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C-Suites Lack Confidence in Compliance

Most financial firms have dedicated CCOs, but not all are sure they can pass regulatory exams, according to Cipperman survey.

By Maureen Nevin Duffy September 25, 2017

Despite increasing their commitment to compliance, executives at asset management firms, alternative managers and broker-dealers are not fully confident that their efforts can pass regulatory muster.

Cipperman Compliance Services ([CCS](#)), in its fourth annual C-suite survey, found that 71% of asset managers, 57% of alternative managers and 68% percent of broker-dealers have stand-alone chief compliance officers. That is, the function is not combined with such other roles as general counsel, chief financial officer or chief executive officer.

However, when asked if they are confident that their compliance program would pass the scrutiny of a regulatory exam, 25% of those at asset managers, 43% at alternative managers and 32% at broker-dealers said no.

CCS, a Wayne, Pennsylvania-based provider of outsourced compliance services, surveyed more than 200 executives such as CEOs, CFOs, CCOs and general counsel, and released the [results](#)

CCS founding principal Todd Cipperman said the findings underscore the need to avoid “dual-hatting” compliance responsibilities and instead take “a more professional approach” to addressing Securities and Exchange Commission and Financial Industry Regulatory Authority requirements.

At the same time, Cipperman said he detects an “industry-wide shift” in attitudes toward compliance, with a total of 61% viewing it as a part of doing business, up from 43% a year before. None of the respondents called it a waste of time and money. Thirty-four percent of asset managers, 20% of alternative managers and 18% of broker-dealers said they are spending more on their compliance program than on legal counsel.

“Because compliance has become so important to protecting the franchise, firms need to bring in third-party experts in the same way they have traditionally retained outside lawyers and auditors,” Cipperman said. “One bad exam and penalty could do irreversible damage to the reputations these managers have built.”

Tech and Cyber Challenges

Technology still presents a challenge. Although more than 70% of asset manager and broker-dealer respondents said their cybersecurity and data protection policies meet regulatory requirements, only 51% of asset managers and 23% of broker-dealers were confident in their firms’ cybersecurity. (The percentages were lowest at alternative managers: 43% saying they meet regulatory requirements and 25% confident in their firms’ cybersecurity.)

"One of the industry's biggest concerns is the technology," said Brian Ferko, chief compliance officer of Brinker Capital, a privately held investment management firm with \$19.1 billion in assets under management. "Hackers' use of technology is constantly evolving. It's one area where everyone knows we'll always be catching up."

Ferko, who shares views with other members of the CCO committee of the Investment Company Institute, says that CCOs are not sharpening their skills every day as hackers are. Although he says his peers all have policies in place that likely meet or exceed requirements that they monitor from time to time, the landscape "changes by the second. With cyber, there's something new all the time."

Ferko also noted that Brinker Capital's adviser and institutional investor clients routinely include compliance-focused questions in requests for proposal and due diligence. That was true of majorities of asset managers and broker-dealers in the CCS survey, but only 26% of alternative managers said the same.

Strategic Partnership

CCS says cyber is yet another facet that can benefit from outside help. "Internal compliance officers might not have the comprehensive skills to address the technical requirements of an adequate cybersecurity program," CCS president Robert Prucnal said. "Firms should consider bringing in experts who can take a more objective view of the IT environment."

CCS in June announced a strategic partnership with [Align Cybersecurity](#) "to collaboratively address the cybersecurity compliance needs of asset managers of all sizes with a trusted, industry-leading solution that provides end-to-end identification, evaluation and remediation of cybersecurity deficiencies."

"Asset managers have too often assumed that cybersecurity was someone else's problem," Todd Cipperman said in the announcement. "After reviewing the state of the industry and conducting extensive due diligence in search of a partner, we identified Align Cybersecurity as a resource that can help our clients meet the newly-espoused and evolving cybersecurity standards demanded by regulators, clients and investors alike."

After the recent Equifax data breach came to light, the Cipperman website provided a link to a post by Align chief operating officer [Vinod Paul](#).