

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

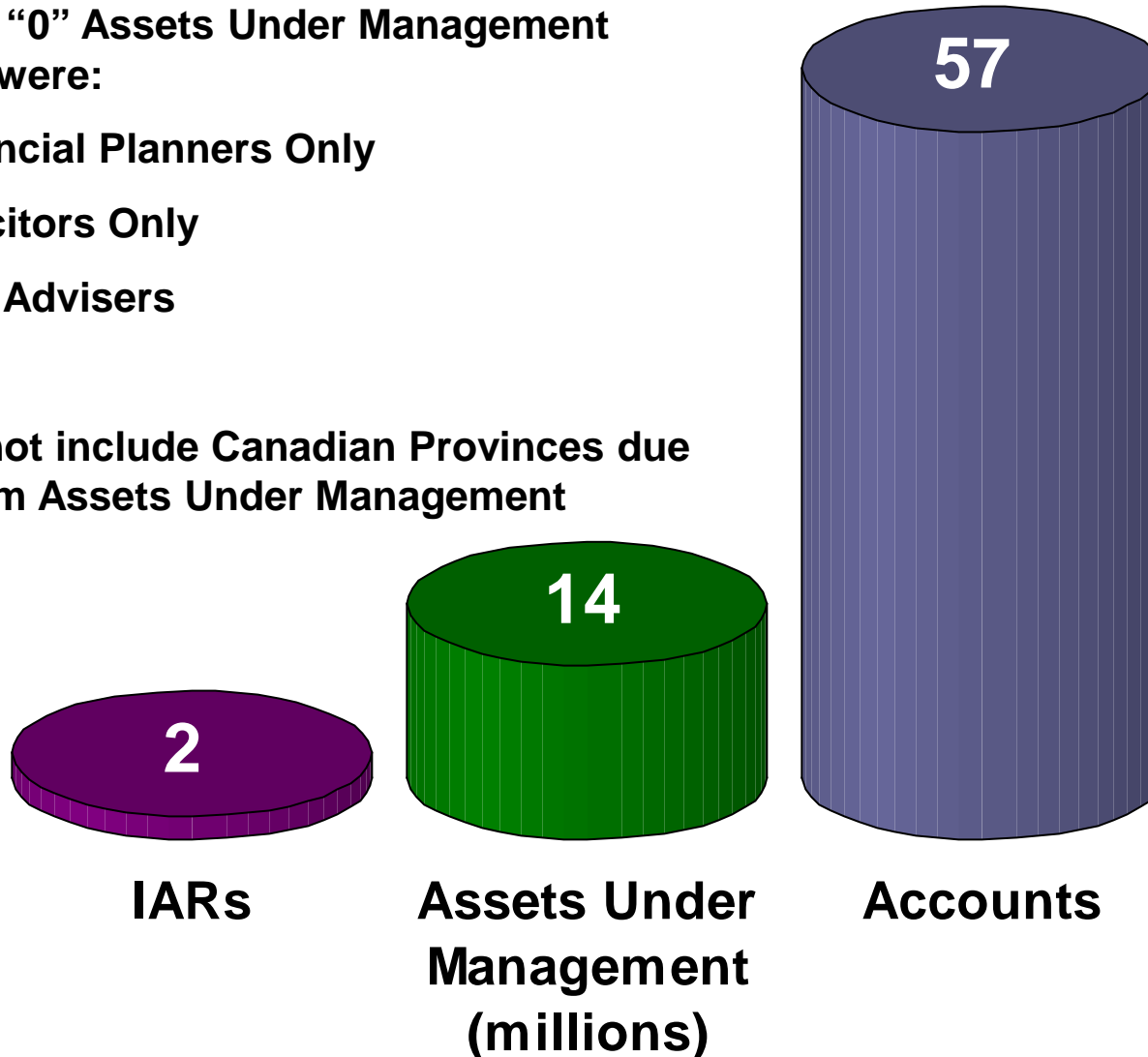
Averages do not include advisers which had "0" Accounts and "0" Assets Under Management because they were:

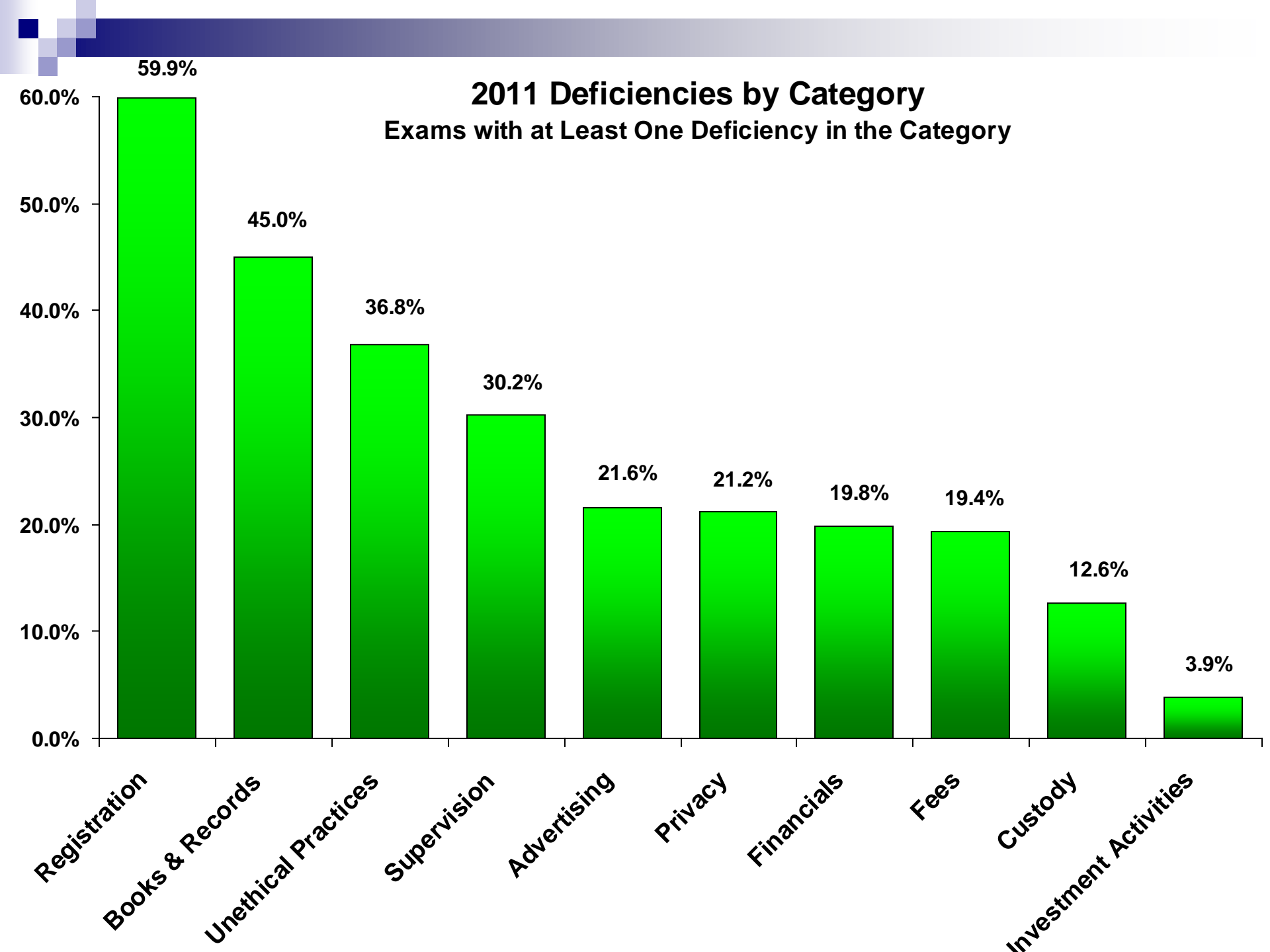
Financial Planners Only

Solicitors Only

New Advisers

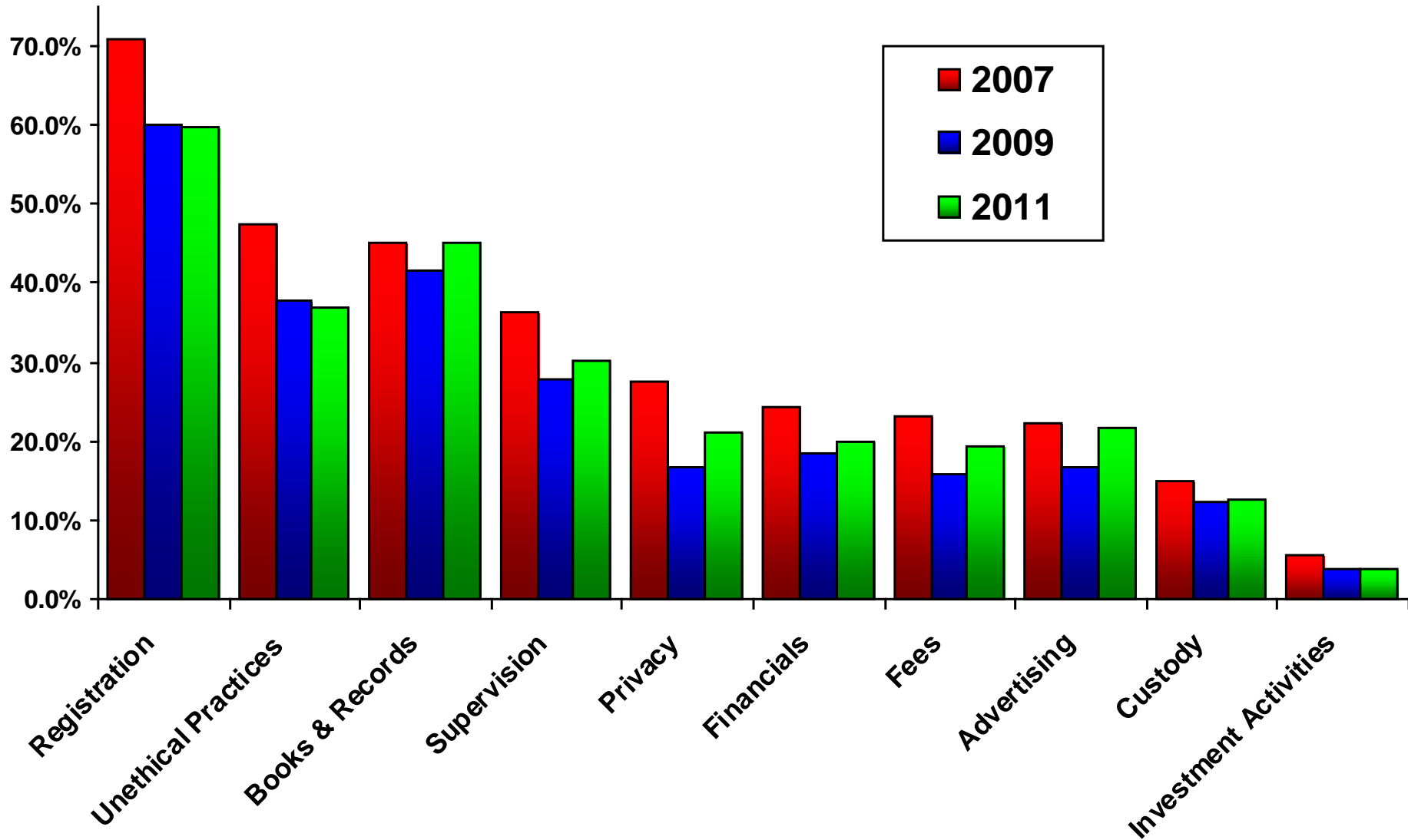
Averages do not include Canadian Provinces due to no maximum Assets Under Management





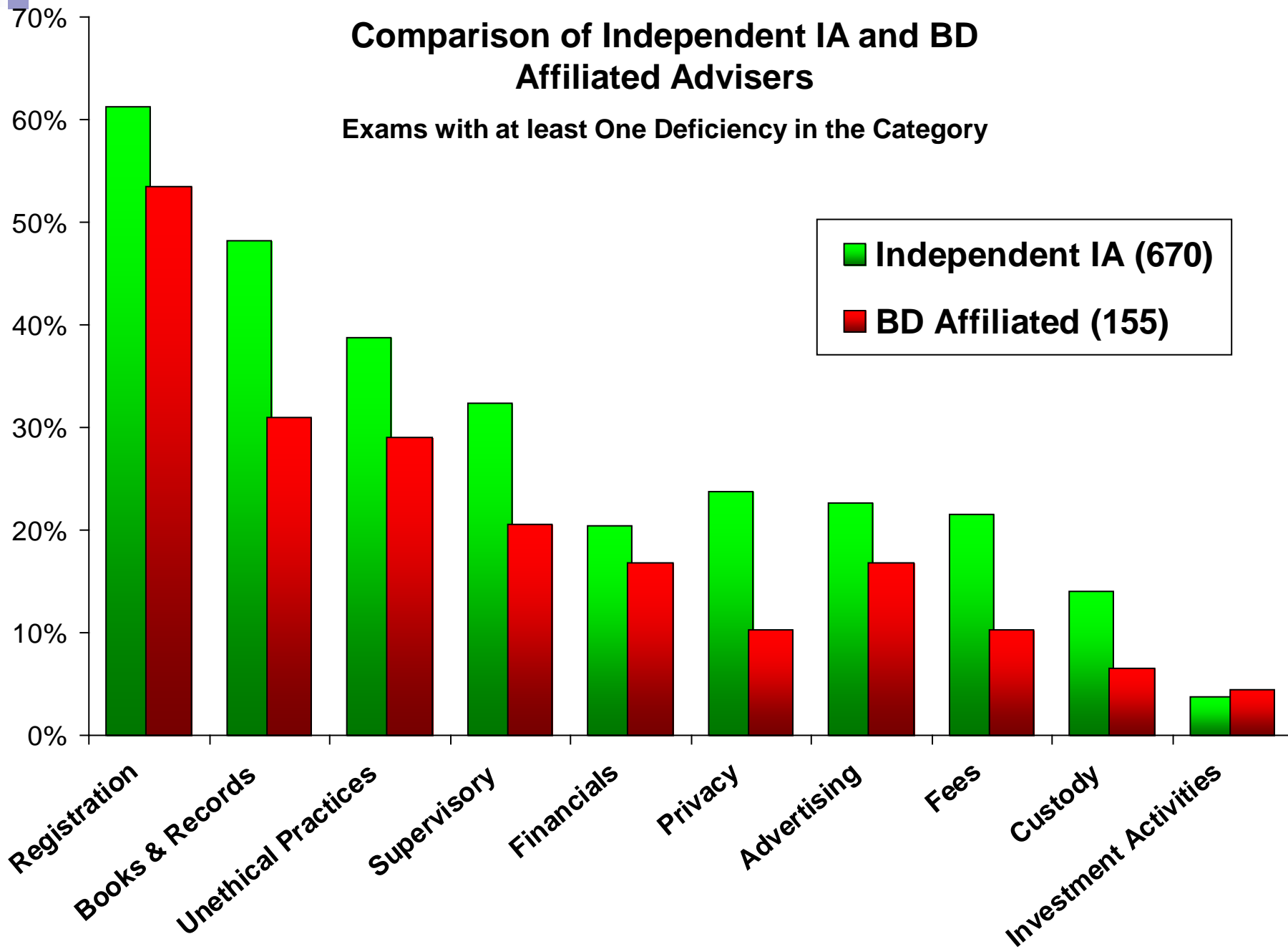
Comparing 2007, 2009, & 2011 Deficiencies

Exams with at Least One Deficiency in the Category



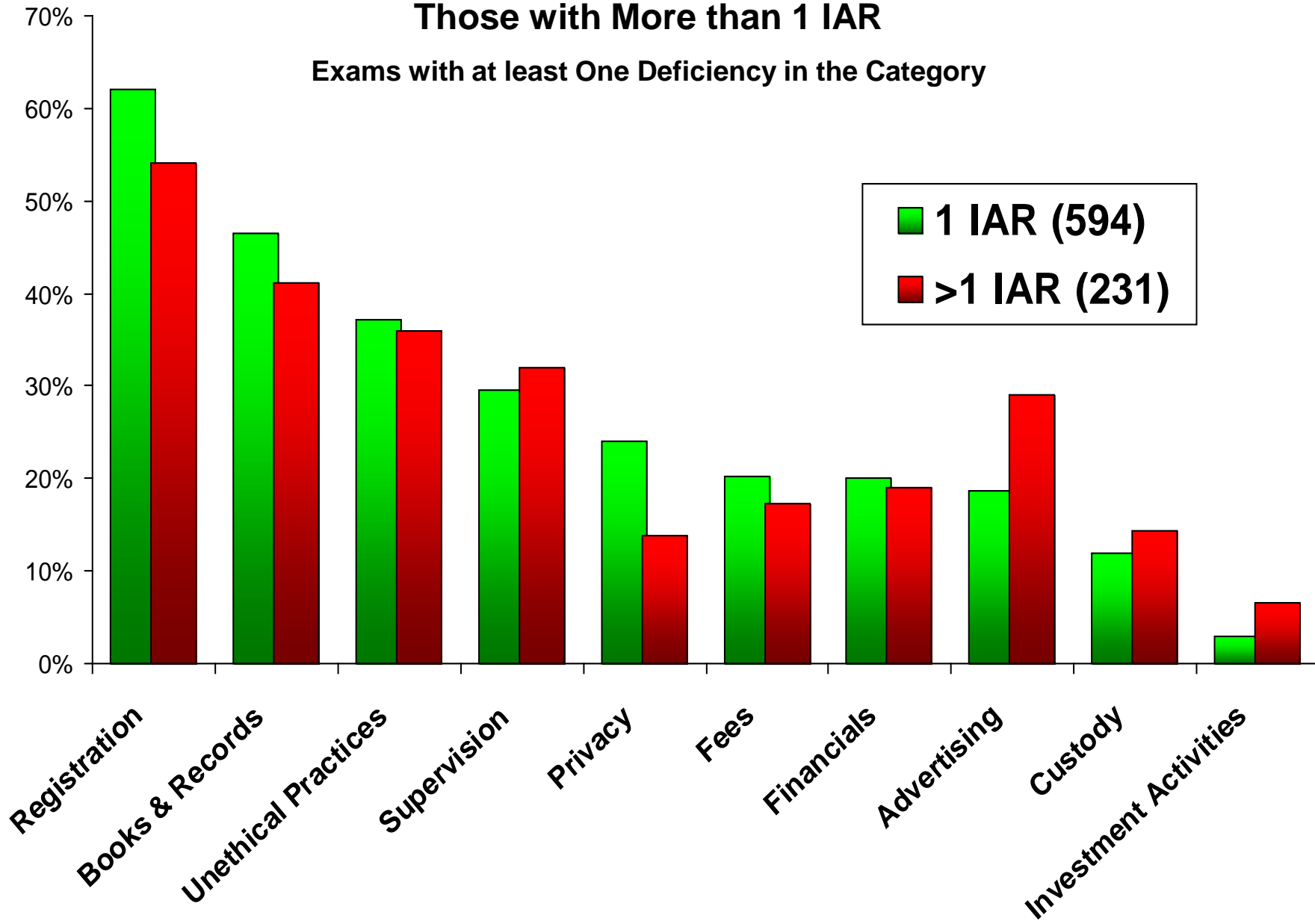
Comparison of Independent IA and BD Affiliated Advisers

Exams with at least One Deficiency in the Category



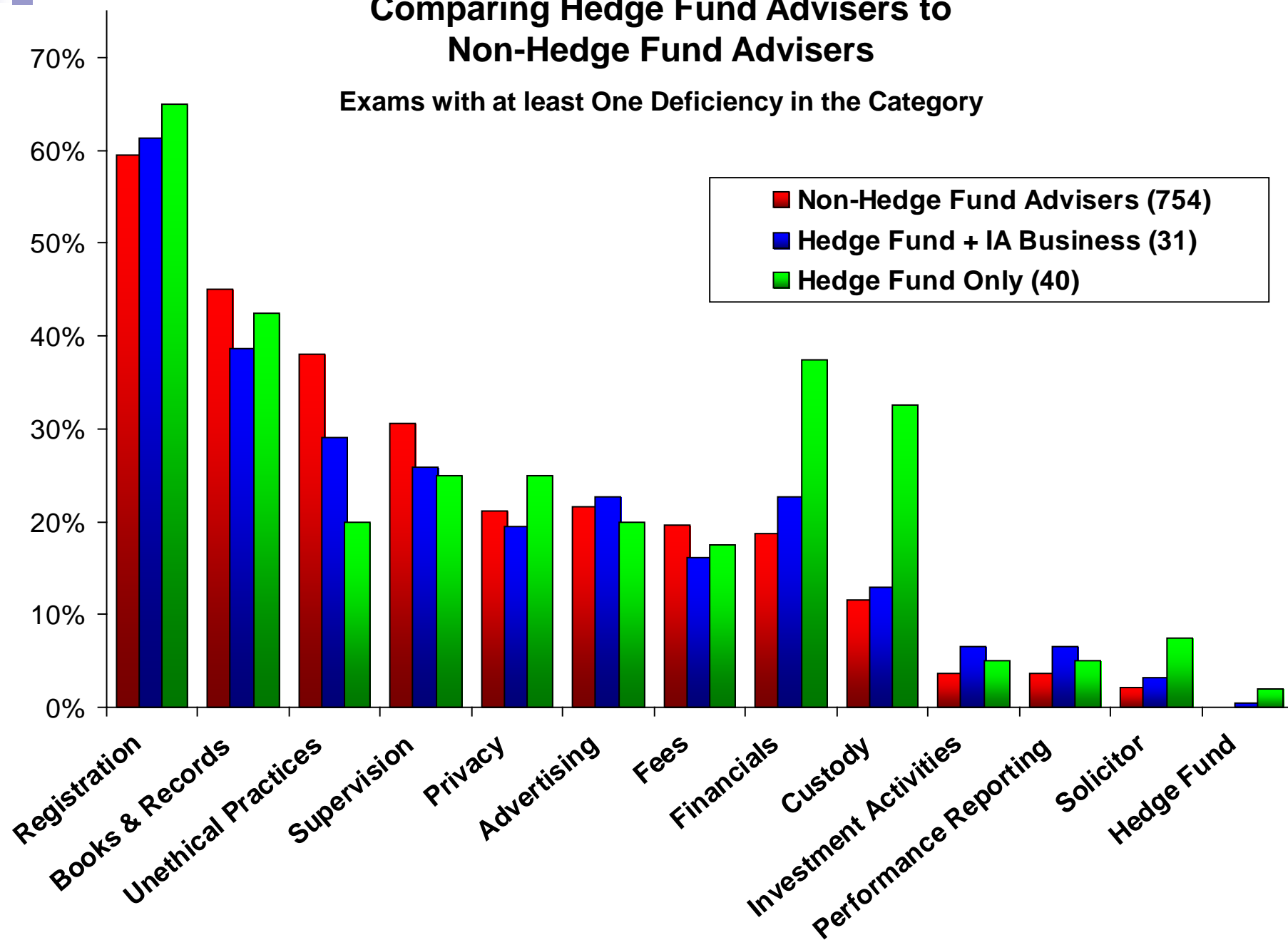
Comparing Advisers with 1 IAR to Those with More than 1 IAR

Exams with at least One Deficiency in the Category



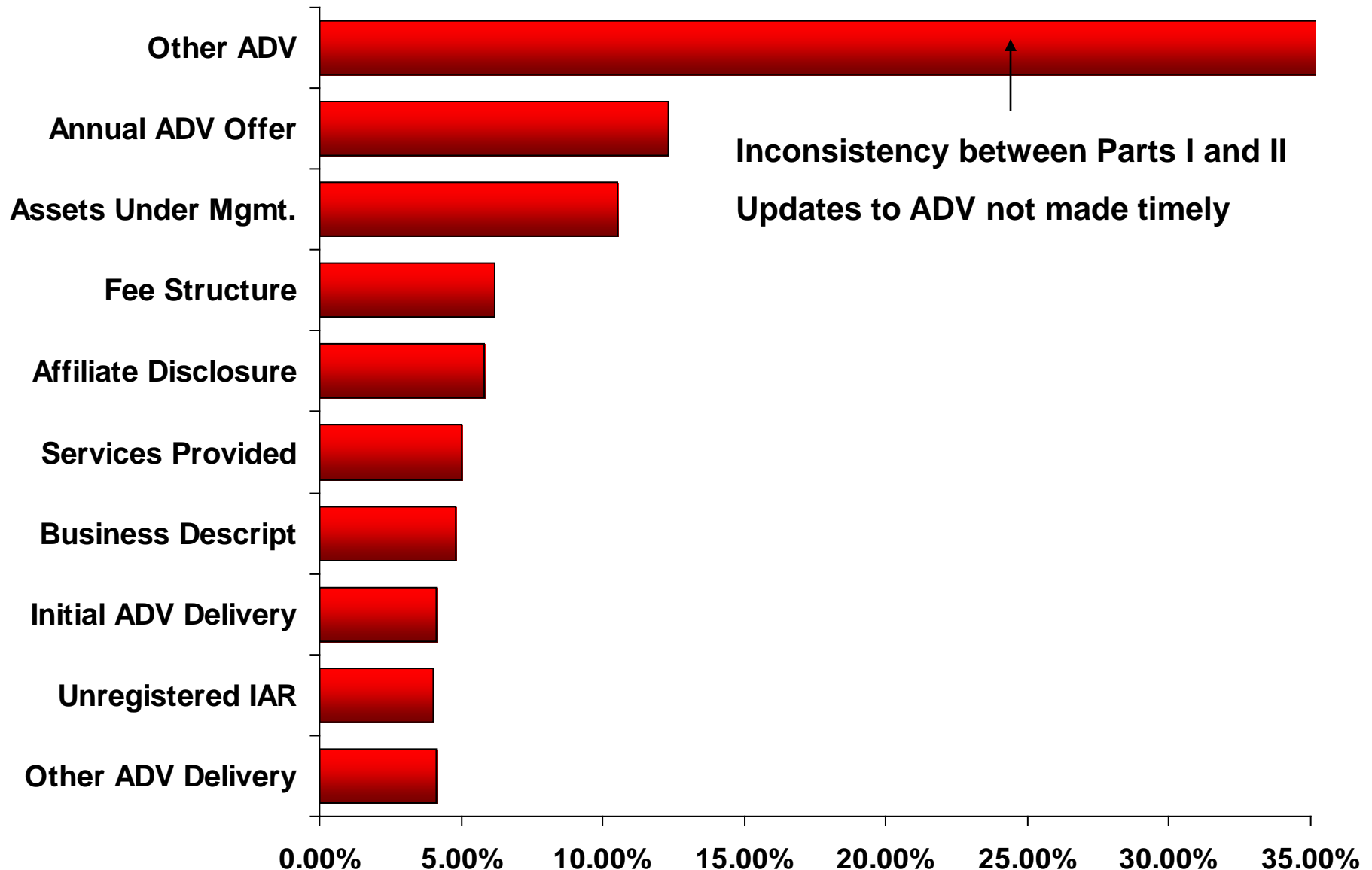
Comparing Hedge Fund Advisers to Non-Hedge Fund Advisers

Exams with at least One Deficiency in the Category



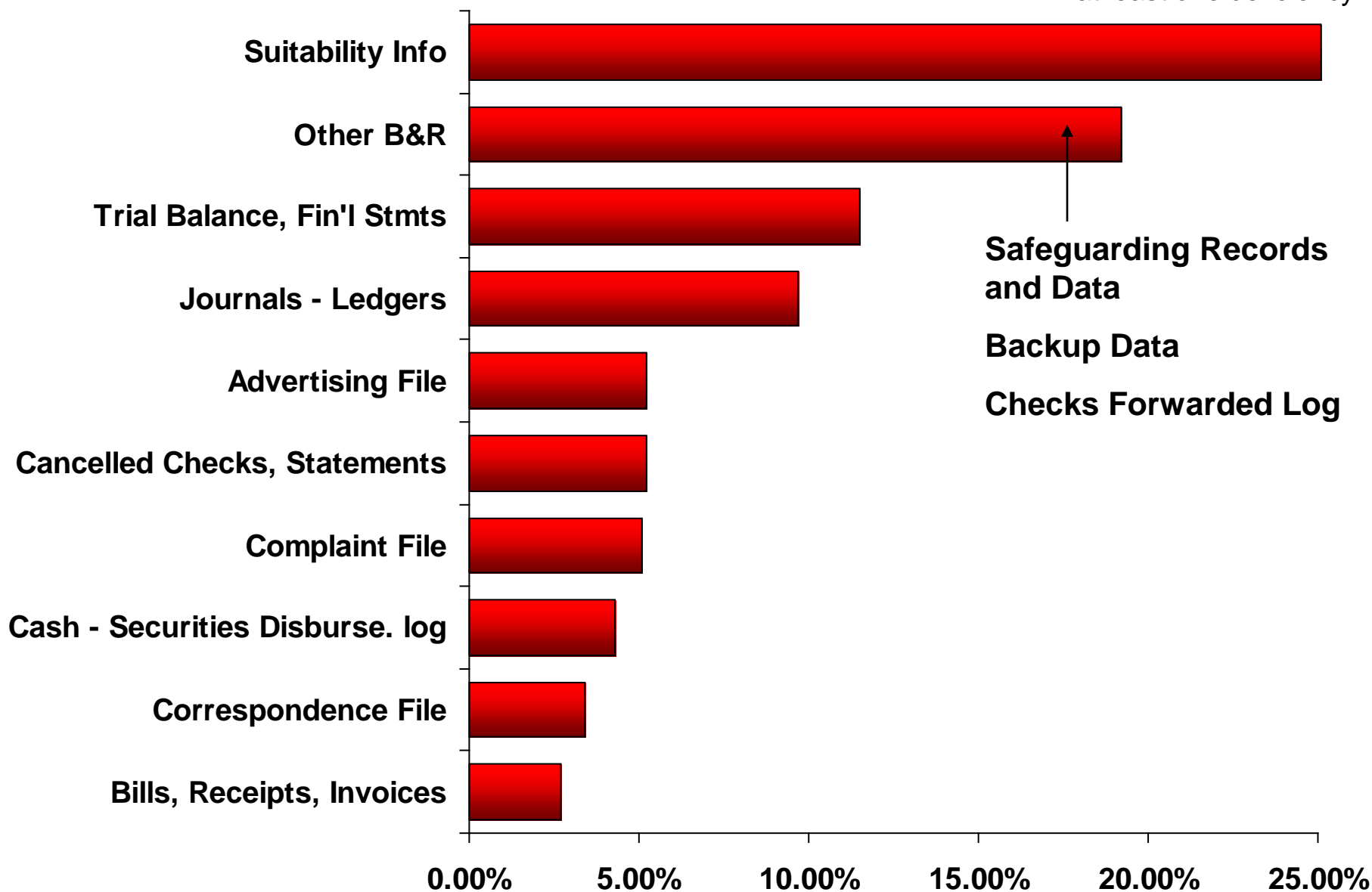
Registration 894 Deficiencies

59.9% of all advisers had
at least one deficiency.



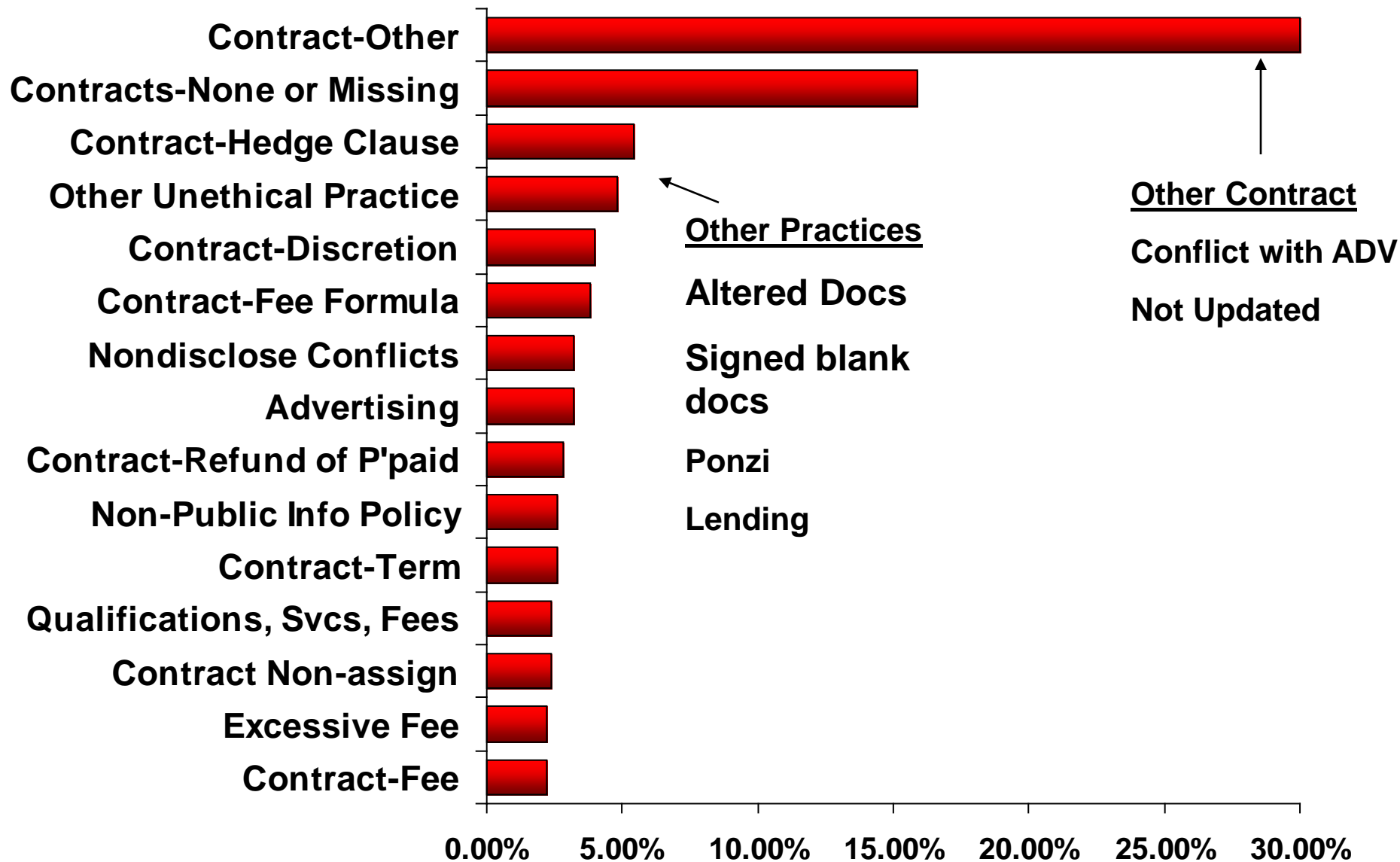
Books and Records 668 Deficiencies

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

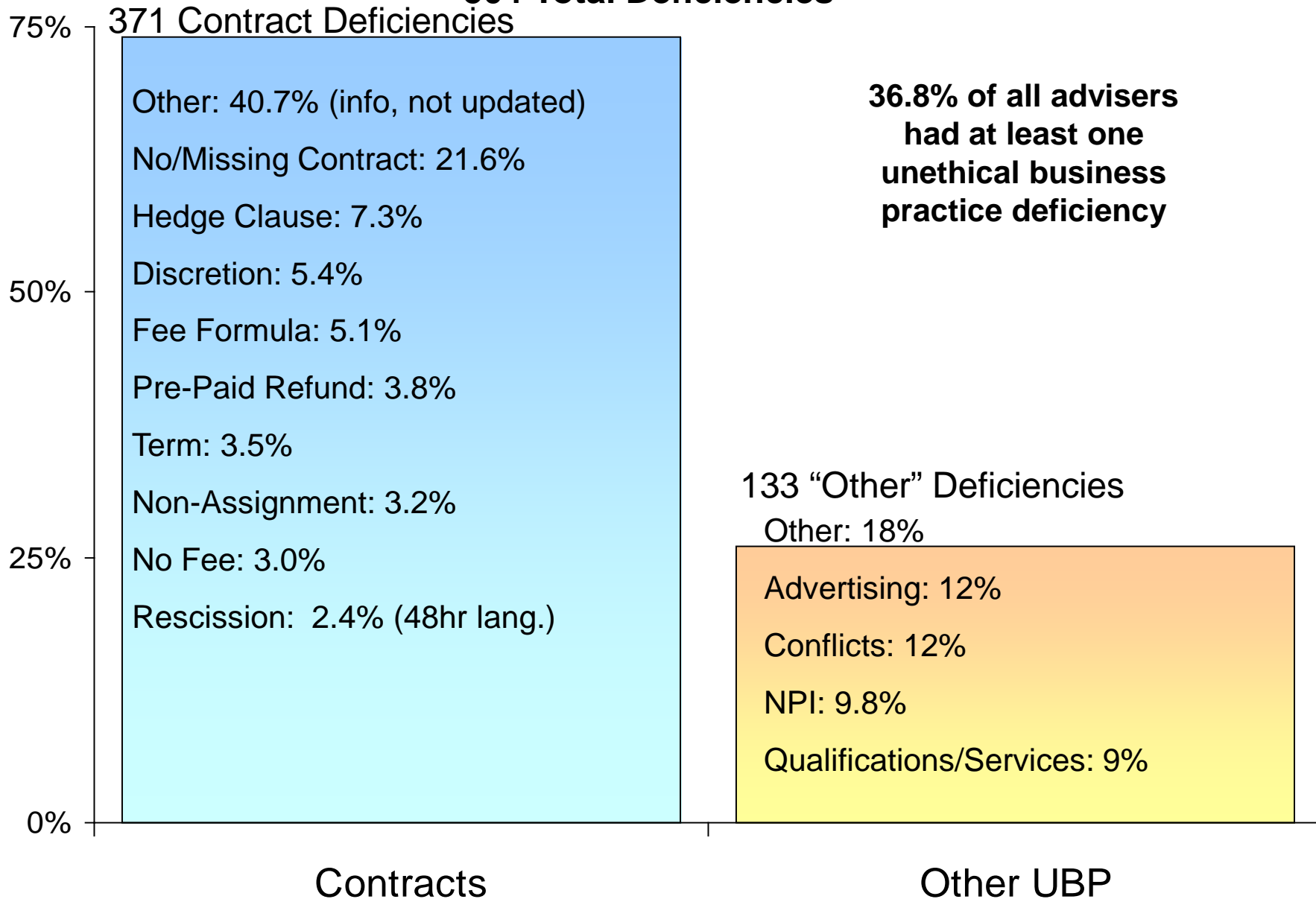
- 106 exams (12.8%) noted at least one non-contract unethical practice deficiency*
- 133 (26%) of the 504 UBP deficiencies

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

Unethical Business Practices

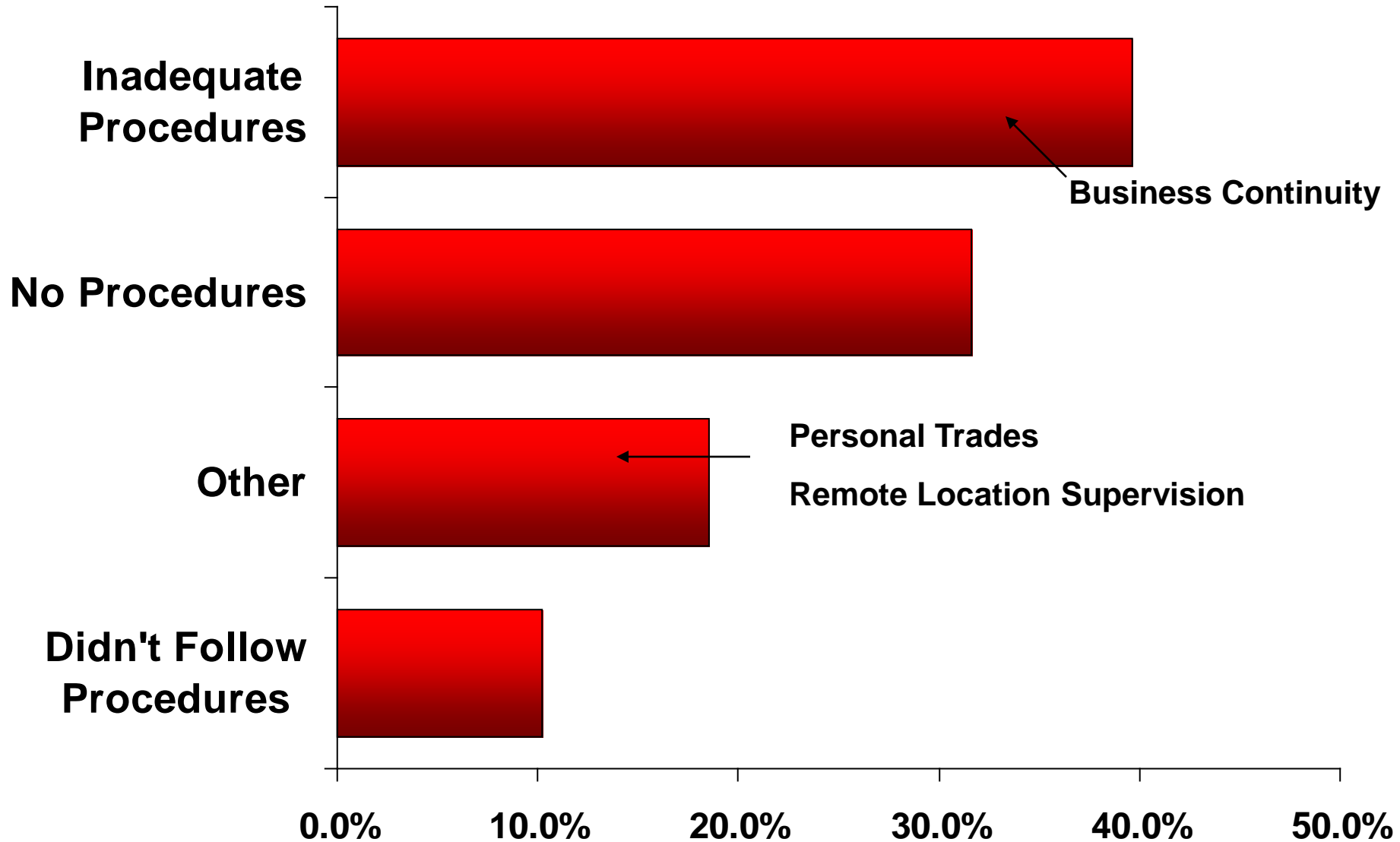
504 Total Deficiencies

**36.8% of all advisers
had at least one
unethical business
practice deficiency**



Supervisory/Compliance 275 Deficiencies

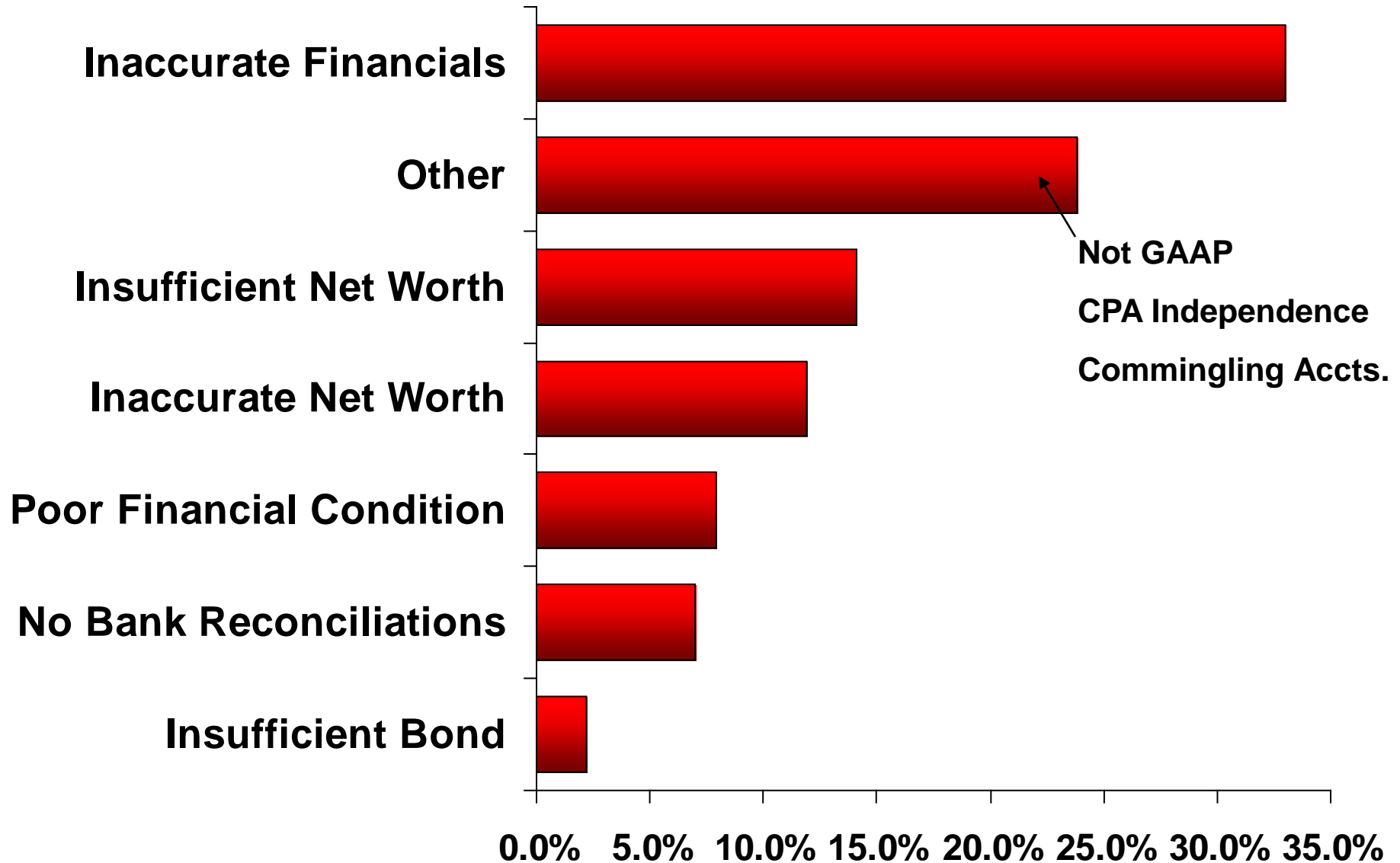
30.2% of all advisers had
at least one deficiency.



Financials

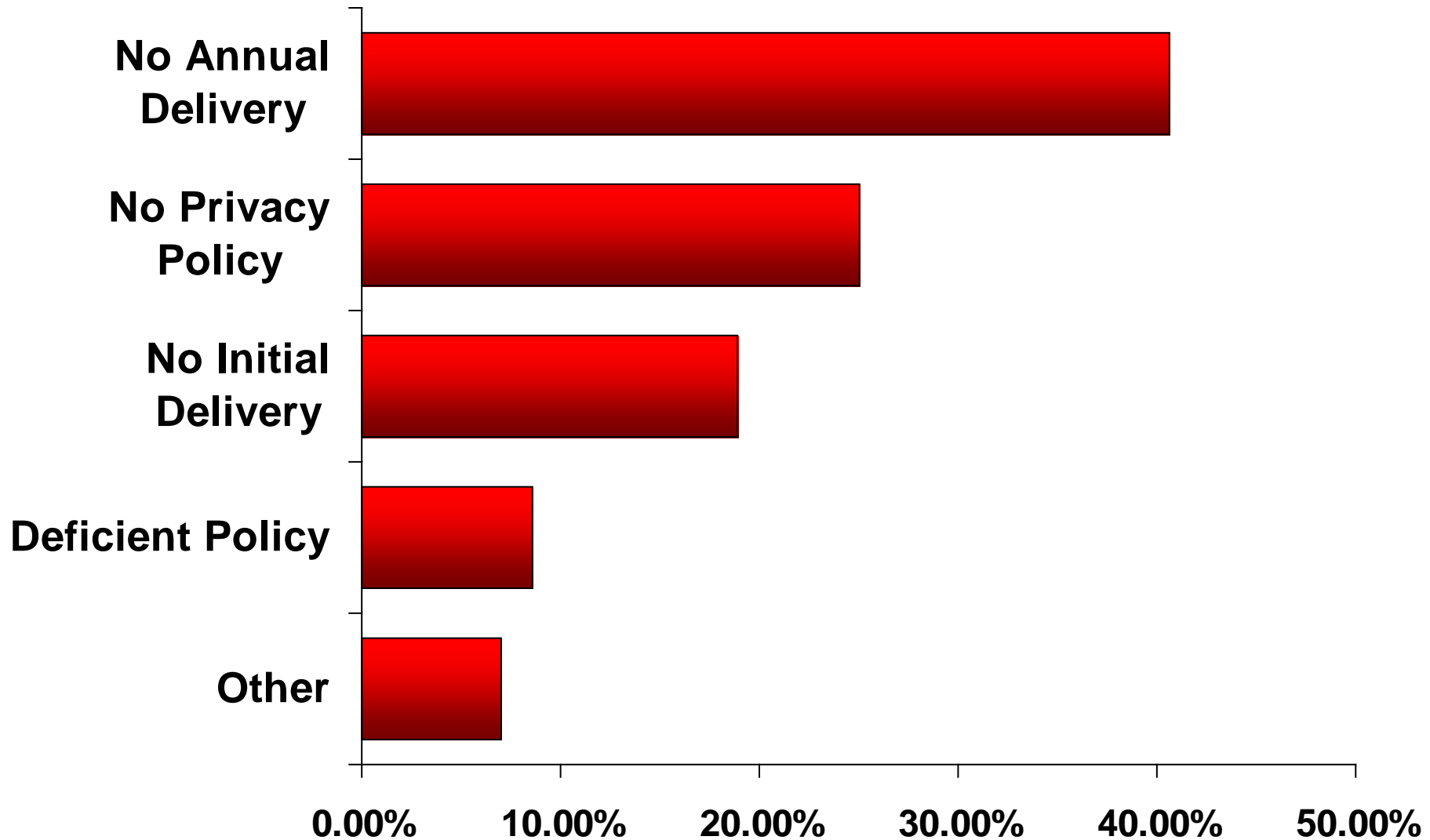
227 Deficiencies

19.8% of all advisers had at least one deficiency.



Privacy
244 Deficiencies

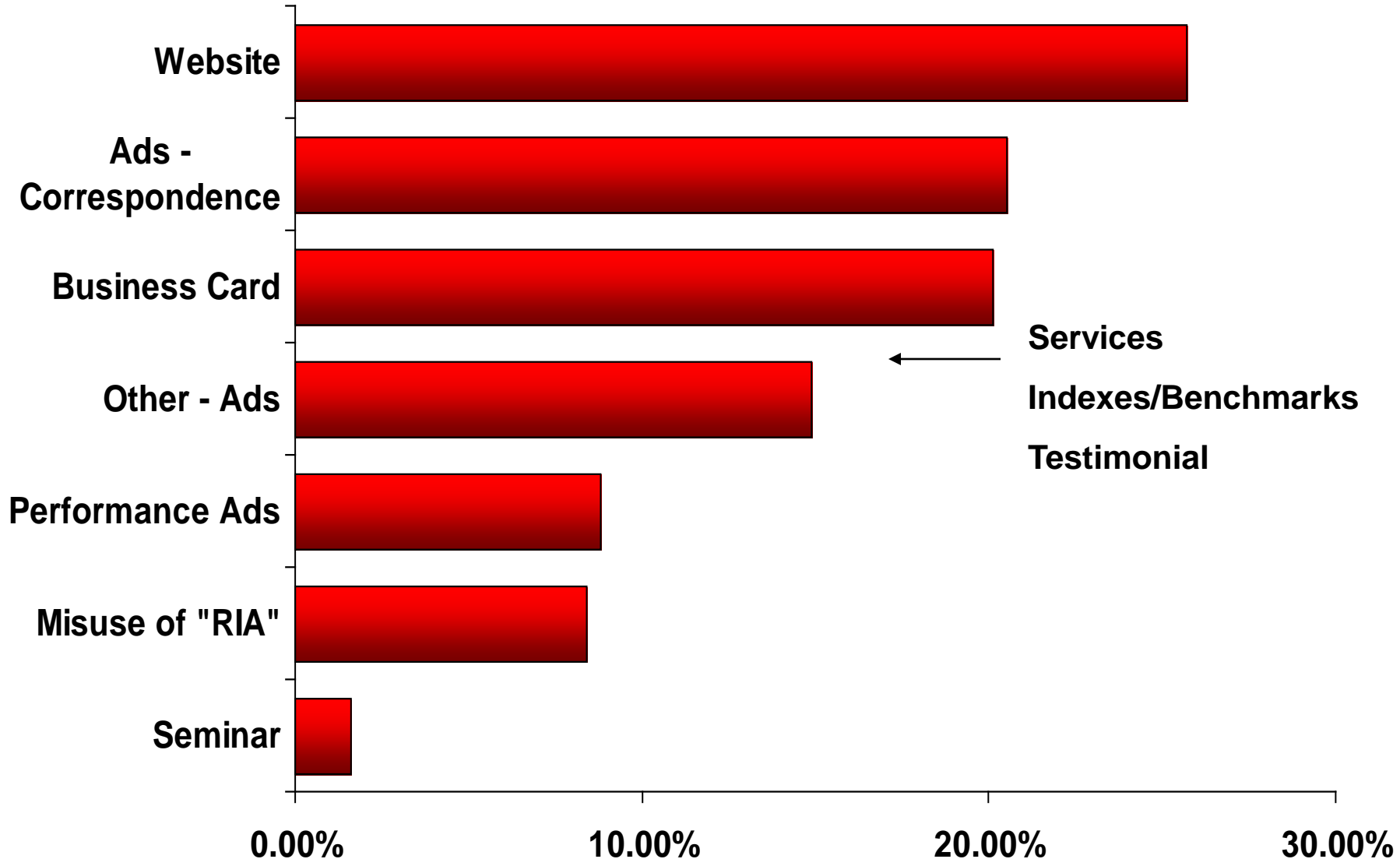
21.2% of all advisers had
at least one deficiency.



Advertising

249 Deficiencies

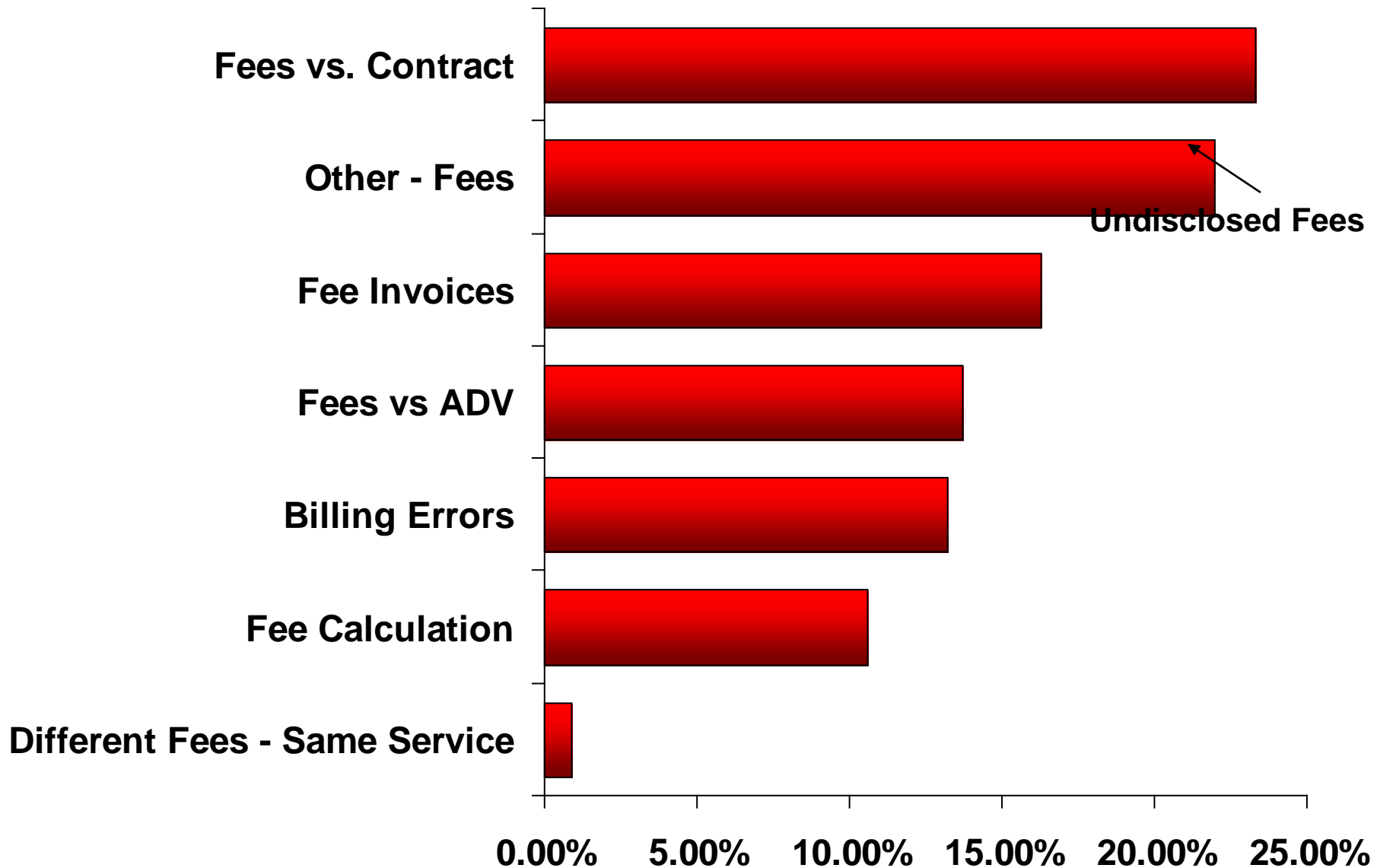
21.6% of all advisers had at least one deficiency.



Fees

227 Deficiencies

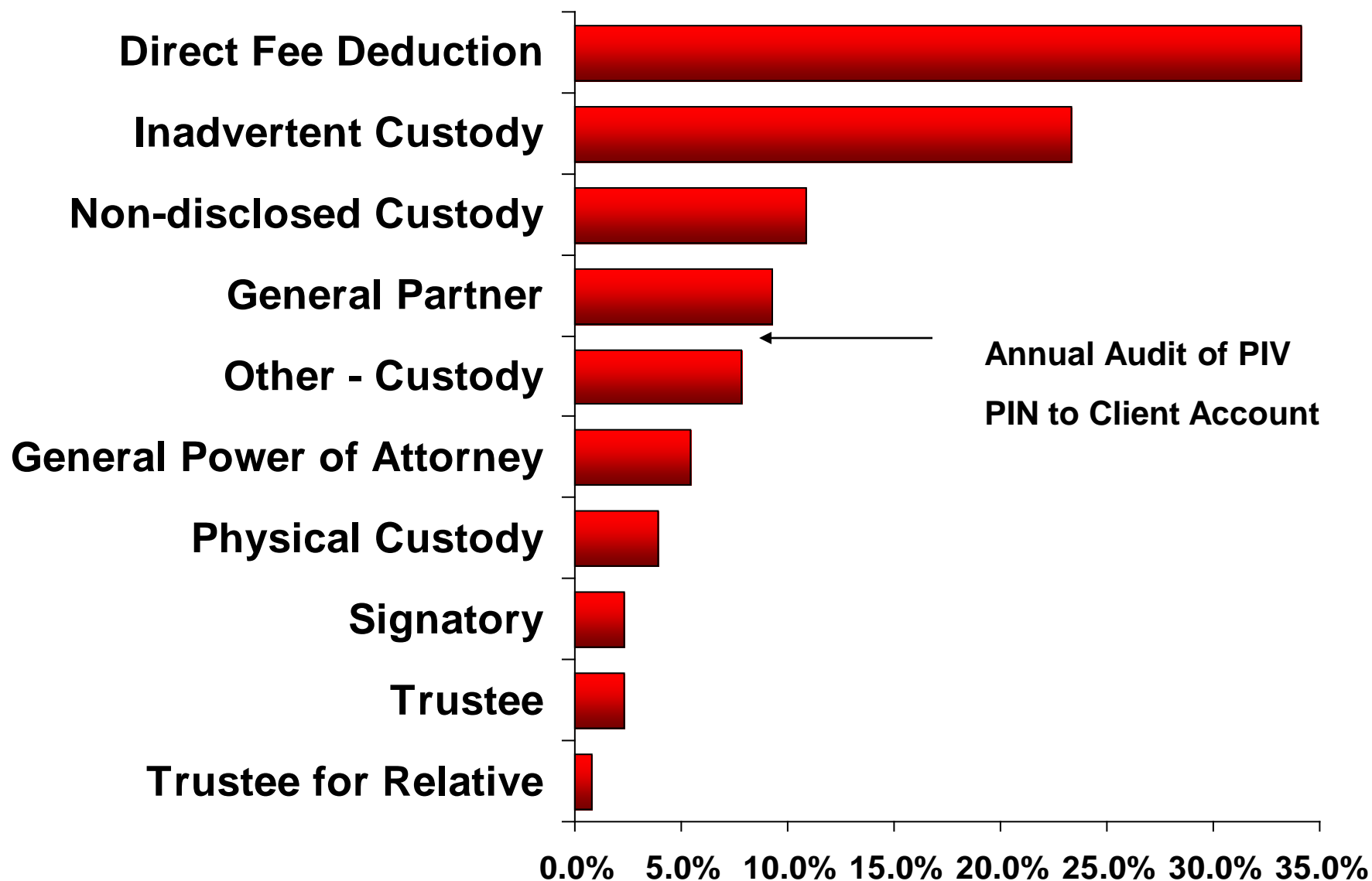
19.4% of all advisers had at least one deficiency.



12.6% of all advisers had at least one deficiency.

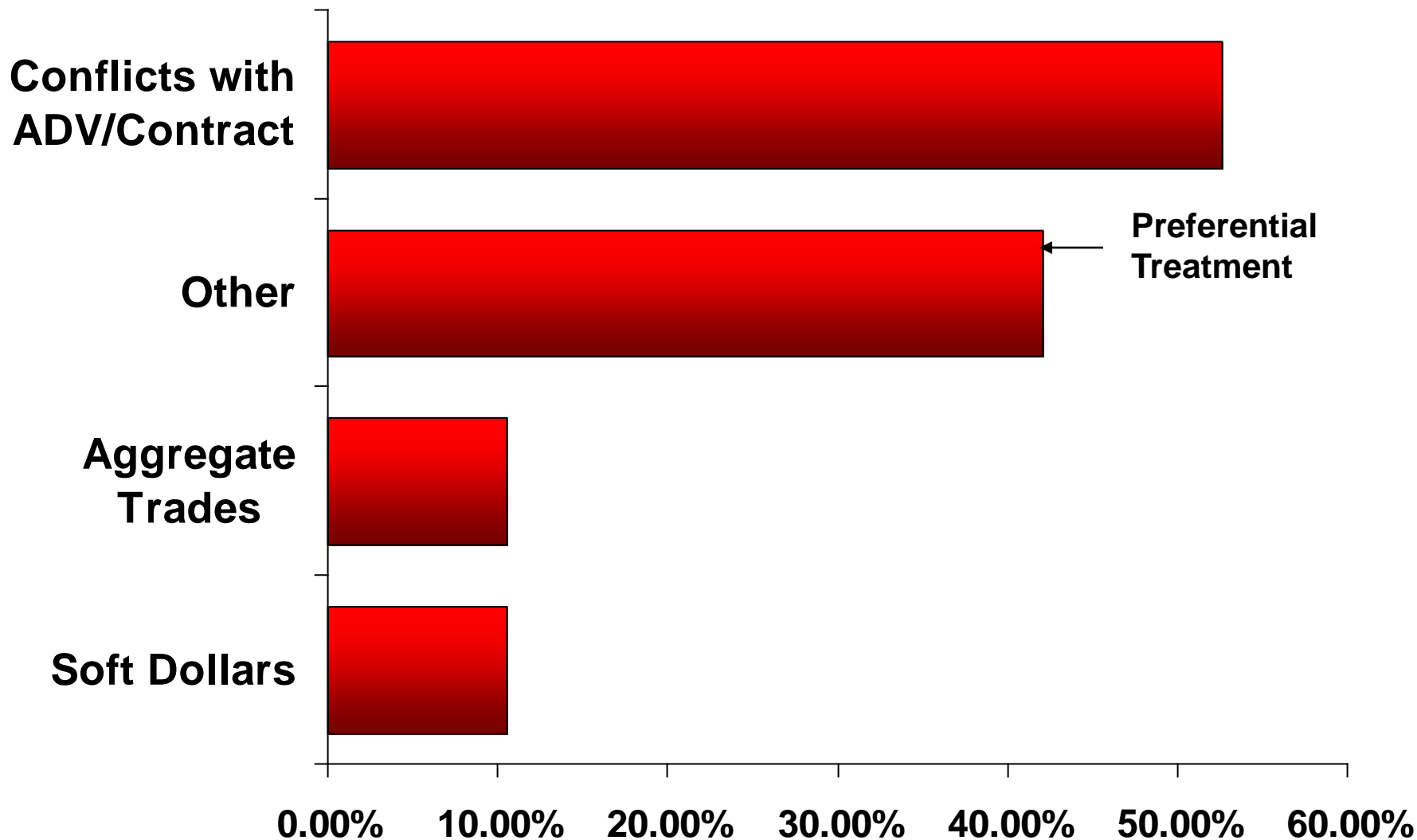
Custody

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

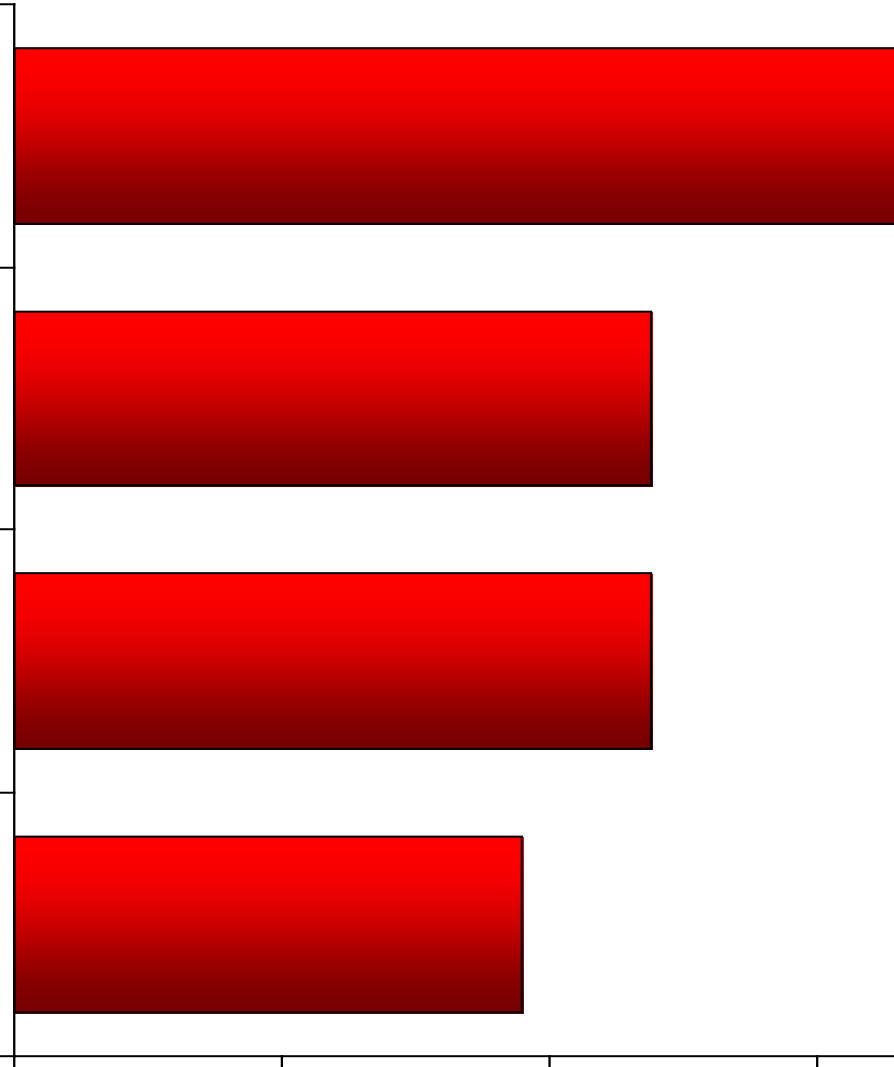
Undisclosed
Solicitors

Solicitor
Disclosure

IA-Solicitor
agreement

ADV Delivery

0.00% 10.00% 20.00% 30.00% 40.00%



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%

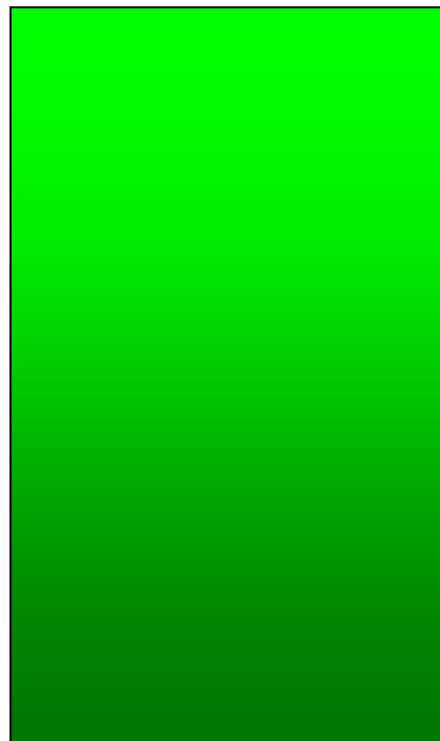
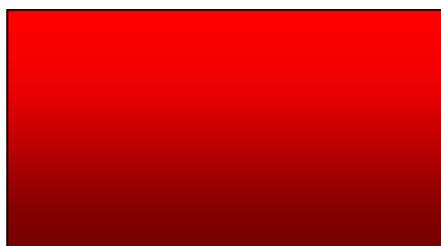
10%

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.

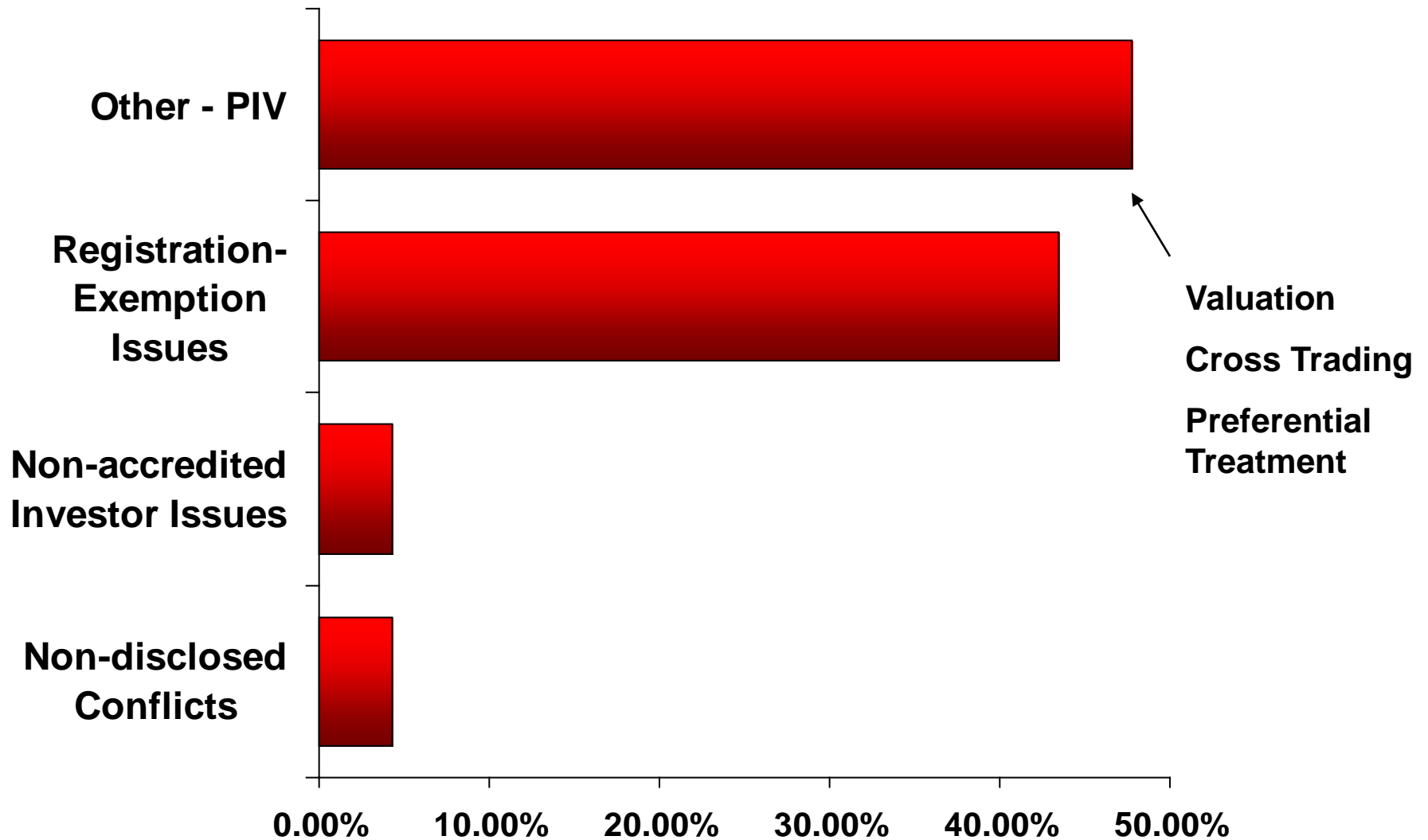
12 of 40 (30%)
of hedge fund
advisers who
had no other
clients had at
least one
deficiency in
this category.

Hedge Fund Specific Deficiencies



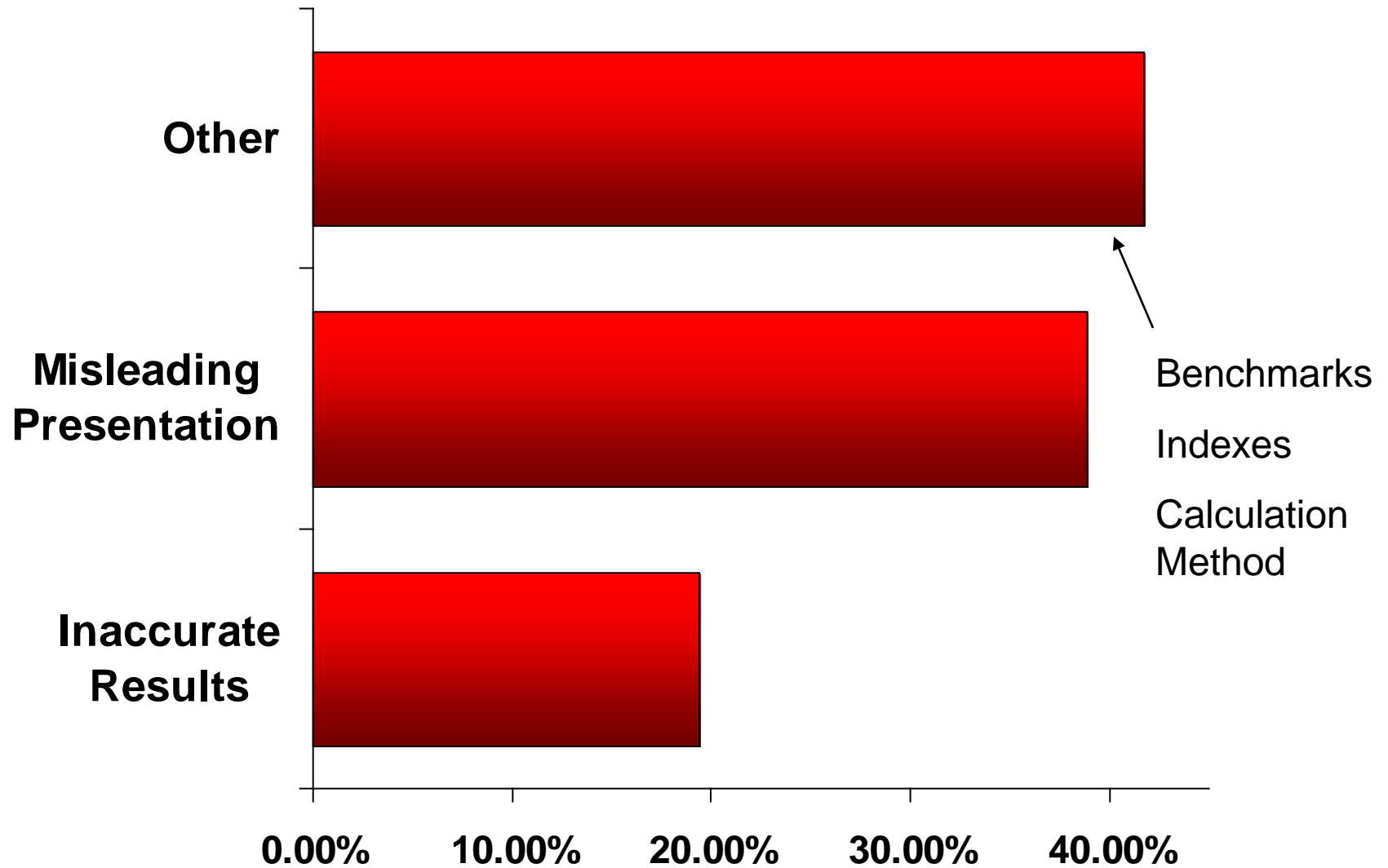
Hedge Funds

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.