

2016 YEAR IN REVIEW





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LETTER FROM PRESIDENT & CEO AND BOARD CHAIR

As the leading association representing federally registered investment advisers, the IAA is proud to have advanced the interests of our member firms and the adviser profession in 2016. Despite challenging markets and a flood of new regulations and regulatory proposals, our industry remains strong, growing, and vitally important to investors, to our economy, and to the capital markets.

In 2016, nearly 12,000 firms were managing \$66.8 trillion in assets for a record 36.4 million clients. We continued to be a powerful job creator – adding more than 30,000 non-clerical positions this year, for an industrywide total of more than 780,000. Nine out of 10 firm executives tell us they expect to see their businesses grow organically in 2017, and more than six in 10 are planning to increase their payrolls.

As described in detail in this *2016 Year in Review*, the IAA has been in the forefront in representing your interests before Congress and before domestic and foreign regulators. We have engaged continuously with legislators, the SEC, CFTC, DOL, and other agencies in a tireless effort to ensure that laws and regulations are appropriately tailored – so you can continue to run your businesses and serve your clients without undue burden. We have conducted research and analysis to document industry trends and the collective challenges we face. We have implemented and expanded programs and

resources to help you meet those challenges and successfully manage your practices, grow your businesses, and connect with your peers.

Our already complex environment will be impacted significantly when a new Administration and Congress take office in January 2017, and new leadership is appointed to regulatory agencies and to financial services committees on Capitol Hill. Now more than ever, it is crucial that all investment advisers actively support our efforts, to ensure that your views on significant issues are heard and carry maximum weight.

In 2017, we will mark the IAA's 80th anniversary. Our industry has come a long way – back in 1937, there were only a handful of advisory firms and they managed just \$3 billion in assets. But the vision of the profession's pioneers – and the principles they established to guide our profession – are as important, and relevant, as ever. The IAA exists to promote and defend those principles, and to advance the success, and contributions, of the investment adviser community.

We appreciate your continued participation in the IAA, and we look forward to working with all of our members in 2017 – to strengthen an already trusted voice in critical policy arenas, and to provide enhanced services and resources of even greater value to our members.



Karen L. Barr
IAA President & CEO



Jon Roberts
Chair, IAA Board of Governors

THE STATE OF THE INVESTMENT ADVISER PROFESSION IN 2016: STRONG, GROWING AND CONFIDENT

Despite challenging markets and increasing regulatory burdens, the federally registered investment adviser profession remained strong and resilient in 2016 – adding more firms and more jobs, while managing assets for a greater number of clients.

Expressing confidence for the near-term future, a majority of investment advisers in a recent survey – 63 percent – say they plan to increase their headcounts over the next year. Fully 90 percent expect their businesses to grow organically through increased sales.

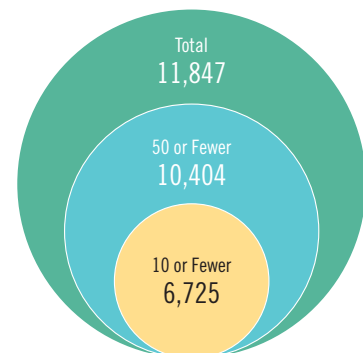
The IAA (in partnership with National Regulatory Services) analyzed Form ADV data submitted to the SEC in April by 11,847 federally registered investment advisers to produce the annual *Evolution Revolution* report. Now in its 16th year, *Evolution Revolution* is the most comprehensive profile of advisory industry metrics available. Our analysis of that Form ADV data demonstrated that:

- **The number of SEC-registered investment advisers continues to grow.** This year's 11,847 federally registered advisers represent a net increase of 3.3 percent over 2015.
- **The industry continues to be a powerful creator of quality jobs.** In 2016, advisers added 30,540 jobs to the economy, for a reported total of 781,335 non-clerical employees – a 4.1 percent increase over 2015. Of that total, 386,532 employees provide investment advisory services, including research – a healthy increase of 10,023 since 2015. Job growth is reflected in firms of all sizes.

Record Number of Clients
(in millions)



The Vast Majority of Advisers are Small Businesses with 50 or Fewer Non-Clerical Employees



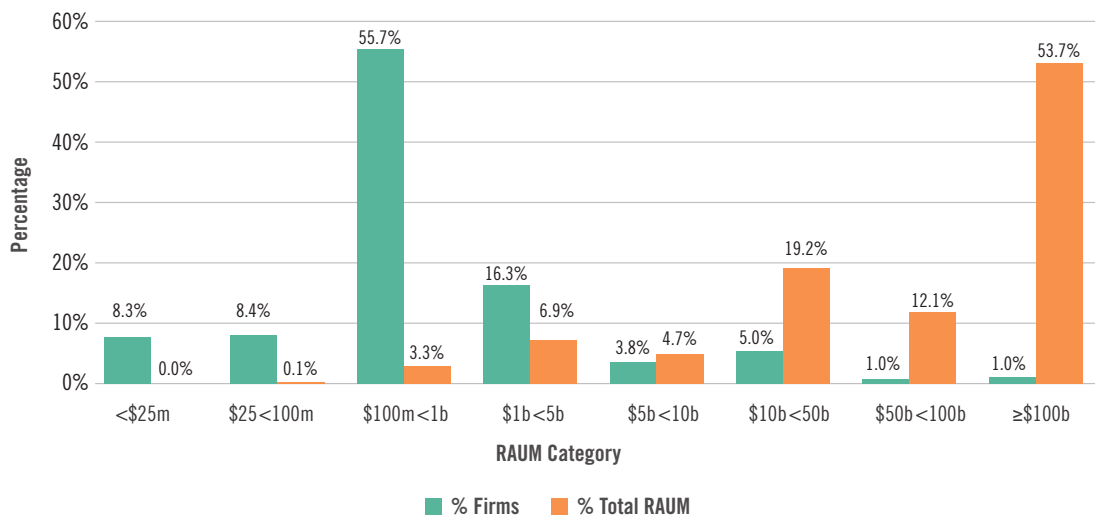
The 2016 “Typical”* SEC-Registered Investment Adviser



- Small businesses remain the core of the federally registered investment adviser industry.** In 2016, 87.8 percent (10,404) investment advisers reporting employing 50 or fewer non-clerical individuals – while 56.8 percent (6,725) reported have 10 or fewer non-clerical employees. Industrywide, the median number of employees is nine.
- Aggregate RAUM managed by SEC-registered advisers remains substantial – \$66.8 trillion – but is flat relative to last year.** Total RAUM grew by \$148 billion – a slight 0.2 percent increase over 2015’s \$66.7 trillion – reflecting generally flat markets.
- Federally registered investment advisers now serve more than 36.4 million clients – up substantially from 2015.** Continuing a strong trend and underscoring the vitality of the investment adviser profession, the number of clients grew by 22.4 percent over 2015. The increase is primarily due to the rise of automated advice for retirement plan participants and the growing popularity of web-based and app-based savings and investment models. The number of advisers reporting that they provide advice exclusively through an interactive website rose by 47 firms – nearly 60 percent – to a total of 126.

- The largest firms manage more than half the assets, but smaller firms are growing faster.** The 121 firms with RAUM over \$100 billion manage 53.7 percent of the total industry RAUM, but for the first time in recent history there are fewer of them (down from 128 firms in 2015), with less RAUM (down two percent from 2015). By contrast, the 8,565 firms (72.3 percent) with RAUM under \$1 billion manage just 3.4 percent of total industry RAUM, but their RAUM was up by 2.5 percent in 2016. Firms with RAUM between \$1 billion and \$100 billion saw their RAUM grow by 3.1 percent.
- Individuals comprise the largest categories of advisory clients, with pension plans coming in second.** Almost 61 percent of advisers serve either high net worth or non-high net worth individuals or both, while 46.6 percent reported that at least one client is a pension or profit-sharing plan (not including plan participants or state or local pension plans).
- Most advisers focus on one category of client.** More than 87 percent of advisers report that a majority of their clients are in a single category. For example, almost 51 percent of advisers report that more than half of their clients are individuals. Another 29 percent report that most of their clients are pooled vehicles (registered or unregistered).
- The number of private funds and registered private fund advisers is growing.** This year, 4,448 advisers reported advising 32,445 private funds with total gross asset value of \$10.5 trillion – up from 4,350, 30,342, and \$10.4 trillion respectively in 2015. Hedge funds and private equity funds are equally represented, with 35.8 percent each, in this space.

The RAUM Barbell—The Largest Firms Manage More than Half the Assets

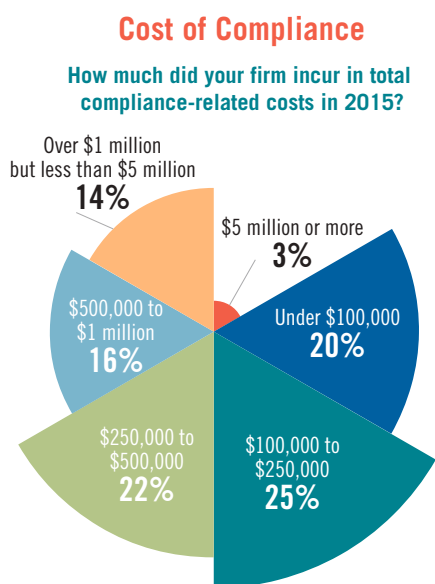


Compliance Challenges and Concerns

It comes as no surprise that addressing **cybersecurity** risks remained the number one area of heightened focus by CCOs in 2016 – dwarfing other concerns they identified, including anti-money laundering, advertising/marketing, custody, fraud prevention, and disaster recovery,

Nearly nine in 10 of the record 730 CCOs responding to the *2016 Investment Management Compliance Testing Survey* – a joint annual project of the IAA, ACA Compliance and OMAM, now in its 11th year – said concerns about data and information security

remain paramount. Nearly three quarters of them – 72 percent – reported having a formal, written, standalone **cybersecurity program**, up significantly from 43 percent in 2015. Another 21 percent reported having cybersecurity policies and procedures that are incorporated into broader programs. Nearly one in five said their firms had been victims of a **cybersecurity breach** in the past 18 months, while one in three said their firms have purchased specific **cyber insurance**.

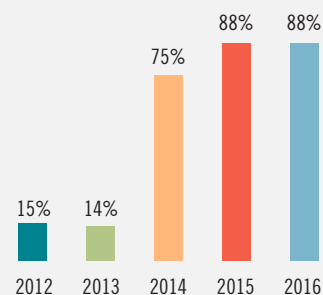


Most CCOs reported that their firms have increased the amount of **compliance testing**, particularly in the areas of cybersecurity (74 percent), and advertising/marketing (40 percent). But perhaps the most telling finding was that nearly four in five CCOs (77 percent) indicated they have not *decreased* testing in *any* compliance area.

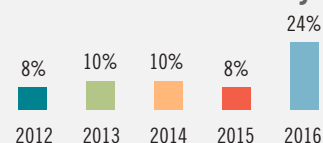
The **rising costs of compliance** continued to be a major concern – with the cost of paying compliance professionals typically representing more than 20 percent of an adviser’s budget. Nearly six in 10 CCOs reported paying third parties to conduct compliance reviews of their firms. One in three CCOs cited the costs of technology – such as personal trading software, email retention, and surveillance systems – as an additional major compliance expenditure.

Trend Update: Hot Compliance Topics

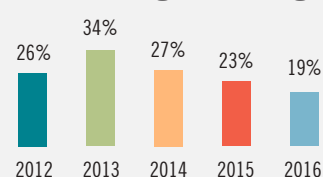
Cybersecurity/ Privacy/Identity/Theft



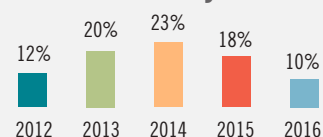
AML/FCPA/Anti-Bribery



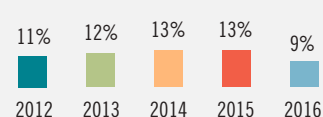
Advertising/Marketing



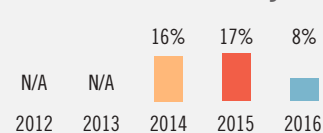
Custody



Fraud Prevention



Disaster Recovery

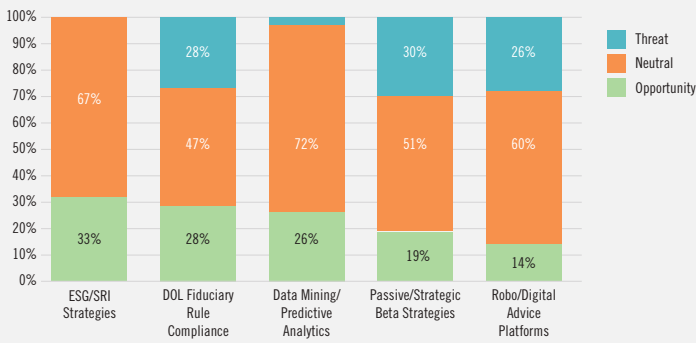


View from the C-Suite

A majority of advisory firm executives appear confident enough in their business prospects to increase headcount. In the inaugural *Executive Outlook* – an annual survey of IAA member firm executives by the IAA and Cerulli Associates – 63 percent said they expect to **grow their workforces** over the next 12 months. More than half (56 percent) plan to grow by 10 percent or less. Another seven percent said they plan to increase their staffs by more than 10 percent.

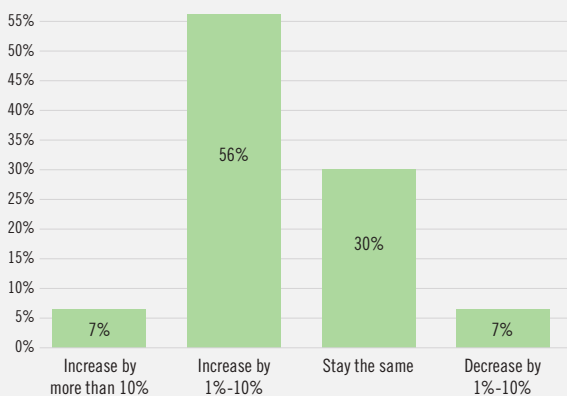
Threat vs. Opportunity Regarding the Following Industry Developments Over the Next 24 Months

Source: Cerulli Associates in partnership with Investment Adviser Association



Firms' Headcount Expectations Over the Next 12 Months

Source: Cerulli Associates in partnership with Investment Adviser Association
Analyst Note: *Decrease by more than 10%* was given as a response but not selected



Cybersecurity and the changing regulatory environment

were the top areas of concern for executives. Fully 97 percent cited cybersecurity, while 93 percent pointed to the regulatory environment. Other areas of significant concern for them included the possibility of a significant market crisis (83 percent) and fee compression (62 percent). The majority put a priority on near-term **investments in technology** to address cybersecurity concerns (89 percent), improve data management and analytics (76 percent), implement regulatory/reporting requirements (76 percent), and more.

Curiously, executives split on the new **DOL fiduciary rule** – with 38 percent identifying it as the biggest opportunity for increasing business over the next 24 months, and 21 percent citing it as a significant threat to business. Similarly, 31 percent saw **robo/digital advice platforms** as a threat, while 17 percent saw it as an opportunity.

Executives were virtually unanimous in identifying **development of the next generation of talent** as the most important initiative to ensuring firm profitability. Fully 98 percent of them identified talent development as important – with 58 percent of them calling it “very important,” and another 40 percent calling it “moderately important.”

The IAA’s *2016 Evolution Revolution* report and its *2016 Investment Management Compliance Testing Survey* are available under the **Publications** tab on the IAA website’s home page. An executive summary of *Executive Outlook* will be available in early 2017.

ADVOCACY



2016 posed significant new challenges for the investment adviser profession. Regulators adopted or formally proposed far-reaching new rules affecting advisers – including the SEC’s asset management reforms and the DOL’s new fiduciary rule. Legislation to update the Investment Advisers Act and to provide a safe harbor for advisers working with aging clients achieved partial victories in the current Congress and are likely to resurface in the new Congress. The debate over the SEC’s investment adviser oversight intensified – raising the specter of mandated third-party examinations and speculation about the role of FINRA in the oversight of investment advisers.

The IAA actively engaged in these important policy debates on behalf of its member firms and the advisory profession, both on Capitol Hill and before the SEC, DOL, and other regulatory agencies.

Legislative Advocacy

As the leading voice for investment advisers on Capitol Hill, the IAA furthered its goal to promote to policymakers the importance of investment advisers to investors and the capital markets. We continued our longstanding efforts to maintain the SEC's primacy in investment adviser regulation and oversight against encroachment by both banking regulators and FINRA. And the IAA continued to educate appropriate legislators and their staffs about the unique responsibilities and fiduciary obligations that differentiate advisers from other actors in the financial services industry.

In addition to furthering these overarching policy initiatives, the IAA proactively supported a number of specific pieces of federal legislation impacting advisers this year.

The Investment Advisers Modernization Act of 2016 would have, among other things, revised the Investment Advisers Act of 1940's outdated advertising restrictions to allow advisers to use – consistent with general anti-fraud standards – testimonials and references to past specific recommendations in communications with sophisticated clients and prospective clients. It would also amend portions of the SEC's complex custody rule with respect to privately offered securities, and adapt provisions related to the assignment of advisory contracts to advisers with a broad range of corporate structures. This bipartisan legislation passed the House of Representatives in September by a healthy margin of 261-145.

Unfortunately, like other recent financial services legislation, the bill was not considered by the Senate. No legislation has been taken up by the Senate Banking Committee since May 2015, when Chairman Richard Shelby's (R-Ala.) banking reform bill was marked up. The IAA expects a dramatic change, and increased opportunities to influence legislation, when a new chairman takes over leadership of the committee in the new Congress.

The IAA also strongly supported the **SeniorSafe Act**, legislation providing a safe harbor from civil liability for advisers and other financial service professionals that report suspected elder abuse to government authorities. The bill was passed unanimously by the House of Representatives in July. A companion bill sponsored by Sen. Susan Collins (R-Me.) was not considered by the Senate.

The IAA also backed the **Financial Stability Oversight Council Improvement Act**, which would have brought much-needed transparency and due process to FSOC's designation of advisers and other non-bank institutions as systemically important financial institutions (SIFIs). It was reported out of the House Financial Services Committee but was not taken up by the full House. The IAA expects to support further legislative attempts to restrict or repeal FSOC's ability to designate asset managers as SIFIs in the new Congress.

Central to the IAA's legislative advocacy efforts are regular meetings with lawmakers and their staffs, including during our

annual **Lobbying Day**. Representatives of member firms convene in Washington, DC, receive issues briefings from IAA Government Relations staff, and attend pre-arranged meetings with legislators and staff members to advance specific legislation and the interests of the investment advisory profession in general. Members participating in the **9th Annual IAA Lobbying Day** in May visited the offices of their House and Senate representatives, where – in addition



to the specific bills noted above – top issues included the ever-rising costs of compliance; fiduciary duty; SEC oversight of advisers; the risks of outsourcing compliance examinations to third parties; FSOC and the threat posed by imposing bank-type regulations on advisers; cybersecurity; and tax reform.

Detailed information about the IAA's legislative priorities is available in the **Advocacy** section on the home page of the IAA website, www.investmentadviser.org. Comprehensive briefing materials on the Investment Advisers Modernization Act, Investment Adviser Oversight, and Mandatory Third-Party Compliance Reviews are available in the **Key Issues** section of the IAA website home page.

Regulatory Advocacy & Engagement

Regulators made 2016 a demanding year for investment advisers and the IAA, which strongly and effectively advanced advisers' interests on a wide range of proposals important to the industry.

The IAA engaged in advocacy with the SEC on various aspects of its primary asset management agenda, including on the use of derivatives by registered investment companies and the proposed requirements for advisers' business continuity and transition plans. We commented to

the CFTC on its proposed Regulation AT (automated trading) and on the application of certain rules to foreign commodity pool operators (CPOs) and commodity trading advisors (CTAs). We engaged with the Department of Labor, not just on its fiduciary rule, but also on other initiatives important to advisers. We also engaged with Treasury and its financial crimes bureau (FinCEN), the National Futures Association, and European regulators.

The IAA's engagement with regulators goes far beyond responding to specific proposals. We also seek to be proactive in our advocacy. For example, during the past year, we have played a leading role in the debate over adviser oversight and the potential for a rule that would mandate independent third-party compliance assessments or examinations.

That advocacy is multi-faceted, involving outreach to SEC staff and Commissioners, other trade associations, other stakeholders, and the media in an effort to shape the debate.

The IAA has also sought, and in some cases received, guidance or relief on existing rules. Most notable in this regard: the DOL's fiduciary rule, on which we are actively seeking guidance; the SEC's custody rule, on which we are seeking a no-action letter on standing letters of authorization; and the CFTC's regulation on foreign CPOs and CTAs, on which we received a no-action letter that has now been proposed to be codified in a rule. We have also proactively commented to the SEC on the definition of "accredited investor," seeking a change that would build on the role advisers play as fiduciaries on behalf of their clients.

The SEC's Asset Management Rulemaking Agenda

Outgoing SEC Chair Mary Jo White's ambitious, five-part asset management rulemaking agenda made significant progress in 2016, with three sets of rules adopted, one proposed and one outstanding. As the leading advocate for the industry, the IAA has been actively involved in responding to and impacting various elements of the Chair's campaign.

A major success came in August, when the Commission adopted **final rules amending the Form ADV Part 1A registration form** for investment advisers. The amendments will require advisers – in their next annual

updating amendment filed after October 1, 2017 – to report far more information on the composition of the assets they manage in separately managed accounts (SMAs), including, for larger advisers, detailed information on the use of derivatives and borrowing in SMAs.

Illustrating the value of the IAA's regulatory advocacy: in adopting the final rule, the SEC accepted the IAA's recommendation to **increase the threshold amount for reporting** from \$150 million in RAUM of SMAs to \$500 million in RAUM of SMAs. Using data drawn from the IAA's 2015 *Evolution Revolution* report, the IAA successfully argued that the SEC could easily adjust this reporting threshold in the final rule and still collect nearly all of the data it sought while **reducing the reporting burden for approximately 3,000 smaller advisers**.

After the final rules were adopted, the IAA provided members with a detailed analysis of the requirements and established a **Form ADV Implementation Working Group** for members to regularly discuss operational and interpretative issues. The IAA also discussed interpretive questions with SEC staff about the new requirements and will continue this dialogue in 2017 in an effort to provide relevant information and guidance to members. In the meantime, compliance with the new requirements is a central focus of the IAA's educational offerings, including at our compliance workshops, webinars, and at our upcoming 2017 compliance conference.

The IAA took the lead in commenting on a June proposal to require all SEC-registered investment advisers to adopt and implement

written **business continuity and transition plans**. While generally supportive of the need for advisers to thoughtfully plan for potential significant business disruptions, the IAA argued that the proposed new anti-fraud rule is not necessary to achieve the SEC's goals for this type of operational planning. Instead, the IAA urged the SEC to pursue its goals through additional guidance under the existing Compliance Program Rule. The IAA also emphasized that any rule or guidance must be principles-based and that each adviser must have the flexibility to tailor its plan to its unique business model – something that is critical to mitigate the considerable costs involved.

The IAA also weighed in forcefully on the SEC's proposed rule that would **govern the way mutual funds and ETFs invest in derivatives**. While supporting many of the SEC's overarching goals with this rulemaking, the IAA strongly opposed the SEC's proposed percentage limits (or "caps") on exposure to derivatives and made a number of other recommendations that would make compliance less burdensome for advisers that manage funds. The IAA maintained that continuing opposition to the caps throughout the year, even as the IAA and others in the industry discussed and debated alternatives with the SEC.

Finally, the IAA is closely monitoring new rules the SEC adopted in October to **require mutual funds to report more data** about the fund and its portfolio holdings, as well as detailed and **complex rules regarding the liquidity management of mutual funds**.

The last remaining component of Chair White's Asset Management Rulemaking Agenda – to require annual stress testing for large funds and large advisers – has not been formally proposed. Its future is in the hands of her successor as SEC Chair.

SEC Oversight and Third-Party Assessments

Since the adoption of the Dodd-Frank Act six years ago – and perhaps for longer – the SEC has faced significant criticism regarding its perceived lack of oversight of investment advisers. At the core of this debate is the SEC's oft-mischaracterized and misunderstood examination rate for advisory firms. Currently, approximately 11 percent of the nearly 12,000 investment adviser firms undergo on-site examinations each year. Critics argue that rate is untenably low and have called for solutions that do not rely on increased funding for the SEC, including reliance on third parties.

The potential outcomes from this ongoing debate could range anywhere from a narrowly scoped rule requiring **limited and objective third-party assessments**, to an even more problematic rule that would require advisers to pay for **broad compliance reviews by independent third parties**, to a costly and bureaucratic **SRO for investment advisers**.

The IAA has been at the forefront on this important investor protection issue. In 2016, we continued to proactively engage the SEC in exploring viable alternatives the SEC could consider that would be less burdensome

and more effective – and by providing relevant cost data to SEC staff. In meetings arranged by our Association, **IAA members were given the opportunity to express their feedback and concerns directly to senior SEC officials.** These meetings are part of an important dialogue over the many questions raised by requiring investment advisers to hire and pay for third-party compliance assessments – the standards, scope, and frequency of any such reviews; the confidentiality of any work product generated; the qualification process for third parties; and the adequacy of SEC resources to oversee the third parties. And, of course, questions over how much such a third party engagement could cost.

Making the rounds of Congressional offices during the IAA's annual Lobbying Day were IAA Board of Governors Chair Jonathan Roberts, Senior Vice President & CCO of Klingenstein Fields Wealth Advisors, with former IAA Chair Vivian Pan, Senior Partner at Hamlin Capital Management (left) and Laura Dryman, Partner at Bourgeon Capital Management.

The IAA remains committed to helping the SEC find a workable solution to enhancing its oversight of investment advisers. The IAA will continue to support efforts to provide the SEC sufficient funding to hire additional examiners, while urging the SEC to make the most efficient possible use of its existing resources.

Definition of Accredited Investor and Qualified Institutional Buyer

In June, the IAA submitted a comment letter to the SEC in connection with its first comprehensive review of the “accredited investor” definition as required by the Dodd-Frank Act. The letter argued the IAA’s longstanding position that a person should qualify as an accredited investor if that person has retained the services of a registered investment adviser to act as a fiduciary in managing investments. The IAA maintained that registered investment advisers acting in their fiduciary capacity should be able to invest in privately placed securities when doing so is in their client’s best interest. And while not the focus of the Commission’s review, the IAA also took the opportunity to again urge the Commission to apply this same analysis and reasoning to expand the definition of qualified institutional buyer (QIB) under Rule 144A. The IAA letter noted that there continues to be uncertainty with respect to whether certain entities not specifically enumerated in the rules could qualify as QIBs.

Currently, the SEC staff is formulating potential recommendations for a rulemaking, and the outcome of the Commission’s deliberations could have significant implications for many investment advisers. The IAA anticipates commenting again if and when the SEC proposes a rule amending the accredited investor definition. The IAA will continue to seek member input on this important capital formation issue.



Systemic Risk

The IAA was actively engaged in important developments in the ongoing systemic risk debate during 2016, which saw regulators moving away from the notion of designating asset managers as systemically important financial institutions (SIFIs).

In April, the **Financial Stability Oversight Council** (FSOC) reported on its review of potential risks to financial stability that may arise from certain products and activities in the asset management industry. In an encouraging sign, FSOC appears to have taken into account the IAA's arguments that singling out asset managers for designation as SIFIs is inappropriate, and makes no mention of such a designation in its report. The IAA will remain vigilant – and continue to engage with regulators as appropriate – as FSOC continues to consider regulatory responses to potential risks to financial stability.

The systemic risk debate extends beyond the U.S. border. The **Financial Stability Board** (FSB) proposed policy recommendations in June – which it plans to finalize soon – to address what it sees as structural vulnerabilities associated with certain asset management activities. On September 21, with the input of the IAA **FSOC/Prudential Regulation Working Group**, we filed a letter with the FSB on systemic risk in asset management. The letter principally served two functions: first, to demonstrate that the SEC's prime asset management regulatory agenda is intended to address the same concerns underlying many of the FSB's policy recommendations; and second, to ask



the FSB to reconsider its proposal to require IOSCO to develop a single way to measure leverage in all types of funds worldwide. The letter commented that it would be extremely difficult to reach consensus on a single methodology to calculate leverage that would be appropriate for all types of funds in every jurisdiction around the world, and that IOSCO's time and energy would be far better spent developing a comprehensive survey on global leverage measurements and reporting.

▲
IAA General Counsel Bob Grohowski and Jennifer Murphy, COO of Western Asset Management, meeting with House Financial Services Committee staff on IAA's annual Lobbying Day.

Custody

Even 13 years after its adoption, the Custody Rule continues to be a source of confusion for many advisers. One emerging issue under the Custody Rule involves the exercise of limited authority pursuant to standing letters of authorization – or SLOAs. The SEC staff has not addressed whether SLOAs result in custody in all circumstances, creating widespread uncertainty in the industry.

In an effort to help advisers understand their obligations under the Custody Rule, the IAA has sought guidance from the SEC staff, asking for confirmation that there is no custody in that context or, in the alternative, relief from the annual surprise exam requirement under certain circumstances. We hope to achieve a resolution in the near future.

Also in 2016, **the IAA received a letter from the SEC granting no-action relief** under the Custody Rule provision requiring that an investment adviser with custody of client funds or securities must have those assets verified by an independent public accountant through a surprise examination at least once during each calendar year. The letter provides targeted relief from this surprise examination requirement for certain sub-advisers, subject to certain conditions.

The New DOL Fiduciary Rule

Arguably the most controversial regulatory rulemaking of 2016 was the Department of Labor's adoption of the new ERISA fiduciary rule. First proposed in 2010, re-proposed in 2015, and finalized in April 2016, the majority of the new rule's provisions are set to take effect in April 2017.

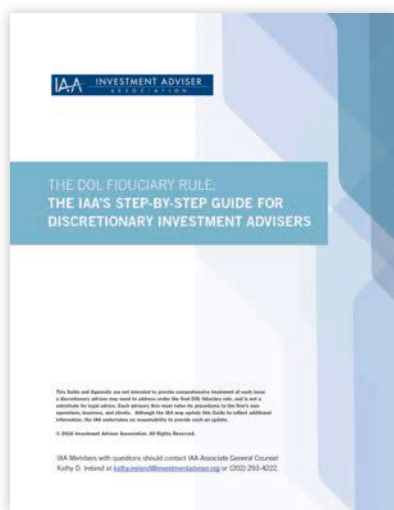
Extending the fiduciary duty to all financial professionals providing retirement investment advice has prompted major changes to the business models of other

types of financial institutions. Discretionary investment advisers, which have always been fiduciaries under ERISA, were not the primary targets of this regulation and generally are not facing the same sorts of fundamental impacts on their business – but nevertheless many will be affected, depending on each adviser's business and client base.

Before its adoption, the IAA advocated for changes to the proposed rule, arguing against the creation of a fiduciary status during marketing and pre-contract discussions by advisers with their potential clients. The final rule includes a number of improvements in those areas, and the IAA continues to pursue further clarification from the DOL in upcoming guidance and FAQs.

To assist members, the IAA in November published ***The DOL Fiduciary Rule: The IAA's Step-by-Step Guide for Discretionary Advisers*** (available on the IAA website at **Resources >> Legal/Regulatory Library >> ERISA**). The Guide walks discretionary advisers through the rule's impact on their businesses, and reflects guidance and clarification from the DOL in its first set of FAQs on the new rule. The Guide also includes a ***Rollover Recommendation Checklist***, which sets out factors that advisers should consider in recommending that a client or potential client roll over amounts from a retirement plan into an IRA.

The IAA has and continues to provide additional educational and compliance assistance to members, including responding to individual member questions. Of particular interest are two webinars – *What SEC-Registered Investment Advisers Need to*



Know About the New ERISA Fiduciary Rules (May 17) and ERISA Fiduciary Update: Changes Investment Advisers Should Put in Place Before April 10 (October 21).

Recordings of both webinars, along with presentation materials, are available on the IAA website at **Events >> Free Webinar Recordings**.

CFTC Issues Affecting CPOs and CTAs

With the input of its **CFTC Committee**, the IAA in 2016 was actively engaged in representing the interests of member firms acting as commodity pool operators (CPOs) and commodity trading advisors (CTAs) before the **Commodity Futures Trading Commission (CFTC)** and **National Futures Association (NFA)**. Members continue to face a variety of challenging interpretive and practical issues as a result of post Dodd-Frank changes to the definitions of CPO and CTA, resulting in some investment advisers having to deal with conflicting SEC regulations. Throughout 2016, the IAA worked with members, CFTC staff and NFA staff to continue to address these interpretive issues related to CPO and CTA regulations, including harmonization between CFTC and SEC regulation governing these entities.



In February, the IAA won **no-action** relief from the CFTC under the registration

exemption in **Regulation 3.10** for non-U.S. CPOs or non-U.S. CTAs under certain circumstances regarding the use of uncleared swaps. The no-action relief alleviated certain registration requirements for non-U.S. CPOs or non-U.S. CTAs, which reduced regulatory burdens and uncertainty for IAA members. The IAA also drafted a comment letter to the CFTC to support the CFTC's subsequent rule proposal later in the year that would codify the no-action relief.

Based on member feedback and concerns with proposed language, the IAA submitted a comment letter to the CFTC advocating for reasonable changes to the CFTC's proposed **Regulation Automated Trading (Reg AT)**. The IAA urged the CFTC to clarify the definition of "algorithmic trading" and amend the proposed regulations regarding source code and risk-control programs. The IAA continues to monitor the matter and plans to comment on the CFTC's **supplemental Reg AT proposal**, issued in November, amending certain portions of its initial proposal. The IAA will advocate for meaningful changes to the proposal relating to algorithmic and electronic trading in order to reduce the unnecessary burdens on market participants such as CPOs and CTAs.

The IAA also continued to press the CFTC staff to act on the IAA's July 2014 **petition for rulemaking to amend outdated and burdensome recordkeeping rules**. The petition requests amendments to certain electronic recordkeeping requirements applicable to CPOs and CTAs, and requests that the CFTC staff expand the list of permissible entities that may maintain records. The IAA will evaluate approaches in

the coming year to obtain CFTC relief from these onerous and impractical recordkeeping requirements.

Another thorny area relates to the applicability of **CFTC transactional-level requirements** to U.S. activities of non-U.S. CFTC-registered swap dealers. Non-U.S. swap dealers sought relief from the requirements when entering into swaps with a counterparty that is not a U.S. person. In October, the CFTC proposed rules to define key terms for cross-border transactions and to address the cross-border application of the registration thresholds and external business conduct standards for swap dealers and major swap participants, including whether and to what extent these thresholds and standards would apply to swap transactions that are arranged, negotiated, or executed using personnel located in the United States. The debate surrounding these issues will continue into 2017, and the IAA will continue to monitor and weigh in as appropriate.

In January, the IAA, along with others, urged the CFTC to reconsider its long-awaited guidance on **CFTC Forms CPO-PQR and CTA-PR** issued in November 2015 with regard to specific compliance challenges with the applicable regulations and members' business models. The CFTC staff responded in February, providing some needed clarifications. During the year, the IAA continued to assist members in interpreting and responding to the CFTC forms and NFA forms, including NFA Form PQR and NFA Form PR, and will continue to pursue clarification and changes where needed.

The IAA has been actively involved in addressing the NFA's regulatory action in the area of customer protection measures and recently adopted quarterly **disclosure of financial conditions by CPOs and CTAs** to the NFA. The IAA has continued to engage with the NFA staff to provide member feedback on this regulatory activity and will continue to seek interpretive guidance from the NFA as necessary in the coming year.

International Regulatory Issues

During 2016, the IAA continued to focus on key areas impacting investment advisers and private funds on the international front.

The IAA regularly updated members on **EU regulatory developments** under the revised **Markets in Financial Instruments Directive (MiFID II)**, the new **remuneration regulation** guidelines, **dealing commission** (soft dollar) developments in the **United Kingdom**, the potential implications of the historic **Brexit** referendum in the UK, and the repeal of certain class order exemptions from licensing requirements in **Australia**.

The IAA also arranged quarterly meetings of its **International Committee** to discuss issues relating to international compliance, regulation, and market access issues. Committee members exchanged information on implementation challenges relating to AIFMD and MiFID II in the EU, and addressed a variety of additional topics.

COMPLIANCE



As the legislative and regulatory environments for investment advisers have become increasingly complex, changing at a rapid pace, the IAA has taken the lead in assisting its diverse membership in understanding their compliance obligations and in providing crucial guidance and information for implementing efficient and effective compliance solutions. From the industry's premier Investment Adviser Compliance Conference, to regional Compliance Workshops, to issue-specific committees and working groups, to its robust online Legal/Compliance Resource Library, the IAA provides a broad array of services and resources to help members navigate the dynamic legal, regulatory, and compliance landscape.

The 2016 Investment Adviser Compliance Conference

The IAA's annual Compliance Conference has become the premier conference of its kind, attracting a record number of attendees in 2016. More than 300 legal and compliance officers came to Washington, D.C. to hear from more than 60 industry experts, peers and regulators – including 16 SEC and CFTC officials.

The conference's more than 20 sessions focused on a wide range of topics critical to advisers, including cybersecurity; SEC exams; DOL fiduciary rulemaking; derivatives regulation; pay-to-play rules in an election year; changes to Form ADV Part 1 reporting requirements; private equity fund disclosure; the custody rule; compliance automation; effective codes of ethics; international issues, and more.

SEC Commissioner **Kara Stein** opened the conference in a Q&A with IAA President & CEO **Karen Barr** that addressed the regulatory challenges posed by the rise of robo advice; SEC oversight of advisers and

the possibility of **mandated third-party compliance reviews**; SEC Enforcement's **focus on CCOs**; the necessity for **increased data reporting** from advisers to improve SEC oversight; and FSOC and **systemic risk**.

The move toward **mandated third-party compliance reviews** dominated a discussion IAA President & CEO **Karen Barr** facilitated with **David Grim**, Director of the SEC's Division of Investment Management, and **Marc Wyatt**, Director of the Office of Compliance Inspections and Examinations (OCIE). Grim and Wyatt also spoke about how OCIE's **adviser exam rate** of 11 percent seriously understates the effectiveness and reach of OCIE's adviser oversight. They also addressed the practical difficulties of creating a **uniform fiduciary rule** to cover advisers and broker-dealers.

IAA General Counsel **Bob Grohowski** led a discussion with **Joseph Brenner**, Chief Counsel for SEC Enforcement, and **Mark Flannery**, Director of the SEC's Division of Economic Risk and Analysis (DERA). They explored the ways **data analysis** informs SEC policy decisions and how **whistleblowers** are transforming SEC Enforcement. Brenner and Flannery also addressed Enforcement's focus on **CCO liability** and how **systemic risk** regulations should be applied to asset managers.

Comprehensive coverage of the 2016 Investment Adviser Compliance Conference is available in the April 2016 *IAA Newsletter*, available on the IAA website at **Publications>>Newsletters**. Video excerpts of key discussions with SEC officials are available on the IAA website at **News>>IAA**

ethics AML Form ADV
CPO/CTA Custody Rule

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March 10-11, 2016
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◀ Clockwise from top left: IAA President & CEO Karen Barr interviews SEC Commissioner Kara Stein at the 2016 IAA Investment Adviser Compliance Conference; SEC Enforcement Division Chief Counsel Joseph Brenner addresses the impact whistleblowers have had on SEC investigations; Steve Stone, a partner at IAA Associate Member Morgan, Lewis & Bockius LLP, guides IAA Compliance Workshop attendees in Chicago through an interactive, brainstorming exercise called **Surviving an SEC Exam**; Mark Flannery, Director of the SEC's Division of Economic Risk and Analysis (DERA), addresses how his staff looks for data inconsistencies that could trigger an enforcement referral.

Vlog or on the IAA YouTube Channel at www.youtube.com/c/InvestmentAdviserOrg.

Compliance Workshops

The IAA expanded its annual fall series of Compliance Workshops from eight cities to nine, and introduced new elements to the workshops that proved popular with the more than 460 compliance professionals who attended. The workshops, now in their 20th year, offered practical insights into challenging legal and regulatory issues facing advisers, along with the opportunity to connect with compliance and legal professionals at other advisory firms.

Each workshop featured a **regional SEC official**, who addressed current inspection

priorities and compliance issues. Workshops also featured a member of the **IAA legal team** and **attorneys from leading law firms**, who discussed new compliance challenges on the horizon, including amendments to Form ADV Part 1, the DOL fiduciary rule, and expected new AML rules.

New to the workshops' agenda this year were two interactive sessions – a hands-on exercise on dealing with **cybersecurity breaches**, and a brainstorming exercise on **successfully surviving an SEC exam**.

Workshops were held in Chicago, Philadelphia, Boston, New York, Atlanta, Denver, Houston, Los Angeles, and San Francisco.



In conjunction with the fall workshops, the IAA scheduled special meetings for smaller firms in seven workshop cities. These **Smaller Firm Compliance Peer-to-Peer Meetings** allowed compliance personnel to discuss compliance challenges common to smaller firms, and best practices for addressing them.

Cybersecurity

Addressing cybersecurity risks continues to **top investment adviser compliance concerns**, as evident from this year's *Investment Management Compliance Testing Survey*. Fully 88 percent of survey participants reported that safeguarding critical information leads their list of compliance concerns. And 74 percent of advisers reported

increasing the amount of compliance testing they do in the area of cybersecurity/privacy/identity theft.

Cybersecurity is an area **identified by regulators as a top priority as well**. In 2016, the SEC staff completed Phase

2 of its cybersecurity examination sweep initiative. Going forward, advisers can expect to see cybersecurity items incorporated into typical risk-based document request letters.

To assist members with this challenge, the IAA has made

cybersecurity a major point of emphasis in many of our educational events this year. The 2016 IAA Investment Adviser Compliance Conference featured a panel on cyber readiness – including proactive measures to take to manage the risk, what to include in an incident response plan, how to mitigate harm when a breach occurs, and what state and foreign breach notification laws may apply. A June webinar, *Cybersecurity Awareness and Training Techniques*, was dedicated to the topic. And our fall Compliance Workshops highlighted a hands-on case study on cybersecurity breaches.

We have also added materials to the IAA's online Legal/Resource Library, including three **OCIE Cybersecurity Sweep Exam (Phase 2) document request lists** and new regulatory guidance. And the IAA legal team responded to dozens of individual member requests for assistance with such matters as incident response plans, policies and procedures, vendor due diligence checklists, service providers, examination, disclosure, and reporting issues.

IAA members can access the June webinar on the IAA website at **Events>>Free Webinar Recordings** and the online resource library at **Resources>>Legal/Regulatory Library>>Cybersecurity & Privacy**.



Legal Team Inquiries

The IAA's legal team serves as an invaluable resource for compliance professionals and in-house legal staff. Inquiries jumped by 23 percent this year, with the IAA's legal experts responding to **more than 800 requests for information** on a wide range of legal, regulatory, and compliance issues. Issues generating the most inquiries included the new DOL fiduciary rule; Form ADV Part 1 disclosure; cybersecurity and data security; custody; SEC inspections and examination; GIPS; and compliance programs and risk assessment.

Committees and Working Groups

The IAA launched three new member groups in 2016 to provide additional opportunities to members to discuss compliance and other issues with their peers. Those groups are:

The **FinTech Committee** is an invitation-only committee of representatives of IAA member firms that have a significant presence in emerging technologies, such as the provision of digital advice. The Committee will assist IAA staff in monitoring regulatory developments and establishing industry positions on regulatory proposals and other issues affecting these types of investment advisers. The Committee also serves as a forum for these IAA members to discuss implementation of new rules and other compliance-related issues from their unique perspective. **Ben Alden**, General Counsel for Betterment, serves as the Committee's first Chair and IAA Special Counsel **Paul Glenn** is the primary staff contact.



▲ IAA General Counsel Bob Grohowski (center), with Legal & Regulatory Committee Vice Chair Mary O'Keefe of Nuveen Asset Management and Committee Chair Robert Burns of Putnam Investment Management, at a recent meeting in Washington, D.C.

The **GIPS Compliance Forum** was created to give IAA members a forum to discuss legal and regulatory issues relating to performance measurement and reporting, and more specifically compliance with the Global Investment Performance Standards (GIPS). **Grace Man**, a Senior Manager for Franklin Advisers, serves as the group's first Chair and IAA Special Counsel **Paul Glenn** is the primary staff contact.



Ben Alden, General Counsel, Betterment

The **Form ADV Implementation Working Group** will give IAA members an opportunity to share to interpretive and operational questions regarding implementation of the new amendments to Form ADV Part 1A adopted this past summer. These conversations also will help



Grace Man, Senior Manager, Franklin Advisers

IAA Vice President for Government Relations Neil Simon briefs members of the IAA Legal & Regulatory Committee on developments on Capitol Hill impacting legislation affecting investment advisers.



the IAA develop requests for guidance or clarification, as needed. The Working Group will hold regular calls for the next 18 months, through the time that most advisers will have filed their first update using the amended Form ADV. IAA Associate General Counsel **Monique Botkin** is the primary staff contact.

More information about the IAA's **full roster of committees, working groups, and compliance forums** is available in the For Members section of the IAA website – along with summaries of the business conducted and topics discussed during recent meetings. Those groups include:

- Legal and Regulatory Committee
- Government Relations Committee
- International Committee
- Regulatory Reform Working Group
- Cybersecurity Compliance Forum
- DOL Working Group
- FSOC/Prudential Regulation Working Group

- Private Equity Fund Advisers Committee
- CFTC Committee
- Bank-Affiliated Asset Managers Compliance Forum
- Smaller Advisers Compliance Forum
- Social Media Compliance Forum

Online Compliance Resources

The IAA maintains a robust online Legal/Regulatory library and associated compliance materials that provide extensive resources covering every major adviser issue. Each topic area includes IAA guidance, including any relevant compliance control; IAA comment letters and statements; outlines, articles and memoranda from a variety of sources; and links to selected rules, significant no-action letters, and other regulatory guidance.

The IAA's online resources are updated as developments warrant. One of the most significant – and sought after – 2016 additions is ***The DOL Fiduciary Rule: The IAA's Step-by-Step Guide for Discretionary Advisers*** (available on the IAA website at **Resources>>Legal/Regulatory Library>>ERISA**). The Guide is designed to assist member firms in preparing for the April 10, 2017 implementation date for the new rule. The Guide walks discretionary advisers through the rule's impact on their businesses, and reflects guidance and clarification from the DOL in its first set of FAQs on the new rule. The Guide also includes a *Rollover Recommendation Checklist*, which sets out factors that advisers should consider in recommending that a client or potential client roll over amounts from a retirement plan into an IRA.

The IAA's online compliance resources are available under the **Resources** tab on the home page of the IAA website.

Webinars

The IAA conducted 13 webinars on legal, regulatory, and compliance topics in 2016, looking at issues ranging from the new DOL rule to the SEC's new Form ADV Part 1 reporting requirements to anti-money laundering requirements. A full rundown of those webinars appears in *Engagement, Information and Education*, which begins on page 24.

All IAA webinars are complimentary to members and associate members. Recordings of past webinars are available on the IAA website at **Events>>Free Webinar Recordings**.



IAA INVESTMENT ADVISER
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Mark Your Calendar:

All compliance and legal professionals are encouraged to attend the IAA's 2017 Investment Adviser Compliance Conference to be held on March 2-3 at the Hyatt Regency Washington on Capitol Hill.

ENGAGEMENT» INFORMATION»EDUCATION



The IAA provides a valuable suite of services to keep members up-to-date on issues affecting the investment adviser profession – so they can remain competitive, build their businesses, and stay on the right side of regulators. In addition to our annual Leadership Conference, Compliance Conference and Compliance Workshops, the IAA offers webinars, publications, online resources, and surveys covering a wide range of business, compliance and regulatory issues. And we provide numerous networking opportunities through executive roundtables, member committees and working groups, and local meetings for members to share information, exchange ideas and build enriching professional relationships.

The 2016 IAA Leadership Conference

Difficult market conditions, ever-changing technology, a new generation of investors demanding new strategies and communications channels, rapidly mounting regulatory burdens – the issues that keep investment adviser executives up at night took center stage at the IAA's 2016 Leadership Conference in Pasadena in May.

The 2016 conference, geared toward C-Suite executives, unveiled a revamped format. Responding to member feedback, the IAA increased the number of interactive, peer-to-peer breakout sessions, which allowed firm executives to interact in smaller groups to discuss common challenges, opportunities, and best practices. Breakout sessions addressed such topics as *Succession Planning*, *Adding Compelling Value for High Net Worth Clients*, *Technology and Operations*, *Managing Trust and Communications*, and *Managing in the Face of Regulatory Change*.

The Leadership Conference's general sessions featured noted experts and thought leaders:

- **Robert Arnott**, Chairman and CEO of Research Affiliates, LLC delivered the keynote address examining the impact that America's **changing demographics** are having on GDP growth – and why advisers will be forced to consider unconventional asset classes and investment approaches to unlock large returns in the future.



- **Gary Sorrentino**, Chief Technology Officer of J.P. Morgan Asset Management, addressed best practices to protect against **cybercrime and identify theft**.
- **James Ware**, Founder of Focus Consulting Group, focused on investment advice as a talent industry, and examined ways that advisory firms can create strong cultures that will **attract, and retain, a new generation of talent**.
- **Ron Brownstein**, Political Director of the Atlanta Media Company and a Senior Political Analyst for CNN, examined what were then the upcoming **2016 elections**.
- **Paul Atkins** – Chief Executive of Patomak Global Partners, LLC, former SEC Commissioner, and now a member of the Presidential Transition Team – spoke about the **increased politicization of the SEC**, trends in regulators' use of “big data,” and how financial regulation may change following the 2016 elections.
- **Paul Hilton**, Partner at Trillium Asset Management, **Sonia Kowal**, President of Zevin Asset Management, **Fran Seegull**,

IAA LEADERSHIP CONFERENCE 2017

OCTOBER 4-6, 2017 • CHICAGO

Mark Your Calendar: The IAA Annual Leadership Conference continues to provide an excellent opportunity for senior executives to meet with each other to explore the many challenges and opportunities ahead. Please join us at the 2017 Leadership Conference scheduled October 4-6, 2017, in Chicago.

Chief Investment Officer at ImpactAssets, and **Rukaiyah Adams**, Chief Investment Officer of Meyer Memorial Trust explored **emerging trends in the field of SRI** – sustainable, responsible and impact investing – from the growth of assets in the field, to varying approaches to investment strategy, to the competitive edge SRI investment advisers will have in the future.

- **April Rudin**, Founder of the Rudin Group, looked at **emerging technologies** – from robo advice to predictive analytics to algorithmic trading – and what they mean for the future of the wealth management practice.

The IAA's 2017 Leadership Conference – scheduled for October 4-6 in Chicago – will once again highlight the popular breakout sessions and other opportunities for peer-to-peer interaction.

Executive Roundtables

The IAA expanded its business-focused programming for C-Suite executives in 2016, launching a series of by-invitation-

only Executive Roundtables in three cities – Boston, New York and Los Angeles. The Roundtables allow small groups of executives – 15 to 20 – to discuss matters of common concern and to hear from experts on timely business issues.

At the Boston Roundtable, **Kenneth Hoffman**, President of the **Optima Group**, discussed best practices and missteps in **strategic planning** for investment advisers. In New York, **Jonathan Stern**, Partner and Managing Director at **Berkshire Capital**, facilitated a discussion on business practice growth, looking at **organic growth versus mergers and acquisitions**. In Los Angeles, **Jonathan Treussard**, Senior Vice President and leader of the Product Management Group at **Research Affiliates** and **Steve Myers**, VP of Sales, **Jemstep by Invesco**, led discussions on **disruption, technology, and business model trends** in investment adviser firms.

The Executive Roundtable series will be expanded to additional cities in 2017 including January 24, 2017 in Dallas and February 16, 2017 in Boston. Additional meetings are planned for the 2nd quarter in Chicago, San Francisco, and New York.



Clockwise from top: Paul Hilton, Partner at Trillium Asset Management, Sonia Kowal, President of Zevin Asset Management, Fran Seegull, Chief Investment Officer of ImpactAssets, and Rukaiyah Adams, Chief Investment Officer of Meyer Memorial Trust, engaged in a panel discussion on Socially Responsible Investing (SRI) at the 2016 IAA Leadership Conference. James Ware, Founder of Focus Consulting Group, made a formal presentation and led several smaller peer-to-peer discussions on how to attract, retain and develop talent from the new generation of young professionals by building the kind of culture that will motivate them. Robert Arnott, Chairman and CEO of Research Affiliates, delivered the keynote address, on how changing demographics are affecting investment strategies, returns, and adviser responsibilities to clients.



Virtual Meetings & Webinars

One of the most popular – and effective – ways for members to stay up-to-date on issues affecting investment advisers is through the IAA Webinar Series. Live and recorded webinars are free to members and associate members. In 2016, the IAA presented 21 webinars, on **legal, regulatory and compliance topics** (13 webinars), **business topics** (five webinars), and **member services topics** (three webinars).

Nearly 3,000 individuals from member firms attended live webinars, while nearly 500 non-member firms paid a fee to attend those webinars. Recordings of all past webinars are available on the IAA website at **Events>>Free Webinar Recordings**.

The highest attendance this year was for webinars relating to the new **DOL fiduciary rule**, new rules increasing reporting obligations on **Form ADV Part 1, robo advice and new technology**, and for briefings forecasting **changes in the regulatory landscape**.



▲
Top: Paul Atkins – Chief Executive of Patomak Global Partners, former SEC Commissioner, and member of the Presidential Transition Team – spoke to 2016 IAA Leadership Conference attendees about the increasing politicization of the SEC.



Bottom: Gary Sorrentino, Chief Technology Officer for J.P. Morgan Asset Management, focused on cybersecurity, and what individuals should do to protect their financial assets. He cited the smartphone as one of the easiest devices for hackers to exploit.

Issue experts, attorneys from nationally recognized law firms and IAA staff presented the following webinars in 2016:

Legal, Regulatory and Compliance

- Understanding Form ADV Part 1 Amendments – 12/07/2016
- Post-Election Briefing Call: How the Election Results Might Affect Investment Advisers – 11/10/2016
- ERISA Fiduciary Update: Changes Investment Advisers Should Put in Place Before April 10 – 10/21/2016
- IAA Briefing: Assessing the Regulatory Landscape – 9/08/2016

- Brexit: Implications for U.S. Asset Managers – 7/08/2016
- Pay-to-Play for Investment Advisers: New Developments and Hot Topics for the 2016 Election – 6/17/2016
- Results of the 2016 Investment Management Compliance Testing Survey – 6/08/2016
- Revisiting Your Code of Ethics – 5/25/2016
- What SEC-Registered Investment Advisers Need to Know About the New ERISA Fiduciary Rules – 5/17/2016
- Anti-Money Laundering for Advisers: Prepare for New Regulations – 5/12/2016
- Tips for Managing Compliance Testing and the Annual Review – 4/22/2016
- 2016 Webinar – Alternative Investments and the Investment Advisory Practice: Due Diligence Best Practices: 03/29/2016
- IAA Briefing: The Regulatory Landscape of 2016 – 2/08/2016

Business

- Robo Advisers and the Investment Advisory Practice: Past, Present and Future – 11/15/2016
- Building Client Trust and Loyalty by Closing the Expectations Gap – 7/12/2016
- Cybersecurity Awareness and Training Techniques – 6/02/2016
- Technology in the Investment Advisory Practice: Benchmarking Best Practices – 3/01/2016

- Aging Clients and the Investment Advisory Practice: Benchmarking Best Practices – 1/27/2016

Member Services

- IAA Member Orientation – 12/15/2016, 9/15/2016 and 5/20/2016

Publications and Surveys

The IAA publishes three major surveys each year that document and track important trends in the investment adviser industry – *Evolution Revolution*, the *Investment Management Compliance Testing Survey*, and the new *Executive Outlook*. Major findings from all three surveys appear in *The State of the Investment Adviser Profession in 2016: Strong, Growing and Confident* beginning on page 2.

The **2016 Evolution Revolution** report, which analyzes data submitted by all federal registered investment advisers to the SEC on Form ADV, shows the industry continued to grow in 2016 – with 11,847 firms (up 3.3 percent), 781,335 non-clerical employees (up 4.4 percent), 36.4 million clients (up

22.4 percent) and \$66.8 trillion in assets under management (up a slight 0.2 percent, due largely to flat markets). This year’s *Evolution Revolution* also documents the rise in private funds, registered private fund advisers, and web- and app-based advisers.

Cybersecurity remains the top concern of CCOs, according to the **2016 Investment Management Compliance Testing Survey**.

Fully 88 percent of the record 730 CCOs responding to the survey cited cybersecurity as this year’s hottest topic. The survey also looks at firm budgeting to cover rising compliance costs and areas for which CCOs have increased compliance testing (including cybersecurity, advertising/marketing, and personal trading).

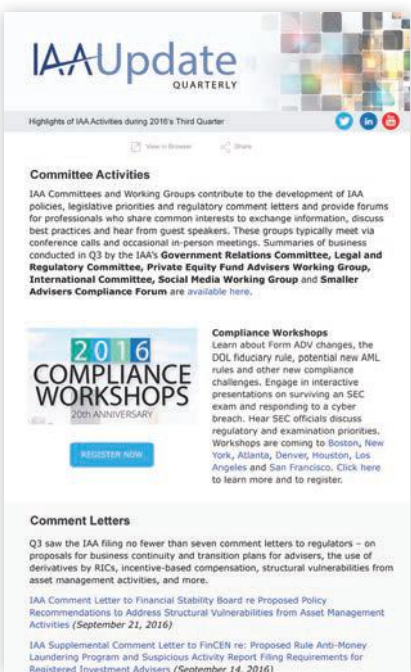
IAA member firm executives appear confident about their business prospects, with a majority responding to the **2016 Executive Outlook** survey questionnaire saying they plan to increase their firms’ headcounts over the next year. They were split over whether the DOL’s new fiduciary rule will be an opportunity for, or a threat to, business. One in five saw it as a significant threat, while 38 percent identified it as an opportunity. They were similarly divided over robo/digital advice platforms – with 31 percent calling digital advice a threat to business, and 17 percent seeing it as an opportunity.



The IAA's *2016 Evolution Revolution* report and its *2016 Investment Management Compliance Testing Survey* are available under the **Publications** tab on the IAA website's home page. An executive summary of the *2016 Executive Outlook* will be available online in early 2017.



The monthly **IAA Newsletter** continues to serve as a key component in the IAA's communications with members. It provides relevant and timely information about significant legal, regulatory and compliance developments, business practice issues, and IAA-sponsored events. All employees of member firms are encouraged to subscribe to the newsletter – which is available electronically, or in hard copy through the mail – as part of each firm's membership benefits.



The IAA uses several **electronic platforms** to provide members with notice of late-breaking developments and IAA activities. In 2016, the IAA issued more than 20 **Member**

Alert emails to inform members immediately of significant new developments, including the SEC's announcement that it has added Whistleblower Rule compliance to its examinations, final SEC rulemakings affecting open-end investment companies, adoption of Form ADV Part 1 amendments, House passage of the Investment Advisers Modernization Act, and more.

In October, the IAA introduced a new quarterly email called **IAA Update** that detailed IAA activities and benefits for the previous quarter, with summaries of each that link to the original materials online. The segments of the email included IAA Alerts, Comment Letters, Webinars, Committee Activities and more. The IAA Update is emailed to all registered contacts at member firms.

The IAA added significantly to its online video offerings – the **IAA Vlog** – with 12 videos from presentations at the 2016 Compliance Conference and a series of video testimonials from member company representatives. The more than 30 videos on the Vlog have been seen by more than 2,100 viewers. The Vlog is available on the IAA website at **News>>IAA Vlog** or on YouTube at www.youtube.com/c/InvestmentAdviserOrg.

The IAA also uses the social media channels **LinkedIn** and **Twitter** to inform members about timely events, relevant news articles, regulatory actions and more. Members can sign up for the IAA's LinkedIn postings at www.linkedin.com/company/investment-adviser-association and for our Twitter postings at https://twitter.com/IAA_Today.



▲
 A number of executives from IAA members provided video testimonials about the value of IAA benefits and services to their firms this year. They included (clockwise from top left): Joseph Seminetta, CEO & CCO, Premier Asset Management LLC; Sherry Van Zee, CCO, Okabena Investment Services, Inc.; Chris Marzullo, General Counsel & CCO, Brandywine Global Investment Management; and Deborah Eveans, CCO & VP, Finance, of Meritage Portfolio Management. Their videos are available on the IAA website at [News>>IAA Vlog](#) or on the IAA YouTube Channel at www.youtube.com/c/InvestmentAdviserOrg.

Professional Development

In 2016, the IAA continued its co-sponsorship of the **Investment Adviser Certified Compliance Professional (IACCP)** program and related Investment Adviser Core Compliance Program with National Regulatory Services (NRS). This year, a total of 1,685 students enrolled in the IACCP/Core program.

The **Chartered Investment Counselor (CIC)** designation, sponsored by the IAA, recognizes individuals who have met significant education and experience qualifications in performing investment counseling and portfolio management functions. Virtually all states recognize the CIC charter for purposes of waiving examination requirements. Information about the IACCP and CIC programs is available on the IAA website or by contacting the IAA office.

INVESTMENT ADVISER ASSOCIATION STAFF



The IAA Senior Management Team—from left to right, Lisa Gillette, Director of Meetings and Events; Linda Mackey, Vice President of Finance and Operations; Alex Aderton, Director of Development & Marketing; Bob Grohowski, General Counsel; Karen Barr, President & CEO; Neil Simon, Vice President for Government Relations; Herb Perone, Vice President of Communications & Marketing; and Liz Terry, Vice President of Business Development & Member Engagement.



The IAA Legal Team—from left to right, Laura Grossman, Assistant General Counsel; Paul Glenn, Special Counsel; Kathy Ireland, Associate General Counsel; Bob Grohowski, General Counsel; Monique Botkin, Associate General Counsel; and Sanjay Lamba, Assistant General Counsel.



The IAA Membership Services Team—from left to right, Megan Olson, Member Services and Events Coordinator; Alex Ioannidis, Member Services and Marketing Coordinator; Liz Terry, Vice President of Business Development & Member Engagement; Garrett Honea, Member Services and IT Manager; Dawn Smith, Member Services and Accounting Coordinator; and Jenny McLaughlin, Administrative Assistant.

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1050 17th Street, NW, Suite 725
Washington, DC 20036-5514
T: (202) 293-4222
F: (202) 293-4223

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