



Chief Compliance Officers:

THE EYE OF THE STORM

JPMorgan Fund Services Operations Executive Russell Warren examines chief compliance officers' complex responsibilities, and explains what service providers can do to offer them a higher level of service.

Since the adoption of SEC Rule 38a-1 in 2004, chief compliance officers at SEC-registered funds have been responsible for the operation and effectiveness of their service providers' compliance programs.

Some funds can have as many as five different types of providers, including investment advisers and

subadvisers, administrators, distributors, fund accounting agents and transfer agents.

Making sure that compliance programs are in place at each of these entities and documenting their policies and procedures is no easy task.

CCOs are applying an even greater level of scrutiny to their processes, seeking the best ways to monitor and test the compliance programs at each provider.

CCOs need to assimilate a huge variety of information, as well as understand a wide range of regulatory guidelines. They must also fully understand the compliance policies and procedures of each of these five providers and have confidence in the effectiveness of each program.

These best practices help funds detect any potential control weaknesses or other compliance issues.

It is imperative that funds and their providers have the right risk and control infrastructure—and the right people—in place to address day-to-day as well as unforeseen events.

TAKING THE RULE ONE STEP FURTHER

Now four years later, the compliance programs and infrastructure are in place, but CCOs are applying an even greater level of scrutiny to their processes, seeking the best ways to monitor and test the compliance programs at each provider. In the current market environment, they have little choice but to be much more proactive and hands-on.

Over the last year, problems in the U.S. subprime mortgage market, and the speed of the resulting credit market deterioration, have challenged the effectiveness of pricing procedures for funds. CCOs have to review programs in their entirety, staying alert to new challenges as they arise.

This is especially true in dealing with market downturns and volatility. CCOs must not only keep up with current market conditions, but also be in tune with regulators' reactions to market events and the implementation of new regulatory initiatives. For example, a specific question may arise about the compliance or accounting treatment of derivatives, so the CCO must be able to communicate any potential compliance impact to the fund's board.

THE ROLE PROVIDERS PLAY

Funds should expect their providers to have a detailed compliance program and an optimal control environment and infrastructure. As an example, JPMorgan follows rigorous risk and control processes, and has a number of checks and balances in place to monitor operations and assist CCOs in fulfilling their responsibilities.

JPMorgan's Operations Control Management group is solely focused on monitoring the control environment in the firm's operations and assists the business units in reviews and enhancements to existing controls.

Additionally, the Risk Management group monitors each of the firm's businesses and provides risk assessments to Operations

Control Management and the individual business units for action.

Annual third-party reviews of the business units are also performed, providing a thorough and objective third-party perspective and validating the control environment to the CCO and other external parties.

SINGLE POINT OF CONTACT

Given the interplay of these dedicated groups and procedures—and the critical role they play for the provider's fund clients—the provider client relationship becomes much more important. The exchange of information between the two parties is paramount if CCOs are to be active, and proactive, participants in solutions.

Having a single point of contact for the exchange of information is extremely important. JPMorgan has a dedicated CCO liaison for each of its fund clients. The CCO liaison coordinates the production of reports and quarterly representation letters for clients, and organizes due diligence visits so that CCOs can actually meet with the team that handles the day-to-day operations of the fund.

The liaison can also perform independent reviews and field questions from CCOs—and bring the necessary people together within the firm to provide the right answers.

In today's market, CCOs and their service providers must be equipped to handle scrutiny in more detail and greater volume than ever before. It is imperative that funds and their providers have the right risk and control infrastructure—and the right people—in place to address day-to-day as well as unforeseen events. ○