

IDC Task Force Report Identifies Key Characteristics for Strong Compliance Programs

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Practices and Structures Vary; Key Characteristics Serve as Evaluative Tool for Boards

Washington, DC, September 10, 2009 - The characteristics of a strong mutual fund compliance program include an ethical, compliance-focused “tone at the top;” a collaborative approach by the fund’s chief compliance officer (CCO); a risk-based program tailored to the fund and the adviser’s business; transparency and candor among the CCO, fund board, and adviser; and knowledgeable staff armed with appropriate resources, according to a new task force report of the Independent Directors Council (IDC).

The IDC task force, composed of fund independent directors and CCOs, discusses in the report, [Board Oversight of Fund Compliance](#), the variety of ways in which funds have implemented and boards oversee compliance programs following the Securities and Exchange Commission’s adoption of the fund compliance program rule nearly five years ago.

“Our goal is to create greater awareness of the various practices relating to compliance, including different approaches for structuring a compliance program and the role of the CCO, and to prompt critical thought among boards, advisers, and CCOs as they consider their own compliance programs,” said Ashok Bakhrui, chair of the task force and independent chair of the Goldman Sachs Funds. “While the path to compliance varies, the task force identified some characteristics that evidence a strong compliance regime as well as common themes regarding the mission of compliance.”

“Compliance is a crucial function in the operation of every mutual fund,” said Amy Lancellotta, Managing Director of IDC. “A robust compliance program is good for everyone – fund shareholders, boards, and advisers.”

The task force report notes that practices vary and there is no “right” approach to compliance. Though it’s not required, the task force reports that it may be useful for a fund board, adviser, and CCO to discuss what they consider to be the mission and goals of a compliance program and identifies some common themes, including:

- Compliance is everyone’s responsibility. Compliance begins with each of the business units that make up the fund and investment advisory operations. While compliance personnel oversee the compliance program, each business unit of the fund and investment adviser should “own” compliance for its section.
- Compliance should be collaborative to enhance operations. Though compliance exists to identify and address violations or concerns, approaching it in a constructive manner is likely to be more effective than a punitive approach.
- Compliance should be proactive and anticipatory. Successful compliance programs rely on a testing program that evolves to reflect changing circumstances.
- Compliance should educate. Effective compliance requires an understanding at all levels of the organization of the importance of compliance and the role of each person in preserving a compliant environment.

The paper also examines the role and responsibilities assigned to the CCO, compensation structures for the CCO, and board practices for evaluating the compliance program and the CCO, which vary widely across the industry.

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