

What's Next for Advisers Now Under State Oversight?

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Now that approximately 2,500 investment advisers with less than \$100 million of assets under management are transitioning to state oversight, the obvious question is what's next?

For many advisers, the answer is increased examinations and tougher oversight. While the SEC only examines a small percentage of advisers, state securities regulators have a much better examination record. In 2010, they conducted more than 7,000 investigations, leading to nearly 3,500 enforcement actions, according to Congressional testimony by John Morgan, the Securities Commissioner of Texas.

In addition, a North American Securities Administrators Association's (NASAA) 2010 survey found that the majority of all states (89%) conduct routine ie non-cause on-site examinations on a regular basis. Half of the states perform examinations every 1-3 years, and the rest every 3-6 years, in contrast to the SEC's exam frequency of 11 years.

In many cases, examinations are conducted within the first two years of a firm's registration. This trend will likely continue as states seek to prove they are up to the task.

Advisers beware: Although having more advisers under state oversight will clearly tax resources, states contend they are ready. According to Morgan, "States have been preparing for this switch for two years and look forward to accepting the increased regulatory oversight of mid-sized investment advisers."

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