

# Chief Risk Officers in the Mutual Fund Industry: WHO ARE THEY AND WHAT IS THEIR ROLE WITHIN THE ORGANIZATION?

## *Background*

Everyone within an organization has some responsibility for managing risk. In the fund industry, ultimate responsibility for determining a fund's risk tolerance and managing its variety of risks (e.g., investment, operational, legal, compliance, financial) is vested in the fund's board. However, because funds are externally managed, it is not unusual for the fund's investment adviser or administrator (depending upon how the fund is structured) to play an active role with the board in managing risks. While it has not been uncommon for bank holding companies or insurance companies to have a Chief Risk Officer (CRO)<sup>1</sup> or similar position that is responsible for managing enterprise-wide risks, traditionally the CRO position has been uncommon in the mutual fund industry. This seems to be changing, however, with more and more organizations determining the need for, and having the resources to create, a position dedicated to managing either enterprise-wide risk or investment/portfolio risk.

Generally speaking, those mutual fund organizations that have CROs today tend to be larger complexes that, in addition to the position of CRO, have an Internal Auditor (IA) and Chief Legal Officer (CLO). The CRO, IA, and CLO positions are all positions that, due to resource limitations and other considerations, many small- and medium-sized funds or complexes typically do not have. Of course, each fund, regardless of size, has had a Chief Compliance Officer (CCO) since such position was mandated by rule of the U.S. Securities and Exchange Commission in 2003. Because the positions of IA, CLO, and CCO typically have responsibility for discrete risks within a mutual fund complex, the Risk Management Advisory Committee

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<sup>1</sup> As used in this paper, the term "CRO" includes the position within the organization that is responsible for overseeing enterprise-wide risk without regard to the specific title of the person holding that position.



*The Investment Company Institute (ICI) is the national association of U.S. investment companies. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.*

of the Investment Company Institute, which is comprised of the CROs (or persons in a similar position) of Institute members that have such a position, decided to undertake a study of the role of the CRO and how it has been integrated into a mutual fund organization, particularly vis-à-vis the roles of IA, CLO, and CCO.

**In undertaking this study, the Committee's goal was limited to examining, for those fund complexes that have created the position of CRO or its equivalent, the position, the type of person serving in it, how the position has been integrated within the fund complex, and how the role of the CRO relates to those other positions within the organization that have more discrete risk-management responsibility.** This study was not intended to justify the position of CRO nor encourage fund complexes to create such a position. Instead, the Committee hopes that the results of this survey will both shed light on the role of CROs in the fund industry and be instructive to those complexes that, in the future, consider creating the position of CRO.

## *Executive Summary*

Although the results produced a number of common themes, it is clear from this survey that mutual fund complexes have not taken a “one-size-fits-all” approach to incorporating the CRO position into their organizations or in structuring the position. According to the survey results, the structure, position, and responsibilities of a CRO, or other person responsible for overseeing enterprise risks, vary from complex to complex and depend upon and reflect the individual culture of the mutual fund organization. Factors such as the company culture, management team, structure, organizational style (i.e., management by committee vs. “silo” approach), size (measured in both number of employees and assets under management), geographic location(s), product offerings, and existence of a parent company influence the structure of the CRO position in mutual fund organizations. Because ultimate responsibility for managing risk remains with the fund's board of directors, the board and fund management (to the extent responsibilities are delegated by the board to management) significantly influence the mutual fund organization's approach and activities concerning risk management.

According to the CROs participating in the survey, there has been an increased awareness over time of the importance of comprehensive and effective risk management within their mutual fund organizations. In part, this is the result of the interests of various constituents (e.g., clients, boards of directors, regulators, and independent audit firms) influencing the organization's approach to and procedures regarding risk management. Within organizations there has also been an increasing awareness of the role of the CRO, which has resulted in greater utilization of the CRO throughout the organization and an evolution of the CRO position in response to this increased demand. Mutual fund companies continue to evaluate and reevaluate the structure and make-up of their risk management functions to respond to the demands of clients, boards of directors, and the changing regulatory landscape.

The resonating message from the survey participants is that risk is “owned” by all employees of mutual fund companies, particularly by the individual business lines, which are in the best position to identify, analyze, monitor, mitigate, and respond to risk facing their businesses. Survey participants reported that, in most instances, the positions of CLO, CCO, and IA are responsible for risks within their respective areas, with the CRO providing tools, techniques, assessment vehicles, and professional guidance to assist

them in assessing, mitigating, managing, and responding to risks. While survey participants stated that management has a heightened awareness of operational risk management as a separate and distinct area of importance, CROs report that they continue to face challenges in integrating all of the regulatory, operational, and business processes into a broad risk management framework in an effective and efficient manner.

The key findings of the survey are described in more detail below.

## *Survey Overview*

To determine the role of the CRO and how CROs have been integrated within mutual fund organizations, the Committee decided to conduct in-depth, one-on-one interviews of fund CROs. Among other things, these interviews elicited information about:

- » The experience and background of CROs in the mutual fund industry;
- » How fund complexes have structured their CRO position;
- » The CRO's interface with the IA, CLO, CCO, and other senior managers;
- » Approaches to involving business units in risk management; and
- » Risk analysis as part of the budget process.

Twenty persons holding the title of CRO or its equivalent at mutual fund complexes participated in the survey. Appendix A contains a detailed description of the survey methodology.

## *The Position of CRO Within Financial Services Organizations*

The nature and domicile of a financial service organization are strong influences over and often determinants of the organization's decision to create a CRO position.

The vast majority of mutual fund organizations do not appear to have established the position of CRO to oversee the organization's risks. This stands in contrast to many banking institutions and insurance companies. While there appears to be no regulatory requirement that a banking institution or insurance company have a CRO, many institutions have responded to regulators' interest in having highly experienced senior managers oversee the institution's internal controls by establishing the position of CRO. Not surprisingly, the survey results demonstrate that mutual fund companies whose corporate structures included a parent that is either a bank or insurance company typically had implemented the position of risk officer prior to those companies whose business was limited to mutual funds.

Many CROs in mutual fund companies with a bank or insurance company parent stated that the parent company often dictates risk-related policies and procedures across all subsidiaries. These CROs noted that a critical part of their job is to analyze these requirements and tailor them appropriately to the mutual fund company, subject to the mutual fund company's regulatory framework. Although these CROs view many of

the banking and insurance risk-related requirements to be useful guidelines to follow for the mutual fund company, not all of them make sense for the mutual fund company. Consequently, it often falls to the CRO to determine which requirements implemented by the parent should be implemented by the mutual fund company and how.

Another factor influencing an organization's decision to create a CRO position is the existence of foreign subsidiaries. In the United Kingdom, mutual fund companies are regulated by the Financial Services Authority (FSA), which establishes frameworks where effective operational risk management is expected to be a part of a company's overall compliance and control procedures. Accordingly, those organizations subject to the FSA's jurisdiction tended to have longer-established CRO positions than those companies solely domiciled in the United States.

Consistent with the above discussion, the seven survey participants who indicated their company had a CRO position for six or more years all work for companies with a parent that is subject to banking or insurance regulations. Also, the five CROs representing organizations that established the position within the past six years indicated that the position was created as a direct result of their company being acquired by a bank or insurance company or being regulated in some capacity by the FSA.

### *CROs in Mutual Funds: a New, But Still Limited, Trend*

Most mutual fund organizations do not have CROs and, for those that do, the position is relatively new to the organization.

As noted above, the vast majority of mutual fund organizations do not appear to have established the position of CRO. For those that do have a CRO, the CRO position appears to be relatively new to the mutual fund organization. Ten out of the 20 CROs participating in the survey have been in their CRO position for only two to five years. Six of the participants (30 percent) have held their position for less than two years. Approximately half of the respondents noted that they were the first to hold the CRO position in their company. These results suggest that, although mutual fund companies are not required to have a risk officer, there is a growing trend among such companies to enhance their risk practices and implement comprehensive and effective risk management strategies.

While the position of CRO may be relatively new to the mutual fund sector of the financial services industry, the individuals serving as CRO of funds participating in the survey are not new to the industry. Most of the CROs participating in the survey are seasoned professionals with over 15 years experience in the financial services industry. Many noted that the larger (and more complex) the organization, the greater the need for the CRO to have significant experience in the financial services industry.

## *Backgrounds and Skills of CROs*

While CROs may come from a variety of backgrounds, their critical skills include having an understanding of the financial services business and good facilitator skills.

CROs participating in the survey had a variety of backgrounds prior to their service as CRO. These backgrounds included legal, general management, portfolio management, human resources, consulting, accounting, internal audit, and compliance positions. Some CROs continue to have responsibility in other substantive areas. Indeed, 12 of the participants (60 percent) hold more than one “job” within the company. Common “other job” responsibilities of CROs included handling compliance or legal issues or being chair of the audit committee.

When asked about the ideal background for a CRO, participants overwhelmingly stated that it is critical that a CRO understand the financial services business. As noted above, most of the CROs participating in the survey are seasoned professionals with more than 15 years of experience in the financial services industry. Twelve of the 20 CROs were lateral hires who moved to the CRO position from another part of the company.

A key element in the CRO position, according to the survey participants, is an understanding of what factors drive the business, business challenges, pressures confronting various business lines, and the goals of the organization’s business lines and departments. Another universal criterion was the ability of the CRO to strike a balance between having sufficient seniority (in terms of years of experience and position within the company) and “approachability” in order to facilitate communication and a heightened focus on risk management throughout the organization.

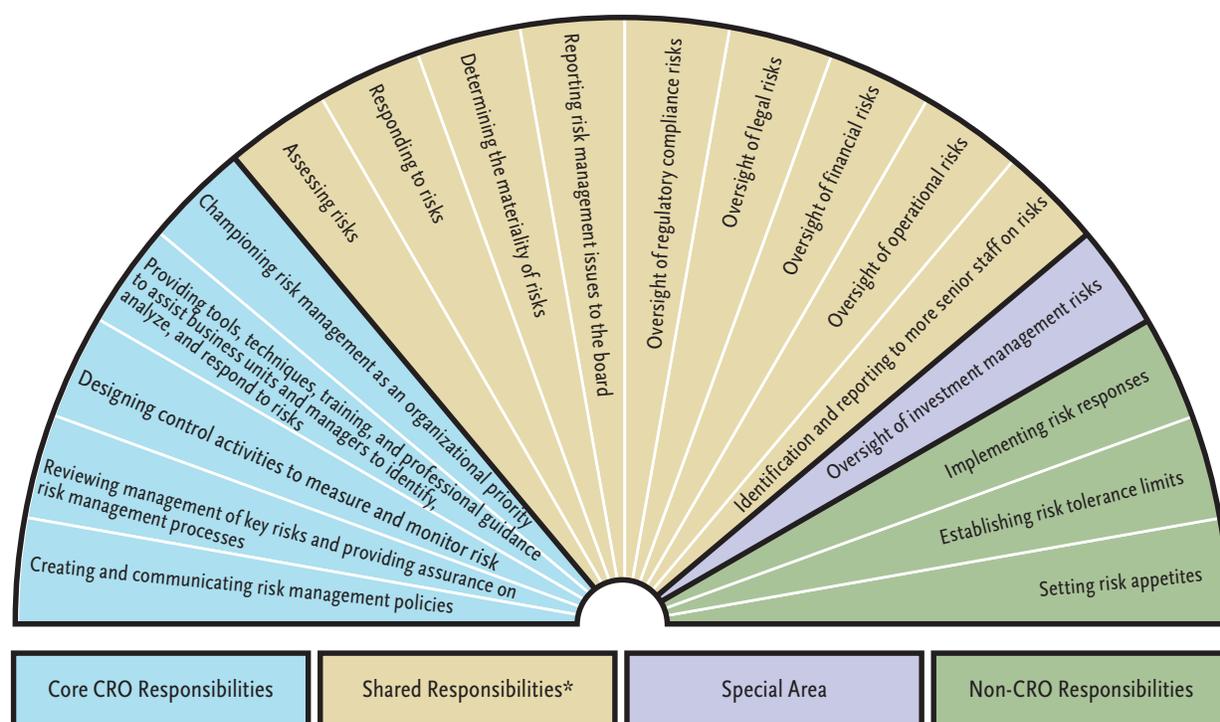
When asked what qualifications are necessary for a person to be effective as a CRO, common responses included being a facilitator, having good communication skills, embracing a collaborative approach to the job, and possessing sound business judgment. Most participants described the skill set necessary for an effective CRO as less technical and quantitative and more integrative and analytical with an overlay of a very strong communications component.

## *The Role and Responsibilities of the CRO*

The majority of survey respondents see their role as CRO as one of providing support to management and business units on risk issues and not one involving hands-on management of risk.

Survey participants repeatedly described their role as being a “resource.” They noted that a “top-down” approach to developing a risk management framework is generally not an effective strategy. Instead, the majority of participants described their approach as “bottom-up” – one in which they educate and facilitate risk awareness among employees throughout the organization to enable such employees to identify and address risk-related issues. Overall, the CROs participating in this survey see their purpose as providing tools, training, information, assessment programs, and professional guidance to business-line managers

FIGURE 1: THE ROLE OF THE CRO IN MUTUAL FUND ORGANIZATIONS



\*With respect to shared responsibilities it is important to note that, in most instances, there is likely not a 50-50 sharing of responsibilities. For example, with respect to legal or compliance risk, it is not uncommon for the legal or compliance departments at organizations to have substantial responsibility for these risks with minimal oversight by the CRO.

to help them better identify, anticipate, and mitigate applicable risks.<sup>2</sup> According to the survey results, the majority of participating companies:

- » View the CRO role as one that provides the framework and professional guidance to business units/senior management for them to consider, identify, assess, mitigate, and report on risks confronting the company;
- » View the risk responsibility as remaining with the business units and the CRO's role being one of direction, support, and monitoring;
- » Consider risk on both an enterprise-wide and discrete basis;
- » Maintain a risk committee or equivalent;
- » Maintain a set schedule for evaluating enterprise-wide risk;
- » View the CRO role as significantly involved in managing operational risk;
- » Manage risk introduced through change, including new products, new initiatives, corporate spin-offs, or acquisitions;
- » View the CRO role as providing assurance to stakeholders, including management (company and parent), clients, and regulators; and
- » Anticipate that their role as CRO will continue to evolve and grow in response to increased interest in operational and enterprise risk management.

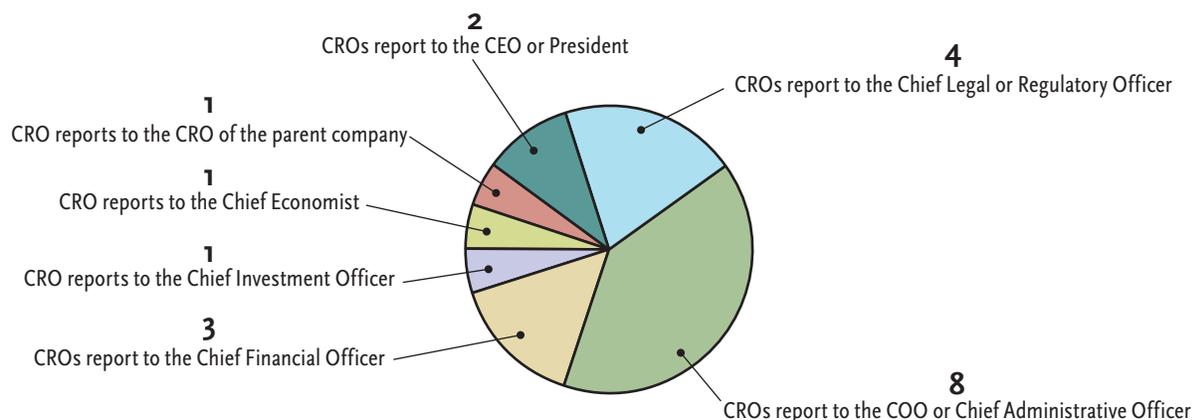
<sup>2</sup> Appendix B lists resources CROs use to stay current on risk trends facing the financial services industry.

## The Structure of the CRO Position

While organizations have structured their CRO positions in a variety of ways, the vast majority of CROs find their organization's structure to be effective.

Organizations take varied approaches to reporting lines for the CRO position as well as to where the CRO “lives” within the organization. The most common approach to reporting lines is for the CRO position to report to the Chief Operating Officer (COO) or Chief Administrative Officer in the organization. Survey participants, however, described a variety of other reporting scenarios.

FIGURE 2: CRO REPORTING LINES



Half of the participants reported that their companies have more than one CRO. These organizations tend to have separate CROs over operational risks and investment risks or for each of their major corporate subsidiaries or operating units. For those organizations with multiple CROs, the CRO that was asked to participate in the survey was the CRO with responsibility for the mutual fund portion of the organization's business.

Regardless of the model utilized, the great majority of survey participants (16 of 20 or 80 percent) stated that their corporate model for the CRO position was effective. Those who said their company's model could be improved listed challenges such as needing additional information on operational processes, searching for more effective ways to quantify and document risks, and the evolving nature of the position within the company. Some stated that their company was “driven” into the role by Federal Reserve and other banking regulations and a continuing challenge for these CROs is to ensure that their mutual fund organization is getting value out of a position that might have been required by a parent company's banking regulators.

Another area where some participants noted that their company structure could be improved relates to the CRO's reporting lines. For instance, some mentioned that a reporting mechanism where the CRO reports to the COO could present conflicts if the CRO were to make recommendations for changes in operational areas under the supervision of the CRO's boss. Survey participants generally believe that the ideal organizational approach to the CRO position would be to have the CRO report directly to the CEO/ executive management team. This would avoid conflicts that may arise when the CRO raises issues that

relate to his/her supervisor's areas of responsibilities. It would also clearly send the message to company employees that the responsibility for risk management is not limited to any one department or area, but is an organization-wide priority and ultimately the responsibility of each employee.

### *Staffing the CRO Function*

The larger an organization, the more likely a CRO is to have staff – though the number of staff dedicated to the CRO in all participating organizations tends to be small.

With respect to staffing, most participants (18 of 20 or 90 percent) reported that they have direct reports, though the number of direct reports tends to be small. Fifteen participants (75 percent of all survey participants or 83 percent of the participants with staff) stated that they had five or less direct reports. Most participants suggested that this may reflect the importance of individual business lines “owning” their own risks, with the CRO supporting the business units in managing risk. These CROs emphasized that the individual business units have the resources and staff to best effectuate the identification, mitigation, and response responsibilities related to risk management.

### *Evolution of the CRO Function*

The CRO function has evolved as the role of the CRO within the organization continues to mature.

Eighty percent (16 of 20) of the survey participants reported that the role of CRO has changed over the past two to five years. Those who have been in the position for this time period stated that they have taken the opportunity to expand the parameters and scope of the position during their tenure as CRO. This has largely resulted from a maturing of the position. Initially, CROs may have been involved in providing more hands-on training and guidance to business units to acquaint them with risk management concepts. As business units have increasingly integrated risk management into their operations, CROs can instead focus their attention on enhancing the risk-related resources they provide to the organization. In addition, as external interest in the organization's risk management has increased over time, CROs find themselves responding to these interests in addition to providing internal support on risk management issues to the organization's business units. Other factors cited by participants that have influenced the evolution of the CRO's role include the higher profile accorded to the CRO within the company, regulatory pressures, and heightened interest in operational or enterprise-wide risk management by the organization's board of directors, management, or external business partners.

## *Approaches to Business Unit Involvement in Risk Management*

CROs report that, in general, the responsibility for risk management rests primarily with the business units within an organization, with the CRO overseeing and coordinating risk management activities and providing professional guidance to the business units.

Generally speaking, the CRO position provides the tools to evaluate the risk factors in a consistent way across business units and to provide a mechanism to “roll-up” risks on an enterprise-wide level to help senior management make decisions on how best to allocate resources regarding risk-related issues. The organizations whose CROs participated in the survey were evenly split with respect to their approach to having risk personnel within business units. Half of the participants (10) reported that risk personnel worked within one or more business units of the company and half reported that no risk personnel worked within the companies’ business units. Those companies with risk personnel embedded in their business units noted that those employees reported to the business unit head – not to the CRO. Regardless of whether the organization embedded risk personnel within the business lines, participants’ organizations consistently utilized a centralized risk management function that was charged with overseeing and coordinating risk-related activities throughout the organization.

When asked what position(s) within the organization has primary responsibility for risk identification, half of the survey participants (10) stated that they share the responsibility of identification of risk with the business unit. One-quarter of participants (5) stated that the CRO has sole responsibility for identification of risk and the remaining 25 percent (5) said the business unit has the sole responsibility for identification of risk. There is no direct correlation between those companies with risk personnel embedded in the business units and those companies that report that the responsibility for risk identification is shared between the CRO and business unit. There appears to be a correlation, however, between those companies that charge either the business unit or CRO with primary responsibility for risk identification and whether risk personnel are embedded within the business units. For instance, all five of the companies that reported the business unit had primary responsibility for identifying risks had risk personnel embedded in the business units. Similarly, four of the five companies that reported the CRO had primary responsibility for identifying risk, did not have risk personnel embedded in the business units.

## *The CRO’s Interface and Responsibilities Within the Organization*

In most organizations, the CRO is actively engaged with the CLO, CCO, IA, and other senior managers on risk management issues and provides guidance on assessing, mitigating, responding to, and determining the materiality of risks.

### **INTERFACING WITH THE CLO, CCO, IA, CFO, AND OTHER SENIOR MANAGERS**

According to the survey participants, a significant part of the CRO’s responsibility is to interface with and support other managers – both business-line managers and other core area managers (such as the CLO,

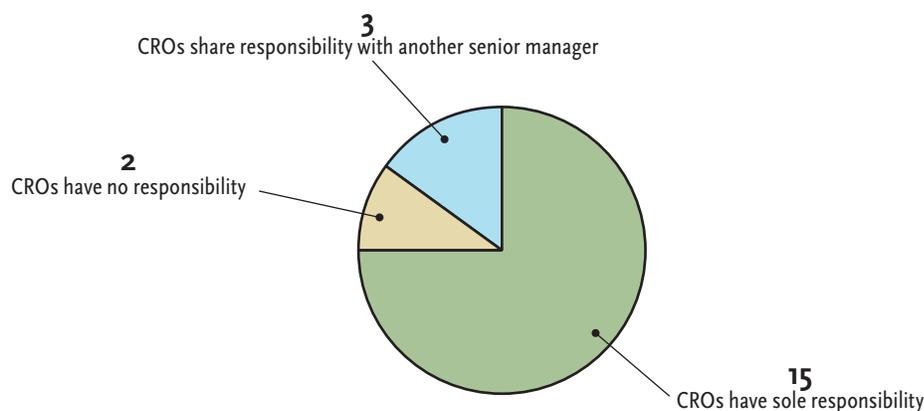
CCO, IA, COO, and Chief Financial Officer (CFO)) – in identifying and assessing risks related to their areas. Most participants stated that the primary responsibility for managing financial, legal, and compliance risks belonged to the senior manager of the area (i.e., the CFO, CLO, and CCO). However, a significant part of the CRO’s job is to provide the tools, techniques, assessment vehicles, and professional guidance for these managers to assess, manage, and mitigate risk in their areas. Some of the CROs who answered “yes” to having responsibility for legal and compliance risks had separate responsibilities for the functional area or reported up through the functional area and therefore had more involvement in that particular area.

### INTERFACING ON OPERATIONAL RISKS

Overseeing operational risk is a central part of the job of most CROs participating in the survey. Indeed, 90 percent of participants (18) stated that the CRO or the CRO together with another senior manager was responsible for overseeing operational risk. For many of the CROs, this is the area that is a major focus of their responsibilities. Participants emphasized information and data security as a particular area of concern in operational risk management.

A common issue raised by the participants was the challenge regarding quantifying operational risks and gathering appropriate data regarding the likelihood of experiencing various operational risks across the company. Many highlighted process control and systems management as key areas of their operational risk management duties. A few respondents discussed their development of internal “scoring mechanisms” to monitor and mitigate operational risks. These proprietary systems were developed to take a more quantitative approach to operational risk management even though most of the participants reported their organization’s approach to operational risk management tends to be qualitative.

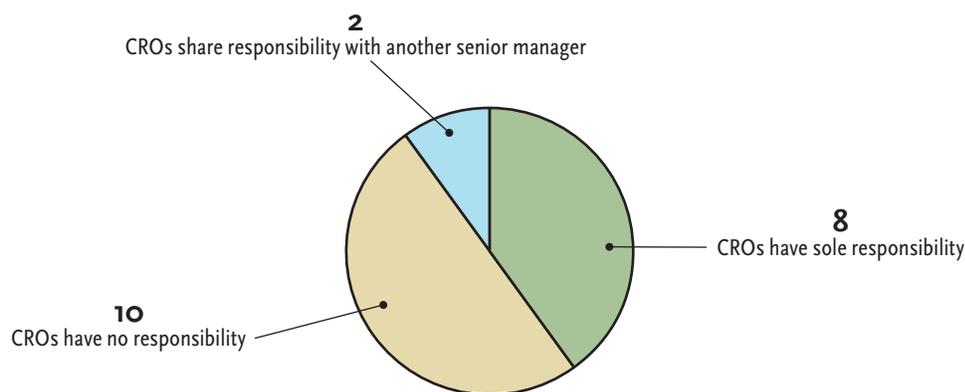
**FIGURE 3: CRO RESPONSIBILITY FOR OPERATIONAL RISKS**



## INTERFACING ON INVESTMENT RISKS

One of the areas where the organizations represented by the survey participants take different approaches to the CRO position involves the area of investment risk. Twelve CROs participating in the survey (60 percent) stated that they either have no oversight responsibility for investment risk or that they have limited oversight responsibility, with another senior officer of the company – typically the Chief Investment Officer – having primary responsibility. The other eight CROs responding to the survey (40 percent) have significant responsibility for investment risk management. These CROs emphasized the importance of the CRO role in overseeing, monitoring, and participating in the processes related to the identification and transparency of investment risk and in building quantitative models to estimate future distributions of investment returns. In addition, these CROs work extensively on ensuring that risk tolerances and expectations (set by portfolio managers and clients) are met. These CROs’ responsibilities tend to include “backward-looking” performance reporting and performance analysis.

FIGURE 4: CRO RESPONSIBILITY FOR INVESTMENT RISKS



## RESPONSIBILITY FOR ASSESSING RISKS

Seventy percent (14) of survey participants reported that either the business unit alone or the business unit and the CRO together were responsible for conducting risk assessments. This corresponds to a theme repeated by participants in the survey that the CRO is in a position to support and facilitate the business unit in managing and mitigating its risks. Many CROs responded that it was their responsibility to provide the assessment framework and processes for the business unit to implement.

There were a wide variety of responses with regard to how often risk assessments are conducted. Most organizations whose CROs participated in the survey conduct risk assessments at least annually, but many treat assessments as a more interactive exercise with ongoing analysis and quarterly, monthly, and even weekly updates.

## RESPONSIBILITY FOR RESPONDING TO RISKS

Seventy percent of the survey participants (14) noted that the responsibility for risk response falls either to the business unit alone or is a collaborative effort between the business unit and the CRO. Half of the participants (10) stated that the business units are responsible for risk mitigation strategies. Seven of the 20 survey participants (35 percent) responded that the business units and the CROs share the responsibility for developing risk mitigation procedures. Of the remaining three survey participants (15 percent), 2 (10 percent of the total survey participants) reported that they have sole responsibility for responding to risk and one reported responsibility for responding to risk is jointly shared by the CRO and the organization's senior management.

## RESPONSIBILITY FOR DETERMINING MATERIALITY OF RISKS

Approximately half of the survey participants reported that their organizations have risk committees involved in determining if a risk is material. These risk committees typically are comprised of senior managers, business-line heads, and other professionals including the CFO, CCO, COO, IA, and the CLO. These committees meet regularly (often quarterly or monthly, though some meet weekly) to discuss risk-related issues. According to the CROs of organizations that have risk committees, such committees help ensure that risks are monitored, measured, and analyzed across the organization in a consistent manner. These committees often act as a liaison to senior management for reporting risk concerns and seeking direction regarding the appropriate response to address such concerns. A majority of respondents present risk-based reporting and analysis to corporate and fund boards of directors typically on a quarterly or as-needed basis.

## *Qualitative and Quantitative Approaches to Risk Management*

Most CROs use a combination of qualitative and quantitative approaches to risk management, though they tend to use a quantitative approach to assess any investment-related risks and a qualitative to assess operational risks.

Most of the participants (14, or 70 percent) noted that, rather than consistently using a qualitative or quantitative approach to risk management, they use a hybrid approach in which investment-related risks are assessed using quantitative models and operational risks using qualitative models. For the remaining survey participants, the CRO's professional background seems a strong influence on whether the organization's approach to risk management tends to be more quantitative or qualitative. Those with a heavy mathematics or finance background tend to view the position from a quantitative perspective. Conversely, those with a general management or operations background take a more qualitative approach. Interestingly, an equal number of companies (3, or 15 percent of the survey participants) took an overall quantitative approach to risk management as took an overall qualitative approach. The CROs who took a qualitative approach tended to have less involvement in assessing investment risk management than those who took a quantitative approach.

## *Risk Analysis as Part of the Budget Process*

Survey participants were equally split on whether their organizations took risk into consideration as part of their budget process.

Risk analysis as part of the company's budget process is an area where companies take different approaches. Half of the participants stated that their companies' budget process does not involve risk assessment and management, while half reported that their organizations' budget process was aligned with risk identification and management. Those CROs whose companies align the budget process with risk assessment and management stated that their companies took this approach to leverage the risk assessment process to help make budgeting decisions regarding allocation of resources related to identified risk areas.

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## Appendix A

### SURVEY METHODOLOGY

The 20 CROs who participated in this survey are all members of the Investment Company Institute's Risk Management Advisory Committee (RMAC), which is made up of CROs (or persons serving in an equivalent position) of the members of the Institute that have a CRO position. The survey was undertaken at the direction of the RMAC to examine the role and responsibilities of CROs in mutual fund organizations and the persons serving in such role. While 21 members of the RMAC participated in the survey, the results only reflect responses from the 20 participants who serve in the role of their organization's CRO or its equivalent.<sup>3</sup> Many, but not all, of the participants, had the job title of CRO.

The survey questions were developed by a working group of the RMAC to elicit information on a variety of areas concerning the role, responsibilities, and characteristics of CROs in mutual fund organizations. Questions sought information on: an overview of the organization and its mutual fund-specific operations, responsibilities for determining and overseeing risk within the organization, the structure of the CRO position, risk management processes, and the background of the person in the CRO position.

The survey was conducted through phone interviews with participating CROs during the months February through May 2007. On average, the phone interviews lasted one hour per participant. In conducting the survey, the RMAC stipulated that the responses were to be obtained and the results reported on a confidential and non-attributed basis. Consistent with this mandate, specific participant information is deliberately not included in the survey results.

The mutual fund organizations represented in the survey reflect a cross-section of fund companies' various firm types, geography, sizes, customer bases, and product offerings. Larger firms, those defined as having over \$100 billion in assets under management, represented approximately 75 percent of the survey respondents. Approximately 70 percent of the respondents represented firms with greater than 2000 employees. Approximately 80 percent of the respondents represented firms with foreign affiliates or subsidiaries engaged in the financial services industry.

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<sup>3</sup> The one member of the RMAC whose results are not represented by the survey data is in a unique position. The mutual fund organization this person is associated with previously had a CRO position but, when the previous CRO left the organization, in lieu of replacing the CRO, the organization elected to form an oversight committee dedicated to evaluating risk-financing strategies (i.e., insurance coverage). Risk management in this organization is decentralized, with various operational, legal, business, investment, and other risks being handled entirely by appropriate company departments and/or committees.

## Appendix B

### CRO RESOURCES

The final question of the survey was:

*What, in your view, are the top three resources for CROs to stay current on risk trends in the financial services industry?*

Not surprisingly, the answers to this question were wide-ranging and reflective of the varied backgrounds of the CROs. The three top categories cited were reading publications, networking with other CROs, and maintaining strong relationships and lines of communication with their company business leaders. Other sources of information cited by respondents included outside consultants, regulators, new staff members, and independent audit firms.

### USEFUL PUBLICATIONS, SOURCES OF INFORMATION

The publications most often cited by survey participants as ones that provided either risk-specific information or information on general business trends included: *Risk Magazine*, *The Wall Street Journal*, *Financial Times*, *The Economist*, and *Ignites*. Some CROs noted that they undertake regular Internet searches for risk-related articles and surveys in order to gather information on risk trends.

### NETWORKING WITH OTHER CROs

CROs noted that they often attend risk-related seminars and conferences with the main objective being to meet and talk with CROs in other mutual fund companies. Some participants noted that they are members of the Global Association of Risk Professionals (GARP) and/or of the Professional Risk Managers' International Association (PRMIA). Others stated that GARP and PRMIA focused on investment management risk and therefore, they found these organizations to be less helpful in their responsibilities for operational risk assessment and monitoring. Some participants cited ICI's annual General Membership Meeting and the Securities Industry and Financial Markets Association's (SIFMA's) annual meeting on risk management as helpful conferences on general risk trends facing the financial services industry.

### SENIOR BUSINESS EXECUTIVES

Many of the participants in the survey noted that a critical source of information on risks facing their businesses was from the senior business executives and employees of the business lines of their companies. As discussed above, the survey results indicate that the responsibility for risk management typically lies with business-line managers as well as with all employees of the company. It is not surprising, therefore, that CROs view the business units (management and employees) as key sources of information for risk trends facing the industry and/or the mutual fund organization. For many CROs, a large portion of their job (in their view) involves establishing and maintaining good lines of communication and working relationships with the business units. For some with multiple locations (international or domestic), this may entail visiting business unit locations, wherever located, on a regular basis in order to establish, maintain, and enhance these relationships.



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