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GenII

SEC PRIVATE FUND ADVISER RULE AMENDMENTS

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The Securities and Exchange Commission (SEC) has adopted new rules and amendments (“Private Fund Adviser Rules” or “Rules”) under the Investment Advisers Act of 1940 (“Advisers Act”), affecting private funds and their advisers. The Rules aim to improve transparency and comparability, whilst also restricting certain activities deemed detrimental to investors and the public interest. The Rules will require many advisers to reevaluate their practices and significantly modify or enhance their operational procedures and disclosures, as well as address practices allowing preferential treatment which are deemed contrary to investors’ interests. The Rules impose additional responsibilities and limitations, thereby increasing the administrative burden and costs for both registered and exempt private fund advisers.

The Rules are categorized as follows:

1. Quarterly Statement Rule
2. Restricted Activities Rule
3. Preferential Treatment Rule
4. Private Fund Audit Rule
5. Adviser-Led Secondaries Rule
6. Compliance Rule Amendment
7. Books & Records Rule Amendment

The **Quarterly Statement Rule**, the **Private Fund Audit Rule** and the **Adviser-Led Secondaries Rule** are applicable to **Registered Private Fund Advisers**. The **Restricted Activities Rule** and the **Preferential Treatment Rule** are applicable to all **Private Fund Advisers**. Additionally, the Rules introduced amendments to the compliance rule and recordkeeping requirements (**Books & Records**) for Registered Private Fund Advisers in respect of the above.

QUARTERLY STATEMENT RULE

Quarterly Statement Rule

Compliance
Date:
3/14/25

Applies to:
RIAs Only

Rule

- Statement to include detailed information (tabular format) for the quarter:
 - ❖ Fund fees and expenses paid or allocated (gross and net of offsets, rebates or waivers);
 - ❖ Compensation paid or allocated to the RIA (and “Related Persons”) by the fund and the portfolio investments (gross and net);
 - ❖ Offsets, rebates or waivers carried forward
 - ❖ Standardized fund performance information (For “Illiquid Funds”: Gross and net IRR and MOIC, levered and unlevered; Gross IRR and MOIC, realized and unrealized).
 - ❖ Statement of contributions and distributions, including closing NAV
 - ❖ Cross reference to governing documents and include calculation methodology / assumptions
- Must be delivered within 45 days (Q1-Q3) or 90 days (Q4) of quarter-end. For fund-of-funds, the deadlines are 75 days and 120 days, respectively

Sponsor Impact

- Confirm in-scope entities
- Revisit timing of the provision of data to support the financial statement close process to meet 45 day reporting requirement (e.g. investment valuations; intercompany balances; offsets)
- To the extent not previously provided, make available fees and compensation paid or allocated by portfolio investments to the Adviser and its Related Persons, and related offsets
- Agree basis of presentation, including consolidation requirements and fund level vs portfolio investment level disclosures
- Agree performance calculation methodology and inputs / Responsible party
- Review PPM / LPA expense definitions
- Agree final format and delivery mechanism
- Agree updated SLA

Gen II Impact

- Create Quarterly Statement template
- Identify and resolve the nature and timing of Sponsor dependent information
- Perform gap analysis to identify and resolve additional data requirements (e.g. portfolio level compensation)
- Establish portfolio investment compensation and fee data capture framework (template and Intacct mapping)
- Recommend basis of presentation and performance calculation methodology
- Identify and address any performance calculation input deficiencies (if Gen II engaged to perform calculations)
- Document performance calculation methodologies (if Gen II engaged to perform calculations)
- Map COA expenses to LPA permitted expenses
- Generate Quarterly Statements
- Amend SLA as appropriate

RESTRICTED ACTIVITIES RULE

Restricted Activities Rule

Compliance

Date:

> \$1.5B AUM:
9/14/24

< \$1.5B AUM:
3/14/25

Applies to:

All Private Fund
Advisors

Rule

- Restricts private fund advisers from undertaking certain activities unless they are disclosed, either before or after the event as prescribed and, where required, investor consent is obtained. "Consent" is defined as the approval by a majority in interest of investors unaffiliated with the adviser. Limited Partner Advisory Committee approval is not sufficient.
- Restricted Activities include:
 - ❖ Adviser's Investigation Costs
 - ❖ Adviser's Regulatory / Compliance Costs
 - ❖ After-tax Clawback
 - ❖ Non pro-rata Allocation of Investment-related Fees / Expenses
 - ❖ Adviser borrowings
- Adviser's regulatory / compliance costs and after-tax clawback need to be disclosed within 45 days of quarter end

Sponsor Impact

- Review governing document provisions for restricted activities and amend as appropriate
- Agree responsibilities for Rule Compliance including where disclosure and consent required (Investigation Costs / Adviser Borrowing), or advance notification (non pro-rata allocation of investment costs)

Gen II Impact

- Agree Gen II's reporting responsibility, including incorporation within the Quarterly Statement where required
- Amend SLA as appropriate

PREFERENTIAL TREATMENT RULE

Preferential Treatment Rule

Compliance

Date:

> \$1.5B AUM:
9/14/24

< \$1.5B AUM:
3/14/25

Applies to:

All Private Fund
Advisors

Rule

Prohibits the provision of preferential redemption terms or additional information on holdings and exposures to certain investors (if deemed to have a material, negative effect) unless:

- i. those terms or information rights are offered to all the fund's investors (including investors in funds with similar portfolios) or
- ii. preferential redemption rights are required by law

Other preferential terms must be disclosed to current and prospective investors (after fundraising and annually thereafter (change basis)).

Sponsor Impact

- Review all existing side letters and investor agreements for preferential and unique terms
- Agree responsibilities for Rule Compliance

Gen II Impact

- Agree Gen II's reporting responsibility: for legacy / closed funds, the notification of preferential terms vs funds undertaking fund raising requiring prospective investors be notified of preferential treatment offered to other investors regarding material economic terms
- Amend SLA as appropriate

PRIVATE FUND AUDIT RULE

Private Fund Audit Rule

**Compliance
Date:**
3/14/25

Applies to:
RIAs Only

Rule

Each fund must be subject to an annual financial statement audit in compliance with the audit exception in Rule 206(4)-2 of the Advisers Act. Audited financial statements must be provided to investors within 120 days of the fund's year-end (180 days for fund-of-funds). These financial statements must be prepared under US GAAP and audited by a PCAOB-registered and -inspected firm.

Sponsor Impact

- Identify in-scope entities that require an audit and engage audit firm / Gen II as appropriate

Gen II Impact

- Amend SLA as appropriate

ADVISER-LED SECONDARIES RULE

Adviser-led Secondaries Rule

Compliance

Date:

> \$1.5B AUM:
9/14/24

< \$1.5B AUM:
3/14/25

Applies to:

RIAs Only

Rule

Funds undertaking an adviser-led secondaries transaction are required to (i) obtain a fairness opinion or a valuation opinion and (ii) disclose any material business relationships between the adviser and the opinion provider during the previous two years.

Sponsor Impact

- Prior to undertaking a secondaries transaction, identify a third-party service provider meeting the Rule requirements to provide the fairness or valuation opinion.

Gen II Impact

- Confirm Gen II has no role

COMPLIANCE RULE AMENDMENT

Compliance Rule Amendment

Compliance Date:
11/13/23

Applies to:
RIAs Only

Rule

The proposal includes amendments to the existing Compliance Rule to require all RIAs, including those that do not advise private funds, to document in writing the required annual review of their compliance policies and procedures.
The amendment will facilitate the SEC's review of compliance procedures and assist in the identification of potential compliance program weaknesses

Sponsor Impact

- Perform and document the annual review of compliance policies and procedures

Gen II Impact

- None

BOOKS AND RECORDS RULE AMENDMENT

Books and Records Rule Amendment

(As above)

Rule

The proposal includes amendments to the books and records rule that require advisers to retain records related to the proposed rules. The amendments would facilitate the SEC's ability to assess an adviser's compliance with the proposed rules.

Sponsor Impact

- Agree record keeping responsibilities

Gen II Impact

- Ensure adequate records maintained to support Gen II's role in assisting the Sponsor meet the requirements of the PFA Rules

HOW ARE YOU CALCULATING IRR?

Sensr Unlevered IRR

Sensr's Unlevered IRR functionality is a critical tool for GP's to meet the increasingly sophisticated reporting requirements of LP's and regulators

Line of Credit Activity

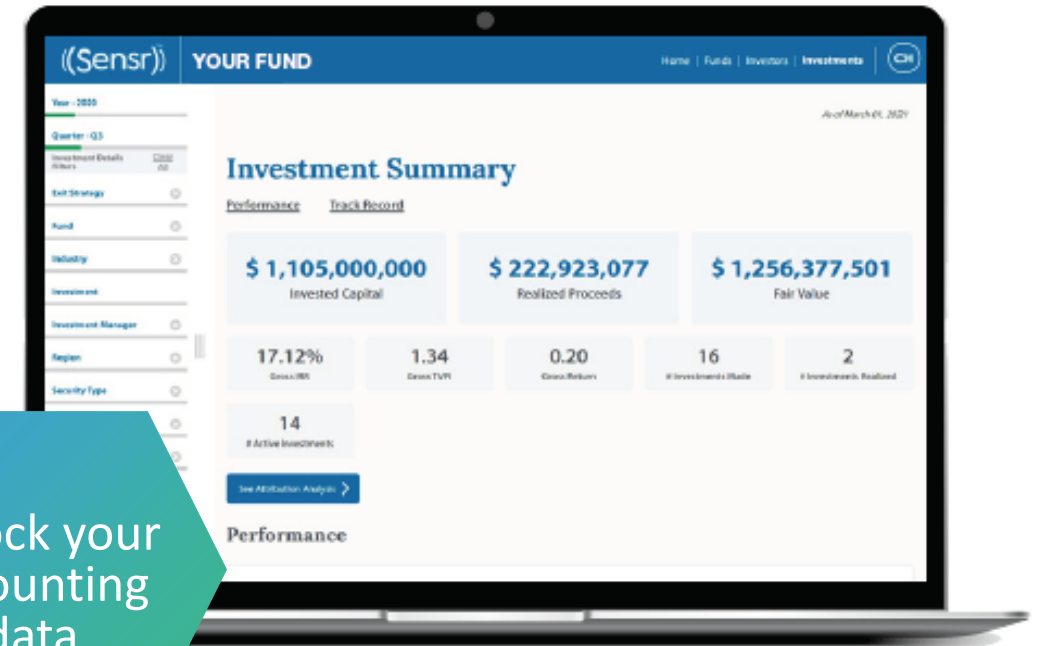
All activity related to the line of credit is recorded to specific LOC-related GL accounts. These accounts are excluded from the unlevered performance calculations.

Capital Activity

Each time the Line of Credit is used to fund an investment or to pay expenses, the corresponding capital call(s) to pay down the line capture the initial investment date in addition to the capital call date.

Unlevered IRR

Using these additional dimensions captured on Fund activity, Sensr calculates unlevered investor IRR's seamlessly and on demand.



Unlock your
accounting
data



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