

State IA Exams:

Our goal in examining state-registered investment advisers is to **protect** investors and legitimate business in our states.

❑ Two Types of Examinations

- **Routine** ► *generally a standard comprehensive exam*
- **For Cause** ► *there for a reason, sometimes a focused exam*

❑ Some exams are conducted from examiner's office

❑ State IA examinations generally include the following areas:

- Books and records
- Financials
- Registration – Form ADV Part 1 and 2
- Investment Activities – Strategies, trading, etc...
- Complaints
- Advertising and Marketing
- Contracts/Fees
- Custody
- Supervisory/Compliance Procedures

- ❑ Routine exams are typically a four-part process.
 - Pre-Exam
 - On-Site
 - Post-Exam
 - Resolution

- ❑ Onsite portion of exam may last from one day to a week depending on several factors.

- ❑ Usually one or two examiners.

Pre-Exam

- ❑ Notification of upcoming exam typically done by fax or e-mail with a list of documents to have ready.
- ❑ May request documents prior to on-site visit.
- ❑ Some exams may be unannounced.
- ❑ During the Pre-Exam, the examiner conducts background research (CRD, Internet, Social Media, etc...)

ONSITE

- ❑ Introduction and description of the purpose of the visit.
- ❑ Identify contact/point person for the examiner.
- ❑ Meet key personnel.
- ❑ Initial interview conducted by examiner.
 - Tour of the office
 - *Where are your records?*
 - *Where is the copier?*
 - *Where can I work?*
 - Interview: Questions about adviser's practice

ONSITE

- ❑ Document/File review.
- ❑ Exit interview (optional).
 - The examiner explains what comes next. May be done onsite or may come after the actual visit, but not required.

Post-Exam

- ❑ Once examiner has left the office, the exam is not over.
 - Most of exam is done at the regulator's office and frequently additional documents or information are requested.

- ❑ Exam report prepared and mailed to the examinee.

- ❑ May take one to several weeks depending on several factors.

Resolution

- ❑ Once post-exam work is complete, an exam report or deficiency letter may be sent via certified mail.
- ❑ Registrant must respond to the deficiency letter in writing, usually within a set amount of time.
- ❑ Once all deficiencies have been satisfactorily addressed, exam is closed.
- ❑ Certain issues may be referred to enforcement.