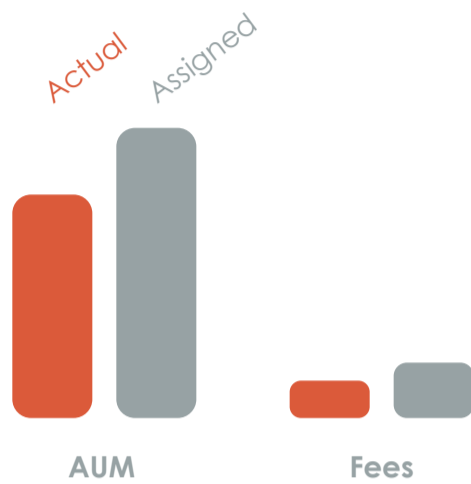


# Fee and expense practices to avoid

After observing several issues during its routine inspections, the SEC's Office of Compliance Inspections and Examinations (OCIE) issued a risk alert outlining the most common shortcomings relating to advisory fee and expense compliance. Here are some of the more egregious practices advisers should watch for (or correct):

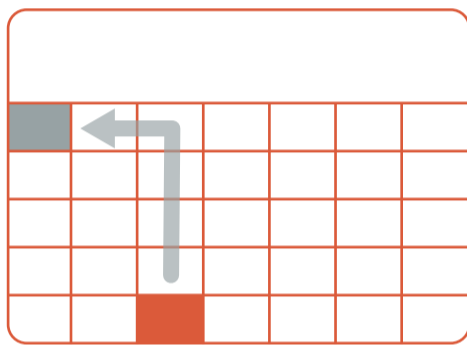
1



## Basing fee-billing on incorrect account valuations

OCIE observed advisers assigning incorrect values on clients' assets, which resulted in incorrect advisory fees where fees are calculated as a percentage of the value of assets managed.

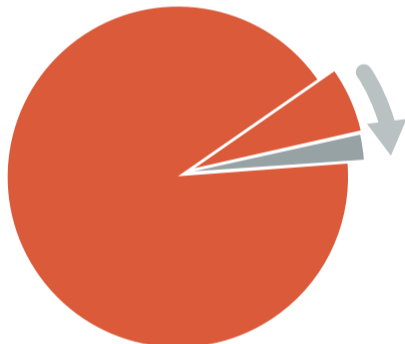
2



## Billing fees in advance or with improper frequency

Examples included advisers billing fees on a monthly basis, rather than quarterly as stated in the advisory agreement, and advisers billing fees in advance, despite representing to clients that such fees would be billed in arrears.

3



## Applying incorrect fee rates

Advisers were observed applying a rate higher than specified in the advisory agreement, double-billing clients, and charging a nonqualified client a performance fee based on a percentage of capital gains.

4



## Omitting rebates and incorrectly applying discounts

OCIE staff observed advisers who failed to apply rebates or discounts as specified in agreements — for example, by not combining account values for clients in the same household when doing so would have triggered discounted fees.

5



## Providing inconsistent disclosure regarding advisory fees

Certain advisers' actual practices were inconsistent with their Form ADV disclosures, such as charging an advisory fee rate higher than the disclosed maximum rate, or not disclosing certain fees or markups in addition to their advisory fees.