

Listen Up CEOs: Top Things Your CCO Wants You to Know

By Michelle L. Jacko



Michelle L. Jacko, Esq. is Managing Partner and CEO of Jacko Law Group, PC, a securities law firm which offers securities and corporate legal services to broker-dealers, investment advisers, hedge/private funds and financial professionals. She is also Founder and CEO of Core Compliance & Legal Services, Inc., a compliance consultation firm. Ms. Jacko specializes in investment advisory and broker-dealer firm formation, hedge and private fund development, mergers and acquisitions, transition risks and investment counsel on regulatory compliance and securities law.

Being a CCO is one of the most difficult positions within an organization. Not only does the CCO need to have knowledge of every area of the firm, but he/she must be a leader. It is the CCO's responsibility to interface with senior management on a continuous basis. For many, she serves as a primary adviser to the C-Level executives. She may consult with them not only on regulatory compliance subject matters, but also, to a large extent, on new regulatory initiatives that may impact the business and its advisors. At other times, when new products and services are proposed, the CCO serves as a business consultant – providing both pros and cons to various initiatives.

Effective communications in any organization is essential; but effective communications to the CEO is an art and a skillset that must be developed over time. In this article, we will provide a brief introduction discussing the role of compliance in the financial industry, focusing on what areas the CCO needs to communicate to the CEO. Next, we will explore the mindset and characteristics of most CEOs, provide four case examples from interviews with four CCOs representing small, mid-size and large firms (including dual registrants) on top areas they communicate to their CEOs, and finally, provide tips and suggestions on how CCOs may best interface and lead their executive management team.

The Role of Compliance

The role of compliance within the organization is one of oversight. The CCO is charged with helping to ensure that the various departments within the organization are fulfilling their supervisory roles and complying with securities industry laws, rules and regulations. This requires core competencies of knowing what regulations apply

©2014, Jacko Law Group, PC, Michelle L. Jacko, Esq.

©2014, Core Compliance & Legal Services, Inc., Michelle L. Jacko, Esq., CSCP

to the business, understanding the technology and internal controls that oversee compliance with such regulations, and forensically testing that the firm's policies, procedures and risk management controls are not being circumvented by personnel or otherwise compromised.

To this end, many firms have impact review committees through which the CCO or his or her delegate may participate. Such committee meetings are typically comprised of members of the senior management team, who vet the impact that a new product, service offering, policy or regulation may have on the business. This could include the need for:

- Training
- New technology
- Implementation of an internal control (either internally or through outsourcing)
- Capital infusion for the project
- Policy and procedure development
- Communication to advisors
- Regulatory interface
- And much more

Compliance generally serves as a strong voice in many of these areas. Typically, the CCO is responsible for providing insight into each of these areas, which may directly impact the timeliness and procedural steps required for the roll-out.

Foundational Matters CEOs Should Be Aware Of

The CEO is responsible not only for overseeing all aspects of the business, but for rainmaking and ensuring profitability of the enterprise. To that end, many CEOs may be on the road and not involved in day-to-day meetings regarding development and implementation of controls. For that reason, the CCO may wish to proactively establish periodic meetings with the CEO to inform him or her of material compliance initiatives, risk management concerns and resource needs for the maintenance and enhancement of the firm's compliance program.

For example, suppose that your organization specializes in equity management and is in discussions of lifting out a new fixed income portfolio management team in order for the firm to diversify its service offerings. In that scenario, the compliance initiatives may be:

- Considerations of what the firm must evaluate prior to the lift-out, such as non-compete and non-solicitation concerns
- Reviewing firm communications relating to this change with existing and prospective clients
- Contemplating portability issues related to the fixed income portfolio management team's performance track record
- Compliance review of proposed marketing materials related to the new fixed income offering, including brand new disclosures and composite descriptions (as applicable)
- Authoring new client disclosures within Forms ADV
- Registration (as required) and background checks on the new portfolio management personnel
- Surveillance and other technology needs to conduct compliance reviews of fixed income strategies
- Compliance training for new personnel

The CEO should be aware of these initiatives, which help to set an expectation of how much time, effort and resources, both in the form of economic and human capital, compliance and other areas may need to facilitate the transition and rollout of a new product to its clients.

Another area to consider communicating to the CEO is material compliance infractions and violations that have occurred, with recommendations for the CEO to consider for potential disciplinary or other measures. For example, consider if while performing email surveillance, you detect that the head sales person has been creating last minute presentations and not submitting them to compliance for review prior to first use. Particularly if the head of sales reports directly to the CEO, you will want to inform the CEO of your findings, including any internal investigations you may be pursuing, with recommendations on how to best address the compliance infraction. Dependent upon whether this is a recidivist or one-time event, your recommendations may differ.

Understanding the General Characteristics of a CEO

If you have ever taken a Myers Briggs personality test, you have learned that only a certain segment of the population fits the mindset of this position. Most CEOs have climbed their way to the top through hard work, competition and dedication. They excel at having a vision and rely upon their teams

to execute that vision. Tirelessly, they work long hours, travel and always have their eye out on the next opportunity. It is the goal of every CEO to increase the bottom line through innovative thinking and providing a value-added proposition to consumers. They are entrepreneurs through and through and have taken great risks to be where they are.

Effective communications in any organization is essential; but effective communications to the CEO is an art and a skillset that must be developed over time.

It is for that reason that sometimes compliance may clash with the CEO. Generally speaking, compliance is designed to be risk-averse, which is contrary to the very mindset of the CEO, who may wish to take certain business risks to achieve a particular objective. At times the advice that a CCO may provide can prevent certain initiatives from occurring, which may not be viewed favorably by other members of senior management.

Consequently, it is important for the CCO to know how to “manage up” to the CEO by keeping in mind the following.

Typical words used to describe most CEOs are:

- Determined
- Logical
- Critical
- Direct
- Implementer

They desire:

- Tangible improvements (in the form of productivity, efficiency and profitability)
- Good ideas
- Organization and orchestration
- Coordination and teamwork
- Follow through and problem solving

Keeping these attributes in mind, the CCO can approach compliance conversations by being logical, direct and offering solutions. During the conversation, discuss why, for example, purchasing technology to review potential insider trading abuses can improve efficiencies by allowing compliance staff to be more productive, accurate and thorough in their re-

views. Explain that by implementing internal controls, such as a pre-trading compliance system, the firm can yield greater profitability by reducing errors, mitigating regulatory risks and meeting the increasing needs of its clients and consultant base.

Additionally, it is crucial for the CCO to build a strong relationship with the CEO early on. It is essential to be viewed as a reliable adviser to the business, rather than a cop on the beat. Establishing that relationship, however, takes time and persistence. You will need to communicate effectively and clearly, in a style that is personal to them.

Most CEOs are results-driven. They want to know if their investment in compliance is paying-off. Describe to them how their return on investment within compliance is reaping dividends – in the form of reduced customer complaints, a lower percentage of compliance infractions and an overall surge in the culture of compliance within the organization.

When speaking to the CEO, ask what is on his or her mind, particularly as it relates to business risk and his/her own personal liability. This can naturally segue into discussions about the compliance program and how you and your team can help protect the firm, which is a CEO’s number one asset.

What CCOs Want Their CEOs to Know

Most compliance professionals are not looking for an “ah-ha” moment of catching personnel with a compliance violation. Each day, compliance is looking for ways to advance the firm. They want to be viewed as a business partner – a confidant – a trusted adviser. They want the firm to grow and succeed, which is one of the reasons they work tireless hours to prevent, detect and correct any gaps or potential violations as they occur.

But sometimes the CCO has unpleasant news to share. There may be an infraction of the Code of Ethics by a member of Senior Management. The compliance team may discover a material gap in existing policies and procedures that requires resources to fix the problem. There could be new regulations being promulgated that could significantly impact the roll-out of a new product. Or you find out that the SEC is on its way to your office to investigate an alleged customer complaint. These areas require immediate attention and a strategized plan by compliance, and it is every CCO’s wish that the CEO will support his or her ideas.

While every compliance program is unique, so too is the approach taken by CCOs to address compliance with their CEOs. Below are the results of five (5) interviews with CCOs of various types and sizes of firms and what they wish their CEOs knew.

1. Small Institutional Investment Manager (\$1.3B AUM)

– This adviser has approximately 14 personnel. The CCO wears multiple hats so must be efficient in her job. Due to her tenure and relationship with the CEO, they are in constant contact. However, his time is limited. To capture his attention, she sets up short status meetings once or twice a week, either early or late in the day (outside of market hours) and keeps a running list of pressing items that requires the CEO's immediate attention. When she reviews the list with him, the CCO always provides recommendations on how to handle each item. She will, among other things, introduce new regulatory items, compliance issues and internal control system updates. This CCO finds it most effective to speak to the CEO in person, particularly for material compliance areas requiring the CEO's time, focus and input. She will, however, just copy him on compliance related emails for "informational purposes only" – an approach the CEO appreciates.

This CCO wants the CEO to be involved in the decision-making process of urgent compliance issues so that the CEO can help support, and if necessary, change the team's direction so that an issue can be most appropriately handled. She does not want the CEO to find out about compliance gaps or any "new" news in an Annual Review report; instead, keeping the CEO regularly aware of compliance efforts, training, testing and results allows the CEO to be aware of the strengths and weaknesses in the compliance program, so that he can offer support and resources before a material issue develops.

The CCO is very fortunate to have a CEO who is active and interested in being involved with the compliance program. Prior to the CCO taking her position, she expressed to the CEO that she would not assume that role unless the CEO would support her in developing a culture of compliance and implementing a strong compliance program with dedicated resources. Specifically, she asked whether senior management would spend their own time and the firm's money to establish quality control systems and hire consultants and staff as needed – and she received their commitment to do just that.

The CCO believes one of her primary roles at the firm is to keep the CEO engaged, informed and active in the continual

process of maintaining a strong compliance program. Through the years, she has been able to achieve credibility amongst her senior management team through her knowledge and actions. She constantly communicates that each team member is individually responsible for his or her own actions and compliance with the firm's policies and procedures. This helped the firm in having minimal deficiencies noted during a recent regulatory examination – a fact that has not gone unnoticed by the CEO.

Her advice to new CCOs when communicating with the CEO:

- Set expectations initially with the CEO. Be clear how critical it is to the firm's success to have a culture of compliance.
- Communicate regularly (at least weekly) with the CEO regarding compliance topics.
- Train often and include the CEO. You can keep everyone engaged by having active participation, team quizzes and pizza lunches – which helps build relationships that are key to the CCO's success at advancing the compliance program.

2. Small Retail Investment Adviser (\$2.4B AUM)

– This adviser has approximately 26 personnel. Similar to the above adviser, this CCO wears multiple hats, serving as both the CFO and CCO. As such, she splits her time between these two job functions, and meets with the CEO on a separate and distinct basis to discuss compliance-only topics. Engagement of an outside independent auditor helps to add further delineation and accountability for her activities as CFO, while engagement of an independent compliance consultant adds a separate layer of controls for her activity as a CCO.

Within this organization, the CEO is a true entrepreneur and wishes to at times "push the envelope" with his innovative ideas. In addition to guiding the CEO through the labyrinth of regulatory considerations he must weigh prior to implementing a new concept, the biggest challenge the CCO faces is guiding the CEO when he may not wish to enforce employee disciplinary actions for compliance violations when necessary due to his compassion for them.

This CCO meets with the CEO at least once a month. She always has on hand an agenda, whereupon she takes notes of their discussion points and maintains them in her CCO file. Topics that they discuss include improving documentation controls, operational concerns (such as suitability reviews), portfolio management reviews (triggered by liquidity events

and overrides of client guidelines and restrictions by the adviser), new hire considerations, resource needs, necessary training needed by the financial advisors and compliance program updates. If concerns are brought up but either not addressed or listened to, she will document this accordingly.

For material policy infractions, the CCO will request an immediate meeting with the CEO. She will bring to his attention what violation(s) occurred and will provide recommendations on the next course of action, such as conducting further internal reviews or taking disciplinary actions such as warnings or mandatory training. In this firm, ultimately the CEO makes the final determination as to what actions (if any) will be taken. Typically, the CEO delegates all related compliance communications and enforcement of any disciplinary actions to the CCO.

The CCO is often, but is not always, present for discussion of newly proposed product and service offerings. Due to the strong relationships she has formed with the trading and operations teams through the years, if she is not aware of a particular situation, the team will bring potential areas of concern to the CCO's attention so that she may address this in her monthly meetings with the CEO.

This CCO wants her CEO to do a better job understanding the consequences of non-compliance. When employees circumvent procedures or conduct themselves in an unethical manner, she would like the CEO to take immediate action and be more involved in the compliance communications. However, a lot of these potential issues could be eliminated by taking the time to make better hires and by the CEO emanating a tone at the top in support of compliance.

Notably, the CCO believes much progress is made through her monthly meetings with the CEO, where she is able to have meaningful dialogue about firm risks and recent enforcement actions that provide a strong example of what could happen if "gaps" within the compliance program are not addressed swiftly.

Her advice to new CCOs: develop a strong relationship with your CEO early on. This can be achieved by setting periodic face-to-face meetings to discuss resource needs and in what areas you would like the CEO to support and take action. When developing the compliance program, be sure that there is adequate supervision of staff – not by you as a CCO, but by other managers within the organization. In addition, the CCO should work in conjunction with the CEO to set a tone that compliance is everyone's responsibility and be consistent when enforcing policies and procedures.

3. Mid-Size Institutional Investment Manager (\$6B AUM) – This adviser has 30 personnel and is growing. While an attorney by training, this individual holds only the role of CCO within her organization. Her firm has been established for more than a quarter of a century and many of the employees have been at the organization for well over 10 years. That stability has yielded a compliance-centric firm, which is dedicated to a high standard of ethics.

The most important thing that this CCO discusses with her CEO is "tone at the top." Because the CEO has a very witty personality, he may jest at certain compliance initiatives during the implementation phase. While all appreciate his sense of humor, the CCO is working towards a more serious approach toward collaboration with the CEO to demonstrate that they have a united front in support of the compliance program.

This CCO meets with her CEO on a near daily basis. Frequently, they meet to discuss proposed new products and services whereby compliance is involved in an impact analysis. If there is a material violation (such as a Code of Ethics violation or discovery of a gap in their internal controls), she will immediately inform her senior management team. However, for minor compliance infractions such as late reporting, she will deal with that personally.

How does she determine what is material and immaterial? If the regulators were here and this is something they would want to know about she informs her senior management team immediately.

This CCO wants the CEO to better understand the impact his actions have on bolstering the compliance efforts at the organization. How he personifies tone at the top for compliance trickles down and affects the administration of compliance with the area managers. By being more involved in the compliance process, the CEO will be better able to demonstrate that he supports and is aware of the importance of compliance.

The CCO attributes the firm's strong sense of compliance to hiring professionals who share the same high level of values and ethics as the senior management team. Coming on board, they understand and appreciate the function of compliance and partner with the CCO in every facet of the business. Through compliance training and education on recent enforcement articles and Commissioner speeches, this CCO has been able to enhance the culture of compliance year after year, which has resulted in very few compliance infractions on an annual basis.

Her advice for new CCOs is to be patient and take time to develop a good understanding of the firm and its internal controls prior to proposing new alternatives. When an issue arises, conduct your own internal review to ensure that there really is a problem before bringing it to senior management's attention. Your CEO likely will ask many questions related to any potential compliance violation, and you need to be prepared to respond. Learn the regulatory rules that govern your organization. The CCO will lose credibility not only with the CEO but with peers as well if she does not know the rules or understand the firm's culture and risk appetite

... CCOs do not expect ... CEOs to be involved in the day-to-day compliance tasks or oversight. However, the CCOs would like their CEOs to be involved in the compliance process.

of the organization. Finally, take time to understand the impact of those compliance recommendations you bring forward in senior management meetings - both the impact your clients and employees of the organization as well as the financial implications to the bottom line (for example, for technology controls).

4. Large Dual Registrant (Broker-Dealer and Investment Adviser) (\$20B AUM) - This broker-dealer/investment adviser is a subsidiary of a large parent company. The advisory firm currently has 43 personnel. This licensed attorney holds only the role of CCO within her organization, and is frequently consulted with for her regulatory knowledge.

This CCO meets with her CEO on average twice per month, but interfaces with him on a daily basis. During these bi-weekly meetings, she communicates updates to the compliance program, resource needs, new regulatory developments and compliance infractions that typically involved the firm, but not minor infractions committed by individual financial advisers. At each meeting, she presents him with an agenda that she takes notes on and maintains in her CCO folder thereafter for quick reference.

The CCO has been at this organization for over three years and, during that time, has spent a lot of time developing relationships with the business units. While she tries to integrate compliance into new product development meetings, she is

not always included. When there is a compliance concern that arises in these forums, she leverages her relationships with her colleagues, such as the Director of Finance and certain portfolio managers, who come to her for guidance. Should she discover that compliance has not been brought in the loop and needs to be, the CCO will use her bi-monthly meetings with the CEO as an opportunity to discuss further any concerns or compliance considerations that should be weighed prior to the product's rollout.

This CCO wants the CEO to be more conscientious in considering compliance part of the business process. Her goal is to make the CEO aware that every decision he makes impacts the organization's culture of compliance. Due to the overlap of services provided by the other subsidiaries of the parent company, often times new rollouts involve conflicts of interest which are often not weighed and considered. The CCO desires the CEO

to think more about the implications from a business, sales and especially supervisory standpoint - both of the financial advisers and of the affiliates. This can be accomplished by better integrating compliance as part of the business process.

To advance this awareness, the CCO is very proactive. During her bi-weekly meetings, she not only provides a summary of her compliance concerns, but always suggests corrective actions that include adding compliance to the process. To gain credibility, she attends business meetings so she knows what is going on and can be better aware of the initiatives at this multi-faceted organization in order to better serve as an advisor to the CEO and her senior management team. Ultimately, her goal is to be seen as a partner by all of the business units, but particularly by the CEO.

Her advice for new CCOs is to actively attend conferences so that you can refer back to the materials and speaker presentations as resources on how to address a particular problem or situation. Attend local roundtable meetings to network with other advisers to see how they are dealing with compliance challenges. The more often that you can speak to compliance controls that other similar firms have implemented, the more credibility you will have with your senior management team that you have thought about the issue, compared notes with others and are offering a reasonable solution. Come to meetings prepared with backup documentation for any compliance recommendation that you make.

5. Large Investment Company/Investment Adviser (\$26B AUM) – As CCO of an investment company, this individual reports to the chair of its independent fund board of directors, as well as to the CEO and General Counsel of the firm in his capacity as CCO of the investment adviser. He also reports to the firm’s Risk Committee as well as to the Compliance Committee, which consists of the CEO, General Counsel and Chief Investment Officer. The firm currently has 117 personnel, and is supported by consultants around the globe due to its international presence.

This CCO meets with his General Counsel each week to report on quarterly compliance tests, identified breaches and errors, Code of Ethics violations and special compliance projects. If a material error occurs, that is reported immediately. He meets separately with the CEO at least once a month and advises him on strategic compliance initiatives. The CCO specifically asks what is on the CEO’s mind and takes time to build a trusted relationship. He provides the CEO with compliance reminders he may wish to discuss at the firm’s quarterly employee meetings, including the evolution and strengthening of their compliance program. He also advises the CEO on what regulations are being enacted which may impact the firm.

The CEO and CCO have a strong relationship. Regularly the CEO asks the CCO for his opinion and involves him directly in the day-to-day decision making process. For example, when the firm is launching a new product or service, compliance is involved from the get-go. Through the CCO’s participation in the adviser’s new product committee, he is able to discuss regulatory compliance concerns and considerations related to both the proposed new product and the firm’s customers. During the implementation process, the adviser maintains a spreadsheet representing every area of the firm (including compliance) which documents integration steps. If there are areas of concern, they are vetted during the weekly new product committee meetings, which will determine if the product’s launch needs to be delayed for further investigation and mitigation. Moreover, the fund board is very involved with any new product rollout, and they want compliance’s oversight throughout the process.

This CCO wants the CEO to be involved in every aspect of building the culture of compliance. Fortunately, the firm’s CEO wants to be involved with compliance. He participates in the Compliance Committee meetings,

speaks of compliance during each staff meeting, and with senior personnel. If there is a compliance infraction, either the CEO or the GC will meet separately with that person to talk about the ethics of the infraction. As a result of the CEO’s actions, compliance is at the forefront of every aspect of the day-to-day business.

How was the CCO able to do this? He attributes the strength of the firm’s compliance culture to several factors including the founder’s ethical philosophy which emanates through the organization; the robust compliance training program, which is conducted both by in-house personnel and external experts to heighten awareness; and the fund board which not only supports his compliance efforts but wants to be intimately aware of regulatory compliance concerns.

His advice for new CCOs is similar to others – take time to develop relationships throughout your organization. On a monthly basis, meet with external departments, such as portfolio management, and customize supervisory training for them. Discuss their responsibilities and speak to topics that directly impact them (such as, in this example, high frequency trading, cross-trading, adherence to guidelines, recent enforcement cases involving portfolio managers, etc.). This will help to make them aware of what they need to supervise and how to better identify compliance issues. If possible, also ask if the compliance team can be located in close proximity to higher risk areas, such as marketing, to increase interaction and cultivate stronger relationships to advance compliance efforts. Finally, this CCO believes that it is very important to have compliance involved in the interview process with senior level people. He has found through the years that hiring good people with similar ethical philosophies will correlate to a strong compliance adherence throughout the organization.

Liability Issues that the CEO Should Consider

Being the leader of any organization means that the CEO is faced with direct liability issues. If the CEO has knowledge of a compliance infraction and either turns a “blind eye” or fails to take action, he or she can be cited with either causing or aiding and abetting the firm’s violations and with failure to supervise.

For example, in the recent Administrative Proceeding *In the Matter of Thomas E. Meade*,¹ this President and CCO of Den-

ver-based Private Capital Management, Inc. (“PCM, Inc.”),² is facing charges stemming from his lack of proper supervision and failure to prevent, detect or respond to an internal insider trading scheme in Mariner Energy Inc. (“Mariner”).

In 2010, PCM Inc.’s trader, Drew Peterson, his father H. Clayton Peterson, a board member of Mariner, and hedge fund manager Drew Brownstein engaged in insider trading. All three pleaded guilty and were convicted in 2011. The SEC’s Office of Compliance and Examinations (“OCIE”) proceeded with a cause examination of PCM “out of concerns that Peterson’s trading and dissemination of material, non-public information had gone undetected.”³ In a June 11, 2014 SEC cease and desist order against Meade, the SEC contends that Meade not only had a biased perspective on the insider trading, but also failed to provide adequate supervision of employee transactions after the insider trading was detected.

The SEC found that because Meade personally knew Peterson’s father’s role at Mariner and the risk for misuse of material non-public information by his son, he should have tailored PCM Inc.’s existing Policies and Procedures to specifically address these risks. Meade also failed to adequately supervise employee personal trading, maintain restricted stock lists, and conduct an internal investigation, per the firm’s policies and procedures. Additionally, Meade “overly relied on employees to self-report violations and failed to annually assess the adequacy or effectiveness of PCM, Inc.’s policies and procedures that were in place.”⁴ This insufficient supervision prompted a 2011 SEC provision that warned Meade to more accurately review transactions for the firm – a warning that was not heeded by Meade, and eventually led to the 2014 cease and desist order, a \$100,000 fine, and Meade being barred from compliance and supervisory roles.

Meade reminds us that CEOs have a duty to supervise and be aware of internal controls. While in *Meade* the CEO also had a dual role of being the CCO, this does not lessen the significance of bringing this point to the forefront: the CEO ultimately is responsible for overseeing the activities of the organization and supervising the firm’s employees.

From a regulatory standpoint, Section 15(b) of the Securities Exchange Act of 1934 provides for the imposition of sanctions against broker-dealers and its associated persons who “fail to reasonably supervise, with a view to preventing violations of the securities laws, another person who commits such a violation, if such other person is subject to his

supervision.” Similarly, Section 203(e)(6) of the Investment Advisers Act of 1940 provides that if an investment adviser or its associated person fails to reasonably supervise an employee or other person subject to the adviser’s supervision, and that person violates the federal securities laws, then the SEC may take such actions as censure, placement of limitations, suspension or revocation of licensure.

Therefore, a unifying message that we have seen from all of the CCOs interviewed is that they all want their CEOs to be involved in compliance. They want to ensure that the CEOs are aware of the implicit liability they have from their role as the leader of their organizations, and implore them to take seriously their duty to supervise.

The CCOs do not expect the CEOs to be involved in the day-to-day compliance tasks or oversight. However, the CCOs would like their CEOs to be involved in the compliance process. Their biggest desire is for the CEO to understand and appreciate the importance of setting the “tone at the top” for their organizations in support of compliance and taking their supervisory responsibilities seriously.

Final Thoughts

It is the wish of every CCO to be a strategic partner of the business and to do what he or she can to help shield the CEO from liability. To achieve this and lessen their personal liability, CEOs should take into consideration the following tips from CCOs across the industry:

1. Listen to your CCO and ask questions to best understand proposed compliance initiatives and the regulatory considerations behind the proposal;
2. Ensure that as CEO you understand what supervisory responsibilities you have within the organization, and particularly for your direct reports;
3. Meet with the CCO on a periodic, systematic basis to learn how you can best support compliance initiatives and address misconduct, as necessary, to cultivate a strong “tone at the top”;
4. Take time to read and analyze the Annual Review report. This will enable you to know about potential gaps within the firm’s internal controls and allow you to help the CCO prioritize what to address and when based on the firm’s risk appetite; and

5. View compliance as a strategic partner in the business. Have the CCO participate in new firm initiatives to provide guidance on how to implement new strategies in conformance with regulatory requirements.

ENDNOTES

- ¹ See IA Rel. No. 3855 (Jun. 11, 2014).
- ² Meade was President in CCO for the relevant time period of Jan. 1, 2009 through Jul. 31, 2012.
- ³ See IA Rel. No. 3855 (Jun. 11, 2014) at page 3.
- ⁴ Id. at page 2.

This article is reprinted with permission from *Practical Compliance and Risk Management for the Securities Industry*, a professional journal published by Wolters Kluwer Financial Services, Inc. This article may not be further re-published without permission from Wolters Kluwer Financial Services, Inc. For more information on this journal or to order a subscription to *Practical Compliance and Risk Management for the Securities Industry*, go to pcrmj.com or call **866-220-0297**