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SEC Issues Report on Increasing Use of Outsourced Chief Compliance Officers

November 24, 2015

In November 2015, the Securities and Exchange Commission (SEC) released its [***Outsourced CCO Initiative Report***](#). The report addressed the increased trend of outsourcing compliance activities to third-party consultants within the alternative investment and asset management industry. The SEC conducted examinations of 20 registered investment advisers and companies that outsource their compliance activities and also outsource the role of the Chief Compliance Officer (CCO). The report identified several elements that are relevant to the proper outsourcing of any compliance activities and several factors specifically related to outsourcing of a company's CCO role.

In regards to the proper outsourcing of general compliance activities, the SEC provided these relevant elements to consider:

- The compliance program was reasonably designed to prevent, detect, and address violations of the Investment Advisers Act of 1940 (Advisers Act), Investment Company Act of 1940 (Investment Company Act), and other applicable federal securities laws.
- The compliance program performed proactively rather than reactively.
- Compliance to the applicable laws seemed to be an important part of the company's culture.
- The outsourced compliance program supported open communication between personnel at the company and those imbued with compliance oversight responsibilities.

In regards to the proper outsourcing of the CCO role within a company, the SEC considers a) whether the outsourced CCO administered a compliance environment that addressed and supported the goals of the Advisers Act, Investment Company Act, and other applicable federal securities laws, and b) whether the outsourced CCO seemed to possess the required authority to directly influence the required adherence by the company to the compliance policies and procedures and received sufficient resources to perform all necessary responsibilities.

Should you require additional information regarding compliance with the SEC's rules that impact third-party compliance activities in your business, please contact [***Cheri L. Hoff***](#) at (212) 508-6175.