

# RIA Compliance Consultants



ESG Investing – Compliance Concerns

## Strategic Alliance Members



### **Bridge Financial Technology**

Automation-focused software designed to streamline back office functions.



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# 2021 RIA Compliance Connection

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## Agenda

- 2021 Exam Priorities for ESG Investing
- Areas of Discussion
  - ✓ Methodology for Using ESG for Investing
  - ✓ Documentation of Client's Interest in ESG Investing
  - ✓ ESG Disclosures
  - ✓ ESG Advertising/Marketing
  - ✓ Review & Verification of ESG Processes
  - ✓ Evaluating Third-Party Money Manager Using ESG
- Resources

## SEC 2021 Exam Priorities for ESG Investing by RIAs

- Focus on Use of ESG Products Such as Open-End Funds & ETFs for Public and Qualified Opportunity Funds for Accredited Investors
- Review Consistency/Adequacy of ESG Disclosures with Actual Practices
- Review ESG Related Advertising for False or Misleading Statements
- Review Firm's Proxy Voting P&P and Actual Votes

## Methodology for Using ESG for Investing

- How does your investment adviser firm use ESG for investing?
  - ✓ Open-End Funds, Securities in Individual Companies, Private Placements, Private Funds or Third-Party Money Manager?
  - ✓ Does your investment adviser firm merely add a final screen for ESG investing or do they actually recommend ESG investments that they wouldn't otherwise recommend?

## Documentation of Client's Interest in ESG Investing

How do you document a client's desire to consider ESG criteria when investing?



## How do you verify a securities issuer's ESG claims?

- What do you specifically disclose?

## ESG Advertising/Marketing

Do you reference ESG investing in your advertising? If so, do you use any disclosures or limit advertising claims in certain manner?

## Review & Verification of ESG Processes

- How do you verify that any ESG claims are being met or followed?
  - Do you check advertising & RFPs?
  - Do you use ESG as a surveillance term in your email review?
  - Do you conduct an annual review or audit of your portfolio management team's process and positions?
  - How do you verify a securities issuer's ESG claims?
  - Does your firm utilize an ESG committee to monitor and review ESG investing and compliance?

## Evaluating Third-Party Money Manager Using ESG

- How do you evaluate the usage of ESG criteria by 3<sup>rd</sup> party money managers?
  - Do you review third-party money manager's P&P for ESG investing?
  - Did you require the third-party money manager's sustainability objectives and investment restrictions?
  - Do you review the third-party money manager's screens, existing positions and anticipated positions?
  - Do you review how a third-party money manager votes proxies and/or lobby priorities/activities?
  - Do you require the third-party money manager an annual review of its sustainability objectives in a quantifiable and measurable manner?

## Information Security Plan/Incident Response Plan

1. Does your firm assess the effectiveness of your information security plan on an annual basis? Explain how your firm performed this assessment or give examples of areas that needed improvement.
2. Does your information security plan include a section on how to respond to a cybersecurity incident?
3. Have you tested your incident response plan? Please explain how you did this and what you learned.

## Liability Coverage for Cybersecurity Events

1. Do you have liability insurance coverage for cybersecurity incidents?  
(For All Panelists)
2. What are the cybersecurity trends from the insurance brokers are seeing? (For Tom S.)
3. What are best practices that you believe many investment advisers are not adopting/utilizing? (For Tom S.)

## Safeguarding Client Accounts Against Credential Compromise

### Best Practices Observed by SEC's Division of Examinations

- Reviewing P&P with Focus on Password Updating Policies for Consistency Recognized Password Standards Requiring Strength, Length, Type and Frequency of Changes
- Using Multi-Factor Authentication to Authenticate Person Seeking to Log into an Account
- Deployment of CAPTCHA to Combat Automated Scripts of Bots
- Controls for Detecting/Preventing Credential Stuffing
  - Monitoring for Higher Number of Login Attempts or Higher Number of Failed Login Attempts Over Given Time Period
  - Use Web Application Firewall
  - Prevent Funds Transfer or Access to Personal Information

## SEC Risk Alert (4/9/21):

### Review of ESG Investing

<https://www.sec.gov/files/esg-risk-alert.pdf>



## RCC Resources

### ESG Investing – Best Compliance Practices Checklist

<https://www.ria-compliance-consultants.com/product/esg-investment-adviser-best-compliance-practices-checklist/>

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