

The logo for K&L GATES, featuring the text in white on an orange rectangular background.

K&L GATES

A blurred background image of a city skyline at night, with lights from buildings and streets creating a bokeh effect.

2016 INVESTMENT MANAGEMENT CONFERENCE

Compliance and Examinations

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DISCUSSION OVERVIEW

- I. Duty to Establish a Compliance Program
- II. Chief Compliance Officer
- III. Written Policies and Procedures
- IV. Annual Review Process
- V. SEC Examinations



Duty to Establish a Compliance Program



RULE 38A-1 REQUIREMENTS

- Adopt and implement written policies and procedures
- Designate a Chief Compliance Officer (“CCO”)
- Review the compliance program
- Report to the Board
- Maintain records

BOARD APPROVAL

- Compliance program of the Fund
- Compliance program of the Fund's service providers
- Reliance on summaries and third-party reports
- Amendments and annual re-approval not required



Chief Compliance Officer

CCO REQUIREMENTS

- Board must designate a CCO
- Competent and knowledgeable
- Empowered with full responsibility and authority
- Position of seniority and authority
- Duty to administer the compliance program

CCO DUTIES

- Ensuring compliance program is comprehensive and current
- Conducting annual compliance review
- Reporting to the Board
- Implementing any material recommendations
- Advising senior management on compliance matters
- Being the “go to person” on compliance issues

INDEPENDENCE OF THE CCO

- Board hires and fires
- Board sets compensation
- Direct reporting line to the Board
- Annual executive session meetings with the Board



Written Policies and Procedures

COMPLIANCE PROGRAM REQUIREMENTS

- Coverage of policies and procedures
 - Culture of compliance
 - Delegation of responsibility
 - Training
 - Monitoring and auditing
 - Response, prevention and evaluation
- One size does not fit all
- Risk assessments
- Must be dynamic



Annual Review Process



ANNUAL REVIEW

- Compliance rule requirements
- Testing schedule
- Remediation schedule
- Leverage work being done by others
- Maintain documentation

ANNUAL REPORT

- Written report to the board must discuss:
 - Operation of the program
 - Material changes to the program
 - Material compliance matters
- Annual report considerations

MATERIAL COMPLIANCE MATTER

- Compliance rule definition
 - any compliance matter about which the board would **reasonably** need to know to oversee fund compliance
 - violations of federal securities laws
 - violations of policies and procedures
 - weakness in design or implementation of policies and procedures



SEC Examinations



REGULATORY ENVIRONMENT

- Pressure for OCIE to perform
- Enforcement Division – Asset Management Unit
- Division of Economic and Risk Analysis (DERA)
- Increasingly complex regulatory environment
- Additional voices beyond the SEC

EXAM RESULTS

- Enforcement actions originate from exams
- Enforcement action consequences
- Face-to-face interactions with SEC staff
- Deficiency letters

EXAM PREPARATION

- Contact person
- Notify management and personnel
- Prior exam records
- Examiner work area/resources
- Opening presentation
- Office tour
- Business cards
- Exit interview



Questions?



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