

The logo for HedgeOp Compliance, featuring a blue swoosh above the text "HEDGEOP COMPLIANCE" in a serif font.

HEDGEOP COMPLIANCE

Reg S-P Requirements – Keeping Client Information Secure

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December 21, 2009

via Webex

Agenda

- Introduction
 - Use as an opportunity to start thinking about preparation or expanding existing controls/procedures!!!
 - Did anything surprise you in this review???
- What Does Reg S-P Presently Require?
 - Privacy and Opt-Out Notices
 - Safeguards
 - Secured Disposal
- What Are The Proposed Amendments?
 - Expansion of Information Covered by Reg S-P
 - Need to Establish Information Security Program
- Q&A

Present Requirements of Reg S-P

- Under Reg S-P, registered investment advisers are required to develop a formal privacy policy with respect to the adviser's practice as to sharing non-public information about individual clients or investors with other affiliated or unaffiliated parties and provide clients and investors with a notice of the policy.
 - Similar regulations apply to unregistered advisers and hedge fund managers
 - Need to provide initially and on an annual basis
- The Notice must include:
 - Description of policy.
 - What is collected and what is shared?
 - Who is such information shared with?
 - Permissible sharing – to effect transactions, lawyers/accountants, governmental requests
 - What are the safeguards?
 - Opportunity to opt out of plans to share non-public data

Present Requirements of Reg S-P

- Disposal Procedures
 - Do you use shredders or secured disposal services?
 - Do you perform any sort of testing or review?
 - Is documentation kept in the files related to the disposal?
 - What about clearing of data from work stations, laptops and servers?

Present Requirements of Reg S-P

- What are your Safeguards?
 - Physical access to files
 - Locked file cabinets
 - Locked file rooms
 - IT safeguards
 - Limitations on access to investor files, use of passwords, etc.

Present Requirements of Reg S-P

- What are your Safeguards?
 - Formal procedures as to access/use
 - Controls on Blackberries
 - Automatic locking and use of passwords
 - Controls on work stations/servers
 - Automatic locking of use of passwords
 - Controls on laptops used outside of office
 - Ability to take investor information out of the office
 - Any testing or review that is documented?
 - Desk checks
 - Review of laptops upon return to the office

What Are The Proposed Amendments?

- Potentially expand the scope of information covered by Reg S-P
 - Presently, the safeguarding covers “customer records and information” and the disposal provisions covers “consumer report information”
 - Amendment proposes to use term “personal information” for safeguarding and disposal provisions and to specify that it covers:
 - “nonpublic personal information” or “customer report information”
 - Amendment further proposes to expand the scope of “personal information” to include information indentified with any consumer, or with any employee, investor, or security holder who is a natural person, in paper, electronic or other form that is handled by the institution or maintained on the institution’s behalf

What Are The Proposed Amendments?

- Proposed amendment will require that advisers establish a “***comprehensive information security program***” that will consist of detailed written policies and procedures to address administrative, technical and physical safeguards for protecting consumers’ nonpublic personal information – much more than presently requirements!!

What Are The Proposed Amendments?

- Proposed procedures will be required to be designed to protect against the unauthorized access to or use of personal information that could result in substantial harm or inconvenience to any consumer, employee, investor or securityholder that is a natural person.
 - Procedures must include “foreseeable security risks” and identify the safeguards adopted to address each such risk.
 - Have you started to think about what your firm’s “foreseeable security risks” are?
 - Procedures must include specific details on how firm will respond to and address “data security breaches”
 - Requirement to notify affected individuals if breach has occurred or is “reasonably possible”. What is “reasonably possible”?
- Proposed procedures would be required to designate one or more individuals responsible for the information security program.

What Are The Proposed Amendments?

- The proposed amendments would require that the “key security controls” of the information security program must be tested and monitored:
 - Testing and monitoring must be documented in writing
 - Information security program must be modified to reflect issues noted in testing
 - Infers that testing must occur on at least an annual basis (based upon footnote)

Questions & Answers

- Thanks for your interest.
- We will be posting our roster of seminars for 2010 shortly.

HedgeOp Compliance, LLC

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