

*Financial Technologies Forum LLC*

**HEDGE FUND COMPLIANCE & RISK**

***SEC Registration of Hedge Fund Managers:  
Special Compliance Issues***

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***SEC Registration of Hedge Fund Managers:  
Special Compliance Issues***  
**Dominant Themes of Historic Compliance**

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- The SEC on-site examination was the heart of the matter
- Meeting the requirements of the associated SEC “punchlist”
- Item-by-item checkoff of Advisers Act regulatory requirements
- Emphasis upon technical areas of typical difficulty, e.g., books and records
- SEC approach largely static, focusing upon time of examination
- “One size fits all” approach to examinations

***SEC Registration of Hedge Fund Managers:  
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**New Dominant Themes of Current Compliance**

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- Compliance as a process, not a static event
- Emphasis by Staff upon continuity of compliance
- Self-testing and evaluation is key
- Self-reporting of compliance deficiencies
- Sophistication and education of personnel
- Ranking of advisers for examination
- Ranking of key compliance elements
- Tailoring of examination process to type of advisor
- Eliminating “canned” compliance
- The “culture of compliance”- from the top down

***SEC Registration of Hedge Fund Managers:  
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**Projected Dominant Themes of Future Compliance**

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- Risk, risk, risk: Not just compliance risk, but business risk, operational risk, external risk, systemic risk
- Focus upon larger managers posing greater systemic risk; the “too big to fail” syndrome
- Increasing and specialized Staff in critical areas
- New emphasis, post-Madoff, upon forensic analysis and “red flags”
- Technological sophistication and analysis: e.g., use of efficient trading platforms to assure best execution
- Increased, consistent and more meaningful investor disclosure
- Further emphasis upon self-evaluation and resolution of deficiencies