Regulatory Update:
Investment Adviser Annual Compliance Reviews

By Randy Randall, Senior Partner
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INTRODUCTION:

The SEC Division of Examinations issued a Risk Alert on September 14, 2026, that addresses examination observations involving investment adviser annual compliance reviews.[1] Risk alerts offer valuable insights into current SEC examination priorities and can help advisers better prepare for examinations. It also reinforces the need to carefully review policies and procedures and be able to demonstrate that firms are doing what they say they are doing.

KEY TAKEAWAYS:

- Annual reviews must be performed annually — every 12 months is the requirement.
- Say what you do, do what you say — be sure your annual review is consistent with Rule 206(4)-7 and your policies and procedures.
- Document your annual review — create documentation sufficient to demonstrate any testing and reviews performed, and retain evidence of that review and testing.
- Tailor the annual review to ensure it covers key risk areas — look to the internal risk assessment, SEC focus areas, and any prior SEC examination findings.
- If deficiencies are identified, be sure you remediate those deficiencies and document the resolution.

THE DETAILS:

SEC-registered investment advisers are required to adopt and implement written compliance policies and procedures pursuant to the "Compliance Rule" (Rule 206(4)-7) under the Investment Advisers Act of 1940 ("Advisers Act"). A critical component of the Compliance Rule is the requirement that advisers conduct a review of their compliance policies and procedures at least annually to assess their adequacy and the effectiveness of their implementation. The risk alert notes findings from examinations of investment advisers' annual compliance reviews.

Conducting Timely Annual Reviews

Certain advisers did not perform reviews of their compliance policies and procedures at least annually. Examples include:

- Gaps in annual reviews (e.g., conducting reviews for 2021 and 2023 but omitting 2022).
- Performing annual reviews for periods of greater than 12 months, including first reviews at 18 months post-registration with the Commission, as well as extended intervals due to business, operational, and personnel changes (e.g., Chief Compliance Officer ("CCO") departures).
- Instead of performing any annual review, stating that providing personnel with compliance training or obtaining annual attestations of personnel's adherence to the advisers' compliance policies and

[1] https://www.sec.gov/files/examinations-observations-regarding-investment-adviser-annual-compliance-review-091426.pdf

procedures satisfied the annual review requirement to determine the adequacy of the policies and procedures and the effectiveness of their implementation.
- Failure to take corrective action after receiving previous deficiency letters from the SEC for not performing annual reviews or not performing them in a timely manner.

Policies and Procedures for Conducting Annual Reviews

Advisers that had compliance policies and procedures did not effectively assess whether the policies and procedures were adequate and effectively implemented. Examples include compliance policies that:

- Required advisers to document their annual reviews, and to include testing and validation of compliance policies and procedures as part of their review process. However, the advisers did not:
  - Document procedures providing direction and processes personnel should follow for the tests and validations.
  - Describe the factors personnel should consider when evaluating whether the policies and procedures were adequate and effectively implemented based on the testing and validation.
  - Describe the types or level of documentation that should be made and kept in support of such reviews and assessments.
- Identified required practices, services, and/or operations to be assessed during the annual review but did not include these topics in their policies and procedures for annual review.

Conducting Annual Reviews Consistent with Written Procedures

Advisers conducted annual reviews in a manner that was inconsistent with their written procedures. Examples include:

- Advisers did not follow their own policies and procedures that required them to cover a defined review period or scope, utilize specified work papers or other documentation, and perform specific tasks and tests.
- Annual reviews assessed the effectiveness of incorrect documents, such as outdated versions of policies and procedures (i.e., policies and procedures that had been updated and superseded prior to the review period).

Ensuring Policies and Procedures Address and Align with Practices

Advisers did not recognize that their policies and procedures did not fully address or were not aligned with their practices. Examples cited include advisers that:

- Had not adopted policies and procedures to address risk areas that were pivotal to the advisers' businesses.
- Did not consider changes in their business activities that were relevant for their assessments of the adequacy of the adviser's policies and procedures and effectiveness of their implementation (e.g., informing the CCO of certain business or operational changes that may impact the scope of the annual review).

The SEC identified these inconsistencies after observing issues in core areas of the advisers' business, operations, and services, which were then compared to the advisers' annual reviews and applicable written compliance policies and procedures. Examples include annual reviews that did not identify:

- Fee and expense billing practices that deviate from policies and procedures, advisory agreements, and Form ADV.
- Proxy voting policies that stated the advisers had a responsibility to vote proxies for portfolio securities and would vote proxies in a manner consistent with the best economic interests of their clients — but the advisers disclosed to clients that they did not vote proxies for their clients, and did not vote proxies in practice.
- Custody policies and procedures that omitted steps to ensure that accounts over which the adviser had custody were identified to the independent public accountants performing the advisers' surprise examinations.
- Marketing policies and procedures that were not updated to reflect the adoption of the marketing rule under the Advisers Act.
- Regulatory filing procedures that were not updated to reflect that, when advisers have retail clients, they needed to file a Client Relationship Summary (Form CRS) with the SEC.
- Policies that delegated the execution of services or operations to others but did not identify how the adviser should oversee these delegated responsibilities to prevent violations of the Advisers Act and the rules thereunder.
- Incidents of non-compliance, which were identified and reported during the review period, but were not addressed or recorded in the annual reviews as instances of noncompliance.

Maintaining Documentation of Annual Reviews

Advisers created documentation when conducting their annual reviews, such as when performing testing and recommending corrective actions, but did not maintain the documentation in their books and records. Examples include advisers that:

- Included discussions in their written annual review reports regarding the compliance violations identified during the advisers' annual reviews but did not maintain the documentation regarding the testing performed, issues identified, or corrective actions recommended.
- Adopted policies and procedures requiring their annual reviews to be memorialized in written reports that covered specific issues, but no written annual review report was prepared.
- Adopted policies and procedures requiring the annual review to be documented in a specific manner but did not meet all these requirements, or only partially completed them.

Taking Corrective Action for Issues Identified in Annual Reviews

Advisers did not take corrective action after their annual reviews recommended changes to compliance policies or procedures, disclosures, or business practices. The advisers did not make the recommended changes, and issues identified during prior annual reviews persisted.

About Randy Randall: *Randy Randall is a Senior Partner at Helios and a seasoned compliance executive and securities attorney with more than 35 years of experience advising investment advisers, broker-dealers, and investment companies. Before joining Helios, Randy spent more than two decades at William Blair, where he served as Chief Compliance Officer and General Counsel for the firm's Investment Management business. He counsels and advises clients on SEC and FINRA regulatory matters, compliance program design, governance, and complex legal and regulatory issues affecting the investment management industry.*