Regulatory Alert

SEC Division of Examinations — Examinations Observations Regarding Investment Adviser Annual Compliance Reviews

On September 14, 2026, the SEC's Division of Examinations ("**DOE**") issued a Risk Alert identifying recurring deficiencies in SEC registered investment advisers' annual compliance reviews. The Risk Alert clarifies how the examination staff assess compliance with Advisers Act Rule 206(4)-7, the "**Compliance Rule**,"[1] including whether reviews are timely, substantively tested, supported by retained evidence, aligned with actual business practices including changes within the business, and followed by verified remediation.

Key takeaways from the DOE identified the following areas of deficiency that advisers need to consider in preparing the annual compliance reviews, the "**Annual Review**":

1. **The SEC considers the Annual Review as an evidence-based control assessment, not a calendar-year certification exercise. Of note:**
    - The DOE rejected compliance training and annual employee attestations as substitutes for the Annual Review.
    - Examiners found missing review years, review periods exceeding 12 months, and delays caused by business changes or CCO departures. Advisers therefore need continuity arrangements that preserve the review timetable during personnel turnover.
    - Even for newly registered advisers, Annual Reviews must be conducted no less frequently than once every 12 months, without exception.

2. **The Annual Review methodology must be prescribed in sufficient detail and then followed.**
    - The DOE found policies that required testing and validation but did not specify the tests, evaluation criteria, documentation standards, responsible personnel, or process for concluding whether controls were adequate and effective.
    - Examiners also identified mandatory review topics in compliance manuals but omitted from the Annual Review procedure and testing plan.
    - Evidence of corrective action should be undertaken and documented.

[1] Rule 206(4)-7(b), the Compliance Rule, makes it unlawful for an Adviser to provide investment advice unless it reviews, no less frequently than annually, both the adequacy of its compliance policies and procedures and the effectiveness of their implementation.

3. **Examiners are reconciling the Annual Review against the compliance policies, disclosures and actual practice.**
    - Staff findings included the following:
        - Failure to detect fee and expense practices inconsistent with advisory agreements, Form ADV disclosures, and/or written policies and procedures.
        - Misalignment of the Adviser's proxy voting policy that provides for voting proxies in the clients' best interest with client disclosures and actual practice showed the Adviser failed to vote proxies.
        - Policies that delegated the execution of services or operations without specifying how the Adviser would oversee the delegation of responsibilities to confirm there are no violations of the Advisers Act.
        - Previously reported compliance breaches were omitted from Annual Review findings.

4. **Business change governance is now a central examination issue.**
    - The DOE found that CCOs were not consistently informed of business or operational changes affecting review scope. The CCO should be involved in the Adviser's governance infrastructure and should document inclusion of the review of any new products, strategies, fee arrangements and other significant operational changes.
    - Advisers also should consider interim reviews following significant compliance events, business-arrangement changes or regulatory developments.

5. **Remediation must be completed and independently verified.**
    - The DOE found unresolved recommendations, and reports that misrepresented remediation.
    - Remediation records should identify an owner, target date, required evidence, and a formal conclusion.

6. **The immediate risk is failure to demonstrate both design and operating effectiveness.**
    - Advisers should be prepared to show that the Annual Review covered the material business changes, regulatory developments, known incidents and prior deficiencies.
    - Testing should focus on higher-risk areas such as: fees and expenses; custody; marketing; regulatory filings; proxy voting; best execution: business continuity; and third-party oversight.
    - Where testing identifies potential client harm, advisers should assess disclosure updates and whether regulatory filings require amendment.

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