

The logo for HedgeOp Compliance, featuring a blue swoosh that curves under the text "HEDGEOP COMPLIANCE".

HEDGEOP COMPLIANCE

The 2010 Excellence in Compliance Seminar Series
Topic: Code of Ethics Compliance:
Understanding the Rule and Building an Infrastructure

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Agenda

- Introduction to HedgeOp
- Advisers Act Rule 204A-1
 - *Minimum Requirements*
 - *Who is an “Access Person”*
 - *What is a “Reportable Security”*
 - *Reporting Requirements*
 - *Exemptions from Reporting Requirements*
 - *Pre-clearance/Pre-approval Requirements*
- Are There Tools that Can Help?
- Q&A

Introduction to HedgeOp

- HedgeOp provides varying levels of pro-active compliance support to over 30 different investment advisers with approximately \$60B in AUM. HedgeOp also provides project-based compliance support services and due diligence research and reporting services.
- HedgeOp has a staff of 34 professionals working in offices in NYC and Boston.
- The purpose of this seminar is to provide a summary of the requirements of Advisers Act Rule 204A-1 and provide practical guidance on how to properly address the rule and build an infrastructure to do so. We also hope to provide insight on how innovative software tools from HedgeOp can provide practical assistance in meeting these regulatory requirements.

Advisers Act Rule 204A-1

-- Minimum Requirements

1. A standard of business conduct required of supervised persons;

“Supervised Persons” include any partner, officer, director or employee of the adviser OR other person who provides investment advice and is subject to supervision and control of the SEC-Registered Investment Adviser;
2. Provision that supervised persons comply with applicable federal securities laws;
3. Provisions that require all Access Persons to report personal securities transactions/holdings AND require review of those reported transactions/holdings by the Chief Compliance Officer (or such other designated person);
 - *Limited to what are “Reportable Securities”*
 - *Required record to be kept in the files*
4. Provisions requiring supervised persons to promptly report any Code of Ethics violations to the Chief Compliance Officer (or such other designated person); and
 - *Required record to be kept in the files.*
5. Provisions requiring the Manager to provide each supervised persons with a copy of the latest Code of Ethics AND requiring each supervised person to acknowledge receipt in writing.
 - *Required record to be kept in the files.*

Who is an Access Person?

1. “Access Persons” include any Supervised Person of SEC-Registered investment adviser who:
 - a) has access to non-public information regarding any Advisory Client’s purchase or sale of securities, or non-public information regarding the holdings of any Advisory Client; or
 - b) is involved in making securities recommendations to Advisory Clients or has access to such recommendations that are non-public.
2. For SEC-Registered investment advisers (who are primarily in business of providing investment advisory services) – all directors, officers and partners are presumed to be Access Persons.
3. For reason 1a above, all of our clients tend to treat ALL of their employees as Access Persons.
4. List of all Access Persons for previous 5 years must be kept in records.

What is a “Reportable Security”?

As defined in section 202(a)(18) of the Advisers Act:

- a) “Any financial instrument known as a security.”
- b) Reportable Securities are NOT:
 - Direct obligations of the U.S. Government;
 - Bankers’ acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements;
 - Shares issued by money market funds;
 - Shares issued by registered open-end funds; provided that such funds are NOT advised by the SEC-Registered Investment Adviser or an affiliate and such fund’s adviser or principal underwriter is not controlled or under common control with the SEC-Registered Investment Adviser;
 - Shares issued by unit investment trusts that are invested exclusively in one or more registered open-end funds; provided that such funds are NOT advised by the SEC-Registered Investment Adviser or an affiliate and such fund’s adviser or principal underwriter is not controlled or under common control with the SEC-Registered Investment Adviser.

Reporting Requirements

1. 2 Types of Reports – Holdings and Transactions

2. Securities Holdings Reports

a) Required Content: For each “reportable security” held by the Access Person, the report must contain:

- security type/name;
- Ticker/CUSIP;
- number of shares;
- principal amount;
- name of broker/dealer/bank; and
- date that the Access Person submits the Holdings Report.

b) Timing:

- i. **Initial Holdings Report**: No later than 10 days after the person becomes an Access Person (information must be current as of a date not more than 45 days prior to individual becoming an Access Person).
- ii. **Annual Holdings Report**: At least once during each 12-month period (no specified deadline/annual cycle). Information in Annual Holdings Report must be current as of a date not more than 45 days prior to the date the Annual Holdings Report was submitted.

Reporting Requirements

3. Quarterly Transaction Reports

a) Required Content: For each transaction in a “reportable security”, the report must contain:

- the transaction date;
- security name;
- ticker/CUSIP;
- number of shares;
- principal amount;
- buy/sell;
- transaction price;
- name of broker/dealer/bank; and
- the date that the Access Person submits the transaction report.

b) Timing: No later than 30 days after the end of each calendar quarter (covering all transactions during that previous quarter).

Exemptions from Reporting Requirements

1. Securities held in accounts over which the Access Person has no direct or indirect influence or control.
2. Quarterly Transaction Report Exemptions.
 - a) Transactions effected pursuant to an automatic investment plan; and
 - b) Duplicate of information contained in broker trade confirmations sent to the SEC-Registered Investment Adviser— must be received no later than 30 days after the end of the calendar quarter.

Pre-clearance/Pre-approval Requirements

1. IPOs
2. Limited Offerings
 - a) An offering that is exempt under Sections 4(2) or 4(6) Securities Act of 1933. These are generally transactions by an issuer not involving any public offering or transactions involving offers by an issuer solely to accredited investors where there is no advertising or public solicitation in connection with the transaction by the issuer or anyone acting on the issuer's behalf.
 - b) Hedge Fund and Fund of Hedge Fund investments are generally limited offerings subject to pre-clearance requirements.
3. Required Record-Keeping – Disposition of pre-clearance / pre-approval requests.

Beyond the Minimum Requirements

- Do many firms go beyond the minimum requirements?
 - Yes – we see it all of the time. Definitely can make the operation of the compliance infrastructure much easier.
- Possibilities –
 - Prohibit all personal investing and trading in anything that would be considered a Reportable Security.
 - Require all such investing be done through vehicles managed by the adviser.
 - Require that any personal investing and trading in anything that would be considered a Reportable Security be subject to a pre-clearance requirement.
 - Require that any personal investing and trading in securities that are within the “investment universe” of advisory clients be subject to a pre-clearance requirement.
 - Use of restricted, watch or “do not trade” lists.

Are There Any Tools That Can Help?

- Keys to Code of Ethics compliance are:
 - Efficient communication with employees.
 - STAYING ON TRACK OF PROCESS (how do you keep track of each employee's adherence to requirements??)
 - ORGANIZATION!!
- Lots of options – do it yourself or utilize technology to facilitate, track and organize the review process.

Compliance ELF Software

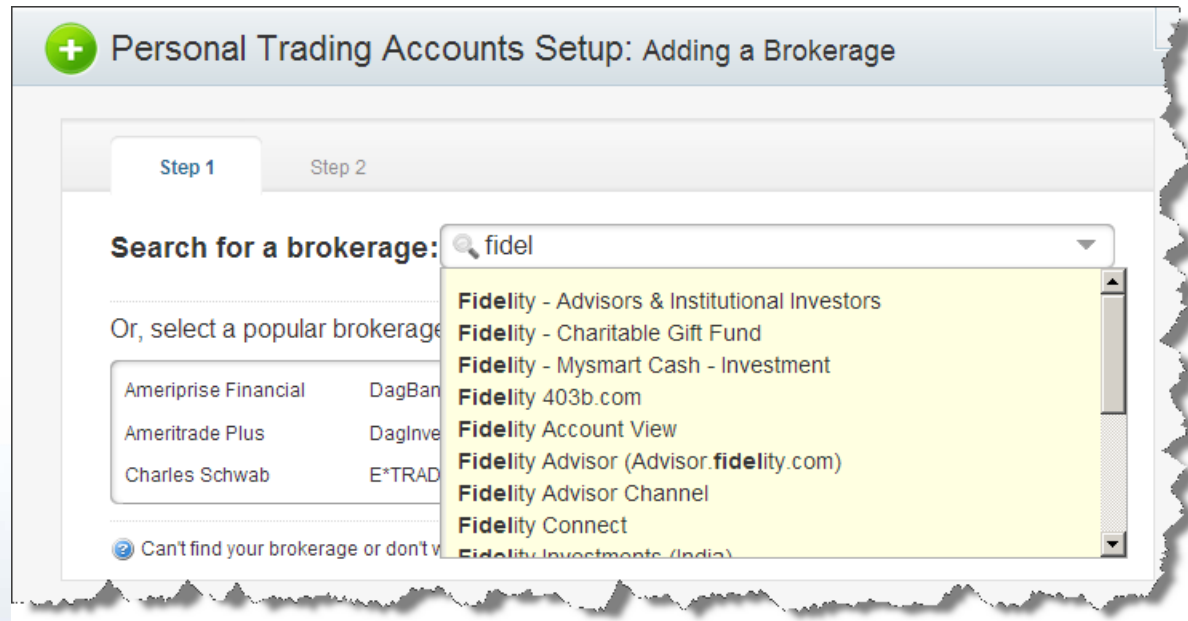
(Employee Level Filing)

- Provides two broad tools
 - Control Dashboard for CCO
 - Track reporting done by employees
 - Screen employee transactions and holdings against restricted or “do not trade” lists
 - Ability to send reminder emails pursuant to a compliance calendar
 - Generation and archiving of compliance review reports
 - Intranet Portal for Employees

Compliance ELF Software

(Employee Level Filing)

- ELF contains links to over 2,500 different brokerage institutions.
 - Employees link up to their accounts and trading data begins to flow into the system immediately.



Compliance ELF Software

(Employee Level Filing)

- Easily view all of your employee trading in one place.

Quarterly Transaction Filings

Year: 2010 Quarter: 1 + Show Filter

<input type="checkbox"/>	Access Person	Filed	Date Filed	Reviewed	View
<input checked="" type="checkbox"/>	Akiva, Dotan	Yes	Due in -38 days	by AcmeDemo on	
<input type="checkbox"/>	Backofen, Derek !	No	PAST DUE	No	
<input checked="" type="checkbox"/>	Barille, Zabrina	Yes	Due in -38 days	by AcmeDemo on	
<input checked="" type="checkbox"/>	Cottam, Betsy	Yes	Due in -38 days	by AcmeDemo on	
<input checked="" type="checkbox"/>	DeFronze, Rina !	Yes	Due in -38 days	by AcmeDemo on	

Equity	413086109	Buy	400.00	\$40.48 USD	Charles Schwab:	<input type="button" value="View"/>		
Equity	413086109	Buy	6					
Equity	SWXXX	Sell	4					
Equity	GTI	Buy	1					

Date: May 07, 2010
 Title: HARMAN INTERNATIONAL INDS
 Security Description: COM
 Trans. Description: HARMAN INTL INDS INC [Details]
 Type: Equity
 Transaction Type: Buy
 Shares : 400
 Price : \$40.48 USD
 Amount: \$16,195.58 USD

Compliance ELF

(Employee Level Filing)

- Other ELF features include:
 - Electronic pre-clearance submission and review
 - Screening list capabilities
 - Gift and business entertainment reporting
 - Political contribution reporting
 - Outside activity reporting
 - Insider trading and front running reporting
 - And much more.

Questions & Answers

Thank you for your interest.

If you would like to see a demo of Compliance ELF, please email us at: info@hedgeop.com.

Disclaimer

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