

October 5, 2026 | Insights

SEC Risk Alert on Adviser Annual Compliance Reviews: Six Takeaways for Your Firm

By: Yelitza Montesino

Under the Investment Advisers Act of 1940, the Securities and Exchange Commission (the "SEC") promulgated Rule 206(4)-7, also known as the "Compliance Rule," requiring investment advisers to review the adequacy of their compliance policies and procedures and the effectiveness of their implementation annually. On September 14, 2026, the SEC's Division of Examinations (the "Division") released a Risk Alert addressing six common issues it encounters during examinations of advisers' annual compliance reviews. The Risk Alert highlights key compliance areas that should guide investment advisers in conducting their annual compliance review.



Related Attorneys

Yelitza Montesino

Prioritize Compliance Review Timeliness

The Division identified the following issues relating to compliance review timelines:

- Advisers failed to conduct annual reviews of their policies and procedures, resulting in lapses and gaps between reviews.
- Advisers conducted compliance reviews for periods greater than a year.
- Advisers did not perform an actual annual review and instead attested that their personnel underwent compliance training.
- Advisers failed to take corrective action after receiving previous deficiency letters citing their failure to conduct annual reviews or perform such reviews in a timely manner.

Adopt Complete Policies and Complete Procedures

The Division observed investment advisers adopted compliance policies but had incomplete procedures for their staff conducting the compliance reviews. For example, Staff members must have properly documented procedures to implement and test the effectiveness of the adviser's written policies. If your compliance policies require specific practices to be tested during annual reviews, investment advisers must ensure these

©2026 Rich May, P.C. All Rights Reserved

practices and procedures are conducted during the annual reviews.

Conduct Annual Reviews Consistent with Written Procedures

The Division observed that some investment advisers failed to follow their own written procedures in practice. For example, an investment adviser who failed to actually perform specific tests outlined in their procedures, maintained outdated versions of policies and procedures, or failed to use specific work papers or documents is not conducting reviews consistent with written procedures.

Align Your Business's Operations With Your Policies and Procedures

The Division also identified that investment advisers' policies and procedures did not coincide with the particular business's operations. For example:

- Some investment advisers had not adopted policies and procedures addressing risk areas that were crucial to the investment adviser's business or particular operations.
- Some did not consider changes in their operations and business activities that were relevant in identifying whether the investment advisers' policies and procedures were adequately and effectively implemented.
- Some investment advisers' annual reviews failed to identify specific unaddressed practices, such as fee and expense billing methods that deviated from client disclosures, proxy voting policies that were inconsistent with actual practice, custody procedures that omitted required surprise-examination steps, marketing policies that had not been updated for the marketing rule, and regulatory filing procedures that failed to account for Form CRS requirements.

For more specific examples, please review the Risk Alert.

Maintain Documentation Regarding Each Annual Review

The Division noted that investment advisers documented their annual reviews and corrective recommendations, but did not maintain these documents in their books and records. For example:

- Investment advisers included discussions about compliance violations in their written review reports but did not maintain the documents detailing corrective actions and identified issues.
- Investment advisers included in their policies and procedures a requirement to memorialize annual review reports covering specific

topics and then never prepared an annual review report.
- Investment advisers included in their policies and procedures a requirement to document annual reviews in a specific manner, such as checklists or templates. However, the investment advisers did not satisfy or partially satisfied this requirement.

Resolve Corrective Actions and Recommendations From Previous Reviews

The Division also flagged instances where investment advisers failed to implement corrective action after receiving recommended changes from previous reviews. Another issue is indicating reported corrective action had been taken when the advisers never implemented the recommended changes.

Investment advisers should review the Risk Alert and their own policies and procedures to ensure they avoid these common issues and a compliance violation at their next observation.

If you have specific questions about the SEC's Risk Alert, annual compliance reviews, or about your firm's compliance policies and procedures, please contact Scott Stokes, Thomas Bilodeau, Diana Alsabe, or Yelitza Montesino at Rich May, P.C.

Disclaimer: This summary is provided for educational and informational purposes only and is not legal advice. Any specific questions about these topics should be directed to attorney(s) Scott Stokes, Thomas Bilodeau, Diana Alsabe, and/or Yelitza Montesino.

© 2026 by Rich May, P.C. and Yelitza Montesino. All rights reserved.