

ICI VIEWPOINTS

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Coping in the Expanding World of Compliance

Compliance officers play a special role in the fund industry. In a nutshell, their job is to make sure the rules are followed—and thus to help maintain the industry’s fiduciary culture and the investor trust that it fosters.

These days, the compliance community faces considerable challenges, as I described in [remarks](#) to attendees of ICI’s annual Mutual Fund Compliance Programs Conference. The world of compliance is expanding. From where I sit, it seems like compliance folks are getting pulled away from what we used to think of as “core” mutual fund issues. Or maybe it’s just that the core itself is just expanding dramatically. Either way, compliance officers are doing more, and often with less—particularly at smaller firms, where resources are sometimes stretched thinner.

Just look at the sheer volume of rulemaking out there. The 2,300 pages of the [Dodd-Frank Wall Street Reform and Consumer Protection Act](#) contain about 240 rulemaking provisions. And the harsh truth is that some of these new rules could fall well short of perfect.

So how to manage in this expanding world of compliance? As I see it, the compliance community will have to draw more than ever on two key skills: communication and collaboration. That means we must not only effectively communicate and collaborate amongst ourselves, but also with the regulators that oversee our industry.

In the compliance area, ICI strives to provide even more industry input to the Securities and Exchange Commission in the hopes of improving the inspection process. Recently, for example, we’ve held seminars at the SEC on the basics of how our industry operates, how our processes flow, what exactly happens from the moment an investor sends us a check until the moment that investor redeems his or her shares. As we see it, to the extent SEC staffers have a solid grasp of the nuts and bolts of our industry, they are going to be more informed examiners and rulemakers.

We’re also engaging with the SEC’s Office of Compliance Inspections and Examinations (OCIE) as it explores having someone on its own staff who performs the function of a chief compliance officer (CCO). To begin with, this is a great idea—to have someone at OCIE who talks to the examiners, studies the exam reports, and makes sure everything squares with OCIE’s own policies and procedures.

But a key ingredient here is industry input. Without industry input, regulators could end up just talking to themselves. So, as OCIE explores having this CCO-like function within it,

we're discussing with them how to get regulated entities to provide perspective to the SEC on what their experiences were like.

This kind of robust dialogue between regulators and industry is critical. If regulators don't have a full understanding of how our businesses work, it can lead to the imposition of rules that are very difficult or even impossible to comply with.

Dialogue also helps regulators stay sensitive to the different roles played by various constituencies within our business. In the compliance context, compliance professionals oversee; they do not manage. They are thus distinct from fund management, just as they are distinct from the board.

As these distinctions get blurred, ignored, or overlooked, confusion about the appropriate role of compliance professionals, which should be to oversee compliance with the federal securities laws, can creep in.

And dialogue doesn't just promote understanding—it also helps foster flexibility. This is particularly important in our changing and expanding world, where sometimes simply applying old rules to new situations doesn't work.

Now I'm aware that dialogue is just a process. And communication and collaboration are just tools in a toolkit. They are a means to an end. The real goal for the fund industry is to produce the best results we can for shareholders. Compliance professionals are vital in this endeavor.

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