



CORE COMPLIANCE & LEGAL SERVICES, INC.
SOLUTIONS FOR TODAY'S BUSINESS

Risk Management Update August 2008

IMPORTANT STRATEGIES TO CONSIDER FOR REVIEWING YOUR DISCLOSURES

The Investment Advisers Act of 1940, along with recent releases by the Securities and Exchange Commission (“SEC”), is laden with requirements for full and fair disclosures. During these summer months, CCOs should review client disclosure documents in light of the Securities and Exchange Commission’s re-proposal of Form ADV Part 2 and the recent release of a second *ComplianceAlert*.

On March 3, 2008 the SEC once again proposed sweeping changes to Form ADV Part II^[1]. The new Part 2 will be a narrative document requiring further disclosures regarding advisory practices, services offerings, related conflicts of interest and disciplinary history of both the firm and its investment advisory personnel. Specifically, additional emphasis will be on disclosures related to personal trading, proxy voting and soft dollars, including the mitigation of conflicts of interest which may exist in these areas.

In addition, the SEC provided additional disclosure guidance in its second *ComplianceAlert* released on July 22, 2008^[2]. In this *Alert*, the SEC Office of Compliance Inspections and Examinations (“OCIE”) detailed the top deficiencies noted during their 2007 inspection cycle of SEC registrants. Among the items noted was insufficient disclosure relating to certain investment advisory activities (such as personal trading), and the conflicts of interest found in a registrant’s business practices, services and procedures. In order to assist CCOs in reviewing the sufficiency of client brochure disclosures, consider the five following practice tips.

1. Assess and analyze current business practices.
2. Draft a narrative of your firm’s current business practices, services offering and programs. Describe what has changed after visiting each business area, and then compare with what is contained within your Schedule F to see if the current disclosures accurately reflect what is going on in the business.
3. Assess all areas that may present an actual or perceived conflict of interest between the client and the adviser. Be sure that all perceived conflicts of interest are noted and describe how that conflict is mitigated or eliminated.
4. Assess current investment advisory personnel and their adherence to current disclosures in Form ADV Part II. For example, test to ensure that proxy voting processes are complied with as noted within the client brochure.

^[1] Amendments to Form ADV, Advisers Act Release No. 2711, 73 Fed. Reg. 13958 (Mar. 3, 2008).

^[2] See SEC ComplianceAlert (July 2008) at <http://www.sec.gov/about/offices/ocie/complialert0708.htm>.

5. Review past deficiency letters to ensure that any representations your firm made to enhance client disclosures was followed. Review the proposal on Form ADV Part 2 and the *ComplianceAlert* for additional disclosures to include.

Remember, if any material changes occur to your Form ADV Part II, the SEC registered investment adviser must deliver the new brochure to its existing and prospective clients. If you have any questions regarding the release, please contact us.

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