

Investment Advisers and Dual Registration

New York Regional Office
Compliance Outreach
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Discussion Points

- Coordinated Exams
- Addressing Conflicts of Interest inherent in the business model
- Common Exam Findings

Dual Registrant Population (NYRO Only)

- 2,750 total RIAs in NYRO
- \$17.87 Trillion in AUM
- 106 Dual registrants
- 689 RIAs with affiliated BDs
- 66 RIAs with registered representatives of a BD
- 31% of NYRO's RIAs have some sort of affiliation with a BD

Coordination

- Periodic meetings with management on the IA and BD sides here in the NYRO
- Identify potential targets for coordinated exams
- Factors: staff experience; risk assessment; timing; time since last exam; TCRs; and overlap of business (not meant to be an exclusive list)

Joint Request List & Disposition

- Joint requests may be used for dual registrants
- Affiliated registrants may receive separate requests
- We attempt to avoid duplication of requests
- Challenges:
 - client lists (customers vs clients);
 - trade blotters;
 - and complaints
- Generally, separate deficiency letters sent to IA and BD

Potential Conflicts of Interest

- Suitability Assessment
- Non-discretionary IA Accounts vs. BD Customer Accounts
- Disclosures
- Principal Trades
- Cross Trades
- Variable Annuities in Fee Paying IA Account
- Agency Cross Trades
- Affiliated Products
- Compensation and Revenue Sharing

Examples of Risk Areas Reviewed

- Wrap Fee Accounts
- Trading Practices
 - Churning
 - Reverse Churning
 - Trade Error Resolution Processes
- Information Barriers
 - Proprietary Research
- Marketing and Sales Practices
- Allocation of Investment Opportunities
- Reliability of Data and Surveillance

Common Exam Findings

- Compliance Program & Supervision
- Undisclosed or Poorly Disclosed Conflicts of Interest
- Inadequate Client File Documentation
- Suitability
- Best Price and Execution
- Safeguarding Client Assets
- Incorrect Client Fee Billing
- Books and Records Issues – Both in Terms of Slow Document Production and Failure to Maintain Certain Required Records