



Government of the District of Columbia  
Department of Insurance, Securities and Banking

**Protecting Your  
Financial Interests**

# Investment Adviser Workshop - Navigating the Dodd-Frank Act's New Regulatory Requirements for Investment Advisers



## Workshop Topics

- IA Regulation in the District of Columbia
- What to Expect from DISB IA Exams





## Disclaimer

- This seminar and the accompanying materials are presented as an educational experience, covering some of the changes mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act.
- You will be subject to all relevant laws, regulations, rules and orders whether or not they are included in this presentation. The views expressed are those of the presenter, and the Securities Bureau of the Department of Insurance, Securities and Banking reserves the right to change its position. Presenters believe all information is truthful and accurate; however, mistakes can occur.





## About Us

Our primary goal is to protect investors

- ❑ The Securities Bureau in DISB licenses:
  - Investment Advisers & Investment Adviser Representatives
  - Broker-Dealers and Broker-Dealer Agents
- ❑ Other responsibilities of the Securities Bureau:
  - Securities-related Examinations and Investigations
  - Securities Offering Registration and Notice Filing
  - Securities-related Complaint processing
  - Investor Education





## What Dodd-Frank Means For IAs

Under the **Dodd-Frank Wall Street Reform and Consumer Protection Act**, State Securities Regulators, including DISB, will have greater responsibility for the regulation of investment advisers.





## What Dodd-Frank Means For IAs

- ❑ Dodd-Frank establishes a threshold of **\$100 million** in assets under management (AUM) for federally covered advisers. (Note: the “buffer” for SEC-registered firms is \$90 million - \$110 million)
- ❑ Approximately **4,000** advisers nationwide will be affected, including about 10 in the District of Columbia.
- ❑ Eliminates the **Private Adviser** exemption.
- ❑ Law takes effect **July 21, 2011**. However, the SEC has extended the implementation date **until June 28, 2012 for Mid-Sized Advisers, and until March 30, 2012 for Private Fund Advisers.**





## What Dodd-Frank Means For IAs

- ❑ In the District of Columbia, all advisers with \$100 million or less in assets under management will be required to register with DISB **unless**:
  - They fall between \$25 million and \$100 million **and** are required to be registered in 15 or more states, or
  - The investment adviser qualifies for an exemption under Rule 203A-2 of the Investment Advisers Act of 1940, or
  - The IA otherwise qualifies for an exemption under the DC Securities Act of 2000.





## What Dodd-Frank Means For IAs

- ❑ Firms required to register with DISB
  - **PRIOR TO IMPLEMENTATION OF DODD-FRANK:** Firms with AUM of \$25 million or less:
    - Buffer between \$25M & \$30M – State or Federal
  - **UNDER DODD-FRANK:**
    - Firms with AUM of \$100 million or less
    - Buffer between \$90M & \$110M – State or Federal
    - **(SEE slide # 9 for IMPLEMENTATION SCHEDULE)**
    - Exempt reporting advisers are treated differently
  
- ❑ Firms with AUM of \$25 million to \$100 million may submit their application with DISB prior to the transition date, but must also remain registered with the SEC until the SEC has advised them that they are State-Eligible and the State has granted them a license. Then, they file an ADV-W with the SEC.







## What Dodd-Frank Means For IAs

- ❑ **State authority over IAs with AUM of \$25-\$100 million**
  - IA's principal office and place of business in a state that requires registration and if registered the IA would be subject to examination
  - If an IA is required to register in 15 or more states, the IA can remain with the SEC
- ❑ Some IAs will register with the SEC regardless of AUM, such as IAs to registered investment companies and IAs to a business development company under the Investment Company Act.





## What Dodd-Frank Means For IAs

### Implementation Schedule for Switching IAs

- 7/21/11-1/1/12: remain registered with the SEC
- 1/1/12-3/30/12: file an amendment to Form ADV to indicate whether you will switch to state registration
- 3/30/12-6/28/12: switching IAs will file Form ADV-W to withdraw the SEC registration
- Switching IAs must be licensed with DISB on or before 6/28/12

### Implementation Schedule for Exempt Reporting Advisers

- These advisers must be licensed with DISB on or before 3/30/12

### All advisers are encouraged to submit their license applications early in order to allow sufficient time for review of the application before the compliance deadline.





## What Dodd-Frank Means For IAs

- ❑ **Private Fund Investment Advisers Registration Act of 2010** (Title 4 of Dodd-Frank) – Significant reforms to the regulation of advisers to hedge funds and other private funds. The Act:
  - Eliminates the private adviser exemption at 203(b)(3)
  - Requires SEC registration for advisers to “private funds” with AUM of at least \$150 million
  - Requires SEC reporting for advisers to “private funds” with AUM of less than \$150 million and for advisers to “venture capital funds”
  - Defines “family office” to exclude it from IA
  - Defines “foreign private adviser” and exempts from SEC registration
  - Excludes advisers to private funds from the intrastate exemption from registration





# What Dodd-Frank Means For IAs

## PRIVATE FUND DEFINITION

- An issuer that would be an investment company under the Investment Company Act, but for the exceptions contained in **3(c)(1)** or **3(c)(7)** of that Act.





## What Dodd-Frank Means For IAs

### ☐ 3(c)(1)

- securities are not publicly offered and are owned by not more than 100 persons
- Interests typically offered pursuant to Reg D, Rule 506

### ☐ 3(c)(7)

- Securities are not publicly offered and generally not owned by more than 499 persons
- Investors must be qualified purchasers (individuals with investments of \$5,000,000/institutions with \$25,000,000 of investments)





# What Dodd-Frank Means For IAs

## Advisers to Private Funds:

### Registration and Reporting Requirements

- ❑ **Advisers solely to private funds with AUM of less than \$150 million**
  - Exempt from registration with the SEC
  - Reporting requirement with SEC
  - No state preemption, subject to **national de minimis**
- ❑ **Advisers solely to private funds with AUM of \$150 million or more**
  - Register with the SEC
  - States are preempted – **Notice Filing Requirement applies**





# What Dodd-Frank Means For IAs

## Advisers Solely to Venture Capital Funds: Registration and Reporting Requirements

- ❑ Advisers solely to venture capital funds
  - Exempt from registration with the SEC
  - SEC reporting requirement
  - No state preemption, subject to national de minimis
  - No AUM provisions
  - SEC defines “venture capital fund” in Rule 203(l)-1 of the Advisers Act





# What Dodd-Frank Means For IAs

## About State Regulation:

- ❑ **States are preparing to handle the switch.** State securities regulators are working to ensure a seamless, comprehensive and effective switching process
- ❑ **Switching is not new.** Regulatory switches regularly happen when the asset levels of IA firms rise above or fall below mandated thresholds.
- ❑ **State registration is a smooth process for most IAs,** especially those that have made the switch before and those that operated prior to 1996 when most IAs were required to register both with the SEC and with each state in which they were doing business.







# What Dodd-Frank Means For IAs

## About State Regulation:

- States conduct a thorough review of adviser applications.** State reviews will not change with the migration of IAs with up to \$100 million in assets under management.
- Firms switching to state regulation for the first time can expect **thorough examinations/inspections generally on a more frequent basis** than they may have experienced before.
- Thorough inspections and strong internal compliance benefit customer and firm alike.





# What Dodd-Frank Means For IAs

## NASAA IA Switch Resource Center

- ❑ The North American Securities Administrators Association (NASAA) is assisting states with the migration of investment advisers.
- ❑ NASAA's online **IA Switch Resource Center** includes an FAQ, calendar of events and additional guidance to help advisers make the switch to state regulation.
- ❑ Advisers can use the resource center to submit questions about the switch. The resource center is available at [www.nasaa.org/1719/ia-switch-resource-center](http://www.nasaa.org/1719/ia-switch-resource-center)





IA Regulation

# Registration & Form ADV





# IA Regulation: The Regulation Process

- ❑ File ADV via the IARD.
  - In the District of Columbia, the fee is \$250.00.
  - To begin the registration process with the District of Columbia, check “DC” under Item 1 of Form ADV Part 1B. Also, file Form ADV Parts 2A and 2B.
  
- ❑ IARD electronically notifies DISB of the ADV 1 submission and DISB will contact you about next steps.
  
- ❑ Additional information requested by DISB includes:
  - *IA and IAR Affidavits*
  - Clean Hands Form
  - Statement of Financial Condition (*Prepared according to GAAP*)
  - Surety Bond, if required.





## IA Regulation: The Regulation Process

- Once all information is received, your file is reviewed for compliance with rules/statutes/orders.
  
- The goal is to ensure that your firm is in compliance.
  
- You will receive a deficiency letter if:
  - You failed to include information required or requested;  
or
  - You included information that indicates that the firm does not comply with applicable rules/statutes/orders.





## IA Regulation: The Regulation Process

- You must respond to deficiency letters to continue with the application process.
- Ensure that the contact person's email address **is correct** as many notifications, sent during and after the application process has concluded, are sent through electronic communication.
- The IARD system will inform you if and when firm is approved.





# IA Regulation: The Regulation Process

## Timing Your Registration

- The SEC will review your filing and notify you on or before March 30, 2012 whether you will remain registered with the SEC or will be required to register with one or more states, including DISB.
- If you are reasonably certain that you will be required to register with DISB, based on the information in your Form ADV amendments, consider submitting registration documents to DISB for review in advance of March 30, 2012, but request to remain in a **pending status until you have official notice from the SEC that you are required to register with the states.**





## IA Regulation: Registration | Required Documents

- ❑ D.C. Official Code § 31-5602.03 and 26 DCMR § B152 lists the documents that must be submitted for initial registration in the District of Columbia.
  - IA and IAR Affidavits
  - Clean Hands Form
  - Proof of compliance with the examination requirements
  - Registration of at least one IAR
  - Statement of Financial Condition (*prepared according to GAAP*)







## IA Regulation: Documents Required for Registration

- A copy of investment adviser's surety bond, if applicable
- A copy of your brochure (Part 2A), filed electronically on IARD
- Copies of brochure supplements (Part 2B) for each supervised person doing business in the District of Columbia, filed electronically on IARD.
- Any other document related to the applicant's business, if requested by the Commissioner.





## IA Regulation: Registration | Annual Renewal Process

- Completed through Web IARD.
- Registrants who fail to renew with the SEC on January 1, 2012 will be considered unlicensed.
- Notice Filers with DISB will not be charged additional licensing fees for 2012.





# IA Regulation: Registration | Form ADV Part 1

## □ Form ADV Part 1 is:

- Used to register and describe the details of the registrant with the Department of Insurance, Securities and Banking.
- Filed online via the Investment Adviser Registration Depository (IARD).

IARD is an electronic filing system that facilitates investment adviser registration, regulatory review and public disclosure information of investment adviser firms.

FINRA is the developer and operator of the IARD system, which is sponsored by the SEC and the North American Securities Administrators Association (NASAA).





## IA Regulation: Registration | Form ADV Part 1

- Material changes must be filed promptly with IARD.
  - Called an “other than annual amendment”
  - Do not file hard copy changes with our office – **file online only**
  
- What is a material change that requires an amendment?
  - Change of ownership, name, address, contact information, form of organization, custodial arrangements, disciplinary actions, affiliations, etc.





## IA Regulation: Registration | Form ADV Part 1

- Complete and file on the IARD system.
- Material changes must be filed (online).
- Do not wait for an approval when submitting an update.





## IA Regulation: Registration | Form ADV Part 2

- ❑ On July 28, 2010 the SEC adopted a new Form ADV Part 2 replacing the old Part II, effective October 12, 2010.
- ❑ **IAs will be in compliance with the District's requirements if they follow the SEC's instructions for the new Form ADV Part 2.**





# IA Regulation: Registration | Form ADV Part 2

❑ The new Part 2 consists of three parts:

- **Part 2A, the Firm Brochure**

Includes all firm details written in plain English to promote effective communication between you and your clients.

- **Part 2A Appendix 1, Wrap Fee Program Brochure**

If you sponsor a wrap fee program.

- **Part 2B Brochure Supplement**

For supervised persons who formulate investment advice for clients and have direct client contact.





# IA Regulation: Registration | Form ADV Part 2

## Key Points

- Provides new and prospective clients with a brochure and brochure supplements written in plain English. No more “check the box.”
- Describes business practices, conflicts of interest and the background of the investment adviser and its advisory personnel.
- Discloses meaningful information in a clearer format.
- Electronic filing in IARD is required.
- Part 2 brochures will be available for viewing through IAPD.







# IA Regulation: Registration | Form ADV Part 2

## Key Points

- An adviser is a fiduciary. The adviser's duty is to serve the best interests of its clients.
- An adviser must deal fairly with clients and prospective clients, seek to avoid conflicts with its clients and, at a minimum, make full disclosure of any material conflict or potential conflict.
- Disclosures to clients and prospective clients are critical to their ability to make an informed decision about whether to engage an adviser.
- To evaluate the risks associated with a particular IA, its business practices and investment strategies, it is essential that clients and prospective clients have clear disclosure that they are likely to read and understand.





## IA Regulation: Registration | Form ADV Part 2

- What is required?
  - Part 2A: Firm Brochure **or**
    - Part 2A Appendix 1: Wrap Fee Program Brochure
  - Part 2B: Brochure Supplement
  
- File all parts of ADV Part 2 on the IARD system.
  
- You must file your *brochure(s)* (and amendments) through the IARD system using the text-searchable Adobe Portable Document Format (PDF).





# IA Regulation: Registration | Form ADV Part 2

## Annual Delivery Requirements

- ❑ Item 2 of the Instructions for the new Part 2A of Form ADV “Preparing Your Firm *Brochure*” provides that each year a registered investment adviser must:
  - deliver, within 120 days of the end of the IA’s fiscal year, to each client a free updated *brochure* that either includes a summary of material changes or is accompanied by a summary of material changes, or
  - deliver to each client a summary of material changes **that includes an offer to provide a copy of the updated brochure** and information on how a *client* may obtain the *brochure*.





## IA Regulation: Registration | Form ADV Part 2 | **Guidance**

- ❑ **Narrative format:** You must include the heading for each item provided by Part 2 immediately preceding your response to that item and provide responses in the same order as the items appear in Part 2. You must respond to each item. If an item is not applicable, then you must state that it is not applicable.
  
- ❑ **Plain English:**
  - Use short sentences;
  - Use definite, concrete, everyday words;
  - Use active voice;
  - Use tables or bullet lists for complex material, whenever possible;
  - Avoid legal jargon or highly technical business terms unless you explain them or you believe that your *clients* will understand them; and,
  - Avoid multiple negatives.





## IA Regulation: Registration | Form ADV Part 2 | **Guidance**

- Disclosure Obligations as a Fiduciary** -You are a fiduciary and must make full disclosure to your *clients* of all material facts relating to the advisory relationship.

As a fiduciary, you also must seek to avoid conflicts of interest with your clients, and, at a minimum, make full disclosure of all material conflicts of interest between you and your *clients* that could affect the advisory relationship.

- Full and Truthful Disclosure** - All information in your *brochure* and *brochure supplements* must be true and may not omit any material facts.





# IA Regulation: Registration | Form ADV Part 2 | **Overview**

- Part 2A of Form ADV:**  
Firm Brochure: 19 Items
  
- Part 2A Appendix 1 of Form ADV:**  
Wrap Fee Program Brochure: 10 Items
  
- Part 2B of Form ADV:**  
Brochure Supplement: 7 Items





# IA Regulation: Form ADV Part 2A | **Firm Brochure**

- 1. Cover Page
- 2. *Material Changes*
- 3. Table of Contents
- 4. Advisory Business
- 5. Fees and Compensation
- 6. Performance-Based Fees and *Side-By-Side Management*
- 7. Types of Clients
- 8. Methods of Analysis, Investment Strategies and Risk of Loss
- 9. Disciplinary Information
- 10. Other Financial Industry Activities and Affiliations
- 11. Code of Ethics, Participation or Interest in *Client Transactions* and Personal Trading





# IA Regulation: Form ADV Part 2A | **Firm Brochure**

- 12. Brokerage Practices
- 13. Review of Accounts
- 14. Client Referrals and Other Compensation
- 15. Custody
- 16. Investment Discretion
- 17. Voting Client Securities
- 18. Financial Information
- 19. Requirements for State-Registered Advisers







# IA Regulation:

ADV Part 2A Appendix 1 | **Wrap Fee Program Brochure**

- ❑ 1. Cover Page
- ❑ 2. Material Changes
- ❑ 3. Table of Contents
- ❑ 4. Services, Fees and Compensation
- ❑ 5. Account Requirements and Types of *Clients*
- ❑ 6. Portfolio Manager Selection and Evaluation
- ❑ 7. Client Information Provided to Portfolio Managers
- ❑ 8. Client Contact with Portfolio Managers
- ❑ 9. Additional Information
- ❑ 10. Requirements for State-Registered Advisers





# IA Regulation:

ADV Part 2A Appendix 1 | **Wrap Fee Program Brochure**

## Instructions for Preparing your Wrap Fee Program Brochure

### Who must deliver a wrap fee program brochure?

- If you sponsor a wrap fee program, you must give a wrap fee program brochure to each client of the wrap fee program.
- However, if a wrap fee program that you sponsor has multiple sponsors and another *sponsor* creates and delivers to your wrap fee program clients a wrap fee program brochure that includes all the information required in your wrap brochure, you do not have to create or deliver a separate wrap fee program brochure.
- A wrap fee program brochure takes the place of your advisory firm brochure required by Part 2A of Form ADV, but only for clients of wrap fee programs that you sponsor.





## IA Regulation: Form ADV Part 2B | **Brochure Supplement**

- ❑ 1. Cover Page
- ❑ 2. Educational Background and Business Experience
- ❑ 3. Disciplinary Information
- ❑ 4. Other Business Activities
- ❑ 5. Additional Compensation
- ❑ 6. Supervision
- ❑ 7. Requirements for State-Registered Advisers





# IA Regulation: Form ADV Part 2 | **Brochure Supplement**

## Instructions for Preparing your Brochure Supplement

### For which supervised persons must we prepare a brochure supplement?

- ❑ As an initial matter, if you have no clients to whom you must deliver a brochure supplement (see Instruction ii, below), then you need not prepare any brochure supplements. Otherwise, you must prepare a brochure supplement for the following supervised persons:
  - (i) Any supervised person who formulates investment advice for a client and has direct client contact; and,
  - (ii) Any supervised person who has discretionary authority over a client's assets, even if the supervised person has no direct client contact.





# IA Regulation: Form ADV Part 2 | **Brochure Supplement**

## Instructions for Preparing your Brochure Supplement

- ❑ **Note:** No supplement is required for a supervised person who has no direct client contact and has discretionary authority over a client's assets only as part of a team. In addition, if discretionary advice is provided by a team comprised of more than five supervised persons, brochure supplements need only be provided for the five supervised persons with the most significant responsibility for the day-to-day discretionary advice provided to the client.





# IA Regulation: Registration | Common Form ADV Deficiencies

- The two parts of the Form ADV don't match.
- Failure to amend Part 1 promptly when there is a material change.
- Not documenting that registrant is giving the brochures to clients or offering it to them annually.
- Inaccurate Form ADV
  - Reporting a PO Box as principal office location
  - Stating your office hours are 9-5 daily, but you work another job during these hours
  - Typo in email or phone number
- Incomplete Form ADV
  - Not responding to an item in Part 2 or not disclosing required information on Schedule D





# IA Regulation:

## Registration | Form ADV Part 2

### Form ADV Part 2 Resources

- ❑ The new Part 2 of Form ADV is posted on the websites of the SEC and the North American Securities Administrators Association (NASAA).
  
- ❑ NASAA has posted guidance for investment advisers filing the new Form ADV Part 2 on the IARD system.
  - **Visit the NASAA website, look in “Industry Resources”**  
[www.nasaa.org/industry-resources/investment-advisers/uniform-forms/form-adv/guide-for-electronic-filing-of-the-adv-part-2/](http://www.nasaa.org/industry-resources/investment-advisers/uniform-forms/form-adv/guide-for-electronic-filing-of-the-adv-part-2/)





## IA Regulation: Forms Filed Annually with DISB

- Form ADV amendment (via IARD, online).
- IA Reps are under a continuing obligation to update information required by the U4 **as changes occur**.







## IA Regulation: Forms Filed Annually with DISB

- ❑ Additional filing required **if registrant has custody** (mailed to the Department of Insurance, Securities and Banking).
  - At least once every calendar year, an independent certified public accountant or an independent public accountant verifies all client funds and securities of clients by actual examination at a time chosen by the accountant without prior notice to the investment adviser. The accountant's report filed with DISB shall state that he/she has made an examination of such funds and securities and describing the nature and extent of such examination.
  - Audited balance sheet.





## IA Regulation: Forms Filed Annually with DISB

- ❑ Notify DISB by close of next business day if net worth falls below minimum requirement, then file **report of financial condition** by close of the **next** business day after notification.
- ❑ If bond is terminated, registrant is required to notify the Department of Insurance, Securities and Banking within two business days.





## State IA Examinations

# What to Expect





## State IA Exams: What to Expect

- ❑ Our goal in **examining** state-registered Investment Advisers is to **protect** investors and legitimate business in the District of Columbia.
- ❑ **Three Types of Examinations**
  - **Routine** ► *generally a standard comprehensive exam*
  - **For Cause** ► *there for a reason; sometimes a focused exam*
  - **Meet and Greet** ► *within 90 days of licensing, preliminary examination of the adviser's filings with the Department and on-site visit*





## State IA Exams: Examination Focus

- ❑ DISB IA examinations generally include the following areas:
  - Books and Records
  - Financials
  - Registration – Form ADV Part 1 and 2
  - Investment Activities
  - Complaints
  - Advertising and Marketing
  - Conflicts of Interest
  - Custody
  - Supervisory/Compliance Procedures
  - Business Practices





## State IA Exams: What to Expect

- ❑ Routine exams are typically a four-part process.
  - Pre-Exam
  - On-Site
  - Post-Exam
  - Resolution
  
- ❑ On-site portion of exam may last from one day to a week depending on several factors.
  
- ❑ Usually two or three examiners





# State IA Exams: What to Expect | Pre-Exam

## Pre-Exam

- Review of internal documents/records, including the District Licensing system, CRD/IARD, previous examinations, etc.
- Exams are generally unannounced.





# State IA Exams: What to Expect | On-site

## On-Site

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







# State IA Exams: What to Expect | On-site

## On-Site

- ❑ Be prepared to have readily available documents required by Rule 181.
- ❑ Try to have key personnel available.
- ❑ Exit interview (optional).
  - The examiner explains what comes next. May be done on-site or may come after the actual visit, but not required.





# State IA Exams: What to Expect | Post-Exam

## Post-Exam

- ❑ Once examiner has left your office, the exam is not over.
  - Most of the exam is done at the regulator's office and frequently additional documents or information are requested.
  
- ❑ Exam report prepared.
  
- ❑ May take several weeks depending on several factors.





# State IA Exams: What to Expect | Resolution

## Resolution

- Once post-exam work is complete, an exam report or deficiency letter may be sent via regular or certified mail.
- Registrant must respond to the deficiency letter in writing, usually within 30 days.
- Once all deficiencies have been satisfactorily addressed, exam is closed.
- Certain issues may be referred to enforcement or other DC/Federal Agencies.





## State IA Exams: Common Exam Deficiencies

- Failing to properly license solicitors
- Failing to file Form ADV amendment promptly when there is a material change
- Inaccurate or incomplete Forms ADV Part 1 & 2
- Incomplete, inadequate or no contract with clients
- Failing to meet net worth requirements
- Failing to maintain and update current suitability information regarding clients





## State IA Exams: Common Exam Deficiencies

- Non-compliance with privacy requirements
- Incomplete or no written supervisory/compliance procedures
- Failing to enforce the compliance procedure
- Non-compliance with advertising rules
- Failing to maintain applicable books and records
- Failing to send invoice of fees if auto-deducting fee





## State IA Exams: DC vs. SEC regulation

- ❑ Some major substantive differences between SEC and DC regulation of investments advisers\*:
  - **Custody** – The SEC defines “custody” and has different safekeeping requirements, including an exemption for the surprise annual audit for certain investment advisers. DC does not define “custody” and does not have a similar exemption.
  - **Supervision** – SEC requires a person to be a CCO. DC requires someone to supervise others, but does not require that person to hold the title of CCO.
  - **Surety bond** – SEC does not require a bond except that ERISA advisers must obtain a fiduciary bond to protect the plan against loss. DC advisers may be required to have as surety bond if they have custody.
  - **Solicitation** – SEC has contract and disclosure requirements; DC has licensing and supervision requirements.
- *\* This list is not comprehensive. Advisers should review the DC Securities Act of 2000 and Investment Adviser Rules and comply with their provisions.*





## State IA Exams: DC vs. SEC regulation

- Some major substantive differences between SEC and DC regulation of investments advisers\*:
  - **Performance-based compensation** – DC and SEC have different requirements for which clients may be charged a performance-based fee.
  - **Code of Ethics** – SEC requires advisers to have a Code of Ethics; DC does not.
  - **Form ADV Part 2**– SEC only requires the filing of Part 2A on IARD; DC requires the filing of both Part 2A and Part 2B on IARD.
  - **Exempt Reporting Advisers** – SEC exempts from registration advisers to venture capital funds and private funds with less than \$150M in AUM; DC does not.
  - **Borrowing from Clients** – SEC allows clients to capitalize IA firms; DC does not allow IAs to borrow or lend money or securities to clients.
  - *\* This list is not comprehensive. Advisers should review the DC Securities Act of 2000 and Investment Adviser Rules and comply with their provisions.*





## Resources

- ❑ Department of Insurance, Securities and Banking
  - [www.disb.dc.gov](http://www.disb.dc.gov)
  
- ❑ North American Securities Administrators Association
  - [www.nasaa.org](http://www.nasaa.org)
    - Investment Adviser Resources
    - Uniform Forms
    - IA Switch Resource Center







## Questions?

**For more information, contact:**

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