November 3rd, 2022

Dear Leslie Kux, Associate Commissioner for Policy:

The following comments are to address the SEC proposal of Rule 206(4)-11 under the Investment Advisers Act of 1940.

<u>High-level Thoughts on Proposed Rule:</u>

- As a Director's and Officer's underwriter that provides management and professional liability insurance to investment advisers, I have a strong appreciation for the SEC's proposal of new oversight requirements for certain "covered function" services that are outsourced by investment advisers.
- As mentioned in the proposal, many advisers now regularly and purposely engage with third-party service providers to perform certain functions or services, this could be a function of the adviser lacking the technical expertise, operational ability and/or for best business practices.
- From an underwriting perspective, we typically view the use of non-affiliated 3rd party service providers as a positive, because when companies utilize these service providers (especially for compliance reasons), there is a much lower probability of collusion and reduces the risk of the adviser having a potential conflict of interest. With that said, I completely agree that more needs to be done to protect clients and enhance oversight of advisers' outsourced functions. I further echo the SEC's stance that just because a company outsources these services should not mean that their fiduciary responsibly related to monitoring these services vanquishes.

<u>Rule Suggestions/Modifications</u> - The following are suggestions and/or modifications that I would appreciate the SEC considering:

- As the proposal currently reads the establishment of an oversight framework is only for registered investment advisers (RIA") that outsource a "covered function." However, there are many firms in the venture capital space and private firms with under $150M in assets under management (both of whom are currently considered RIA exempt advisers) that also utilize many 3rd party services providers, sometimes more than their registered investment advisor peers. As such, I believe the scope of oversight should be broadened.
- Accordingly, the new amendments will mandate that advisers satisfy due diligence requirements before retaining a service provider and subsequently to conduct periodic monitoring of the service provider's performance
- The proposed rule amendments are largely concerned about advisers satisfying the due diligence requirements before retaining a service provider and subsequently conducting periodic monitoring of the service provider's performance. However, for current existing service provider relationships that the RIA maintains, are the RIA's now going to have to formally evaluate, document, and monitor them as well?
- Lastly, it was noted that in the proposal that investment advisers would have to create and maintain records related to their due diligence and monitoring efforts and report census-type information about these service providers on Form ADV. I believe that this part of the proposal is warranted and necessarily. With that said, I believe as part of that reporting process I think it would be meaningful to state how long that relationship has existed or possibly that if that relationship has changed over the past 12 months. From an underwriting perspective, if I see that a company is frequently changing services providers it raises red flags. This is especially true when this relates to auditors, as often times this change is because of a dispute or disagreement. I think that having some type of disclosure about the history of the relationship would add value to the overall compliance goal.

Thanks for your time and thoughtful consideration.

Sincerely,
Douglas C. Standerfer, CPA, CPCU, RPLU

Underwriting Director
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