

How Can Hedge Funds Prepare For Tougher Oversight?

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The SEC has made it clear that hedge funds will continue to be a top priority for its Enforcement Division. In addition to outlining the agency's priorities, Bruce Karpati, Chief of the SEC Enforcement Division's Asset Management Unit (AMU), recently discussed several steps that firms should be taking to remain off the SEC's radar.

[Karpati's best practices](#) echo those identified by the SEC in the past but certainly warrant repetition, particularly in this heightened regulatory environment. They include:

Setting the tone at the top: Hedge fund managers should make sure that robust supervision and internal controls are in place to foster a culture of compliance. As Karpati notes, "While the demands of managing and marketing a fund can take up a great deal of the manager's time and focus, he or she needs to make sure that compliance is given adequate time and resources."

Narrowly tailored compliance programs: Advisers' compliance programs and controls should be geared to the specific risks and investment strategy of the firm. All registered advisers should also regularly review their operations to identify any gaps in their compliance policies and procedures, make sure that their policies are tailored to the organization, and update them if there have been changes in the firm's activities or products. For instance, Karpati specifically mentions that firms should periodically test and verify their valuation procedures.

Compliance with an eye toward exams: Advisers need to be alert and prepared for exam inquiries. Should firms be examined, it is important to be cooperative with exam staff on site and implement any necessary corrective steps if the SEC identifies violations or possible violations. As Karpati highlights, taking these steps will help the examination process to proceed more efficiently and reduce the likelihood of more formal inquiries by Enforcement or AMU staff.

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