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It's SEC Examination time: Do you know where your Regulatory Reporting Function is?

Summary

While alternative Investment firms are busy registering as investment advisors, many have not yet focused on developing a regulatory reporting function capable of handling the new regulatory reporting requirements such as Form PF. An assessment of your firm's current infrastructure and operations readiness should be undertaken to ensure future growth and compliance with these new reporting requirements.

C&A also recommends that firms start to build their regulatory reporting

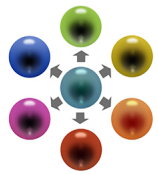
Since the passage and finalization of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010 and October 2011, respectively; alternative investment firms have been hurriedly preparing to register as investment advisors. They have increased compliance staffing and engaged legal and consulting firms for advice. Now as the deadline for filing Form PF approaches, many firms are asking: *Are we in accordance with the processes outlined in the compliance, policy and procedures manual? Have we accurately captured the necessary data from all the systems within the firm? Do we have the necessary controls in place to mitigate risk?*

The answers are complex.

Many are acting under the assumption that Form PF is just considered another report to be filed. However, this report comes with threads that lead directly back to the SEC and the new aspect of formal examinations.

C&A Consulting has observed that for most newly registered investment advisors, regulatory reporting responsibilities are being handled by the Finance Department, which receives some of the required information from the front office and operations. While the Finance Department prepares investor reports and financial statements, many Finance Departments have not been properly trained in the rules and regulations needed to comply with Dodd-Frank or trained in preparing regulatory filings such as Form PF.

There are other regulatory reporting challenges, including requirements to report results of stress testing the fund's



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portfolio based on several given scenarios, and other risk mitigation techniques such as delta-hedging, VaR calculations, counterparties credit exposures, related collateral, and credit support.

Furthermore, the Finance Department will be stretched even further, with all the deliverables that they have on a periodic basis, and the resources available to adequately gather the information, prepare and review the filings.

The case for a Regulatory Reporting Function

At C&A, we know that developing a robust infrastructure with a highly efficient regulatory reporting function is vital to your firm's success.

Mature regulated firms like broker-dealers have created Regulatory Reporting Departments to work with various areas including Compliance, Finance and Operations to ensure that new and existing rules are properly evaluated and implemented. The Regulatory Reporting Department is responsible for the preparation, review and submission to the regulator of all required reporting.

In sharp contrast, most hedge fund and private equity firms were not required to have a dedicated regulatory reporting function to handle these responsibilities. Historically, a less regulated environment allowed these firms to maintain lean operations in comparison with investment banks and third party providers. Prior to registration, hedge funds required less monitoring, reporting and staffing. In addition, hedge funds and private equity firms used fund administrators and prime brokers to augment their back office administrative functions. When reporting regulatory fund information, these third party providers do not always have a comprehensive view of all the funds, including positions, trades, related hedges, etc., which leads to inaccuracy and/or incomplete disclosures.

Since Dodd-Frank, firms have largely concentrated their efforts on registration and

building a compliance function. And, with investors now demanding more information and more transparency, hedge funds and private equity firms are rethinking just how well their enterprise functions operate overall.

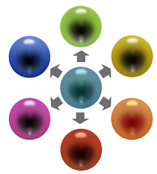
A More Forceful SEC is Coming

While firms grapple with Dodd-Frank and growing investor demands, the SEC has also become more vigilant. They are now hiring individuals who have extensive knowledge of capital markets, hedge funds and private equity funds to conduct examinations. Additionally, the SEC has a new methodology that employs a top-down approach emphasizing operational and business risk assessment. Moreover, the first day letter requesting information is much more comprehensive than in the past.

Going forward, the SEC will be more focused on determining whether a hedge fund or a private equity fund has effective governance, proper internal controls, and reporting processes in place to ensure accurate reporting and safe guarding of client assets. If the SEC decides that controls are insufficient to detect major issues, they may perform a deeper review of the fund's operations. The examination will be similar to that of a regulated broker-dealer.

C&A believes that the SEC will not only evaluate a firm's regulatory compliance based on the timeliness or accuracy of report filings, but will also judge a firm on being able to respond to the SEC or other parties in a credible, timely and well-coordinated manner.

The recent well publicized failures of several firms' internal controls, even when the regulatory reporting function were dutifully functioning has created the temperament for increased sweeps and questions by regulators. These actions make it vital that firms do not leave these responses to fragmented firm functions, or to inexperienced staff not used to dealing with the regulator or their examinations.



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What Firms Should Do Now

Hedge funds and private equity firms should now consider the regulatory requirements that will be placed on them and start to build a regulatory reporting function with experienced and knowledgeable staff. Firms should retain experts who can help to properly prepare regulatory filings, like Form PF; establish an effective controls infrastructure; and interact with regulators when they arrive for an exam or respond appropriately to special requests.

To build a first-class Regulatory Reporting Department, you must:

- Define and identify requirements, based on your business model, relating to the preparation of all regulatory filings.
- Review your current infrastructure to improve processes, governance, and controls and implement technology to enhance all of the above.
- Hire experienced staff who can take your firm to the next level.
- Design outcomes that can be benchmarked against Dodd-Frank mandates.
- Develop a scalable infrastructure to efficiently retrieve granular data in any format for any purpose.

These are just some of the critical action steps needed.

The C&A Difference

At C&A, we work closely with our clients to

assess their needs and provide viable and value-added solutions.

Our regulatory professionals have decades of experience in establishing and running regulatory reporting functions within the financial services sector. We have extensive experience with dealing with regulators and have managed regulatory examinations including the SEC, FINRA and the Federal Reserve Bank.

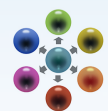
Our clients rely on us for our in-depth understanding of Compliance, Finance, Technology, Operations, and Risk & Control functions. Firms anchoring their regulatory efforts see us as a non-audit conflicted firm. Our experienced regulatory staff can perform a dual role of providing the regulatory expertise and pre or post examination remediation support.

We are confident that we can assist your firm in not only establishing a solid regulatory reporting function, but also in preparing your firm for Form PF filing and for your first regulatory examination.

Contact C&A Today

The challenges of regulatory reporting are daunting. Let us provide the advice and guidance you need by implementing customized solutions from start to success.

Contact Mr. Rob Barsky or Mr. Noland Cheng at (646) 233-2112 for a consultation or e-mail either at rob.barsky@caconsultingllc.com or noland.cheng@caconsultingllc.com.



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405 Lexington Avenue, 7th Floor

New York, NY 10174

Phone: (646) 233-2112

www.caconsultingllc.com