

HOW A RISK ASSESSMENT CAN PREVENT REPUTATION RISK WHILE OPTIMIZING COMPLIANCE COST STRUCTURE

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Risk Assessment - Objective

- Identify, eliminate and mitigate any GAPS in firm processes
- Review policies, procedures and business practices of risk areas
- Prioritize issues, conflicts and other matters regarding firm operations that may create vulnerabilities



Risk Assessment - Benefits

- Enhance efficiency and effectiveness of firm's compliance program
- Demonstrate to regulators that compliance program is adequately designed to prevent violations
- Cost savings to the firm
- Identify firm risk appetite and communicate to its personnel



Risk Assessment - Regulatory Requirements

National Instrument 31-103 part 11: Internal Controls and systems section, states:

“A registered firm must establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to:

- i. Provide reasonable assurance that the firm and each individuals acting on behalf complies with securities legislation and*
- ii. Manage the risks associated with its business in accordance with prudent business practices.”*



Risk Assessment - Regulatory Requirements

National Instrument 31-103 Companion Policy Section 11. 1
Compliance System:

- Internal controls are an important part of a firm's compliance system
- They should mitigate risk, and protect firm and client assets



Risk Assessment - Regulatory Requirements

National Instrument 31-103 Companion Policy Section 11. 1 Compliance System:

- Designed to assist firms in monitoring compliance with securities legislation and managing risks that affect their business, such as related to:
 1. Safeguarding of client and firm assets
 2. Accuracy of books and records
 3. Personal and proprietary trading
 4. Conflicts of interest
 5. Money laundering
 6. Business interruption
 7. Hedging strategies
 8. Marketing and sales practices
 9. Firm's overall financial viability



Risk Assessment - Preparation

- Each firm should prepare own customized Risk Assessment and not rely on generic, one-size-fits-all approach
- Requires involvement of all parties - not only the CCO



Risk Assessment - Timing

At a minimum performed on an annual basis; more frequently depending on triggers, such as:

- New Line of Business
- New Product Transactions
- New Regulatory Requirements



Risk Assessment - Conducting

- Identify Regulatory Requirement
- Assess inherent risk to the firm
- Map existing policies, procedures and controls to requirements
- Evaluate whether controls are adequate to mitigate risk
- Identify GAPS and recommend action plans

Risk Assessment - Example

Activity	Requirement	Risk	Inherent Risk	Control	Residual Risk	Recommendations
Compliance Structure	Clear policies and procedures that will identify the firm's requirements, and should include a Code of Ethics and Compliance Manual.	Compliance Manual has not been updated for past 3 years and does not reflect the firm's actual practices	High	Firm performs an annual review of its policies and procedures including its Compliance Manual.	Low	None
Trading- Best Execution	<p>The investment manager must make reasonable efforts to achieve best execution.</p> <p>Reputable executing brokers have the appropriate trading expertise to trade a security and provide access to liquidity.</p>	The firm does not maintain a best execution policy nor does it periodically perform an analysis across all accounts managed by the firm.	High	<p>The firm has implemented a broker-dealer evaluation in which the CCO reviews different factors on the brokerage firms it executes.</p> <p>Independent monitoring of client order execution is performed on a quarterly basis. Transactions are analysed on the average commission paid on trades and commissions paid for the same security. The CCO reviews the results of the report and any remedial procedures are implemented and documented.</p>	Medium	The firm should consider monitoring the client transaction on a monthly basis.



Appendix



Mission Statement and Core Pillars

Raise investment standards for all stakeholders; Phocion Investment Services will never give any insincere counsel

Honesty

Accountability

Excellence in Service



Phocion has been serving clients since 2010

- Leading authority in:
 - Performance
 - Compliance
 - Due Diligence
- Differentiated by providing:
 - In-depth and customized solutions
 - Professionals experienced across the full breadth of the finance industry



Management Team

Experience with depth and breadth

Ioannis Segounis, B.Eng, MBA, CFA, CIPM

Founder and Managing Director

Industry Experience: Performance and Research

Career began: 1999

Founded firm: 2010

David Rowen, CFA, FRM, CIPM

Managing Director

Industry Experience: Investment Management and Research

Career began: 1994

Joined team: 2015

Kosta Segounis, CPA, CA, CFA, CIPM

Managing Director

Industry Experience: Compliance and Operations Due Diligence

Career began: 1995

Joined team: 2015



Who was Phocion?

- Athenian statesman from c. 402 BC – c. 318
- Nicknamed "The Good"
- Courage to stand up against popular opinion
- Avoided corruption



Who was Phocion?

- Loyal to the best interests of all Athenians
- Never mistreated anyone
- Never gave insincere counsel

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