

The risk assessment, and what it drives

Chapter 2. For this firm, not a template: each area scored on likelihood and severity, and each significant risk traced to a control and to a test. A risk with no control, or a control with no risk behind it, is the finding.

Firm		Prepared by	
Reviewed by		Date	

Area	Likelihood 1-5	Severity 1-5	Score	Control in the manual (section)	Test and frequency	Owner
Strategies and asset classes						
Structure: funds, accounts, vehicles, co-investment						
Investor base and the marketing that reaches it						
Information handling, MNPI						
Personal trading exposure						
Conflicts: allocation, cross-trades, related parties						
Fees, expenses and offsets						
Valuation						
Service providers						
Financial crime: investors, counterparties, portfolio						
Regulatory filings and obligations						
Communications and records						

Change in the business since the last refresh	Date	Risk it creates or alters	Interim update made?

Refresh at least annually and whenever the business changes materially: a new fund, strategy, investor type, jurisdiction, system or rule (Chapter 4).
Score = likelihood x severity; the highest scores receive the strongest controls and the closest testing.

The compliance program checklist

Appendix B. A completeness check, not a substitute for the risk assessment that drives each element's design. Record the evidence, not the intention.

Firm		Prepared by	
Reviewed by		Date	

Item	Done	Evidence, document and date
Foundation		
A current, documented risk assessment covering strategies, structures, investors, information, fees, vendors and financial crime		
A written manual pairing each policy with a workable procedure that leaves a trace		
A designated, competent officer with independence, authority, resources and access to leadership and the governing body		
Conduct		
A code of ethics: personal trading, gifts and entertainment, outside activities and private investments, political contributions, confidentiality, duty to report		
Periodic certifications collected and reviewed		
Information		
A restricted list maintained promptly		
Information barriers and wall-crossing procedures		
Expert-network management; training that builds the reflex to stop and call compliance		
Conflicts and economics		
A framework to identify, disclose and manage conflicts		
An investment allocation policy fixed in advance		
An expense allocation policy: fund versus firm, fund versus fund, broken deals, offsets, related parties, matched to disclosures		
Markets and investors		
Pre-use review of marketing against the fair, balanced and not-misleading standard; versioning and archiving		
AML, KYC and sanctions controls appropriate to the firm's obligations; anti-bribery measures		
Oversight		
Oversight of valuation governance		
Oversight of service providers, proportionate to their importance		
Books and records; controls on communication channels and their capture		
Operation		
A published annual calendar; training on a planned cadence		
Ongoing monitoring and surveillance		
Transactional and forensic testing guided by the risk assessment, feeding a remediation loop		
A documented annual review and a candid report to leadership and the governing body		

Any line without evidence is rated as a gap, however good the intention. The same list is the skeleton of the annual review.

The annual compliance calendar

Appendix C and Chapter 4. Every task has an owner and a slot; work backward from the fixed dates, and leave slack for what always takes longer.

Year		Owner of the calendar	
Approved by		Board meeting dates	

Frequen cy	Task	Owner	J a n	F e b	M a r	A p r	M a y	J u n	J u l	A u g	S e p	O c t	N o v	D e c
Continu ous	Personal-trade pre-clearance and monitoring; marketing review; onboarding screening; incident log; communications surveillance													
Quarterl y	Personal-trading reconciliation against holdings													
Quarterl y	Gifts, entertainment and political-contribution log review													
Quarterl y	Restricted-list review													
Quarterl y	Expense allocation review with finance													
Quarterl y	Sanctions re-screening													
Rotating	Scheduled control testing, by risk area													
Periodic	Code-of-ethics, outside-activity and political-contribution certifications													
Annual	Risk assessment refresh													
Annual	Manual review and update													
Annual	Training delivered													
Annual	Annual review and report to leadership and the governing body													
Annual	Next year's plan													
Deadline	Regulatory filings on their statutory dates													
Deadline	Audit deadlines; fund-specific reporting													

Mark the month in which each task falls due, then initial it when done and file the record: the calendar and its records are the answer when an examiner asks whether the program operated.

The code of ethics: elements, acknowledgement and certification

Chapter 5. Grounded in the duty to put investors first. The code means what its consistent enforcement makes it mean: senior people are held to it as firmly as junior ones.

Covered person		Role	
Access to sensitive information?		Date	

Element or statement	Yes	Exceptions, with dates and references
What the code contains		
Who is covered, with heightened rules for those most exposed		
Personal trading: accounts and holdings disclosed, broker feeds, pre-clearance, restricted list, holding periods		
Gifts and entertainment: value limits, no cash, officials, reporting and pre-clearance above a threshold		
Outside business activities and private investments: disclosure and approval		
Political contributions: restrictions and pre-clearance where pay-to-play rules apply		
Confidentiality of investor, portfolio and firm information		
Duty to report violations, through a channel that protects the reporter		
Consequences, applied consistently		
Initial acknowledgement		
I have read the code and will follow it		
I have disclosed every account and holding in which I have a beneficial interest		
I have disclosed my outside activities and private investments		
Periodic certification		
I have complied with the code for the period		
All my transactions were reported, and pre-cleared where required		
All gifts and entertainment above the threshold were reported		
My outside activities and political contributions are as disclosed		
I know of no violation I have not reported		

Signature		Reviewed by compliance	
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Pre-clearance, gifts and outside activities: the logs

Chapter 5. A control that leaves no record did not operate. A denial is given without the reason when the reason is itself sensitive (Chapter 6).

Firm		Prepared by	
Reviewed by		Date	

Personal-trade pre-clearance

Date	Person	Security	Buy / sell	Restricted list checked	Decision	Valid until	By

Gifts and entertainment, given and received

Date	Person	Counterparty	Given / received	Description	Value	Official ?	Pre-cleared / decision

Outside business activities and private investments

Person	Role or investment	Overlap with the firm or a portfolio company?	Information risk	Approved, with conditions	Review date

Quarterly: reconcile reported trades against holdings and broker feeds; review the gifts log for patterns by counterparty, not only by value. An exception granted to a senior person is recorded with its reason, like any other.

MNPI: the restricted list, wall-crossings and expert calls

Chapter 6. When in doubt, treat information as potentially material, stop, and involve compliance. The cost of conservatism is a foregone trade; the cost of the other error is not.

Firm		Prepared by	
Reviewed by		Date	

Restricted list

Issuer and securities	Reason (diligence, board seat, lending, portfolio company)	Added	By	Review date	Removed, and why (public or stale)

Wall-crossing log

Person crossed	Date	Matter	Approved by	Restrictions now applying	Brought back, date

Expert network and consultant calls

Date	Expert and current employer	Topic	Employer or relationship screened	Chaperoned by	Notes filed

Map how information enters the firm before relying on the list: diligence on public targets, portfolio companies with public securities, board seats, lending, expert networks, and the firm's own public positions in related names.

The conflicts register

Chapter 7. Disclosure and management, both. For every conflicted decision the firm should be able to show how it was identified, which policy governed it, how it was disclosed, what review it received and why the outcome was fair.

Firm		Prepared by	
Reviewed by		Date	

Category	Where it arises here	Policy fixed in advance	Disclosed where	Independent review	Document ed decisions	Residual	Avoid ?
Allocation of investments between funds and accounts							
Cross-transactions between clients							
Co-investment: who is offered it							
Fees and expenses: fund versus firm, fund versus fund							
Related parties and affiliated service providers							
Time and attention							
Valuation (Chapter 9)							

A conflicted decision, recorded

Decision and date	
Conflict identified	
Policy applied, section	
Disclosure relied on	
Reviewed by (advisory committee, independent party, counsel)	
Why the outcome is fair, and can be seen to be fair	

The marketing review record

Chapter 8. Judged by the overall impression on the intended audience: a page of true statements can still mislead. Review before use, version, archive, and re-review every change.

Piece and version		Audience	
Requested by		Date needed	

Test	Pass	Comment and required change
Performance		
Track record complete, or the subset and its basis disclosed and not cherry-picked		
Net shown with the same prominence as gross; the fees between them explained		
Targets, projections and hypothetical or back-tested figures labelled, qualified, or removed		
Case studies representative, or the full record alongside		
Prior-firm or individual record fairly attributable		
Benchmarks apt, not chosen to flatter		
Every figure substantiated by records the firm can produce		
Consistency and disclosure		
Consistent with the offering documents: terms, risks, conflicts, fees		
Testimonials, endorsements and ratings: representative, compensation disclosed, current		
Required qualifications and disclosures present		
Process		
Compliance involved while drafting, not the day before		
Approved version archived; distribution list recorded		
Changes after approval sent back through review		

Version	Date	Reviewer	Decision	Sent to, and when

Oversight of valuation and of service providers

Chapters 9 and 12, grouped as Appendix B groups them. Compliance oversees the process; it does not perform the valuation or re-perform the provider's work. The goal is informed reliance.

Firm		Prepared by	
Reviewed by		Date	

Item	Yes / no	Evidence, or action taken
Valuation governance		
A written, current policy fixing methods, inputs, frequency and roles before the number is known		
A genuine point of challenge by someone without the incentive to inflate		
Methods applied consistently; changes explained; each valuation documented		
Independent input and audit engagement understood		
What investors are told matches what the firm does		
Warning signs, this period		
Marks that never move when the world has changed		
Jumps without explanation		
Methods switched to flatter results		
Pressure on the valuation function from the business		
Marks clustered at the optimistic end of ranges		
Good news recognised quickly, bad news slowly		

Provider and function	Risk tier	Diligence at selection	Responsibilities defined (who does what)	Evidence reviewed this year	Exit and data return tested	Next review

Tier 1: holds assets, produces the books or the valuations, screens investors, or holds sensitive data. For each, know what you would do if it failed.

Fees and expenses: the three numbers to compute

Chapter 10 and Appendix F. The grey zone as basis points on the fee, the broken deal allocated every defensible way, and the offset categorisation priced. Compute them before the question is asked.

Fund		Commitments	
Fee rate and basis		Fund life, years	

1. The grey zone, as a fee

Grey-zone costs a year	Share resolved the firm's way	Per year	Over the life	Fee equivalent	Basis points
Appendix F: 1,200,000	25%	300,000	3,000,000	2.06%	6

2. The last broken deal, allocated four ways

Method	Flagship	Newer fund	Co-investors	Firm
All to the flagship				
Pro rata across the funds				
Pro rata including prospective co-investors				
Pro rata, the firm absorbing the co-invest share				
Spread on the flagship, and per 1,000,000 committed to it				

Divide the spread by the flagship's own commitments, not by its ticket in the deal. Appendix F's 3,125 divides by the 400 million ticket and is therefore a ceiling; at a two-billion flagship it is 625.

3. The offset schedule, as the documents read

Fee received from portfolio companies	Amount	Offsettable per the documents?	Offsettable in practice?	Offset
Monitoring				
Transaction				
Board				
Consulting				
Other:				
Kept by the firm, and as a share of lifetime fees				

Investor onboarding: KYC, beneficial owners and sanctions

Chapter 11. Scrutiny proportionate to risk; sanctions are absolute. The onboarding is not the end: re-screen as lists change, refresh as circumstances shift.

Investor		Commitment	
Introduced by		Date	

Step	Done	Evidence and result
Identity and structure		
Legal name, form, jurisdiction, registration verified		
Structure chart to the natural persons who own or control it		
Beneficial owners identified and verified		
Who performs the due diligence: the firm, the administrator, a distributor, and on what reliance		
Risk factors		
Politically exposed person among owners or controllers		
High-risk jurisdiction in the chain		
Opaque layers: trusts, nominees, pooled vehicles		
Source of funds and source of wealth unclear		
Reluctance to provide information		
Screening		
Investor, beneficial owners and controllers screened against the applicable lists		
Hits resolved and recorded; true matches escalated		
Anti-bribery: introducer and any official connection reviewed		

Risk rating	Due diligence applied	Approved by	Refresh due	Re-screening

Ongoing monitoring of this relationship

Date	Trigger: list change, new circumstance, red flag	Action taken	By

The testing plan and the sample record

Chapter 13 and Appendix F. State the result as a claim, not a frequency: what was tested, how it was selected, and what the result establishes.

Control or area tested		Period and population	
Tester		Date	

Error rate to rule out	90% confidence	95% confidence	99% confidence
1%	230	299	459
2%	114	149	228
5%	45	59	90
10%	22	29	44

Clean samples, $n = \ln(1 - \text{confidence}) / \ln(1 - \text{error rate})$. If the sample finds errors, the claim changes: with one error, 93 items support 5% at 95%; with two, 124 (Case one).

Population and its size	
Selection method (random, with the seed or list kept)	
Sample size and the claim it is sized for	
Items tested; exceptions found	
What the result establishes, in one sentence	
Also tested by value? Largest items covered?	

Exception	Cause	Instance fixed	Root cause fixed	Escalated or disclosed?	Retest date

Examination readiness and the findings tracker

Chapter 14. Readiness is built before the notice arrives. A cosmetic program cannot be manufactured in the weeks before the examiner does.

Firm		Prepared by	
Reviewed by		Date	

Item	Done	Evidence, document and date
Before any notice		
Books and records complete, current and retrievable		
Manual, risk assessments, testing records, annual reviews, logs and certifications organised		
A mock examination run, with its findings fixed		
Staff know the process: truthful, within their knowledge, no speculation		
When the notice arrives		
One coordinator; counsel involved as the stakes warrant		
Every request logged, answered on time, completely and accurately		
Each response checked for consistency with the records before it goes out		
No document created after the fact to look as if it existed		
Findings		
Each finding answered substantively, with the root cause fixed		
Remediation evidenced and retested		
Signs of escalation to an investigation taken to counsel at once		

Request or finding	Received	Owner	Due	Sent or fixed	Checked by