Center for Accounting, Research, and Education
The Viewpoint of the Regulators

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Risk Assessment Activities

Types of Risk Assessment Activities

- Identification of Misconduct
  - Statutory, Rule Violations, and Fraud
- Review of Issuer Disclosures
  - Forms and filings submitted by SEC registrants
- Market & Systemic Risk
  - Financial Stability Board (FSB) and Financial Stability Oversight Council (FSOC)

Approaches

- Use data-driven analytic methods to identify registrants with anomalous behavior that merit further inquiry.
  - *Predictive analytics*: build economic models that predict likely behavior
  - *Pattern detection*: Look for patterns of known types of misconduct.
DERA: Areas of Risk Assessment

- Asset Management:
  - Funds registered under Investment Company Act of 1940
  - Investment Advisers: Investment Advisers Act of 1940
  - Private funds (e.g., hedge funds)

- Public Companies
  - Periodic and event driven disclosures on forms 10-K, 10-Q, 8-K

- Broker-Dealers
  - Registered under Securities Exchange Act of 1934
DERA’s Office of Risk Assessment: Risk Model Development Lifecycle

I. Understand market: work with subject matter experts in operating divisions/offices

II. Develop quantitative measures of actions and outcomes: data from forms, filings, news, and other market sources

III. Build a model: Estimate using historical data

IV. Apply output and assess outcomes

V. Generate feedback: educate experts, update required disclosure, recalibrate model