CORE COMPLIANCE & LEGAL SERVICES, INC.
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Risk Management Update
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TOP AREAS OF 2007 DEFICIENCIES NOTED BY THE SEC IN SAN DIEGO'S CCO OUTREACH PROGRAM

As you will no doubt be aware, the SEC is currently undertaking its annual round of CCO Outreach meetings around the country. Representatives of Jacko Law Group, PC and Core Compliance & Legal Services, Inc. recently attended the San Diego CCO Meeting Summit.

This year, the SEC staff spent a significant amount of time discussing the top deficiencies identified during the previous year's examinations. It is important to be aware of these deficiencies because they provide an indication of what examiners consider as current "hot topics". The Staff is likely to continue focusing on these hot topics in 2008 investment adviser examinations. Therefore, consider whether your internal controls and policies and procedures address the following areas noted as "deficiencies," and if necessary, amend them accordingly to minimize your firm's risks.

Top Areas of 2007 Investment Adviser Deficiencies Identified by the SEC

1. Compliance Program Rule: Many firms had inadequate or inappropriate policies and procedures whereas others did, but failed to follow them. This often seemed to be the case where a firm had purchased an off-the-shelf manual but then failed to customize it. The Staff also found that many firms had failed to conduct or document annual testing of their written policies and procedures.

2. Information Disclosures, Reports and Filings: In this area, it was found that many firms did not have accurate or complete Forms ADV Part 1 and II. Furthermore, many firms had failed to annually offer to deliver Part II to their clients.

3. Information Processing and Protection: The SEC found that many firms did not have Business Continuity Plans or did, but failed to test them. Similarly, although most firms had privacy notices, many of these did not comply with Regulation S-P.

4. Portfolio Management: Three distinct deficiencies were identified in this area. Firstly, many firms had inadequate controls to ensure that assets were invested in accordance with client objectives and restrictions. Secondly, it was found that when firms used sub-advisers or invested in funds managed by other advisers, they often failed to adequately oversee these third-party advisers' portfolio management. Finally, many firms had failed to maintain complete order memoranda.

5. Brokerage Arrangements and Execution: Two main types of deficiency were identified in this area. Some advisory firms were found to have inadequate or no internal controls as it related to brokerage arrangements and best execution. Other firms, however, were deficient in failing to disclose conflicts of interest relating to brokerage arrangements in their Form ADV Part II.

6. Personal Trading: Although it was found that most firms had a Code of Ethics, the Staff found that many firms failed to review its personal trading effectively and/or failed to enforce the Code of Ethics particularly with senior members of staff. In addition, of the Code of Ethics reviewed, many failed to comply with Rule 204A-1 of the Investment Advisers Act of 1940.

7. Performance Advertising and Marketing: This area continues to appear on the deficiency list. While the SEC highlighted many specific deficiencies in this area, all shared a common theme: the performance advertising piece inspected provided either false or misleading information.

In addition to highlighting the top deficiencies, the SEC staff also provided useful guidance on the types of controls that could be implemented to avoid these deficiencies. Many of these suggestions will be discussed in CCLS' May 2008 Risk Management Tip.

Finally, you will note that two of the top deficiencies identified by the SEC relate to areas involving newly proposed rules, namely **Regulation S-P** and **Form ADV Part 2**. When reviewing the proposals, take into consideration the potential impact that proposed rules will have on your firm if and when promulgated and consider providing your comments to the SEC. For more information, please visit the SEC's website at www.sec.gov. Typically, most firms submit comments to the SEC electronically, either using the SEC's Internet comment form (http://www.sec.gov/rules/proposed.shtml) or via e-mail at rule-comments@sec.gov whereby you may attach a PDF image of your comments. To avoid confusion, please include the SEC's File Number on the subject line of your message or submission.

For more information, or to learn about how CCLS may be of assistance, please do not hesitate to contact us at (619) 278-0020.

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