



Division of Examinations Risk Alert: *Investment Adviser MNPI Compliance Issues*

On April 26, 2022, the SEC Division of Examinations (“EXAMS”) issued a [risk alert](#) highlighting investment adviser material non-public information (“MNPI”) compliance issues found during examinations. Advisers are required to establish, maintain, and enforce policies and procedures to prevent the misuse of MNPI as well as adopt a “code of ethics” which sets the standard of business conduct expected from the adviser’s supervised persons.

Section 204A Compliance Issues

EXAMS staff observed deficiencies and weaknesses associated with Section 204A such as:

- **Failure to adopt or implement policies and procedures related to potential MNPI access points.** The staff highlights alternative data, value add investors, and expert networks as potential sources of MNPI. Accordingly, advisers must have written policies and procedures to address the potential risk of receiving MNPI from its research providers (including those not highlighted by EXAMS staff).

Code of Ethics Rule Compliance Issues

EXAMS staff noted the following examples of deficiencies associated with the Code of Ethics Rule:

- Advisers **failed to correctly identify and supervise access persons**. EXAMS staff observed adviser codes did not define “access person” or reflect which employees would be considered access persons.
- Certain **investments by access persons were not properly pre-approved**. EXAMS staff found that purchases of beneficial ownership in IPOs and limited offerings were not pre-approved.
- **Required reporting of personal securities transactions and holdings were often inadequate:**
 - Advisers could not produce evidence of supervisory review of holdings and transaction reports;
 - Advisers did not have policies and procedures in place to assign the CCO’s reporting to another member of the adviser;
 - Access persons did not submit holdings and/or transaction reports on time;
 - Advisers’ code of ethics did not include provisions requiring access persons to submit reports; and
 - Access persons did not include the specified content the Code of Ethics Rule requires, including investments in private placements.
- Advisers **did not provide supervised persons with a copy of the code or require written acknowledgement** of the receipt of the code.
- EXAMS staff observed employees trading in investments on the restricted list or purchasing securities ahead of the adviser’s clients. Advisers should be sure to have properly written policies and procedures to protect against these risks.

The staff encourages advisers to review their practices, policies, and procedures to ensure they are in compliance with provisions of the Advisers Act and the rules thereunder.

About HighCamp Compliance

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