

**MEMO# 19485**

December 15, 2005

## **Institute Paper on Compliance Testing for Chief Compliance Officers**

©2005 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [19485] December 15, 2005 TO: BOARD OF GOVERNORS No. 65-05 CLOSED-END INVESTMENT COMPANY MEMBERS No. 64-05 COMPLIANCE MEMBERS No. 27-05 INVESTMENT ADVISER MEMBERS No. 25-05 PRIMARY CONTACTS - MEMBER COMPLEX No. 50-05 SEC RULES MEMBERS No. 126-05 SMALL FUNDS MEMBERS No. 100-05 UNIT INVESTMENT TRUST MEMBERS No. 26-05 INVESTMENT COMPANY DIRECTORS No. 29-05 RE: INSTITUTE PAPER ON COMPLIANCE TESTING FOR CHIEF COMPLIANCE OFFICERS Attached is the Institute's paper on compliance testing, which is designed to assist Chief Compliance Officers ("CCOs") and others in meeting the review and reporting requirements for fund compliance programs under Rule 38a-1 of the Investment Company Act of 1940. The paper discusses, among other things, the process for planning annual reviews, the options available for conducting compliance testing, and considerations for preparing annual reports to fund boards. The paper is part of the Institute's continuing efforts to assist CCOs in developing effective and practical approaches to complying with Rule 38a-1. The paper may also be helpful to fund directors in their interactions with and oversight of fund CCOs. Given the vast differences among member firms, the paper is not intended to provide a "one size fits all" approach or serve as a set of "best practices." Rather, the paper is intended to provide firms the flexibility to design and carry out compliance reviews in a manner that reflects their particular operations. If you have any questions or comments regarding the paper or related issues, please contact Barry Simmons at (202) 326-5923 or Amy Lancellotta at (202) 326-5824. Elizabeth R. Krentzman General Counsel Attachment