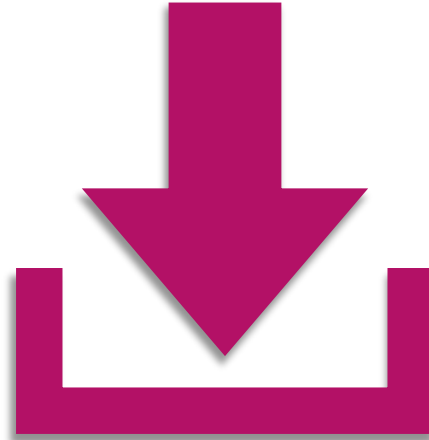




Preparing for an Investment Adviser Exam in 2025

Download Our Slides

<https://www.ria-compliance-consultants.com/exams-2025>



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Already Effective As Of 1/1/24:

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Effective On 1/1/25:

Minnesota; Nebraska; New
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Investment Adviser Rep Continuing Education

This Course Has Been Approved
by NASAA For 1 Hour of IAR CE
Under the Products & Practices
Category

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Course Requirements

- ▶ **Login** - You must be logged in during the presentation under your email address.
- ▶ **View Entire Presentation** – You are required to watch the entire live presentation the course.
- ▶ **Attendance Codes** - As you watch the presentation, you will receive two attendance codes, each containing three alphanumeric characters. Save these codes. You will need to enter the full six-character attendance code prior to accessing the final quiz.
- ▶ **Login** – You will need to login into <https://www.CE4Advisers.com> and select/purchase this course.
- ▶ **IAR Acknowledgement** – Sign the IAR CE Acknowledgement & Attestation.
- ▶ **Final Quiz** - You must complete each lesson and receive a score of **70%** on the final quiz to receive IAR CE credit (assuming the course has been approved by NASAA).

Content Questions & Technical Help

If you have questions about the content of this course or need technical help, please contact us via the email address below:

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Course Overview

- Exam Process
- Best Practices to Reduce Exam Deficiencies
- SEC Exam Priorities
- State Exam Deficiencies
- Questions & Answers

Limitations & Exclusions

SEC Exam Priorities 2025
Do Not Necessarily
Reflect Any Changes
Due to Recent
Leadership Changes

A New Set of NASAA
Coordinated State
Exams Is Likely To Be
Released Later in 2025

Types of Exams

New Adviser Exam: Typically Within 12–24 Months Of Initial Registration

Routine Exam: General Review of Firm's Compliance Program; Common For Established Advisers

Sweep Exam: Conducted Across Multiple Firms Focusing on A Particular Issue

For Cause Exam: Triggered By Complaints or Red Flags Suggesting Possible Misconduct

Typical Examination Process

Pre-Exam Phase: Regulator Issues a Document Request List; Firm Reviews And Organizes Responses

On-Site (Or Virtual) Review: Interviews with Key Personnel, Review Of Policies, Procedures, And Records

Exit Meeting: Preliminary Feedback from Examiners; Discussion Of Potential Issues Or Deficiencies

Post-Exam: Regulator: May Issue A Deficiency Letter or Further Requests; Adviser Responds & Implements Corrective Actions As Needed

Next Steps After Notification

Verifying

Verifying The Examiner's Identity

- Call The SEC's "Personnel Locator" At (202) 551-6000
- Use The Examination Hotline At (202) 551-EXAM (3926)
- Contact The Appropriate SEC Regional Office To Confirm Legitimacy



Receiving

Receiving Exam Materials

- Expect A Secure Email From The Examiner With At Least Three PDF Attachments
- If New To SEC Correspondence, You'll Need To Set Up An Account With Their Secure Email System (ZixMail)
- Large Files May Be Shared Via Kiteworks, Another Secure File Transfer Platform, With A Separate Account Setup

Additional Initial Steps

- ▶ Establish Examination Lead
 - Assign CCO to Coordinate All Exam-Related Communication
 - Notify Internal Staff of Upcoming Examination and Explain What to Expect
 - ✓ Advise Do Not to Destroy Any Requested Documents
- ▶ Consult Legal/Compliance Counsel

Conduct During Interviews

- **Camera & Attendance**
 - Turn On Camera During Online Interviews For Transparency (Even If Examiner's Is Off)
 - Ensure The CCO Or General Counsel Is Present To Monitor And Document Discussions
- **Professionalism & Accuracy**
 - Remain Polite, Calm, And Factual; Avoid Jokes Or Defiant Behavior
 - Never Lie Or Omit Material Facts; Misleading An Examiner Can Result In Serious Penalties
 - Listen Carefully And Answer Only The Question Asked; Be Concise And Accurate
- **Staying In Scope**
 - If Unsure, Say "I Don't Know" Or Refer Examiner To The Appropriate Person
 - Request Clarification For Any Unclear Questions
 - Correct Any Inaccuracies Immediately And Expect Follow-Up Questions

After The Interview & Follow-Up

- **Document Requests & Production**
 - All Documents Should Go Through The CCO Or General Counsel; Record Delivery Dates/Times
 - Mark Sensitive Documents For FOIA Confidentiality As Needed; Avoid Unencrypted Emails
 - **Never Destroy, Backdate, Or Alter Records**
- **Communication & Corrections**
 - Keep Staff, Legal Counsel, And Senior Management Updated
 - If You Find Errors Or Deficiencies, Immediately Notify The CCO And Take Corrective Actions
- **Deficiency Letters & Next Steps**
 - Respond By The Stated Deadline, And Correct Or Address All Issues
 - Failure To Respond Or Fix Deficiencies May Lead To Enforcement Referrals
 - Be Prepared For Follow-Up Exams, Especially If Deficiencies Or Violations Are Discovered

Best Practices to Avoid Non-Compliance

- ▶ Review and Customize Compliance Manual
- ▶ Utilize Calendar, Task and Project Management Software to Track Compliance
- ▶ Subscribe to Compliance Newsletter & Follow Guidance from Regulators
- ▶ Perform Annual Compliance Review or Mock Exam
- ▶ Update Compliance Manual Based Upon (i) Regulatory Changes and Gaps Found In Compliance Review/Mock Exam/Last Exam

Review Key Docs & Policies

Revisit Form ADV, Written
Supervisory Procedures,
Code Of Ethics, Annual
Reviews & Prior Exam Reports

Identify And Proactively
Address Any Known Gaps Or
Outstanding Compliance
Issues

FOIA Protection

What Is FOIA?

- The Freedom of Information Act (FOIA) Requires Public Disclosure of Certain Government Records
- SEC May Release Examination Documents Unless Confidential Treatment Is Requested (& Eventually Granted)

Requesting Confidential Treatment

- Consult Legal Counsel On How To Properly Submit FOIA Confidentiality Requests
- Mark Sensitive Documents “Confidential Treatment Requested Under FOIA” and Bates Stamp
- Advise SEC Examiner That FOIA Treatment Is Being Requested
- Send Letter to SEC’s FOIA Office

**Fiduciary
Duty Is An
Exam Priority**

Duty of Care – Serve Best Interest of Its Clients & Must Not Place Its Own Interests Ahead of Client's Interests

Duty of Loyalty – Must Eliminate or Make Full & Fair Disclosure of All Conflicts of Interest

Focus on Investment Advice to Clients & Whether Meets Fiduciary Duty

Products

Investment
Strategies

Account
Types

Focus on Investment Recommendations



High-Cost Products



Unconventional Instruments



Illiquid & Difficult-To-Value Assets



Assets Sensitive to Higher Interest Rates or Changing Market Conditions
(Including Real Estate)

Focus on
Dual RIA/BD
and Adviser
with
Affiliated
B/D

Assessing Investment Advice Regarding
Certain Products to Determine Whether
Suitable for Client Advisory Accounts

Reviewing Disclosures to Clients
Regarding Capacity in Which
Recommendations Are Made

Review Appropriateness of Account
Selection (e.g., Brokerage vs. Advisory)

Assessing Whether Advisers Adequately
Mitigate and Fairly Disclose Conflicts of
Interest

Focus on How Financial Conflicts Impact Impartial Advice
& Best Execution for Non-Standard Fee Arrangements

Not Any
Details in the
SEC's Release

Our Analysis of
Some of the
Possibilities

Possible Financial Conflicts of Interest



Possible Non-Standard Fee Arrangements



Performance-Based Fees



Retainer or Subscription Fees



Wrap Fees

Practical Steps Related to Financial Conflicts Priority

- Conflict of Interest Inventory
- Review & Update Conflict of Interest Disclosures
- Evaluate Best Execution
 - Document Methodology for Selecting & Reviewing B/D & QC
 - Keep Records of Due Diligence Especially If Receiving Financial Benefits
- Train Supervised Persons
- Regular Test

SEC Enforcement: Account Conversions

- SEC Brought Enforcement Action Against an Adviser & Dual RR/IAR For Recommending Clients Convert Brokerage to Fee Account
- Alleged Failure to Provide Adequate Disclosure of Conflicts and Fees
- Reinforces SEC's Ongoing Emphasis on Fiduciary Duty Under New Leadership
- See <https://www.sec.gov/files/litigation/admin/2025/34-102425.pdf>



Focus on
Compliance
Program

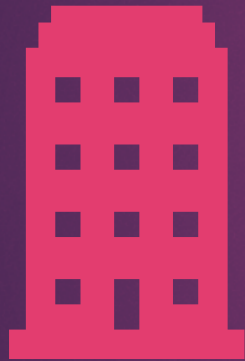
Whether Policies &
Procedures Address
Compliance with
Investment Advisers Act

Whether P&P Are
Reasonably Designed to
Prevent Adviser Placing Its
Interest Ahead of Clients

Specific Areas of Focus When Reviewing Policies & Procedures

- Fiduciary Obligations of Advisers That Outsource Investment Selection & Management
- Alternative Sources of Revenue or Benefits Advisers Receive Such as Selling Non-Securities Products to Clients
- Appropriateness & Accuracy of Fee Calculations & Disclosure of Fee-Related Conflicts
 - Such As Select Clients Negotiating Lower Fees When Similar Services Are Provided to Other Clients at a Higher Fee Rate

Illiquid or Hard-to-Value Assets



Heightened focus on valuation practices
(e.g., commercial real estate)



Emphasis on how advisers determine
and verify fair value

AI Integration

- In-depth review of compliance policies for AI-driven portfolio management, trading, and marketing
- Examination of disclosures to ensure transparency around AI usage



Dispersed Workforce & Business Model Shifts

Scrutiny of supervision and oversight when using numerous independent contractors across locations

Assessment of compliance practices after changing business models or advising new asset types and client segments

Focus on Private Fund Adviser



Private Fund Advisers Remain a Primary Area of SEC Examination



Emphasis On Times of Market Volatility and Exposure to Interest Rate Fluctuations (E.G., Commercial Real Estate, Illiquid Assets, Private Credit)



Scrutiny Of Advisers with Poor Performance, Large Withdrawals, Or Highly Leveraged/Difficult-To-Value Assets

Private Fund Adviser - Disclosures & Market Volatility

Reviewing Consistency of Adviser Disclosures Against Actual Practices



Assessing If Fiduciary Obligations Were Met During Volatile Markets



Focus On Funds Sensitive to Interest Rate Changes and Stability of Valuations

Private Fund Adviser Fees & Expenses

- Accuracy Of Fee and Expense Calculations at Both Fund and Investment Levels
- Specific Attention to Illiquid Asset Valuations and Post-Commitment Period Fees
- Adequacy Of Disclosures Around Fee Offsets, Expense Allocations, And Valuation Assumptions

Evaluation Of Disclosures Related to Conflicts of Interest, Risk Management & Controls

Focus on Practices Like Fund-Level Lines of Credit, Adviser-Led Secondaries & Affiliated Service Providers

Compliance Checks for New SEC Rules (E.G., Form PF Amendments, Updated Marketing Rule) & Alignment Between Written Policies and Actual Practices

**Private Fund
Adviser**

**Conflicts &
Recent Rules**

**Never
Examined &
Recently
Registered
Advisers**

- Priority for Advisers That Have Never Been Examined
- Also Focus on Advisers Not Recently Examined
- Continued Emphasis on Newly Registered Advisers

Crypto Asset Examinations

- Increased Oversight of Offerings, Sales, Recommendations & Advice Involving Crypto Assets
- Focus On Standards of Conduct For Advisers, Especially Regarding Retail & Retirement Investors
- Scrutiny Of Compliance Practices: Custody, Valuation, BSA Reviews & Wallet Security
- Emphasis On Technological Risks: Blockchain, Distributed Ledger Technology & Operational Resiliency
- Although Crypto Assets & Cyber Unit Has Been Disbanded, SEC Continues To Prioritize Compliance & Investor Protection In Crypto Asset Space



Cybersecurity & Operational Resiliency

Ongoing Focus on Preventing Interruptions to Mission-Critical Services & Protecting Investor Information

Elevated Risks from Cyber Attacks, Dispersed Operations, Weather-Related Events, & Geopolitical Concerns

Examinations Will Assess If P&P & Governance Are Reasonably Managing Cyber & Operational Risks

Attention to Data Loss Prevention, Access Controls, Acct Management, Ransomware Response & Confidential Trading Information On Alternative Trading Systems

Emphasis On Risks of Third-Party Products, Sub-Contractors & Unapproved IT Resources

Regulation S-ID & S-P Compliance



SEC Will Examine Whether Complying with Regs S-ID & S-P (Identity Theft & Privacy)



Focus On P&P, Internal Controls, Vendor Oversight & Governance Practices



Special Attention to Customer Information Safeguards in Electronic Services



Assess Identity Theft Prevention, Including Measures Against Account Takeovers & Fraudulent Transfers



Evaluation Of How Firms Prevent Account Intrusions & Protect Personally Identifiable Information Across Multiple Branch Offices

Amended Reg S-P - Incident Response Plan

Requires A Written Program to Detect, Respond To, And Recover From Unauthorized Access Or Use Of Customer Information



Mandates Customer Notification Within 30 Days If Sensitive Customer Data Is Compromised



Establishes Service Provider Oversight (Including A 72-Hour Notification Requirement)

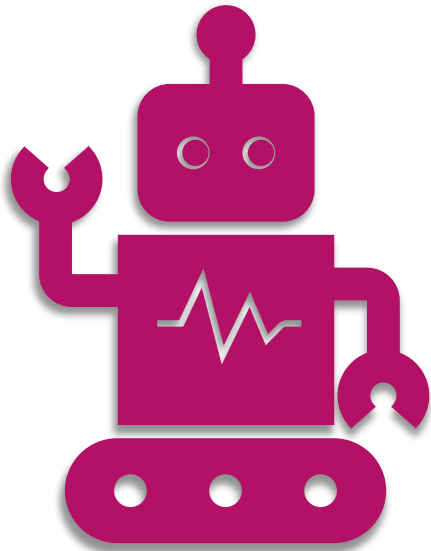


Emphasizes Ongoing Risk Assessments, Containment/Control Steps, And Documentation of Incident Response Activities

Emerging Financial Technologies

- Focus On Digital Engagement Practices
 - Automated Tools, AI, And Trading Algorithms Under Scrutiny
 - Assessing Whether Representations to Investors Are Fair And Accurate
 - Checking That Controls Match Disclosures & Produce Recommendations Aligned with Investor Profiles
 - Evaluating Compliance with Fiduciary Duties, Particularly for Older Investors

Emerging Financial Technologies

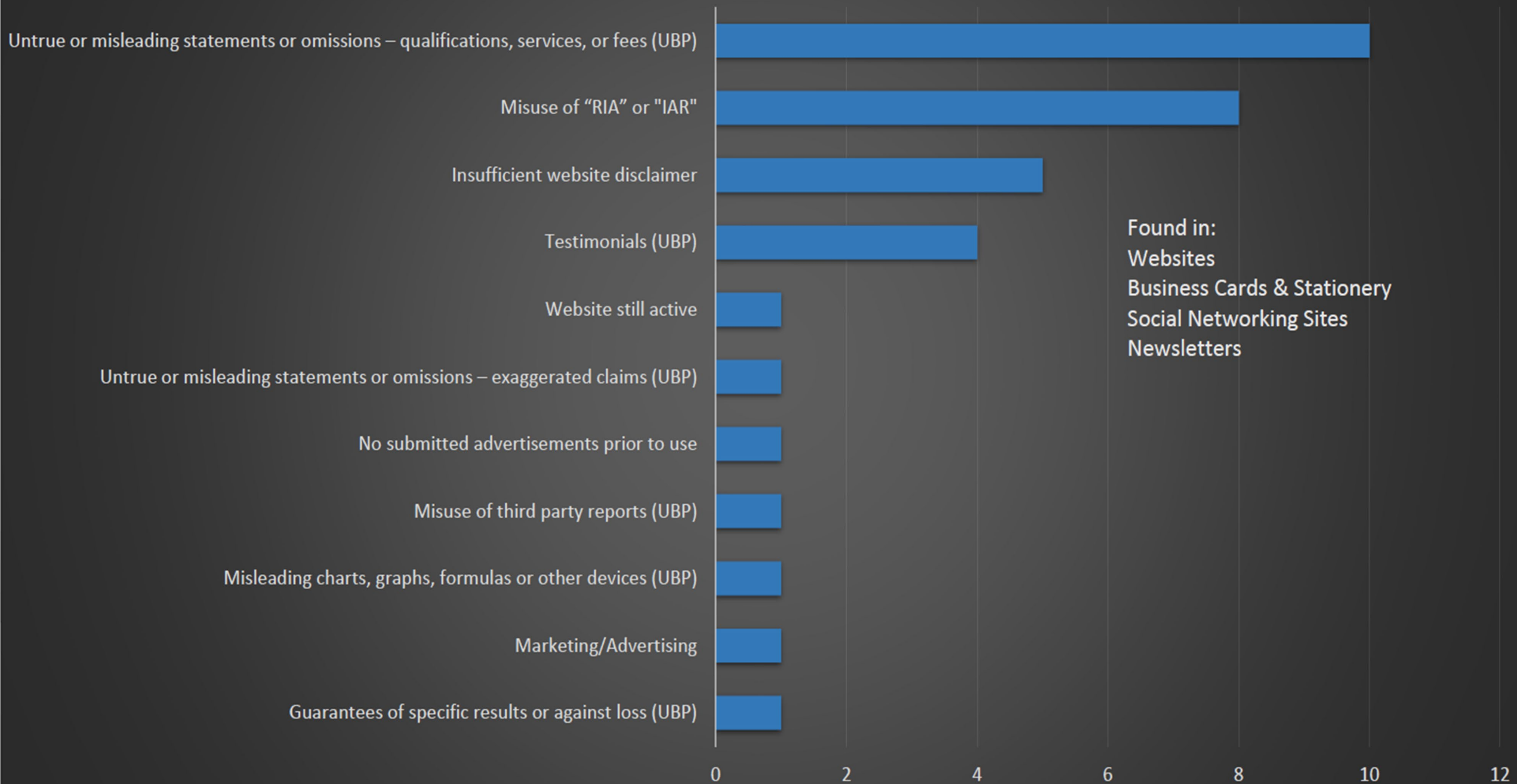


- AI Usage & Supervision
 - Reviewing Accuracy of Firm Claims About AI Capabilities
 - Ensuring Adequate Policies & Procedures for AI Monitoring (Fraud Detection, AML, Trading, Back-Office Operations)
 - Considering Firm's Use of Regulatory Technology to Automate Internal Processes
 - Examining Measures to Protect Client Data from Loss or Misuse When Third-Party AI Models Are Employed

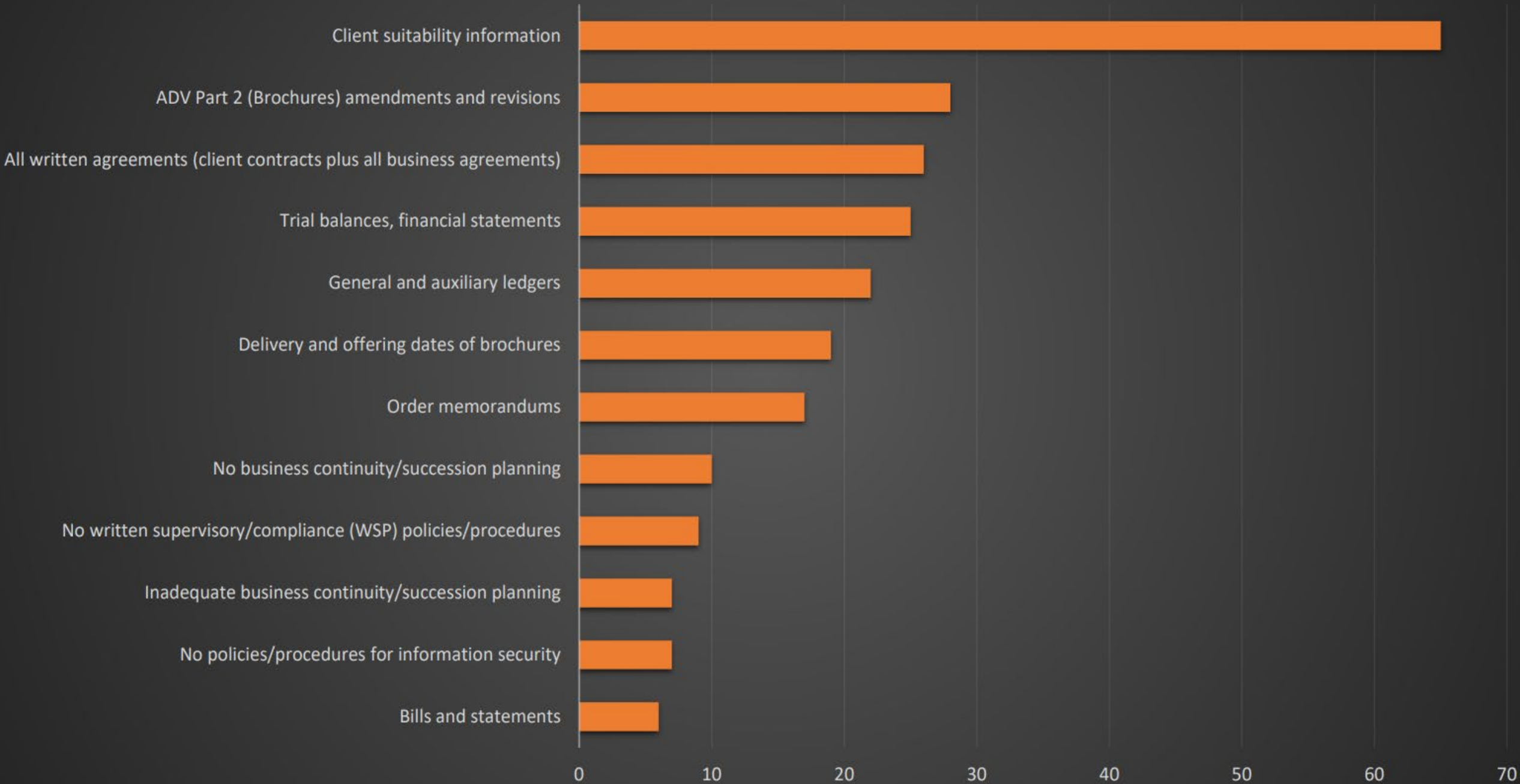
NASAA Coordinated Exams Background

- ***Purpose:*** Every 2 Years State Securities Regulators Coordinate Investment Adviser Examinations to Identify Common Deficiencies & Trends
- ***Time Frame:*** From January 1 – July 31, 2023
- ***Number of Firms Examined:*** 683
- ***Limitations***
 - *First Time Exam for 232 of the Investment Advisers (32%)*
 - *Only State-Registered Investment Advisers*
 - *Most Common OBAs Included Insurance (50) and Accounting (24)*
 - *92% of Investment Advisers Examined Had 1 to 2 IARs*

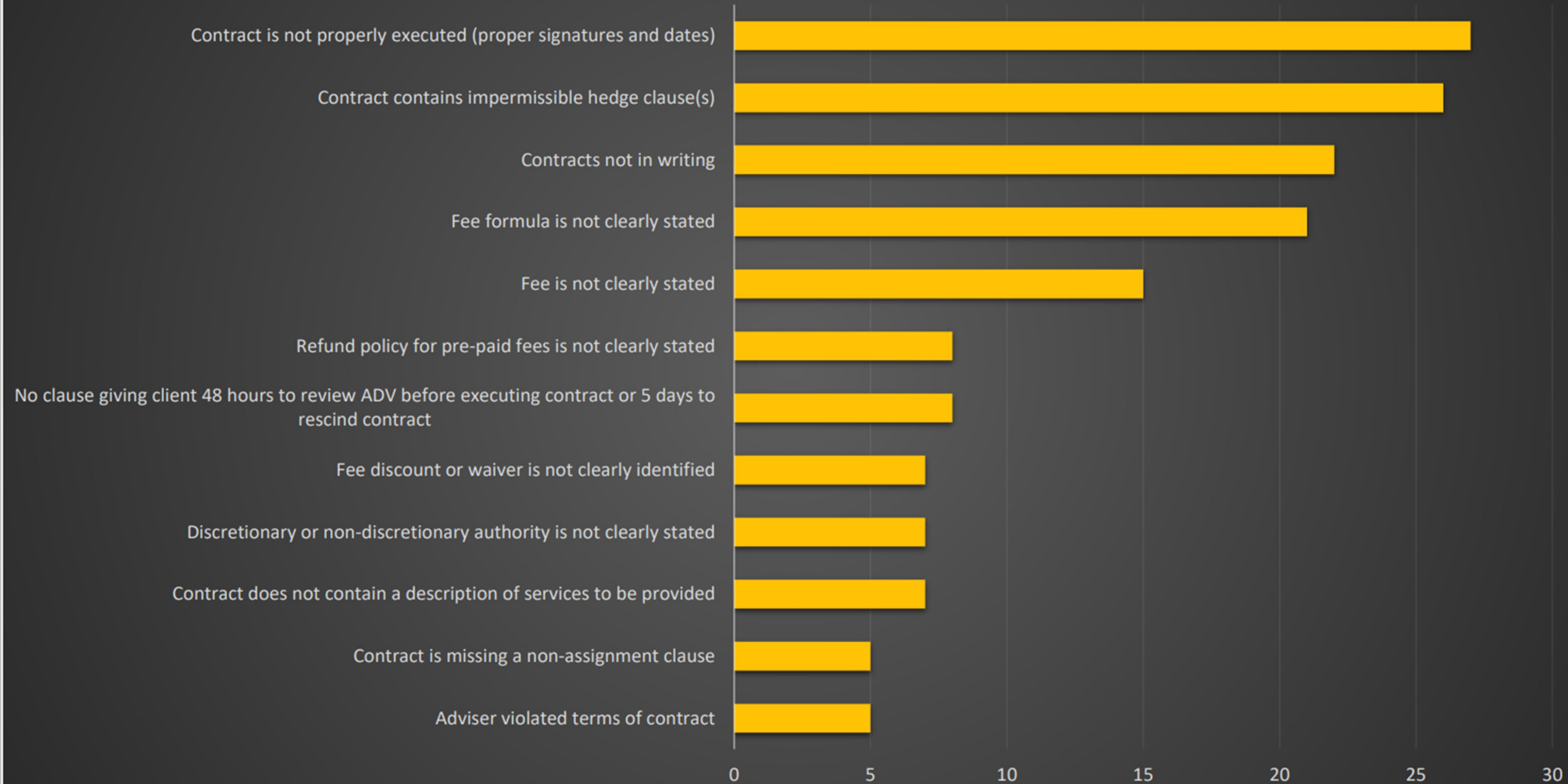
Advertising Violations



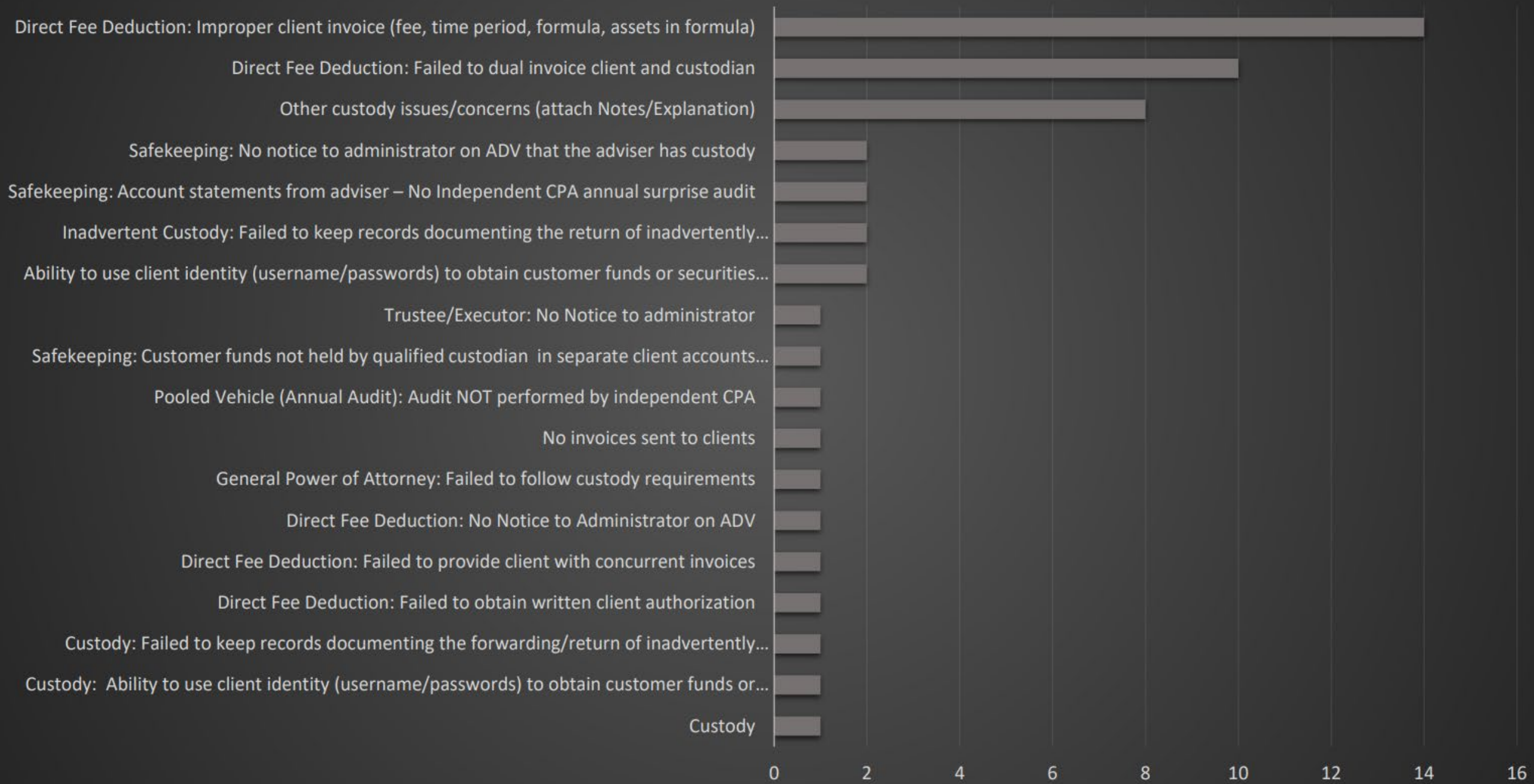
Books & Records Violations



Contract Violations



Custody Violations



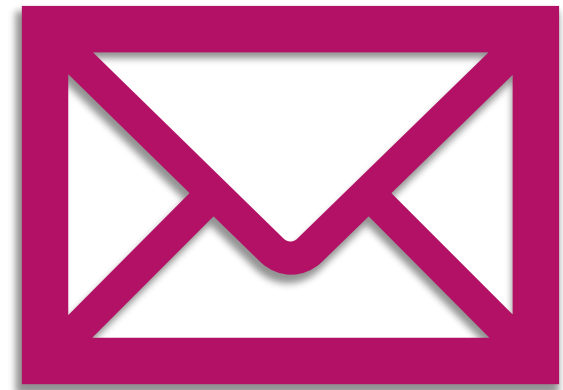
NASAA Coordinated Exams Best Practices

- ▶ Review and revise Form ADV and disclosure brochure annually to reflect current and accurate information.
- ▶ Review and update all contracts. **Be aware of e-communications hedge clauses.**
- ▶ Prepare and maintain all required records, including financial records. Back-up electronic data and protect records. Document checks forwarded.
- ▶ Prepare and maintain client profiles or other client suitability information. Maintain due diligence file for recommended products or strategy.
- ▶ Prepare a written compliance and supervisory procedures manual relevant to the type of business (including business continuity plan and information security policies/procedures). Each Policy Needs the Following: (1) Policy; (2) Who; (3) Does What; (4) How often; and (5) How Evidenced.

Questions

Please submit any question online or email with any questions about the content of this course.

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Thank You

