



Results of 2012 Costs of Risk & Compliance Benchmarking Survey

*“Money Managers and BDs Leaving
\$800 Million On The Table”*

Sponsored by Financial Tracking Technologies, LLC and IA Week/IA
Watch and BD Week

July 2012

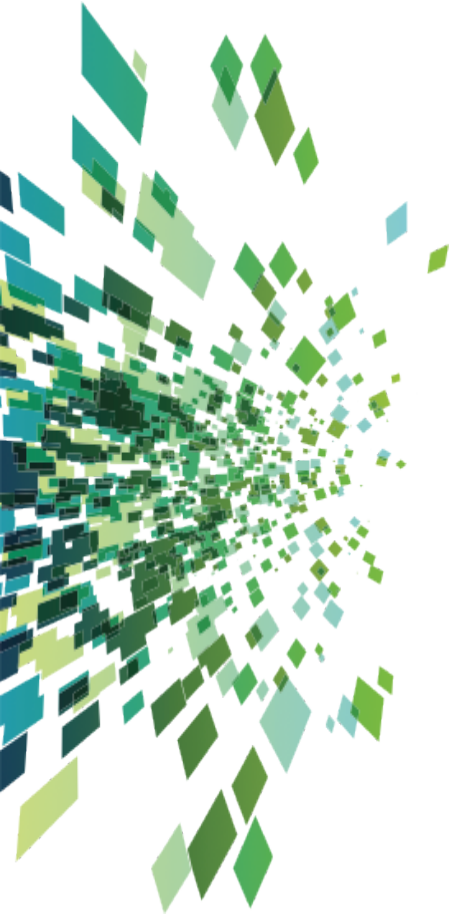


Background and Conclusion

This study was conducted with IA Week/IA Watch and BD Week and was administered during the months of March and April 2012 . It included over 340 participants ranging in size from \$100 million to \$640 billion in assets under management. Forty percent of participants were dually registered as both money managers with an affiliated BD. Key facts of the study showed that, even though highly affordable automated solutions exist, over 80% of risk and compliance tasks are still being performed manually and costs of risk and compliance are going up at 40% of participants. Money managers, BDs and hedge funds globally could realize as much as \$800 million in cost savings, and maybe more, from three primary sources:

- 1) automation of risk and compliance tasks heretofore performed manually,
- 2) vendor consolidation resulting in scale and scope pricing economies , and
- 3) outsourcing IT that develops and maintains traditional risk and compliance solutions.

Compliance, and now risk, are taking on higher profiles in all firms. Global financial conditions and eroding market structures are putting enormous pressure on profit margins. The time has never been better for the C-Suite to review an analysis of potential cost savings, noting that such a strategic decision could immediately enhance profits, reduce risks and control costs for the long term and help firms exceed regulatory exam and client due diligence efforts.



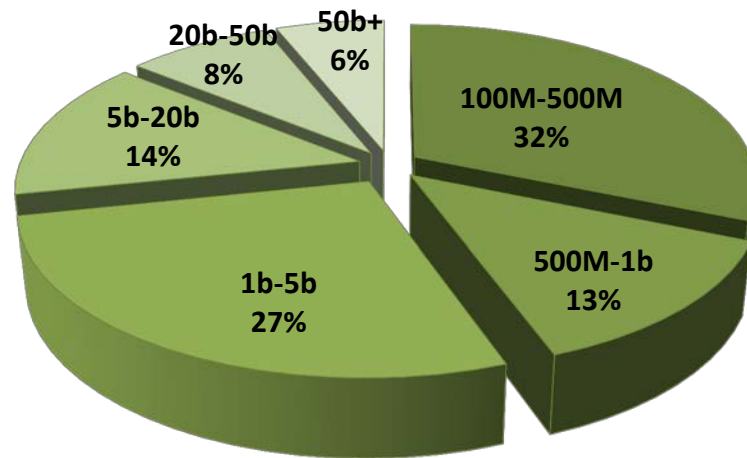
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Profile of Participants

Participants by Segment; 354 total;
Segments classified by Assets Under Management

- Over 600 firms responded; 354 fully completed surveys
- AUM ranges from \$100 million to \$640 billion
- Over half manage U.S. equities, U.S. bonds and international equity
- 40% of participants dually registered as Money Managers with affiliated BD
- NOTE: Outliers were not included; Results could be materially different depending on Number of Clients, Number of Strategies if a Money Manager or Client Diversity, or combination

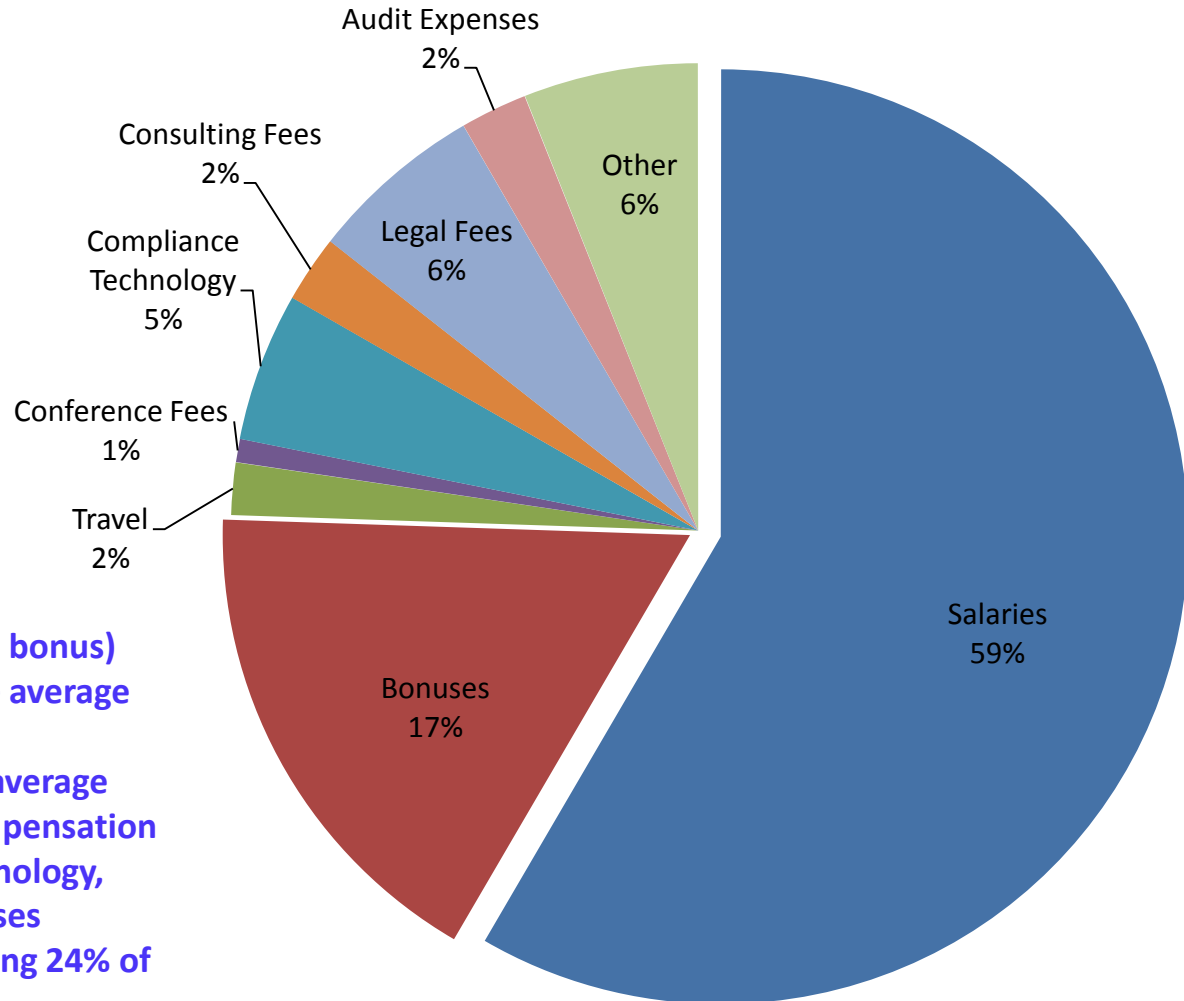


AUM Peer Groups

XXL = More than 50 billion
XL = 20 to 50 billion
L = 5 to 20 billion
M = 1 to 5 billion
S = 500 million to 1 billion
XS = 100 to 500 million

Compliance Budget

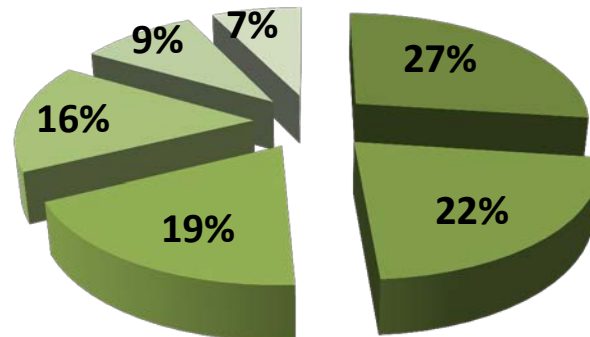
Line Item costs as average percentage of total compliance



- **Compensation (salary + bonus) accounts for 76% of the average compliance budget**
- **Bonuses constitute an average 17% of compliance compensation**
- **Professional Fees, Technology, Travel and Audit expenses account for the remaining 24% of budget**

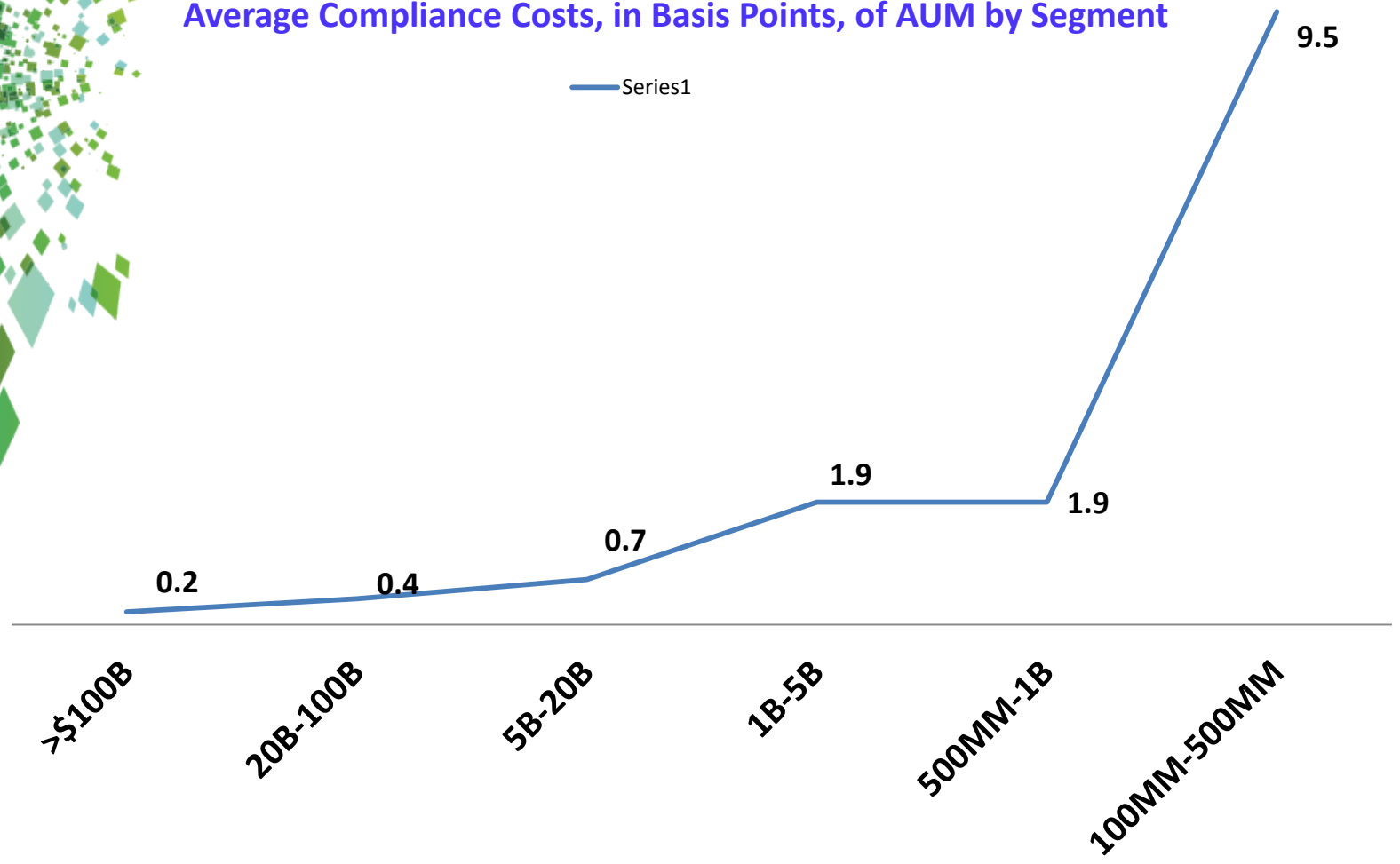
Top Challenges in Rank Order

- Development of sound audit trails/ensuring thorough and compliance action items
- Minimizing compliance surprises
- Self discovery of compliance violations and not by the regulators
- Your compliance policies and procedures addresses the actual business and risks of the firm
- Ensuring compliance training is timely and relevant



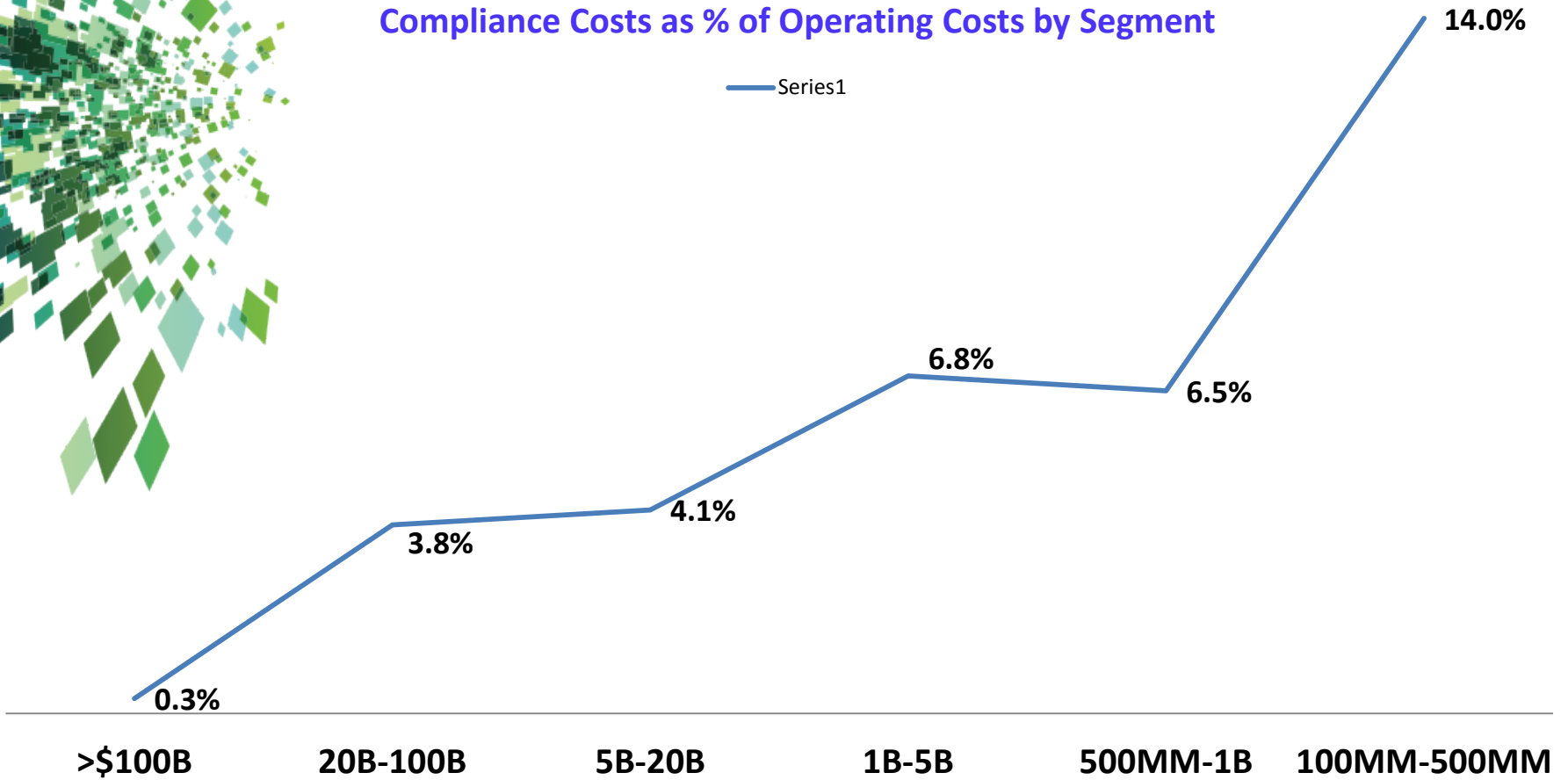
Compliance Costs

Average Compliance Costs, in Basis Points, of AUM by Segment



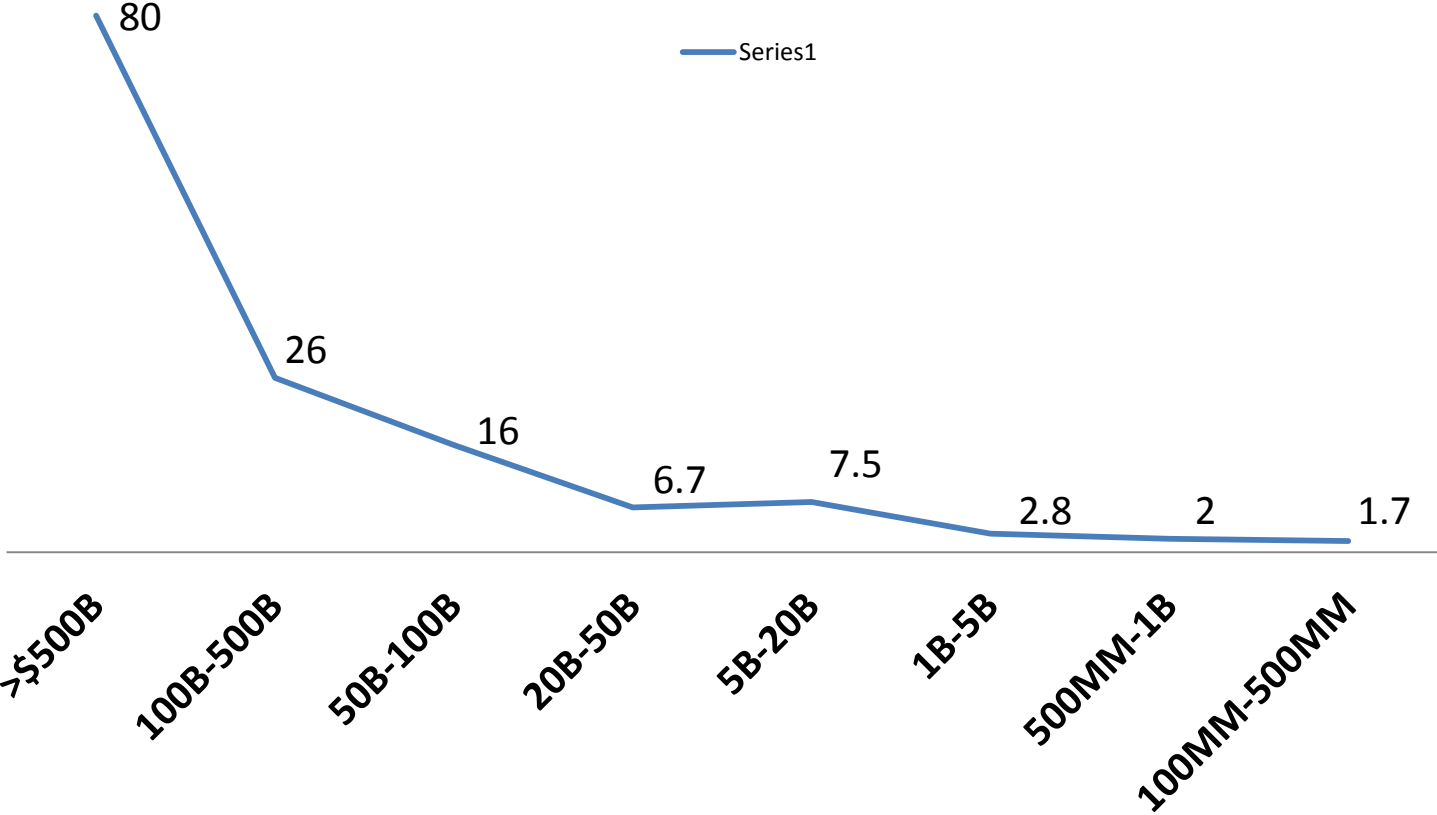
Compliance Costs

Compliance Costs as % of Operating Costs by Segment



Staffing

Average Number of Compliance Staff by Segment



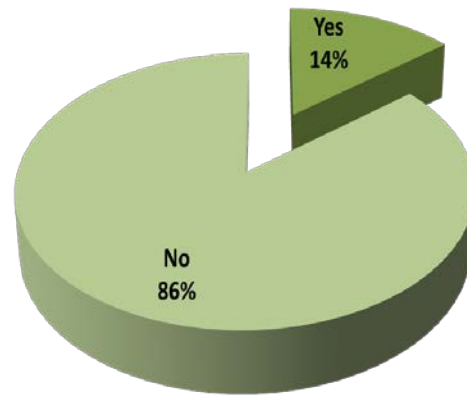
Staffing

The table below provides greater detail of staff counts based on AUM, per firm averages and number of firms in a specific segments.

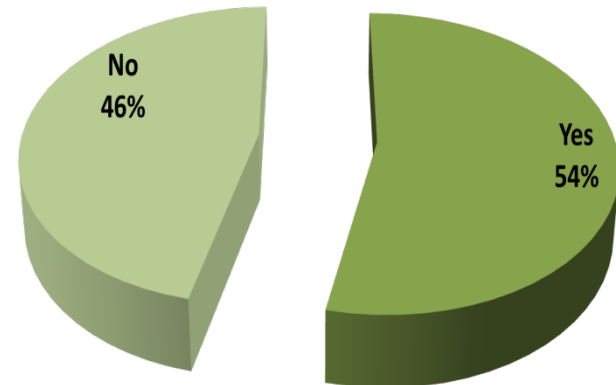
<u>AUM</u>	<u>compliance staff per BN</u>	<u>Compliance staff count per firm</u>	<u>No Firms</u>	<u>total staff</u>
\$100-\$500mm		1.7	4525	7693
500mm-1b		2	1207	2414
1-5bn		2.8	1663	4656
5	1.2	4.17	135	563
6	1.5	4.00	90	360
7	1.5	4.67	73	341
8	1.5	5.33	61	325
9	1.7	5.29	50	265
10	2	5.00	181	905
15	2	7.50	97	728
20	2	10.00	107	1070
30	5	6.00	54	324
40	5.5	7.27	45	327
50	7	7.14	27	193
60	10	6.00	40	240
80	10	8.00	22	176
100	10.5	9.52	26	248
120	11	10.91	22	240
180	12	15.00	11	165
240	13	18.46	6	111
300	14	21.43	9	193
360	10	36	7	252
500	10	50	3	150
650	8.1	80	4	320
1TN	10	100	3	300

Staffing

Does Your Company Have a Chief Risk Officer?



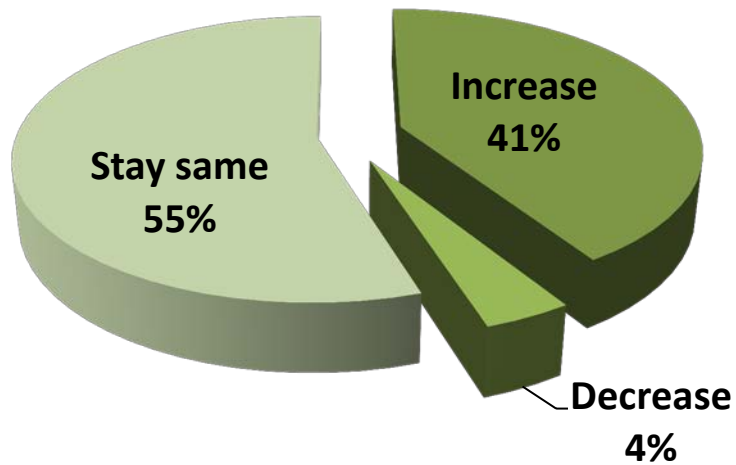
Is Your Company's CCO also the Chief Risk Officer?



Staffing Plans

Does your firm plan to increase/decrease or keep the same compliance spending in 2012 vs. 2011:

Compliance Staff Compensation

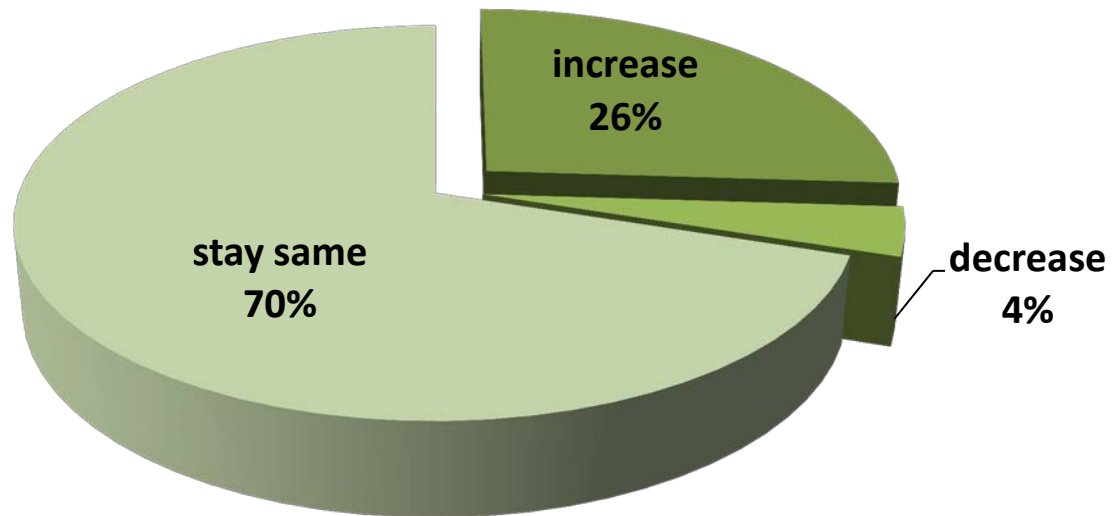




Spending Plans

Does your firm plan to increase/decrease or keep the same compliance spending in 2012 vs. 2011:

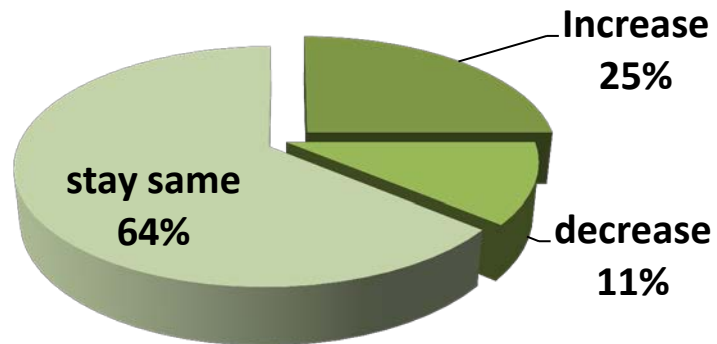
External Compliance Software



Spending Plans

Does your firm plan to increase/decrease or keep the same compliance spending in 2012 vs. 2011:

Use of Outside Compliance Consultants

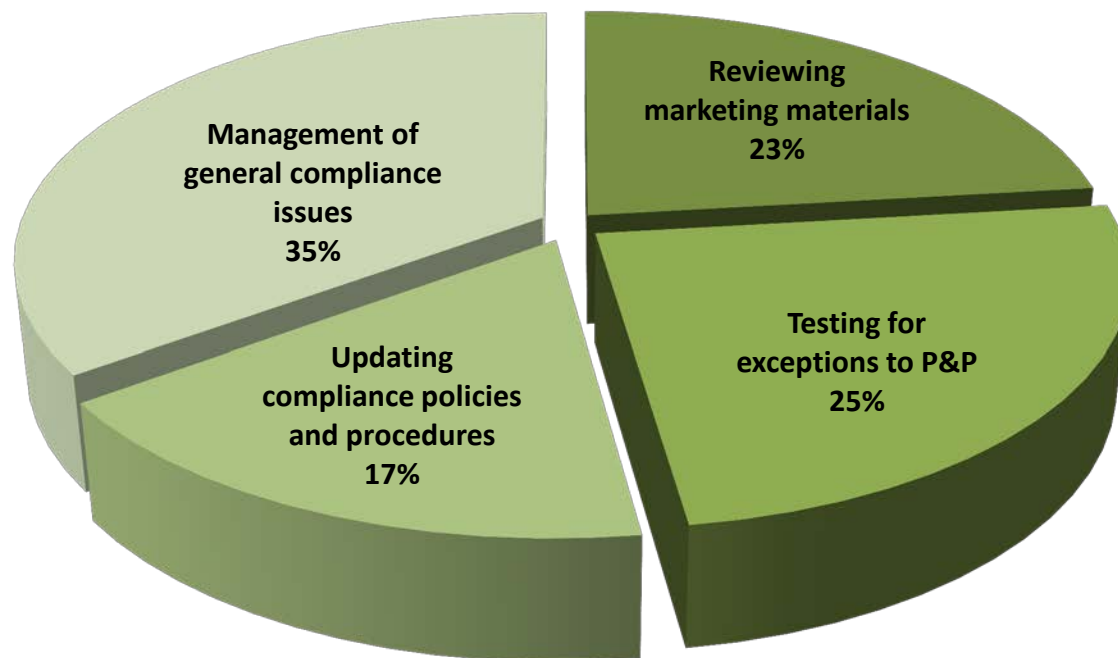




Tasks & Priorities

How do your compliance personnel spend most of their time?

Top 4 categories



Tasks & Priorities

Is Your Compliance Testing Process Manual or Automated?

	<u>manual by staff</u>	<u>commercial software</u>	<u>manual by consultant</u>	<u>homegrown software</u>
Fiduciary standards	86.6%	7.9%	3.9%	1.6%
Misuse of MNPI	82.4%	12.8%	3.2%	1.6%
Counter party risk	80.9%	6.7%	4.5%	7.9%
Suitability	80.8%	9.6%	2.9%	6.7%
Systemic risk	80.2%	9.4%	3.1%	7.3%
Window dressing	79.7%	14.5%	4.3%	1.4%
Sharing commissions	79.4%	14.3%	3.2%	3.2%
Pay to play	78.4%	9.0%	3.6%	9.0%
Client safeguard	78.3%	11.7%	5.0%	5.0%
Sharing in profits or losses	77.5%	12.7%	5.6%	4.2%
Cross Trades	73.4%	19.0%	2.5%	5.1%
Account dumping	72.1%	18.0%	4.9%	4.9%
Portfolio pumping	71.8%	19.2%	3.8%	5.1%
Fair & Timely Allocations	71.4%	21.4%	1.8%	5.4%
Freeriding and withholding	68.1%	15.9%	8.7%	7.2%
AML/know your customer	66.9%	20.7%	5.8%	6.6%
EE certifications checking	65.5%	22.7%	5.0%	6.7%
Front running	65.0%	23.3%	6.8%	4.9%
Employee personal trading	61.5%	23.7%	5.2%	9.6%
Best execution	56.2%	28.9%	8.3%	6.6%

The table provides further detail to the 4 categories of tasks of compliance personnel noted on the previous page. It specifies the activity and whether the activity is addressed by a manual or automated process.



Background and Conclusion

Even though highly affordable automated solutions exist, over 80% of risk and compliance tasks are still being performed manually and costs of risk and compliance are going up at 40% of participants. Money managers, BDs and hedge funds globally could realize as much as \$800 million in cost savings, and maybe more, from three primary sources:

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ABOUT

Financial Tracking Technologies, LLC

Risk and compliance solutions are all we do. Financial Tracking is the proven leader in reducing operating, risk and compliance costs through the only fully automated suite of risk and compliance multi-tools. Serving the most clients, our independent solutions enable positive proof that policies, procedures and internal controls exist and operate effectively, ensuring regulatory and reputation protection and enhancement of the client due diligence experience. Clients include retail and capital markets BDs, money managers, mutual funds, hedge funds, fund of funds, private equity and public companies. Risk and compliance multi-tools also offered a la carte. www.financial-tracking.com

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