

REGULATORY UPDATE

February '23



SEC PROPOSED RULE ON OUTSOURCING BY INVESTMENT ADVISORS

On October 26, the SEC proposed new Rule 206(4)-11 requiring investment advisers to conduct due diligence and ongoing monitoring on certain services or functions outsourced to service providers.

- The types of service providers in scope include valuation, sub-adviser, client services, cybersecurity, investment risk, portfolio accounting, pricing, reconciliation, trading desk, and trade communication and allocation

[Click here to read the SEC proposal](#)

KEY PROVISIONS – LIQUIDITY

- Requires advisers to implement and document a due diligence process for initially approving and thereafter maintaining outsourced and similar service relationshipsMandates highly liquid investment minimums of at least 10% of fund net assets
- The types of service providers in scope include valuation, sub-adviser, client services, cybersecurity, investment risk, portfolio accounting, pricing, reconciliation, trading desk, and trade communication and allocationEstablishes minimum criteria for liquidity classification



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