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Important Facts About Hedge Fund Registration Under the Dodd-Frank Act

The deadline for hedge funds to be registered with the SEC under the Dodd-Frank Act is fast approaching. Here are some important facts regarding registration:

1. Which hedge funds are required to register?

Advisors with an AUM between \$25 million and \$100 million must register with their state. Advisors with an AUM over \$100 million in hedge funds and separately managed accounts must register with the SEC. If the funds are private (hedge fund only), the advisor must register with their state until the AUM is over \$150 million, at which time the fund must register with the SEC.

2. What is the deadline for registration?

- a. July 21, 2011 is the deadline when the registration must be completed in either the firm's state or with the SEC, depending on the firm's AUM.
- b. If the registration is with the SEC, the process can take up to 45 days to complete, so the actual deadline for SEC submission is June 3, 2011. Processing varies by state but the average time is expected to be 30 days.

3. What is the SEC requiring for registration?

- a. In addition to completing the correct registration paperwork, hedge fund firms must meet the SEC's documentation, technology and operational requirements to prove they have solid procedures in place to either prevent errors or quickly fix them.

4. What does the registration include?

- a. The registration process encompasses these requirements:
 - i. Filing of an ADV Part 1 and Part 2a on the Investment Adviser Registration Depository (IARD):
 - ADV Part 1 includes basic information about the firm.
 - ADV Part 2a includes 18 items that disclose information about fee structure, conflicts of interest, investment strategy, and trading procedures. This "brochure" must be distributed to investors.
 - ii. Preparation of an ADV Part 2b, disclosing principal investment advisory personnel. This must also be distributed to investors.
 - iii. Preparation of a Code of Ethics to address policies and procedures for compliance and fiduciary duties.
 - iv. Designation of a Chief Compliance Officer.

5. How could the registration impact hedge funds going forward?

- a. Client qualification standards could increase.
- b. Hedge funds could be subject to increased reporting in the following areas:
 - i. Use of leverage

- ii. Investment positions
 - iii. Trading practices
 - iv. Valuation policies
 - v. Types of assets in the portfolio
 - vi. Side letter arrangements
- c. In addition, if a hedge fund is deemed “systemically risky”, the SEC could impose even more reporting requirements.

Even with the possibility of the deadline being extended until the first quarter of 2012, the typical time needed to complete the registration process is about 8 to 12 weeks. The process can take even longer if a firm does not have a compliance infrastructure.

For more information, visit the SEC's website at <http://www.sec.gov/spotlight/dodd-frank/hedgefundadvisers.shtml> or contact your CAPIS Account Executive at 800-247-6729.



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