

Advice For Latecomers to Hedge Fund Registration

By Reuters

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NEW YORK (Reuters)—Hedge fund advisers are scrambling to meet an unofficial registration deadline that has, until recently, been widely ignored by many mid-size firms.

Mandatory registration with the U.S. Securities and Exchange Commission is looming. Hedge fund and private equity fund advisers who manage at least \$150 million must register with the agency, for the first time, by March 30, according to new rules required by the Dodd-Frank financial reform law.

It isn't as simple as writing the adviser's name on a form. The process includes making extensive disclosures about the adviser's business, including details about conflicts of interest and custody of assets.

But advisers hadn't paid much attention to the fine print — that is, the SEC's recommendation to file the paperwork, known as Form ADV, by Feb. 14. The agency needs time to review and approve those registrations before the March 30 deadline, it says. Even setting up an account to register has to be approved.

"Everyone has blown it off and now they have to deal with it," said Douglas MacLean, managing member of Armor Compliance, a Boston-based consultancy.

That means a scramble to gather required information faster than they had anticipated. Advisers' worries include how to properly disclose relationships with affiliated businesses and the privacy of clients' Social Security numbers, he said.

In Denial

Private fund advisers had a long time to think about SEC registration. The agency has been considering it for nearly a decade. An initial registration rule was struck down by a federal appeals court in 2006, but lawmakers revisited the idea during the 2008 financial crisis and eventually included the requirement in the Dodd-Frank Act.

Many advisers procrastinated even after the SEC issued final rules in June with the recommendation to file by Feb. 14.

"So many of them are in denial about the entire process," said Richard Heller, director of the Hedge Fund Association, a New York-based industry group.

The last-minute rush is more common among advisers managing between around \$150 million and \$1 billion, say compliance professionals. Many of them don't have compliance departments to help complete the extensive disclosure form and develop a compliance manual.

Reality Check

Filing the SEC's registration form after Feb. 14 won't violate industry rules, but advisers risk that their applications may be rejected, or require more information, said Guy Talarico, chief executive officer of Alaric Compliance Services LLC, a New York-based consulting firm.

Latecomers to the process may also face challenges in information-gathering for the Feb. 14 date, he said.

Start with the basics: print a copy of Form ADV and fill out a draft. Advisers should also get their compliance manuals ready. Many unregistered private funds already have a manual which they can adapt to meet SEC requirements, said Charles Lerner,

principal at Fiduciary Compliance Associates LLC in New York. Those requirements, outlined in a 2003 SEC rule, cover everything from record-keeping to conducting an annual review of policies and procedures.

Advisers also need to choose a compliance officer. Those who can't afford a full-time compliance officer may want to appoint the firm's chief financial officer, who is already used to keeping up with regulations, Mr. Lerner said.

Some outside help may also be needed. For example, e-mail systems will need to save messages for a three-year period and employees will have to undergo compliance training. Outside compliance specialists can help advisers tackle those projects, or at least hook them up with other experts.

One thing advisers should not do: wait for a reprieve from the SEC.

"Perhaps people think at the 11th hour, Dodd-Frank will be amended," Mr. Heller said. "But that's not likely."

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