

SEC Examination Risk Alert

Staff Observations on Investment Adviser Annual Compliance Reviews

On September 14, 2026, the SEC's Division of Examinations (the "Division") published a Risk Alert summarizing exam staff observations on how registered investment advisers conduct the annual review of their compliance policies and procedures required under Rule 206(4)-7 of the Investment Advisers Act of 1940 (the "Compliance Rule"), which requires an adviser to review the adequacy of its policies and procedures, and the effectiveness of their implementation, no less frequently than annually, and to maintain true, accurate, and current books and records documenting that review.

The Risk Alert signals where examination teams are likely to focus attention on both the annual review process itself and the substantive compliance program the review is meant to test. The Division grouped its observations into five recurring problem areas: 1) timeliness of annual reviews; 2) completeness of the policies and procedures that govern how a review is conducted; 3) alignment between the review and the adviser's actual practices; 4) documentation retained to support the review; and 5) follow through on corrective actions identified during the review.

Common Deficiencies Identified by the Staff

- **Timeliness of Reviews** - Advisers with gaps between annual reviews, reviews that ran longer than 12 months, or reviews replaced entirely with training sessions or personnel attestations, which do not on their own satisfy the review requirement.
- **Completeness of Review Procedures** - Written policies that required an annual review but did not describe the testing, validation steps, or documentation standards personnel should follow, or that identified topics for review elsewhere in the manual without including them in the review itself.
- **Alignment With Actual Practices** - Reviews that did not catch a gap between policy and practice, including fee billing methodologies, proxy voting practices, custody procedures tied to surprise examinations, the marketing rule, Form CRS filing obligations, and oversight of delegated functions.
- **Documentation of the Review** - Reviews that generated testing records, findings, and recommendations that were never retained as books and records, or failure to prepare a written annual review reports as required by policies.
- **Follow Through on Corrective Actions** - Recommended changes from a prior year's review, such as improved proxy voting disclosures or more thorough broker-dealer due diligence, that were never implemented, including cases where a report stated a fix had occurred while the underlying issue persisted.

What This Means for RIAs and Their CCOs

- **Treat the Review Process as an Exam Deliverable** - Examiners are asking for records that evidence when each annual review was completed, not only the final report, so any gaps or late reviews should be resolved before an exam.
- **Write a Specific, Repeatable Methodology** - Compliance manuals should describe the actual process for determining scope and testing steps, as well as documentation standards for the annual review, rather than a general statement that a review will occur.
- **Test Policies Against Practice** - The review should confirm that written policies match what the firm actually does, with particular attention to fee billing, proxy voting, custody, the marketing rule, Form CRS, and any delegated functions.
- **Preserve the Record** - Testing performed, issues identified, and corrective action plans should be memorialized and retained, consistent with the recordkeeping obligations under Rule 204-2.
- **Close the Loop on Findings** - Corrective actions identified in one year's review should be tracked to completion and verified in the next, since the staff specifically flagged recurring, unaddressed findings.

How Standish Can Help

- **Annual Review Benchmarking** - We can conduct a gap assessment to compare your firm's annual review process, timing, and documentation against the standards and observations outlined in this Risk Alert.
- **Annual Reviews & Mock SEC Exams** - We can conduct an independent annual review tailored to your business and/or a mock SEC examination ahead of an actual exam, including document requests, staff interviews, and testing of core risk areas and conflicts.
- **Policy and Procedure Drafting** - We can draft or refresh the section of your compliance manual that governs the annual review itself, so it reflects a defined and repeatable methodology.
- **Documentation Support** - We can build workpaper templates, checklists, and review reports that satisfy the Compliance Rule's recordkeeping requirements.
- **Corrective Action Tracking** - We can help CCOs track open findings from prior reviews through to resolution and document that resolution for examiners.

About Standish Compliance Services

Institutional Quality. Boutique Service. Standish Compliance was built for firms that expect more than the bare minimum, pairing the rigor and depth of a high caliber practice with the attention and responsiveness of a close-knit partner. Every client works directly with a team of experts, including former SEC exam staff skilled in scoping, executing, and documenting effective annual reviews. Contact your Standish engagement team to see what that looks like for your firm.