



NAVIGATING THE COMPLIANCE LANDSCAPE:

A Guide for CCOs Amid a Shifting Regulatory Environment

Introduction

Let's face it. The regulatory environment for RIAs is nothing short of complex. Look no further than the rollercoaster ride that was the Department of Labor's fiduciary rule. The landscape of regulatory compliance is one that is constantly changing, seldom clear, and unwaveringly important to the well-being of RIAs.

In fact, the importance of RIA compliance has never been greater. Regulatory SEC audits are increasing. Fifteen percent of RIAs were audited in 2017, up from 11% in 2016. What's more, 72% of audited firms displayed deficiencies in their compliance.

Chief Compliance Officer (CCOs) face compounding challenges, today, that threaten their ability to successfully guide their firms through the rugged compliance landscape. Overall regulatory demands are growing while scrutiny on each firm's ability to adhere to them increases.

A good word to describe the current landscape is complex.

So what's the remedy to complexity? Surely it isn't additional complexity – a common by-product of compliance solutions sourced from a third-party. That would be like fighting fire with fire. No, the real remedy for complexity is simplification, and the tangible benefits that come with it:

- **Saved time for CCOs, the advisors they support, and their clients**
- **Reduced burden in the back office**
- **Increased data security (one system, in-house)**
- **Alleviated risk of compliance oversight**

Simple and Effective Compliance Solution

Simplified shouldn't be synonymous with unsophisticated. The goal of a simplified solution is to make things easier to manage within your unique environment. That's an important distinction, particularly among the SEC's Office of Compliance Inspections and Examinations (OCIE). The OCIE released a Risk Alert outlining the five most frequent deficiencies identified in OCIE Examinations of investment advisors. Chief among these items was an advisor's deficiencies or weaknesses in connection with complying with the Compliance Rule.¹ Specifically, the SEC expressed concern over compliance procedures that were not reasonably

tailored to the advisor's business practices and did not consider important individualized business practices, valuation procedures, and advisory fees.²

Clearly, it is not enough for a firm to simply have written policies and procedures. An effective compliance program requires a CCO to have a deep understanding of their firm's advisory practices and associated risks, as well as policies and procedures that directly correlate.

The ability to effectively demonstrate how a firm's comprehensive compliance policies are executed in practice should be a chief goal for all CCOs and their teams in preparation for SEC audits. But perhaps as important as answering that question for the SEC, is ensuring an appropriate response if a client were to ask how their interests are protected or worse, why errors have occurred in the management of their account.

CCOs must truly be experts on their firm and operate as their firm's eyes and ears. So how does a CCO accomplish this? **Technology.**

Meet your New Compliance Assistant

Unlike many compliance applications available today, Orion's Compliance application will go beyond simplistic calendaring and task management or the use of generic reports to create a customized, all-in-one solution. Powered by the thousands of data points that are derived from Orion's solutions and technology partners, our Compliance solution has the ability to automatically mine and query information reported through the Orion system for specific compliance needs. Additionally, by leveraging Orion data, which is reconciled and updated continuously to reflect actions taken by the advisor and current information regarding client accounts, the integrity of the data surpasses standalone compliance solutions where CCOs have to maintain and import the data themselves. Using Orion's Compliance solution can enable a compliance officer to address many of their compliance needs in one comprehensive application.

Using Technology to Address Common Compliance Challenges

Although financial technology can't design or execute a firm's comprehensive compliance policies and procedures, nor replace the responsibility ultimately expected of a chief compliance officer, the right mix of functionality and technology integration can help not only ease the execution burden but also enhance the effectiveness of a comprehensive compliance program.

¹ <https://www.exchangewire.com/blog/2017/09/14/amazonification-get-used/>

² <https://www.wealthmanagement.com/technology/unbundling-tamp-and-rise-modelmarketplace>

Identifying and Testing Risk

The “Compliance Rule” mandates that a firm must review the adequacies of its policies and procedures and the effectiveness of their implementation, annually (at a minimum). This includes:

- Data regarding the advisory fees a firm is charging
- The transactions that have occurred in a client’s account
- Investment performance
- Trading decisions made on behalf of that client

We know each of these areas should be reviewed against a firm’s policies and procedures. However, it’s not possible in many cases for a CCO to review every transaction or decision that was made by their firm to ensure compliance, so access alone is not sufficient. Moreover, although a CCO may have access to generic compliance reports to assist with compliance testing, the reports themselves may not be customized enough to meet the CCO’s needs or reflect their firm’s unique business and risks. CCOs need to be able to leverage a tool that can efficiently and effectively identify compliance issues that warrant further investigation and action by the CCO.

Look to the Supervise tool.

The Supervise feature is a testing and exception reporting system that will enable firms to perform continuous testing of policies and procedures in accordance with their requirements. With the ability to set a custom schedule for the year, users can start receiving work objects containing the firm’s testing and exception reporting results almost immediately; test billing and trading processes; stay abreast of potential issues relating to model construct and dispersion of returns; or target any other areas based on the data maintained in the Orion system.

Maintaining Audit Trails

Another valuable use of technology is to document the review and effectiveness of their policies and procedures under the “Compliance Rule”.

Referring back to the earlier scenario of an SEC examination, technology can help a CCO answer the question, “How do you know you’re in compliance” posed by an examiner. Ideally, a CCO would be able to respond to the examiner by demonstrating the results of compliance testing exercises on the effectiveness of specific policies, performed throughout the year. Utilizing a tool to maintain and access such documentation is certainly helpful, but integrating that kind of capability into the technology used for the review itself is ideal.

62%
complete their
compliance tasks at
least 25-35% faster
after implementing
Orion.

Look to the Audit tool.

The Audit tool within our Compliance application enables compliance officers to quickly and efficiently gather and track regulatory production in one easy to use location; conduct a mock audit of their business; and verify compliance with the requirements long before that dreaded knock on the door. And because the soundest exam preparation requires that firms follow procedures each day—as well as verify that those procedures are being followed as intended—the tool can also be used to conduct routine audits of various areas throughout an organization and in support of Compliance Rule obligations.

Organizing Compliance Tasks

The “Compliance Rule” also mandates that a firm adopt and implement policies and procedures reasonably designed to prevent violation, by the advisor and its supervised persons, of the Advisers Act and the rules that the Commission has adopted under the Advisers Act. The operative word here is implement.

With all of the pressures of administering a compliance program, CCOs and their teams often need assistance in organizing and prioritizing their compliance tasks. Once again, the right technology can be of great value here. Organizing and scheduling specific internal audits and other compliance testing as well as tracking deadlines for regulatory reporting obligations can seem like an obvious need for a CCO. However, tools that can actually track the compliance team’s completion of each task is even better; a tool that could perform tasks automatically would be transformative.

Look to the Inform tool.

Inform offers assistance with Code of Ethics management in accordance with the requirements of Advisers Act Rule 204A-1. Specifically, Inform addresses personal securities trading obligations by enabling advisory firms to monitor employee trade activity in an automated fashion. When paired with data already maintained within Orion Connect, Inform can complete front running reviews to further guard against potential violations. Instead of compliance officers conducting employee trade monitoring reviews manually or through a third-party system, they can keep data in one place. This creates more insight into trading concerns and allows for increased automation to streamline reviews. Further, Inform includes a case management feature to help compliance officers distribute, receive, and track affirmations, disclosures, and attestations to their employees.

Also, the Disclose tool.

In addition to bringing together the tools noted above, our Compliance tool also offers enhanced assistance for regulatory reporting (Forms ADV and 13F), access to additional compliance resources and networking opportunities, and a

“Orion understands the importance of monitoring data in real-time. That’s a huge help in my role as a Chief Compliance Officer.”

**- Michael Sabre,
CFO/CCO, Mount Yale**

calendar tool - Disclose. Disclose provides consolidated one-stop dashboards designed to become the compliance officer's daily desktop. This enables the user to quickly see an overview of all alerts, issues, or other tasks from across our Compliance application.

These dashboards will provide visibility into:

- **13F filing requirements**
- **ADV counts**
- **Assets under management**
- **Domestic/foreign AUM**
- **Discretionary AUM**
- **Wrap AUM**
- **SMA AUM (by custodian and asset category)**
- **AUM by client category**

Adding Value Through Integration

Certainly, the right technology can serve as the primary catalyst for detecting and preventing violations of a firm's procedures. But is technology alone, enough?

For growth-minded firms seeking to streamline compliance operations in an increasingly complex environment, optimal efficiency and effectiveness through technology can be impeded if a CCO is using multiple tools from multiple providers with little or no integration and automation capabilities. For this reason, modern compliance departments should look to technology solutions that satisfy multiple pain points within a single comprehensive, integrated tool.

Look to the Verify tool.

Orion's Compliance solution features a Verify tool to help with anti-money laundering (AML) screening of a firm's clients through an integration with LexisNexis, an industry leader in domestic and global AML screening data. While AML rules do not statutorily apply currently to registered investment advisors, a number of firms find that AML screening nevertheless remains an important part of a firm's effective compliance program. Avoiding involvement in an AML issue helps protect the firm against costly legal battles that may drain firm resources and expose them to reputational risk. In addition, regulators are already starting

to introduce proposals that would make RIAs subject to AML rules. Incorporating effective AML procedures now helps firms and their advisors stay ahead of the regulatory curve.

Conclusion: See More, Do More with the Right Technology

Maintaining an effective compliance program has never been more complex, both from a regulatory perspective and in helping advisors meet the growing expectations of their clients. Fortunately, the right combination of technology can significantly improve a compliance officer's ability to quickly identify risks, efficiently address and resolve those risks, maintain high standards of data security, and ensure overall compliance with firm policies and procedures. Further, a unified compliance application enables reliable and accessible workflow tracking to help you more readily prepare to navigate an audit scenario.

At the end of the day, CCOs are responsible for guiding their organizations and the people they serve through a shifting regulatory landscape. The right technology can help them do so in less time, with less cross-departmental support, more securely, and more dependably.

About Orion

Orion Advisor Services, LLC (Orion) is the premier portfolio accounting service provider for advisors. Our firm has unique insights into the advisory profession because it was founded for investment advisors by an investment advisor in 1999. Orion frees advisors from back-office tedium, so they can enjoy their business again by devoting their time and energy to better serving clients. Orion provides the integrated and fully customizable technology solutions that advisors need to help grow their businesses over the long term. The firm's technology solutions empower more than 1,700 firms, have over \$700 billion in AUA and over 2.5 million accounts.

