

Family office diagnostic

Family Office Advisory Services

March 2016



Family office risk diagnostic



Family office risk management

A primary goal of most family offices is to protect the family from damage and loss, whether that is financial, physical or reputational. Risks arise from a variety of sources, including the business, investments or from operations. In our work with families around the globe, we have identified seven categories of risk faced by most family offices.

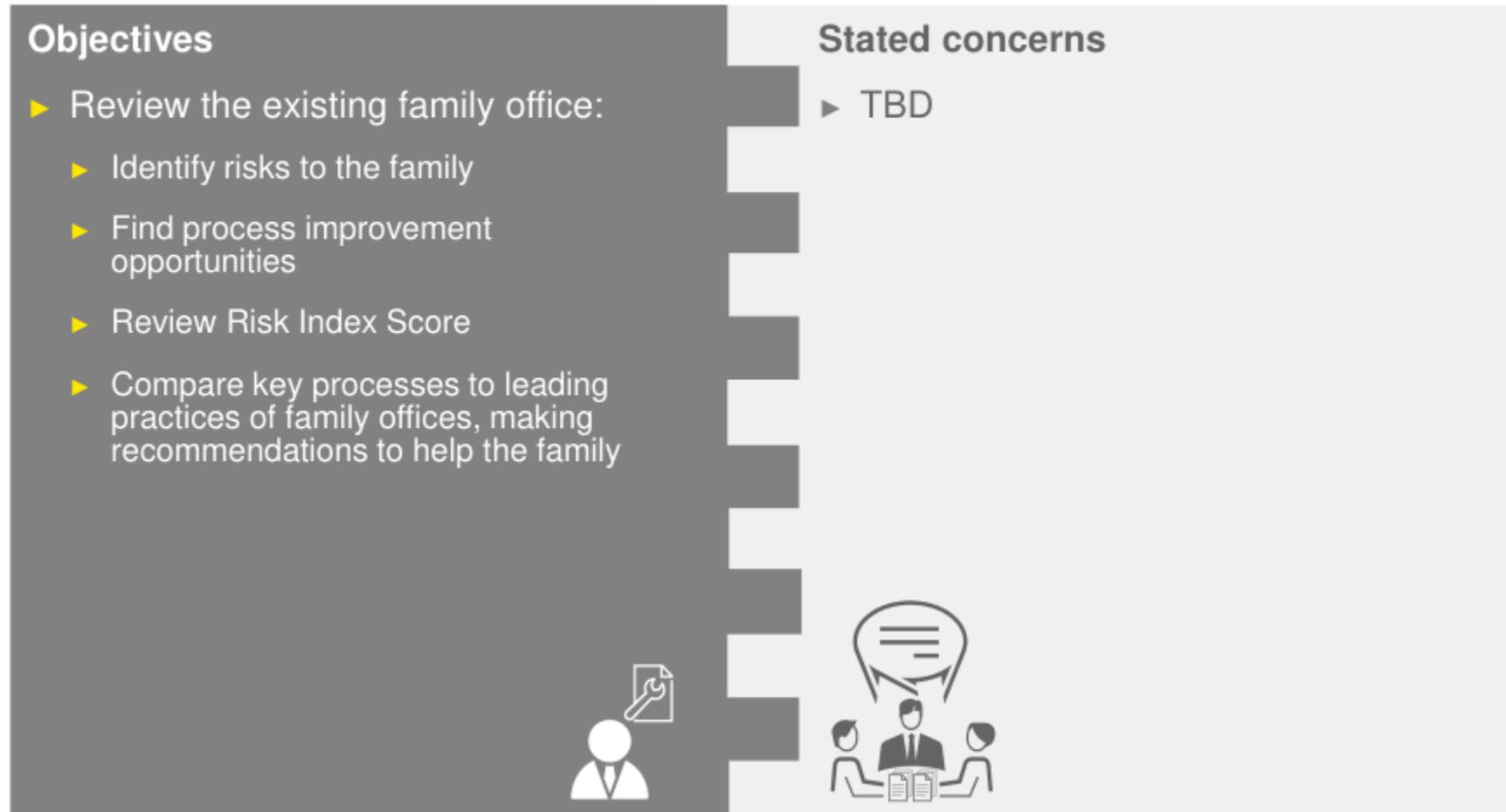
Risk diagnostic

EY Family Office Advisory Services (FOAS) can assist you with a risk review to help identify current risks, following this process:

1. Gather and review existing procedures and documents (from a detailed data request)
2. Customize our risk interview guide to the unique needs of your family
3. Interview key family office staff, family members and advisors
4. Meet with key staff (such as operations, investment and technology) to observe and understand their processes

Objectives and stated concerns

The objectives and stated concerns are customized to each family office, describing their specific goals and interests for the engagement.



Project approach

Phase 1: Assess & diagnose	<ol style="list-style-type: none">1. Meet with project sponsor to launch engagement2. Review documents (broad request of procedures, policies, governance documents, etc.)3. Interview key staff and advisors4. Observe key processes5. Populate the risk score6. Identify key challenges and issues in the current environment7. Compare current services and processes to leading practices of global family offices8. Document recommendations9. Review findings and recommendations with project sponsor	Date ranges
Phase 2: Design	TBD, based on findings above	TBD
Phase 3: Implementation	TBD	TBD

Contents from the assessment

Sample table of contents

- ▶ Project overview
- ▶ Executive summary
- ▶ Current environment
 - ▶ Vision and purpose of the office
 - ▶ Services performed by the office
 - ▶ High-level wealth diagram
 - ▶ Chart of staff and advisors
 - ▶ Technology diagram
- ▶ Findings and recommendations
 - ▶ Risk Index Score
 - ▶ Recommendations
 - ▶ Prioritization of the recommendation
- ▶ Appendices

Risk Index Score



Risk Index Score defined

EY leverages our proprietary Family Office Metrics Risk Index tool that evaluates risk in two ways: a financial view leveraging the COSO¹ framework, and a functional view leveraging seven key categories of risk.

COSO ¹ framework	
COSO ¹ segments	Description
Control Environment	The tone at the top, organizational attitude, awareness, action
Risk Assessment	Identify objectives, risks, and measures to deal with risks
Control Activities	The work flows, policies and procedures used
Information and Communication	Reporting and communication up, down, across the organization
Monitoring	Both ongoing internal review and periodic external review

Functional framework	
Category	Description
Vision and legacy	Family governance, communication, education, and strategic planning.
Management	Overseeing family businesses, running the family office, physical security, disaster recover, and reputational impacts of actions by the family or the business.
Operations	Accounting, recordkeeping, and transaction processing.
Technology	Various types of technology, technical support, and security for the family and family office.
Succession	Planning for family, family office, and business leadership, as well as estate planning, and trustee and beneficiary roles.
Investments	Investment governance and operations, including oversight committees, policy statements, and reporting.
Tax & regulatory	Tax planning and compliance, and compliance with other laws, such as Dodd-Frank.

¹ The Committee of Sponsoring Organizations (COSO) of the Treadway Commission was organized in 1985 by the AICPA, the FEI, the Big Five accounting firms and other industry organizations to promote thought leadership dealing with three interrelated subjects: enterprise risk management, internal control and fraud deterrence. www.coso.org

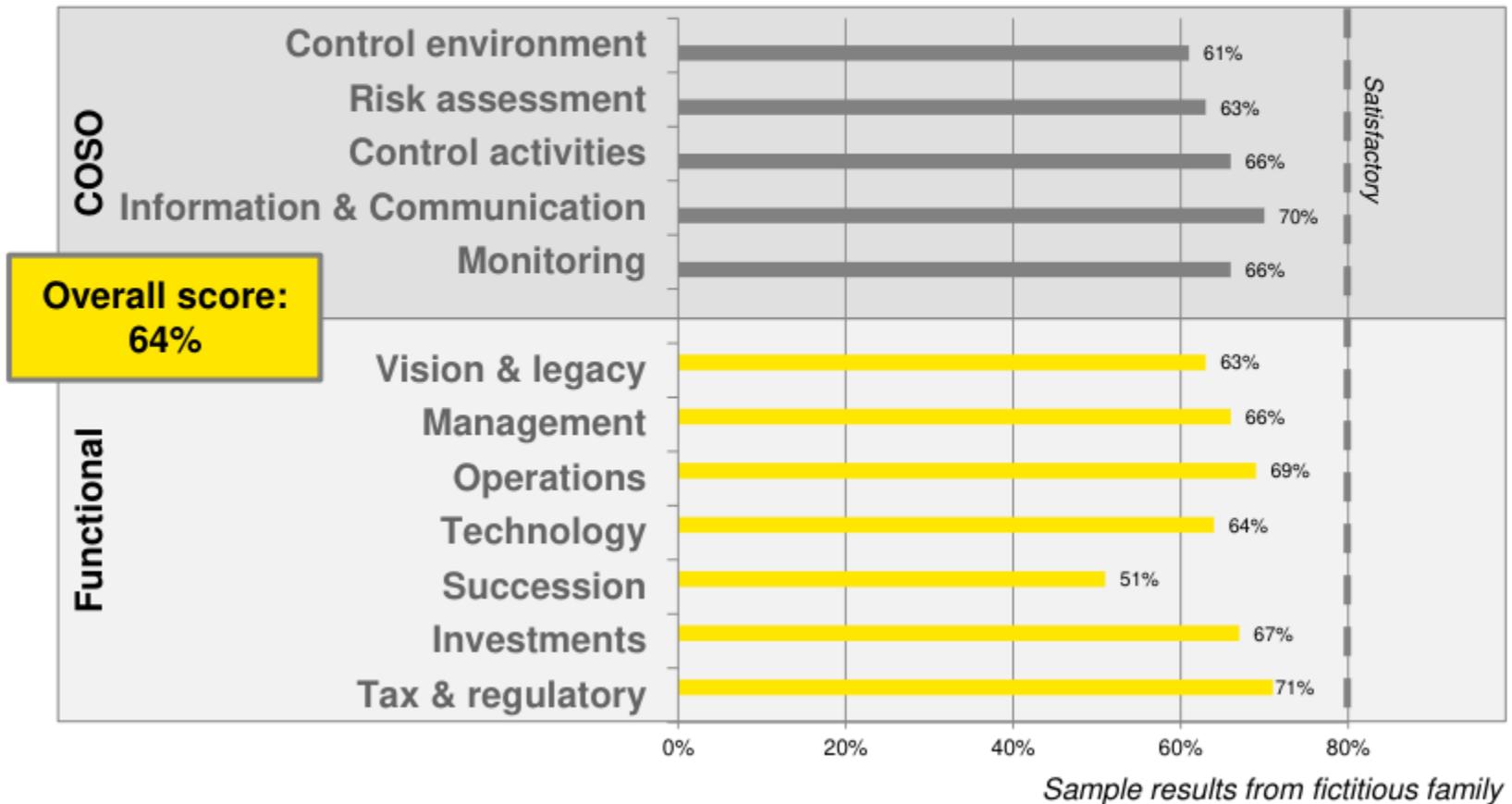
Risk Index Scoring system

- ▶ EY evaluates 128 characteristics to determine risk scores, with each characteristic mapped to both a COSO and functional category.
- ▶ Each question is rated on a scale of 1 to 5.
- ▶ Each question has the same weight in the overall score.

Rating	Description
1	There are no defined controls
2	Some controls are defined, but more controls are needed
3	Sufficient controls are defined, but they are not working as intended
4	Controls are defined and working
5	Controls are defined and working, and the item is regularly reviewed and updated

Family office Risk Index Score

The resulting scores assist the team in identifying areas that require additional analysis.



Family office Risk Index Score

Sample strengths and weaknesses by category for a fictitious family



Recommendations

Recommendations from the review are identified in summary fashion below, with subsequent pages providing detail on findings and the recommendations. There often are 3 or 4 parts to each recommendation.

Detailed recommendations often include:

- ▶ Adding controls to reduce or eliminate risks
- ▶ Building governance mechanisms to better manage some risks
- ▶ Creating strategic plans or activities to reduce future risks
- ▶ Working with advisors to transfer or insure some risks
- ▶ Developing reporting processes to monitor ongoing risks

Category	#	Recommendation	Details
Vision & strategy	1	Strategic planning	Page 22
	2	Family charter	Page 23
Technology	3	Technology network	Page 24
	4	IT support	Page 25
Operations	5	Operational process redesign	Page 26
	6	Accounting/general ledger tools	Page 27
Investments	7	Investment governance	Page 28
Tax & regulatory	8	Tax planning	Page 29
Succession	9	Trustees/beneficiaries	Page 30
Management	10	HR policies	Page 31
	11	Business operations	Page 32
	12	Insurance	Page 33
	13	Disaster recovery	Page 34

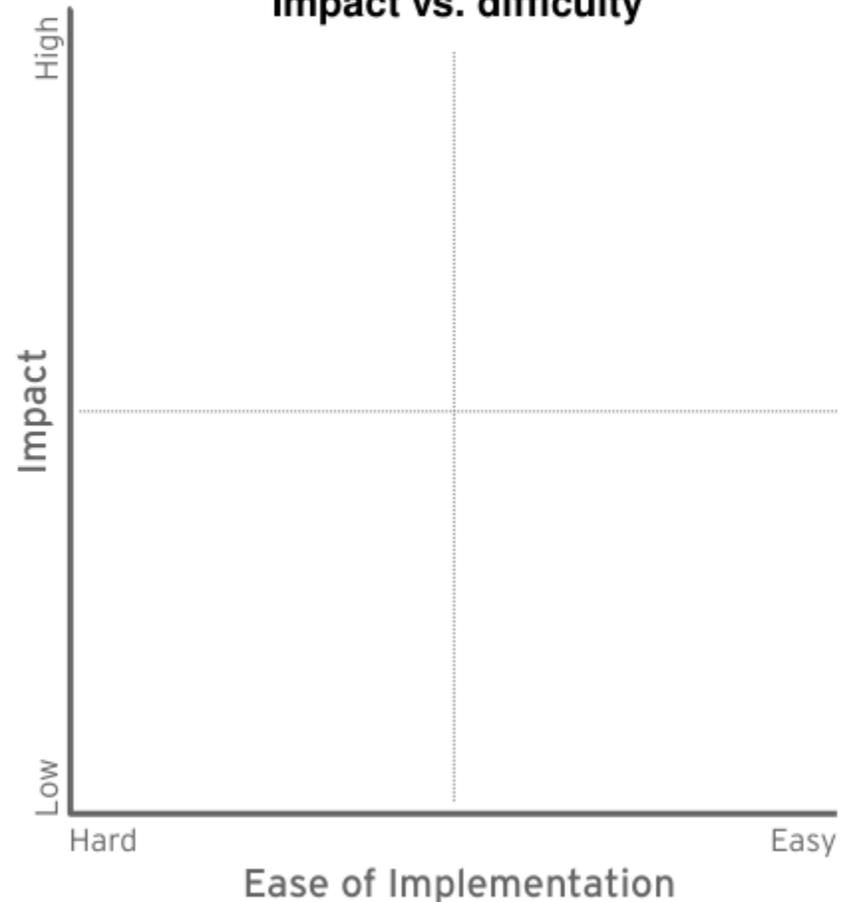
Recommendations

Recommendations are mapped in two ways: by type of risk/recommendation, and by the impact of the recommendation and its ease or difficulty of implementation. Mapping is done jointly between the project team and project sponsor or family office leadership.

Type of risk/recommendation

<p>Insure</p> <p>High impact risks with little ability to control are generally transferred to an insurance policy.</p> <p>Examples: Natural Hazards, Liability</p>	<p>Manage</p> <p>Those risks with a high impact and ability to control should be addressed at an executive level and through well-designed governance processes.</p> <p>Example: Succession Planning</p>
<p>Monitor</p> <p>Lower impact risks that should be watched.</p> <p>Example: External Regulations</p>	<p>Process</p> <p>Higher impact risks that are readily controlled are staffed and subject to policy and procedure.</p> <p>Example: Wire Transfer Policy</p>

Impact vs. difficulty



EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [EY.com](#)

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

EY is a leader in serving the global financial services marketplace. Nearly 35,000 EY financial services professionals around the world provide integrated assurance, tax, transaction and advisory services to our asset management, banking, capital markets and insurance clients. In the Americas, EY is the only public accounting organization with a separate business unit dedicated to the financial services marketplace. Created in 2000, the Americas Financial Services Office today includes more than 6,500 professionals at member firms in over 50 locations throughout the US, the Caribbean and Latin America.

EY professionals in our financial services practices worldwide align with key global industry groups, including EY's Global Asset Management Center, Global Banking & Capital Markets Center, Global Insurance Center and Global Private Equity Center, which act as hubs for sharing industry-focused knowledge on current and emerging trends and regulations in order to help our clients address key issues. Our practitioners span many disciplines and provide a well-rounded understanding of business issues and challenges, as well as integrated services to our clients.

With a global presence and industry-focused advice, EY's financial services professionals provide high-quality assurance, tax, transaction and advisory services, including operations, process improvement, risk and technology, to financial services companies worldwide.

© 2016 Ernst & Young LLP.
All Rights Reserved.