

# Manager Perspective: ODD Trends

The COVID-19 pandemic upended traditional onsite operational due diligence (“ODD”) reviews. Beyond shifting to virtual ODD meetings, investors’ review priorities evolved in real-time as specific business risks changed. In particular, the pandemic underscored the importance of established, institutional grade compliance, technology, and cybersecurity infrastructure in tandem with the ability to efficiently and securely pivot full business operations to a remote work environment. Four changes to controls assessments stood out:

## 1. REMOTE COMPLIANCE OVERSIGHT

Visibility of compliance personnel is often an important aspect of managers’ overall compliance programs. In some offices, compliance team members sit on the trading floors alongside portfolio managers. Initiated by the COVID-19 pandemic, investors evaluated the efficacy of remote compliance programs and whether firms could maintain employee engagement without in-person oversight. Firms with established modes of compliance communication, such as periodic messages from Chief Compliance Officers, supported by existing technology resources, could leverage those processes for employee engagement and oversight without proximity.

## 2. DATA LOSS PREVENTION

Investors assessed managers’ prescriptive controls and ongoing monitoring of employee adherence to data loss prevention policies. Data loss prevention policies may address remote printing, use of removable media, and forwarding work product to personal email addresses. Inclusion in compliance manuals lends weight to policies, but investors also evaluated managers’ ongoing monitoring procedures and systems. Monitoring processes such as keeping records of printed documents, reports of emails sent to personal addresses, or alerts regarding changes in typical user behavior could reveal gaps in the controls process.

## 3. INFRASTRUCTURE FOR A FULLY REMOTE WORKFORCE

Disaster recovery (“DR”) and business continuity plans (“BCP”) can address likely event impacts, such as power outages following a hurricane, but the onset of the COVID-19 pandemic created unique business risks. Beyond looking at specific DR/BCP points, investors evaluated managers’ ability to evolve existing programs in real time. Investors gauged whether managers’ plans were robust yet flexible enough to control changes in business risks. This included assessments of supporting systems, policies, communication, as well as prior testing. Investors knew that managers had pivoted to fully remote environments but wanted details of how they did so.

## 4. CYBERSECURITY AWARENESS AND ENGAGEMENT

Beginning with the first days of the pandemic, bad actors exploited people’s distraction by increasing cybersecurity attacks. Therefore, cybersecurity posture reviews expanded beyond infrastructure controls and user training. Investors assessed how managers maintained employee cybersecurity vigilance while they worked remotely and coped with new anxieties. Investors evaluated modes of communication from Chief Information Security Officers or Chief Technology Officers. As with compliance programs, investors wanted to understand managers’ ability to encourage employee engagement by leveraging existing processes and systems. Investors reviewed factors such as the use of internal communication platforms to issue reminders, share real life examples, and inform users of required actions.

### LOOKING AHEAD

As with market risk, operational risk is dynamic. Going forward, investors are expected to continue to expand the facets of their operational risk reviews in order to evaluate the robustness, efficacy, and responsiveness of managers’ operational frameworks.

### NEED MORE INFO?

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