

SEC Raises Concern Regarding Outsourced CCO Functions

The SEC's Office of Compliance Inspections and Examinations released a Risk Alert on Monday outlining its findings from nearly twenty examinations of SEC-registered investment advisers that outsource their Chief Compliance Officer function to unaffiliated third parties. The Risk Alert notes that such investment advisers should review their business practices, expressing the SEC's concern over:

- use of standardized compliance policies or procedures that failed to capture adviser-specific compliance risks or served to limit the CCO's knowledge of the investment adviser;
- policies, procedures and disclosures that did not fully address conflicts of interest;
- failures to follow stated compliance policies and procedures that went unnoticed by outsourced CCOs;
- lack of documentation evidencing testing under annual compliance reviews; and
- outsourced CCOs' lack of authority within the investment adviser to improve adherence to compliance policies and to implement changes.

All registered advisers should continue to review their compliance policies, procedures and disclosures to evaluate whether they identify and address risks specific to the adviser, as well as whether compliance personnel have the necessary authority and ability to monitor and implement appropriate changes.

If you have any questions about the matters addressed in this *Kirkland AIM*, please contact the following Kirkland attorneys or your regular Kirkland contact.

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