



COMPLIANCE FLASH

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Hedge Fund Managers Charged with Defrauding Investors

The Securities and Exchange Commission (“SEC”) filed a [complaint](#) against two hedge fund advisory firms and their founder accusing them of conducting a multi-year fraud scheme to inflate asset values and cover losses and liquidity problems. The SEC alleges that the firms overstated the book value of one of their largest assets to improve the firms’ performance. Moreover, the SEC alleges that the firms concealed their growing liquidity crisis by making preferential redemptions to favored investors through numerous improper measures, including transferring money among the firms and using misrepresentations to attract new investors. The U.S. Attorney’s Office has filed a parallel [criminal case](#).

Overbilling and Custody Rule Violations

A registered investment adviser and broker-dealer agreed to [settle](#) the SEC’s charges that the adviser overbilled investment advisory clients. The SEC determined that the adviser failed to adopt and implement compliance policies and procedures reasonably designed to ensure that clients were billed accurately, such as targeted testing of fees charged to select accounts. In addition, the adviser violated Rule 206(4)-2 of the Investment Advisers Act of 1940 (commonly referred to as the custody rule) by failing to identify for surprise annual independent verifications accounts over which it had custody.

OCIE Multi-Branch Adviser Initiative

The SEC’s Office of Compliance Inspections and Examinations (“OCIE”) issued a [risk alert](#) regarding the launch of its Multi-Branch Adviser Initiative. The initiative will focus on examining multi-branch advisers’ compliance programs and oversight of advisory services provided at branch locations. OCIE will also review the process by which investment advice is provided by branch office personnel and controls established to address risks related to operating offices in multiple locations. Seward & Kissel’s memorandum regarding the initiative is available [here](#).

OCIE 2017 Exam Priorities

OCIE released its 2017 examination priorities. This year, OCIE will focus on the protection of retail investors, issues affecting senior investors and retirement investments and market-wide risks that may involve

multiple firms or entire industries. In addition, OCIE intends to allocate resources to the examination of private fund advisers, municipal advisers and transfer agents. Seward & Kissel’s memorandum regarding OCIE’s 2017 examination priorities is available [here](#).

Ten Advisers Settle Charges of Pay to Play Violations

The SEC announced [settlements](#) with ten investment advisory firms charged with violating Rule 206(4)-5 of the Investment Advisers Act of 1940 (commonly referred to as the pay-to-play rule). In each case, the advisory firm provided advisory services for compensation to a pooled investment vehicle in which a pension plan invested during the two years following political contributions made by covered associates of the firm to officials who had the ability to influence the selection of investment advisers and pooled investment vehicles for the plan.

Fees Paid by California Public Retirement Systems to Alternative Investment Funds

Effective January 1, 2017, California’s Assembly Bill [No. 2833](#) imposes a duty on California public pension and retirement systems (“Retirement Systems”) to require each alternative investment vehicle in which it invests to disclose fees, expenses and carried interest paid by the Retirement System to the investment vehicle. The Retirement System must disclose this information at least annually in a report presented at a meeting open to the public.

Key Upcoming Compliance Dates

- Form 13F (February 14)
- Annual Form 13H (February 14)
- Form 13G and any amendments (February 14)
- Form CTA-PR (February 14)
- TIC Form S (February 15)
- TIC Form SLT (February 23)
- Form PF Quarterly Update for “large hedge fund advisers” (March 1)
- [Annual affirmation](#) for certain exempt CPOs and CTAs (March 1)
- Form CPO-PQR for “large CPOs” (March 1)
- [TIC Form SHC](#) (March 3)

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One Battery Park Plaza | New York, NY 10004
212-574-1200 | 212-480-8421 (fax) | sknyc@sewkis.com

901 K Street, NW | Washington, DC 20001
202-737-8833 | 202-737-5184 (fax) | skdc@sewkis.com

www.sewkis.com

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