Operating Risk Insights

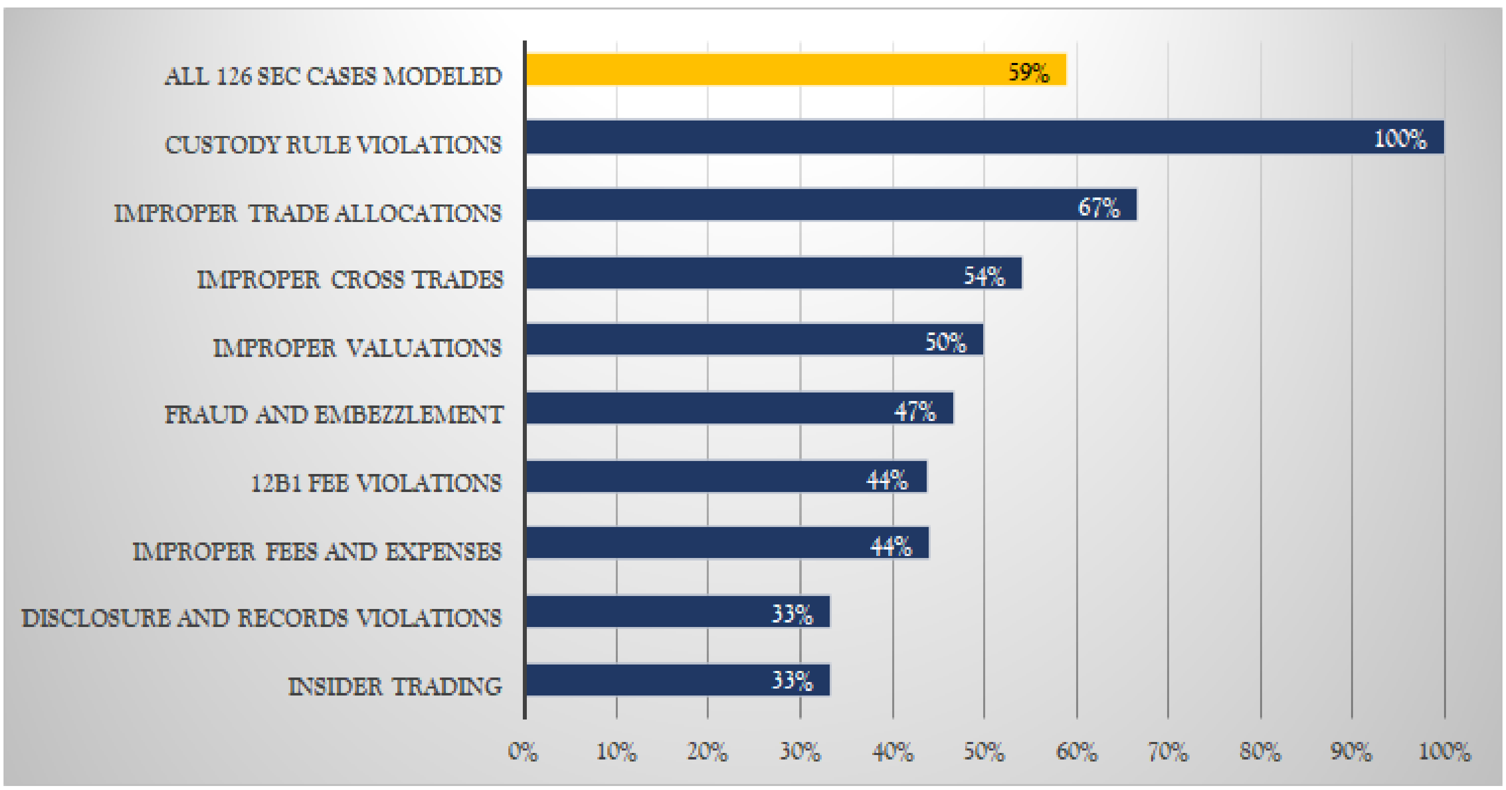
MiniCon 2020

Multiple Compensation Arrangements

- Convergence's Multiple Compensation Arrangements is a compliance risk factor that is considered high-risk when a Delegate has the ability to charge their clients 3 or more types of compensation. Multiple types of compensation often carry different fee levels which can create conflicts between fee types and incentives for Delegates to charge clients for services that enrich the Delegate at the expense of their clients.

- The graph below highlights the percentage of sampled SEC cases taken against registered investment advisers in the United States for various infractions where the Compensation factor was rated high-risk. The way to read the graph is, *"In 59% of 126 SEC cases modeled by Convergence the Adviser had a high-risk Compensation factor in their business and the same high-risk condition existed in 100% of custody rule violation cases and in 67% of improper valuations cases."*

- Designated persons should ask Delegates with a high-risk Compensation condition to disclose all of the types of fees they can charge their clients, the conflicts that exist between them and the control process in place to manage them.



CONVERGENCE
OPTIMAL PERFORMANCE

The Convergence Database includes 4,000 data points on each Adviser/ Manager updated daily, including:

- 38,000+ SEC and State Advisers
- 183,000+ private-public funds
- 6,000 + Service Providers
- 100,000+ C-Suite Executives
- 30 + Investment Strategies

For more information on the topic of "identifying and dealing with non-investment risk conditions" in your Delegates, please contact George Gainer at Convergence at ggainer@convergenceinc.com