

Financial Reform: SEC Regulation and the Implications for Private Equity Groups

The implications of the newly signed Financial Reform legislation are generating serious conversations among Private Equity Groups. After much debate, the U.S. House and Senate reached a compromise which now requires Private Equity Groups with \$150 million or more in assets to register with the Securities and Exchange Commission. The passage of this legislation means new reporting and compliance obligations for Private Equity Groups and their portfolio companies.

With the memory of Sarbanes Oxley compliance still fresh in most of our memories, the prospect of additional compliance weighs heavily. Through its goal of improving financial accuracy and corporate responsibility, SOX significantly redefined corporate accounting and reporting. Compliance with SOX has also proved costly and onerous for many organizations. Will the implications of the new financial reform legislation prove just as burdensome? The answer remains to be seen.

Private equity groups must now establish formal compliance policies and procedures under the 2,300 page Dodd-Frank Bill (just slightly shorter than the recently passed Healthcare Reform Bill). The scope of which includes pricing and valuation, conflict of interest, securities trading policies and more. Private Equity Groups will also be subject to regular SEC inspections. Meeting these requirements will be challenging, especially in light of the downsizing that many Private Equity Groups experienced over the past several years. Although firms have until July 2011 to comply, now is the time to familiarize yourself with the new regulations and begin your preparations.

NEW REQUIREMENTS

What are the implications for your Private Equity Group?

In order to be compliant, there are some key requirements you must meet:

- Register a Form ADV with the SEC, and update annually

- Establish formal compliance policies and procedures
- Hire or appoint a chief compliance officer
- Disclose information, including agreements made with investors; also provide detailed records to the SEC upon request
- Maintain client funds with a “qualified custodian” who creates quarterly client account statements and meets surprise examination requirements to verify client securities and funds
- Report on each fund you advise, disclosing information like assets under management, valuations, use of leverage, credit risk, trading and investment practices
- Prepare for regular inspections by the SEC

HOW TO PROCEED

1. Understand the legislation, its requirements and implications for you;
2. Assess your options for compliance, identifying costs/benefits/risks of alternative approaches:
 - Utilize in-house resources for planning and implementation;
 - Outsource the compliance function;
 - Use a combination of outside experts with in-house resources to plan for and implement the regulatory response
3. Select option and develop an implementation plan
4. Begin phase one of the implementation.

Tatum can help you understand and comply with this new legislation! Our “hands-on” approach leverages the knowledge of our compliance and financial experts.

Contact us to schedule a confidential briefing or learn more.

Joe Burkhart
Managing Director
East Coast
703.917.1102
Joseph.Burkhart@TatumLLC.com

James Hickey
Managing Director
West Coast
415.992.6006
949.242.0747
James.Hickey@TatumLLC.com

ABOUT TATUM

Tatum is the largest Executive Services firm in the U.S., and we understand the urgency of NOW. Our solutions accelerate results to *create more value™*.

