

RISK PROFILING AND EXAM SELECTION

New York Regional Office
Compliance Outreach Program

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AGENDA

- Risk Based Exams
- Risk Profiling Process
- Exam Selection and Planning

Risk Based Exam Approach

Risk Based Exams

- Not a new concept for the exam program
- We have followed the risk based approach for more than a decade
- Reality of resources and mission
- Process has evolved greatly of the past several years
- Ability to conduct risk based exams goes hand in hand with our risk profiling efforts
- Made efforts to access relevant information from outside sources as well as use the info we have more effectively

Risk Profiling Process

Multi-part Process

- National Level
 - Office of Risk Analysis and Surveillance (ORAS)
 - Screens all RIAs using an algorithm based on responses to Part 1 of Form ADV
 - Results in a specific Risk rating as well as potential operational red flags
 - ORAS also analyzes the data for specific trends or patterns
 - Maintains and analyzes data from various outside databases
 - Provides periodic and ad-hoc reports to Regional Offices
 - Process has made great strides over the past several years due to amendments made to Form ADV and ORAS as a dedicated resource

Risk Profiling Process

Multi-part Process

- Local Level
 - ORAS data is just a starting point
 - Regional Offices considers other factors outside of the ORAS rating such as:
 - Prior exam history and conduct
 - Exam staff research
 - Market events and trends
 - Tips, complaints and referrals
 - Media reports
 - Info from other regulators/SROs
 - This is the general process used for all RIA exams

Risk Profiling Process – New Registrants

- Due to the requirements of the Dodd-Frank Act, 1,500 new firms registered with the SEC
- Given this uptick in registrants, the staff explored different ways to gather insight into these firms outside of the staff's normal processes
- ORAS and the Regional Offices developed a tool to use for risk profiling these new registrants
- Deeper dive into a firm using our internal resources without contacting the firm
- Tool has identified specific risks and or red flags at firms that may warrant further exam efforts
- This tool can also be used for any RIA registered with us

Exam Selection & Planning

- The risk profiling work feeds into the staff's regional exam plan for each fiscal year
- Risk profiling may also determine the type of exam that the staff will conduct of a firm
- The staff also has a number of other “buckets” of firms that the staff needs to profile and consider for its exam plan each year, including:
 - Major complexes and other large money managers
 - Firms rated high risk during prior exams
 - Never before examined firms (ex Dodd Frank firms)
 - Exams for Cause (TCRs, News Reports, Info from other regulators)
 - National and regional office priorities