OVERVIEW

Earlier this month, the SEC's Division of Examinations (formerly known as the Office of Compliance Inspections and Examinations or OCIE) released their 2021 examination priorities. Although this report is designed to highlight the areas that the SEC believes present heightened risks to investors and/or capital markets, they will not be the only issues addressed in examinations. Because of that, firms should continue to emphasize compliance's active engagement in all aspects of their day-to-day operations and developing a culture of compliance from the top down.

This report will focus on summarizing the SEC's 2021 examination priorities for RIAs and Investment Companies.

2021 EXAMINATION PRIORITIES

- *RIA Compliance Programs*: The Division will continue their review of compliance programs to determine whether those programs and their policies and procedures are reasonably designed, implemented and maintained and whether there are sufficient resources to perform core compliance responsibilities.
  The Division will continue to prioritize exams for RIAs that have not been examined for a number of years and RIAs that have never been examined (including new RIAs that have been registered for several years without having been selected for an examination). For established RIAs, the exams will focus on whether the compliance programs have been appropriately adapted to account for any material changes to their business model since the last exam. For RIAs going through their first exam, there will be a heavy focus on the firms' compliance program, with an emphasis on one or more core areas, such as portfolio management practices, custody of client assets and/or fees and expenses.

  The Division will focus on the increasingly popular sustainable investment strategies, with an emphasis on products that are widely available to investors, such as open-end funds, ETFs and qualified opportunity funds. The Division will review disclosures provided to clients in those strategies and ensure that the firms' policies and procedures match their disclosures. Additionally, since the release of the 2021 exam priorities, the SEC announced the creation of the Climate and ESG Task Force in the Division of Investment Management, which will analyze compliance issues related specifically to ESG strategies.

- *Registered Funds, including Mutual Funds and ETFs*: Examinations of registered funds will review their overall compliance program with a specific focus on disclosures to investors, contracts and agreements, and personal trading activities. The Division will also emphasize valuation practices around investments and market sectors that have experienced, or continue to experience, stress due to the pandemic, such as energy and real estate.

- *RIAs to Private Funds*: The Division will continue to focus on advisers to private funds and will assess compliance risks, including a focus on liquidity and disclosures regarding investment risks and conflicts of interest.

  The Division's examination will include reviewing for preferential treatment to certain investors by advisers that have experienced liquidity issues, portfolio valuations, specifically as they impact management and performance fees and general conflicts around liquidity, such as adviser led fund restructuring. Additionally, the Division will examine advisers to private funds where there may have been material changes or impacts on portfolio companies owned by the private fund due to recent economic conditions.

- *Anti-Money Laundering*: The Bank Secrecy Act requires financial institutions to establish AML programs that are tailored to address the risks associated with the firm's location, size, and activities, including the types of products and investment services offered. During the review of a firm's AML policies and procedures, the goal is to evaluate whether there are adequate policies and procedures in place that are reasonably designed to identify suspicious activity and illegal money-laundering activities.

- *Information Security and Operational Resiliency*: The increase in remote working and operations due to COVID-19 has increased concerns about endpoint security, remote access, vendor management and data loss. Over the last 12 months, there have been various publications by the SEC stressing the importance of firms taking appropriate measures to safeguard customer accounts and personally identifiable information (PII), having sufficient oversight on vendors and service providers, being able to efficiently identify and address malicious email activities and manage operational risk as a result of a work-from-home environment. In particular, the Division will focus on controls surrounding online and mobile access to investor account information, electronic storage of PII stored with third-party cloud providers and policies and procedures regarding the protection of investor records and information.

ADDITIONAL NOTES

- The Division completed 2,952 examinations in 2020, which was a 4.4% decrease from 2019
- In the last 5 years, the number of RIAs registered with the SEC has increased from about 12,000 to more than 13,900 and the AUM of those RIAs has increased from approximately $67 trillion to $97 trillion
- More than 3,900 RIAs manage over $1 billion in assets
- More than 55% of RIAs have custody of client assets
- Approximately 36% of RIAs manage a private fund

ABOUT ATRINA ADVISORY

Ryan Donovan founded Atrina Advisory in 2018 after serving as a Principal, Chief Operating Officer and Chief Compliance Officer of a $700M+ Registered Investment Advisor ("RIA"). He was responsible for building the company's operational and financial infrastructure, designing systems based on best practices and implementing a robust system of checks and balances across the firm. He has also led multiple panels targeted to RIAs and Family Offices on "How to Navigate an SEC Cyber-Security Exam" after an SEC examination on the firm's infrastructure and policies resulted in no comments or deficiencies from the SEC.