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SEC Announces 2016 Examination Priorities

Earlier today, the staff of the SEC's Office of Compliance Inspections and Examinations ("OCIE") announced its examination priorities for 2016. Below are certain highlights of the examination priorities particularly relevant to investment advisers to hedge funds and private equity funds.

- **Fees and Expenses.** OCIE will examine private fund advisers, maintaining a focus on fees and expenses and evaluating, among other things, the controls and disclosure associated with side-by-side management of performance-based and purely asset-based fee accounts.
- **Private Placements.** OCIE will examine private placements made pursuant to Regulation D of the Securities Act of 1933 to evaluate whether legal requirements are being met in the areas of due diligence, disclosure, and suitability.
- **Never-Before Examined Investment Advisers and Investment Companies.** OCIE will continue conducting focused, risk-based examinations of selected registered investment advisers and investment company complexes that they have not yet examined.
- **Cybersecurity.** OCIE will continue its initiative to examine investment advisers' and broker-dealers' cybersecurity compliance and controls, including testing and assessing firms' implementation of procedures and controls.
- **Liquidity Controls.** Amidst the changes in fixed income markets over the past several years, OCIE will examine investment advisers to private funds that have exposure to potentially illiquid fixed income securities, including a review of various controls in the firms' expanded business areas, such as controls over market risk management, valuation, liquidity management, trading activity, and regulatory capital.
- **Recidivist Representatives; Use of Data Analytics.** OCIE will continue to use its analytic capabilities to identify individuals with a track record of misconduct and examine the firms that employ them.

For a complete list of OCIE's Examination Priorities for 2016, see

<http://www.sec.gov/about/offices/ocie/national-examination-program-priorities-2016.pdf>

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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