Results of 2014 Costs of Risk & Compliance Benchmarking Survey

“Hidden Profit Potential Through Automation Still Exists with Money Managers”

October 2014

www.financial-tracking.com
Background and Conclusion

This study was conducted during the months of August and September 2014. It included over 300 participants ranging in size from $100 million to $900 billion in assets under management. Key facts of the study showed that, even though highly affordable automated solutions exist, over 73% of risk and compliance tasks are still being performed manually and overall costs of risk and compliance are going up. 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.
Contents

I. Survey Objectives
   A. What are the costs of compliance by peer group?
   B. How is compliance being organized and augmented?
   C. How are managers prioritizing compliance initiatives?
   D. What are the greatest challenges?
   E. How is compliance success being measured?

II. Profile of Survey Participants

III. Findings
   A. Budget Allocation
   B. Challenges
   C. Staffing
   D. Costs
   E. Spending Plans
   F. Tasks and Priorities

IV. Conclusions
Profile of Participants

- Over 300 firms responded; 184 fully completed surveys
- AUM ranges from $100 million to $900 billion
- Over half manage U.S. equities, U.S. bonds and international equity
- 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

- XS 100M-500M: 32%
- M 1b-5b: 27%
- L 5b-20b: 14%
- XL 20b-50b: 8%
- XXL 50b+: 6%
- S 500M-1b: 13%
Average Allocation of Compliance Budget

- Salaries: 50%
- Bonuses: 20%
- Audit Expenses: 4%
- Other: 4%
- Consulting Fees: 7%
- Legal Fees: 7%
- Compliance Technology: 7%
- Conference Fees: 3%
- Travel: 4%
- Other: 4%

www.financial-tracking.com
Top Challenges of Essential Attributes of Sound Compliance

- 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
- Ensuring that personnel are properly trained on the use of compliance risk software
Average Compliance Costs, in Basis Points, of AUM by Segment
Compliance Costs as % of Operating Costs by Segment

Series 1

- $100B: 0.3%
- 20B-100B: 3.8%
- 5B-20B: 4.3%
- 1B-5B: 7.4%
- 500MM-1B: 3.7%
- 100MM-500MM: 7.0%
Does your firm plan to increase/decrease or keep the same compliance spending in 2014 Vs. 2013: Compliance Staff Compensation confidential

Stay same 61%

Increase 37%

Decrease 2%

www.financial-tracking.com
Does your firm plan to increase/decrease or keep the same compliance spending in 2014 Vs. 2013: Use of Commercial Compliance Software

- Increase: 30%
- Decrease: 4%
- Stay same: 66%
Spending Plans

Does your firm plan to increase/decrease or keep the same compliance spending in 2014 Vs. 2013:
Use of Outside Compliance Consultants

- Increase 25%
- Decrease 11%
- Stay same 64%
Spending Plans

Does your firm plan to increase/decrease or keep the same compliance spending in 2014 Vs. 2013:
Internal Compliance Software confidential

- Stay same: 60%
- Increase: 35%
- Decrease: 5%
Tasks & Priorities

How do your compliance personnel spend most of their time?

*Top 4 categories ranked 1*

- Management of general compliance issues: 27%
- Testing for exceptions to P&P: 33%
- Updating compliance policies and procedures: 17%
- Reviewing marketing materials: 23%
**Background and Conclusion**

Even though highly affordable automated solutions exist, a great many compliance and risk tasks are still being performed manually and costs of risk and compliance are going up. 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.

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 conduct 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. Financial Tracking Technologies performs such an analysis at no costs as part of its business development efforts.

For more information, call Urbana Schmidt at 203-340-2356 x813 or uschmidt@financial-tracking.com
ABOUT

Financial Tracking Technologies, LLC

We’ve got compliance covered. Financial Tracking Technologies, LLC markets the only single stream compliance platform for the global investments industry. We serve the most clients in automated compliance solutions that enable regulatory protection and operating cost cutting. Clients include regulators, broker-dealers, mutual funds, money managers, hedge funds and public companies. FTT has earned the trust and commitment from some of the world's most renowned, top tier clients who have found FTT's patented compliance multi-tools to exceed the performance of our competitors. Our responsiveness and client support are unmatched and our staff is equally as committed to service excellence. Risk and compliance multi-tools also offered a la carte.

Visit us at www.financial-tracking.com

For more information, call Urbana Schmidt at 203-340-2356 ext. 813 or info@financial-tracking.com.