



Risk Management Update March 2013

SOLUTIONS FOR COMPLIANCE PROFESSIONALS

In February 2013, the Securities and Exchange Commission's ("SEC") Office of Compliance Inspections and Examinations ("OCIE") issued their exam priorities for 2013¹ covering issues related to a variety of financial firms, including but not limited to broker-dealers, investment advisers, investment companies, transfer agents, hedge funds and private equity funds, clearing agencies, and self-regulatory organizations ("SROs"). The list was published by OCIE as part of their National Examination Program ("NEP"), which is designed to help: (1) improve compliance, (2) prevent fraud, (3) inform policy, and (4) monitor firm-wide and systemic risk.

Some of the highlights from the Examination Priorities Lists include internal control development by investment advisers, private fund advisers and investment companies, to address higher risk areas, such as:

- Safety of Client Assets – Use risk-based asset verification techniques to confirm safety of client assets and firm compliance with custody rules. Focus on the firm's process for identifying custody, and examine how the organization complies with surprise exam requirements, adherence to relied upon exemptions for private funds, and adequacy of the financial audit conducted.
- Conflicts of Interest Surrounding Compensation Arrangements – Review the firm's financial records and various compensation arrangements, including solicitation and referral arrangements, and analyze receipt of payment for services to third parties. Review client disclosure documents to ensure such compensation arrangements are identified as required.
- Marketing and Performance – Consider the accuracy of advertised performance, adequacy of related disclosures and compliance with record keeping requirements. Also, evaluate any changes to the firm's advertising practices, and particularly those advisers to private funds, who may have amended protocols due to the JOBS Act of 2012.
- Conflicts of Interest Related to Allocation of Investment Opportunities – Review portfolio management practices and internal controls, and particularly side-by-side management, to assess whether conflicts are detected and addressed. Also focus on allocation by portfolio managers that make investment decisions for performance based and non-performance based accounts.

¹ National Exam Program, *Examination Priorities for 2013*, Office of Compliance Inspections and Examinations, February 21, 2013. For more information, please see <http://www.sec.gov/about/offices/ocie/national-examination-program-priorities-2013.pdf>

- **Fund Governance** – Review adequacy and accuracy of disclosures to fund boards and confirm that fund directors are reviewing the critical areas, including information relating to the approval of agreements, service provider due diligence, valuation, and expenses.

In an effort to address the ongoing evolution of a financial institution's compliance program, many of our clients are turning to technology and vendor solutions to assist with these and other areas. While CCLS does not endorse any of the following service providers, many of our clients have shared their positive experiences of working with the following vendors. Prior to engaging any third party service provider, you are strongly encouraged to conduct thorough and ongoing due diligence prior to using their services.

Compliance Certification and Continuing Education

National Society of Compliance Professionals: Certified Securities Compliance Professional (CSCP) Certification – provides certification as a compliance professional, which distinguishes individuals as intermediate to advanced proficiency.

(860) 672-0843

www.cscp.org

Quest CE – offers compliance education and training options to the financial services industry. In addition to offering providership administration and insurance continuing education (CE) for professionals holding insurance licenses and professional designations like the CFP, CPA, CLE, CIMA and CLU/ChFC designations, Quest CE also provides a complete spectrum of compliance training solutions.

(414) 375-3400

www.questce.com

RegEd, Inc. – provides annual compliance meetings, needs analysis, training plans, tracking and reporting, firm element CE, insurance CE, exam prep licensing training with exam prep self-study, and on-line practice exams.

(800) 334-8322

www.reged.com

Securities Training Corporation – offers needs analysis, diagnostics, firm element CE, insurance CE, insurance pre-licensing exam preparation licensing training in a classroom or self-study format.

(800) 782-1223

www.stcusa.com

Errors & Omissions (E&O) Insurance

G.S. Levine Insurance Services, Inc. – provides comprehensive insurance services offering a range of insurance options for businesses, as well as financial services and aid in risk management.

(858) 481-8692

www.gslevine.com

Marsh – offers insurance coverage for a variety of exposures, including fraud, business continuity and operational risk.

(212) 345-6000

<http://global.marsh.com>

Starkweather & Shepley Insurance, Inc. - provides a variety of insurance, risk management, financial, and related services on a worldwide basis.

(401) 435-3600

www.starkweathershepley.com

Electronic Books & Records Solutions

CA, Inc. - offers IT security professionals a comprehensive portfolio of identity-centric data loss prevention (DLP) capabilities. As part of CA's Security Management solutions, CA DLP enables businesses to protect all types of sensitive information and assets from loss and misuse, as well as remain compliant with regulations and corporate policies and reduce overall business risk.

(800) 225-5224

www.ca.com

Compliance Science

C-TRAC™ - an enterprise scaled tool designed to capture and certify institutional contract data across all clients and counterparty agreements including IMAs, Sub Advisory Agreements, Prospectuses, Subscriptions, High Net Worth, Wrap Accounts, ISDAs, Sec Lendings, Side Letters, etc. C-TRAC™ allows stakeholders to access and review all legal obligations 24/7/365 using secure browser-based technology.

(212) 327-1533

www.complysci.com/regulatory/compliance-software-solutions/knowledge-management-automation-software

CSI DocVault™ - a searchable and sortable document tool designed specifically for Investment Advisors, Brokers-Dealers and Hedge Funds to better enable them to quickly and efficiently respond to regulatory exams. The unique Text Capture system and OCR engine allows the user to search documents and even perform image-scans based on the text within.

(212) 327-1533

www.complysci.com/regulatory/compliance-software-solutions/document-checklist-management

Electronic Mail Archiving & Surveillance Tools

Global Relay – provides messaging services that provide the foundation for mail management, compliance, eDiscovery and business continuity.

(604) 484-6630

www.globalrelay.com

Smarsh – specializes in e-mail and instant message archiving, WORM Optical Storage, attachment archiving, virus protections, review and reporting tools, and spam filtering.

(866) 762-7741

www.smarsh.com

GIPS Verification and Performance Services

Ashland Partners & Company LLP – provides GIPS consultation and verification, SEC compliance and CCO record-keeping and reporting services, performance computation, SAS 70 audits, and analytics consulting.

(541) 857-8800

www.ashlandpartners.com

CAPS Incorporated – provides a GIPS composite and management reporting workflow software solution for GIPS compliance and reporting.

(508) 653-2800

<http://capsinc.com/>

Deloitte & Touche LLP – offers audit, tax, consultant and financial advisory services, including GIPS verifications.

(619) 232-6500

www.deloitte.com

Hedge and Private Fund Auditing Services

EisnerAmper, LLP – a global firm serving a broad spectrum of financial services and high net worth clients, offering a full range of audit, accounting, taxation, and consulting services. Hedge fund advisory services include hedge fund audit and tax services as well as support for fund of funds, multi-strategy funds, and PIPES.

(415) 974-6000

www.eisneramper.com

Marcum, LLP – provides consulting, tax and auditing services for private equity partnerships, hedge funds, off-shore funds, registered investment advisors, and real estate funds, in addition to traditional accounting, assurance and tax, including domestic and international tax planning.

(858) 228-5004

www.marcumllp.com

Rothstein Kass – provides full range of accounting, audit, tax and consulting services to companies in the financial services industry, including broker-dealers and investment partnerships investing in the securities markets, private equity, and real estate.

(310) 273-2770

www.rkco.com

Hedge and Private Fund Administration

Hedge Solutions, Inc. – provides specialized accounting expertise for fund structure or investment strategy, and also offers consolidated online investor access to key information, reporting and documents in a protected and secure environment.

(310) 893-1743

www.hedge-solutions.com

Kaufman Rossin Fund Services, LLC – offers a range of services related to hedge and private fund administration, including fund and managed account administration, investor services, tax compliance solutions and consulting.

(305) 858-5600

www.krfs.com

Opus Fund Services, LLC – provides hedge fund administration, including fund accounting/NAV calculations, partner allocations, and year-end reporting services.

(415) 762-8749

www.opusfundservices.com

SS&C Technologies Holdings, Inc. - provides fund administration services for Hedge Funds, Fund of Funds, Private Equity Funds and Managed Account Managers. SS&C also offers back office, middle office, and front office software for Alternative Investment Managers.

(800) 234-0556

www.ssctech.com

Trade Order Management Systems

Advent Software, Inc. – offers innovative investment management solutions that integrate portfolio accounting, reporting, performance analytics, and client relationship management, effectively linking portfolio managers, operations, and client service staff on a single database platform.

(415) 543-7696

www.advent.com

Charles River Systems, Inc. - provides software, hosting and data services to automate front and middle office investment operations for buy-side firms. On-premise software solutions support portfolio management, compliance and risk monitoring, access to global liquidity, and trade processing.

(781) 425-6443

www.crd.com

Envestnet, Inc. (Tamarac) – offers scalable web-based portfolio management technology that enables investment managers to provide customized, tax-efficient, individual account management to a multitude of clients.

(866) 525-8811

www.tamaracinc.com

Personal Trading Surveillance and Archiving

MyComplianceOffice – provides monitoring of personal trading activity by streamlining the capture of all employee trading activity and holdings and by automating the firms trading checks and rules.

(866) 951-22279

www.mycomplianceoffice.com

Schwab Compliance Solutions/Charles Schwab & Co., Inc. – offers employee trade surveillance solutions which includes Schwab Trade Rules™, a web-based application that can proactively block restricted trades that are not compliant with your firm’s employee trade monitoring policy.

Compliance11, a wholly-own subsidiary of Charles Schwab & Co., Inc. provides a cloud-based Code of Ethics compliance automation solution for the financial community.

(877) 589-4276

http://content.schwab.com/m/q312/compliance/dbs_c11/index.html

TD Ameritrade, Inc. -provides a fully automated employee trading surveillance system that combines customized tools to help financial and professional services firms better monitor their employees’ personal trading accounts.

(888) 376-4682

<http://tdadesignatedbrokerageservices.com/>

Proxy Voting Services

Broadridge Financial Solutions – supplies proxy tools to help vote, keep records, and maintain compliance.

(800) 353-0103

www.broadridge.com

MSCI Inc. - RiskMetrics Group, Inc. - Institutional Shareholder Services – offers indices, portfolio risk and performance analytics, and governance tools, research and voting, social investment portfolio screening, proxy distribution, securities class action, and corporate governance advisory services to financial institutions and corporations.

(888) 588-4567

www.msci.com

Should you require additional information, please do not hesitate to contact CCLS at (619) 278-0020. Thank you.

Author: Marsha L. Harmon, COO / Sr. Compliance Consultant; Editor: Michelle L. Jacko, CEO, Core Compliance & Legal Services (“CCLS”). CCLS works extensively with investment advisers, broker-dealers, investment companies, hedge funds, private equity firms and banks on regulatory compliance issues. For more information about this topic and other compliance consultation services, please contact us at (619) 278-0020, info@corecls.com, or visit www.corecls.com.

This article is for information purposes and does not contain or convey legal or tax advice. The information herein should not be relied upon in regard to any particular facts or circumstances without first consulting with a lawyer and/or tax professional.