

Audits Happen. Here's What You Need to Know.



How likely is it that your advisory firm will be audited?

According to the SEC's Office of Inspections and Examinations, it's most likely than almost any point in the past decade.

In 2018, 17% of SEC-registered investment advisers were audited, and overall the OCIE increased its coverage by 10% over the prior year. Not only that, but the number is expected to rise according to the OCIE's report on their 2019 exam expectations.

Exams are a routine part of being a financial advisor, and with the right amount of preparation and the right tools, your firm can treat them as a routine activity instead of a fearful event.

Most Common SEC Exam Deficiencies

When the SEC examines advisors, they use analytics to keep a record of who's doing what so they can identify trends...kind of like how you can use business intelligence in Orion to identify trends within your own firm's data.

Of the common deficiencies it regularly sees, the SEC has identified these infractions as some of the most common:

- Compliance rule
- Advisers Act
- Custody rule
- Books and records rule
- Code of Ethics rule (trade monitoring)

It may surprise you to find the Code of Ethics rule on this list. While the rule itself may seem relatively transparent, compliance with Rule 204A-1 has brought about challenges for many firms.

What's Required of Each Advisory Firm

When the SEC's OCIE outlined its expectations for this year, they were also kind enough to identify what they want to see out of RIA firms. If your firm's deficient, you can't say you weren't warned.

Compliance with Rule 204A-1 is nothing new, though, so having a solid process in place to oversee the conduct of employees within your firm shouldn't be new either.

If you do need a guide on what's required of your firm, you can begin by understanding these four elements.

- **Standard of conduct and compliance with laws, rules, and regulations**

Your firm needs to maintain a standard of conduct that each employee reads and understands that is in line with applicable laws.

- **Personal securities trading oversight**

If you have employees trading securities—or invested assets in general—you need to know about it.

- **Compliance certification and recordkeeping**

Keep your records clean and accessible, because you're going to need to get at them when you have an examiner in the office.

- **Written policies for consequences for failure to comply and reporting certain conduct**

Prevention is the best medicine, but if someone does run afoul of your firm's established guidelines you also need a written process of how you'll respond.

While the requirements for an effective Code of Ethics are relatively clear, the solutions for complying are anything but, and that's why it's crucial for advisors to have a technology solution they trust that can help them consolidate their many compliance requirements.

How Inform Can Help

Your firm can plan for deficiencies with preparation and team training, but you can also guard against compliance snafus with technology that helps you automate your workload.

Monitor employee trade activity automatically

Compare employee trade activity against firm-wide trade activity with access to 1000+ custodians. And—in an area where other compliance solutions fall short—Inform makes it simple to perform frontrunning reviews. Access the information already stored inside of Orion to automate front running reviews for firm-wide trading analysis, creating an invaluable time-saving process.

Beyond trade activity monitoring, Inform can also be your home base for these, and other, compliance-related activities:

- Maintain and distribute affirmations, certifications, and disclosures related to the Code of Ethics
- Track approvals and rejections of gifts, outside business activities, and more
- Keep results for easy record keeping and future access for the SEC and state regulators

Want to see how you can easily keep track of all this information and stay ahead of possible red flags on your next SEC examination?

Sign up for our upcoming webinar to see how you can regain control of your firm's compliance processes.

**Inform is available at an additional cost to Orion clients or as a standalone personal securities trading tool for any advisory firm to use.*