

>>>FAIRVIEW FLASH REPORT <<<

SEC Issues Risk Alert and Investor Bulletin On Investment Adviser Custody Rule

WHAT HAPPENED?	On Monday, March 4, the SEC issued a Risk Alert about investment adviser compliance with the custody rule and an Investor Bulletin which covers the requirements of the rule.
WHAT DID THE SEC FIND?	<p>The SEC’s Office of Compliance Inspections and Examinations (OCIE) recently discovered significant and numerous deficiencies in custody-related areas involving approximately one-third of firms examined. The main areas of deficiencies were:</p> <ul style="list-style-type: none">• Advisers not realizing they have custody, such as relationships where the adviser serves as trustee for the client, has check writing capabilities or the ability to make withdrawals related to bill paying services.• Advisers who have custody not having a surprise examination as required by the custody rule.• Not fulfilling the rule’s qualified custodian requirements by commingling client and employee assets or by not having reason to believe that a qualified custodian is sending quarterly statements to clients.
HOW DID THE SEC RESPOND?	The recent custody deficiencies have resulted in various actions, including advisers being required to improve their compliance procedures, modifying their business practices or allocating more money and resources to custody issues. In some cases, OCIE referred cases to the SEC’s Division on Enforcement.