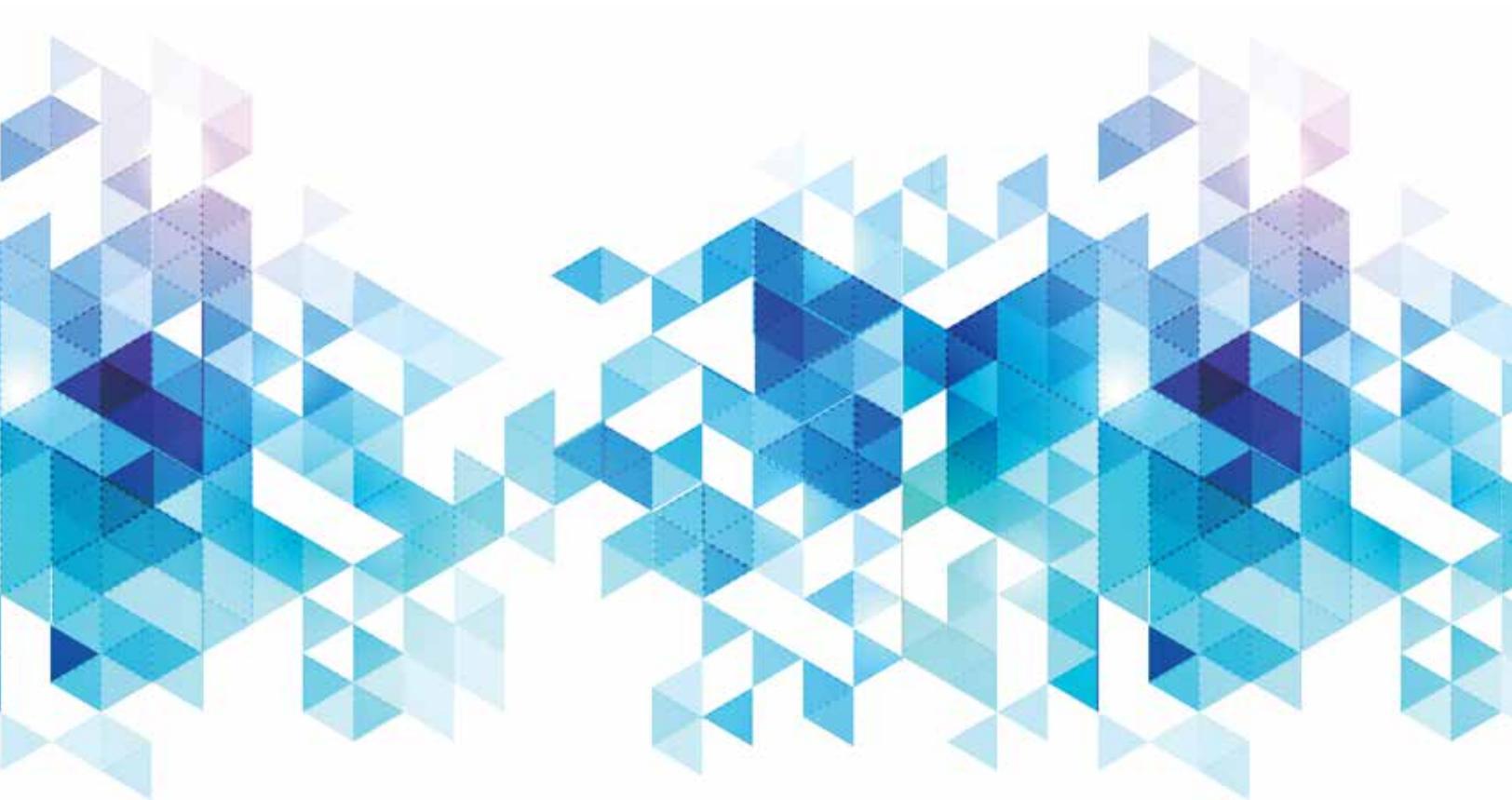


# 2013 ACTIVITY REPORT



INVESTMENT ADVISER  
ASSOCIATION



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# INVESTMENT ADVISER ASSOCIATION

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December 31, 2013

We are pleased to present this summary of the activities of the Investment Adviser Association.

2013 was another busy and productive year for the IAA. Thanks in good measure to the efforts of the IAA and many of its members, the threat of legislation that would authorize the SEC to designate one or more self-regulatory organizations investment advisory firms did not re-surface. However, despite the IAA's opposition, legislation passed the House that would delay or obstruct regulations imposing strict fiduciary standards on brokers who provide investment advice.

During the past year, our organization provided valuable and quality services in the three primary categories addressed in this report: advocacy, compliance, and education. In addition to its work on Capitol Hill, the IAA was actively involved in numerous regulatory proceedings of the SEC, CFTC, Department of Labor, Department of Treasury, international regulators, and other policy makers. The IAA also sponsored an array of conferences, workshops, and webinars, and produced informational reports and surveys to keep its membership apprised of relevant issues and developments.

Going forward, the IAA's role in representing our interests is critical. Further legislative and regulatory actions will have profound consequences for the investment advisory community. These and other developments underscore the need to support the work of the IAA to ensure that our views on relevant issues are heard and understood.

Membership of the IAA currently stands at more than 550 SEC-registered investment advisory firms that collectively manage in excess of \$11 trillion for a wide variety of individual and institutional clients. The IAA is committed to continuing to grow its membership in order to better represent the investment advisory profession and provide additional services and benefits to all member firms.

We truly appreciate your continued participation with the Association and look forward to working with all members as we strive to build on the IAA's proud record of serving our membership. As always, we welcome your suggestions and invite you to participate in the various activities of *your* organization.

*Board of Governors*  
*Investment Adviser Association*

# ADVOCACY



**The Investment Adviser Association is the leading organization solely dedicated to representing the interests of SEC-registered investment adviser firms. The IAA serves as the voice of the investment advisory profession on the key policy and regulatory issues affecting our members. As the legislative and regulatory landscape has become more challenging and complex, IAA members and staff have engaged in constructive dialogue advocacy with the U.S. Congress, the SEC, the Department of Labor, the Commodity Futures Trading Commission, the Department of Treasury, international regulators, and other industry organizations regarding a broad spectrum of legislative and regulatory initiatives of critical importance to investment advisers.**

The IAA was actively involved with a number of initiatives and issues during 2013. (See the “Comments and Statements” section of the IAA website—[www.investmentadviser.org](http://www.investmentadviser.org)—for a compendium of comment letters, testimony, and other position papers authored by the Association.)

## Legislative Advocacy

Working closely with its members, the IAA successfully represented investment advisers’ interests before Congress. As a result of its effective legislative advocacy, the IAA gained introduction of legislation to fund an enhanced adviser examination program by the SEC, continued to thwart FINRA’s effort to gain authority over advisers, and eliminated a provision from legislation adopted by the House of Representatives that would have required the SEC to “harmonize” investment adviser and broker-dealer regulation as part of any fiduciary rulemaking.

On April 18, Reps. Maxine Waters (D-Calif.) and John Delaney (D-Md.) introduced **H.R. 1627**, the “**Investment Adviser Examination Improvement Act of 2013**,” that would authorize the SEC to impose user fees on SEC-registered advisory firms to fund an enhanced examination program by the agency.

This legislation, supported by the IAA and a diverse coalition including consumer groups, state securities regulators, and other industry groups, reflected the first option cited in a January 2011 SEC staff report to Congress on “enhancing investment adviser examinations.” The SEC staff report listed three

legislative options to provide greater oversight of investment advisers: (1) enact legislation to authorize the SEC to impose “user fees” on advisory firms to fund their examinations; (2) enact legislation to authorize the SEC to designate one or more SROs to oversee investment advisers; or (3) enact legislation to expand FINRA’s jurisdiction to firms that are dually registered as both broker-dealers and investment advisers.

In addition, the IAA successfully persuaded legislators to eliminate a provision in **H.R. 2374**, the “**Retail Investor Protection Act**”—adopted by the House on October 29—that would have required the SEC, as a condition to proceeding with any Dodd-Frank Act Section 913 fiduciary rulemaking, to also propose Advisers Act regulations addressing the differing “registration, supervision, and examination requirements” applicable to brokers and advisers.

The IAA continued to monitor potential legislation that would authorize a **self-regulatory organization (SRO)** for investment advisory firms. The IAA led efforts to oppose legislation introduced in 2012 that was supported by FINRA and other organizations. While there were no similar legislative activities during 2013, the IAA expects FINRA to renew its efforts in the future.

The IAA met regularly with lawmakers on the Senate Banking Committee and the House Financial Services Committee throughout the year and arranged for its members to meet with their senators, representatives, and their staffs during its inaugural **Adviser Advocacy**



We get great value from the IAA’s resources and feel that supporting our industry is critical to its future.”

CCO, \$4B AUM



“The IAA is the leading investment management “watch dog/user friendly” organization in the USA and has the ultimate interests of RIAs at heart.”

FOUNDING PARTNER, \$600M AUM

**Week** February 18 - 25 and during its **Sixth Annual Lobbying Day on Capitol Hill** program held on June 4.

IAA members from 14 states came to Washington, D.C. to attend meetings with their senators, representatives, and their staffs during IAA’s **Sixth Annual Lobbying Day on Capitol Hill**. Schwab Advisory Services and TD Ameritrade Institutional also participated in this event.

Through Member Alerts, *IAA Newsletter* articles, emails, and phone calls, the IAA successfully engaged its membership in grass-roots advocacy.

## Regulatory Advocacy

During 2013, the IAA strongly and effectively represented the shared interests of the investment advisory profession in a wide range of regulatory activities that affect investment advisers.

## SEC and Dodd-Frank Advocacy

The SEC issued a **Request for Information** (RFI) in 2013 regarding the standards of care for broker-dealers and investment advisers, and potential “harmonization” of broker-

dealer and investment adviser regulation. In its July 2013 response to the RFI, the IAA emphasized its long-held view that all financial professionals who provide investment advice about securities to clients should be subject to the same high standard of care—the **fiduciary duty** standard under the Investment Advisers Act. The letter urged the Commission to ensure that any rulemaking imposing a uniform fiduciary duty on broker-dealers and investment advisers preserves the existing overarching fiduciary principles in the Advisers Act to act in the best interests of their clients. The IAA comment letter also questions why the SEC is considering harmonization of the broader regulatory regimes of broker-dealers and advisers before it implements the fiduciary standard for broker-dealers and has the opportunity to assess how fiduciary duty may affect or interact with current broker-dealer rules. In June, the IAA had sent a letter to SEC Chair White jointly with a coalition of consumer groups, state regulators, and industry groups in support of the fiduciary duty and expressing concern that certain assumptions in the RFI did not include important elements of fiduciary duty.

In October, the IAA wrote the SEC’s **Investor Advisory Committee** (IAC) in support of a recommendation by the IAC’s Investor as Purchaser Subcommittee that the SEC adopt a rule under Section 913 of the Dodd-Frank Act



We joined the IAA to have access to current information on constantly changing rules and regulations, as well as protect our clients’ best interests.”

PRINCIPAL, VP OPERATIONS & FINANCE, CCO, \$1.2B AUM

applying the Advisers Act **fiduciary duty** to broker-dealers providing personalized investment advice to retail investors. The IAA also wrote the IAC in favor of a second recommendation by the Subcommittee that the Commission request legislation from Congress authorizing the SEC to impose “**user fees**” on investment advisers to fund an enhanced examination program by the agency’s Office of Compliance Inspections and Examinations (OCIE). In a November 21 letter jointly submitted by the IAA, the Certified Financial Planner Board of Standards, the Financial Planning Association, and the National Association of Personal Financial Advisers, the organizations wrote that OCIE “faces significant resource challenges in maintaining a robust examination program, as evidenced by OCIE’s examination rate—projected to be 10% for the current year... The [Financial Planning] Coalition and IAA support a user fee as the best option to increase investor protection through more frequent adviser examinations.” Both recommendations were adopted by the IAC at its meeting on November 22.

In December 2013, IAA General Counsel Karen Barr was invited to participate in a public SEC roundtable on the topic of **proxy advisory firms**. The roundtable addressed the use of proxy advisory firms by investment advisers and institutional investors, a subject upon which a great deal of attention was focused on proxy advisory firms during the year. For example, NASDAQ OMX filed a petition with the SEC, on behalf of itself and other public companies, requesting that the Commission or its staff revise no-action letters from 2004 that address the use of proxy advisory firms

by investment advisers. The two no-action letters at issue interpret Advisers Act Rule 206(4)-6, which requires advisers to adopt and implement policies and procedures designed to ensure that their clients’ proxies are voted in the clients’ best interest. In addition, SEC Commissioner Daniel Gallagher expressed “grave concerns as to whether investment advisers are indeed truly fulfilling their fiduciary duties when they rely on and follow recommendations from proxy advisory firms.” There has also been congressional interest in this issue. At the roundtable, the IAA provided information regarding investment advisers’ use of proxy advisory firms, whether such use differs based on size of firm, advisers’ proxy voting duties, and the IAA’s views on the effect of the no-action letters. The IAA will follow its participation in the roundtable with further dialogue and advocacy with the SEC and other interested parties on these issues.

In September, the IAA submitted an extensive comment letter to the SEC regarding its proposed rules under Regulation D, Form D, and Rule 156 under the Securities Act of 1933. The SEC issued the proposal on the same day that it adopted new Rule 506(c) under the **JOBS Act**, which permits an issuer to engage in general solicitation or general advertising in offering and selling securities under certain conditions. The SEC’s rule proposal is intended to address investor protection concerns that may arise in connection with permitting issuers to engage in general solicitation and advertising. In its comment letter, the IAA expressed concern that many aspects of the proposal would result in unintended negative consequences for private fund issuers relying



[The IAA provides] effective representation on adviser issues.”

CCO, \$700B AUM



on Rule 506 and made numerous recommendations for modifications to or elimination of certain aspects of the proposed rules. The IAA has also been participating in industry communications with CFTC staff regarding the status of commodity pools that wish to engage in general solicitation and advertising under the JOBS Act while not running afoul of certain **CFTC exemptions** conditioned on the pools' not being marketed to the public.

In August 2013, the IAA filed a **comment letter** with the SEC opposing a rulemaking petition to shorten the current 45-day deadline for filing **Form 13F** to two business days. The IAA **strongly opposed** the Petition. The IAA requested that the SEC consider the potential unintended consequences of increased free-riding and front running; operational challenges in complying with the requested changes; alternative methods that are available to issuers to determine the identity of their larger institutional investors; the unique nature of Form 13F holdings information in contrast to other types of disclosures; and whether Form 13F is still warranted from a policy standpoint.

In September 2013, the U.S. Department of the Treasury's Office of Financial Research (OFR) delivered a study entitled "**Asset Management and Financial Stability**" to the Financial Stability Oversight Council on ways that the asset management industry could pose risks to the financial stability of the United States. In November, the IAA submitted a joint **comment letter** to the SEC with the Asset Management Group of the Securities Industry and Financial Markets Association that **challenged** the OFR Study. The

comment letter expressed concern that the Study does not provide an accurate or comprehensive description of the asset management industry; the Study contains a number of unsupported conclusions and overly broad assertions; the Study does not sufficiently account for existing regulation; OFR appears to have used only a fraction of available data in its research; and the Study fails to address the fundamental questions a regulator must consider to evaluate the asset management industry, the effectiveness of existing regulation, and the need for any additional regulation, and cannot serve as the foundation for informed policy discussions.

In 2013, the IAA continued its advocacy with respect to the SEC's proposed rules establishing a permanent registration regime for **municipal advisors**. For example, in the spring, the IAA and some of its members met with SEC staff to urge that, consistent with the language and purpose of the Dodd-Frank Act, SEC registered advisers should be exempt from the rule. The SEC adopted final rules in September, however, that contain an activities-based exemption, rather than a status-based exemption, for SEC-registered investment advisers. As a result, the IAA advocated on behalf of its members with respect to several **interpretive issues**, suggested conditions for exemptive relief, and requested a delay of the effective date. The IAA will continue to assist its members as SEC registration under the permanent regime will be required on a phased-in basis beginning in July 2014, and will monitor the effect of the municipal advisor rulemaking on the "**pay to play**" rule's third-party solicitor provisions.



[We are members of the IAA] to be kept informed of industry and legal developments."

GENERAL COUNSEL, \$1B AUM

Throughout 2013, the IAA continued to address issues relating to the SEC Division of Investment Management's **private fund adviser initiative**, including custody, advertising, Form ADV, and pay to play. The IAA staff and several IAA members met with Division staff to discuss member experiences with and potential improvements to these rules. The IAA convened a **Custody Working Group** that held calls to develop recommendations for SEC staff concerning the application of the custody rule. In August, SEC staff issued guidance on the application of the custody rule to privately offered securities. The IAA also convened a **Form ADV/Form PF Working Group** to discuss private fund reporting on Form ADV and Form PF for advisers to private funds, such as ways in which the forms may be duplicative or inconsistent.

In August 2013, the IAA submitted a comment letter to the SEC on its proposed rulemaking under the Securities Exchange Act of 1934 to determine the application of Title VII of the Dodd-Frank Act to **cross-border security-based swap activities**. The Dodd-Frank Act provided that the Title VII security-based swap provisions would not apply to any person that transacts security-based swaps business that is not within the jurisdiction of the United States. To implement this provision, the SEC proposed to apply Title VII to security-based swap activities involving "U.S. persons" or involving a "transaction conducted within the United States." The IAA comment letter urged the SEC to harmonize its final "U.S. person" definition with the CFTC's approach in guidance the CFTC had already adopted, including, among other things, exempting certain



non-U.S. funds that are publicly offered only to non-U.S. persons and not offered to U.S. persons generally. The IAA also requested that the SEC narrow its proposed "transaction conducted within the United States" test to exclude certain non-U.S. person transactions that do not trigger the appropriate nexus with the United States. Finally, the IAA encouraged the SEC and the CFTC to coordinate their substitute compliance determinations to avoid the application of duplicative or inconsistent compliance obligations on market participants subject to other global regulation.

On January 30, the IAA along with the Bond Dealers of America and the Government Finance Officers Association sent a follow-up letter to SEC Chairman Walter reiterating



For a smaller firm with fewer internal resources, the IAA is a valuable source of legal and compliance information. Our firm strongly supports the IAA as an advocate for our portion of the investment industry."

VICE PRESIDENT, CCO, \$3.2B AUM

ongoing concerns about the operation of the **CUSIP** system and actions by Standard and Poor's against users of CUSIP numbers reported to the SEC per SEC rules. The letter also updated the SEC on anti-trust actions taken in Europe against S&P with respect to similar licensing fee issues.

In 2013, the IAA continued to address issues relating to **SEC examinations**. The IAA staff and several IAA members met with OCIE staff this year to discuss member experiences with and potential improvements to the SEC examination program for advisers. One meeting focused on discussion about potential initiatives that could help address the number of advisers that are examined, the significant percentage of firms that have never been examined, and the manner in which the SEC evaluates and communicates the overall effectiveness of the examination program. The other meeting focused on OCIE's **asset verification process** and potential ways to make the process more efficient and meaningful. The IAA also discussed the examination program with OCIE staff during its in-person Legal and Regulatory Committee meeting. The IAA will continue its ongoing dialogue with SEC staff regarding examinations of investment advisers.

## CFTC Advocacy

In 2013, the IAA was very active in representing the interests of its membership before the **Commodity Futures Trading Commission** with respect to firms acting as commodity pool operators (CPOs) and commodity trading advisers (CTAs). The CFTC's 2012 regulations on CPO and CTA registration raised a host of

**interpretive issues** for IAA members analyzing whether they need to register with the CFTC, and, if so, how CFTC rules and regulations apply to their businesses. The IAA was involved in a number of joint letters to the CFTC requesting various types of interpretive relief. For example, in January, the IAA jointly submitted a letter to the CFTC staff that requests that **netting of certain OTC swaps** be permitted for purposes of the complying with certain tests in the de minimis exemptions from CPO registration.

In February, the IAA, jointly with another trade group, submitted extensive recommendations for guidance to the CFTC staff regarding various CPO registration scenarios presented by funds of funds. The CFTC had rescinded its previous guidance for CPOs of **funds of funds** to assess whether they had to register or could meet a *de minimis* exemption. In its 2012 FAQs, the CFTC staff stated that CPOs of funds of funds could continue to rely on the old guidance until the CFTC adopts revised guidance. However, the old guidance is fairly limited and there is a wider range of fund of funds structures for which additional interpretive guidance is needed. The IAA's 2013 letter follows up and expands on a letter it had submitted in 2012 regarding this guidance. In April, the IAA and others met with CFTC staff to discuss IAA's recommendations and the need for flexible, practical guidance. These recommendations are still pending. Operators of funds of funds



The IAA is a top notch organization with very talented people working to enhance our business.”

SVP, CCO, \$34B AUM

are currently operating under an extension of time requested by the IAA and others last year and granted by the CFTC to register or claim an exemption with respect to funds of funds until the later of: (i) six months from the date the CFTC or its staff issues final guidance; or (ii) June 30, 2013.

Similarly, the IAA has been working with other groups to seek relief from the CFTC on the issue of **CPO delegation** of rights and obligations for the purposes of determining which entities must register as CPOs. Specifically, the IAA has been participating in a series of communications with the CFTC staff seeking clarification that each affected entity does not have to obtain an individual no-action letter from the staff in order to delegate the CPO function from the boards of directors, general partners, or managing members of a fund to a registered CPO in the manner contemplated by a CFTC FAQ.

In August 2013, the CFTC finalized its rules to **harmonize CFTC and SEC rules** with respect to registered investment companies (RICs). The IAA had submitted a comment letter requesting that the CFTC also harmonize rules from both agencies for private funds in the areas of record-keeping, the timing of annual audit reports, mandatory performance reporting requirements, disclosure document updating, and delivery requirements. As requested by the IAA, the CFTC's final rules permit both RIC CPOs and private fund CPOs to use certain third-party service providers for storing required books and records under certain conditions and permit private fund CPOs, RIC CPOs, and CTAs to rely on a disclosure docu-

ment for up to 12 months after its first use (instead of 9 months) to align with financial statement filing timeframes. Throughout the fall of 2013, the IAA worked with members, CFTC staff, and NFA staff to address interpretive issues related to harmonization, including with respect to compliance dates of various requirements. In addition, the IAA is seeking clarification and expansion of the harmonization relief related to **record-keeping**, as well as clarifications with respect to existing record-keeping requirements.

IAA members have been facing numerous challenges in interpreting and responding to various CFTC and NFA forms, including **Form CPO-PQR, Form CTA-PR, and NFA Form PR**. The IAA gathered member questions and developed extensive FAQs regarding these forms. In June, the IAA, joined by another trade group, submitted more than **55 FAQs** to the CFTC staff. The IAA continues to field member questions and to advocate that the CFTC staff respond to questions already submitted.

In addition to being subject to CFTC regulations, registered CPOs and CTA are required to become members of, and are subject to oversight by, the **National Futures Association**, the SRO for the futures (and now swaps) industry. The IAA has engaged in a dialogue with the NFA on various compliance issues for investment advisers newly registered as CPOs and CTAs. In July, the IAA Legal and Regulatory Committee and CFTC Working Group held a combination call/meeting at which two officials from the NFA discussed **NFA's audit/examination program** and ad-



The IAA connects us with what is happening in our industry. We are able to leverage the resources the IAA provides.”

FOUNDING PRINCIPAL, \$5.5B AUM

“ The legal/compliance brain trust is of exceptional value. The IAA’s advocacy is a huge benefit to the profession and is worth the cost on its own.”

CCO, \$9B AUM

dressed issues and questions members raised in complying with NFA rules. The NFA officials gave their presentation at the offices of a Chicago member, where other Chicago-area firms joined the NFA staff in person.

In February, the IAA submitted comments on the CFTC’s further proposed guidance on how Title VII of the Dodd-Frank Act regarding swaps rules and regulations applies to **cross-border swaps transactions** taking place outside the U.S. The IAA argued that the proposed definition of “U.S. person” was too broad because it would include non-U.S. entities with little nexus to the U.S. or U.S. swaps markets. The IAA urged the CFTC to define “U.S. person” for these purposes similarly to the definition of U.S. person in Regulation S of the Securities Act applicable to securities transactions offshore or at least to expand a proposed exemption from “publicly-traded” funds to include “publicly offered” funds, and expressed concerns regarding the CFTC’s proposed interpretation capturing pools operated by CPOs. In July, the CFTC issued final cross-border guidance. Though the CFTC did not adopt the IAA’s Regulation S request, the final guidance did include an exemption for “publicly offered” funds and eliminated the proposed CPO interpretation.

Last year, the CFTC adopted “legally segregated operationally commingled” (**LSOC**) rules

for **segregation of cleared swaps collateral** by futures commission merchants and derivatives clearing organizations, as required by the Dodd Frank Act. Throughout 2013, the IAA participated in industry meetings to discuss LSOC operational issues and other potential models for **full physical segregation** of customer collateral. In June, the IAA and other industry groups submitted a letter to the CFTC expressing concern regarding the incomplete implementation of LSOC protections provided to customer excess margin held by FCMs and DCOs and requesting a delay for mandatory clearing by certain entities to allow time for full implementation. The IAA and other groups met with CFTC Chairman Gensler and other commissioners and staff to discuss these concerns.

## DOL Advocacy

During 2013, the Association continued its advocacy regarding a number of issues pending before the Department of Labor. The DOL has sent to the Office of Management and Budget a proposal to require investment advisers and other service providers to provide a summary or “roadmap” along with the ERISA section **408(b)(2) disclosures** that were first required in 2012. The IAA will continue to monitor DOL developments that affect investment advisers, and file comments on this and any other relevant proposals on behalf of its members.

“ The IAA is the only financial industry organization that shares and promotes our firm’s values.”

CEO, \$30B AUM

## International Regulatory Advocacy

During 2013, the IAA continued its active involvement in the international arena.

The **IAA International Committee** marked the start of its sixth year with an in-person meeting, at which members gathered in Washington, D.C. to exchange information about international developments. For the first time, Committee members met jointly with the Investment Company Institute's International Committee to discuss international regulatory issues. In addition to discussion among members and staff, a representative of the UK's Financial Conduct Authority briefed members on the European Union's regulation of swaps and cross-border regulation by the SEC and the CFTC. The Committee also discussed developments relating to the **Foreign Account Tax Compliance Act (FATCA)**, the Financial Conduct Authority's views on permitted uses of **soft dollars**, the implementation of the **EU's Alternative Investment Fund Managers Directive**, and the **EU short-selling reporting regime**. Currently, there are more than 100 members of the IAA International Committee representing more than 60 IAA member firms. The Committee meets on a quarterly basis to discuss important international investing, compliance, and market access issues.

With the support of the International Committee, the IAA has continued to engage in international regulatory advocacy efforts and submitted comment letters to non-US

governmental bodies. On February 2013, the IAA submitted a comment letter to the UK Treasury expressing concern that the UK's proposed implementation of the **transition period under the AIFMD** might preclude third-country (non-EU) managers from continuing to market their existing funds in the UK beginning on July 22, 2013. In response to this concern on the part of the IAA and other commenters, the UK regulators stated in May 2013 that non-EU AIFMs generally may continue to market existing funds under the UK private placement regime until July 22, 2014. The IAA also filed a comment letter with the UK FCA in November 2013 concerning its implementation of the **remuneration provisions of the AIFMD**, generally supporting the FCA's proposed application of the Directive's proportionality provisions and its analysis of the scope of the remuneration rules in the context of delegates of the AIFM.

The IAA continues to monitor regulatory developments in the **European Union**, including the **Alternative Investment Fund Managers Directive (AIFMD)**, the proposed amendments to the **Markets in Financial Instruments Directive (MiFID)**, and related proposals concerning remuneration, as well as country-specific changes to investment adviser and private fund regulation around the world.

## Advocacy in 2014

The IAA will remain fully engaged in serving and protecting the interests of its membership during 2014 on both the legislative and regulatory fronts. In **Congress**, the IAA



[Our firm is a member of the IAA] for the legal and compliance support, the advocacy efforts, and the information about best practices in the industry."

GENERAL COUNSEL, \$140B AUM

will continue to lead the charge against legislation authorizing an SRO, likely to be FINRA, for investment advisers. In connection with these efforts, the IAA will maintain its strong support for sufficient resources for and organizational efficiencies at the SEC. The IAA also anticipates monitoring congressional activities related to fiduciary duty and “harmonization” of the laws governing brokers and investment advisers, as well as structural changes within the SEC, Dodd-Frank Act implementation, and market regulation issues. The IAA expects to advance its maturing **government relations** program and to encourage its members to be proactive in educating policy makers about the issues facing the investment advisory profession.

The IAA anticipates a robust **regulatory advocacy** agenda in 2014. The SEC is expected to act on its proposed rules under Regulation D, Form D, and Rule 156 under the Securities Act of 1933 in connection with the JOBS Act to impose new requirements on private fund advisers. The IAA will continue its advocacy with respect to interpretive issues related to the municipal advisor rulemaking. We anticipate the SEC will issue a notice related to the effective date of the third party-party solicitor aspect of the pay-to-play rules for investment advisers and approve SRO rules governing pay to play for such solicitors. We will continue to work with the SEC staff on its private fund adviser initiative in 2014, including with respect to the custody and advertising rules. Further, the SEC has a number of **Dodd-Frank Act** rulemaking initiatives remaining for completion, not the least of which is the fiduciary duty

rulemaking. The IAA will continue to engage in dialogue with SEC Commissioners and staff regarding the SEC’s evolving **inspection and examination program**. The IAA will be actively engaged in 2014 in addressing a wide range of **CFTC and NFA** regulatory matters related to CPO and CTA registration and compliance. These issues are likely to include guidance for funds of funds, harmonization of inconsistent regulatory requirements among agencies applicable to investment advisers, guidance for responding to various filing requirements, and interpretive issues raised by the diverse business models and practices subject to a new regulatory regime. The IAA is also likely to be involved in CFTC regulations applicable to derivatives transactions from a buy side perspective, including clearing, trading, and reporting requirements and protections afforded to client collateral.

In 2014, the IAA expects to engage in key **international** regulatory matters, including European initiatives on authorization of private fund managers, short selling regulations, and restrictions on remuneration, as well as UK consideration of permitted uses of soft dollars. The U.S. **Department of Labor** is likely to continue its focus on initiatives affecting investment advisers, including fee and expense disclosure requirements to plan sponsors and the definition of “fiduciary.” In addition, the **Department of Treasury** will pursue its initiatives to implement the Foreign Account Tax Compliance Act (FATCA) and may propose anti-money laundering rules and suspicious activity reporting for investment advisers.



As the sole industry group representing registered advisers, it is a must do.”

DEPUTY GENERAL COUNSEL, \$460B AUM

# COMPLIANCE



**The IAA serves as an invaluable resource on legal, regulatory, and compliance issues. The compliance environment has become increasingly complex with both the Dodd-Frank Act and the expanded reach of the CFTC imposing more and more complicated regulations on advisers. Moreover, both the SEC enforcement division’s asset management unit and SEC’s National Examination Program continue to focus closely on advisers. During the past year, the IAA has provided a broad array of services and resources designed to assist members in addressing these developments.**

During 2013, the IAA legal staff responded to more than 800 **requests for information** about legal, regulatory, and compliance issues from IAA member firms. IAA member firms contacted the IAA legal staff for up-to-date information about the dynamic legislative and regulatory environment, industry practices, and evolving changes in law and regulations from the SEC, DOL, CFTC, Treasury, and various state and foreign entities. The IAA legal staff also provided information to member firms on a wide array of topics including: the Red Flags rule, the custody rule, SEC reporting requirements for advisers on Form PF and Form ADV, CFTC and NFA compliance, new rules governing derivatives trading, pay to play requirements (federal and state), SEC inspections, state filing issues, advertising requirements ERISA and Department of Labor disclosure requirements, and numerous international matters. In addition to responding to individual requests for information, the IAA sent more than 30 **IAA Member Alerts** to members addressing late-breaking legislative and regulatory developments. The IAA legal team serves as an **invaluable resource** for compliance professionals, in-house legal staff, and business executives.

In March 2013, the IAA launched its new, members-only **Online Communities** forum. These Online Communities allow IAA members to communicate directly with each other about issues related to the investment advisory profession. Members can join up to 17 groups based on their interests, view the latest community updates and relevant group activity, and choose to receive a daily or weekly digest of activities. Members

can enter any of their groups to begin a discussion, add or download a resource, or participate in other group activities. Also, members can sign up for content alerts, message fellow IAA members, search for additional groups to join, and much more. The IAA looks forward to building on these and similar initiatives to enhance networking opportunities for IAA member firms.

The IAA provides members with extensive **legal, regulatory, and compliance resources** on its website ([www.investmentadviser.org](http://www.investmentadviser.org)). The IAA continues to enhance its website to ensure that it presents clear and concise compliance resources for members, as well as current information about the IAA's advocacy and educational activities. In August 2013, the IAA deployed improved search functionality to its website. A redesigned home page will be launched in early 2014. The **Members Only Area** of the IAA website contains an expanding library of useful and relevant information. Resources include **Legal, Regulatory, and Compliance Materials**, extensive materials written or compiled by the IAA legal staff that cover every major area of adviser compliance issues, including electronic delivery, pay to play, portfolio management, disclosure, privacy, and testing, as well as compliance policies for specific rules such as codes of ethics and the compliance program rule. Each topic area includes: (1) IAA guidance on the subject, including any relevant compliance control from the IAA compliance guide, (2) IAA comment letters and statements, (3) outlines, articles and memoranda from a variety of sources, and (4) links to selected rules, significant no action letters, and other regulatory guidance.



The IAA provides timely information regarding SEC compliance issues and examination focus, and strong compliance training programs.”

CFO/CCO, \$700M AUM

“ [The IAA] allows us to tap into many resources we couldn't otherwise access.”

LEAD PARTNER, \$475M AUM

Also included in the resource library is information relating to **SEC and DOL examinations** (including helpful documents, such as sample document request letters), and **CFTC and Derivatives Regulation**, including NFA regulations. The website also includes current and past issues of the monthly **IAA Newsletter**, archived **IAA Member Alerts**, and reports and brochures, including the **Investment Management Compliance Testing Surveys, Evolution/Revolution reports, Asset Management Operations & Compensation Surveys**, and archived webinars, some of which are available at no charge for members. Collectively, the broad range of IAA compliance resources represents an outstanding value for IAA member firms.

During 2013, the IAA continued to update and expand the IAA's **compliance materials** in order to inform member firms of relevant issues and to provide substantive and practical assistance. The IAA added significant resources to its website in 2013 regarding new regulatory requirements, including new materials devoted to the **Identity Theft Red Flags rule**. In addition, the IAA updated the following compliance controls to reflect rule revisions and other new developments: Advisory Contracts/Account Opening Procedures, Advisory Fees, and Anti-Money Laundering and OFAC. The IAA also updated its state pay to play, notice filing,

and investment adviser representative (IAR) registration charts, as well as FAQs on Form ADV Part 1 and the Large Trader rule. The IAA has undertaken a reorganization of the **International Issues** materials on the website in connection with devoting a separate section to it.

The IAA continues to provide substantial information to assist members in complying with new rule requirements. For example, since the **Red Flags** rule was adopted, the IAA has responded to dozens of member questions pertaining to the application and implementation of the rule requirements, held a webinar to educate members about these requirements, and published updated compliance resources. The IAA also provided assistance with respect to the conversion of **Form 13F** to an online form using XML format. In 2013, the IAA also continued to provide information about developments related to **state and local pay to play prohibitions** and maintains compliance information for members about state and local laws that could impact advisers' and their employees' political contributions, "lobbyist" registration and reporting requirements, and other restrictions. In addition, the IAA's **Social Media Working Group** held two calls in 2013 to share information about compliance issues regarding using social media at investment adviser firms.



Throughout many years we have found the expertise and informational base of the staff to be exceptional.”

CCO, \$9.9B AUM

In 2013, the IAA provided resources regarding **CFTC and NFA** compliance requirements, held numerous calls of the continually-expanding **CFTC Working Group**, and responded to many member questions regarding new CFTC and NFA reporting requirements. For example, in April 2013, the IAA updated **frequently asked questions** regarding CFTC and NFA Registration and Exemptions for commodity pool operators and commodity trading advisors. In June, the IAA and another organization submitted extensive questions and proposed answers for CFTC staff regarding CFTC Form CPO-PQR and Form CTA-PR and for NFA Staff regarding NFA Form PQR and NFA Form PR. The IAA responded to myriad questions from member firms about new harmonization rules for investment advisers that are commodity pool operators of registered funds. The IAA also assisted members in implementation issues regarding the CFTC's rules providing relief from new real-time public reporting requirements for certain large swap transactions (*i.e.*, **block trades**). In addition, the IAA held a number of calls for its **TMPG Working Group**. The Treasury Market Practices Group, sponsored by the Federal Reserve Bank of New York, made recommendations in November 2012, updated in March 2013, that market participants exchange two-way variation margin on a regular basis in forward-settling uncleared agency MBS transactions. The IAA's TMPG Working Group discussed a number of operational, documentation and other implementation issues related this new development.

The IAA legal team continued to increase the information available to members regarding **international issues**. For example, the IAA monitored and informed its members about new European Commission short selling regulations, as implemented by the European Securities and Markets Authority (ESMA), and each country's home regulator's rules regarding short sales of certain securities. The IAA continued to update its member chart discussing **short selling regulations** in various jurisdictions across the globe. In addition, IAA staff updated a compilation of state restrictions on investments in particular countries, and revised its materials concerning investment adviser registration in Canada. IAA staff provided members with memoranda on a number of other international topics and developments, including Implementing Measures for the **AIFM Directive**, and the regulation of fund managers in the United Arab Emirates and electronic trading in Hong Kong.

In July 2013, the IAA released the results of its **eighth annual Compliance Testing Survey**—the most comprehensive compliance testing survey available. Jointly conducted by the IAA, ACA Compliance Group, and Old Mutual Asset Management, the survey included in-depth questions about firms' compliance testing in the areas of cost of compliance, document retention and destruction policies, fees and expenses, directed brokerage, soft dollars, and conflicts of interest, as well as the impact of CFTC registration and FATCA regulations. The survey also contained trend update



They provide us with invaluable information absolutely necessary to the running of our firm. The staff is accessible and very responsive.”

PRINCIPAL AND CCO, \$2.5B AUM

questions about social media, anti-money laundering, business continuity and disaster recovery planning, and hot compliance topics. The results reflect responses from an online survey of 462 compliance professionals, representing a wide range of SEC-registered investment advisory firms. The survey provides new, updated, and practical testing ideas and benchmarks that can be used by advisers to assess the effectiveness of their compliance programs. The survey revealed that 83% of firms have adopted formal written policies concerning social networking, up from 64% in 2011 and nearly double the percentage of 43% in 2010. Firms reported that compliance testing has increased the most in the areas of advertising and marketing, personal trading, disaster recovery planning, and political contributions/pay to play. Finally, the top areas of compliance concern for 2013 identified by respondents included advertising/marketing, valuation, and social media.

**Educational meetings** are an integral part of IAA's efforts to assist member firms in understanding and addressing their legal, regulatory, and compliance obligations. In addition to its conferences and webinars, the

IAA held popular complimentary **briefing calls** on investment adviser developments for 2013.

The IAA expects to be involved in a number of **emerging compliance issues** during 2014. For example, the IAA anticipates continued communications with members regarding compliance issues related to the Red Flags and custody rules, issues arising from firm and employee use of social media, and policies and practices related to proxy voting. The IAA will also continue its CFTC Working Group calls and communications regarding CPO and CTA requirements and emerging issues related to derivatives trading. The IAA further expects to engage in implementation issues related to the municipal advisor rule, the third party solicitation aspect of the pay to play rule, various Treasury Department reporting requirements, evolving SEC inspection issues, compliance with ERISA disclosure requirements, international regulations that affect investment advisers, including UK rules regarding soft dollars, and continued implications of provisions of the Dodd-Frank Act affecting investment advisers, including the recently adopted Volcker Rule.



The IAA is our CCO's first stop for information on compliance matters through its written and online material and access to its legal team. Establishing relationships with like organizations is valuable as well."

CEO, \$1.2B AUM

# EDUCATION



The IAA conducted numerous conferences, workshops, and webinars during the past year in an effort to keep members fully informed about relevant issues that affect the investment advisory profession. These events covered a wide range of business, compliance, and regulatory reform issues. In addition, the IAA publishes reports, surveys, and other educational materials that serve to inform and benefit all member firms. The IAA also serves as a unique and respected networking resource that facilitates and encourages the exchange and development of ideas among industry peers. As the IAA continues to increase its membership and resources, it will be able to offer an expanded range of educational benefits to serve an increasingly diverse membership.

In May, the IAA held its **2013 Annual Conference** in New Orleans. General sessions featured top industry and academic leaders:



- Mark Tibergien, Chief Executive Officer and Managing Director of Pershing Advisor Solutions, author and consultant, conducted a session called “Building a Business to Last.”
- Peter F. Ricchiuti, Assistant Dean of Tulane University’s A.B. Freeman School of Business discussed the cyclical nature of both stocks and investment sectors in “Market Signals: What the Financial Markets are Telling Us Now.”
- Cam Marston, Founder and President of Generational Insights offered a compelling presentation called “Generational Insights into Financial Services.”
- Christopher G. Green, Partner, Ropes & Gray, discussed how to survive the new SEC inspection regime in “SEC Examinations: What Business People Need to Know.”
- Paul David Schaeffer, Managing Director of Strategy and Thought Leadership at Forward Management, Inc., and Suzanne L. Duncan, Senior Vice President and Head of Global Research, provided an analysis on how the investment industry thinks about performance, the delivery of value, and the measurement of success in a session

called “The Slow-Motion Tsunami: Forces Transforming the Investment Industry.”

- Liz Ann Sonders, Senior Vice President and Chief Investment Strategist at Charles Schwab & Co., Inc., is considered one of the leading economists and investment strategists in the world. She shared her insights on the future of the markets and the economy.
- Charley Maxwell, the “Dean of oil analysts” and Founding Board Member of American DG Energy, offered suggestions on how to best position your energy portfolio in “What Lies Ahead for Energy.”
- Peter Berezin, Managing Editor of The Bank Credit Analyst, BCA Research, offered an optimistic viewpoint on the global market in “The Global Macro Outlook: Investing in Turbulent Times.”
- Fred Barnes, Executive Director of *The Weekly Standard* with over 25 years’ experience reporting on D.C. politics, took a hard look at the impact of a divided Congress on the President’s agenda.
- As always, the popular breakout sessions allowed firms to interact in smaller groups to discuss common challenges and issues of mutual concern.

The IAA **Board of Governors** met in February (Washington, D.C.), June (Boston), September (Chicago), and December (Los Angeles). During the past year, the Association’s volunteer Board of Governors focused on membership growth and retention to ensure that the organization remains responsive to the needs



**Mark Your Calendar:** The IAA annual conference continues to provide an excellent opportunity for senior executives to meet with each other to explore the many challenges and opportunities ahead. All SEC-registered IAs are encouraged to attend the **2014 Annual Leadership Conference** scheduled on May 7-9 in Palm Beach, Florida.

“The IAA is the best resource for investment adviser and industry-related news. The staff is highly professional, proactive and knowledgeable.”

COMPLIANCE OFFICER, \$3.2B AUM

of its membership in accordance with its mission. Outreach included member lunches throughout the year, held in conjunction with the board meetings when possible to give members and the board a chance to meet. These member lunches were held in Houston, New York, Memphis, Boston, Chicago and Los Angeles.

In March 2013, more than 200 compliance professionals participated in the IAA’s **Investment Adviser Compliance Conference** in the Washington, D.C. area. Speakers and panelists included CCOs and compliance professionals, compliance attorneys (outside counsel), and SEC representatives. Exhibiting firms



educated attendees about their compliance services and products. The conference agenda addressed current and comprehensive information about all major topics facing investment adviser compliance professionals, including:

- Updates on Dodd-Frank Act Regulation
- Key Developments on SRO Legislation
- SEC Enforcement and Exam Issues
- Disclosure on Form ADV
- Private Fund Issues
- CFTX Regulation
- ERISA Regulation

- Advertising and Social Media
- Brokerage and Trading Issues
- Code of Ethics and Personal Trading
- CCO Workshops
- “Ask the Experts” Session



In the fall of 2013, the IAA hosted its 16th annual **Compliance Workshops** in eight cities across the U.S. The workshops addressed a range of current regulatory and compliance issues facing investment advisory firms, including:

- Regulatory and Legislative developments
- The Red Flags Rule
- Best Execution
- Custody
- Due Diligence of Third Parties

More than 400 persons participated in the workshops, which featured expert investment management attorneys and IAA legal staff, as well as regional SEC staff from the Office of Compliance Inspections and Examinations (OCIE) who addressed the significant changes underway in the SEC’s examination and



**Mark Your Calendar:** Compliance professionals are encouraged to attend the **2014 IAA Compliance Conference** to be held on March 6-7 in Arlington, Virginia (Washington, D.C. metro area).

inspection program. In addition, national law firms prepared extensive written materials for attendees. Workshop materials are made available to workshop registrants via the IAA website.

The IAA obtains **CLE accreditation** for its Compliance Workshops and its annual Compliance Conference to help attorneys meet state bar education thresholds.

IAA sponsored ten **educational webinars** throughout the year. IAA webinars offer a time-efficient and cost-effective educational medium for IAA members, as well as potential members, and will continue to play a useful role in IAA's educational offerings in the future. These webinars covered various topics, including:

- FATCA
- Regulatory Issues for Advisers Trading Derivatives
- Compliance Issues for Private Fund Advisers
- Compliance Issues for Smaller Investment Advisers
- SEC and CFTA Red Flags Rule for Investment Advisers
- Marketing Private Funds in Asia and the Middle East
- Do you have to Register as a Municipal Adviser?

In 2013, the IAA conducted its **annual Investment Management Compliance Testing Survey**, co-sponsored with ACA Compliance Group and Old Mutual. The 2013 survey had a significant number of

respondents (460) and results were reviewed in a complimentary webinar for survey participants. The report is now available to members on IAA's website.

In 2013, the IAA continued its co-sponsorship of the **Investment Adviser Certified Compliance Professional (IACCP)** program and the related Investment Adviser Core Compliance Program. In 2004, National Regulatory Services (NRS) began the IACCP program "to advance the compliance profession and to acknowledge the heightened role of compliance professionals in today's environment." The IACCP is a professional education program and certification process that consists of five primary requirements: (1) education (generally successful completion of 40 hours of course work); (2) professional work experience (generally two years); (3) passing the certifying examination; (4) adhering to the program's Code of Ethics; and (5) fulfilling continuing education requirements to maintain the IACCP designation. The IAA legal team assists NRS in supporting and maintaining the quality of the IACCP program by helping to review and write materials, moderating and speaking at IACCP training sessions, and drafting questions for the certifying examination. The IAA helps increase the visibility of the IACCP on its website and in the *IAA Newsletter*.

In November, the IAA and NRS published the 13th annual ***Evolution/ Revolution: A Profile of the Investment Adviser Profession***.

This leading report provides a snapshot of the investment advisory profession, based on information submitted to the SEC by all registered advisory firms, and analyzes



The IAA provides so much of everything for a small firm like ours."

MANAGING PARTNER, \$235 AUM

core characteristics of the industry. Among other findings, the 2013 report notes that the total number of investment advisers registered with the SEC remained virtually the same; 10,511 in 2012 to 10,533 in 2013. The report notes that total regulatory assets under management (RAUM) reported by all registered investment advisers increased almost 11%, from \$49.4 trillion in 2012 to \$54.8 trillion in 2013. This figure is more than three times the annual GDP of the United States and more than eight times the total savings deposits at all depository institutions.



As reported in previous years, a relatively small number of very large advisers manage a high percentage of total RAUM. This year, the 99 largest advisers (those reporting \$100 billion in RAUM or more), collectively accounted for more than half (50.9%) of all reported RAUM—a 2.0% increase

from last year—but only accounted for 0.9% of the total number of SEC-registered advisers. On the other end of the spectrum, advisers with less than \$1 billion RAUM—which account for 72.7% of all advisers—collectively managed only 3.7% of all reported RAUM.

The **IAA Newsletter** is a key component of the Association’s efforts to keep its membership fully informed about its activities and to highlight significant legal, regulatory, and compliance developments. Any employee

of an IAA member firm is eligible to receive the newsletter.

The IAA disseminated electronic **Member Alerts** to keep members informed of significant late-breaking developments and the Association’s programs and activities. The IAA expects to expand the use of these and other educational tools.

The **IAA website** ([www.investmentadviser.org](http://www.investmentadviser.org)) is a growing and dynamic resource for all IAA member firms and others. The site includes information about the IAA and the benefits of membership, an alphabetical and geographic directory of IAA member firms (including links to IAA member firm sites), a library of IAA comment letters, testimony, and other statements relating to a wide variety of policy issues, an employment listings area, as well as sections on investor education and the IAA *Standards of Practice*.



In October 2013, IAA staff began conducting monthly **Member Orientation Webinars** to help employees at IAA member firms navigate the online legal, regulatory and compliance library, and to acquaint users with the variety of other resources available on the website, including access to the Online Communities forum.

“In the last few years there have been so many compliance rule changes... our heads were spinning. We needed to take action to ensure that we weren’t missing anything. We attended an IAA Compliance Conference and were hooked. We became members soon after that first conference.”

CCO, \$5.8B AUM

“ [We belong to the IAA] for the compliance resources, staying on top of industry developments, and networking.”

PRINCIPAL AND PORTFOLIO MANAGER, \$1.3B AUM

The **IAA Associate Membership program** has become a valuable aspect of the Association’s activities. Associate membership is available to firms that are not eligible for regular membership, including state-registered IA’s, law firms, consultants, accounting firms, service providers, and others who wish to support the activities of the IAA. The program assists the Association in its primary mission of serving the interests of the investment advisory profession. Associate members receive the *IAA Newsletter* and Member Alerts, some webinar and event registration discounts, and are listed on the IAA website.

The online **Service Provider Directory** is available in the Members’ Only section of the website. The directory is designed to assist members in identifying companies that specialize in providing services to investment management firms. Current listings include various legal, regulatory, and compliance

categories (including law firms, best execution services, proxy voting, e-mail retention and archiving solutions, and anti-money laundering), as well as a number of operational and business categories, including technology consultants, executive recruiting, insurance, portfolio management providers, and client relationship management services.

The **Chartered Investment Counselor (CIC)** designation, sponsored by the IAA, recognizes individuals who have met significant education and experience qualifications in performing investment counseling and portfolio management functions. Virtually all states now recognize the CIC charter for purposes of waiving examination requirements. Information about the CIC charter is available on the IAA website or by contacting the IAA office.

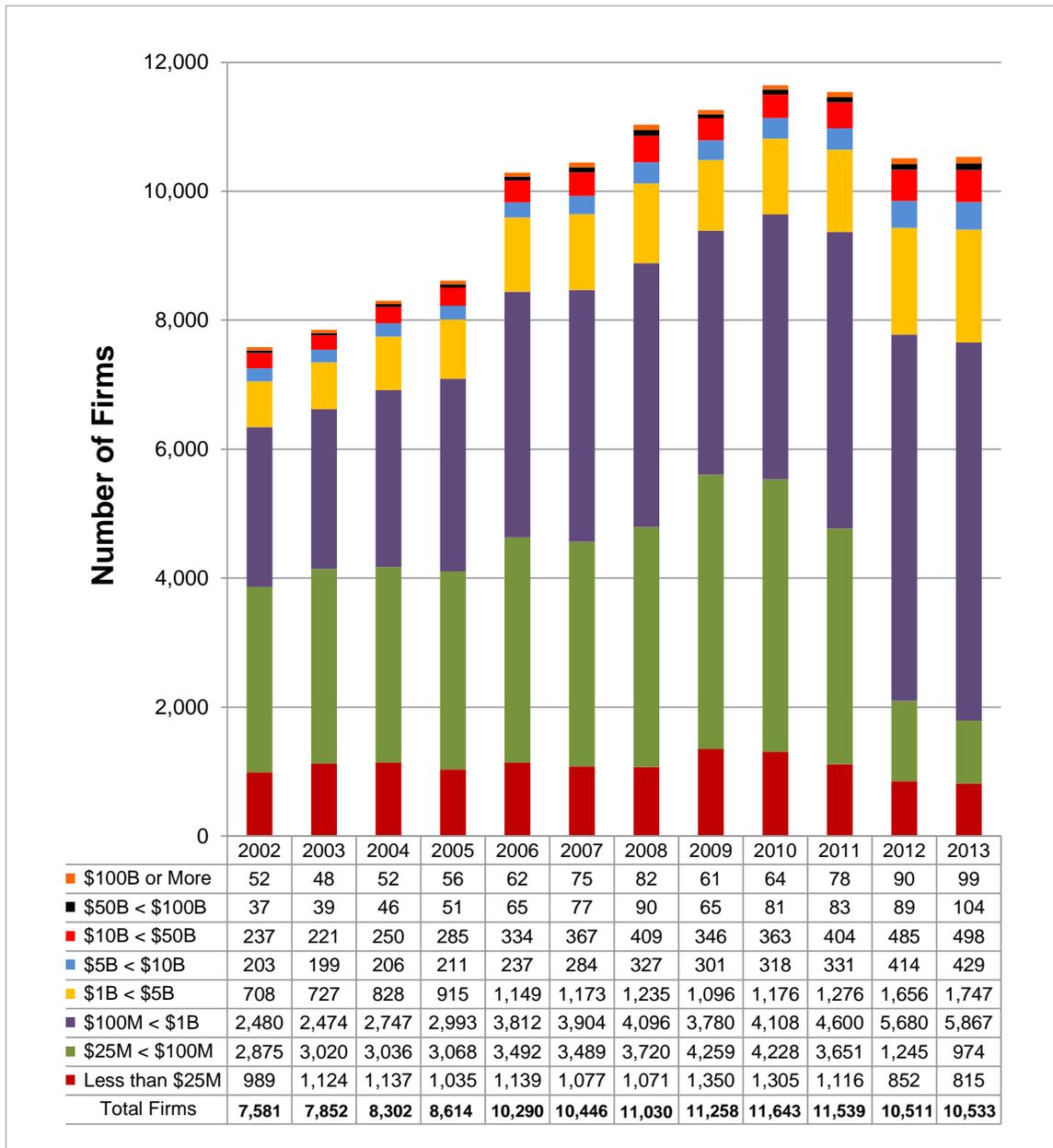


The IAA keeps us abreast of U.S. issues and best practices.”

GENERAL COUNSEL, \$34B AUM



## SEC-REGISTERED INVESTMENT ADVISERS BY RAUM



Source: "2013 Evolution/Revolution: A Profile of the Investment Adviser Profession."  
Investment Adviser Association and National Regulatory Services (2013)

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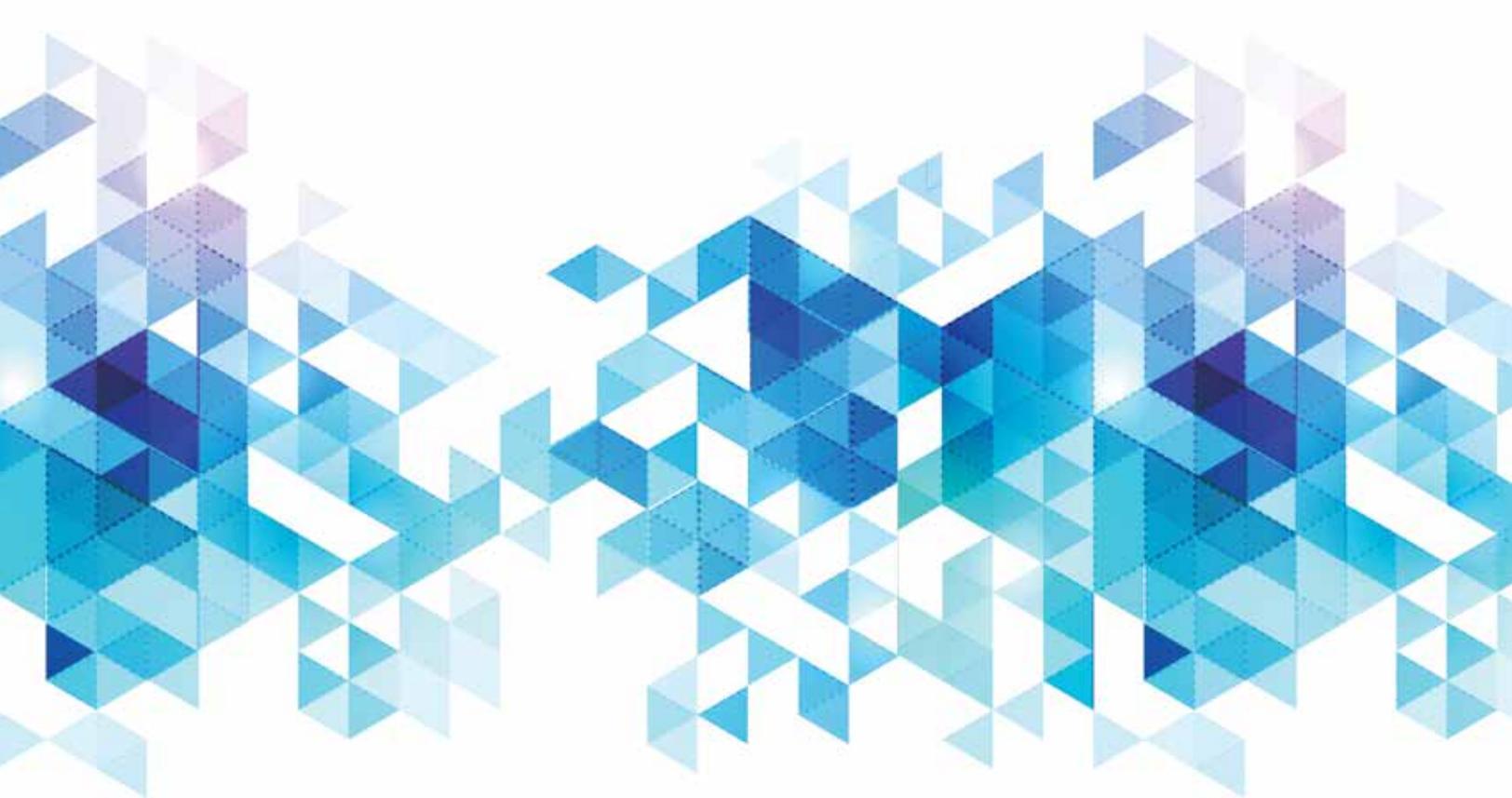
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