

SEC Provides Compliance Outsourcing Guidelines

In a recent Alert, the SEC's Office of Compliance Inspections and Examinations (OCIE) explicitly recognized the "growing trend" to outsource compliance activities to third parties. After a review of 20 firms that engaged third party compliance resources, OCIE issued guidance to advisers and funds when considering a third party compliance solution. OCIE advised firms to focus compliance programs on the following areas:

- Regular (in-person) communication with management
- Sufficient internal support of the outsourced CCO
- Open access to client documents and information
- CCO knowledge of the business and regulatory requirements
- Use of customized documents and testing versus standardized checklists and templates

Cipperman Compliance Services, a recognized leader in providing outsourced CCO solutions, would add the following considerations that are equally critical:

- Ownership and Accountability
- Transparency — seamless integration
- Engagement — daily/weekly/monthly reporting and on-site testing
- Control — the state of your compliance program
- Formal processes and procedures — tailored to your specific firm

Best Questions in assessing an outsourced compliance organizations capabilities:

1. Qualifications, depth and size of the team
2. Communication and transparency
3. Processes and timelines
4. Accountability
5. Investment management compliance focus
6. Years in compliance business
7. Frequency of on-site visits
8. How many CCO relationships each person undertakes
9. Development of the compliance manual and related reporting and testing documents
10. Completion of annual review report and testing process

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