

FINANCIAL SERVICES

ADVISORY PRACTICE

OVERVIEW

The financial services industry is facing unprecedented challenges and risks – compliance with various provisions of Dodd Frank and Basel III for banks, SEC registration and examination for hedge funds and private equity, and increased regulatory oversight for broker dealers and trading firms. Institutions are bearing the cost of expanding their risk management and compliance programs while dealing with volatile markets and pressures on fees and margins. Requirements for maintaining a robust and secure network and information technology infrastructure continue to grow as regulators propose new rules to protect the industry from major systems failures and cyber-security attacks.

Berdon's Financial Services Advisory Practice can assist your institution in navigating through these challenges by helping you integrate and strengthen your risk management programs, test and enhance compliance policies and procedures, and develop a strong risk based internal audit program.

OUR SERVICE TEAM

Our Financial Services Advisory team is led by accomplished professionals with extensive knowledge and experience in the financial services industry. Our practitioners have worked across the industry, helping institutions assess risk management programs and test and improve internal controls around governance, business operations, and information technology. Berdon professionals have published articles on key regulatory issues and have spoken with regulators at major conferences, round tables and expert panels. Our team has assisted institutions in assessing and mitigating risks, testing compliance and supervisory programs and enhancing internal controls. Our staff has also assisted firms in complying with applicable regulatory requirements from SEC, FINRA, CFTC, OCC, Federal Reserve, and FDIC (among others) and helped them improve operational and reporting processes.



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INDUSTRY SEGMENTS

Berdon has developed a suite of services specific to each financial services industry segment:

- **Investment Advisors (including hedge funds, private equity, REITs, and other fund structures)** – we work with emerging and established advisors to prepare for SEC registration and oversight, evaluate existing compliance programs, develop strong internal audit and risk management functions and improve governance, business operations and fund administration. We also assist public REITs with SOX compliance.
- **Broker Dealers** – we work with introducing and clearing brokers to evaluate compliance and supervisory programs, develop strong risk based internal audit functions, improve operations and IT security and controls, and develop and enhance ERM programs.

The Berdon service team leverages extensive industry knowledge and strong credentials in working with leading risk frameworks and internal audit methodologies and tools.

- **Banks** – we advise a wide range of institutions in addressing the impact of new rules and regulations, strengthening internal audit and risk management functions and reviewing key compliance programs such as BSA/AML, HMDA/CRA and CFPB among others.

RISK MANAGEMENT AND INTERNAL AUDIT SERVICES

In today's challenging regulatory and market environment, regulators and investors expect financial institutions to demonstrate that they have a strong risk management framework in place. The framework should provide for identification of potential risks, prioritization of those risks, development of internal controls to mitigate the risks, documentation of policies and procedures for the ongoing monitoring and management of the risks and a strong internal audit program to test and strengthen internal controls. Berdon's risk management approach is based on accepted frameworks such as COSO and RIMS (risk maturity model), internal audit standards such as IIA and includes a risk assessment process, as well as alignment of various risk functions under an enterprise risk management (ERM) program. Our risk assessment process can be utilized as a stand-alone approach to identify, prioritize and remediate key risks or as a first stage in developing a risk based internal audit or SOX compliance plan. Our ERM approach is meant to provide an efficient and cost effective framework to integrate risk governance, communications, reporting and monitoring programs and to align the various risk functions already present in the institution.



The Berdon service team leverages extensive industry knowledge and strong credentials in working with leading risk frameworks and internal audit methodologies and tools. We have assisted institutions in implementing integrated risk management programs, performing risk assessments and developing strong internal audit and continuous monitoring programs, while working within accepted standards such as COSO and NIST, among others. We have also assisted clients with Sarbanes 404 testing and compliance with new COSO 2013 guidelines.

Berdon has developed a suite of tactical and strategic risk management services to assist institutions in measuring and monitoring known and emerging risks and encompassing COSO risk categories including operational, regulatory, financial, market, reputational, and strategic risks, among others. Our specific services include:

- **Internal Audit** – our internal audit process provides an efficient approach towards planning and executing internal audit or SOX compliance programs. The approach is standards based, and can be an integral part of your institutions risk management program.
- **Risk Assessment** – the process is a quick and efficient approach towards identifying, prioritizing and measuring those risks most critical to the firm – the assessment can be utilized as a stand-alone approach to enhance risk awareness or as an integrated component of an ERM or internal audit function.
- **Enterprise Risk Management** we provide a standard framework for integrating risk management programs across the institution – the approach is meant to provide a quick and efficient “in the box” approach towards implementing an ERM program.

INTERNAL AUDIT

The need for institutions to maintain a strong internal audit “line of defense” continues to grow as regulators increase scrutiny and oversight over these functions. Berdon brings a risk-based, business-oriented approach to every internal audit engagement — delivering practical solutions that address the unique needs of financial institutions. Our structured internal audit methodology and tools, and our extensive experience in financial services allow us to focus on key areas of risk as we work with you to build and execute true risk based internal audit programs.



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Berdon's internal audit team has assisted institutions in performing risk assessments, developing strong risk based audit plans, executing audits and providing key insights to strengthen the internal audit function and enhance operational and information technology controls. Our internal audit approach is consistent with IIA standards and utilizes our team's working knowledge of examination guidelines such as FFIEC for AML/BSA and IT Audit and COSO 2013 for SOX compliance.

Our internal audit services are designed to assist in the evaluation and improvement of internal controls that help safeguard the organizations business assets. Our services are also intended to provide recommendations to increase the efficiency, effectiveness and overall performance of the internal audit function and to align it with the other risk management functions across the institution. We can work with you to develop the most value added approach to assist your organization's internal audit function:

- **Co-sourced internal audit services** – we supplement your internal audit team by providing experienced practitioners with specific technical skills to assist in developing audit programs and executing the audits
- **Outsourced internal audit services** – our team is engaged as the institutions complete internal audit function, reporting to the audit committee and executing the entire audit program including risk assessment, audit plan development, audit execution and report presentation to management and the audit committee
- **Internal audit projects** – this is a variation of our co-sourced internal audit services where we provide staff with specific expertise to provide guidance, audit execution assistance and knowledge transfer for highly technical examination areas

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RISK ASSESSMENT

The Berdon risk assessment process provides a concise and cost-effective approach for identifying, scoring, and prioritizing risks specific to an institution's business and risk profile.

Our process is designed to assist organizations in addressing the key categories of risk to the institution, including operations and infrastructure, legal and compliance, financial, market, counterparty/third party, and fraud, among others. The risks are aligned with key business functions as well as broader regulatory and investor “hot points” such as corporate governance,



“tone from the top,” and demonstration of an effective “culture of compliance.” As the risks are identified and prioritized, the institution can drill down into the most critical risks and develop short- and long-term strategies to mitigate the risks. The process can be positioned as a key first step in developing an enterprise risk management (ERM) program and/or a first phase in the development of a risk-based internal audit or SOX compliance plan.

The Berdon risk assessment process can serve as a dynamic tool to help identify, address, and monitor those risks that represent the most significant threats to the institution.

The risk assessment process is quick and efficient and consists of a series of short phases to identify, prioritize, and manage those risks most critical to the organization. The process begins with facilitated sessions with management and key staff and then proceeds through a series of structured steps to further quantify and address inherent and residual risks. The final report documents high, medium, and low risks and can further highlight priorities with red, amber, and green designations.

It has been our experience that this process helps organizations focus in on those areas that could have the biggest impact on business operations. Continuous monitoring of the risk profile allows the institution to react as market or regulatory conditions change or as new investment products or programs are offered.

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ENTERPRISE RISK MANAGEMENT

Financial institutions often have difficulty conceptualizing how an ERM program will fit across the organization and how the effectiveness of the program can be measured. Berdon provides an “ERM in a box” approach, where standard templates are customized and ongoing governance and monitoring policies and procedures are implemented across the organization — creating a fully integrated, risk monitoring program that is cost efficient, manageable, measurable, and responsive to new and emerging risks as they occur.

Regulators and investors are increasingly looking for financial institutions to demonstrate that they have an ERM program in place as well as a strong internal audit function to ensure that



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necessary internal controls are operating efficiently and effectively. In addition, the SEC has stated that they will prioritize examinations at registered investment advisors that exhibit certain risk characteristics and/or have not yet been examined, making it even more critical for the risk management functions to be an inherent and transparent component of the business.

COMPLIANCE SERVICES

Institutions are facing increased scrutiny and oversight from regulators, while still assessing the impact of major changes necessitated by Dodd Frank, the Volcker Rule, OTC derivative reform and other emerging regulatory initiatives. Regulators have proposed new rules regarding IT and network security, investment suitability and sales practices, and new reporting requirements for investment advisors, broker dealers, dark pools, and high frequency trading firms.

Berdon's financial services advisory team can assist your institution in navigating through these challenges by helping you strengthen your compliance function, testing and enhancing compliance-related policies and procedures and helping prepare you for new reporting requirements, regulatory examinations, and required supervisory testing and certification. We have a strong understanding of the unique regulatory compliance requirements in each of the industry segments:

- **Investment Advisors to Hedge Funds and Private Equity** (among other fund structures) are subject to a range of regulations including the Investment Advisor's Act of 1940 ("40 Act"), which subjects them to registration with and examination by the SEC. We can assist with initial registration requirements for advisors just registering, or with performance of a compliance "gap analysis" or "mock SEC examination" for more established advisors. We can also assist with development of key components of the compliance program including governance, policies and procedures, and training.
- **Broker Dealers** are subject to strict oversight by the SEC, FINRA, CFTC, and others as applicable. We can assist by reviewing compliance programs, performing compliance risk assessments and gap analysis, and performing required testing for annual supervisory certifications. We can also advise on responding to new reporting requirements and specific regulatory actions.



- **Banks** may be subject to oversight by different regulators depending on how they are structured. The key regulatory bodies including the FRB, OCC, and FDIC have offered specific guidance regarding priorities for compliance programs to ensure compliance with applicable laws and regulations including US Patriot Act (BSA/AML), FCPA, HMDA/CRA, and new oversight by the Consumer Financial Protection Bureau. We can assist in reviewing and testing existing compliance programs, developing required written policies and procedures and advising on response to new regulatory initiatives and specific actions.

OPERATIONS AND INFORMATION TECHNOLOGY SERVICES

Regulators have increasingly focused on operational risk as part of their examination programs. With recent technology failures in the securities markets and security breaches across the financial service industry, institutions have to ensure that their business operations and supporting technology have strong internal control and operational governance programs in place. In addition, the risks associated with dependence on numerous and critical third party providers have to be addressed and mitigated. Whether you are an emerging institution building an infrastructure consistent with regulatory registration, or an established organization evaluating the impact of extensive new reporting requirements, we can assist in reviewing and evaluating the operational infrastructure and supporting controls. We can also provide recommendations for process improvement, automation of key functions and due diligence and management of third party relationships. With our understanding of front, middle, and back office functions and associated information systems, we can assist in identifying opportunities to streamline processes, improve cost effectiveness, achieve greater value from investments in IT, and enhance data management and reporting across the organization. To this end we can:

- Review and test the internal control framework to identify gaps and opportunities for improvement across key operational functions and systems, as well as compliance with key standards such as CobIT, NIST, and COSO 2013 for Sarbanes 404.
- Identify opportunities for process improvement and cost efficiency
- Review data management and integration of IT systems to improve reporting and communications
- Review and evaluate internal and vendor supplied systems to identify opportunities to automate key functions and achieve maximum value from investments



CORPORATE GOVERNANCE SERVICES

Today, the focus of governance practices in financial institutions is moving beyond compliance with codes and regulations towards management of broader risk across the institution and addressing such areas as:

- Culture
- Board accountability
- Delegation of key oversight authority and alignment of risk management functions

Regulators are requiring financial institutions to demonstrate a “culture of compliance” and to provide a “tone from the top” – a clear message from boards and management that the organization will have a strong focus on corporate ethics, compliance with applicable laws and regulations and risk management. That message is reinforced with the makeup of various board sub-committees, board reporting packages and communications across the organization. With increased regulatory scrutiny and focus on board level oversight and corporate governance, Berdon can assist boards and management in identifying and addressing gaps in risk management and other governance programs and help align and integrate various functions in providing consistent corporate oversight and communications across the institution. We can also assist in reviewing and testing various corporate governance programs through internal audit and compliance.

For more information, contact Alexander Moshinsky, CPA, Director, Internal Controls & Risk Management at 212.331.7448 – amoshinsky@berdonllp.com or your Berdon advisor: New York 212.832.0400 | Long Island 516.931.3100.