

Diversified Management Resources in the News *Selected Press Reports on Our Sponsored Securities Industry Studies*

Funds Resists Agreements Until Redemption Rule Is Clarified

Fund Action, November 4, 2005
Julie Segal

Mutual fund companies are reluctant to strike agreements with intermediaries until particulars of the redemption fee rule are made clear. As part of the rule, funds are to enter into agreements with intermediaries to receive data on the aggregated accounts of dealers so they can better peer into suspicious activity. According to a survey from **Diversified Management Resources**, of the funds that will get agreements with a limited number of dealers, one in five reports that the benefits do not justify the costs of the agreements.

Of funds that are waiting to get agreement, 12% are waiting for clarification.

"There is a large part of our fund community that is waiting for changes from the SEC before they start planning," said Chip Miller, executive V.P. at Access Data.

The SEC is expected to issue so-called technical amendments to the rule, which goes into effect in October 2006, on such issues as the definition of financial intermediary and other exceptions for the 401(k) industry, but has so far given no guidance.

No respondent cited cost or liability as a reason to put the kibosh on an agreement, although the survey did point to cost and liability as concerns, not barriers. **Charlie O'Neill, principal at DMR**, said, "Although they told us there is clearly a concern about liability and expenses, these will not prevent them from executing an agreement."

Miller added that the survey's findings are particularly eye-catching as 50% of the 40 companies that responded had more than \$50 billion in assets under management. More than 37% had \$100 billion or more. According to the survey, 74% of fund companies said they would enter into agreements with intermediaries, and of those, 14% said the number would be more than 500. Fifty-seven percent said they would strike between 100 and 500 agreements. The survey is the third in a series published by DMR in partnership with NICSA.

Boards Grapple With CCO Bonus

By Beagan Wilcox Oct 18, 2005

With bonus season around the corner, many fund boards are now tackling the thorny issue of chief compliance officer bonuses.

A recent study of CCO compensation has found that 96% of more than 100 CCOs surveyed were eligible for an annual performance bonus. The study was conducted by **Diversified Management Resources** (DMR) and the National Investment Company Service Association, or Nicsa.

Since boards are required by the SEC to approve the CCO's compensation, they must also approve the bonus. Yet, like most compensation issues, setting the CCO's bonus has proved more of an art than a science.

While some boards are approving a higher base salary and a lower bonus, most boards are nonetheless awarding a bonus because of competitive pressures. In other words, boards fear that a CCO who does not receive a bonus might be more tempted to work elsewhere.

"I think for sure if [boards] have a CCO who they think is doing a really good job, and in light of the very competitive market for CCOs, I know they have an interest in making sure that CCO is paid well," says Paul Dykstra, partner at **Bell, Boyd & Lloyd**.

Boards recognize the competitive market for CCOs. Paying a bonus is one way to make sure that the CCO knows his or her work is valued.

"You don't want to lose your people over money," says Marcia Wallace, independent chairman of the **North Track Funds**.

That puts boards in a tough spot, because determining how the bonus is determined is proving to be a challenge. At the center of boardroom discussion about the CCO's bonus is a potential conflict of interest. The concern is that if the bonus is linked to the advisor's success, such as profits, the CCO might be less inclined to raise compliance issues that are problematic for the advisor.

The competitive market for CCOs has led some boards to approve stock options and restricted stock as part of the officer's compensation package. About 27% of the more than 100 CCOs surveyed for the DMR and Nicsa study said they were eligible for stock awards; about 35% said they were eligible for stock option awards.

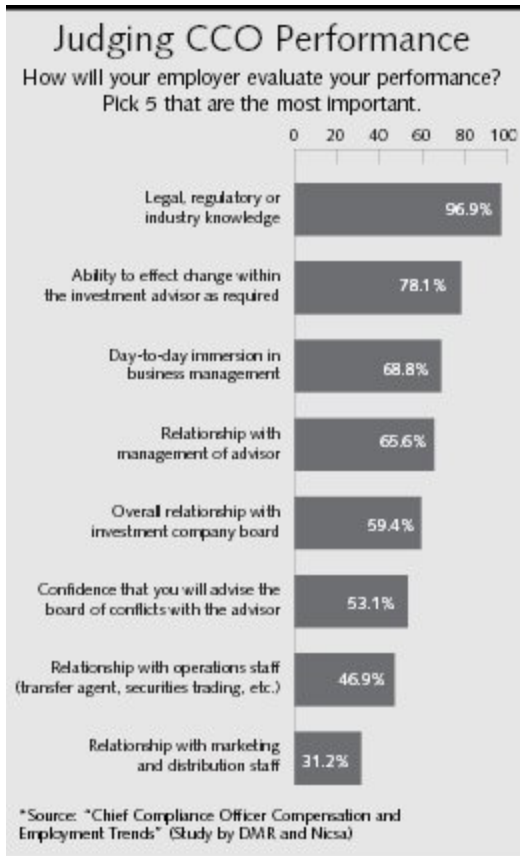
"I've seen a portion of the compensation tied to stock options or restricted stock," says André Brewster, partner at law firm **Howard and Rice**. "And in many cases, the options and stock have vesting periods which preclude the CCO from realizing the value of the stock or the options until the vesting period terminates." The vesting periods vary, but are often from three to five years, he adds.

This raises a conflict of interest, because with stock options or restricted stock the compensation of the CCO is directly linked to the financial success of the advisor or an affiliate of the advisor.

Boards have questioned advisors about the appropriateness of this practice, says Brewster. The advisor may respond that its success is related to the success of its compliance efforts. "You've seen great losses because of compliance problems," says Brewster.

For some directors, learning more about how the CCO's bonus was determined can make a difference.

"The conflict of interest will be there, but if the board understands how the CCO is being compensated, it can go a long way to alleviating the concern that the conflict of interest is affecting the performance of the CCO," says Brewster.



Due to the potential for conflict of interest and the need to maintain the independence of the CCO, there seems to be a trend in complexes in which the CCO serves both the fund and its advisor to structure the CCO's compensation such that the base salary is relatively high and bonuses are small or not a part of the compensation scheme, says Diana McCarthy, partner at **Drinker, Biddle & Reath**.

At many fund complexes, a big part of an advisor employee's compensation is the bonus, says McCarthy, but that's probably not the best compensation structure for the CCO.

Another issue for boards is whether the advisor or the funds pay the bonus and, if so, how much each one pays. At the North Track Funds, the advisor and funds split the CCO's base salary. They also split the bonus, says Wallace. (The officer is CCO to the funds and the advisor.)

In an unusual move, the board pushed to award the CCO a bonus last year, after he had been on the job only three months. The advisor agreed to the bonus.

"He got off the ground running faster than I thought he might," says Wallace.

In many other cases, the advisor suggests the bonus amount and the board reviews it. However, boards are not blindly approving those suggested amounts.

"I've seen boards push back. They certainly want to know how the bonus was determined," says Howard and Rice's Brewster.

On the other hand, some boards are setting the bonus amount and then seeking the advisor's input. Brewster says he's seen cases where the board sets a range of possible bonuses, which the advisor then reviews. In this way, the advisor knows that the bonus won't be way outside of its

expectations.

A central part of determining the bonus is drawing up the criteria upon which the CCO's performance is judged.

The qualitative criteria that some boards rely upon include the CCO's effectiveness within the organization, the officer's quality of reporting to the board and the quality of oversight of the service providers. Just as the CCO has dual reporting lines to the advisor and board, the criteria the advisor uses to evaluate the CCO's work will probably differ from what the board uses.

A number of boards have already put the issue of the CCO's bonus behind them. If the advisor is on a fiscal year schedule, the CCO's bonus may have already been determined and awarded. However, for advisors on the calendar schedule, deciding the CCO's bonus is still in the works.

Umm, Not Quite Mutual Fund Execs Say They Lack Resources To Support CCO Job

Julie Segal October 14, 2005

Only 38% of chief compliance officers, compliance staff and other senior managers of mutual fund firms believe their company has provided or has specific plans to provide the CCO with adequate resources to do their job effectively. Forty-four percent said resources are "generally adequate" and 18% said flat out that resources are generally insufficient, according to confidential poll results from **Diversified Management Resources**.

DMR recently conducted the online poll of CCOs and other executives to determine their concerns about resources, staffing and hiring plans. The largest segment of respondents was CCOs, representing 46%, followed by compliance staff members at 18% and CEOs and COOs at 11%. Twenty percent of respondents were from the largest firms, those with \$100 billion in assets under management. Participants represented 40 investment firms overall.

DMR also found that 25% of respondents did not feel they would have sufficient resources, even once they hired staff for 2006. What's more, when asked to describe their firms' compliance efforts and whether they are "activist" or passive/reactive, only 33% said they were activist or aggressive in rooting out problems rather than reacting to issues as they arise. Sixty-seven percent said the programs were "generally proactive."

Charlie O'Neill, principal, said, "An activist compliance program would get the various business units to accept accountability for compliance in day-to-day operations. Whereas, in a more reactive environment, the "CCO is the backstop." O'Neill added that respondents are generally finding it more difficult to find experienced staffers than they anticipated. In addition, few firms plan to hire additional senior level staff, but are looking for entry and mid-level professionals. He said that makes sense as most top officials are likely already on board and firms want mid-level staffers to execute plans and lower level employees to deal with the flurry of paperwork required for new regulations.

O'Neill said respondents at the largest firms--those with \$100 billion in assets--were less likely to say they had adequate resources once they hired staff. Fifty-percent of this group said "yes" they were adequately resourced, while 75% of the group as a whole believed that was so. O'Neill

explained that CCOs at the larger firms might feel they are in regulators' cross-hairs so "they are sheepish about saying they have all the resources they need. They have the most at stake and the most to lose," he said. About 50% of these firms describe their compliance efforts as "activist," with the other 50% saying that they are "generally proactive."

CCOs to Be Surveyed On Resources

Fund Action, September 30, 2005

DMR Financial is planning to survey chief compliance officers on year-end resource planning starting this week. **Charlie O'Neill, principal**, said the online survey will question CCOs about the resources that they have to do their jobs, whether these resources are adequate and if they are not adequate whether they create risks for the firm. In addition, DMR will question CCOs about whether they have multiple job responsibilities within the firm, such as chief operating officer, and whether they are comfortable with those roles.

"We want to determine whether CCOs wear multiple hats in their organizations," said O'Neill. DMR's survey will also ask about staffing, and whether additions to staff will be entry level, mid-level or senior professionals.

DMR, a marketing, research and executive recruiting firm, earlier this year completed a CCO compensation study in conjunction with the National Investment Company Service Association. Among the findings was that one-half of newly installed CCOs had worked in operations at some point in their career

CCO Outsourcer Sees Pick-Up in Activity

Fund Action, August 5, 2005

Fund Compliance Services, which provides chief compliance officer outsourcing and is a sister company to Gemini Fund Services, has seen a recent pick-up in activity. Michael Miola, co-chairman of NorthStar Financial Services, the parent of both companies, said five managers, which do not use Gemini Fund Services for administration, have signed on after initially using an internal CCO. The deadline for funds to have a CCO was last October. Jeff Unterreiner, president and portfolio manager at Proactive Asset Allocation Funds, a new FCS client, said his in-house CCO did not have a direct compliance background. Unterreiner said Fund Compliance Services offers an expert in the area as well as independence.

Also, it is a cost effective move to outsource the post to a third party, which can then share costs with other clients. The decision was also driven by growth plans, he said. Proactive is merging with Illington Fund Management in New York and creating another mutual fund. An industry recruiter said many companies have not supplied CCOs with adequate resources and that many of these compliance officials have not gotten the needed support from other areas of the firm. **Charlie O'Neill, principal of DMR Financial**, said a recent survey of CCOs pointed to the majority of these officials being unhappy with compensation, a factor that could lead to turnover and prompt companies to review their CCO decision.

Half Of All CCOs Have Ops Background

Fund Action, August 5, 2005

One-half of all newly-installed chief compliance officers at investment managers, including mutual funds, have previously worked in an operations role at some point in their careers. What's more, 40% of compliance staff members said they came into the compliance department directly from operations, according to undisclosed results from a new survey from Diversified Management Resources, a marketing, research and executive recruiting firm. The survey was completed in conjunction with the National Investment Company Service Association. The findings in the new report, NICSAs- D.M.R. Chief Compliance Officer Compensation and Employment Trends, are important as CCOs have only been on the job for about a year and fund firms are still feeling their way with the new hires, including reporting structures, responsibilities, support, experience and pay.

Charlie O'Neill, principal at DMR, said the results, while seemingly counterintuitive, make sense as an understanding of the inner workings of a fund firm is crucial to a CCO being effective with respect to implementing and monitoring policies and procedures. The survey also found that while 40% of compliance staffers came directly from operations, more than 60% said they had worked in operations at some point. "Operations is a pipeline for compliance staff members," O'Neill said.

O'Neill added that about half of hiring executives, predominantly human resource professionals, said that operations experience would be desirable for CCO candidates.

Compliance Staff Pay On CCOs' Minds

Ignites, May 9, 2005
By Chris Frankie

Demand for qualified chief compliance officers has made the position a hot commodity, driving up salaries for talented CCOs. Now the same thing is happening for staffers on the CCO's team.

After all, in order to be effective, especially at some of the bigger shops, CCOs need highly skilled and competent compliance professionals working under them. With demand for such individuals on the rise, retaining talented staffers has become more difficult.

Contributing to that problem is the lack of current data on compliance-professional compensation, according to Charles Park, CCO at American Century. He says it is his sense that pay is going up, but that the data on the subject is "lagging" or outdated.

He says there is anecdotal evidence indicating that lower-level compliance staff members are leaving for significant salary bump-ups.

Park, who has a compliance staff of 26 and is in the process of filling four new slots created this year, says no one on his staff has left yet and none have suggested they are unhappy with their salary.

"But we want to get a handle on it," he says. "We want to make sure we adequately compensate our staff and fill the open positions in a way that is appropriate for the marketplace."

He is not alone.

Joe McGill, executive director and chief compliance officer at UBS Global Asset Management, has spoken several times at industry conferences about the challenges in this area.

"I think what it comes down to is to keep your core team intact," McGill says. "You are only as good as your staff." He says you have to keep them satisfied in terms of both money and career development.

One of his compliance staffers left UBS to join the SEC, only to return a short time later to the shop for a hefty salary increase.

"You have to put the best people you have in your highest risk areas," he said at a recent conference. "It's just difficult to retain quality people."

Fund industry recruiter Barry Emen of MJE-ICS Associates says the going rate for compliance professionals is only going up and demand will continue to grow. He says there are a limited number of quality people who are trained and willing to do certain compliance jobs. Add to that the fact that hedge funds are increasingly competing for these individuals, and the ranks of available, highly skilled candidates become even thinner. Says Emen, "The demand is just way outpacing the supply."

Emen says he recently placed one individual in a mutual fund compliance analyst job for a salary of \$110,000 annually. The position was originally supposed to fetch \$85,000 but was bumped up to nab the individual. He says the going rate for such a job is anywhere from \$100,000 to \$125,000 in base salary and that it could be bumped up to \$150,000 once a bonus is factored into the mix.

Another compliance staff position that is fetching a pretty penny is the person who is in effect serving as deputy CCO. That job generally pays a base salary of anywhere from \$100,000 annually to \$150,000, he says.

"There has been a lot of movement," Emen says. "Firms that don't recognize how competitive the market is are going to end up losing compliance professionals to better offers from the competition."

Charlie O'Neill, a principal at Diversified Management Resources, says that unfortunately for smaller firms, the cost of retaining compliance executives may be on par with that at bigger shops. He says that because the demand is so high, the price tag for CCOs is going to continue to remain high. Smaller shops tend to have fewer resources, and therefore the CCO is likely to end up doing more work. O'Neill says many of these principles are likely to translate to CCO staff members as well.

"Just generally speaking, across the board, this is probably the best period compliance professionals have seen in a long time just because of the huge demand for regulatory and compliance skills sets," says Larry Lieberman, managing director with executive recruiting firm the Orion Group.

He says need is so high that "for the moment even the journeyman candidates are in demand. When the dust truly settles, you will see less of that desperation you are smelling," and less of an inclination to fork over inflated salaries.

Boards to CCOs: Are You Happy with Your Pay?

By Amanda Gerut, May. 03, 2005

Fund boards concerned with the rising stress levels of their chief compliance officers (CCOs) will approve higher pay packages to keep them content in the post, directors say.

Many in the industry say a good CCO is hard to find, so once directors have an effective CCO, they don't want to lose him. Without a diligent CCO, boards could be open to compliance problems and enforcement actions from the SEC.

Boards recognize the professional risk and hardship of the CCO's job. Accordingly, some increased their CCOs' compensation at the outset, says Jonathan Zeschin, an independent director on the ICON Funds board. (Under the SEC's new compliance rule, boards must approve the CCO's compensation.)

"No board will want its good-performing CCO to leave just because he or she is feeling overworked and underpaid," says Zeschin. "I think boards will be quite sympathetic to CCOs' concerns and will be willing to work with them and advisor management to solve issues as they arise."

The SEC rule mandating fund CCOs went into effect last October. It has bolstered the traditional compliance position long held at fund complexes with new responsibilities and added pressure. A footnote in the rule says the SEC will shine a brighter light on a firm that hires a CCO who has been dismissed from another firm. The rule doesn't discuss whether CCO turnover due to resignations will be scrutinized.

Boards have been closely involved with CCO compensation all along. Jim Angelos, CCO to the Evergreen Funds, says he's perfectly happy with his current compensation. But if he felt he needed more money or resources, he would go straight to his board.

"That would not be an issue at all," Angelos says. "They have been extremely clear with me that if I do need anything, I should go to them. They ask me that question every quarter."

Other boards have also sought to reassure their CCOs in this regard. The Selected Funds board last fall reviewed its CCO position in terms of performance and salary, says James McMonagle, the board's independent chairman. The board consulted with its auditor and reviewed the advisor's pay schedules to determine the CCO's salary, he says.

"When she took the job as a CCO, we pledged to her that she should be able to get whatever resources are necessary," McMonagle says.

Still, with a shortage of highly skilled CCOs in the industry, boards remain concerned about retaining them. The results from an unreleased study may add to those concerns: Approximately 65% of the CCOs polled think their compensation is less than what the job deserves.

The study, performed by **Diversified Management Resources** and the **National Investment Company Service Association**, began in late February to gauge how comfortable CCOs felt in their posts thus far, says **Charles O'Neill, a principal at DMR**.

As part of the study, CCOs were asked how they felt about their compensation. Out of hundreds of responses, about 65% said they felt it was less than it should be, considering the personal risk; about 21% said their compensation seemed adequate; and 13% said they'd consider walking away from the job if their salary remained flat after their next review.

O'Neill says the news that CCOs were feeling underwhelmed by their compensation was hardly surprising, considering the continuing investigations in the industry and the newness of the role. He notes that an unhappy CCO could represent an area of vulnerability for boards that want to keep their CCOs content in their positions and safe from recruiters.

"The overall implication for senior management is that number one, a lot of firms are looking for compliance professionals," says O'Neill. "If you want to retain the people, you should be pretty close to them and understand what their needs are."

O'Neill adds that CCOs who responded to the survey questions anonymously online might gripe more easily about their pay. He suspects their complaints have more to do with the equity of pay within their firms than with the dollars CCOs are paid in the marketplace. Plus, it's important to benchmark the early opinions of CCOs as their positions are evolving, he says.

Boards are still debating the issue of CCO compensation. The structure varies from firm to firm, but sometimes pay packages follow the customary structure used for senior management: a base salary, a bonus piece and an equity piece.

In small fund shops, the pay range for CCOs starts at \$100,000 to \$150,000, and larger shops have packages in excess of \$1 million, says Lawrence Lieberman, senior managing director of the Orion Group. Salaries tend to be proportionate to the size of the organization.

Lieberman, who thought the survey was done too early to get reliable results, says that because companies had to comply with the SEC rule in such a short period of time, some fund complexes had to hire less seasoned candidates than they would want, given the broad range of skill sets required for the job.

When it comes to possible stock options in the advisor, CCO pay packages could get tricky. Stock options could theoretically threaten the CCO's independence. On the other hand, a long-term package could be important to retain a highly visible, highly coveted CCO, says Paulita Pike, partner with Bell, Boyd & Lloyd.

"A really good CCO, someone who's a good speaker and makes the rounds, could be sought after by other complexes," says Pike. "I think boards do struggle with how the CCO's compensation might be structured to retain the CCO."

Some directors and fund attorneys say that CCOs who are wilting in the heat shouldn't wait for their yearly meeting to communicate their concerns to the board. Issues with compensation and other problems should be relayed to the board as they arise, says Robert Kurucz, a partner with Morrison and Foerster.

Directors and CCOs alike say their relationship is still evolving and will take time to become routine. But, says Zeschin, as with any new position, there will likely be a few people who leave the job.

"I think there will be some situations in which CCOs simply say they no longer want the job because the stress, workload and exposure are all too great and that no amount of compensation and additional resources can make up for those negatives," he says

Most New Fund Management CCOs Unhappy With Pay

Compliance Reporter, April 14, 2005

By Julie Segal

Three-quarters of new chief compliance officers at investment management firms are unhappy with their compensation packages, according to a soon-to-be-released survey obtained by *CR* sister publication *Fund Action*. Of the 77% who cited disappointment, 65% said their compensation is less than it should be considering the personal liability, risk and complexity involved with these new positions, but only 13% said they will leave their current positions if their salaries are not increased. The results of the survey are startling to officials who said CCOs are central to the Securities and Exchange Commission's record number of rules put into force this year and last, and given that compensation for CCOs has been fairly lucrative relative to other compliance positions. Some estimates have put CCO compensation at \$500,000 at a large firm, including bonuses (*CR*, 8/16).

Charlie O'Neill, principal of **DMR Financial**, a marketing, survey and executive recruiting firm, said the survey, which is jointly offered by the **National Investment Company Service Association**, said the results are surprising, particularly because the dissatisfaction level for CCOs is well above the 46% average for all mutual fund industry positions. The CCO Compensation and Employment Survey will be released for sale in the coming weeks. The SEC required funds and investment advisers to have appointed CCOs as of last Oct. 5.

The survey also questioned respondents on whether they would have taken the CCO position if they knew then what they do now. Forty-three percent of respondents said yes, if certain conditions were met, while 14% said no. The other 43% said yes they would have taken the job. O'Neill said 81% of respondents who would have taken the job given certain requirements, named a larger budget as the first condition. Fifty-eight percent said they would have wanted more support from other areas of the firm. "This suggest that there will be a certain amount of turnover as other firms start soliciting for these positions." O'Neill said the data also point to firms sending a message to their employees that compliance is a firm-wide priority not just the CCO's job.

Back-Office Vets Ready to Switch Firms, Reports Research

Operations Management April 11, 2005

Operations executives are dissatisfied with their firms, and most are open to pursuing opportunities at competing firms, according to a survey that has not been released from the National Investment Company Service Association, a trade association representing the operations sector of the mutual fund industry, and **Diversified Management Resources**, a Boston-based recruiting firm. The results of the research show that 61% of back-office execs are open to entertaining offers, compared to just 47% of staffers in other areas of the business. "Operations executives think the job market is stronger, they are paid poorly and are open to opportunities," said **Charles O'Neil, president at Diversified Management Resources**. He was quick to point out that 60% of those responding have received calls from recruiters.

Despite dissatisfaction with their current positions, employees are not looking to merely fatten their wallets. Instead, they consider the quality of employees and of management and the opportunity to attain a better work-life balance, as more important factors than the size of their paychecks. But that does not mean that respondents are satisfied with the size of their salaries. In fact, 43% feel they are underpaid, 38% described their pay as adequate, and 8% admit they are overpaid, said O'Neil.

All told, operations professionals are less satisfied with their positions than people of equivalent rank in other functions on Wall Street, noted O'Neil. Approximately, 11% of back-office people think they are underpaid and may switch jobs, a figure that crests at a paltry 4% for the rest of the financial industry.

More than a 1,000 people were surveyed, with operations executives accounting for 30-35% of respondents. Of those polled, 61% work for firms with assets under management of over \$100 billion, 42% have worked in their current jobs for 11 years.

Few CCOs Would Accept Post Again: Thin Budgets, Lack of Support Give Legal Eagles Pause

By Joseph Checkler, April 11, 2005

Less than half of the chief compliance officers hired in the past year would unconditionally accept the same jobs today, according to survey data provided exclusively for Money Management Executive.

The survey, a joint venture by the recruitment firm **Diversified Management Resources** and the National Investment Company Service Association, asked chief compliance officers who started a year ago whether they would take their job again if it was offered to them today. Of those surveyed, 43% gave an unequivocal "yes," while another 43% said they would take the job only if certain conditions were met. Another 14% said no.

Of the 43% who said they would take the job again only on certain conditions, 81% listed a larger budget as one of those conditions, and 58% said they wanted co-workers to be more proactive in helping combat compliance issues.

"They want support," said **Charles O'Neill, president of DMR**.

Companies hiring those CCOs said that lack of qualified candidates, and not excessive salary demands, was the key issue in finding a new chief compliance officer.

"There are just not enough compliance professionals to go around," O'Neill said.

Besides the evaluation of CCOs, a part of the survey that will be sold separately, DMR and NICSA evaluated compensation trends and career issues across all segments of the investment management industry. Some of the numbers drawn, while not startling, underscore the need for better understanding among employers of what their employees covet most. What makes that problem especially immediate is the reality that most respondents feel that the investment industry job market is getting beefier, causing them to talk to recruiters and other managers.

"It's time for employers in our industry to think about staff retention again," O'Neill said. While most investment managers think that their employees care about money only and leave their jobs mostly because of it, O'Neill continued, this and other surveys prove the hypothesis is simply not true.

On 75% of the surveys, the quality of the employee and management team was listed as something that makes a job more attractive. Seventy-two percent of the respondents called the desire to achieve a better work/life balance as one of the most important things, while 67% listed opportunity for higher compensation as a top factor.

"Money is a motivator to a certain extent," O'Neill said, adding that "if an experience with a supervisor is poor, they won't stay."

The reason they won't stay is that 59% feel that the job market is stronger now than it was a year ago, while just 4% think it is weaker. They must have gotten those feelings for a reason, it seems, because 68% said a search firm or another employer had contacted them within the past year. In turn, nearly half the respondents, 47%, said they would be open to a new employment opportunity.

O'Neill compared the employer who just offers money and little else to the wife or husband that buys a new fancy car for his or her spouse every six months. It's good at first, but wears off real fast.

The survey showed that while 42% felt they were underpaid based on their experience and the value of their work, only 4% said they were extremely unsatisfied with their pay. In other words, more than half were at least satisfied with their pay.

In light of the scandal and its subsequent fallout, people working in operations have faced perhaps the greatest deal of pressure in their jobs. So, not surprisingly, 61% of the people in operations, compared to 47% overall, called themselves open to new job opportunities. Similarly,

87%, compared to 75% among other areas, valued quality of employer and management as a top priority in a new job opportunity.

"That stands to reason," said O'Neill of the operations area results. "Who's been in the vortex of all that change?"

More than half of the 1,000 investment industry professionals polled work for firms managing \$100 billion or more in assets. Nearly half have worked in their current job function, although not necessarily the same position or firm, for more than 11 years. Sixty percent said they have worked in the securities industry for more than 11 years.

Survey: CCOs Say They Are Underpaid

Ignites, Apr 8, 2005

By Chris Frankie

The majority of chief compliance officers feel they are underpaid, and a significant percentage say that in retrospect, they would take the job now only with certain caveats.

That's according to a sneak preview of a yet-to-be-released study, conducted by **Diversified Management Resources** and **Nicsa**, focusing on general industry attitudes and career trends. The full report is based on hundreds of responses and is expected to be released sometime in the first half of May.

When asked about compensation, a whopping 65% of CCOs said their pay is not commensurate with the personal liability they assume and the complexity of the work involved, according to **Charlie O'Neill, principal at DMR**.

Two factors have helped elevate CCOs' blood pressure. First, a footnote in the CCO rule states that the SEC will "enhance its scrutiny" of any firm that hires a CCO who has been dismissed from that role at another firm. That has raised concerns that a CCO who loses his job may wind up getting blackballed from the industry.

Second, shortly after the rule was passed, there was a perception among some that the SEC was intent on refining the new rule through enforcement actions rather than by issuing guidance.

The stress of the job has some CCOs now considering whether their job is worth the aggravation.

"I would have probably asked for more money, and then I would have still taken the job, but I would have braced myself," says one CCO, who did not participate in the survey, when asked the same question.

But some of the tension and fear has subsided. The SEC has made a concerted effort to communicate with CCOs and has even established an outreach program.

Nevertheless, more than one out of every eight polled said he would consider leaving his post if his compensation level is not increased. Meanwhile, about one in five, or 21%, said he feels he is compensated adequately.

A large number of CCOs also didn't anticipate what they were getting themselves into when they accepted the job, according to the study.

Less than half, or 43%, said they would have accepted the role of CCO at their current shop if they had known prior to accepting the position what they know now. About one in seven, or 14%, said he would not have taken the job.

Max Rottersman, CCO of the Guinness Atkinson Funds, says that before taking the job he didn't appreciate how much complexity it entails. He says it is difficult to decide where to focus exception reports.

"There are a number of moving parts in a mutual fund, and it is impossible to watch them all," Rottersman says.

The Los Angeles Times has a story today quoting several compliance officers saying much the same thing. First Pacific Advisors' Chris Thomas, for instance, likens the job in the *Times* report to operating in the Bermuda Triangle, due to the three different parties that CCOs have to work with — the boards they report to, the advisors who pay them and the SEC.

Bibb Strench, a partner at Sutherland, Asbill & Brennan, says that those most likely to be experiencing the biggest disconnect between their perception of the job and what it actually entails are those completely new to the position. The shock is probably not as great for those who served as compliance managers or heads prior to the rule.

"The bigger surprises are to those people, and just the extreme amount of regulations that apply to mutual funds and the new wave of regulations," he says.

Another 43% responded that with the benefit of hindsight, they would still take the job, but only if certain conditions were met. Of that subset, 81% said they would require a larger budget for compliance. More than half, or 58%, also said they would demand more proactive efforts by others in the firm.

"In other words, people need to help out elsewhere in the company, too," O'Neill says.

The survey also asked CCOs where would they spend the extra money if given a larger budget. More than two in three, or 67%, said they would add staff. However, in reality, far fewer expect to hire new employees in the next year. Slightly more than half, or 51%, say they plan to do so, while 49% said they are not anticipating adding to their compliance staff in that time frame.

Strench says CCOs' wanting to add resources is not too big of a surprise.

"They will always want more resources, just like any industry or any government agency whose job it is to ensure compliance. There are a lot of vendors out there with great products that I'm sure CCOs would love to have, but they are expensive," he says.

Majority of CCOs Unhappy With Compensation

Julie Segal, April 8, 2005

Seventy-seven percent of newly-installed chief compliance officers are unhappy with their compensation packages, according to a soon-to-be-released survey. Breaking that 77% down, 65% said their compensation is less than it should be considering the personal liability, risk and

complexity involved with these new positions but only about 13% said they will leave their current positions if their salaries are not increased. The results of the survey are startling to officials who say CCOs are central to the Securities and Exchange Commission's record number of rules put into force this year and last, and given that compensation for CCOs has been fairly lucrative relative to other compliance positions. Some estimates have put CCO compensation at \$500,000 at a large firm.

Charlie O'Neill, principal of DMR Financial, a marketing, survey and executive recruiting firm, said the results of the survey, which is jointly offered by the National Investment Company Service Association, are surprising, particularly the 65% dissatisfaction level for CCOs which is well over the 46% average for all investment management industry positions. The CCO Compensation and Employment Survey will be released for sale in the coming weeks.

The survey also questioned respondents on whether they would have taken the CCO position if they knew then what they do now. Forty-three percent of respondents said 'yes,' if certain conditions were met, while 14% said 'no.' The other 43% said yes they would have taken the job. O'Neill said 81% of respondents who would have taken the job given certain requirements, named a larger budget as the first condition. Fifty-eight percent said they would have wanted more support from other areas of the firm. "This suggests that there will be a certain amount of turnover as other firms start soliciting for these positions." O'Neill said the data also point to firms sending a message to their employees that compliance is a firm-wide priority not just the CCO's job.

Firms Hunting for Interim CCO Replacements

By Chris Frankie, April 07, 2005

The hunt for a chief compliance officer continues at many firms, even though the deadline to name an executive to that position expired six months ago.

A good number of firms that rushed to fill the position in order to meet the SEC's Oct. 5 deadline last year are now looking to trade up for a candidate who is more qualified to fill the CCO spot, industry recruiters and executives say.

There are a couple of reasons why firms are still looking for a permanent CCO. First, many smaller firms found it difficult to compete for top-notch talent right out of the gate. Larger firms had the deep pockets to outbid them for the quality candidates. Second, firms may have struggled with the deadline and simply named someone in-house to meet the rule's requirements.

Either way, recruiters say they have searches under way for chief compliance officers and that compliance overall has taken a much more prevalent position in the executive recruitment world.

"There are a lot of firms that are frankly going to have to make moves because their stopgaps are not adequate," says Larry Lieberman, managing director with executive recruiting firm the Orion Group.

Lieberman says his firm has a couple of clients that have begun to make changes to their CCO structure. "We are working with them now," he says.

U.S. Bancorp Asset Management is an example of a firm that named an interim CCO before finding a candidate that fit its needs.

David Lui was named the CCO for both U.S. Bancorp Asset Management and its First American Funds, replacing Doug Paul. Lui came to the firm from Franklin Advisors, where he was CCO, and Franklin Templeton Investments, where he served as chief compliance counsel.

Paul was named CCO of the funds and the advisor last June, says Charlie Manzoni, the firm's general counsel. Manzoni says Paul is still with the firm in a consulting role but is semi-retired and had no desire to take on the role in a permanent capacity.

"We wanted to bring in a very seasoned compliance person. Doug was available, but not on a permanent basis. Getting him on an interim basis was better than not having a strong CCO," Manzoni says. "You could find someone, but we were more interested in getting someone of more experience and stature in the industry."

Such an approach may make sense. Firms now have a better sense of what the SEC expects of the CCO and they can search for the right candidate to fill that role, according to Orion Group's Lieberman.

"As firms get more comfortable with what the CCO will do on a day-to-day basis, and with what the commission expects, they will get a clearer sense of the best type of individual that will be successful within their organizations," he says.

Lieberman says some interim CCOs have outstanding technical skills but lack the managerial skills necessary to interact at the board level.

"It's pretty tough to take a 26-year-old '40 Act attorney and elevate that person to CCO, because they don't have sufficient experience and confidence to have those conversations," he says. "There is a tough component to this job, and in order to execute those responsibilities effectively, you need to be a pretty seasoned manager."

Those factors may have been behind John Hancock's appointment of Mitchell Karman as its U.S. CCO. The firm did not return a call seeking comment as of press time, but the move was announced months after the rule took effect.

Other evidence suggests that Hancock and U.S. Bancorp are just two of the many firms still on the CCO hunt, according to **Charlie O'Neill, principal at Diversified Management Resources**, a Massachusetts-based business development consulting firm.

Responses to a study his firm conducted last year, which was taken by individuals at more than 150 companies, indicated that a significant number of firms had interim CCOs in place just to comply with the rule.

The demand for compliance professionals has extended beyond just the CCO. At recruiter Russell Reynolds, associate Kim Raynor says the firm has conducted a number of CCO searches of late. But compliance searches don't include only the top compliance officials. "There has been a lot of noise about what do you need and how much bench strength do you need," she says.

In fact, some firms are looking for strong supporting cast members in case CCOs unexpectedly leave or are unable to fulfill their duties, she says. "The SEC is not going to give firms any slack," she adds.

Recruiter Don Dzurilla says his firm has also seen an increase in senior compliance people sending their resumes to the firm on an unsolicited basis.

And the Survey Says: Independent Chair Rule Panned...

Fund Directions March, 2005

One third of securities industry professionals who participated in an informal poll by **Diversified Management Resources** believe that independent chairmen should be required only for boards whose management company violated compliance rules. A nearly two-thirds majority said the requirement will have little or no effect on investment performance and 26% even thought it would cause expenses to rise.

The Boston-based firm is planning to survey directors to find out how they have been impacted by the recent scandals and legislation. "In the overall context of compliance, many of the changes we've seen directly affect investment company directors," said **Charles O'Neill**, a principal with DMR.

The informal poll was open for a little less than two weeks and had a small sample size. "If we really wanted to build out something with more data I would have left it open longer and announced it to a larger list," O'Neill said.

The fund governance survey will be conducted mostly through telephone interviews and the results will be reported in aggregate form only in order to protect participants. DMR plans to talk to board members and chairmen from all size mutual funds.

The survey will look at:

- board composition
- independent chairmen
- annual self-assessment
- independent staff
- record keeping for approval of advisory contracts
- director recruiting.

It will also examine the role of independent directors in managing conflicts of interest, approving advisory contracts and advisory fees and selecting candidates for independent directors. O'Neill said the survey will most likely be out by the end of June.

DMR did its first survey on compliance last year. Officials from more than 150 money management firms participated in the lengthy and detailed online survey.

DMR Conducts CCO Comp Survey

Fund Action, February 25, 2005

Diversified Management Resources, an executive recruitment and marketing firm, last week started asking about 1,000 industry executives about compensation and recruitment of chief compliance officers. The National Investment Company Service Association and PA Compliance are sponsors of the survey. **Charlie O'Neill, principal at DMR**, said the questions are addressing such issues as recruiting methods and firms, structure of the CCO position, who is doing the hiring, and whether the advisor or fund itself is paying the CCO. O'Neill said that to maintain objectivity, any answers that refer to DMR will be thrown out of the survey results. In addition, he said CCOs are being asked if they would have structured the position differently or asked for additional resources if they "knew then what they do now" about the CCO requirements. Fund companies had to meet an Oct. 5, 2004 Securities and Exchange Commission deadline to hire a CCO. Other questions concern staffing, training and reporting lines. O'Neill said the survey would also like to determine the career paths of "interim" CCOs, CCOs' overall industry experience and whether the CCO has operations expertise. The firm recently launched a business to conduct

compliance surveys, given the industry's interest in best practices, pay and other intelligence on how firms are responding to regulatory initiatives.

Diversified Management to Launch Compliance Survey Biz

Fund Action, January 14, 2005

Diversified Management Resources, an executive recruiting and marketing firm, is launching a business that will provide comprehensive compliance surveys to the mutual fund and securities industry. **Charlie O'Neill**, principal of DMR, said the surveys, the results of which will be quantitative rather than narrative, will assess specific compliance issues. O'Neill said the current regulatory environment has mutual fund complexes, brokerages and other firms scrambling for answers on such pragmatic issues as what to pay new chief compliance officers. The firm's first survey on compliance topics included 100 questions and received detailed answers from executives at 150 different companies. The survey addressed such questions as CCO pay, monitoring of marketing timing and trading, and expectations of the Securities and Exchange Commission.

O'Neill said DMR required participating executives to spend a significant amount of time answering questions, but laid the groundwork for a comprehensive study of the issues. He said the initial work will allow the firm to provide broad-based benchmarks for future surveys focusing on individual topics.

Two Groups Team Up To Conduct Compliance Surveys

Compliance Reporter January 7. 2005

The **National Investment Company Service Association** is teaming up with **Diversified Management Resources** to conduct surveys on various aspects of securities industry compliance practices. This is the second project of its kind that NISCA has participated in. Last fall, the association joined three other groups in a compliance project to review firms' readiness for new regulations. "Compliance and investment company governance remain the most significant issues in the securities industry today," said **Barbara Weidlich**, president of NISCA in a statement.

Robert Goldberg, former NISCA president and now a principal of DMR, said the firm plans four major research projects in 2005, including updates to many of the key topics explored in depth in last October's "Compliance 2004" study. Goldberg said the next project will focus on investment company governance as well as explore steps investment company directors and trustees are taking to prepare for the more significant responsibilities they will assume under additional regulations effective in January 2006.

"A significant part of the study will examine implications for money managers who must support and work closely with the directors in responding to the new regulations," according to NISCA.

Tech Requirements Toughest Compliance Issue

Institutional Investor News November 4, 2004

By Stuart Wise

Tech Requirements Toughest Compliance Issue: Survey
Dealing with systems and technology requirements is the most difficult compliance issue facing the securities industry, according to a survey by **Diversified Management Resources**.

The study, which identified 27% of respondents as compliance officers or operations directors with mutual funds shops, found that 41% picked systems and tech requirements as the No. 1 difficulty in complying with the USA Patriot Act's customer identification program (CIP) requirements.

In other results, the firm's survey found –

*59% added to their compliance staff this year.

*Compliance staff spends more than 60% of their time on developing new compliance procedures.

*More than 70% rated securities industry compliance programs as "very good" or excellent."

Firms Still Struggling to Identify Customers

Ignites, November 3, 2004

Fund firms have been spending mightily on the know-your-customer programs required by the new anti-money laundering rules. But according to a new compliance survey from **Diversified Management Resources**, many still have more work to do.

The survey was sent to members of the National Investment Company Service Association (NICSA) and represents views of compliance pros and other execs at about 150 firms. The executive summary of the study was released earlier, but the full results only just became available.

Customer Identification Program requirements went into effect more than a year ago. They are part of the Patriot Act, which Congress passed in 9/11's wake. They require fund firms or intermediaries to confirm a new customer's identity by obtaining and verifying their name, street address, date of birth and Social Security number.

Many appear to be struggling with the new requirements, however. In fact, about a fifth of those surveyed, says **DMR principal Charlie O'Neill**, aren't currently satisfied with their success rate in identifying new customers. The majority ranges from satisfied to very satisfied.

Most folks are concerned primarily with accuracy and the ability to generate an audit record.

The fact that firms are having some problems is surprising, considering that firms aren't pinching pennies to leverage the latest technologies.

More than 70%, O'Neill says, are using automated programs to comply with the customer identification program (CIP) requirements. More than 60% have spent upwards of \$50,000 so far on those programs, and 8% have spent more than \$1 million.

Price, however, is a consideration but not nearly as important as accuracy. In fact, only 20% cited price as a key impediment to implementing the programs.

O'Neill thinks that much of the higher spending is from larger firms upgrading their technologies.

CCOs Culled from Ops Ranks

Operations Management 10-25-04

(Excerpt)

A majority of mutual fund companies polled in a recent survey have hired chief compliance officers with back office experience. "Most business processes....can be monitored most readily through Operations," said **Charles O'Neill, principal of Diversified Management Resources, Inc.** A CCO culled from the ranks of operations can monitor trading activity and market timing, for instance, activities that are performed in the back office. "I think ops exposure is valuable in serving as CCO," said John Gilner, director of compliance at T. Rowe Price, who has been designated chief compliance officer for mutual funds and domestic advisors.

Compliance Unlikely To Get Support From Sales, Says Survey

Julie Segal, October 1, 2004

Senior managers are pessimistic that the new compliance regimens that firms have to have in place this week are going to get the support of sales and marketing. Forty-five percent of respondents to a survey on compliance completed by **Diversified Management Resources** said their sales divisions were unlikely to be proactive in supporting compliance. **Charlie O'Neill, principal of DMR,** said 27% of respondents thought marketing "unlikely" to support compliance. He said this was likely attributable to a feeling that sales was at fault in leading the mutual fund industry into the current scandals and they were unlikely to lead the industry out of the current quagmire.

The survey received the participation of 150 securities industry firms, including investment advisory firms, mutual fund managers and broker/dealers. The respondents were all v.p. and above, with 20% of answers coming from managing directors. The National Investment Company Service Association and a number of service providers were sponsors of the survey. The survey, which has not yet been released in its entirety, also found that 50% of senior managers believed that portfolio management would "likely" support compliance efforts, and 90% of operations was likely to support new efforts. O'Neill believes the figures were high on operations because violations can be easily tracked. "You can't systematically violate compliance rules without someone noticing," he said.

Mike Rosella, partner at Paul, Hastings, Janofsky & Walker and chair of its investment management practice, said, "Many of our clients didn't realize how much discretion the sales people had in terms of contracts, bringing in new clients and other issues. Now there's a real separation of church and state. People had more authority than they realized." Rosella added that now sales documentation is being done separately and contracts have to be overseen and monitored by compliance. "Lines between compliance and sales are clearly drawn," he added.

The survey also found that the majority of compliance staffers had operations backgrounds. "Compliance leadership is a career track for operations," O'Neill said. He explained that most of the reporting, data gathering, measuring and monitoring of new compliance policies and procedures rely on systems and technology. In addition, the survey pointed to most CCOs coming from in-house appointments and 30% of respondents saying they expected to pay at least \$300,000 in compensation to a CCO.

Firms Name Interim CCOs to Meet Deadline

Ignites 9-23-04

By Alison Sahoo

(Excerpts)

As the October 5 deadline for funds and advisors to appoint a chief compliance officer approaches, some have come up with an innovative way to meet the deadline while continuing their search. Instead of trying to find the best CCO right away, some are hiring an interim CCO with plans to replace him with a more appropriate candidate next year.

"The deadline is so short that the industry has not had a good chance to find the best people," says **Adviser Compliance Associates** senior principal consultant Nick Prokos. "Budgets are already used up, so bringing in another compliance person is expensive."

The solution for many firms is promoting staff from within existing ranks to fill the role, he says.

A stopgap solution to the CCO role is not necessarily a problem, says **Drinker, Biddle & Reath** partner Diana McCarthy.

"I haven't seen advisors proffering people who aren't qualified," she says. "These positions are brand-new and it will take a while for there to be an experience level developed among CCOs."

The [rule](#) was passed last December and takes effect in less than two weeks. It aims to ward off future compliance problems by requiring funds and advisors to tighten their internal controls. That includes adopting and implementing extensive new written compliance policies and procedures and reviewing those practices each year.

In addition, mutual funds and their advisors must also appoint a chief compliance officer who will be responsible for administering those policies and procedures.

The rule was not, however, without its share of liability. A provision in the SEC's rule states that any CCO fired at one fund complex will face added scrutiny from regulators if they move on to

another firm. Plus, given the prevailing attitude toward reform in the fund industry, the position will likely be watched closely by regulators.

That notwithstanding, firms are tapping homegrown talent. Charlie O'Neill, a principal of **Diversified Management Resources**, says the company's recent 150-firm survey of compliance with the new rule indicates that many of the new CCOs are being promoted from within.

"It's a lot easier to promote an internal candidate than to start a search from outside," he says.

O'Neill estimates that more than 60% of new CCOs were internal candidates and many of those came from operations functions rather than legal groups.

That makes sense, he says, since many surveillance issues require in-depth knowledge of technology.

About 30% of firms, however, haven't yet determined where the CCO will report in their organization, says O'Neill. They're still working out the myriad issues relating both to the CCO's authority and his liability for problems caused by those he supervises.

O'Neill also estimates that another 5% or 6% of firms haven't filled the job yet at all.

Smaller fund firms seem to be having the toughest time.

"We got several comments from smaller firms saying they're feeling the pressure," says O'Neill. "They had too little time to get ready for October 5. It's also been very costly for them since they tend to have smaller staffs."

More than 35% of respondents, he says, expect to pay their CCOs at least \$300,000 between salary and bonuses.

On the bright side, though, respondents generally seemed optimistic about their progress.

The vast majority, he says, expressed confidence in their ability to be in full compliance with the rule by the deadline.

Funds Scramble to Meet Compliance Rule Deadline

Board IQ 9/28/04

By Beagan Wilcox

(Excerpts)

The impending Oct. 5 deadline to meet the new compliance rule has set off a maelstrom of activity in the fund world. In the final weeks and days before the deadline, fund firms and boards have been scrambling to put their proverbial ducks in a row.

Fund firms and boards have faced two main challenges in complying with the rule: the enormity of the task and time pressure, due to the tight

October deadline.

One of the rule's required measures - finding the CCO - has been a major hurdle for many fund firms and boards. The compliance rule has taken on greater importance in the wake of the trading abuse scandal, which erupted in the industry one year ago. As a result, the new compliance programs and CCOs can expect to be watched very closely by the SEC. Fund firms and boards are acutely aware of this and want the best possible candidate to fill the CCO position.

"The demand for the chief compliance officer has gone sky high, and so there's a limited supply of highly qualified people available," says William Kearns, independent director of the EQAT Funds.

As for compensation, CCOs didn't come cheap. According to a recent survey carried out by **Diversified Management Resources**, a Massachusetts-based business development consulting firm, more than 35% of respondents (who represent 150 firms) plan to pay their CCOs at least \$300,000 between salary and bonuses, says Charlie O'Neill, a principal at Diversified.

However, only a few fund firms have not yet named their CCOs. In mid-September about 5% or 6% of the Diversified Management Resource survey respondents had not filled the job, says O'Neill.

As Deadline Nears, Fund Managers and Advisers Report Good Progress Preparing for New Compliance Regulations

Boston - September 16, 2004. Industry professionals say they are well on the way toward responding to new federal securities regulations effective October 5. Nearly all those who participated in a survey conducted by Boston-based consulting firm **Diversified Management Resources** said their firms had appointed a Chief Compliance Officer, required under the regulations. However, 30% said their employers had not yet confirmed details of the reporting structure for the role.

The regulations require mutual funds and investment advisers to adopt and implement a Compliance Program and designate a Chief Compliance Officer. Mutual funds must also obtain the approval of the fund board.

The survey is not yet complete. Results are preliminary.

Charles O'Neill, principal of D.M.R., reported firms said their internal audit departments and anonymous compliance 'hotlines' would be used to police compliance in the future. Both internal and external audit firms - and in some cases, special committees created by the COO-- will in turn keep watch over the compliance department.

The New Year will be a good one for compliance professions looking for a job, with 60% of responses indicating their employers will add to the staff next year. Most seek professionals with previous compliance experience -not a JD-for the CCO spot. Operations experience was cited as

important by 30% of respondents. More than 35% of those involved in staffing decisions for the compliance department said they expect to pay CCO's \$300,000 or more.

Though they are on schedule, professionals say preparation for the upcoming deadline has not been without its challenges. Many participants commented that the new regulations, broad in scope, put pressure on existing staff and pose a special burden to smaller firms.

Participants in the survey, open for two more weeks, will receive an executive summary of results. A complete report will be available for purchase.

The project is sponsored by NICSA as well as by PA Compliance, PFPC and SalesLink, all securities industry service providers.

NICSA Partners with Diversified Management Resources for Compliance Practices Survey

Money Management Executive 8-19-04

Boston – August 16, 2004. The National Investment Company Service Association (NICSA) announced today that it is partnering with Diversified Management Resources (D.M.R.) to conduct a survey to confirm the state of the securities industry's preparation for federal securities regulations that require mutual funds and investment advisers to adopt and implement a Compliance Program and to designate a Chief Compliance Officer. Mutual funds must also obtain the approval of the fund board. The compliance date is no later than October 5.

Corporate sponsors are [PA Compliance](#), [SalesLink Corporation](#) and [PFPC](#).

The new regulations are among the most far-reaching to be introduced in recent years. The Chief Compliance Officer for a mutual fund must certify the adequacy of compliance policies and procedures of a fund's service providers, including its investment advisers. For this reason, a significant fall-out effect of the regulations is that many transfer agents, custodians, administrators and broker-dealers - which are not directly subject to the new regulations - must also prepare for the October 5 deadline if they provide services to mutual funds.

The Survey will assess steps firms have taken to date to put in place the policies, procedures and controls necessary to ensure compliance with the regulations. Also included are questions concerning securities firms' experience with the Customer Identification Program and Anti-Money Laundering provisions of the USA PATRIOT ACT.

"This is a very timely project," says Barbara V. Weidlich, president of NICSA. "More than ever, compliance is a concern not only to compliance officers but to all executives in the money management business. Operations professionals, represented in the NICSA membership, have significant responsibilities for many business functions directly affected by new requirements."

Charles O'Neill, principal of Diversified, noted that as was the case when the Anti-Money Laundering regulations were strengthened last year, the new rules are largely risk-based. Firms will need to determine, in the context of their own business activities, how to best meet the new requirements.

Key aspects of the new regulations include:

- Each mutual fund or investment adviser must designate a Chief Compliance Officer to administer its compliance program. Mutual fund CCOs will report directly to the fund's board.
- Each mutual fund or investment adviser must adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws specified in the new rules. A mutual fund's compliance program and the policies and procedures of any service providers must be approved by the fund's board.
- For mutual funds, the compliance program and the CCO must be approved by the fund board prior to October 5.
- A mutual fund's or investment adviser's compliance policies and procedures must be reviewed at least annually for their adequacy and the effectiveness of their implementation. The first annual review must be completed no later than 18 months after the adoption of or approval of the compliance policies and procedures.

The survey which will be launched within the next week, with top line results tabulated and reported immediately thereafter. Participants will receive an executive summary of results at no cost. A more in-depth report will be available for purchase.

About NICSA

The National Investment Company Service Association (NICSA) is a not-for-profit trade association providing leadership and innovation in educational programming and information exchange within the operations sector of the worldwide investment industry.

NICSA membership totals more than 400 companies operating in major financial centers in the United States, Europe and Asia. The membership represents all segments of the mutual fund industry including mutual fund complexes, investment management companies, custodian banks, transfer agents and independent providers of specialized products and services.

NICSA's services to members include education, training and networking opportunities through conferences on a wide range of industry issues and developments; specialized publications, and access to NICSA's membership directory. NICSA also offers an On-Line Learning Center featuring the Certified Mutual Fund Specialist Program, the first-ever certification program of its kind.

NICSA's website (www.nicsa.org) offers up-to-date information about all of the Association's programs and activities.

Compliance Staffing To Be Long-Term Investment

Jessica Toonkel & J.S., March 21, 2004

Industry officials expect compliance staffing to be a long-term investment rather than a one-time hiring boom. As Congress and the Securities and Exchange Commission look to issue more rules and regulations that will permanently affect the industry, fund companies will have to ramp up their compliance groups to double and triple check procedures and documents, officials said. "We are hearing that there will be a continued need for worker bees on the compliance level," said Dan Kreuter, president of DAK Associates, a Conshohocken, Pa.-based recruiting firm. "This is not a fad. It is a secular trend and there is going to be a lot of hiring going on because of what happened."

Charlie O'Neill, president of Diversified Management Resources, said there has been a significant uptick in the hiring of compliance reviewers in marketing departments. He said firms want to avoid any regulatory scrutiny, even small mistakes that may occur, for example, in advertisements. O'Neill added that compliance reviewers could earn about \$60,000, a small tab compared to reputational risk or even fines levied by regulators. He added that his recruiting firm is currently looking to fill at least two compliance reviewer positions, noting that his background research for the searches turned up about 50 such open positions industry-wide, including large and small fund firms.

Janus Capital Management, whose chief compliance officer, Tom Early, announced his retirement earlier this year, said it expects to replace Early soon and grow its compliance staff after that. "Beefing up our compliance department will be a priority," said Shelley Peterson, a spokeswoman. "We want to make sure that we look at everything from every angle. We are making sure we have many sets of eyes on everything." Janus, which was one of the first firms to be named in New York Attorney General Eliot Spitzer's probe, does not have an exact number of how many people it will hire. Peterson could not say when the firm would announce a new compliance director, but did say that the firm has begun its search and Early has agreed to stay on during the transition.

The Calvert Group also is looking to hire a director of compliance--a new position, and expects to continue to grow the group in months to come, said Bill Tartikoff, general counsel and senior v.p. Tartikoff noted that in the new environment, fund boards are going to be more demanding of compliance officers, and thus it is important to have a strong staff in place. He declined to elaborate on when the director of compliance position would be filled.

Corp Gov Proposals Spur Trustee Searches

J.S., February 22, 2004

The swirl of corporate governance proposals, including rules on independent chairmen, is spurring searches for board members, even while those searches are also becoming more complicated. Alex Thomson, partner at Russell Reynolds Associates, said searches are complicated by liability issues and boards now looking for trustees with very specific skill sets. Thomson added that fund trustee searches are now looking much more similar to searches for public company directors. "There's no more room for a 'friend of the firm,'" he said. Thomson said many firms now want recently retired 40 Act lawyers, partners from the large accounting firms or officials versed in Sarbanes-Oxley. "No generalists, they say," he said.

The industry's focus on culpability and setting up systematic governance systems has boards searching for members who will limit how many boards they actually sit on. Thomson said from the candidate side, he has seen many people be much more cautious before going forward. "Potential board members are much more circumspect," he said. Russell Reynolds is seeing momentum building in its trustee search work. Last year, only three or four of its 200 board searches were on the fund side. Thomson and George Wilbanks, another partner at the firm, expect the trustee search business to grow significantly, particular as the year progresses. Wilbanks said many big questions still need to be answered, such as how many boards a trustee can sit on and the level of pay.

Jane Marcus, partner in charge of the global asset and wealth management practice at Heidrick & Struggles in Chicago, said she is just starting to see activity in the trustee area. She said potential candidates being discussed are '40 Act lawyers, and accounting firm partners with strong regulatory and compliance backgrounds. "There's no cookie cutter approach," she said, adding that specific funds may want very different things depending on their audience, distribution and

other issues. She said board members are still doing clean-up, such as looking for market timing, but the bigger subjects are uncovering yet-to-be-thought-of issues. Potential candidates need to think about this when evaluating positions, and boards need to think about this when surveying potential trustees, she said. Marcus said fund companies are now focusing on high-level management changes within the advisor, and she expects trustee work to pick up later this year. **Charlie O'Neill, president of Diversified Management Resources**, said he expects upward pressure on salaries as a small pool of potential candidates gets tapped by many fund companies. In addition, he said candidates will have to be satisfied that they are protected from liability and that the board has adequate resources to do its job well.

Fund Execs Eye 'Fulfilling' Job Opportunities But Marketing, Ops Professionals Chase More Money

By Lee Barney

Money matters, but not as much as quality of life and the opportunity to make a difference. That is the consensus of securities industry professionals responding to this year's compensation survey by **Diversified Management Resources** of Boston and the **National Investment Company Service Association**, of Wellesley, Mass.

In the pursuit of more fulfilling work, particularly in a job market many believe to be strong, nearly two out of three of various securities industry professionals say they'd be willing to make a change.

Most likely to jump ship are marketing professionals, with 17% reporting they are actively seeking other employ. The group with the biggest—though passive—yen to switch is operations executives, with 59% saying they are open to new job opportunities. Ironically, however, only 5% of those in operations are actively looking for another job.

"Although more participants in the survey say they are adequately paid (48%) than feel undervalued (42%), many say they are 'open to new job opportunities,'" noted **Charlie O'Neill**, a principal with DMR.

"Overall results suggest that people in the industry are most interested in such intangibles as quality of work/life balance, quality of management and employees and the opportunity to make a difference," O'Neill said.

But although participants claimed to put quality of life factors first when they consider new job opportunities, many are not satisfied with their compensation. This is especially true in the compliance and marketing departments; 66% of chief compliance officers assert they are underpaid in light of their work's personal risk and complexity, making them the least satisfied group. Next up in terms of salary dissatisfaction is marketers, 58% of whom report their salaries are below par. Forty-two percent of operations executives say they are underpaid relative to their experience and the value of their work.

Of these three specialties, marketers are the most focused on getting a job with a higher salary. "Marketers are most inclined to evaluate new opportunities on the basis of compensation potential, with 83% of this group saying this is their No. 1 priority in selecting another job," O'Neill said.

Job hopping is likely to continue, he added, with executives' interest in other opportunities being whetted by increased phone calls from executive recruiters. Many survey participants said they had received 'repeated calls' from recruiters over the past six months.

Respondents to the employment trends survey were well-educated, senior executives, with 24% holding an MBA or equivalent degree and 37% in the business for 16 years or more. D.M.R. designed the survey and conducted it in partnership with NICSA in June, receiving substantial help from a number of sponsors, including **PA Compliance**, **SalesLink** and **Unified Fund Services**.

Money Management Executive will continue to publish other sections of the employment trends survey in the weeks ahead, most notably findings on the key new position of chief compliance officers. Below, please find charts laying out specific answers to the compensation section of the survey.

CCOs – Earning More, Enjoying it less?

In the most recent D.M.R- NICSA survey, we found that CCO recruiting remains brisk and compensation opportunities strong. No surprise there. It's well known that CCOs are in demand and those with the right type of experience command a premium in the job market. As was the case with internet-savvy marketers and others in 1999, from the employer's perspective, there are too many compliance job opportunities chasing too few qualified candidates. The result? Wage inflation.

Overall, our survey found CCO compensation is consistent with the levels we forecast last year (See our executive summary for details). (Link executive summary to <http://www.dmrfinancial.com/esStaffing.html>) But our current survey probed two more topics less concerned with the numbers than with job satisfaction.

When asked how they feel about their compensation relative to the complexity of their work, two thirds of CCOs say it is "less than it should be." Among larger firms (those managing \$50 B or more) nearly all – 90%-- say their pay is inadequate.

That said, do CCOs regret that they accepted the job? In hindsight, about 13% of current CCOs would *not* have accepted the position if they had known then what they know about the job today. More than half (53%) would have accepted the job if certain conditions were met. The rest would have accepted the job without additional conditions.

Overwhelmingly, CCOs who say they would have accepted the job if certain conditions were met cite the need for a larger budget as the most important factor. If given a larger budget, they say they will hire additional staff.

Compensation is one important factor in attracting qualified people to a job, but it is not enough. In fact, in another question, we asked CCOs to identify factors that they consider in evaluating a new job opportunity. For all CCOs who responded to our survey, the top factor they considered before joining their current employer was the quality of employees and management.

None of this is surprising when you consider the events that created the CCO position in the first place. What good is high compensation if you are accountable for compliance but do not have the authority to expand your staff? What good is high compensation if your CEO fails to set the right 'tone at the top'? If our survey findings are instructive, employers should tread carefully before they conclude that it all comes down to money. There is a parallel with the frothy internet years: as firms scrambled for talent then, they provided ever-bigger baskets of stock options. As they learned, option packages do not make people effective. And as employees learned, compensation does not matter much if the core business is flawed.

How Professionals Find their Jobs Today

How do executives and other senior-level mutual fund professionals find their jobs? In the most recent D.M.R. - NICSA survey, we found an answer that turns conventional wisdom on its head. Among the choices listed those who participated in our survey most often credit executive recruiters for helping them find their most recent job. However, although conventional wisdom says referrals are normally first or second in importance, that is not the case here. Our participants say online job boards are second, with referrals third.

We have seen no other mutual fund industry-specific surveys on this topic and any survey is subject to bias and some incidence of error. However, the difference is strong enough to give us confidence in our findings. Looking at jobs posted on Mutual Fund Careers as of August 1, fully 20%* offer base salaries exceeding \$100,000 – many substantially higher. Add corporate and personal performance bonuses to this, and many of these positions would be considered senior level jobs by any measure.

It is easy to find anecdotal evidence supporting our survey results. Just go online and count the number of professional jobs posted by employers and executive search firms in the money management business. As an example, a key search phrase “Chief Compliance Officer” shows 160 positions (8-01-05)**

What explains our results? We can only speculate, but two explanations come to mind: First, the internet has become the preferred information resource on any topic, bar none. Second, the internet is highly efficient—much less time consuming than letters and phone calls. Third, almost every job is posted somewhere online these days, if not on job boards *per se*, on employers’ corporate web sites.

Finally, why not referrals? Perhaps because in a world of hyper-competition, employers are less concerned these days about *who* candidates know than they are with *what* they know. That is not to say that referrals do not count; only that they are in third place, behind search firms and online resources. We did not ask one particular question that could also shed some light on our results: “Did a friend or colleague encourage you to look at a specific job posted online?” If yes, both referrals and web sites could be credited as the source. We also did not ask whether they had seen a job online, and then followed up directly with an employer or contact in the firm.

An important caution: Searching for a job online is a hit-or-miss proposition. We view it as a passive job search strategy and a useful means of gathering intelligence. We recommend use of job boards as only one part of a well-organized, disciplined job search program.

*Our estimate of the number of positions paying \$100,000 or more. ** Data found through use of Indeed search tool available to registered users of Mutual Fund Careers.

This is the second in a series of articles reviewing results of recent employment surveys conducted by Diversified Management Resources, Inc. in partnership with [NICSA](#). A complete report on our Chief Compliance Officer Compensation is available for [purchase](#). A copy of our General Employment Trends survey, the source of most of the information in this article, is available to employers and search professionals. Call 617 484 0074 to request a copy at no charge. Opinions in this article and others appearing on our web site are those of D.M.R. and our survey partners, sponsors or participants do not necessarily share them. [PA Compliance](#), our founding corporate sponsor, as well as [SalesLink](#) and [Unified Fund Services](#), supported our recent survey.
