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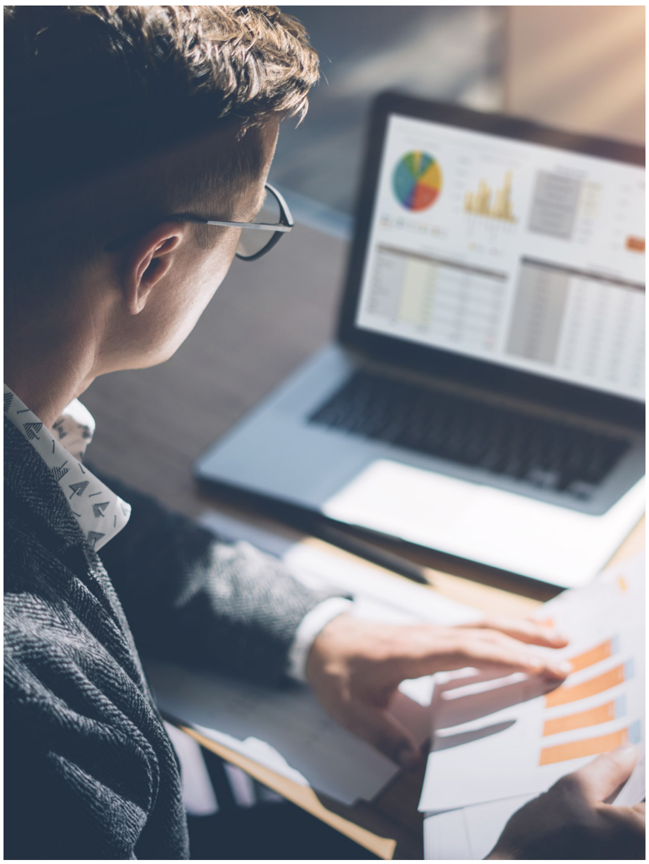
Advisors' Continue to Build Compliance Resources

Increased attention to regulatory compliance appears to be paying off at audit time.



Most advisors spend less than $50,000 per year on compliance, but that situation may be changing. In response to evolving compliance risks both in their IT infrastructure and elsewhere, advisors expect to match or expand the amount of resources they put into their compliance function in the coming year. This was just one of the key takeaways from a recent WealthManagement.com survey of more than 100 advisors and financial professionals.

The survey's five key takeaways include:

Part 1: Advisors are putting resources behind compliance
Virtually all firms are maintaining or raising their compliance budgets.

Part 2: Some regulators worry advisors more than others
Firms believe the SEC is better at finding important compliance gaps than other agencies, and currently worry more about SEC and state regulatory agencies than FINRA.

Part 3: Advisors have concerns about compliance risk in multiple areas
Cybersecurity is a leading worry when it comes to advisors' compliance risk.

Part 4: Compliance typically represents a small part of advisors' total time budgets
Many advisors are involved in compliance functions, but relatively few describe compliance as their primary job.

Part 5: Firms' concerns and actions appear to be paying off
When firms do get audited, the vast majority of them pass either without recommendations or with minor recommendations.

Part 1: Advisors are putting resources behind compliance

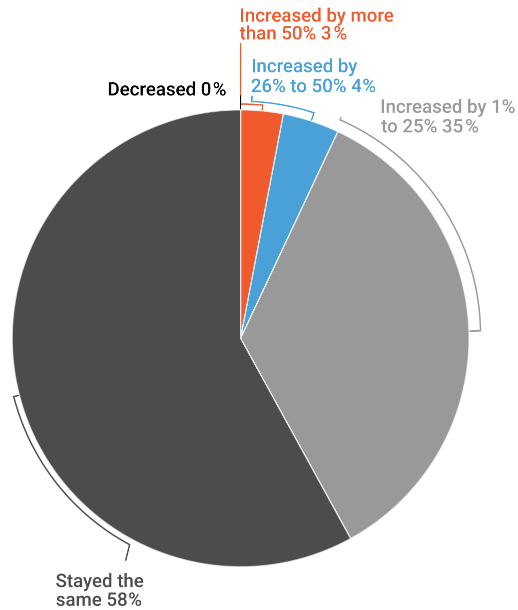
Virtually all firms are maintaining or raising their compliance budgets.

Most advisors keep annual compliance budgets under $50,000, and more than half stick to a budget of less than $25,000. Those spending levels represent at least baseline numbers in all cases, however, as no advisors report a decrease in their compliance budgets compared to the previous year. In fact, 42% indicate they increased their budget within the past year.

In many cases, budget increases have been earmarked for additional compliance staff. Nearly two in three advisors (65%) reporting increased budgets plan to hire one or more compliance functions in the coming year, with most of these hires expected in the areas of compliance training (15%), compliance communications (11%), and data and analytics (11%).

Most advisors (61%) indicate they do not intend to hire any additional compliance functions in the next year, however. While most of these firms report stable budgets, more than one in four firms expecting to increase their budgets indicate they have no plans for further hires (26%), opting instead to put more resources at the disposal of their existing compliance personnel.

How has your compliance budget changed in the past year?



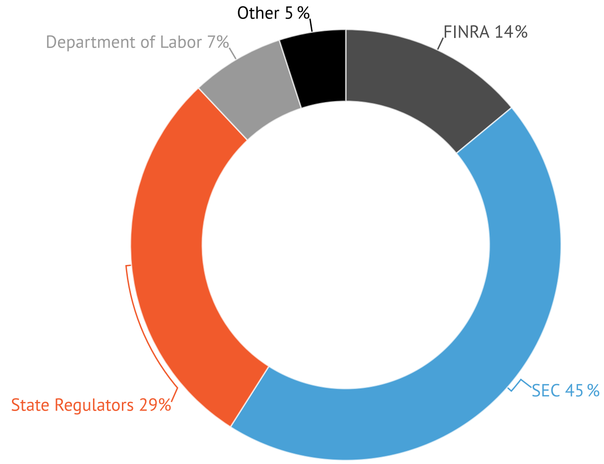
Part 2: Some regulators worry advisors more than others

Firms believe the SEC is better at finding important compliance gaps than other agencies, and currently worry more about SEC and state regulatory agencies than FINRA.

Firms are more likely to worry about the SEC or state regulators than they are to worry about other regulatory bodies. This heightened awareness of federal regulatory reviews may stem from their belief that the SEC is better at identifying important compliance gaps than other regulators. Advisors are nearly twice as likely to believe the SEC is better at finding important compliance gaps than FINRA, and more than three times as likely to find them as state regulators.

Fewer firms express worry about FINRA regulators, though not all firms are necessarily regulated by FINRA. Only 28% of advisors believe FINRA finds important compliance gaps better than other regulatory bodies. Advisors' perceptions of the SEC's greater strength in this area may partially explain their lack of concern. One dually registered investment advisor (RIA) suggests the ground covered by the two agencies is similar enough that it's only worth worrying about the more effective of the two. "As the SEC has become more engaged, FINRA has become redundant," the advisor noted.

Which regulator worries advisors the most:



Part 3: Advisors have concerns about compliance risk in multiple areas

Cybersecurity and data integrity are leading worries when it comes to advisors' compliance risk.

Advisors have a great deal of concern about a number of regulatory risks. Nearly one in four (22%) indicate they are "extremely" concerned with the regulatory risk from cybersecurity. While other risks don't rise to the same degree, risks around data integrity, social media, fraud and anti-money laundering occupy a large portion of advisors' mindshares.

Areas of least concern include wrap-fee programs, about which half of advisors have no concern at all. Robo advisors (2%) and recidivist brokers/representatives (3%) commanded the smallest share of advisors' compliance efforts in the past year, reflecting a general lack of concern around those areas.

Which regulator worries advisors the most:

	Not Concerned	Concerned
Cybersecurity	4%	96%
Data integrity	4%	96%
Social media and electronic communication	7%	93%
Fraud	11%	89%
Anti-money laundering	19%	81%
Senior investor fraud/abuse	20%	80%
Automated investment services (robo advisors)	39%	61%
Recidivist brokers/advisors	40%	60%
Wrap-fee programs	50%	50%

Part 4: Compliance typically represents a small part of advisors' total time budgets

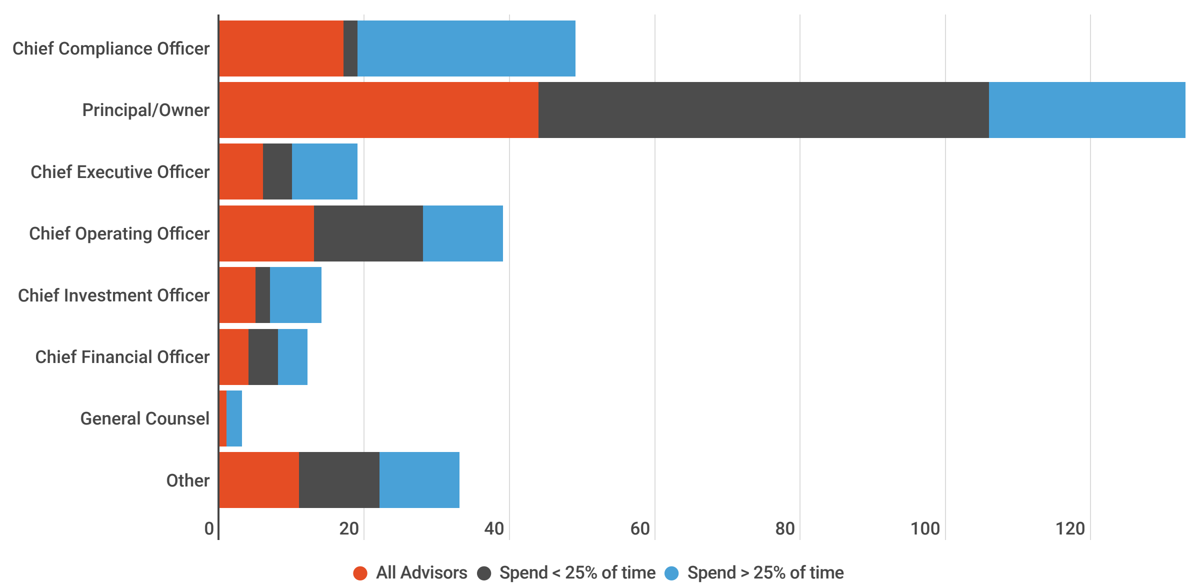
Many advisors are involved in compliance functions, but relatively few describe compliance as their primary job.

While advisors are concerned about regulatory compliance, they rarely make it their primary area of focus. Most advisors indicate they are designated chief compliance officer (CCO) (60%) or that compliance is otherwise included in their job responsibilities. However, only 17% indicate CCO responsibilities as their primary job function. Most indicate they are principals or owners (44%) suggesting compliance personnel commonly wear multiple hats at their organizations.

Nearly half of respondents indicate they spend less than 25% of their time fulfilling CCO responsibilities (49%), and more than three quarters spend less than half their time on compliance (76%).

Advisors who spend more than 25% of their time engaged in compliance tasks tend to be either dedicated CCOs or principals/owners of their firms. Unsurprisingly, individuals primarily tasked with CCO responsibilities spend more time on compliance functions than those with other titles. Most principals and owners indicate they spend less than a quarter of their time on compliance, which could indicate they delegate these functions to others in the organization or simply have too many other responsibilities to spend more of their time on compliance efforts.

The percentage of advisors who indicate they are concerned about the following regulatory risks:



Part 5: Firms' concerns and actions appear to be paying off

When firms do get audited, the vast majority of them pass either without recommendations or with minor recommendations

The efforts advisors have put into their compliance programs appear to be paying off: 35% of respondents indicate their firm underwent a regulatory audit in the past year, but of those, 97% passed—94% either without recommendations (58%) or with minor recommendations (36%).

Internal audits are the single biggest worry keeping firms awake at night (21%). This finding may link to the idea that most firms spend a relatively small proportion of their time on compliance efforts and therefore may be missing something that a regulatory agency would not. Multiple respondents specified internal mistakes and missed details as particular worries at their firms.

Did your firm pass its most recent regulatory exam?

	All Advisors
Yes	58%
Yes, but with some minor recommendations	36%
Yes, but with some major exceptions	3%
No	3%