

Should You Hire a Chief Compliance Officer?



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Compliance is a critical function for financial advisory firms, and its importance will only increase as industry regulations become more complex. Ultimately, responsibility for compliance oversight rests with you. But given the growing demands you face, would it make sense to hire a chief compliance officer (CCO)?

The answer to this question can depend on your business model. As many practices become more sophisticated and the industry shifts toward larger ensembles, more firms may decide to hire a dedicated compliance specialist. And for the growing number of advisors who work within a fee-only model under their own RIA, having a dedicated CCO is a requirement. Given this ever-changing landscape, now is a great time to evaluate your compliance needs.

The Evolution of the CCO

In years past, the compliance role was a generalist position handled by someone who had many other responsibilities. But in today's environment of increased regulations, more specialized expertise and a more sophisticated skill set are required, including competencies in risk, operations, and technology, as well as leadership skills.

For those of you with your own RIA, a dedicated CCO is an essential member of your staff. In the SEC's Final Rule: Compliance Programs of Investment Companies and Investment Advisers, it states that an individual in this role must be:

Competent and knowledgeable regarding the Advisers Act and should be empowered with full responsibility and authority to develop and enforce appropriate policies and procedures for the firm. Thus, the compliance officer should have a position of sufficient seniority and authority within the organization to compel others to adhere to the compliance policies and procedures.

In short, a CCO is responsible for ensuring that a firm complies with both internal and external policies and regulations. This may include creating and maintaining a compliance manual, drafting the firm's Form ADV (if an RIA), as well as working with the firm's leaders to ensure that compliance standards are adequate.

How to Hire a Compliance Professional

Depending on how you're registered, you may have access, through your broker/dealer, to compliance professionals for guidance and support. But what if you need additional help to manage increasing requirements? If you're rethinking how your firm addresses its responsibilities in this area, here are three options for filling the compliance role.

Option 1: Hire from within. In many offices, a staff member is responsible for fulfilling the firm's compliance requirements, as well as other duties. Consider ramping up that individual's compliance functions so that additional requirements are met.

Pros:

A current staff member knows and understands your practice.

He or she already has a general understanding of compliance requirements.

He or she is likely to have the organizational skills and operational understanding to oversee most aspects of compliance.

You maintain control of compliance functions.

Cons:

Training the employee may become your responsibility.

You may not know what you don't know, which can lead to compliance violations.

The employee may have limited experience in compliance, affecting his or her ability to protect your firm from risk.

The employee may lack necessary leadership skills or the ability to think strategically.

Option 2: Hire from outside. Any time you bring on staff, it increases your fixed costs, so first consider whether hiring a CCO makes financial sense. Keep in mind that the compensation structure for a CCO is often a combination of base salary and discretionary bonus. As the CCO assumes additional responsibilities to keep up with increased regulation, his or her base salary is likely to increase.

Pros:

The CCO has the depth of compliance knowledge necessary to protect your firm.

He or she is already trained and can take responsibility for your firm's ongoing compliance training.

He or she is prepared to jump in and provide the guidance and oversight your firm requires going forward.

Cons:

The new CCO must get to know your practice (e.g., investment and service models, operations, core processes).

It may be difficult to find someone who has both the technical skills and the ability to lead compliance initiatives across your firm.

Option 3: Outsource. If you maintain your own RIA entity or you are a larger ensemble practice, outsourcing some compliance duties may be an option. For example, you may find that hiring someone to research and create internal manuals makes your compliance burden more manageable.

Of course, you must conduct proper due diligence to ensure that any outside firm you work with has highly qualified compliance professionals. It's also important to remember that compliance with your supervisory firm's policies and industry rules remains the responsibility of the registered people in your branch—although you can outsource support, implementation rests with you and your staff.

Pros:

The compliance professional you hire can provide expert guidance.

He or she isn't an employee, making it easier to freely discuss concerns.

He or she will likely supplement the work your in-house compliance specialist is completing, which may be more cost-effective than hiring a new employee.

You can control the number of hours he or she works.

Cons:

The outside compliance professional must learn your practice.

He or she may support a number of clients, whose priorities might compete with your firm's needs.

You may not be able to get questions answered outside of the time he or she normally works with your firm.

Your current staff may not be receptive to additional compliance support.

You'll need to carefully assess your business needs to determine the number of hours for which you will contract the compliance professional. (The outsourcing company you work with may not be amenable to adjusting the terms of the contract once they have been agreed upon, giving you little room to negotiate the specifics once you begin working with the contractor.)

Positioning Your Firm for Success

Ready to take the next step? In addition to the core compliance, operations, and leadership competencies you'll want to look for in your hiring process, be sure to focus on finding the right cultural fit, too, to ensure that you make the best choice your firm. Even if you're not ready to hire a CCO today, continue to revisit the idea as your practice grows and the industry evolves. Compliance will always be a critical function of your business, and investing in it will help ensure that your firm is well positioned to thrive now and into the future.

Editor's Note: *This post was originally published in August 2016, but we've updated it to bring you more relevant and timely information.*



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