

## SEC New Proposed Rule 206(4)-11 for Third-Party Risk Management - Quadrangle Services & Tools

### SEC INVESTMENT ADVISER PROPOSAL

The Securities and Exchange Commission is proposing a new rule 206(4)-11 under the Investment Advisers Act of 1940 which would require:

**(I) INITIAL DUE DILIGENCE & REASSESSMENT REGULATORY EXPECTATIONS:**

- Prohibits registered investment advisers from outsourcing certain services or functions without first meeting minimum requirements and then periodically reassessing the retention of the service, as outlined below.

**(II) ONGOING MONITORING REQUIREMENTS AND BOOKS & RECORDS RETENTION**

- Further requires advisers to periodically monitor the performance and maintain books and records of the service provider in accordance with due diligence requirements to reasonably determine that it is appropriate to continue to outsource those services or functions to that service provider.

SERVICE PROVIDER:	PROPOSED COVERED FUNCTION CATEGORIES	
Defined as a person or entity that: <ul style="list-style-type: none"> <li>• performs one or more covered functions</li> <li>• is not a supervised person of the adviser</li> </ul>		
<b>COVERED FUNCTION:</b> Defined as: <ul style="list-style-type: none"> <li>• a function or service that is necessary for the adviser to provide its investment advisory services in compliance with the Federal securities laws</li> <li>• those that, if not performed or performed negligently, would be reasonably likely to cause a material negative impact on the adviser's clients or on the adviser's ability to provide investment advisory services</li> </ul>	<ul style="list-style-type: none"> <li>• Adviser/Subadvisor</li> <li>• Client Services</li> <li>• Cybersecurity</li> <li>• Investment Guideline/Restriction Compliance</li> <li>• Investment Risk</li> <li>• Portfolio Management (excluding Adviser/Subadvisor)</li> </ul>	<ul style="list-style-type: none"> <li>• Portfolio Accounting</li> <li>• Pricing</li> <li>• Reconciliation</li> <li>• Regulatory Compliance (e.g., includes Outsourced COO)</li> <li>• Trading Desk</li> <li>• Trade Communication and Allocation</li> <li>• Valuation</li> <li>• Other</li> </ul>
Quadrangle reviews and negotiates agreements with service providers for each of the above covered functions and can assist with the management of the requirements outlined by this new proposed rule.		

(I) INITIAL DUE DILIGENCE & REASSESSMENT REGULATORY EXPECTATIONS	QUADRANGLE'S OFFERING TO ADDRESS THESE REGULATORY EXPECTATIONS
Regulation Requirement:	HOW WE HELP
For covered functions that the investment adviser has identified and determined the need to outsource, Quadrangle can assist with selection of the appropriate service provider that comply with the following elements: <ol style="list-style-type: none"> <li>i. The nature and scope of services</li> <li>ii. Mitigation and management of potential risks to clients or investment adviser's ability to perform its advisory services</li> <li>iii. Service provider's competence, capacity, and resources</li> <li>iv. Any subcontracting arrangements of the service provider</li> <li>v. The ability and willingness of the service provider to coordinate with the adviser for purposes of compliance with Federal securities laws</li> <li>vi. Reasonable assurance from the provider that it is willing to provide for orderly termination</li> </ol>	<ul style="list-style-type: none"> <li>📁 <b>Resources</b> on QDS Platform:               <ul style="list-style-type: none"> <li>○ Survey data</li> <li>○ Webinar recordings</li> <li>○ Regulatory updates</li> <li>○ White papers</li> </ul> </li> <li>📄 <b>Contract review and negotiation</b> services:               <ul style="list-style-type: none"> <li>○ Performed by legal and financial subject matter experts</li> <li>○ Analyzed using our extensive database</li> </ul> </li> <li>📁 <b>Contract terms repository:</b> <ul style="list-style-type: none"> <li>○ Term-by-term reports of new and existing agreements with dynamic updating</li> <li>○ Reports benchmark terms and highlight available improvements</li> </ul> </li> </ul> <p>Backed by institutional intelligence, Quadrangle can assist with the selection of service providers, providing recommendations and introductions as needed. We can also review and negotiate contracts to achieve preferred terms that comply with the elements detailed in this new proposed rule.</p>

(II) ONGOING MONITORING REQUIREMENTS AND BOOKS & RECORDS RETENTION	HOW THE QDS PLATFORM HELPS
<b>A. The proposed rule requires advisers make and keep certain books and records under the proposed oversight framework and perform continuous monitoring of service providers' performance, as outlined below:</b> <ol style="list-style-type: none"> <li>i. A list of covered functions for which the investment adviser has retained a service provider               <ol style="list-style-type: none"> <li>a. Factors that led the adviser to list each as a covered function</li> </ol> </li> <li>ii. Documentation of due diligence assessments</li> </ol>	<p>The QDS Platform is an information hub for storing, monitoring, and managing service provider documentation, reports, and due diligence questionnaires. Our tools can assist with the books and records requirements of this new proposed rule:</p> <ul style="list-style-type: none"> <li>📄 <b>Vendor Management Dashboard</b> including a Vendor Type column to list covered functions.</li> <li>📄 <b>Vendor Document Library</b> to store all executed service provider agreements, amendments, statements of work, SLAs.</li> <li>📄 <b>Task Manager</b> to create business areas and assign responsible parties for each covered function, synced with Outlook.</li> <li>📄 <b>Notifications and Reminders</b> synced with Outlook to notify advisers of notice and renewal dates of service provider agreements.</li> </ul>

(II) ONGOING MONITORING REQUIREMENTS AND BOOKS & RECORDS RETENTION	HOW THE QDS PLATFORM HELPS
iii. Documentation of risk mitigation requirement compliance	<ul style="list-style-type: none"> <li>📄 <b>Term-by-Term Reports</b> and <b>Report Builder</b> tool to provide a breakdown of agreements and documentation of risk mitigation provisions.               <ul style="list-style-type: none"> <li>○ Can be used to compare service level terms against actual performance.</li> <li>○ Terms are updated dynamically based on changes to the market or investment adviser.</li> </ul> </li> </ul>
iv. Documentation of written agreements, including amendments, appendices, exhibits, and attachments, entered into with each service provider	<ul style="list-style-type: none"> <li>📄 <b>Virtual Data Room</b> to securely share documentation with third parties, with internal and external audit logs.</li> <li>📄 <b>KYC Exchange</b> to facilitate flow of formation documents with new and existing service providers, including permission capabilities, audit logs, and refresh and expiration capabilities, synced with Outlook.</li> </ul>
v. Records in an easily accessible place throughout the period the covered function is performed and for a period of five year thereafter	<ul style="list-style-type: none"> <li>📄 <b>Vendor Due Diligence Matrix</b> to provide a digital record of DDQs.</li> </ul> <p>Quadrangle is SOC 2 compliant, and the QDS Platform provides on-demand secure access to service provider documentation, reports, and DDQs from anywhere at anytime.</p>
<b>B. Records in Relations to Third Parties - The proposed rule would also require advisers that rely on third parties to make and/or keep records required by this rule to perform certain due diligence and monitoring of such third parties, as outlined below:</b>	<p>The QDS Platform can assist with maintaining the books and records required by the proposed oversight framework, including:</p>
i. Adopt and implement internal procedures and/or systems that meet the requirements of the recordkeeping rule	<ul style="list-style-type: none"> <li>📄 <b>Vendor Document Library</b> to provide on-demand secure access to all agreements, amendments, statements of work, SLAs.</li> </ul>
ii. Make and/or keep records that meet all requirements of the recordkeeping rule	<ul style="list-style-type: none"> <li>📄 <b>Term-by-Term Reports</b> with dynamic updating and <b>Report Builder</b> to provide record of negotiated risk mitigation provisions.</li> <li>📄 <b>DDQ Module</b> to provide digital record and access to due diligence questionnaires.</li> </ul>
iii. Provide "easy" access to electronic records during the retention period	<ul style="list-style-type: none"> <li>📄 <b>Notifications and Reminders</b> synced with Outlook to notify advisers of notice and renewal dates of service provider agreements.</li> <li>📄 <b>KYC Exchange</b> and <b>VDR</b> to facilitate document refreshes and expiration dates with service providers, including audit logs to provide record of receipt.</li> </ul>
iv. Ensure continued availability of records if the third-party relationship ends or operations cease	<p>Subscription can be turned on or off at any time, and the adviser can download all records at their discretion.</p>

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