



COMPLIANCE FLASH

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Summer Compliance Considerations

While other staff members may take vacation, or work remotely over the summer, chief compliance officers must remain vigilant as to the firm's compliance obligations. Below are a few areas for chief compliance officers to keep in mind in the upcoming season.

Summer Interns

It is not uncommon for investment advisers ("advisers") to hire interns over the summer. To the extent summer interns are brought on as employees, they will be considered "supervised persons" of the adviser under the Investment Advisers Act of 1940.¹ Supervised persons are generally required to comply with the adviser's compliance policies and procedures. Additionally, interns who have access to non-public information regarding any client's purchases or sales of securities or non-public portfolio holdings or securities recommendations should be deemed "access persons" and made subject to the personal trading provisions of the code of ethics.² Advisers who hire summer interns should determine whether, and to what extent, they must comply with the compliance manual and code of ethics and consider the application of employment laws to summer interns. Seward & Kissel's client alert on employment law considerations related to summer interns is available [here](#).

Backup Personnel

Multiple employees in critical functions may take vacations over the summer. As a matter of best practice, advisers should ensure that backup personnel are properly appointed and trained to cover the tasks of staff members who are out of the office. With respect

to the compliance function, the chief compliance officer should designate someone to handle day to day functions, such as pre-clearing personal trades or collecting personal trading reports. In case advisers are contacted by a regulator while the chief compliance officer is on vacation, advisers should designate another senior level employee to field inquiries or respond to regulator requests.

Business Continuity

With the potential for multiple staff members to be out of the office, perhaps at the same time, it is a good idea for advisers to test their business continuity capability heading into the summer. Advisers may want to test whether portfolio management, trading and other critical functions can continue uninterrupted when employees are operating from a remote environment. Advisers can stage test scenarios where a combination of key personnel are working remotely. This is also a good time to update employee personal contact information so that advisers can reach employees who are out of the office.

SKRC Observations

In addition to the compliance topics mentioned above, the summer can be an opportune time for chief compliance officers to tackle bigger projects, such as a mock audit, compliance manual update, compliance training, risk assessment, and implementation of compliance software. Seward & Kissel Regulatory Compliance (SKRC), which provides a broad range of compliance consulting services, is available to assist with any of the projects and topics addressed above.

¹ Section 202(a)(25) of the Investment Advisers Act of 1940 defines "supervised persons" as "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."

² Rule 204A-1(e)(1) of the Investment Advisers Act of 1940 defines "access persons" as "any of your supervised persons: (A) who has access to nonpublic information regarding any clients' purchase or sale of securities, or nonpublic information regarding the portfolio holdings of any reportable fund, or (B) who is involved in making securities recommendations to clients, or who has access to such recommendations that are nonpublic."

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