

IAWatch

REGULATORY NEWS & COMPLIANCE BEST PRACTICES



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
NEW YORK REGIONAL OFFICE
BROOKFIELD PLACE, 200 VESEY STREET
NEW YORK, NY 10281-1022

12/2013

DELIVERY VIA SECURED EMAIL

Re: _____ (the "Adviser")
SEC File No. 801

Dear Mr. _____

The purpose of this letter is to inform you that the staff of the U.S. Securities and Exchange Commission is conducting a limited scope examination of risk factors present at your firm pursuant to Section 204 of the Investment Advisers Act of 1940 (the "Advisers Act"). As part of our process for determining whether the Adviser should be selected for further examination, we request that you provide us with the following items by December 11, 2013 unless otherwise noted.¹ For the purposes of this request, the Examination Period will be May 1, 2013 through October 31, 2013. Please provide all documents in electronic format to the extent possible.

In order to efficiently process the material assembled for the staff's review, please label the information so that it corresponds to the item number in the request list. If information provided is responsive to more than one request item, you may provide it only once and refer to it when responding to the other request item numbers. If any request item does not apply to your business, please indicate "N/A" (not applicable).

1. A copy of the Adviser's organization chart showing ownership percentages of the Adviser and control persons, and a schedule or chart of all affiliated entities. Include all entities that are commonly controlled by, or under common control with, the Adviser.

¹ Find enclosed *Supplemental Information for Regulated Entities Directed to Supply Information Other Than Pursuant to a Commission Subpoena* (SEC Form 1661), which provides information regarding the Commission's authority to obtain the information requested and additional information.

2. All compliance policies and procedures and standard operating procedures that were in effect during the Examination Period.
3. A list of all clients lost during the Examination Period, their effective dates of termination, the asset value at termination, and the reason for termination.
4. Provide the information below for all current advisory clients, including registered investment companies and privately offered funds, as of October 31, 2013. The preferred format for this information is in Excel.
 - a. Account number, account name and current balance, as of October 31, 2013;
 - b. Whether the client is a related person, affiliated person, or a proprietary account;
 - c. The type of account (e.g., individual, family office, defined benefit retirement plan, registered fund, privately offered fund);
 - d. Whether the Adviser directly manages the account or acts as a sub-adviser;
 - e. Investment strategy (e.g. global equity, high-yield, aggressive growth, long-short, statistical arbitrage);
 - f. Whether or not the Adviser has discretionary authority;
 - g. Whether the Adviser, an officer, or an affiliate acts as trustee, co-trustee, or successor trustee or has full power of attorney for the account;
 - h. Whether the Adviser or related persons are deemed to have custody of, possession of or access to the client's assets, and if so, the location of the assets;
 - i. Whether the client has directed brokerage (dealing) arrangement (include name of broker and purpose for such direction, if known), in which the client has directed the Adviser to use one or more brokers to transact all or a portion of deals placed for its account;
 - j. Value of each client's account that was used for purposes of calculating its advisory fee for the most recent billing period;
 - k. Whether the client pays a performance fee and the most recent account performance figures;
 - l. Account custodian and location;
 - m. Whether or not the custodian sends periodic account statements directly to the client; whether or not the delivery is electronic, if so, a copy of the authorization; and the form of electronic delivery (e.g., email or website login);
 - n. Account portfolio manager(s);
 - o. Whether or not advisory fees are paid directly from the client's custodial account; and
 - p. For clients obtained during the Examination Period, provide account inception date and name(s) of consultant(s) related to obtaining the client, if any.
 - q. For any accounts for which securities were not maintained with a qualified custodian, please include a description of the security, security name, and location of the security.

5. Adviser's balance sheet, trial balance, income statement, cash receipts and disbursements record or journal, and cash flow statements for the Examination Period. Please also include a copy of the Adviser's chart of accounts.
6. Names of any financial planning, pension consulting or other advisory clients not named in response to Item 4 above.
7. List of current employees, partners, officers and/or directors, their respective titles, and areas of responsibility.
8. Any threatened, pending and settled litigation or arbitration involving the Adviser or any "supervised person" (if it relates to the individual's association with the Adviser or a securities- related matter) including a description of the allegations, the status, and a brief description of any "out of court" or informal settlement. Note that "supervised person" is any partner, officer, director (or other person occupying a similar status or performing similar functions), or employee of an investment adviser, or other person who provides investment advice on behalf of the investment adviser and is subject to the supervision and control of the investment adviser (defined in Section 202(a)(25) of the Advisers Act). If none, please provide a written statement to that effect.
9. A list of compliance risks, including conflicts of interest, (i.e., an inventory of compliance risks) that the Adviser has identified and has used as part of its compliance process.
10. Documents that demonstrate how the Adviser's policies and procedures are applied in practice and that the policies and procedures are working. For example, any compliance documents, exception reports, or review sheets that document results of transactional tests used to determine that, among other things:
 - a. Portfolio management decisions are consistent with clients' mandates (investment objectives, restrictions and risk tolerance), regulatory requirements and disclosures.
 - b. Information provided to advisory clients regarding transactions in and balances of their accounts reflects accurately the actual transactions in and balances of those accounts and reflects fairly all decisions affecting these accounts.
 - c. Personal trading activities of access persons and investment decisions for proprietary accounts of the Adviser are consistent with codes of ethics, regulatory requirements and disclosures.
 - d. Advisory fees are calculated in accordance with client investment management agreements.
 - e. The Adviser's compliance program is adequately designed and maintained so as to prevent, find and resolve violations of relevant statutes, rules and other regulatory guidance.
 - f. Decisions made and costs incurred in establishing and maintaining the Adviser's

brokerage arrangements and placing orders (trades or deals) for clients are consistent with maximizing the value of clients' accounts, disclosures made to clients, regulatory requirements and fiduciary obligations.

- g. Allocations among client's accounts of IPOs and blocked and cross trades in issues traded on secondary markets are fair and consistent with disclosures, regulatory requirements and fiduciary obligations.
 - h. Performance information used in advertisements and other marketing materials is calculated accurately and fairly and is used in ways that are not misleading, and marketing and distribution activities are consistent with regulatory requirements and disclosures.
11. If Adviser has a risk committee, the minutes of risk committee meetings held during the Examination Period.
 12. If not provided in response to another request item, policies and procedures related to trading errors (e.g., bought rather than sold, entered limit order at wrong price, entered for wrong account, etc.) that occur in client or proprietary accounts. Please also provide any testing of the implementation of such policies and procedures ensuring the appropriate handling of any trade errors
 13. Any annual and interim reports or other summary documents regarding the review of the Adviser's compliance program.
 14. The Adviser's Code of Ethics and insider trading policies and those of participating affiliates, and a list of all access persons, including contract employees, required to report transactions.
 15. Record of violations of the Code of Ethics during the Examination Period.
 16. The Adviser's trading blotter or purchase and sales journal for the Examination Period, preferably formatted in Microsoft Excel as indicated in Exhibit 1, attached. For transactions in short-term debt instruments and other instruments such as futures, swaps, swaptions, and so on, please provide relevant information that is comparable to that shown in Exhibit 1 but which is tailored to the characteristics of these other instruments. Please also include transactions of the Adviser's employee and proprietary accounts in these records or in a separate electronic record that contains comparable information for each such transaction.
 17. A list of all publicly traded companies of which Adviser's (and Adviser's affiliates) employees serve as officers or directors.
 18. Describe the relationship between the Adviser and its affiliated entities. Include what services, if any, are provided to the Adviser by the affiliated entities or to the affiliated entities by the Adviser.

19. A list of all employees, officers, and directors of Adviser that were terminated or resigned in lieu of being terminated, the date of such resignation or termination, and an explanation regarding the reason for their departure.
20. A list of broker-dealers with whom the Adviser has or had revenue sharing agreements for any purpose during the Examination Period.
21. A list of all parties that received compensation/remuneration for referring prospective clients or investors to Adviser, the fees received by each party during the period, and a list of current clients introduced by these parties.
22. All service agreements between Adviser and any compliance consultants utilized during the Examination Period.
23. Access to the log-in portion of Adviser's website.
24. All advertising materials used by Adviser during the Examination Period. This should include Adviser's brochure, performance charts, graphs and any documents supplied to solicitors and/or consultants.
25. A list of investors obtained during the Examination Period, inception dates, and identity of any third party consultants instrumental in Adviser obtaining a particular account.
26. All pitch books, one-on-one presentations, pamphlets, brochures, and any other promotional and/or marketing materials furnished to existing and/or prospective clients/investors for each investment strategy and/or mandate.
27. All advertisements used by Adviser to inform or solicit clients/investors. If information on services and investments is available on the Internet, such as websites and blogs, make all versions available as either printouts or electronic archives
28. A list of all third party consultants for whom Adviser completed questionnaires or otherwise corresponded with during the Examination Period.
29. A list of all completed RFPs provided to prospective investors or consultants.
30. Any third-party performance verification, examination, or audit reports and the accompanying engagement letters.
31. Written policies and procedures concerning the calculation and advertising of advisory performance.
32. A list of all composites maintained as of October 31, 2013.
33. All accounts included in each composite as of October 31, 2013 and the dates each such client/investor was initially included in each composite.
34. Provide a brief description of each arrangement currently maintained by the Adviser with any third party who solicits prospective clients on behalf of the Adviser or refers prospective clients to the Adviser.

Your cooperation is greatly appreciated. If you have any questions, please contact
or

Sincerely,

Enclosure

EXHIBIT 1

Layout for Securities Trading Blotter/Purchase and Sales Journal

In conjunction with the scheduled examination, the staff requests records for all purchases and sales of securities for portfolios of advisory clients and proprietary accounts being advised by the Fund. Please provide this record in Microsoft Excel format on compact discs. This record should include the fields of information listed below in a similar format.

Please provide separate worksheets for: (i) equities (Note: ETF trades should be included with equities); (ii) fixed income; (iii) cash or cash equivalents, maturities, calls, pay-downs, expirations, or reinvestments of mutual fund dividends or capital gains distributions; (iv) mutual funds; and (v) options, futures, swaps and other derivatives.

Examples:

I. Sample Trading Blotter for Equity Securities

Client Name/#	Trade Date	Settle Date	Buy/Sell	CUSIP	Security Symbol	Security Description	Quantity	Unit Price	Principal/Proceeds/Notional Value	Total Commission	Fees	Net Amount	Broker
155	1/1/00	1/3/00	B	1234567	MSFT	Microsoft Corp	100	\$100.00	\$10,000	\$10.00		\$10,010.00	ABC
123	1/2/00	1/5/00	S	89101112	IBM	IBM Corp.	500	\$100.00	\$50,000	\$50.00	\$1.67	\$49,948.33	DEF

II. Sample Trading Blotter for Fixed-Income Securities

Client Name/#	Trade Date	Settle Date	Buy/Sell	CUSIP	Security Description 1 (Issuer)	Security Description 2 (Coupon Maturity, etc)	Quantity	Unit Price	Accrued Interest	Principal Value /		Net Amount	Broker
										Proceeds	Total Commission		
155	4/2/98	4/6/98	B	802586AG2	SANTA ROSA CA PKG FACS DIST	4.60% 07-02-2004	50,000	100	\$95.83	\$50,000	\$0	\$50,095.83	GHI

III. Sample Trading Blotter for Derivative Securities

Client Name/ #	Trade Date	Settle Date	Buy/Sell	CUSIP	Security Description 1 (Issuer)	Security Description 2 (Coupon Maturity, etc)	Quantity	Unit Price	Payments	Principal Value / Proceeds	Total Commission	Net Proceeds	Broker	Security Type	Economic Position "Long or Short" Position
178	4/1/05	4/3/05	B	DR80258RG	Deutsche Bank AG, Microsoft Corp., Credit Default Swap	6 Months 10-01-2005	100,000	100	\$95.83	\$100,000	\$0	\$100,095.83	DB	Credit Default Swap	Buying Protection
182	2/1/07	2/3/07	S	MOSMS149	Morgan Stanley, PD: If credit spreads as represented by the Barclays Capital U.S. CMBS AAA 8.5+ Index widen, pays the spread change minus 50 basis points*; RD: If credit spreads as represented by the Barclays Capital U.S. CMBS AAA 8.5+ Index narrow, receives the spread change*, (TWSP)	9 Months 11-01-2007	150,000	100	\$0	\$150,000	\$0	\$150,000	MOR	Total Return Swap	Economic Long