

SEC Cautions: Don't Cut Compliance

December 23, 2008

In recent weeks, the U.S. Securities and Exchange Commission (SEC) has been emphasizing the importance of robust compliance programs and urging SEC-registered firms, including investment companies, investment advisers, and broker-dealers, not to sacrifice compliance in an effort to manage expenses and reduce costs. This message recently culminated in the publication of an open letter to the CEOs of SEC-registered firms, in which Lori Richards, director of the SEC's Office of Compliance Inspections and Examinations, cautioned the CEOs not to cut compliance programs or budgets.

Richards reminded firms that during times of financial and market turmoil, compliance is "critical to assure that your operations comply with the law and rules . . . and to ensure that the interests of your customers, clients and shareholders are protected." She stated that firms should be vigilant about preventing and correcting problems that may occur, and recommended that firms pay particular attention to interactions with investors, sales and trading practices, financial, valuation and risk controls, and disclosure obligations.

"Today, when the future is uncertain, when markets are unstable, when investor confidence is shaken, this is the time—more than ever—when we need a powerful voice for compliance."

In his November 2008 address to the *CCOutreach* National Seminar, SEC Chairman Christopher Cox similarly focused on the importance of a strong compliance presence. Cox reminded Chief Compliance Officers (CCOs) that, based on past experience, firms that choose to cut compliance expenses are actually exposing their firms to more risk. Cox stated, "Today, when the future is uncertain, when markets are unstable, when investor confidence is shaken, this is the time—more than ever—when we need a powerful voice for compliance."

Fund directors may wish to discuss this issue with their funds' CCO to better understand the existing compliance budget and to determine whether fund management is considering any cost reductions (for example, head count, testing resources, or technology systems) that may negatively affect the fund's compliance program.

To view the open letter and Chairman Cox's recent speech, please visit:
<http://www.sec.gov/about/offices/ocie/ceoletter.htm>.

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