# Table of Contents

## I. Overview of a Compliance Team’s Responsibilities ............................................. 1

*Best Practices*
  i. The Annual Review ................................................................. 3
  ii. Compliance Policies and Procedures ........................................ 4
  iii. Unleash Your Creativity to Help Achieve a Spectacular Annual Review .... 5
  iv. Make Your Compliance Policies and Procedures as Detailed as Your Skill Level ................................................................. 7

*Sample Documents and Tools*
  i. Sample Annual Review Document List ..................................... 9
  ii. Compliance Program Risk Assessment Checklist ..................... 11

## II. Creating, Maintaining and Updating Form ADV ................................................ 45

*Best Practices*
  i. Last-minute Pointers to Help File a Perfect Form ADV Update ....... 47
  ii. Develop a Conflicts Checklist to Aid in Creating Your New Form ADV, Part 2 Brochure ................................................................. 49

*Sample Documents and Tools*
  i. Form ADV – Part 2A Checklist .................................................. 50
  ii. Form ADV Spreadsheet Tool .................................................... 70

## III. Conflicts of Interest and Developing a Code of Ethics ....................................... 71

*Best Practices*
  i. Flexibility With Your Code of Ethics Also Reminds You To Do What You Say You Will ................................................................. 75

*Sample Documents and Tools*
  i. Gifts & Entertainment and Pay-to-Play ...................................... 77
  ii. Gift & Entertainment Reporting Form ....................................... 81

## IV. Developing Policies and Procedures ................................................................. 83

*Best Practices*
  i. Forms and Tables Can Best Illustrate Your Compliance Policies and Procedures ................................................................. 85
## Table of Contents

**Sample Documents and Tools**

- i. Counterparty Risk………………………………………………………………………………… 87
- ii. Proxy Voting Policies and Procedures…………………………………………………………… 89

### V. Trading, Its Potential Conflicts and Other Risks ........................................................................................................... 95

**Best Practices**

- i. Take the Time to Sit With and Ask Questions of Your Traders Because Examiners Will............................................................. 97
- ii. Sample Approaches Your Peers Take for Trade Allocation and Those Critical Disclosures......................................................... 99

**Sample Documents and Tools**

- i. Error Tracking Spreadsheet.............................................................................................................................................. 101
- ii. Trade Allocation................................................................................................................................................................. 102

### VI. Risk Testing and Annual Reviews .............................................................................................................................. 103

**Best Practices**

- i. Best Practices and Examples to Enhance Your Risk Assessment......................................................................................... 107

**Sample Documents and Tools**

- i. Risk/Gap Analysis Matrix ....................................................................................................................................................... 109
- ii. Sample Risk Assessment....................................................................................................................................................... 119

### VII. Marketing Materials and Client Communications ................................................................................................ 123

**Best Practices**

- i. Have and Use a System to Oversee Your Firm’s Marketing Efforts.................................................................................. 125

**Sample Documents and Tools**

- i. Compliance Marketing Log................................................................................................................................................... 127
- ii. Marketing Review Form......................................................................................................................................................... 128

### VIII. E-mail and Document Retention and Monitoring .................................................................................................. 129

**Best Practices**

- i. Use What You See in Training Staff to Comply with Your E-mail P&Ps ........................................................................ 131

**Sample Documents and Tools**

- i. Procedures for E-Communications.................................................................................................................................... 133

### IX. Supervisory Controls .................................................................................................................................................... 139

**Best Practices**

- i. Commissioner Pushes to Resolve Compliance vs. Supervision ......................................................................................... 141

**Sample Documents and Tools**

- i. Policy and Procedures for Reporting and Investigating Potential Violations of the Federal Securities Laws................................. 143
X. Examination and Inspection Preparation ................................................................. 147

   Best Practices
   i. For the First Time, OCIE Releases Its Exam Priorities; Sweep Exam in the Offing................................................................. 149

   Sample Documents and Tools
   i. Examination Priorities ................................................................................. 151

XI. Strategies for Dealing with Limited Time and Resources................................. 165
Chapter I

Overview of a Compliance Team’s Responsibilities

Investment Advisers: An investment adviser is a fiduciary whose duty is to serve the best interests of its clients, including an obligation not to subordinate clients’ interests to its own. Included in the fiduciary standard are the duties of loyalty and care. An adviser that has a material conflict of interest must either eliminate that conflict or fully disclose to its clients all material facts relating to the conflict.

In addition, the Advisers Act expressly prohibits an adviser, acting as principal for its own account, from effecting any sale or purchase of any security for the account of a client, without disclosing certain information to the client in writing before the completion of the transaction and obtaining the client's consent.

The states also regulate the activities of many investment advisers. Most smaller investment advisers are registered and regulated at the state level. Investment adviser representatives of state- and federally-registered advisers commonly are subject to state registration, licensing or qualification requirements.

The Investment Company Act of 1940 and the Investment Advisers Act of 1940 require each investment company and investment adviser registered with the Commission to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review those policies and procedures annually for their adequacy and the effectiveness of their implementation, and designate a chief compliance officer to be responsible for administering the policies and procedures. In the case of an investment company, the chief compliance officer will report directly to the fund board.

These rules are designed to protect investors by ensuring that all funds and advisers have internal programs to enhance compliance with the federal securities laws.