



# Surviving an Audit

Understanding Compliance Under The Dodd-Frank Act

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Backstop Solutions Group



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# Executive Summary

Investment Management is a regulated business, and with regulation comes compliance audits. Once registered, advisers should expect periodic visits from the relevant agencies. Unregistered firms may find themselves subject to examinations by tax authorities or as part of litigation. Additionally, all investment managers need to satisfy current and prospective investors that they are running a legitimate business with strong operational controls in place. An audit is a business reality, not a wake-up call, for firms of all sizes and investment strategies.

With the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, more managers will be subject to registration and thus to periodic compliance audits. In preparation, firms will need to begin organizing client and trading records into a format that makes it easy to respond to data requests from compliance audit teams. A fund that manages to avoid registration this time around is likely to be subject to it eventually, so taking a proactive approach is highly encouraged. The SEC is not the only organization that can conduct an audit, so an unregistered fund should be prepared for the day that they are asked to respond to a request for information.

No matter the regulatory status, managers want to pass an audit with minimum disruption. An industry-tailored customer relationship management system not only helps managers to track key information and historical communications, but can also serve as the cornerstone of a strong culture of compliance. Advisers who implement a robust compliance program backed by the right technology can respond quickly to requests for data that are part of a normal audit.

Backstop Solutions Group's investor relations platforms help streamline the audit process by making the data that auditors want to review easily accessible. Its robust web portal systems also help firms follow best practices for marketing, fund transparency, disclosure, and data security to help reduce the risk of compliance issues.

## An Overview of Audits

It's a moment of panic. The phone rings or the mail arrives with a dreadful greeting: "The purpose of this letter is to inform you that the staff of the Securities and Exchange Commission is conducting an examination."

*You're being audited. Are you ready?*

In most cases, the timing of an audit is a total surprise, though registered investment advisers can expect the relevant regulators to conduct periodic reviews. The exact date of the announcement and the list of requested information is an unknown, by design. The auditors don't want firms to plan ahead; rather, they want to observe them behaving as they normally would, whether good or bad. The regulator's objective is to see firsthand the controls the adviser has in place and whether they're being used to govern day-to-day operations. The toughest audits are the ones that come as a complete surprise, triggered by a formal complaint, warrant, or subpoena.

The examiners look to see if rules required by the relevant regulations are being followed and, if they are not, how much risk this creates for customers, counterparties, and the overall financial system. They pinpoint specific areas that tend to be problems. For example, they want evidence that client funds are handled properly, investment and redemption opportunities are given fairly, and that marketing activities are conducted appropriately. They want to see that trading activities are ethical and legal – no front-running or inside trading. They also want to see that fund performance, management and incentive fees, high-water marks, ERISA capacity and other key measures are calculated correctly.

With the Dodd-Frank Act, most managers that had been exempt from registration in the past will now be required to register with the SEC. Although deadlines and minimums may have recently changed, the bill's intent is clear: adviser registration is no longer a voluntary option. As such, these advisors will now be subject to SEC and/or state level rules and periodic compliance audits. The challenge for many of these funds is that they have operated for long periods of time without a compliance infrastructure. Catching up is not easy. Implementing a new compliance program or overhauling a stale framework can entail considerable expense and cultural resistance. In addition, some firms will likely need to change their organizational structure by hiring a Chief Compliance Officer (CCO), with the intent of placing one person in charge of ongoing compliance processes.

Under Title IV of the Dodd-Frank Act, hedge fund and private equity fund advisers with more than \$150 million in assets will be required to register with the Commission by March 30, 2012, according to the most recent amendments passed as of this paper's publish date. Advisers with less than \$150 million in assets in the United States will be subject to state authority. Venture capital funds and family offices managing family portfolios are currently exempt. According to the most recent reports, about 11,500 fund managers are already registered with the SEC.

The regulators' focus is on evaluating risks to the broad financial system, which could occur from the practices of a single fund (e.g., Long-Term Capital Management), the collective activity of many funds, even if not fraudulent (such as heavy exposure to credit-default swaps), and problems related to fiduciary responsibilities to customers and others stemming from money laundering or funding of terrorist activities.

Concerns about systemic risk are why the Dodd-Frank emphasis is on larger managers, especially those with \$1 billion or more in hedge fund, fund of funds, private equity, or liquidity fund assets. Ultimately, large managers should expect more comprehensive and more frequent audits than other private fund advisers.

By extension, examiners want to see that the firm is maintaining records and has put procedures in place that demonstrate proper everyday behavior. If the examiners cannot find evidence to support proper compliance, even if they do not find any wrong-doing, they can pull out a charge of "failure to supervise".

Certain aspects of a firm's operations are more likely to cause trouble than others. It is a straightforward matter for a firm to ensure that all employee trading activities are properly disclosed and that effective safe-guards exist to prevent front-running or other trading related abuses. Of course, straightforward does not always mean easy, but because most advisers place such great emphasis on portfolio trading and risk management activities, policies and procedures surrounding them tend to be black and white.

Because of the "soft" nature of person-to-person relationships, it is often more complicated to ensure that policies related to prospective customer and existing investor communications are being followed. For many advisers, demonstrating compliance with best practices to the satisfaction of the examiner can be

challenging. Centralizing, streamlining, and having the proper change controls in place throughout every step of day-to-day operations have proven to be a natural safeguard against action letters and sanctions post-audit.

Auditors appreciate all-inclusive records, because it makes their jobs easier. Comprehensive platforms like those offered by Backstop Solutions can facilitate good recordkeeping and strong internal controls. Managers who are in the habit of storing critical client and fund related records in a secure format that enables easy reporting are more likely to have an easier time telling their story and making their case to regulators. Taking an institutionalized approach to recordkeeping helps the manager and its regulators to get a handle on risk and also demonstrates that both individual employees and the firm as a whole are following proper compliance procedures.

Many of Backstop Solutions' clients have been through an audit process and report that having Backstop Software in place made the audit more manageable. Backstop Software allows quick, comprehensive, and secure access to customer and fund level data. That access speeds responses to document requests, facilitates answering examiners' questions, and helps to reconcile information from other parts of the organization. All of these help to demonstrate and reinforce an organizational culture of compliance.

## Audit Basics

Given the inevitability of an audit, a manager needs to think less about avoiding one and more about how to pass one when it takes place. This means considering the different agencies that may order an examination, looking at the different types of audits they may conduct, and having documented compliance procedures that emphasize the most common issues that arise during an audit.

### Who Conducts an Audit?

Investment advisers are subject to a range of overseers, regardless of their registration status. On the government level, the Securities and Exchange Commission and the Commodity Futures Trading Commission have a stake in monitoring fund manager operations as they relate to the financial system. The self-regulatory organizations, the National Futures Association and the Financial Industry Regulatory Authority, can check member firms to verify that they are following the appropriate rules. If the fund handles ERISA accounts, it may also be subject to oversight by the U.S. Department of Labor. The Internal Revenue Service cares about the firm's finances as they affect the taxes that it or its partners pay. If the firm becomes subject to a civil or criminal court action, it will have to answer interrogatories or respond to subpoenas. While these aren't exactly audits, the process of answering them is similar.

Under the Dodd-Frank Act, state regulators have the authority to oversee funds with less than \$150 million in assets. Some states will be more aggressive about this than others; in general, states lack the personnel to do investigations unless they see the opportunity to recover the cost – and then some – from fines.

In general, the employees of the agencies who conduct the majority of these audits are relatively early in their careers. This means that they may not be familiar with the particulars of certain investment strategies and could require additional assistance in interpreting the information given to them. Furthermore, the examination staff at most regulatory agencies is small in comparison to the number of registrants that need to be examined. Because of concerns raised in the wake of the financial crisis, many

oversight agencies are putting more money into training and bringing in supervisors with extensive expertise. That said, the auditors may ask basic questions, but it is a bad idea to assume that they are naive.

Full participation from well-informed employees can ensure a swift examination. Failure to prepare slows down the process and often creates additional requests from the examiners that can result in penalties or significant action letters. Be prepared!

## Types of Audits

Just as the agencies that conduct examinations are different, so are the types of audits they conduct. Managers should expect to receive a thorough examination as part of the initial registration process, followed by periodic compliance audits over time to ensure that rules are being followed. Depending on the results of an initial exam, an adviser may face less predictable examinations based on customer complaints or as part of a broad survey of investment managers. In routine audits, the examiners aren't trying to trick firms. The regulations are straightforward, and so are the frameworks that will be used to assess compliance with them. However, straightforward does not necessarily mean "easy"; being ready for an audit takes work.

### Initial Investigation Upon Registration

When a manager files its registration statements with the SEC or the CFTC, the commission assigns an audit team to make sure that effective practices are in place and to advise the manager's staff on appropriate procedures. This helps everyone get off on the right foot.

At the initial investigation, the auditor is likely to discuss best practices in the industry and explain how to use them to maintain compliance. This can be especially helpful if the firm is growing quickly or its employees have never been through an exam before. After this, the auditor may change the exact scope of inquiry. Certain areas will always be examined: risk management practices employed by the manager, potential abuses toward customers, portfolio pricing methodologies, and compliance practice staff training programs, to name a few.

### Compliance Audit

Every registered investment adviser should expect a periodic visit from regulatory examiners. These occur approximately every three to four years, but the exact schedule is kept confidential in order to keep fund managers focused on routine operations. Because an audit can happen at any time, demonstrating point-in-time compliance is unacceptable. Rather, the adviser must adopt scalable and reliable processes and procedures that demonstrate it is operating under its compliance framework every day.

Compliance audits are very much about risk assessment. The auditors aren't looking for wrong-doing per se; the bigger issue is evaluating the potential risk of business failure or future regulatory problems. The auditors want to know if an adviser is operating a low-risk enterprise or if it is likely to encounter big problems in a volatile environment.

Auditors read the financial press, and they often center their investigators on recent hot news items and trends. For example, after the Madoff scandal exposure, more emphasis was put on looking for evidence of Ponzi schemes. In the wake of the Galleon insider-trading allegations, the focus moved to information



control and the investment decision process. Compliance officers can use news events to guide their ongoing training and evaluation of internal processes. Naturally, examiners will look for other critical situations when they review documents or come for an on-site visit, so an adviser with bad trading records shouldn't breathe easy if the next big scandal involves client suitability or ERISA standards. On the contrary, the adviser should clean up its records and be ready.

## **Response to Complaint**

Some examinations are conducted in response to a complaint. Although the disgruntled party may not have a reasonable basis for the accusation, the regulatory authority is still obligated to check it out. The adviser needs to show that it behaved appropriately; if it is at fault, then it needs to craft an appropriate response.

Some complaints are internal: an employee, acting as a whistleblower under the Sarbanes-Oxley Act of 2002, may notify the firm's internal audit staff of a potential problem. Similarly, although the whistleblower provisions of the Dodd-Frank legislation are geared toward big-company corruption, it is likely that, given time, some fund managers will face accusations of impropriety. When relevant regulators arrive on site, they prefer to see that the firm has handled the situation internally, or at least have begun the investigation process on their own before agency notification.

## **“Limited Scope” Examination**

These examinations are sometimes known as "street sweeps" and are used to assess industry practices and determine which firms should receive a more detailed examination. They are often sent in response to a well-publicized scandal. Typically, the manager in question receives a short letter requesting information. A quick, concise response is usually interpreted as evidence that the firm is on top of its compliance processes. Many of these examinations are handled by mail; if the firm can compile the requested information, the audit staff may have no need to visit in person.

Some limited scope examinations arise due to new use of technology. For example, in 2010 the SEC conducted a sweep to examine use of social media by fund managers and whether the usage could be construed as testimonial advertising. Information gathered from the sweep helped the SEC create new guidelines that it can use when auditing investment advisers. They will be looking for written policies regarding social media, training on these policies, and evidence they are being followed. By paying attention to the content of these limited examinations, fund managers can begin thinking about changes they may need to make or areas they need to watch.

Because limited scope examinations are becoming more common, advisers need to be prepared at all times. The response provided to an inquiry gives the examination team several important pieces of information about the manager that will shape the direction and depth of an exam. An adviser that is able to provide a timely and succinct response demonstrates it has control of its compliance systems and procedures. A solid response also reveals information about best practice standards among investment managers. Based on this, examiners can determine an industry norm for a given issue as well as any outliers. They can then examine outlying firms for comparison, and set the lines of investigation for the next round of compliance audits.

## CASE STUDY – FUND OF FUNDS

In the spring of 2010, a fund of funds received a letter from the Securities and Exchange Commission as part of a risk-assessment audit. The fund manager believes that the request was part of a search for potential Ponzi schemes. The letter asked for copies of documents related to certain due diligence situations and client arrangements, and the firm staff relied on Backstop Software to gather the relevant information.

The fund manager says that passing an audit should be simple as long as the firm is behaving ethically. Unfortunately, he says, "some people like to take shortcuts, and shortcuts on the regulatory side will cost you."

The firm has used Backstop Software since it opened its doors. "I wanted to have a record that started on Day One," the fund manager says. Using the software, he has been able to reconcile the information in his control with data from his fund administrator to ensure that investor and portfolio transactions are in balance. Although the fund of funds' performance is an estimate until it receives audited numbers from the underlying managers, Backstop Software allows him to perform shadow accounting and additional checks to improve the quality of interim estimates. "If you have controls on the money, then the audit is really about whether you are fairly representing the NAV on a monthly basis so that when you compute fees, you aren't paying yourself more than you are entitled to," he says.

Document management is a critical component of a compliance infrastructure. "Any time someone requests documents from you, and you go to one place where you've stored it, that's wonderful," he says. "You can click on a button and download a PDF file. If you're going to be audited, it's not a big deal if you do your work well." With Backstop Software, his staff was able to assemble the documents that the SEC requested and ship them out the next day.

## Key Audit Issues

### Risk Assessment

An audit is not as much about finding wrong-doing as it is about determining whether an adviser is fulfilling its fiduciary obligations to its clients. Managers who shirk their duties to clients and investors are at risk of encountering complications in the future. If the examiner's first impression is that the adviser is disorganized or that the principals or other staff members are not trustworthy, it may be perceived as higher risk and therefore, more likely to be audited more frequently.

Many of the risks evaluated by regulators are related to the adviser's portfolio, valuation, and financial controls. The Dodd-Frank Act has increased attention to these aspects of a manager's operations. As such, questions here will be less about record-keeping by the investor relations staff and more about risk management on the trading desk. If a fund's performance is unusually good, especially over a long time period, the manager needs to be prepared to attribute the gains and explain the outperformance.



Although topics like customer suitability and transparency in disclosure don't always share the spotlight with the areas highlighted above, they are critical. Likewise, money laundering, insider trading, assurance of best execution, undisclosed payments, and the safety of customer assets are all important to regulators. As such, advisers need to have their house in order. A manager that it knows its customers and keeps their best interests at heart can reduce risk and assuage auditors that it is behaving properly.

## Customer Abuses

Regulators are charged with protecting the investing public, which means an examiner will look at how customers are being protected by their advisers. As indicated, much of this goes to the trading desk: How are trades and redemptions allocated among the different accounts or funds that a firm advises? Is there a procedure in place, and is it followed? Are traders favoring certain accounts – or their personal accounts – when they execute orders? How are relationships with broker-dealers managed? Given that trade allocation and front-running are ongoing issues in the asset management industry, they are also ongoing areas of interest to examiners.

Another concern is customer privacy. To demonstrate compliance with accreditation standards and anti-money laundering, investors turn over detailed personal and financial information. The adviser needs to protect this information from internal or external theft, so examiners will look at how it assigns access to customer information, uses password controls and routing procedures to protect it, and how it stores it to keep it safe.

Regulators have ongoing interest in customer suitability, especially related to investors in alternative asset classes. One twist in the Dodd-Frank Act is that it removes a customer's primary residence from the net worth calculation. Historically, many firms have skipped the process of asking would-be investors to prove their accredited or qualified investor status, often by setting the minimum investment high enough that only a qualified investor is likely to be able to meet the minimum. Different observers of the compliance process report that this level of standardization will no longer be enough; the SEC wants to see proof that standards are met, even when the adviser accepts money from institutions with hundreds of millions of dollars in assets.

## Pricing Procedures

For a fund with investments in illiquid assets, expect the auditor to ask how valuations are derived, how often they are updated, and how changes in the valuation could affect the total portfolio. Are the portfolio managers coming up with their own valuations? How are they arriving at these numbers? Is any non-public information involved? The more Level 2 and Level 3 assets in a fund, the tougher this part of the audit will be.

In general, the examination staff will have less knowledge of investment and trading strategies than the adviser's staff will. Understanding complex trading strategies can be especially tough for people who are more attuned to interpreting adherence to regulations than to interpreting trading methods. This means that the firm being audited should expect to spend time educating the examination team.

## Staff Training

The audit team will expect to see a compliance manual. More to the point, they will expect to see evidence that everyone on staff understands the document and that the policies outlined therein are being

followed. Training for new employees isn't enough; regulators prefer to see ongoing training aimed at improving employee knowledge and continual investment in improving the quality and integrity of the information on file. After all, basic compliance manuals are easy to come by – and easy to leave on the shelf. The hard part is putting the words on the page into action.

## The Audit Process

While the timing of the audit itself may be a surprise, the process is predictable: an adviser will receive notice and, frequently, a request for information; the auditors will look at the response off-site and may come into the office to do an on-site examination; finally the firm will receive a letter clearing it until the next audit, making recommendations for improvement, or assessing sanctions.

Advisers don't necessarily need to do anything wrong to be audited; the audit is just part of the compliance process. A defensive approach will only annoy the auditors at best, and raise their suspicions at worst. Instead, the firm's compliance officer should go through the list of questions, determine what information is already on file and easy to compile, then figure out what information has to be gathered and from where.

### Initial Contact

In most cases, the news of the examination arrives in the form of a faxed letter, with a copy that arrives later via registered mail. The first step is to take a deep breath. Next, a firm should call its legal counsel to advise them of the situation, discuss potential problem areas, and work on a plan of action. This is not the same as a plan of attack! The regulatory agencies care about first impressions, and a firm that is willing and able to provide a date will look better than one that is trying to thwart the examination.

The firm being audited has rights, of course; even an auditor armed with a search warrant has to follow the parameters set out in the warrant. The key at this phase is to respond promptly, without taking offense, and without giving the auditors more than they ask for.

### On-Site Visit

When the auditors arrive at the adviser's office, they will need a place to work. Give them a conference room and assume that they will be there for a few weeks. Assign them a point of contact on the adviser's compliance staff that can field their requests, as they will presumably ask for different files and want to talk to different employees.

In most cases, the examiners are going to concentrate on trade files and client files. Of all the records that a manager keeps, those two sets contain the core of the business. And, because so much activity takes place around them, these records tend to have the most deficiencies. Many managers rely on email to serve as a trail of their interactions with clients and counterparties, which is less than ideal. The regulators prefer to see comprehensive files with all relevant information assembled and stored together – as well as a plan for regular backup of electronic records, including email.

An adviser doesn't have to like being audited, but it is always best to go along with the process. All employees should be notified of the auditors' presence, and should be told to cooperate. No manager

needs a rogue staffer who wants to make life difficult for the regulators.

Because examiners are on the lookout for potential problems, many advisers who have been through audits recommend not to volunteer excessive information and to set clear boundaries on cooperation. Advisers should provide exactly what they are asked for; no more, no less. Providing the auditors with more information than they need to get the job done doesn't help. An adviser should never hide anything, but providing too much information can lead to the opening of a new line of inquiry or create confusion for the auditors, which can result in a longer audit.

Treating the examiners with respect, providing them with a comfortable space to work, and giving them access to what they need are the best practices to follow for an on-site examination.

## Follow-Up

After the examination is conducted, the manager will receive a letter notifying it of the regulator's findings. In cases where the adviser was properly prepared and in-compliance, the letter will state that no further action will be taken and no further information will be needed. In some cases, the firm will be asked to make specific changes to its compliance procedures and should expect that an examiner will arrive in the near future to make sure those changes have been put into place. Because the rules are so precise, many audits turn up small deficiencies. This is anticipated. It is also expected that they will be fixed.

After some examinations, the firm's principal will be notified of sanctions to be imposed due of serious problems that were uncovered in the audit.

## CASE STUDY - HEDGE FUND

One Backstop Solutions client, a hedge fund that has been registered since 2000, received a 35 page long notice of a regular compliance audit. It contained detailed questions about every aspect of the firm's business. After notifying its legal counsel, the firm's Chief Compliance Officer (CCO) converted the request form into a word processing document. He then set about answering the questions and prepared an index to the supporting documentation. The response was then bound and presented to the examiners when they arrived for the in-person part of the audit, two weeks later.

The firm's principal credits Backstop Software for making it easy to answer the examiner's questions. For example, one of the many requests in the audit notice was to show all communication with one specific investor. The CCO logged into Backstop and pulled up the scanned documents, records of emails, notes on phone calls, and other information needed. The examiner could also see the access controls that kept the voluminous data protected. "It helped in producing the data and in creating a positive impression that we had a culture of compliance," the principal says. Without Backstop Software, the hedge fund would have had to request the data from its current and prior administrators and have documents brought in from storage, an expensive and time-consuming process.

"When they show up, you want to have at least a partial answer to every question," the principal says. "There's no sense in trying to make it difficult for them. They've got a job to do just like everyone else." The SEC's examiners were in the adviser's office for four days, reportedly less time than average. "If you make that positive impression and get assigned to the low-risk category, they won't come back for three or four years," the principal says.

"They were pretty civilized about it," the principal says. The SEC gave the firm adequate notice, and Backstop helped it respond completely. "What I've learned is that good person or bad person, if you stay in business long enough, you'll get a letter from the SEC, the IRS, or a law firm. If you run a tight, ethical business, you'll survive," the principal says. "If you are a bad guy doing bad stuff, then you should be worried."

## Preparing for an Audit

Given that examinations are now a fixed part of the asset management industry, it is more important than ever for managers to prepare for them. The easiest and best preparation is to run a clean business, with operations that follow both the regulations and industry best practices for documenting and demonstrating them. Law firms and specialty consultants can provide specific advice, ranging from mock audits to procedural recommendations when a fund faces a new situation. A sophisticated customer relationship management system makes the practices easier to follow and the records easier to maintain.

## Running a Clean Business

There is no substitute for running a clean business and keeping good records to show how it is done. Compliance encompasses every aspect of an adviser's business and must be reinforced every day, no matter when the auditors are scheduled to arrive.

Establishing practices and procedures designed to protect investors, and then ensuring compliance with them are key components to running a clean business. However, for many managers, one of the biggest challenges to operating within a culture of compliance is staying on top of the documentation and reporting processes that demonstrate it. Having easy access to complete and accurate information which shows that procedures are being followed is critical. Many managers report that having checklists of required information helps to ensure that everything that should be in the files is there, whether it's a trade confirm, a side letter, or a copy of an email.

Given the focus on the fiduciary responsibility of the manager, the sensitivity around portfolio level risk management, and valuation, another key component to consider is working with a fund administrator that has completed its SAS70 Level II certification. This level of certification signifies that the administrator's practices, policies, and operating procedures are properly documented and in conformity with best practices. As a manager, working with best in class service providers, from prime brokerage and administration to legal, audit and information technology, helps to assure regulators and clients that the business behind the portfolio is sound.

## Advice and Services

Many law, accounting, and consulting firms offer a range of services to help managers prepare for compliance audits. Additionally, the different regulatory agencies provide free guidelines on compliance. For example, the National Futures Association has detailed questionnaires on its website, <http://www.nfa.futures.org/NFA-compliance/publication-library/self-exam-questionnaire.HTML>. Among the key factors that it covers are appropriate personnel registration; designated compliance officers and set procedures; business continuity planning; customer privacy; policies for promotional materials, including email, websites, and social networking; and records of customer accounting including suitability information.

The compliance audit can be considered alongside the financial audit, as many of the provisions overlap. Regulators are looking for evidence that the firm's financial reporting to customers is accurate, which is also a key concern of the financial audit. Also, while the financial auditors perform testing, they may find potential compliance concerns and point them out so that the firm can improve its practices in advance of notice from the regulators. Because the financial auditors are outsiders, they may also see issues that the internal compliance staff overlooks out of familiarity or due to the press of other business.

It is possible to hire an outside company to handle compliance matters, although anecdotal evidence indicates that most regulatory authorities prefer that firms handle compliance internally. This shows a commitment to ethical behavior every trading day and keeps the firm's officers in charge of the procedures.

The key, of course, is to put a compliance program into practice, whether it was designed by a law firm or by following the NFA's free checklist.

# Conclusion

Asset managers can't fight regulation and the audits that come with it. Embracing an examination is a way to further demonstrate both internally and to your clients that you take your responsibilities seriously and can make the process both bearable and rewarding.

Like you, the auditor has a job to do. Being prepared for an examination ensures that when the time comes, you can both be efficient in completing it. Managers who put up resistance will only prolong the pain and potentially inspire the auditor to expand the scope of the investigation. Backstop Software can play a pivotal role in helping investment advisers establish and maintain a culture of compliance and also prepare for, and successfully complete, an audit.



# Appendix: Dodd-Frank and Audits

On June 22, 2011, the SEC adopted amendments of the Dodd-Frank Act to the Investment Advisers Act. These rules implemented a transitional registration exemption period for hedge fund and private equity fund advisers, extending the registration date to March 30, 2012. For more details on this legislation, visit <http://sec.gov/news/press/2011/2011-133.htm>

For more information on the regulations of the Dodd-Frank Wall Street Reform Consumer Protection Act, visit:

<http://dodd-frank.com/>

[Summary of the Dodd–Frank Wall Street Reform and Consumer Protection Act](#)

## About Backstop Solutions Group

Backstop Solutions Group, LLC is a privately held Software-as-a-Service (SaaS) platform company, providing cutting-edge software to hedge funds, funds of funds, endowments and other institutional investors. Backstop Solutions was founded in 2003 and is one of the fastest growing software providers in the financial services industry. Backstop Software is used by more than 315 firms throughout the United States, Europe and Asia and has been repeatedly recognized by industry leading managers and service providers as a top technology provider in the alternative asset management field.

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