

MEMO# 11058

June 17, 1999

LORI RICHARDS' SPEECH AT ICI COMPLIANCE CONFERENCE

[11058] June 17, 1999 TO: COMPLIANCE ADVISORY COMMITTEE No. 23-99 SEC RULES MEMBERS No. 39-99 RE: LORI RICHARDS' SPEECH AT ICI COMPLIANCE CONFERENCE

Lori Richards, the Director of the SEC's Office of Compliance, Inspections, and Examinations ("OCIE") gave the luncheon address at the Institute's Mutual Fund Compliance Conference on June 10, 1999. Attached is a copy of her remarks, which are summarized below. Ms. Richards noted that the fund industry and the Commission share the common goal of wanting to ensure full and complete compliance with the law, which necessitates the devotion of adequate resources and attention to compliance on an ongoing basis. She discussed how the SEC's inspection process supports fund compliance. In particular, she said that the obligation of advisers to supervise is "perhaps the most important part of the securities laws -- because it underpins all others." According to Ms. Richards, this is why OCIE spends most of their time in examinations talking to the firm about the systems they have set up to supervise employees and ensure compliance. She stressed that every good compliance procedure must be designed both to prevent and to detect violations. She commended the industry for its prevention systems noting that this is something the industry has "excelled at." Based upon Ms. Richards' experience, she believes the following factors are important for a good compliance system: good supportive management; fund board members who are aware of the need for strong compliance; comprehensiveness of the system; written policies; regular reassessment of the system; procedures to review exceptions; use of technology; paying particular attention to where the money is ("[p]ay special attention to high flying portfolio managers"); strict internal enforcement; lack of complacency; and, hiring good, smart people. Ms. Richards next highlighted five areas of weakness that her staff has identified during recent mutual fund inspections and on which fund compliance staff should focus. These areas are: allocation of initial public offerings; soft dollars and brokerage allocation (including best execution); the role of the board of directors; personal trading; and performance advertising. Tamara K. Reed Associate Counsel Attachment Note: Not all recipients receive the attachment. To obtain a copy of the attachment referred to in this Memo, please call the ICI Library at (202) 326-8304, and ask for attachment number 11058. ICI Members may retrieve this Memo and its attachment from ICINet (<http://members.ici.org>).