SECURITIES AND EXCHANGE COMMISSION

Steps Being Taken to Make Examination Program More Risk-Based and Transparent

What GAO Found

Since the detection of mutual fund trading abuses in late 2003, OCIE has shifted its approach to examinations of investment companies and investment advisers from one that focused on routinely examining all registered firms, regardless of risk, to one that focuses on more frequently examining those firms and industry practices at higher-risk for compliance issues. The effectiveness of OCIE’s revised approach largely depends on OCIE’s accurately assessing the risk level of investment advisers. The method that OCIE employs to predict the level of risk for the majority of investment advisers has some limitations, particularly in that this method relies on proxy indicators of compliance risks without incorporating information about the relative strength of a firm’s compliance controls. OCIE has taken steps to assess the effectiveness of this method for predicting risk-levels and to seek additional indicators of compliance risks. GAO continues to believe that implementing GAO’s prior recommendation to obtain and use compliance reports from firms—a source of information on the effectiveness of their compliance controls—could potentially help OCIE better identify higher-risk firms.

OCIE has implemented several initiatives since January 2006 intended to improve communication with registrants and other aspects of the examination program. For instance, OCIE established a hotline for registrants to receive comments or complaints, began requiring examiners to contact registrants when examinations extend past 120 days, and implemented tools and protocols designed to reduce duplicating examinations. GAO’s review indicated that examiners generally complied with the new requirement to notify registrants when an examination extends past 120 days. Comments from industry representatives on OCIE’s initiatives suggested some concerns about the hotline. Specifically, several registrants questioned the independence of the hotline, as it is located within OCIE, and said that as a result they would hesitate to use it.