

# RIA Compliance Consultants



Transaction Account Supervision and Investment Committees

## Strategic Alliance Members



### **Bridge Financial Technology**

Automation-focused software designed to streamline back office functions.



### **Unitifi**

Modern solution for financial professionals to fulfill their fiduciary responsibility to know and understand their client.



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# 2021 RIA Compliance Connection

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## Agenda

- Common Portfolio Management Problems
- Areas of Discussion
  - ✓ Qualifications for Portfolio Management
  - ✓ Risk Tolerance
  - ✓ Supervision Metrics/Tools
  - ✓ Individual Security Selection
  - ✓ Supervision
  - ✓ Due Diligence of Private Placements/Private Funds
  - ✓ Due Diligence – 3<sup>rd</sup> Party Money Managers
- RCC Resources

## Changing Environment Leading to More Scrutiny of How RIAs Supervise Portfolio Management

- Significant Influx of Former Insurance Agents and Registered Reps Into the Investment Advisory Business
- Broker-Dealers Closing and Opening RIAs
- Growth of “Super-RIA” with Many Branch Offices and Each Branch Utilizing Own Portfolio Management Philosophy/Process
- More RIAs Recommending/Selecting High-Risk Products Such as Structured Products, Leveraged ETFs, Private Placements and/or Private Funds

## Common Portfolio Management Problems

- Fail to Obtain Client Objective/Risk Tolerance
- Portfolio Management/Risk Inconsistent with Client's Objective/Risk Tolerance
- Fail to Diversify Portfolio in Accordance with Client's Objective
  - Failure to Follow Modern Portfolio Theory
  - Over-Concentration in Single Security or Asset Class
- Investing in Restricted Security Contrary to Client Instructions
- Utilizing High-Risk Investment Products Intended for Short-Term Basis on Long-Term Basis
- Fail to Obtain Best Execution
  - Fail to Obtain Best Share Class Available

## Common Portfolio Management Problems (Continued)

- Failure to Monitor Account
- Inactive Account
- Lack of Due Diligence
- Failure to Supervise Portfolio Manager
- Front-Running Client Accounts
- Insider Trading
- Cherry Picking



## Qualifications for Portfolio Management

- **Does your firm allow each investment adviser representative to manage client accounts?**
- **If so, are there any prerequisites like a CFA, Master of Finance or “X” number of years of portfolio management?**

## Risk Tolerance

- How does your firm determine/document risk tolerance?
  - ✓ Do you utilize IPS, Finametrica, Riskalyze, Unitifi and/or old fashioned questionnaire? Please explain what you like/dislike about your method.

## Supervision Metrics/Tools

- How does your firm review/monitor/supervise a client's overall investment portfolio relative to client objectives and risk tolerance?
  - ✓ Do you use an asset allocation model based on client's stated objectives/risk tolerance?
  - ✓ Does your firm score each client's holdings on a risk basis and then use risk ranges for each investment objective?
  - ✓ Does your firm use blended benchmarks for each client objective and then compare actual performance against the benchmarks?
  - ✓ What exception reports do you use? No trading for extended period? Over-concentration? Use of leverage ETF for extended period?

## Individual Security Selection

- How do you supervise individual security selection?
  - ✓ Do you have a systematic procedure?
  - ✓ DO you utilize an approved security list?
  - ✓ What software do you use?
  - ✓ How do you document selection?

## Supervision

- **Who supervises? Do you have an independent investment committee?**
- **How does compliance fit into the supervision of portfolio management?**
- **How does your investment committee or supervision group monitor individual reps providing portfolio management services?**

## Evaluating Third-Party Money Manager Using ESG

- How do you evaluate the usage of ESG criteria by 3<sup>rd</sup> party money managers?
  - Do you review third-party money manager's P&P for ESG investing?
  - Did you require the third-party money manager's sustainability objectives and investment restrictions?
  - Do you review the third-party money manager's screens, existing positions and anticipated positions?
  - Do you review how a third-party money manager votes proxies and/or lobby priorities/activities?
  - Do you require the third-party money manager an annual review of its sustainability objectives in a quantifiable and measurable manner?

## Due Diligence of Private Placements/Private Funds

- How do you conduct and document due diligence on private placements or private funds?

## Due Diligence – 3rd Party Money Managers

- How do you conduct and document your due diligence of third-party money managers?



## RCC Resources

Suitability – Leveraged/Inverse ETFs – Client Acknowledgement

<https://www.ria-compliance-consultants.com/product/suitability-leveraged-inverse-etfs-client-acknowledgement/>

WSP/CoE Section Update – Inverse & Leveraged ETFs

<https://www.ria-compliance-consultants.com/product/wsp-coe-section-update-inversed-leveraged-etfs/>

Suitability – Risk Tolerance Questionnaire for Clients

<https://www.ria-compliance-consultants.com/product/suitability-risk-tolerance-questionnaire-for-clients/>

Suitability – Client Letter – Confirming Accounts & Objectives

<https://www.ria-compliance-consultants.com/product/suitability-client-letter-confirming-accounts-objectives/>

Suitability – Rep Did Not Solicit or Recommend Investment – Investor Acknowledgement

<https://www.ria-compliance-consultants.com/product/suitability-rep-did-not-solicit-or-recommend-investment-investor-acknowledgement/>

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