



State of Wisconsin
Department of Financial Institutions
Strengthening Wisconsin's Financial Future

Investment Adviser Newsletter

Special Edition 2015

This is a special edition of our periodic newsletter from the Wisconsin Division of Securities to investment advisers registered in our state. NASAA recently published the results of investment adviser examination data collected from 42 states during the first half of 2015. This special edition highlights the findings in the report and offers helpful information on keeping your firm compliant and avoiding deficiencies in future examinations.

We welcome your suggestions for future content. Past editions can be found at:

http://wdfi.org/fi/securities/whats_new.htm

Common Investment Adviser Deficiencies Reported by NASAA

The most problematic compliance area for state-registered investment advisers is books and records according to a recent report issued by the North American Securities Administrators Association (NASAA).

Every two years, state securities examiners voluntarily report sample data from their investment adviser examinations to NASAA. Sample data was provided between January and June 2015 by 42 jurisdictions (including Wisconsin) from 823 investment advisers. The 1,170 reported state examinations uncovered 4,983 deficiencies in 22 compliance areas. On the positive side, the number of deficiencies is down 30 percent from the 6,482 deficiencies in 20 compliance areas reported in 2013.

The top five deficiency categories and problem areas found by state security regulators were:

- Books and records deficiencies: Not maintaining client suitability information or not having all contracts in writing.
- Contract deficiencies: Fees were not explained.
- Registration deficiencies: Inconsistencies between Form ADV Part 1 and Part 2.
- Fee deficiencies: The fees charged didn't match the contract or Form ADV.
- Custody deficiencies: Improper client invoicing for direct fee deduction.

Other areas of common deficiencies included advertising, privacy, brochure delivery, compliance/supervision and financial matters.

Wisconsin securities examiners are similarly finding deficiencies in books and records where investment advisers are not maintaining written client suitability information. This information should include the client's net worth, annual income and other financial information, investment objectives and experience and such other information necessary and relied upon by the investment adviser to determine the suitability of any investment recommendation or investment advice to the client. The written information should be routinely reviewed and updated when the client provides information that results in material changes to the information.

"Our securities examination program in Wisconsin aims to help make it easier for investment advisers to comply with regulations to protect themselves and investors. I give credit to our securities examiners for teaching advisers the importance of maintaining their books and records. Our goal is to try to help advisers correct any problem areas," said Patricia Struck, Administrator of Wisconsin Division of Securities. Bureau Director, Deb Fabritz added, "Our examiners look forward to connecting with our registered investment advisers on a regular basis and strive to make the on-site examinations a positive experience that adds value to the adviser's business."

Based on the 2015 data, NASAA recommends the following "Best Practices" as a guide to assist investment advisers in developing compliance practices and procedures:

- Prepare and maintain all required records, including financial records. Back-up electronic data and protect records.
- Prepare and maintain client profiles or other client suitability information.
- Review and update all contracts. Make sure all fees are clearly noted and adequately explained in the contract.
- Review and revise Form ADV and disclosure brochure annually to reflect current and accurate information. File amendments in a timely manner.
- Prepare and distribute a privacy policy initially and annually.
- Calculate and document fees correctly in accordance with contracts and ADV.
- Keep accurate financials. File timely with the jurisdiction. Maintain surety bond if required.
- Implement appropriate custody safeguards, paying attention to direct fee deduction, if applicable.
- Review all advertisements, including website and performance advertising, for accuracy.
- Provide disclosure brochure to clients initially, then provide updates and offers to deliver afterwards as required.

- Prepare written compliance and supervisory procedures relevant to the type of business to include a business continuity plan.
- Review solicitor agreements, disclosures and delivery procedures.

To view the full report, go to <http://nasaa.cdn.s3.amazonaws.com/wp-content/uploads/2015/09/2015-IA-Coordinated-Examinations-Report.pdf>

Contact an Examiner

If you have questions relating to professional registration and/or compliance, please feel free to contact our Examiner of the Day phone line at (608) 266-2139.



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