

Compliance Investment and Commitment Falls Short

Compliance officers lack adequate resources to address increased regulatory obligations

NEW YORK, August 12, 2014 — A new survey of the financial services community conducted by Cipperman Compliance Services (CCS) finds that firm leaders fail to properly invest in the compliance function despite claiming that compliance is a key concern. Survey participants included broker dealers, asset managers, alternative managers, and wealth managers.

The survey found that while the majority of financial service organizations say they value compliance, few compliance professionals believe their firms are managing the burden well.

A common finding was that firms are understaffing and underfinancing the compliance function.

58% of asset managers state that they need to focus more resources on compliance. Similarly, 83% of brokersdealers feel they need more resources to manage compliance efforts. On average, 74% of those tasked with compliance duties believe their firms should commit more resources to the compliance function.

“Based on our experience with many firms and the regulators, we believe firms should spend a minimum of 5% of revenues or 2 bps of assets under management on the compliance function” said CCS CEO Todd Cipperman. “Investing in compliance protects the franchise and preserves assets under management. We view compliance as the firm’s defense. And defense wins championships.”

“The Cost of Compliance,” a 2013 study sponsored by KPMG, AIMA, and the MFA reported that firms should be devoting approximately 7% of operating costs to compliance with a minimum of \$700,000 per year.

The CCS survey results indicate that only 6% of respondents comply with these industry best practices, leaving them vulnerable to a regulatory or client attack that they lack a “culture of compliance.” “Firms need to show their commitment by dedicating the necessary resources. Simply naming one compliance officer is not a compliance program. Most firms need a staff and outside support to adequately address all the regulatory requirements,” continued Cipperman.

Alternative Managers Struggle to Manage Compliance

Alternative managers, in particular, seemed to report less engagement with the realities of post DoddFrank compliance than other parts of the financial services sector. “New regulations and reporting requirements in the alternative space overburden hedge funds and private equity firms.

Many firm leaders have no regulatory background, so they don't know where to begin", Cipperman said. "These firms are also being pushed by institutional clients including public plans, mutual funds, and defined benefit plans to implement a credible compliance program."

No Functioning Compliance Committees

Most firms failed to constitute and utilize an internal compliance committee to timely address regulatory issues and discuss the compliance program at periodic intervals. 57% of asset managers reported that they either had no compliance committee, one that rarely meets, or were unsure. Among brokerdealers, it was even more pronounced, with 83% in those categories.

"It is difficult to build a culture of compliance required by the current environment if your firm does not have a compliance committee", Cipperman observed.

Perhaps because firms did not have a compliance committee, 40% of alternative managers are "unsure" when their last SEC exam was, and 16% of asset managers are unable to recall their last SEC review.

Unaware of Major SEC Cases

A large percentage of firms were also unaware of major SEC actions. Only 64% of those surveyed were familiar with the SEC investigation of SAC Capital, while 61% knew of the Galleon Capital scandal. A full 50% of broker-dealers are unfamiliar with any major SEC investigations.

About Cipperman Compliance Services

Cipperman Compliance Services (CCS) provides compliance services to registered funds and money managers. CCS creates compliance solutions that work for dynamic firms by leveraging the experience of a multidisciplinary team of lawyers, compliance and operations professionals, and applying a management-focused approach to client services.

CCS takes full accountability for implementing its advice and solutions, which include serving as a firm's chief compliance officer, creating customized compliance programs, conducting compliance reviews, and responding to regulatory inquiries.

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