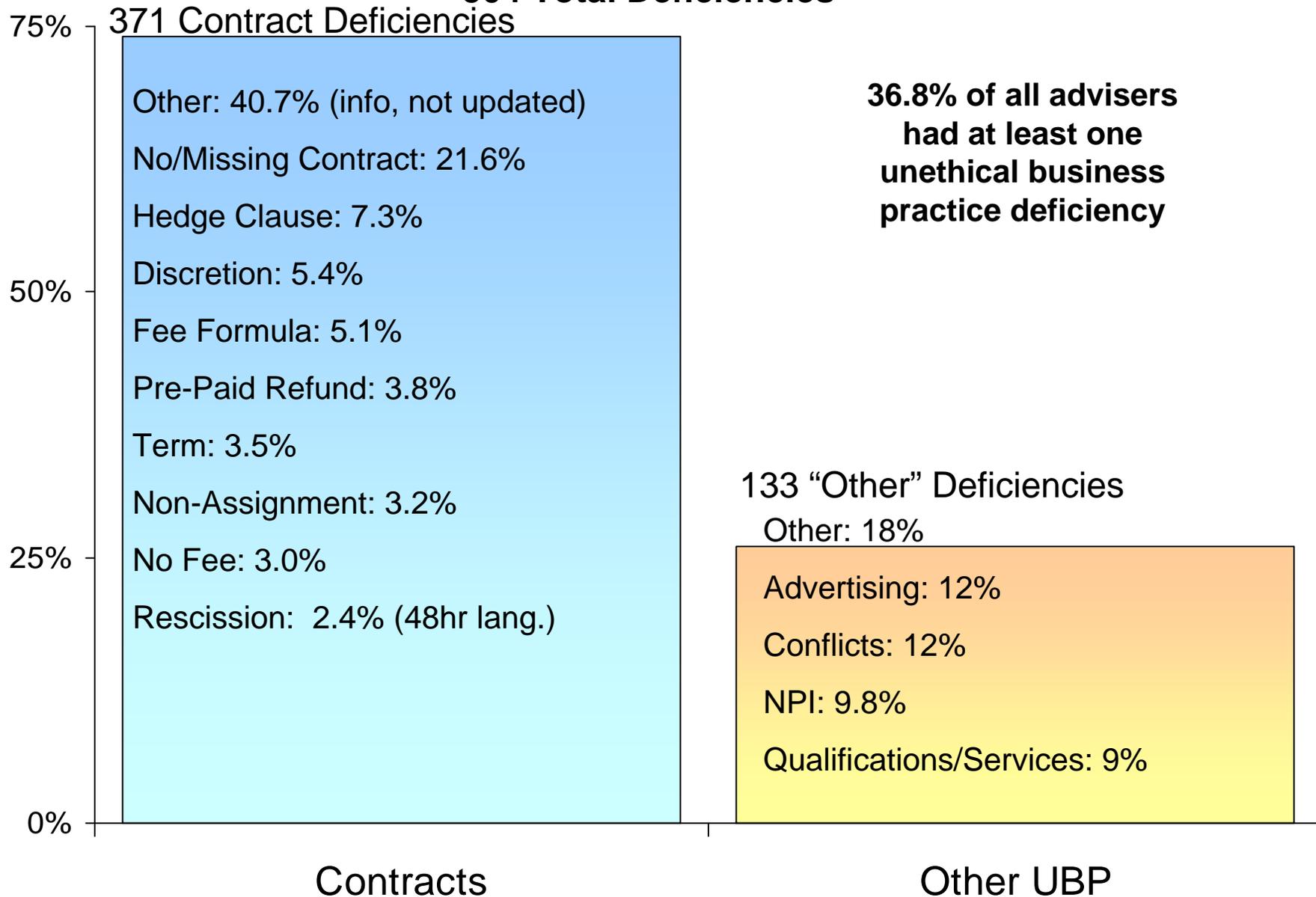
■ Other Unethical Practices

- 106 exams (12.8%) noted at least one non-contract unethical practice deficiency*
- 133 (26%) of the 504 UBP deficiencies

* *Some advisers had both contract and other unethical practice deficiencies*

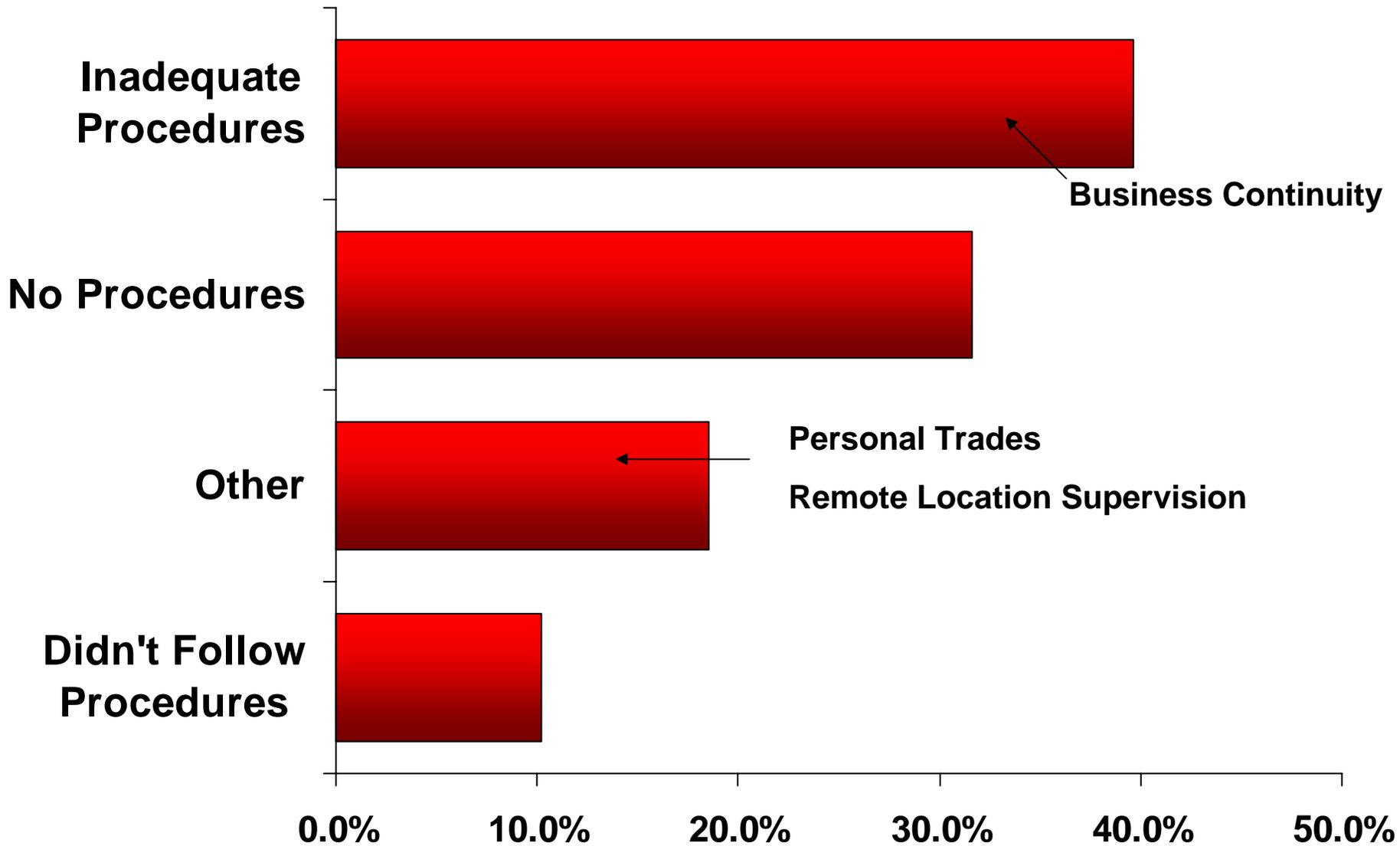
Unethical Business Practices

504 Total Deficiencies



Supervisory/Compliance 275 Deficiencies

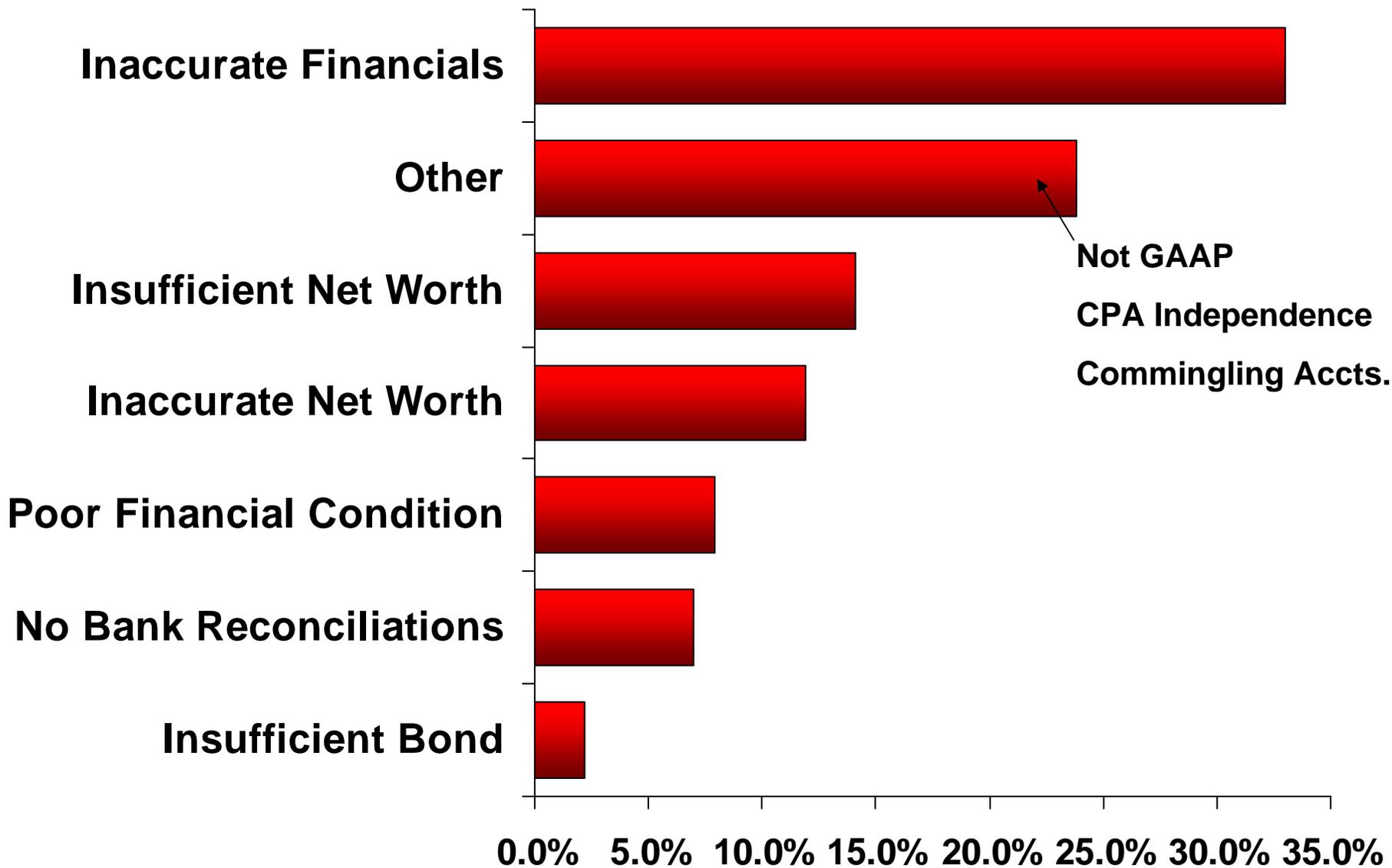
30.2% of all advisers had
at least one deficiency.



Financials

227 Deficiencies

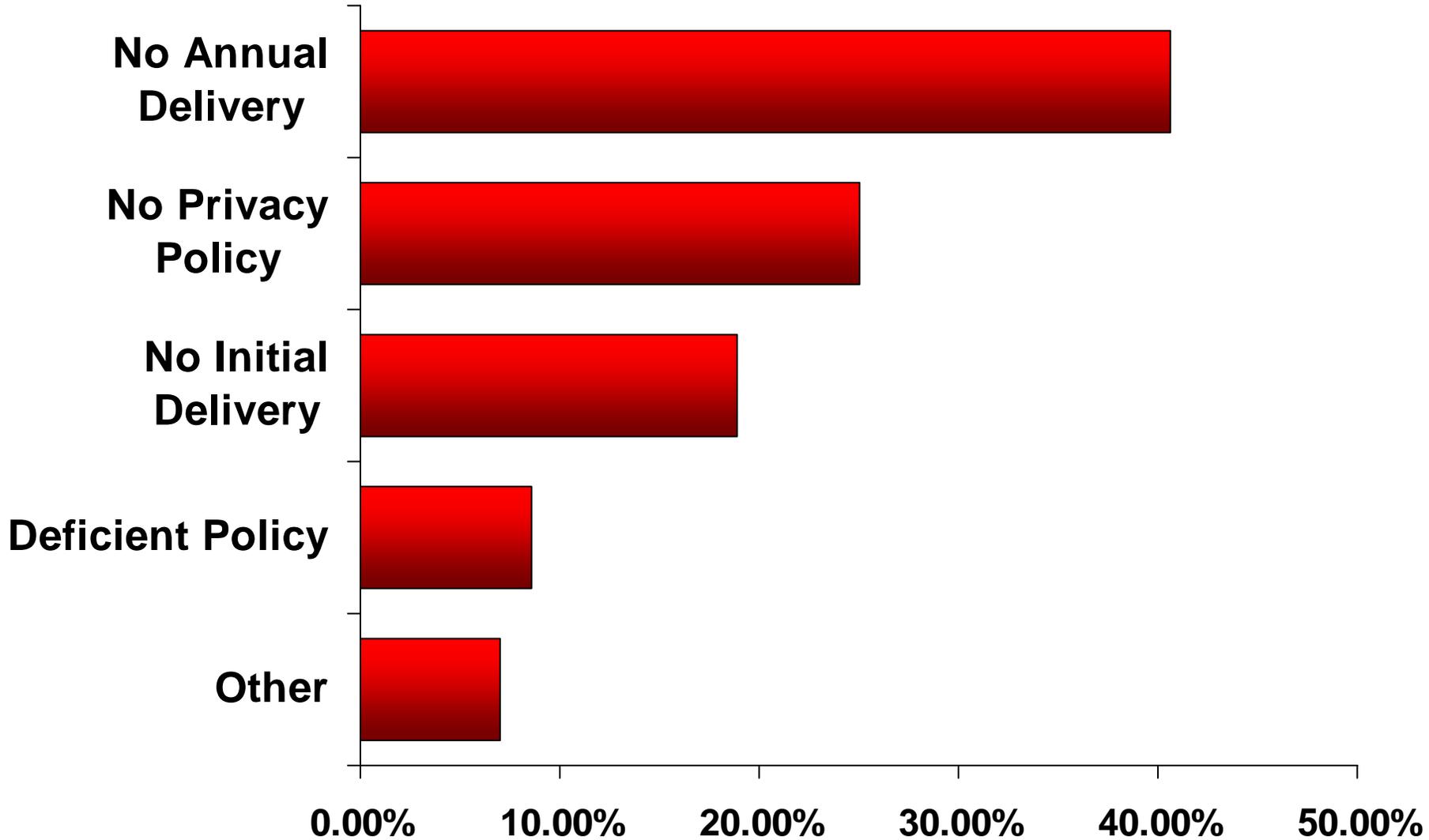
19.8% of all advisers had at least one deficiency.



Privacy

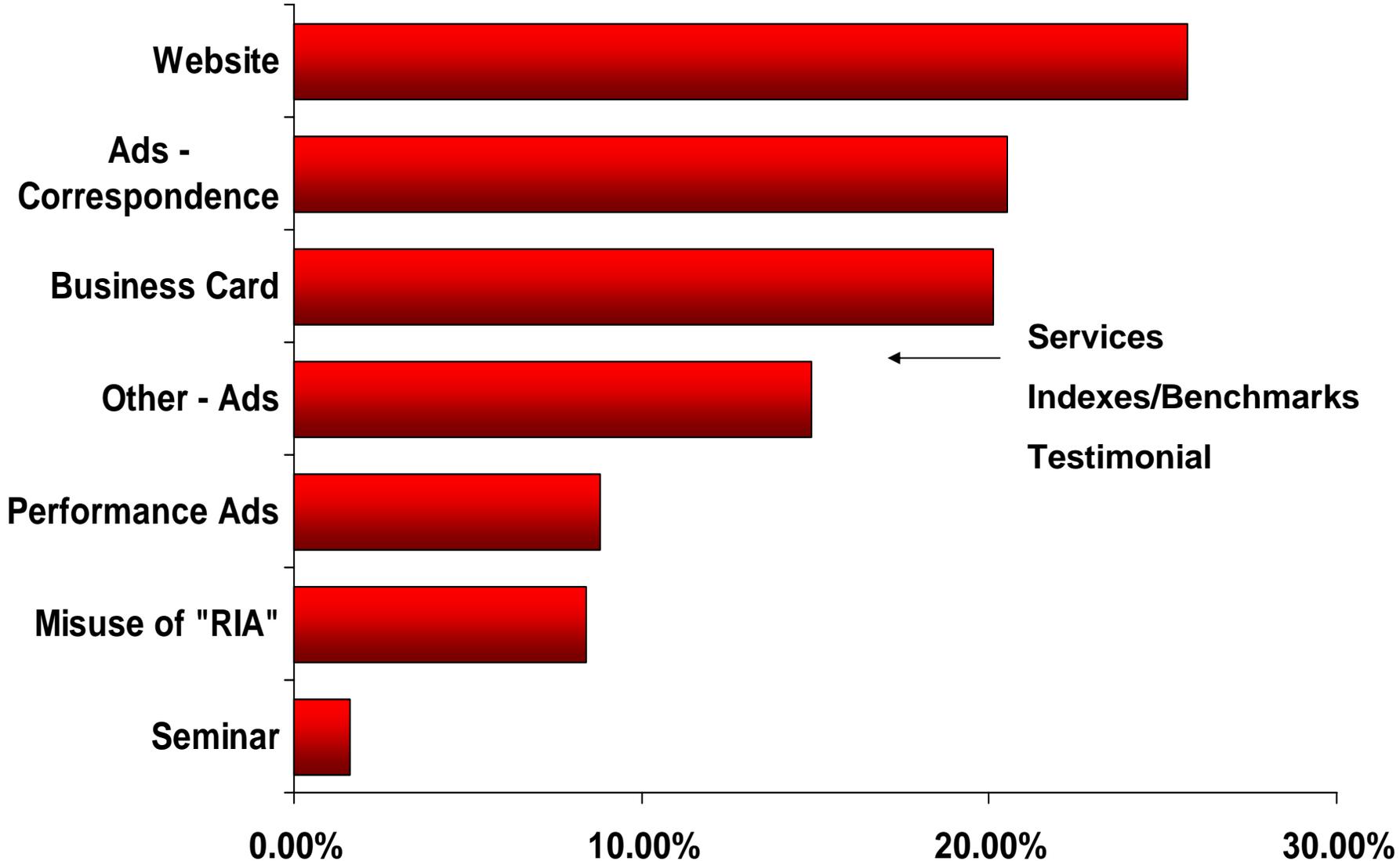
244 Deficiencies

21.2% of all advisers had at least one deficiency.



Advertising 249 Deficiencies

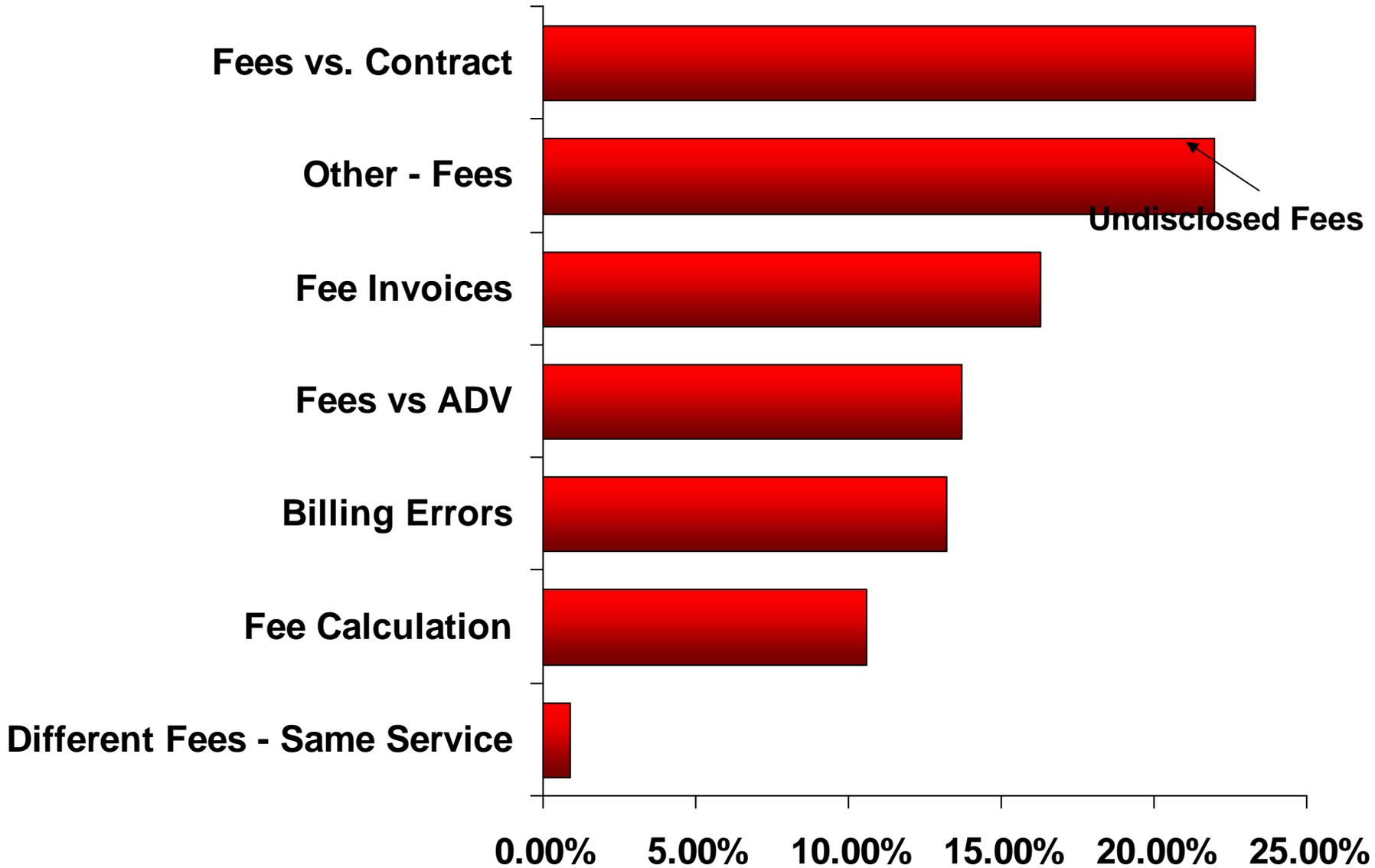
21.6% of all advisers had at least one deficiency.



Fees

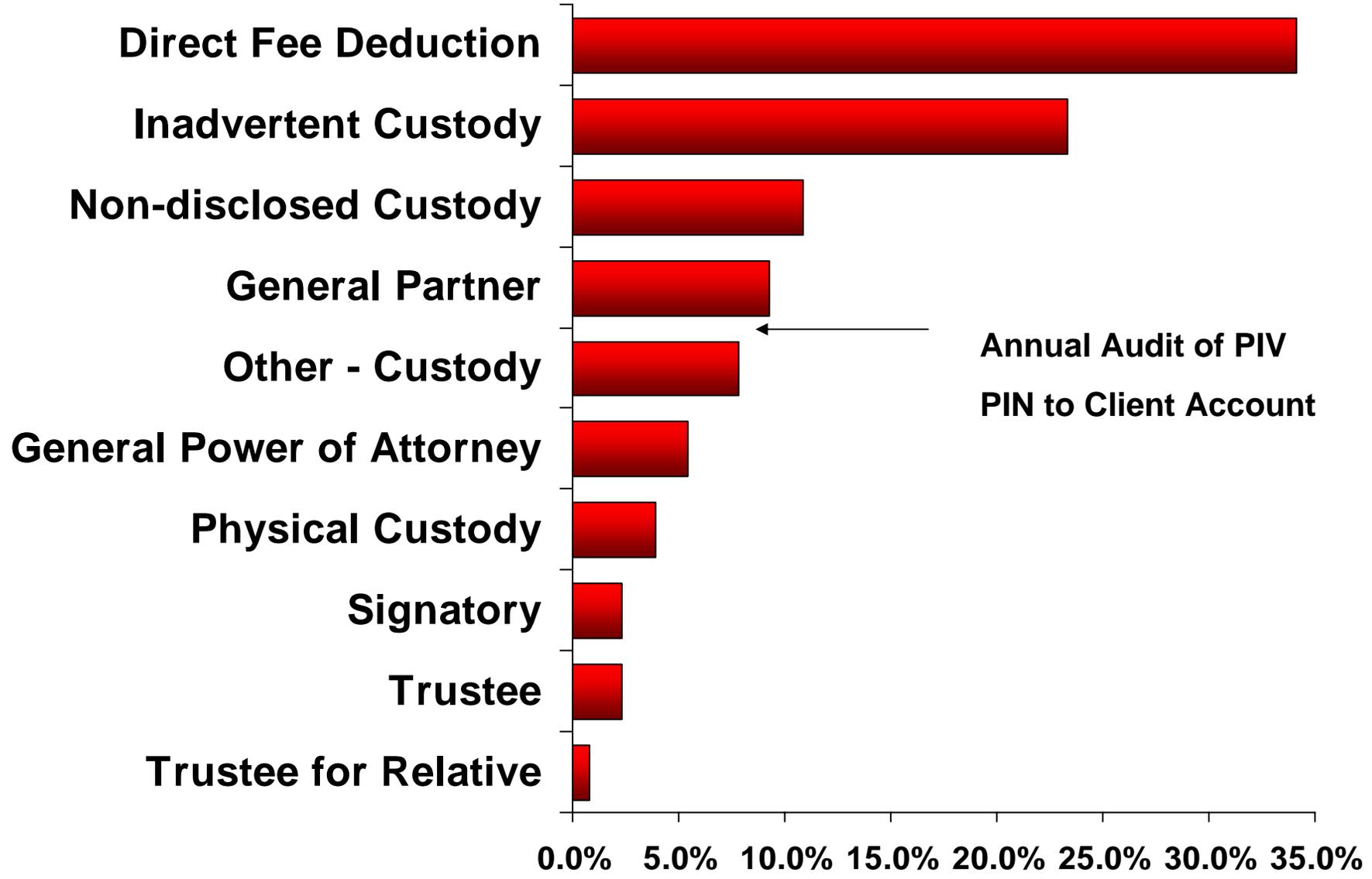
227 Deficiencies

19.4% of all advisers had at least one deficiency.



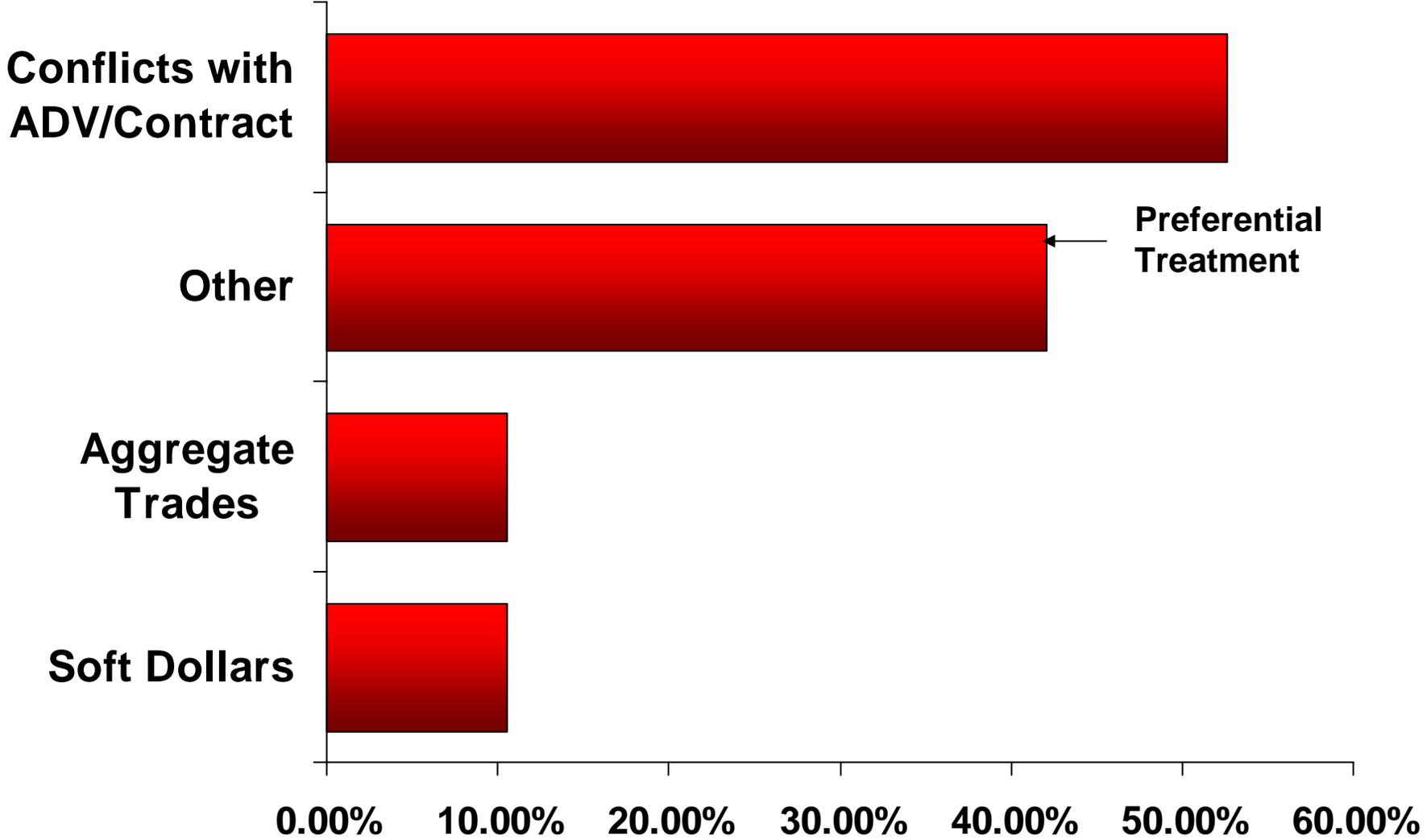
12.6% of all advisers had at least one deficiency.

Custody 129 Deficiencies



Investment Activities 38 Deficiencies

3.9% of all advisers had at least one deficiency.



Solicitors

21 Deficiencies

14 of 98 advisers (14.3%) who used solicitors or acted as solicitors had at least one deficiency.

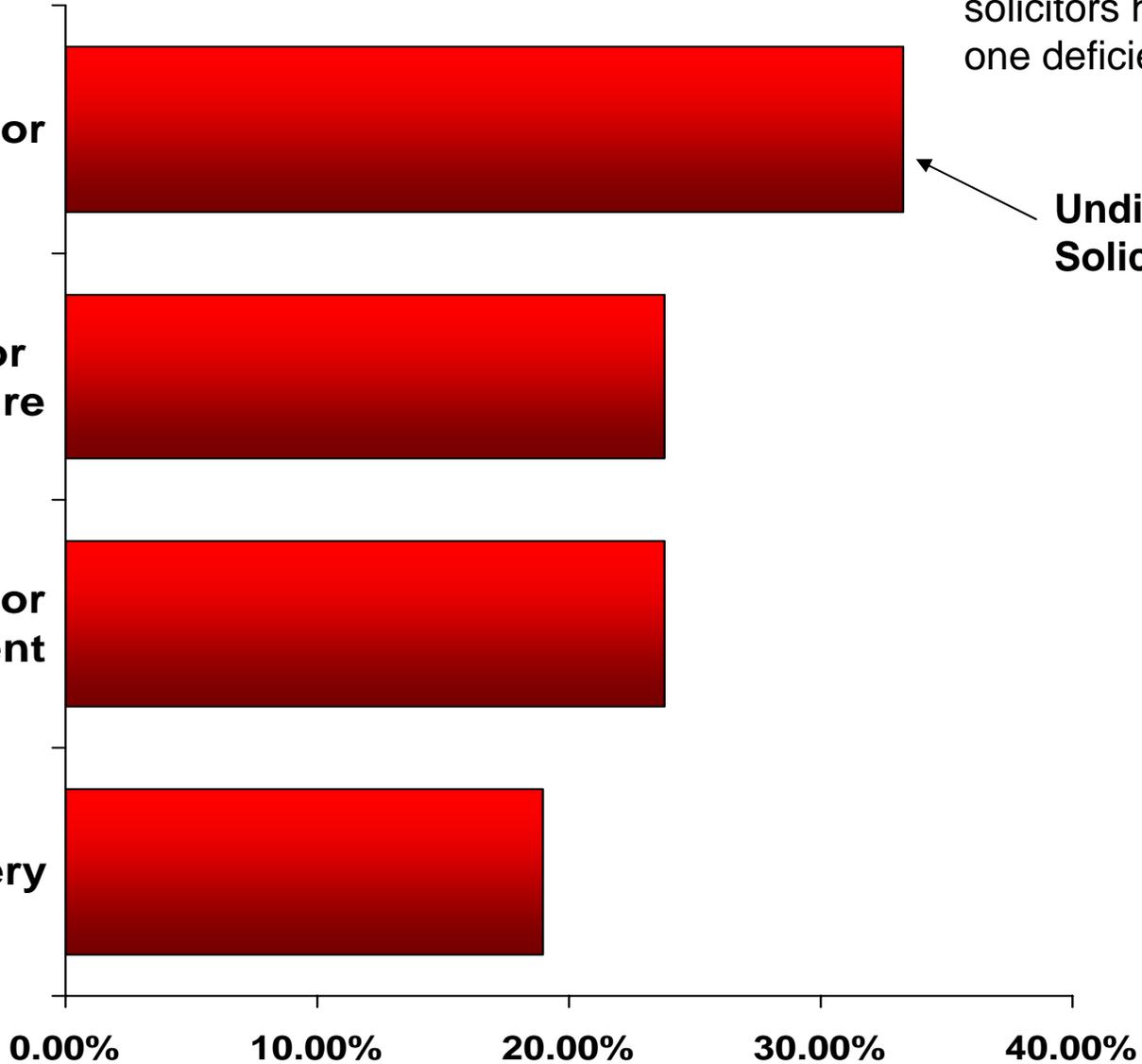
Other - Solicitor

Undisclosed Solicitors

Solicitor Disclosure

IA-Solicitor agreement

ADV Delivery



50%

Comparing Hedge Fund Advisers

Exams with at least One Deficiency in the Category

■ Hedge Fund + IA Business (31)
■ Hedge Fund Only (40)

40%

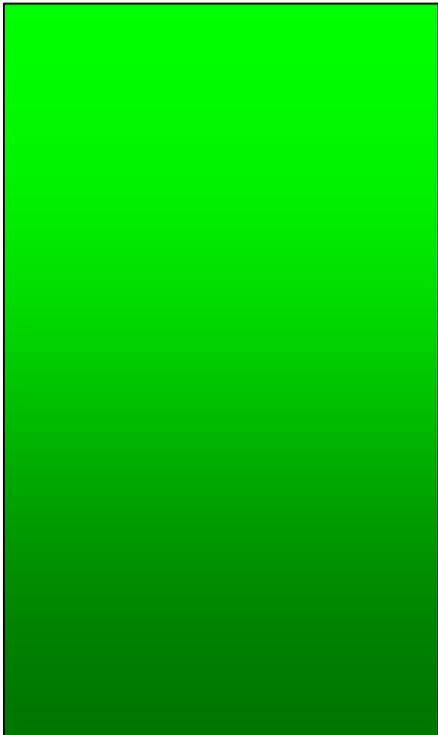
30%

20%

10%

0%

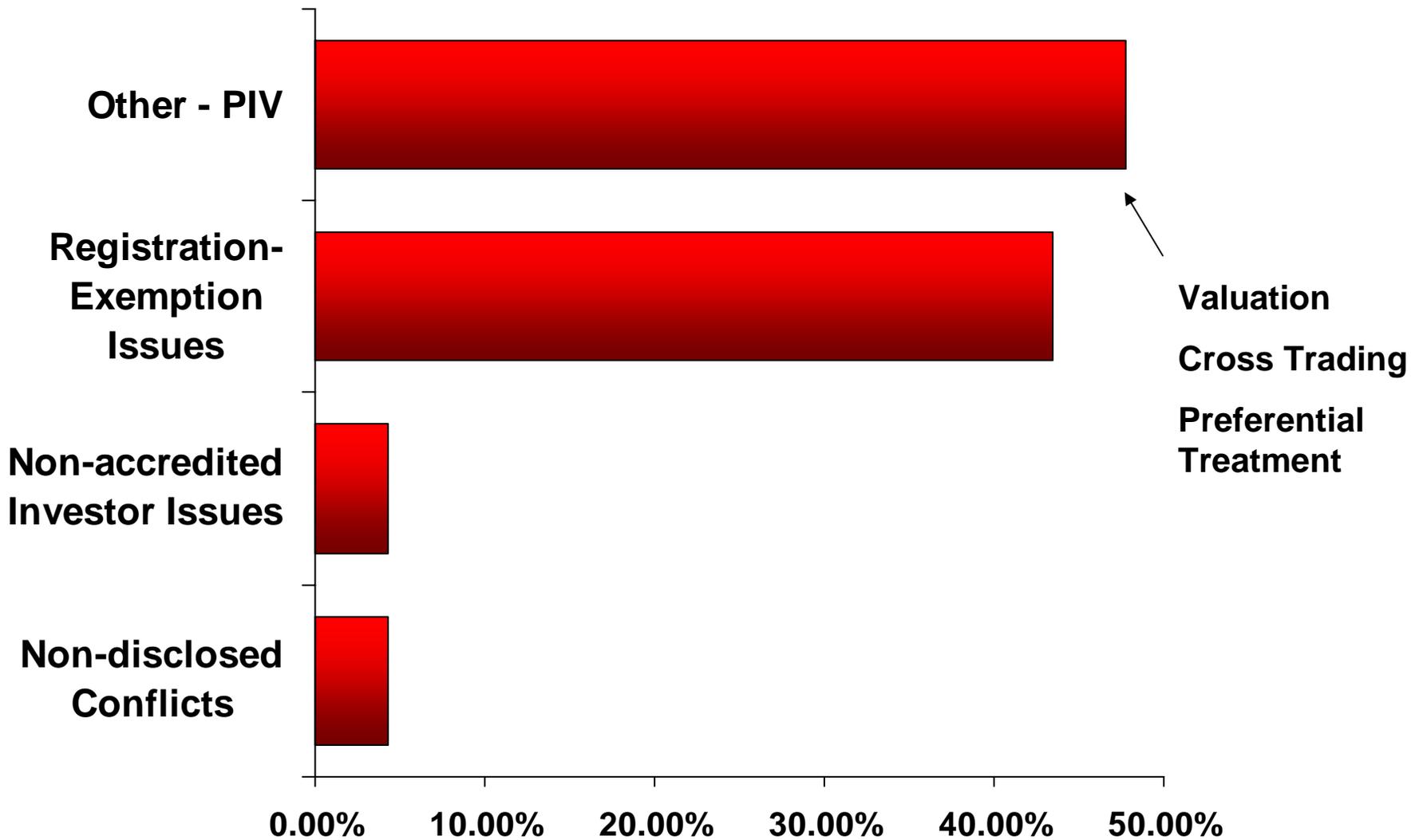
3 of 31 (9.7%) of hedge fund advisers who also had a regular IA practice had at least one deficiency in this category.



12 of 40 (30%) of hedge fund advisers who had no other clients had at least one deficiency in this category.

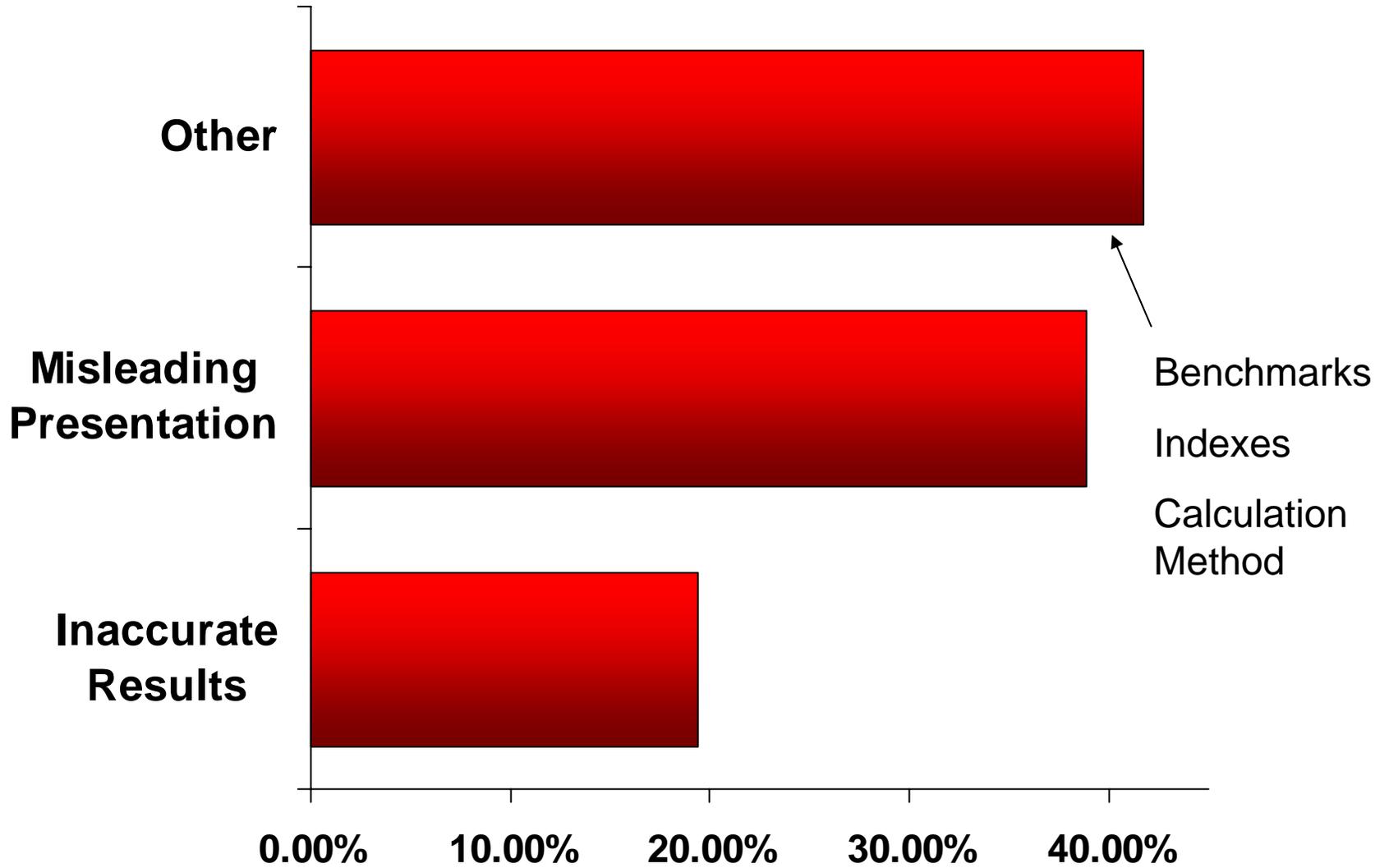
Hedge Fund Specific Deficiencies

Hedge Funds 23 Deficiencies



Performance Reporting

36 Deficiencies



Best Practices for Investment Advisers

- Review and revise Form ADV and disclosure brochure annually to reflect current and accurate information.
- Review and update all contracts.
- Prepare and maintain all required records, including financial records. Back-up electronic data and protect records. Document checks forwarded.
- Prepare and maintain client profiles.
- Prepare a written compliance and supervisory procedures manual relevant to the type of business to include business continuity plan.
- Prepare and distribute a privacy policy initially and annually.
- Keep accurate financials. File timely with the jurisdiction. Maintain surety bond if required
- Calculate and document fees correctly in accordance with contracts and ADV.
- Review all advertisements, including website and performance advertising, for accuracy.
- Implement appropriate custody safeguards, if applicable.
- Review solicitor agreements, disclosure, and delivery procedures.