Letter from President & CEO and Board Chair

The State of the Investment Adviser Profession in 2018: Employment, AUM, Number of Firms Hit Record Highs, Executives Optimistic About Business Prospects

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IAA 2018 Board of Governors and Officers
For more than 80 years, the Investment Adviser Association has been proud to serve as the leading voice advancing the interests of SEC registered investment advisory firms before policymakers, investors, and the public. This year, with the active involvement of our members, we engaged in ever stronger and more influential advocacy on the most critical policy challenges facing the investment adviser community.

The IAA has been at the forefront of the longstanding — and still ongoing — fiduciary debate that the SEC entered with a bundle of rulemaking proposals introduced in April — and which SEC Chairman Jay Clayton vows to adopt in final form in 2019. Those proposals address the standards of conduct that advisers and broker-dealers are held to and how they can market themselves to investors, and will impact the landscape for investment advice for years to come. Through a series of comment letters and dialogue with Chairman Clayton, his fellow Commissioners, and SEC staff, we have been tireless in preserving the Advisers Act fiduciary duty that has defined our profession and protected investors for more than 75 years — while working to ensure that investors understand their relationships with their financial professionals.

The IAA took a major step toward addressing another, ongoing issue that has negatively affected many of our members by confronting the conventional wisdom pitting active management against passive management. In 2018, the IAA Active Managers Council — formed to provide education about the value of active management — made significant progress in countering the false active vs. passive dichotomy and instilling a more balanced conversation about the roles that both active and passive play in investment management and the markets. The Council now has 20 member firms that have funded significant research, communications, and advocacy efforts to educate investors, policymakers, and the public about active and passive management. The early success of our campaign — including important academic literature challenging the conventional wisdom — is detailed later in this publication.

Our grassroots advocacy and Capitol Hill outreach expanded significantly in 2018 — with greatly increased participation by member firms in our most successful Adviser Advocacy Day yet and in our letter-writing and other grassroots campaigns. Our strong efforts helped keep Rothification and Mandatory FIFO out of the new tax legislation, and we continue to advocate on tax and retirement policy issues to incentivize investors to save for retirement and seek advice from investment advisers. And our proactive support — cited publicly by House Financial Services Committee Ranking Member Maxine Waters (D-Calif.) — guaranteed inclusion of legislation to ease the regulatory burden of SEC rules on smaller advisory firms in a bipartisan capital formation package referred to as JOBS Act 3.0. The IAA will be campaigning anew for those and other measures when the new Congress is sworn in.

And in 2019, we will continue — and strengthen — our programs to help our members solve business imperatives, through our series of Executive Roundtables around the country, our popular peer-to-peer sessions at the IAA’s Leadership Conference, our surveys on critical challenges and best practices, our forums and working groups, and many other programs and resources.

We look forward to working with all of our members in 2019 — to strengthen an already trusted voice in critical policy arenas, and to provide enhanced services and resources of even greater value to you. As always, we welcome your suggestions and feedback.

Karen L. Barr
IAA President & CEO

Jane H. Williams
Chair, IAA Board of Governors
The universe of SEC-registered investment advisers continued its rise in 2018 – reaching record highs in number of advisers, employment and aggregate regulatory assets under management (RAUM), which topped $82.5 trillion. Executives at IAA member firms report optimism about their firms’ near-term business prospects and plan to increase their headcounts as a result. Cybersecurity concerns continue to vex both executives and compliance professionals, who identify cybersecurity as their number one worry.
The Advisory Industry by the Numbers

The IAA’s analysis of Form ADV data submitted to the SEC in April by 12,578 federally registered investment advisers – contained in our 2018 Evolution Revolution report – paints a picture of a robust industry whose role in serving investors, our capital markets and the U.S. economy is growing ever more crucial. By all measures, the investment adviser industry is experiencing strong growth that’s indicative of a desirable business model for financial services professionals and an expanding market for advisory services.

Our key findings:

- **The number of SEC-registered investment advisers continues to grow** – and has reached a record high of 12,578 firms – a net increase of 3.3 percent over 2017.

- **The industry continues to experience strong job growth, creating a record number of investment advisory positions.** In 2018, SEC-registered advisers reported a total of 805,623 non-clerical employees – up 3.6 percent since 2017. Of these employees, more than half (415,971) provide investment advisory services (including research) – a healthy increase of over 15,000 since 2017.

- **The aggregate RAUM managed by SEC-registered advisers has grown substantially** to a record $82.5 trillion – up 16.7 percent from 2017’s total. This RAUM growth is likely primarily a function of strong stock market performance in the past year.

- **The vast majority of SEC-registered investment advisers are small businesses.** Small businesses remain the core of the investment adviser industry. In 2018, 56.8 percent (7,147) of advisory firms reported that they employ 10 or fewer non-clerical employees, and 87.5 percent (11,011) reported employing 50 or fewer individuals. At the opposite end of the spectrum, the largest 108 firms employ 52.5 percent of all non-clerical employees in the entire industry.

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**Individuals Comprise the Largest Categories of Advisory Clients**

<table>
<thead>
<tr>
<th>Total Clients (excluding certain non-discretionary accounts)</th>
<th>31,049,690</th>
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<tr>
<td>HNW Individuals</td>
<td>3,992,937</td>
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<tr>
<td>Non-HNW Individuals</td>
<td>25,409,658</td>
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**The Vast Majority of Advisers are Small Businesses with 50 or Fewer Non-Clerical Employees**

<table>
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<tr>
<th>Total</th>
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<tr>
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<td>10 or Fewer</td>
<td>7,147</td>
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SEC-registered investment advisers serve more than 34 million clients – based on a new, more precise reporting method. Individuals comprise the largest category of advisory clients. Individual clients (94.1 percent) – in particular, non-high net worth individuals (81.8 percent of total clients) – comprise the vast majority of clients by a wide margin. High net worth individuals make up 12.3 percent of total clients. Investment advisers manage $9.9 trillion on behalf of individuals.

The bulk of RAUM resides in pooled vehicles. Registered investment companies ($29.0 trillion) and private investment vehicles ($19.9 trillion) together represent $48.9 trillion – nearly 60 percent – of the total $82.5 trillion RAUM.

Private equity funds are becoming more prevalent than hedge funds. In 2018, 4,654 advisers reported advising 36,095 private funds with a total gross asset value of $13.3 trillion (up from 4,574, 34,409, and $11.5 trillion, respectively, in 2017). While the percentage of hedge funds and private equity funds was exactly equal two years ago their popularity as a pool of choice has diverged, with private equity funds making gains (advisers reported 1,104 additional private equity funds) as the number of hedge funds declined. Private equity funds now make up 38.5 percent of privately offered funds and hedge funds represent 31.7 percent in the private fund space.

The 2018 "Typical"* SEC-Registered Investment Adviser

- Most of its clients are individuals
- Highly likely to have at least one pension/profit sharing plan as a client
- $359 million in regulatory assets under management
- 9 employees
- 124 accounts
- U.S.-based limited liability company headquartered in NY, CA, TX, MA, IL, FL, PA, CT, NJ, or OH
- Exercises discretionary authority over most accounts
- Does not have actual physical custody of client assets or securities
Nearly three-quarters of advisers have RAUM attributable to separately managed accounts, but relatively few advisers engage in borrowing or derivative transactions in SMAs. 8,690 advisers (71.8 percent) have RAUM attributable to separately managed account clients. It is more common for smaller advisers to invest 100 percent of their clients’ SMA RAUM in a single asset type than it is for larger advisers. 1,396 advisers (11.1 percent) engage in borrowing transactions on behalf of any of the separately managed account clients that they advise. 1,540 advisers (12.2 percent) engage in derivative transactions on behalf of any of the separately managed account clients that they advise.

Over the past five years, the number of investors receiving investment advice from our industry has grown 20 percent, while the number of advisers has grown 13.9 percent.

### The Executive Outlook

IAA member firm executives this year expressed strong optimism about their near-term business prospects – so strong, in fact, that fully 80 percent of them said they plan to grow their workforces and nearly 60 percent anticipate significant increases in their AUM over the next three years.

Nearly two-thirds of executives participating in our 2018 Executive Outlook survey said they plan to grow their headcounts by up to 10 percent, while 14.7 percent said they plan to increase their staffs by more than 10 percent. Moreover, the majority of respondents view focusing on the hiring, training, and retention of talent as key – it ranks among their top three strategic priorities, measures of profitability, and areas to receive increased budgetary resources.
Another key measure of executive optimism: 57 percent of participants whose clients are individuals expect their firms to increase AUM over the next three years. Fifty-nine percent of participants with institutional clients expect their AUM to increase over the same period.

While the survey found that executives’ overall outlook is positive, it also identified several areas of rising concern. Asked to rate their level of concern regarding external factors over the next two years, participating executives identified cybersecurity (97 percent moderately or very concerned); potential significant market crisis (95 percent); the domestic regulatory environment (85 percent); fee compression (83 percent); the country’s international relations (74 percent); the non-U.S. regulatory environments (58 percent); tax reform (43 percent); globalization (43 percent); and Brexit (35 percent).
Executives were virtually unanimous in identifying development of the next generation of talent as the most important initiative for ensuring firm profitability. Fully 97.2 percent identified talent development as important – with 54.3 percent calling it “very important” and another 42.9 percent calling it “moderately important.” Other priority initiatives included increasing scale (91.4 percent); improving the firm’s service model (85.8 percent); reducing costs (80 percent); and compensation analysis and adjustments (60 percent).

Compliance Challenges and Concerns

For the fifth year in a row, cybersecurity remains far and away the major compliance concern at registered investment adviser firms – with 81 percent of the more than 450 compliance professionals responding to the IAA’s 2018 Investment Management Compliance Testing Survey identifying cybersecurity as the “hottest” compliance topic – and nearly two-thirds indicating that their firms increased compliance testing in this area over the past year.

Issues relating to the SEC’s Advertising Rule ranked as the second hottest compliance topic (29 percent) – not surprising, given the SEC’s recent focus in this area. This includes concerns raised by the SEC staff in a published Risk Alert regarding the most commonly cited Advertising Rule deficiencies in examinations and the agency’s consideration of potential amendments to the Advertising Rule. Other areas of concern identified by respondents were issues relating to custody, with 28 percent of survey respondents identifying it as the third hottest topic and many expressing concerns with custody-related disclosures in Form ADV. Issues relating to privacy rounded out the top four compliance concerns.

Among the survey’s key findings:

• **Cybersecurity:** 83 percent of firms reported conducting cybersecurity assessments, including software patches (76 percent), network penetration tests (73 percent), and vulnerability assessments (72 percent). Nearly two-thirds of respondents increased the type, scope, and/or frequency of compliance testing in the area of cybersecurity. A common response to how firms have enhanced their cybersecurity program is that they now conduct phishing tests of employees.

• **Advertising/Social Media:** The most common controls relating to advertising are requiring formal pre-approvals by CCOs (67 percent) and requiring pre-clearance with interactions with the media (54 percent). The vast majority of firms reported having related written policies and procedures (86 percent) and common testing of marketing activities include reviewing the firm

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Have not purchased a cybersecurity insurance policy

| Firms with AUM under $1 Billion | 55% |
| Firms with AUM between $1 Billion and $20 Billion | 48% |
| Firms with AUM over $20 Billion | 24% |
website (70 percent) and conducting focused reviews of newly-created documents (64 percent). The use of social media is on the rise, but slightly, with 32 percent of firms reporting that they are not using social media. According to the survey, firms’ use of social media is mostly on a very limited “business card” basis.

- **Custody:** The top three controls relating to safeguarding client assets are conducting background and credit checks on access employees (55 percent), providing custodians with a list of authorized employees (52 percent), and limiting employees who are authorized to transmit trade orders (51 percent). With respect to the SEC staff’s February 2017 custody guidance, survey respondents cited complying with the SLOA no-action letter and conducting due diligence regarding inadvertent custody as steps they have taken to avoid or limit having custody since the guidance was issued.

- **Best Execution:** The vast majority of survey respondents (88 percent) evaluate best execution with respect to the following types of transactions: equities (81 percent), fixed income (44 percent), derivatives (18 percent), and foreign currency transactions (17 percent). A majority of respondents (53 percent) never accept client-directed brokerage whereas less than one-third (24 percent) almost always do so without imposing limits.

- **Use of Automation:** Close to 70 percent of respondents use some form of technology in their compliance program, with the most common usage involving personal trading/code of ethics, gifts and entertainment, political contributions, and client guidelines. Over half of survey respondents anticipate increasing their use of technology.

- **Cryptocurrency:** Despite the SEC’s recent focus on issues relating to cryptocurrency, virtually all survey respondents reported that their firms do not trade in cryptocurrency. A majority of survey respondents reported that their codes of ethics relating to employee trading do not contemplate cryptocurrencies; only 10 percent require pre-clearance for initial coin offerings.

All three of the IAA’s annual industry surveys are available on the IAA website ([www.investmentadviser.org](http://www.investmentadviser.org)) under the **Publications** tab on the homepage. **Evolution Revolution** is produced in partnership with National Regulatory Services (NRS). **Executive Outlook** is produced in partnership with the Boston-based research firm Cerulli Associates. The **Investment Management Compliance Testing Survey** is produced in partnership with ACA Compliance Group.
The spotlight on the standards of conduct for brokers and advisers, potential inapt FINRA-style rules for advisers, the proxy voting system, and retrospective review of existing rules... along with congressional focus on taxes, capital formation, and the regulatory burdens on small firms... presented new opportunities and new obstacles for investment advisers in 2018. The IAA – with the assistance of member firms – devoted considerable resources to educating lawmakers and regulators about what sets investment advisers apart from others in the financial services ecosystem, underscoring our profession’s crucial importance to investors, to the capital markets, and to the economy.
Legislative Advocacy

As the leading voice for investment advisers on Capitol Hill, the IAA actively engaged with policymakers to promote the importance of investment advisers to investors, the capital markets, and the economy. We continued our longstanding efforts to maintain the SEC’s primacy in investment adviser regulation and oversight against encroachment by both banking regulators and non-governmental third parties, including FINRA. And the IAA continued to educate appropriate legislators and their staffs about the unique responsibilities, fiduciary obligations, and business models that differentiate advisers from other actors in the financial services industry. We also furthered our efforts to highlight the burdens of one-size-fits-all regulation on small business and the cumulative impact of regulations on all businesses.

In addition to advancing these overarching policy initiatives, the IAA successfully lobbied on advisers’ behalf, both directly and by engaging members in grassroots efforts:

We increased our focus on tax issues, successfully advocating for advisers on two proposed provisions of the 2017 Tax Cuts and Jobs Act (TCJA) that threatened advisory firms and their clients – namely, Rothification and Mandatory FIFO. Both were dropped from the bill that was enacted into law. And we worked in 2018 to lay the groundwork to gain revision to two unfavorable provisions of the TCJA that were adopted. The first provision eliminated the previously available deduction for investment advisory fees that was available to taxpayers whose itemized business deductions exceed two percent of their adjusted gross income (and who were not subject to AMT). The other provision rendered owners of service businesses, including advisory firms, ineligible for the new 20 percent deduction for pass-through businesses.

The IAA proactively supported a number of specific pieces of federal legislation impacting advisers this year. The IAA worked closely with the House Financial Services Committee on the development of, and support for, legislation to ease the regulatory burden of SEC rules on smaller advisory firms. This led to the House of Representatives approving the “Investment Adviser Regulatory Flexibility Improvement Act” on July 17 as part of a bipartisan capital formation package referred to as JOBS Act 3.0. If enacted, the proposed Act would force the SEC to apply the RegFlex law.
and better tailor its regulations to smaller advisers. The IAA also supported two other bills in the JOBS Act 3.0 package, one that would expand the definition of “accredited investor” and another that would limit the SEC’s ability to require stress testing by certain asset managers.

Another issue that the IAA has been closely monitoring is regulation of proxy advisory firms. We object to regulation that would make proxy advisory firms’ services more expensive for advisers and their clients, and we sent a letter to the Senate Committee on Banking, Housing, and Urban Affairs in connection with a December hearing that the Committee held on the proxy process and rules.

Central to the IAA’s legislative advocacy efforts are regular meetings with lawmakers and their staffs, including during our annual Adviser Advocacy Day. Representatives of member firms convene in Washington, DC, receive issues briefings from our Government Relations staff, and attend pre-arranged meetings with legislators and staff members to advance specific legislation and the interests of the investment advisory profession in general.

A record number of members participated in the expanded 11th Annual IAA Advocacy Day in June, visiting the offices of more than 70 House and Senate members, where – in addition to the specific bills noted above – top issues included the ever-rising costs of compliance; fiduciary duty; the importance of regulators not favoring passive over active management; SEC oversight of advisers; the risks of outsourcing compliance.
Regulatory Advocacy & Engagement

As the premier advocate for SEC-registered investment advisers, the IAA advocates vigorously for a regulatory environment that is more efficient, effective, and appropriately tailored for investment advisers. Our advocacy is multi-faceted, involving substantial comment letters and numerous contacts with agency leadership and staff, as well as with other associations, stakeholders, and the media.

Our most important regulatory advocacy efforts in 2018 focused on the SEC’s package of proposals relating to the standards of conduct for investment advisers and broker-dealers. The IAA submitted four separate comment letters, testified before the SEC’s Investor Advisory Committee, and engaged in numerous meetings with SEC leadership and staff. And we have continued our work on fiduciary issues on Capitol Hill, with various states, and with respect to DOL developments.

The IAA has engaged strategically on issues related to proxy voting, including strongly opposing efforts to restrict advisers’ use of proxy advisory firms. We also met with and commented to the Treasury Department on its consideration of regulation related to financial innovation and use of technology, responded to a proposal by the five federal agencies to amend the Volcker Rule regulations, commented to the SEC on liquidity risk management, and submitted a letter to the CFTC on proposed rules intended to simplify and streamline certain examinations to third parties; FSOC and the threat posed by imposing bank-type regulations on advisers; cybersecurity; retirement issues; and tax reform.

Detailed information about the IAA’s legislative priorities is available in the Advocacy section on the home page of the IAA website, www.investmentadviser.org. Comprehensive briefing materials are available in the Key Issues and Take Action Now sections of the IAA website home page.
requirements of commodity pool operators (CPOs) and commodity trading advisors (CTAs). In addition, we submitted comments to the CFA Institute on its Global Investment Performance Standards (GIPS) 2020 Exposure Draft and engaged in advocacy with non-U.S. regulators on the likely impacts of their proposed regulation on U.S. advisers on various fronts.

Beyond responding to specific proposals and requests for public input, the IAA is proactive in our advocacy, playing a leading role in furthering our policy priorities and ensuring that our members’ concerns are heard by their regulators. For example, we continued to push strongly in 2018 for retrospective review of outdated rules and were pleased that, in response to our efforts, the SEC placed two of these rules – advertising and custody – on its regulatory agenda this year. We also proactively engage with regulators on interpretive issues. For example, we submitted a joint letter to the SEC Division of Investment Management staff on one aspect of its February 2017 guidance on inadvertent custody and, on other aspects of that guidance, our advocacy resulted in helpful FAQs.

Standards of Conduct & Fiduciary Duty Issues

The SEC proposed a comprehensive rulemaking package in April designed to strengthen the standard of conduct for broker-dealers making securities-related recommendations to retail investors. The package also aims to reaffirm, and in some cases clarify, the fiduciary duty under the Advisers Act; require advisers and broker-dealers to provide retail investors with a new short-form disclosure, or relationship summary; and restrict use of the titles “adviser” and “advisor” by stand-alone brokers. The SEC also asked for comment on whether it should consider additional regulation of investment advisers in certain areas.

The IAA submitted four comment letters in response to the package of proposals. We also held numerous meetings with the SEC Chairman, Commissioners, and staff – with the IAA Board of Governors and representatives from member firms on the IAA’s Legal & Regulatory Committee and Fiduciary Working Group participating in several of those meetings. The IAA’s Digital Adviser Committee also met with the SEC staff working on the standard of conduct proposals to address how the proposals are likely to affect digital advice.

While the IAA supports the goals of the proposals, we have raised a number of concerns. We reiterated our longstanding position that it is not necessary for the SEC to formalize the Investment Advisers Act fiduciary duty either in a rule or in a Commission interpretation. However, should the Commission determine to adopt an interpretation of that duty as proposed, we urged it to refine certain aspects of the proposal to align it more closely with how advisers understand and implement their fiduciary duty. With respect to the Commission’s proposal to enhance the standard of conduct for broker-dealers, we expressed concern that the new standard as proposed is exceedingly narrow, applying only to and at the time of a specific securities-related recommendation. We
also asked that the Commission more appropriately define what advice is "solely incidental" to brokerage activity, and that it formally state that discretionary advice is not "solely incidental." We made the point that the Commission should directly address misleading marketing practices by broker-dealers that hold themselves out as providing ongoing investment advice while disclaiming that they do so.

In response to the proposed new relationship summary, we support the Commission’s goal of helping investors understand the key aspects of their relationship with their financial professional, but do not think that the proposed form would achieve this goal and would more likely add to investor confusion. We submitted an alternative form to the SEC that we believe would be more effective. We urged the SEC to conduct rigorous investor testing of the proposed form as well as alternative disclosures before finalizing any new disclosure requirements. In November, the SEC published a report of an investor survey that in many ways supported the IAA’s recommendations, but that was also flawed in a number of respects. For example, the survey asked whether investors understood the information in the proposed relationship summary, but acknowledged that it did not test for whether that understanding was accurate. We submitted comments on that report in December, raising this and other concerns.

Finally, the SEC’s package of proposals asked for comment on whether the SEC should consider additional regulation of investment advisers in the areas of financial responsibility, provision of client account statements, and federal licensing and continuing education for investment adviser representatives. The IAA strongly opposes all such regulation, arguing in our comment letter that these types of regulations are inapt for advisers and would not in any event effectively address the Commission’s investor protection concerns.

In addition to our comment letters directly addressing the proposals, IAA President & CEO Karen Barr was invited to and did testify before the SEC’s Investor Advisory Committee on the proposals. She also submitted a written statement for the record on the IAA’s preliminary positions on the proposals. We have also sought to educate the media and the public on these important issues, including submitting an op-ed that was published in InvestmentNews to set the record straight.

Finally, as discussed below, we have engaged with state regulators to ensure that their efforts to address fiduciary issues are consistent with preemption of state regulation of SEC-registered investment advisers and we continue to work with members to evaluate the impact of a court decision vacating the DOL Fiduciary Rule and future DOL activity with respect to these matters.

**Interpretation and Retrospective Review of Advisers Act Rules**

The IAA has pursued our longstanding efforts to urge the SEC to modernize and streamline outdated, overly complex, and burdensome rules. And, as always, we engage with SEC staff on interpretive issues under the Advisers Act rules and guidance.
Custody

Inadvertent Custody Guidance. Throughout 2018, the IAA has continued to actively advocate for changes to the SEC’s inadvertent custody guidance. The guidance notes that an adviser could have “inadvertent” custody if its client's custody agreement provides that the adviser has certain authority, even if the advisory agreement itself does not confer that authority on the adviser. The Division of Investment Management staff was responsive to our concerns and addressed this aspect of the guidance through two new FAQs in June.

We further engaged with the SEC staff, IAA members, and other trade associations to seek relief from another aspect of the guidance stating that the authorized trading exception under the Custody Rule does not apply to transactions beyond those that settle on a “delivery versus payment” basis. In March, we submitted a detailed letter, jointly with another industry group, to the Directors of the SEC’s Division of Investment Management and OCIE. We explained our members’ understanding of the Custody Rule, the serious consequences of the change in interpretation raised by the guidance, and the types of controls that investment advisers already have that are reasonably designed to address the risk of misappropriation. We will continue to press the SEC staff strongly on this issue in 2019.

Modernizing the Custody Rule. The IAA has long pressed for a retrospective review of this overly complex and burdensome rule and we are pleased that the SEC has agreed that amending the Custody Rule is an important priority on the official regulatory agenda. We look forward to working with the SEC to rethink how this rule can more effectively and efficiently protect investors in a more appropriately targeted manner.

Minimizing Impact on Smaller Advisers. We have also urged the SEC to amend the Custody Rule to minimize its significant economic impact on smaller advisory firms. We submitted a comment letter in December in response to the SEC’s publication of a list of rules to be reviewed pursuant to the Regulatory Flexibility Act – including the Custody Rule – asking the SEC to follow through on its earlier promise to assess the burdens that that rule – in particular the surprise exam requirement – disproportionally imposes on smaller advisers. We also continue to press the SEC to update its definition of “small business” to cover smaller SEC-registered advisers. Currently, the SEC defines a “small business” as one with less than $25 million in AUM – while, with few exceptions, the threshold for registering with the SEC is $100 million or more in AUM.

The review is for purposes of the Regulatory Flexibility Act, which requires the SEC to assess the impact of its proposed rules on small businesses. We commend the SEC for undertaking to review whether many of its rules would benefit from modification and to assess their impact on small businesses. However, the SEC’s definition of small business for these purposes is so narrow that it basically doesn’t apply to SEC-registered investment advisers. Therefore, we would like the Commission to amend
the definition of “small entity” in order to assess the impact of its regulations on a more realistic universe of smaller advisers, and especially bear in mind the impact of the custody rule on smaller advisers. The custody rule has been a burdensome, complicated, and costly undertaking for advisers and we are pleased that the SEC is reviewing it in this context, as well as including it on its long term agenda for revision.

**Advertising and Cash Solicitation Rules**

At the IAA’s longtime urging, the SEC is considering potential amendments to modernize the Advertising Rule under the Advisers Act and is throwing in the Cash Solicitation Rule for good measure. Because the Advertising Rule has not been updated since 1961 and does not function effectively in today's environment, this is largely a positive development for investment advisers that engage in any sort of marketing-related activities, including via a website, social media, or email.

Throughout 2018, the IAA actively engaged with members through the IAA’s Advertising Working Group to develop positions and recommendations to present to the SEC, and also engaged with the SEC staff working on this rulemaking to discuss our members’ concerns and recommendations. We stressed in our meetings with the staff that the rule and its complex maze of enforcement actions and staff no-action letters are difficult to decipher and apply to evolving circumstances, and that the SEC should carefully consider the role technology plays in how investors communicate and obtain information today and into the future.

We have also pressed the SEC to reconsider its treatment of any advertisements that refer to either client testimonials or past specific recommendations as per se fraudulent. These meetings have been an important part of our ongoing dialogue with the SEC as we remain committed to advocating for a regulatory framework governing advertisements that is more principles-based and less rigid and that provides much needed clarity to investment advisers with respect to their marketing activities.

**Proxy Issues**

The IAA has been actively engaged in ensuring that investment advisers’ proxy votes are counted and that advisers remain able to retain proxy advisory firms to assist them in their proxy voting duties. The IAA strongly objects to measures that would restrict the use of proxy advisory firms by investment advisers, and to regulation of proxy advisory firms that would make their services more expensive for advisers and their clients. The IAA has shared these views with SEC Commissioners and staff, including in a comment letter we submitted to the SEC in December. And we worked with members and other interested parties to ensure that advisers’ perspectives were heard at an SEC Roundtable on proxy voting issues. We also shared our perspectives with members of Congress and their staffs in meetings during our Adviser Advocacy Day in response to legislation introduced that would require proxy advisory firms to register with the SEC, as well as in a letter we submitted to the Senate Banking Committee in December in connection with a hearing it held to explore proxy voting issues. The IAA’s position on
this issue was featured in *The Wall Street Journal* in September 2018 in a letter to the editor from IAA President & CEO Barr and more recently in several news articles discussing proxy voting issues.

**Liquidity Risk Management Rule Disclosure**

In May, the IAA submitted a comment letter to the SEC on its proposed amendments to the disclosure requirements related to the prescriptive Liquidity Risk Management Rule (Rule 22e-4) under the Investment Company Act. The letter focused on the rule’s classification requirements and related proposed amendments to Form N-PORT, which is a new monthly portfolio report for mutual funds. The IAA urged the SEC to take the opportunity to amend the Liquidity Risk Management Rule to align with the Treasury Department’s 2017 recommendation that the SEC reverse its highly prescriptive approach to liquidity under current Rule 22e-4. That requirement mandates classifying each portfolio holding into four uniform buckets of liquidity identified in the rule.

Based on member feedback, we argued that the SEC’s stated benefits and goals will not be achieved by the rule’s current classification approach. We recommended that bucketing should not be a required element of liquidity risk management, given that other elements of the rule already achieve the SEC’s goals and the costs of the bucketing requirement would outweigh any marginal benefits. However, we also noted that if the SEC nevertheless decided to retain the classification requirement, we supported the proposal to rescind the public aggregate liquidity classification disclosure.

The SEC has stated that it will evaluate whether to propose amendments to the rule to move to a more principles-based approach, which is consistent with the IAA’s recommendation. We were also pleased that the SEC has stated that it will also engage in a retrospective review of the disclosure rule after the compliance date, including monitoring implementation of costs and benefits. The IAA will continue to monitor implementation of the rule and disclosure requirements on behalf of members through 2019 and consider additional feedback to the SEC.

**Department of Labor/ERISA Issues**

In March 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the DOL Fiduciary Rule, finding that the DOL exceeded its authority under ERISA when it revised its definition of “fiduciary.” The Court did not issue a mandate to formally vacate the rule until June 2018. In May 2018, the DOL, acknowledging uncertainty after the Fifth Circuit opinion, announced that it was extending its temporary enforcement policy. Under that policy, the DOL will not pursue certain prohibited transaction claims against investment advice fiduciaries who are working diligently and in good faith to comply with the impartial conduct standards. The IAA’s DOL Committee held a meeting to discuss compliance issues following the court ruling. The Committee also discussed a DOL Field Assistance Bulletin regarding environmental, social and governance (ESG) investment considerations and shareholder engagement, and an Executive Order on
retirement savings. In October 2018, in response to that Executive Order, the DOL proposed a rule designed to expand the use of Multiple Employer Retirement Plans. The IAA will continue to be actively engaged with members on continued developments on the fiduciary front and other ERISA issues through the IAA’s DOL Committee.

Federal Pre-Emption of State Regulation of SEC-Registered Advisers

The IAA continues to monitor and respond to state developments to ensure that they do not violate the National Securities Markets Improvement Act of 1996 (NSMIA), which provides that states may not adopt any regulations, interpretations, or guidance that would have the effect of substantively regulating SEC-registered investment advisers. Several state legislatures and regulators continue to consider modifications to their standards of conduct for financial professionals doing business in their states. The IAA has engaged with the states of Nevada, New Jersey, and Washington, among others, and will respond to any other state efforts to impose substantive requirements on our members that are counter to NSMIA.

Treasury Department & Technology Innovation

The IAA also continued to engage with the Treasury Department on its review of all financial regulations pursuant to an Executive Order signed by President Trump. In 2018, Treasury tackled its fourth and final report to the President under this order, in which it addressed nonbanks and financial technology and innovation. The IAA arranged and participated in two meetings with Treasury staff – the first with members of the IAA’s Digital Adviser Committee, and the second with large asset manager members actively exploring the use of innovative technology in their businesses. The IAA submitted a letter to Treasury following these meetings, laying out several general principles for Treasury to consider as it makes recommendations on regulation in this area. The value of our advocacy was demonstrated by the inclusion of several of our recommendations in the final Treasury report. The IAA’s larger firm Technology Innovation Committee will continue to tackle these issues from both business/technology and regulatory/compliance perspectives.

The Volcker Rule

2018 saw a significant regulatory proposal to improve the Volcker Rule regulations to provide banking entities with clarity about which activities are prohibited and to improve implementation of the statute. To ensure that certain specific issues that directly affect investment advisers that have a bank affiliate are considered in any amendments, the IAA weighed in with a comment letter to the five responsible federal agencies: the Office of the Comptroller of the Currency, the Federal Reserve, the FDIC, the SEC, and the CFTC.

We worked with members of the IAA’s Bank-Affiliated Asset Managers Compliance Forum to make recommendations that we believe would address concerns of bank-affiliated asset managers arising from implementation of the regulations. Our comments focused primarily on recommending that the agencies eliminate an unworkable new accounting prong test for
whether transactions are proprietary trading, exclude all registered investment companies and their foreign equivalents from the banking entity definition, and make several modifications to the definitions under the covered funds provisions.

**Continuing Education for Adviser Personnel**

The North American Securities Administrators Association (NASAA) is considering developing a *continuing education program for investment adviser representatives* (IAR-CE), including those employed by SEC- and state-registered investment advisers. NASAA conducted a survey in 2018 to help determine the next phase of this project, and 56 percent of the respondents to the survey indicated that they already are subject to a continuing education requirement. NASAA described IAR-CE as a continuing education requirement that IARs would have to satisfy in order to maintain their state licenses. IARs who have other licenses or professional designations may be able to use training required for those licenses or designations to satisfy a portion of any potential IAR-CE requirement. The IAA provided feedback to NASAA on this initiative and will continue to press our members’ concerns about duplicative and burdensome requirements into 2019.

**Global Investment Performance Standards 2020**

A large number of our members claim compliance with GIPS, a voluntary set of global standards for presentation by investment advisers of performance information, adopted by the CFA Institute. IAA staff monitors and analyzes GIPS developments with the assistance of the IAA’s *GIPS Compliance Forum*, and weighs in with the CFA Institute to obtain guidance where necessary and ensure that members’ concerns are considered before changes are made to the standards. 2018 saw a CFA Institute proposal that would make **significant changes** to GIPS (GIPS 2020). We convened a forum call for members to hear from the Executive Director of the GIPS Standards and, in December, submitted a comment letter responding to the proposal. We have urged the CFA Institute to conduct a rigorous cost-benefit assessment, keep its standards simple, provide safe harbors for already-regulated activity, and retain flexibility in keeping with the voluntary nature of GIPS. We will continue to engage with the CFA Institute in 2019 on this and other GIPS issues.

**Commodity Futures Trading Commission**

Aided by the IAA’s *CFTC Committee*, we were actively engaged in 2018 in representing the interests of our members acting as *CPOs and CTAs* before the CFTC and the National Futures Association (NFA). Members continue to face challenging interpretive and practical issues from post Dodd-Frank changes to the definitions of CPO and CTA, including duplicative and inconsistent CFTC and SEC regulation of SEC-registered advisers.

The IAA worked with members and met with CFTC and SEC Commissioners and NFA staff to advocate for improvements in CPO and CTA regulation, including adopting greater **substituted compliance and harmonization** between CFTC and
SEC regulation. In January, IAA staff and members met with Commissioners to discuss the recommendations in our September 2017 letter to CFTC Chairman J. Christopher Giancarlo. We submitted the letter in response to the Chairman’s request for information under the Project KISS (“Keep It Simple, Stupid”) initiative, under which the CFTC announced its review of its existing rules, regulations, and practices to determine how to apply them in a simpler, less burdensome, and less costly manner. We also met with SEC Commissioner Hester Peirce to encourage the agencies to share information and work together to adopt substituted compliance where there are duplicative requirements.

In October, the CFTC proposed limited amendments to CPO and CTA registration and compliance rules under its Project KISS initiative, specifically citing the IAA’s 2017 letter. We had urged the CFTC to codify some of its guidance and no-action letters so that market participants can clearly understand their obligations, and the proposal addresses certain of our recommendations. We commented on this proposal in December and plan to continue to be proactive through 2019 in recommending suggested paths forward for a wide range of CFTC and NFA regulatory matters related to CPO and CTA registration and compliance. We also intend to engage with the CFTC on derivatives regulations affecting the “buyside,” including for example, margin, clearing, trading, and reporting requirements.

The IAA also continued in 2018 to engage with NFA staff to obtain information to aid members’ understanding of the NFA’s new quarterly disclosure of financial conditions by CPOs and CTAs that became effective in 2017. We also collected from our members and provided feedback to NFA staff on new potential guidance for internal controls for CPOs. The IAA will continue to seek interpretive guidance from the NFA as necessary in the coming year.

International Advocacy and Compliance Issues

The IAA also focused in 2018 on key areas affecting investment advisers and private funds on the international front.

We regularly updated members on international regulatory developments and arranged regular and ad hoc meetings of the IAA’s International Committee to discuss emerging issues relating to international compliance, regulation, and market access issues. In particular, Committee members discussed issues and exchanged information regularly throughout 2018 on the many potential challenges and implications of Brexit, as well as implementation issues relating to the new EU General Data Protection Regulation (GDPR) governing the processing of personal data of EU residents, and continuing implementation issues relating to MiFID II.

In January, the IAA submitted a comment letter to the European Commission (EC) regarding the EC’s Consultation on Institutional Investors and Asset Managers’ Duties Regarding Sustainability. We noted that the EC should preserve and not dilute the duty of asset managers to act in the
best interest of their clients by requiring consideration of specific ESG factors, which may not be relevant to each investment of each client. We also commented that specifying particular sustainability factors may run counter to the EC’s goals of efficient allocation of capital, and sustainable and inclusive growth. We stressed that as the demand for sustainable investing increases asset managers should be provided the flexibility to respond with new and innovative approaches.

In July, the IAA commented on the UK Financial Conduct Authority’s (FCA’s) consultation relating to the FCA’s earlier Asset Management Market Study. We supported the proposed guidance in the consultation for Authorised Fund Managers (AFMs) on communicating fund objectives and investment policies, noting that it would help investors and their advisers better understand available investment options. We also discussed active and passive management, highlighting the work of the IAA Active Managers Council, and emphasizing that government policies should not explicitly or implicitly favor one type of investment management over the other.

**Advocacy in the Year Ahead**

In the year ahead, the IAA will press our policy priorities with Congress, the SEC, CFTC, DOL, Treasury, the states, and international regulators to ensure an appropriate policy environment for investment advisers and their clients to thrive. We will continue our strong advocacy on the critically important SEC standard of conduct proposals and related state and DOL activity; improving tax policy for advisers and their clients; ensuring that policymakers tailor regulation to specific types of businesses, including small businesses; ensuring that advisers can continue to retain proxy advisory firms and improving the proxy process; appropriate cybersecurity and data protection regulation; and retrospective review of the Advertising Rule, Custody Rule, and electronic delivery rules. We will also engage with policymakers on domestic or international consultations raising issues related to active/passive management; a re-proposed SEC derivatives rule; and CFTC rules relating to CPOs and CTAs.

Internationally, we expect to continue to assist members in understanding and implementing MiFID II as well as the new GDPR regime.
The IAA formed the Active Managers Council in late 2017 to change the narrative on – and promote the value of – active management. The Council has already logged several significant achievements in its first full year.

Twenty IAA member firms have now joined the AMC – with eight serving on the Council’s Steering Committee and 12 at-large members. Chairing the Steering Committee is Benji Baer, Managing Director and Global Head of Product Marketing for J.P. Morgan Asset Management. Also playing leadership roles are:

- **Christine Carsman**, Executive Vice President, Deputy General Counsel & Chief Regulatory Counsel of Affiliated Managers Group, Inc., chairs the Council’s Policy Task Force,

- **David Lafferty**, Chief Market Strategist, Natixis Advisors, L.P., chairs the Council’s Research Task Force, and

- **David Loevner**, CEO of Harding Loevner LP and **Charles Mahar**, CEO/Chief Investment Officer of Tealwood Asset Management, are Chair and Vice Chair, respectively, of the Council’s Communications Task Force.

In 2018, the AMC launched a web portal ([www.activemanagers.com](http://www.activemanagers.com)) to advance our goal of reframing the public discussion of the value of active management, which has been questioned in recent years by the press and by policymakers. Through education, advocacy, and research, the AMC aims to create a more up-to-date, balanced narrative on active vs. passive management. The AMC challenges the narrative of active vs. passive as a false dichotomy that is a disservice to investors, the markets, and the economy. Instead, both active and passive management have important roles to play to meet investors’ goals.

The portal’s public-facing pages include a mission statement explaining the value of active management; a directory of AMC member firms; a substantial library of white papers, research, commentary and investing insights intended to inform investors and financial professionals; a Blog explaining various aspects of active management and research findings in plain English; a compilation of relevant news articles and press releases; and access to a speakers’ bureau with expert industry sources. The members-only section of the portal contains additional resources and a directory of member firms and contacts at each firm.
The portal includes the first research supported by the AMC, published September 24, **Challenging the Conventional Wisdom on Active Management: A Review of the Past 20 Years of Academic Literature on Actively Managed Mutual Funds**, a review of two decades of academic literature that concludes that “the conventional wisdom is too negative on the value of active management... Active managers have a variety of skills and tend to make value-added decisions such that, after accounting for all costs, many actively managed funds appear to generate positive value for investors.” The review — authored by Professors Martijn Cremers, Mendoza College of Business, University of Notre Dame; Jon A. Fulkerson, University of Dayton; and Timothy B. Riley, Sam M. Walton College of Business, University of Arkansas — has received much attention and media coverage with more than 7,000 views via SSRN, the main site used by academics to publish research, more than 2,254 downloads, and social media activity.

A second AMC-sponsored research paper, this one exploring the impact of active management on market activity, will be released in early 2019.

The portal also contains videos of **The Advantages of Active Management in a Powerful Portfolio**, a presentation at the IAA’s 2018 Leadership Conference in September on the value of active management — and how both active and passive investment strategies can work together to maximize benefits to clients. The panel featured Professor Cremers discussing his paper challenging the conventional wisdom on active management, as well as

**David Lafferty**, Chief Market Strategist, Natixis Advisors, L.P.; **Scott Gonsoulin**, Investment Manager, Teacher Retirement System of Texas; and **Anne Lester**, Head of U.S. Retirement Solutions for Global Asset Management Solutions, J.P. Morgan Asset Management. The panel was moderated by **Rolf Agather**, CFA, Managing Director of Research, FTSE Russell.

The IAA is pleased to support the AMC initiative, which we believe is a critically important issue for many IAA member firms. We welcome involvement by all interested members.
The Value of Active Management in a Powerful Portfolio was one of the key presentations at the IAA's 2018 Leadership Conference in Dallas. On the panel were (from left to right): moderator Rolf Agather of FTSE Russell; Professor Martijn Cremers of the University of Notre Dame; Natixis Advisors Chief Market Strategist David Lafferty; Investment Manager Scott Gonsoulin of the Teacher Retirement System of Texas; and Anne Lester, Head of U.S. Retirement Solutions at J.P. Morgan Asset Management.

AMC Steering Committee

Affiliated Managers Group, Inc.  
Prides Crossing, MA

Ariel Investments, LLC  
Chicago, IL

Fidelity Investments  
Boston, MA

Franklin Templeton Investments  
San Mateo, CA

Harding Loevner LP  
Bridgewater, NJ

Invesco Advisers, Inc.  
Atlanta, GA

J.P. Morgan Asset Management  
New York, NY

Natixis Advisors, L.P  
Boston, MA

At-Large AMC Members:

Clifford Swan Investment Counsel  
Pasadena, CA

Diamond Hill Capital Management, Inc.  
Columbus, OH

Edgewood Management LLC  
New York, NY

Frost Investment Advisors, LLC  
San Antonio, TX

Granite Investment Partners, LLC  
El Segundo, CA

Klingenstein Fields Wealth Advisors  
New York, NY

Luther King Capital Management  
Fort Worth, TX

Mairs & Power, Inc.  
St. Paul, MN

Oxbow Advisors, LLC  
Houston, TX

SouthernSun Asset Management  
Memphis, TN

Tealwood Asset Management  
Minneapolis, MN

Vulcan Value Partners, LLC  
Birmingham, AL
In this complex regulatory environment, the IAA furnishes valuable assistance to our members in understanding their compliance obligations and in providing crucial guidance and information for implementing efficient and effective compliance solutions. From the industry’s premier Investment Adviser Compliance Conference, to regional Compliance Workshops, to issue-specific committees and working groups, to our robust online Legal/Compliance Resource Library, the IAA provides a broad array of services and resources to help members navigate the dynamic legal, regulatory, and compliance landscape.
The 2018 Investment Adviser Compliance Conference

At the IAA’s annual Compliance Conference — the premier conference of its kind — more than 400 advisory firm legal and compliance officers came to Washington, DC to hear from more than 60 industry experts, peers, and regulators — including SEC Commissioner Hester Peirce and 14 additional SEC officials.

The March conference’s more than 20 sessions focused on a wide range of topics critical to advisers, including the DOL Fiduciary Rule — which was struck down by a federal court during our two-day conference; the SEC’s formulating of fiduciary standards of conduct for advisers and broker-dealers; cybersecurity; SEC examination and enforcement priorities; GIPS; post-MiFID II legal and compliance issues; vendor oversight and third party due diligence; advertising, marketing, and social media compliance concerns; Form ADV disclosure; the Custody Rule; dealing with aging clients; private equity; mutual funds; automated (robo) advice; ethics; and more.

In response to feedback from attendees, the IAA is now posting online videos of all of the conference’s breakout sessions, available exclusively to conference attendees, shortly after the conference. Now attendees can select which of the concurrent breakouts to attend in person and still be able to view and download materials from other breakout sessions of interest.

IAA President & CEO Karen Barr opened the conference with a keynote conversation with SEC Commissioner Hester Peirce, who discussed the agency’s upcoming fiduciary standards of conduct rule proposals and gave her views on a retrospective review of outdated regulations, broadening the accredited investor standard, and other challenges facing the SEC.
SEC Commissioner Hester Peirce opened the 2018 conference in a keynote Q&A with IAA President & CEO Karen Barr, addressing the challenges the Commission was facing in fashioning a higher standard of conduct for broker-dealers that would impose a “best interest” standard to approximate advisers’ fiduciary duty. IAA General Counsel Gail Bernstein led a discussion of SEC regulatory and policy priorities with Division of Investment Management Director Dalia Blass and Deputy Director Paul Cellupica. Bernstein also discussed exam and enforcement priorities with Stephanie Avakian, Co-Director of SEC Enforcement and OCIE Director Pete Driscoll.

Comprehensive coverage of our 2018 Investment Adviser Compliance Conference is available in the April 2018 IAA Newsletter, available on the IAA website at Publications>>Newsletters. Video excerpts of key discussions with SEC officials are available on the IAA website at News>>IAA Vlog or on the IAA YouTube Channel at www.youtube.com/c/InvestmentAdviserOrg.

Compliance Workshop Series

More than 300 compliance professionals attended the IAA’s fall series of Compliance Workshops, held in eight cities in 2018 (Washington, DC, New York, Los Angeles, San Francisco, Atlanta, Austin, Boston, and Chicago). Each workshop featured a regional SEC official, who addressed current inspection priorities and compliance issues. Workshops also featured a member of SEC staff. The rise of – and confusion about – cryptocurrency were a major concern for SEC officials speaking at the 2018 Compliance Conference. SEC Enforcement Co-Director Stephanie Avakian addressed fraud in the cryptocurrency space, saying “It’s the new hot thing and lots of folks are trying to take advantage.” OCIE Director Peter Driscoll expressed SEC examiners’ concern, saying, “If (advisers) are making these types of investments available to clients, what sort of disclosures and controls are being put in place?”
of the IAA legal team and compliance experts from leading consulting and law firms, who discussed current compliance hot topics: drafting effective disclosures, benchmarking compliance testing, and electronics communications management. Each workshop was followed by a peer-to-peer meeting for smaller firm compliance professionals that addressed shared compliance challenges and best practices for addressing them.

**Legal Team Inquiries**

The IAA’s legal team serves as an invaluable resource for compliance professionals and in-house legal staff. The IAA’s legal experts responded to more than 800 requests for information on a wide range of legal, regulatory, and compliance issues. Issues generating the most inquiries included the SEC guidance on custody; the SEC’s proposed fiduciary/standards of conduct rule bundle; Form ADV Part 1A reporting requirements; cybersecurity and data security; SEC inspections and examination; GIPS; and compliance programs and risk assessment.

**Online Compliance Resources**

The IAA has completed the rebuild of our robust online Legal/Regulatory Library and associated compliance materials in 2018. These resources provide extensive materials covering every major adviser compliance issue. Each topic area includes IAA guidance, including any relevant compliance control; IAA webinars; templates, training materials and case studies; IAA comment letters and statements; outlines, articles and memoranda from a variety of sources; and links to selected rules, significant no-action letters, and other regulatory guidance. Those resources are available exclusively to IAA members under the Resources tab on the home page of the IAA website.

The IAA also presents an annual series of compliance-related webinars. Compliance-themed webinars in 2018 looked at issues including Form ADV Part 1A Amendments; Self-Reporting to the SEC; the EU’s General Data Protection Regulation (GDPR); Investment in Cryptoassets; the SEC’s Fiduciary/Standards of Conduct Proposals; Pay-to-Play; Derivatives Issues for Asset
Managers; CPO/CTA Regulation and NFA Exams; Fixed Income Best Execution; and Elder Abuse and the Senior$afe Act. A full rundown of those webinars appears in Engagement, Information and Education, which begins on page 30.

All IAA webinars are complimentary to members and associate members. Recordings of past webinars are available on the IAA website at Events>>Webinars.

Monthly In-Depth Newsletter Compliance Columns

Each month, the IAA Newsletter’s Compliance Corner column takes an in-depth look at a topic of current concern. Periodically, the Newsletter runs Guest Columns that are also devoted to timely compliance topics. Authored by leading compliance and legal professionals, those columns tackled these topics in 2018:

- Why Investment Advisers Should Perform Risk Assessments at Least Annually
- Annual Updating Amendments – Are You Prepared for the New Changes to Form ADV Part 1A?
- CFTC’s Standards on Self-Reporting and Cooperation
- Fraud: How Asset Managers Can Keep Up With the Evolving Threat Landscape
- What’s in a Name? ETF or Not – Does It Matter?
- A Bird in the Hand – Navigating the Client Intake Process
- SEC Share Class Selection Disclosure Initiative: Practical Considerations and Lessons Learned
- Surprise! What You May Not Know About Recent Changes to the Professional Standards for Accountants Governing Surprise Examinations Engagements Under the Custody Rule
- Back to Basics: Advising Retirement Plans Under the “Old” ERISA Rules
- Pay-to-Play Rule Refresher in Time for the Mid-Term Elections
- Navigating the Wells Process
- Certain Considerations for Establishing a Private Fund
- GIPS 2020: Changes on the Horizon for GIPS-Compliant Firms
- Warning: Outsourcing Could Be Hazardous to Your Health

IAA Newsletters are available on the IAA website under Publications>>Newsletters.
The IAA provides a valuable suite of services to keep members up-to-date on issues affecting the investment adviser profession – so they can remain competitive, serve their clients, and build their businesses. In addition to our annual Leadership Conference, Compliance Conference and Compliance Workshops, the IAA offers webinars, publications, online resources, and surveys covering a wide range of business practice, compliance, and regulatory issues. And we provide numerous networking opportunities through executive roundtables, committees, working groups, and local meetings for members to share information, exchange ideas and build enriching professional relationships.
The 2018 IAA Leadership Conference

Designed especially for investment advisory executives, our 2018 Leadership Conference View for the C-Suite – held in Dallas in September – provided a content-rich program that focused on demographic, economic and professional development trends that will shape how advisers do business in the future. There was also a look at how the current political landscape affects advisers. And the conference featured a presentation unveiling new research challenging the conventional wisdom on active vs. passive management. The research was supported by the IAA’s Active Managers Council.

As always, the conference included its popular peer-to-peer breakout sessions that allow executives to interact in smaller groups to discuss common challenges, opportunities, and best practices. This year’s breakout sessions addressed such topics as Recruitment and Development Programs that Work; Industry Consolidation; Mergers and Acquisitions; Cybersecurity and Risk Management, Holistic Technology Solutions; How IAs Can Differentiate Themselves in a Fee-Based Future; Collectibles as Investments; Artificial Intelligence and Emerging Technologies; and The LIBOR Interest Rate Benchmark.

General Sessions featured experts and thought leaders in a number of areas:

In The Advantages of Active Management in a Powerful Portfolio, University of Notre Dame Professor of Finance K.J. Martijn Cremers outlined the new review of two decades of academic literature on active management that he conducted with Jon A. Fulkerson of the University of Dayton and Timothy B. Riley of the University of Arkansas. Their conclusion: that the current academic literature finds active management more promising for investors than the conventional wisdom claims. Joining Cremers for a panel discussion of the value of active management were David Lafferty, Chief Market Strategist for Natixis Advisors, L.P.; Anne Lester, Head of U.S. Retirement Solutions for J.P. Morgan Asset Management; Scott Gonsoulin, Investment Manager for the Teacher Retirement System of Texas; and Rolf Agather, Managing Director of Research for FTSE Russell.

From the top: University of Notre Dame Finance Professor Martijn Cremers; Natixis Advisors Chief Market Strategist David Lafferty; J.P. Morgan Asset Management’s Head of U.S. Retirement Solutions Anne Lester; Teacher Retirement System of Texas Investment Manager Scott Gonsoulin; and Rolf Agather, Managing Director of Research for FTSE Russell.

In Profiting from the Profound Demographics Changes Ahead, internationally recognized demographer Ken Gronbach, President of KGC Direct, told attendees that Baby Boomers will be the largest segment of advisers’ client base for the foreseeable future, because the next generation, Gen X, is so much smaller. The rise of Gen X will create talent management headaches – competition for employees in their 30s and 40s will be intense, and advisers may find it difficult to hire the managers they need to service their Baby Boomer clients.

Dramatic changes in the environment for talent management were the focus of the panel discussion Creating a Sustainable Enterprise. The conversation on personnel development, working with millennials, diversity and inclusion in the workplace, creating a profitable corporate culture and more featured Almira El-Gawly, Vice President of Community at Basket; Hunter Judson, Jr., Wealth Management Practice Director at The Judson Group; Monica Snipes, Senior Wealth Advisor at Exencial Wealth Advisors; and Rebekah L. Komescher, Founding Partner and CEO at Altair Advisers.

And the importance of the Boomers was underscored by Charles “Chip” Roame, Managing Partner of Triburon Strategic Advisers, in his presentation The Future of Wealth Management.

Fully 83 percent of all money in America is held by Baby Boomers. Growth in assets held by Millennials will be high, but that growth is from a very low base, Roame told attendees. In 10 years, Millennials will still have less in assets than Boomers have today.

Executive Roundtable Series, C-Suite Briefings & More

The IAA enhanced its business-focused programming for C-Suite executives in 2018, expanding its series of by-invitation-only Executive Roundtables – staging 12 roundtables in seven cities (two each in Chicago, Boston, Los Angeles and San Francisco, New York and one each in Minneapolis and Dallas). The roundtables provide forums for small groups of executives to build relationships, discuss matters of common concern and to hear from experts on timely business issues.

Discussing industry trends at our 2018 Executive Roundtables were: David Canter,
executive vice president and head of the registered investment adviser segment of Fidelity Clearing & Custody Solutions; **Bernie Clark**, head of Schwab Advisor Services; and **Mark Tibergien** of Pershing Advisor Solutions. **Mark Sangster**, Chief Security Strategist for eSentire addressed cybersecurity concerns. **Kenneth Hoffman**, President of the Optima Group, discussed best practices and missteps in strategic planning for investment advisers; **Jonathan Stern**, Partner and Managing Director at Berkshire Global Advisors, facilitated discussions on business practice growth, looking at organic growth versus mergers and acquisitions. **Scott Slater**, VP, Practice Management & Consulting, Fidelity facilitated a discussed on wealth management M&A; **David Black** and **Mitch Goldberg**, Berger Singerman presented on tax strategies for high net worth individuals; and **Stephanie Giardina** and **Marina Gross**, Natixis, presented the results of a survey on what investors want in light of today’s market and how financial advisors and institutions are allocating portfolios.

The Executive Roundtable series will grow again in 2019, with plans for two events in each of seven cities and a national Large Firm Executive Roundtable.

The IAA also hosts several **C-Suite webinar briefings** each year, to update executives on the latest legislative and regulatory developments affecting their firms. In 2018, the IAA hosted regular updates in February and September, and held three additional briefing calls, one on self-reporting in February, one on legislative developments on Capitol Hill prior to the IAA’s 11th Annual Advocacy Day in June, and one following the mid-term elections in November.

At least twice a year, the IAA invites executives from member firms to attend a **Luncheon** hosted by the IAA **Board of Governors**.

In February 2018, the IAA hosted a luncheon in Boston, where representatives of member firms joined Board members for a Luncheon featuring **Seema Hingorani**, Founder and Chair of Girls Who Invest, who spoke about the importance — to firms and to clients — of attracting more women into the investment advisory profession.

In December 2018, Board of Governors Luncheon attendees in San Francisco heard an in-depth conversation on diversity and inclusion with **Marie Chandoha**, President & CEO of Schwab Investment Management, **Mary Leahy**, Senior Vice President of Human Resources at Franklin Templeton, and **Cecile V. Munoz**, President of U.S. Executive Search & Consulting, facilitated by IAA Board Chair **Jane Williams**, Sand Hill Global Advisors.

And in June, the IAA’s 11th Annual **Adviser Advocacy Day** included a networking dinner the night before scheduled visits to legislators on Capitol Hill. At the dinner, almost 70 participants heard from **Stan Collender**, one of the foremost experts on the federal budget.

To help members navigate the emerging and rapidly changing Crypto landscape, the IAA offered a **Cryptocurrency Series**
of in-person meetings in New York, San Francisco and Chicago in May and June. The two-hour presentations, hosted by IAA Associate Member Seward & Kissel LLP, explored practical business, operational and regulatory concerns associated with sponsoring, investing in and holding various types of cryptoassets.

Webinars

One of the most popular – and effective – ways for members to stay up-to-date on issues affecting investment advisers is through the IAA Webinar Series. Live and recorded webinars are free to members and associate members. In 2018, the IAA presented 15 webinars and briefings on legal, regulatory and compliance topics as well as on business topics. Over 2,800 individuals from member firms attended live webinars. Recordings of all past webinars are available on the IAA website at Events>>Webinars.

Issue experts, attorneys from nationally recognized law firms and IAA staff presented the following webinars in 2018:

• What the New Tax Law Means for Advisers – 1/24/2018
• Form ADV Part 1A Amendments: Guidance and Best Practices for Compliance – 2/21/2018
• Member Briefing on Self-Reporting to the SEC – 2/21/2018
• Investing in Cryptoassets: Considerations and Implications for Investment Advisers – 4/13/2018
• Member Briefing on the SEC Fiduciary Proposals – 4/25/2018
• Member Briefing Call on EU General Data Protection Regulation (GDPR) – 5/10/2018
• Key Issues in SEC Examinations of Investment Advisers – 5/15/2018
• Pay-to-Play Refresher for the 2018 Mid-Term Elections – 5/17/2018
• Adviser Advocacy Day Briefing – 5/22/2018
• Hot Topics in Derivatives Issues for Asset Managers, CPO/CTA Regulation and NFA Exams – 5/23/2018
• Considerations for Advisers: Fixed Income Best Execution – 6/19/2018
• Elder Financial Abuse and the Senior$afe Act – 8/23/2018
• The Fall Regulatory Landscape for Advisers – 9/7/2018
• Impact of Mid-Term Election Results on Advisers – 11/13/2018

Under the watchful eye of 19th century Rear Admiral Charles Dwight Sigsbee, Stan Collender – a leading expert on the federal budget, taxes, and spending – spoke to Adviser Advocacy Day participants at a special welcome reception and dinner at Washington’s Army Navy Club the evening before their Capitol Hill visits. The dinner was sponsored by Charles Schwab, Fidelity Investments, and TD Ameritrade Institutional.
Surveys & Publications

The IAA publishes three major surveys each year that document and track important trends in the investment adviser industry – Evolution Revolution, the Investment Management Compliance Testing Survey, and our Executive Outlook survey.

The 2018 Evolution Revolution report, which analyzes data submitted by all federally registered investment advisers to the SEC on Form ADV, shows the industry hit record employment, AUM and number of firms this year. 12,578 firms (up 3.3 percent) managed a record total of $82.5 trillion in RAUM (up 16.7 percent), have more than 802,600 non-clerical employees (up 3.6 percent), and serve more than 34 million clients. Evolution Revolution is produced in partnership with National Regulatory Services (NRS).

Cybersecurity remains the top concern of CCOs – according to 81 percent of the more than 450 compliance professionals participating in the IAA's 2018 Investment Management Compliance Testing survey, conducted in partnership with ACA Compliance Group. Participants identified the SEC’s Advertising Rule and custody and privacy issues as their other top concerns.

Executives of IAA member firms are optimistic about their near-term business prospects. Fully 80 percent of executives participating in our 2018 Executive Outlook survey say they plan to grow their workforces — and nearly 60 percent anticipate significant increases in their AUM over the next three years. The survey is a joint project of the IAA and Cerulli Associates.

Evolution Revolution, Executive Outlook and the Investment Management Compliance Testing Survey are available under the Publications tab on the IAA website's home page.

Each year, the IAA invites member firms to participate in the annual Asset Management Operations & Compensation Survey, which is conducted by AUG, The Exchange – an independent membership organization of investment professionals. The survey results provide IAA members with a valuable resource to compare their operations and compensation practices with other investment advisory firms. Selected highlights from the 2018 survey are available on the IAA website at Publications >> Reports & Surveys.
The monthly **IAA Newsletter** continues to serve as a key component in the IAA's communications with members. It provides comprehensive, timely information about significant legal, regulatory and compliance developments, business practice issues, and IAA-sponsored events. It devotes at least one expansive article each month – written by a legal and/or compliance expert – to a compliance issue of current concern. The Newsletter also regularly features guest articles on business practice issues. All employees of member firms are encouraged to subscribe to the Newsletter – which is available electronically, or in hard copy through the mail – as part of each firm’s membership benefits.

The IAA uses several **electronic platforms** to provide members with notice of late-breaking developments and IAA activities.

In 2018, the IAA issued more than 20 **Member Alert** emails to inform members immediately of significant new developments, including ongoing developments with the SEC's Standards of Conduct rule proposals, SEC exam priorities and Risk Alerts, and more.

The IAA’s quarterly email **IAA Update** details IAA activities/benefits for the previous quarter, with summaries of each that link to the original materials online. The segments of the email include IAA Alerts, Comment Letters, Webinars, Committee Activities and more. The IAA Update is emailed to all registered contacts at member firms.

Our online communities – **the IAA Exchange** – allow members to communicate and collaborate with their peers in topic-specific groups. Member discussions in those groups have led to special member conference calls and other communications on specific issues of concern.

The IAA added significantly to its online video offerings in 2018. Available on the **IAA’s YouTube Channel** are more than 90 videos, featuring the IAA Corporate Video and IAA Member Benefits Video, presentations by SEC officials and breakout sessions at the IAA 2018 Investment Adviser Compliance Conference, presentations from the 2018 IAA Leadership Conference, and more. Those videos have been watched by more than 7,000 viewers. The videos are available on the IAA's YouTube Channel at [www.youtube.com/c/InvestmentAdviserOrg](http://www.youtube.com/c/InvestmentAdviserOrg).
The IAA also uses the social media channels LinkedIn and Twitter to inform members about timely events, relevant news articles, regulatory actions and more. Members can sign up for the IAA’s LinkedIn postings at www.linkedin.com/company/investment-adviser-association and for our Twitter postings at https://twitter.com/IAA_Today.

Committees and Working Groups

The IAA’s committees, working groups, and compliance forums provide members with shared interests and challenges an opportunity to exchange information, build peer relationships and to help shape IAA policy and advocacy positions. A full roster of those groups – along with summaries of the business they conduct and topics they discuss – is available on the Members Only section of the IAA website. Those groups include:

- Legal and Regulatory Committee
- Government Relations Committee
- International Committee
- Technology Innovation Committee
- Digital Adviser Committee
- CFTC Committee
- Private Equity Fund Advisers Committee
- DOL Committee
- Hedge Fund Working Group
- FSOC/Prudential Regulation Working Group
- Bank-Affiliated Asset Managers Compliance Forum
- Cybersecurity Compliance Forum
- GIPS Compliance Forum
- Smaller Advisers Compliance Forum
- Social Media Compliance Forum
- Custody Working Group
- Advertising Working Group

The IAA also forms ad hoc working groups as needed. For example, in 2018, the Fiduciary Working Group provided valuable assistance on the IAA’s comment letters on the SEC’s Standards of Conduct proposals. A Form ADV Implementation Working Group met through the first quarter of 2018 to share information and discuss interpretive issues about implementation issues related to Form ADV amendments. Employees of member firms are encouraged to participate in IAA committees, working groups and forums.

Professional Development

In 2018, the IAA continued its co-sponsorship of the Investment Adviser Certified Compliance Professional (IACCP) Program and related Investment Adviser Core Compliance Program with National Regulatory Services (NRS). This year, a total of 177 students enrolled in the IACCP/Core program. The premier program for training compliance professionals, more than 500 individuals have earned the IACCP designation.

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 recognize the CIC charter for purposes of waiving examination requirements. Information about the IACCP and CIC programs is available on the IAA website or by contacting the IAA office.
Through the IAA’s Sponsorship Program, our Associate Members – law firms, custodians, consultants, accounting firms and others that provide services and resources of value to investment advisers – are able to increase their engagement with IAA member firms while allowing the IAA to provide a greater range of programs to serve members. Sponsorship opportunities are available for our major conferences, our compliance workshop series, webinars, executive roundtables, Board of Governors luncheons and more. To learn more about sponsorship opportunities, please contact IAA Marketing & Partnerships Manager Alex Ioannidis at alex.ioannidis@investmentadviser.org.

The IAA would like to thank Associate Members that sponsored programming and events in 2018:

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**DIAMOND**

![Fidelity Investments](image1)

**PLATINUM**

![Treliant](image2)

**GOLD**

![SS&C ADVENT](image3)

![Berkshire Global Advisors](image4)

![esentire](image5)

![NCS Regulatory Compliance](image6)

![OPTIMA](image7)

**SEWARD & KISSEL LLP**

**SILVER**

![Ascendant Compliance Management](image8)

![Atlantic Fund Services](image9)

![Charles Schwab](image10)

![FiNance of America - BeveRce](image11)

![RRS Manage Through Change](image12)

![Ropes & Gray](image13)

![TD Ameritrade Institutional](image14)

![visible alpha](image15)
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2018 YEAR IN REVIEW

INVESTMENT ADVISER ASSOCIATION