FORESIDE

The Ins and Outs of Outsourcing Compliance

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I. INTRODUCTION

In John Lanchester's article in The New York Times Magazine on December 18, 2016, he discussed the deep personal investment that people make in their work in Japan. The word shokunin, which has no direct translation in English, means a "master or mastery of one's profession." According to Lanchester, the word captures the way Japanese workers approach their jobs.

Most investment advisors and brokers might use the word shokunin to describe how they approach their profession. The vast majority are confident that they have mastered the skills required to excel at their jobs. Unfortunately, compliance is one extremely important element of operating a registered investment adviser (RIA) or broker-dealer, and many financial services professionals fall short in this area. For that reason, firms should decide whether outsourcing compliance is worthy of consideration. As they make this decision, firms should recognize that there are many options available, not just outsourcing the chief compliance officer (CCO) position. Although this paper focuses on RIAs, outsourcing can also benefit broker-dealers.

II. REGULATORS HAVE HIGH EXPECTATIONS

The word outsourcing is viewed negatively by many people and is often associated with workers losing their jobs. In fact, many people outsource certain tasks every day, such as hiring someone to cut the lawn or paying an accountant to prepare tax returns. In most cases, people could do the job themselves, but it is often a more efficient use of people's time to delegate these tasks to someone else, or they're confident that the person hired can do a better job.

When the word "outsourcing" is applied to RIAs and broker- dealers, firms may not fully understand what it means for them. Essentially, by strategically outsourcing some compliance tasks, RIAs and investment adviser representatives (IARs) may have the opportunity to spend more time doing what they do best: providing advisory services to clients and marketing their firms. Broker-dealers may also benefit by outsourcing elements of their compliance program to a third-party service provider in order to maximize the efficiency of their personnel.

Many firms equate outsourcing compliance with outsourcing the CCO position, which is only one of numerous options available. In general, outsourcing enables firms to tap compliance resources and expertise, which are not necessarily available in-house. Just as investment advisers sometimes hire third-party money managers to enhance their advisory services, firms can outsource compliance tasks to a third-party service provider specializing in this area. Similarly, firms can simultaneously improve their compliance ecosystems and growth prospects by delegating compliance tasks to a service provider.

Whether or not RIAs or broker-dealers outsource compliance, regulators have high expectations of their compliance programs. Without experienced and capable people dedicated to compliance functions, firms will have difficulty meeting those expectations. When RIAs fail to meet regulators' expectations, they are likely to receive a deficiency letter from the examination team—or worse. Certain compliance deficiencies, especially repeat violations, can result in an enforcement action against the RIA, as well as members of the firm who are responsible for the misconduct.

In a recent enforcement action, the administrative assistant for an RIA in Lexington, Kentucky, was chosen as the firm's CCO along with her other duties. The RIA put her in charge of compliance, even though she had no formal training in that field. The firm did not appoint a new CCO until several years later. The new CCO did have education and training regarding the Investment Advisers Act and its rules. The RIA also engaged an experienced outside consulting firm to help the new CCO revise the firm's policies and procedures manual. By then, however, the damage had been done.

The Kentucky case is not an isolated instance. At many firms, principals must juggle a number of responsibilities and cannot devote the time needed to run the compliance function.

Compliance responsibilities are too often ignored as the firm's day-to-day operations take precedence. The inevitable mistakes—even innocent ones—can have long-term consequences.

III. POLICIES AND PROCEDURES MUST LIVE UP TO REGULATORS' EXPECTATIONS

Policies and procedures can help prevent those mistakes. Policies and procedures are the equivalent of a pilot's flight manual. An RIA's policies and procedures should address routine and extraordinary situations that an adviser will deal with when operating an advisory firm. These policies and procedures are often referred to as the RIA's compliance manual.

Meeting regulators' high expectations begins with policies and procedures, because they are the lynchpin of firms' compliance programs. Rule 206(4)-7 under the Investment Advisers Act of 1940, better known as the Compliance Rule, requires advisers registered with the SEC to adopt and implement written compliance policies and procedures. Most states impose similar requirements on advisers registered in their jurisdiction. These compliance policies and procedures should be designed to protect the interests of investors and prevent violations of federal securities laws. In addition, Rule 206(4)-7 requires each RIA to designate a CCO to develop and enforce its compliance policies and procedures.

The intent of the Compliance Rule is to prevent harm to clients and investors. Section 206 of the Investment Advisers Act, as implemented in Rule 206(4)-7 thereunder, requires advisers to adopt thorough and complete compliance policies and procedures. The failure to do so can be a violation, even if no one was harmed.

Many CCOs do not know where to begin when drafting policies and procedures. Although policies and procedures templates abound, the devil is in the details. RIAs should identify all of the specific compliance risks they face, as well as their conflicts of interest. There should be written policies and procedures implemented by the firm to address each of them. Every compliance risk should be matched with a control.

RIAs should implement compliance policies and procedures intended to prevent deficiencies from occurring, detect deficiencies that have already occurred, and correct those violations. Although the Compliance Rule affords RIAs with flexibility in designing policies and procedures, firms must address the following areas at a minimum:

- Accuracy of disclosures made to clients, investors, and regulators, including account statements and advertisements;
- Portfolio management processes;
- Trading practices;
- Proprietary trading and personal trading activities of supervised persons; Safeguarding of clients' assets from conversion or inappropriate use;
- Books and records, including steps taken to prevent unauthorized alteration or use and unwarranted destruction;
- Marketing practices including the use of solicitors;
- Valuation processes and how fees are calculated based on those valuations;

- Safeguards to protect clients' privacy and confidential information; and
- Business continuity plans.

Just about every RIA will need policies and procedures that go beyond the minimum requirements.

An RIA's policies and procedures should incorporate the firm's business continuity and disaster recovery plan ("BCP"). RIAs should implement a comprehensive BCP that addresses a wide range of contingencies, such as where the firm will conduct business if the primary location is no longer available.

All federally registered RIAs, as well as some state-registered firms, must conduct an annual review of their policies and procedures to measure whether they are effective. Even if an annual review is not required, state-registered advisers will benefit by conducting one. The process is simplified by conducting interim reviews when significant compliance events, changes in business arrangements, and regulatory developments occur. An RIA should also measure how effective its policies and procedures are.

Conducting these annual reviews may require a skill set that is not available at the firm. Compliance personnel might conduct a cursory review of the firm's policies and procedures with no insight about what improvements are necessary. For example, in a 2015 enforcement action, the CCO for an RIA informed the firm's president on several occasions that he needed help to fulfill his compliance responsibilities, which included the annual review.3

Rule 204-2 under the Investment Advisers Act, better known as the Books and Records Rule, mandates that RIAs must keep copies of all compliance policies and procedures in effect during the last five years. The RIA must also retain its inventory of compliance risks, as well as copies of the firm's annual reviews of its policies and procedures.

In almost every deficiency letter issued by securities regulators, the examination team points to inadequate policies and procedures as a contributing factor that led to the misconduct. In many cases, the deficiency letter will urge the RIA to implement stronger policies and procedures to correct the problems observed. These revisions will help the firm to avoid repeating the same mistakes that got it into trouble. Recidivist violations increase the likelihood that an enforcement action will be brought against the firm and the individuals involved.

It should not take an examiner to recognize that a firm's compliance program is inadequate. There are several obvious signs that the firm is likely to have problems:

- The firm has not implemented policies and procedures to address critical areas, such as cybersecurity measures and safeguarding of clients' personally identifiable information;
- The firm is relying on a template and policies and procedures that have not been customized and do not fit its business model;
- The firm's actual practices differ from its policies and procedures;
- Compliance personnel are not in the loop on major decisions impacting the firm; and
- The firm is not adhering to its policies and procedures.

Policies and procedures should address the very real problems that are faced by investment advisers. For example, there should be procedures in place specifying the steps that should be taken when a client appears to be cognitively impaired.

IV. USING STRATEGIC OUTSOURCING TO MEET REGULATORS' EXPECTATIONS

Firms need much more than well-drafted policies and procedures to operate an effective compliance program. They may reap benefits by strategically outsourcing specific compliance tasks. As an example, RIAs can seek assistance in areas such as:

- Annual risk assessments and compilation of a risk inventory;
- Identifying weaknesses in the firm's policies and procedures;

- Revising the firm's compliance manual and enhancing its policies and procedures;
- Acting as a service bureau administrator for the RIA's Investment Adviser Registration Depository (IARD) account;
- Drafting thorough and accurate brochures and brochure supplements;
- Preparing and filing annual renewal documents, amendments, and state notice filings;
  Conducting mock audits;
- Creating and maintaining compliance calendars;
- Compliance education and training;
- Interaction with regulators; Email reviews;
- Privacy notice, privacy policies, and cybersecurity;
- Form 13F filings with the SEC;
- Review of advertisements, including websites and social media; and
- Records retention and destruction.

Outsourced service providers can provide a knowledgeable and objective perspective on the firm's operations.

Strategic outsourcing may also benefit broker-dealers. For years, broker-dealers have successfully used outsourced financial and operations principals ("FinOps"). The same cost-benefit analysis that applies when hiring outsourced FinOps can be applied to decisions regarding whether to outsource compliance. An outsourced service provider can offer assistance with the following tasks:

- Creation and maintenance of a through compliance program;
- Testing of compliance policies and procedures;
- Surveillance of trades;
- Suitability analysis;
- Email review;
- Review of marketing and advertisements;
- Books and records;
- FINRA Rule 3120 Annual Compliance Report;
- FINRA Rule 3130 Annual Certification Report;
- Regulatory filings;
- Interaction with regulators; and
- Employee training.

As they decide whether strategic outsourcing makes sense, firms should consider factors such as:

- Cost of hiring someone to handle compliance versus the expense incurred by engaging a service provider;
- Complexity of the firm's business model;
- Expertise to handle compliance responsibilities in-house; and
- Availability of additional resources or personnel to comply fully with the applicable rules and regulations.

At most busy broker-dealers and RIAs, it is unusual to find employees with time on their hands to take on compliance-related duties.

In this age of specialization, it is often prudent for firms to call in experts. In many cases, this recourse makes more sense than hiring an extra person. It is also another way to show regulators that the firm is allocating sufficient resources to compliance.

When deciding whether strategic outsourcing makes sense, firms should not make their decision on the basis of cost alone. RIAs and broker-dealers owe it to themselves to conduct due diligence of service providers offering these services and should ask for references. Many providers offer consulting packages that include a number of services that might otherwise be billed separately. Compliance consulting packages often prove to be a more cost- effective approach.

When firms engage in strategic outsourcing, they are still responsible for fulfilling their compliance obligations. Firms cannot plead ignorance as an excuse for deficiencies in the compliance programs.

V. REGULATORS' EXPECTATIONS OF CCOs

A firm's CCO is often the point person in dealings with examiners. Examiners expect CCOs to be willing to stand up to senior management and to possess a wealth of knowledge that goes well beyond an understanding of rules and regulations.

Andrew J. Donahue, former chief of staff for the SEC, offered guidance regarding the knowledge CCOs need to have or develop to be effective. CCOs should know and understand the following:

- Laws, regulations, and compliance requirements pertaining to their firms in view of their business model and jurisdiction;
- The firm's supervisory structure and internal operations;
- The firm's conflicts of interest and how they are identified and resolved;
- The types of products and services that are offered to clients, including their profit margin, so the CCO can conduct a robust analysis of the potential conflicts;
- The firm's compliance and other technology platforms;
- The firm's existing policies and procedures and how they are administered;
- The markets in which the firm operates, including any specific practices that raise compliance concerns;
- The firm's culture and whether it has allocated sufficient resources to compliance; and
- What expertise is lacking at the firm, so the CCO can recognize situations in which additional assistance is needed

If firms lack compliance expertise in a particular area, they should consider hiring a service provider to plug the gaps. Nevertheless, even if firms engage a service provider, they still need a strong, knowledgeable, and competent CCO.

Compliance personnel, as well as principals, should take advantage of opportunities to learn more about their obligations and responsibilities. The SEC's Compliance Outreach Program is designed to help RIAs and broker-dealers stay compliant. These programs provide a forum to discuss current regulatory issues and to exchange ideas for developing effective compliance programs.

State securities regulators also sponsor educational conferences on compliance issues. In addition, FINRA holds many conferences and educational events to keep securities professionals informed about regulatory developments and rule changes, as well as offering practical guidance on compliance issues.

NSCP, the National Society of Compliance Professionals, offers education, resources, and support to compliance professionals. In addition, RIA publications like IA Watch, law firms, and compliance consulting firms offer conferences that address timely and important issues impacting CCOs.

In short, firms need strong, knowledgeable and competent CCOs. In addition, to meet regulators' expectations, firms should provide CCOs with all of the resources and educational opportunities they need in order to succeed. The question arises: as part of an outsourcing program, should the CCO position be outsourced as well?

VI. OFFICE OF COMPLIANCE INSPECTIONS AND EXAMINATIONS OUTSOURCING RISK ALERT

When deciding whether to outsource the CCO position, firms should consider SEC staff 's observations regarding examinations of investment advisers and investment companies that have already taken this approach. On November 9, 2015, the Office of Compliance Inspections and Examinations (OCIE) published a risk alert that dealt with the growing trend of outsourcing compliance activities to external parties, such as consultants or law firms.5 OCIE staff conducted almost 20 examinations as part of its Outsourced CCO Initiative, which focused on investment advisers and investment companies. The risk alert stressed that "advisers with outsourced CCOs retain the responsibility for adopting and implementing an effective compliance program."

As part of the initiative, OCIE staff evaluated the effectiveness of the examined firm's compliance programs and outsourced CCOs by considering whether:

- The CCO was administering a compliance environment that addressed and supported the goals of the applicable laws and rules;
- Compliance risks were appropriately identified, mitigated, and managed;
- The compliance program was reasonably designed to prevent, detect, and address violations of the rules and regulations governing the firm's activities;
- The compliance program supported open communication between service providers and those persons with compliance oversight responsibilities;
- The compliance program was proactive, not reactive;
- CCOs appeared to have sufficient authority to compel adherence to compliance policies and procedures and received adequate resources to perform their responsibilities; and
- Compliance seemed to be an integral component of the RIA's culture.

Staff members observed that certain outsourced CCOs rarely visited the RIA's offices and conducted only limited reviews while on-site. In addition, staff members found that some outsourced CCOs did not fully understand the RIA's business practices and did not communicate regularly with the firm's principals. They did not always have full access to the firm's documents. Some of these CCOs had limited visibility and prominence within the registrants' organization, which meant they had little authority to ensure compliance with the firm's policies and procedures.

Staff members also found that firms' compliance manuals often contained superfluous or inapplicable policies and procedures. As an example, a firm might have implemented performance advertising policies and procedures, even though it never advertised performance. Similarly, some compliance manuals included policies and procedures for collecting management fees in advance, even though the RIA billed in arrears.

Form ADV was recently amended to make it easier for the regulators to keep tabs on outsourced CCOs. On August 25, 2016, the SEC released a Final Rule amending Item 1.J. of Form ADV to require an RIA to report whether its CCO is compensated or employed by any person other than the adviser. Before that change, Item 1.J. of Form ADV only required each RIA to provide the name and contact information for the firm's CCO. The release explained the SEC's rationale for the change:

- As discussed in the Proposing Release, our examination staff has observed a wide spectrum of both quality and effectiveness of outsourced chief compliance officers and firms. Identifying information for these third-party service providers, like others on Form ADV, will allow us to identify all advisers relying on a particular service provider and could be used to improve our ability to assess potential risks.

If a particular outsourced CCO or provider is found to be ineffective, the SEC may decide to look at other firms making use of those services.

VII. FIRMS MUST PROVE TO REGULATORS THAT THEY'RE SERIOUS ABOUT COMPLIANCE

RIAs and broker-dealers should be able to demonstrate to examiners that compliance is a priority, not an afterthought. This is illustrated in two recent SEC enforcement actions.

On June 23, 2015, a Chicago-based RIA settled an SEC enforcement proceeding against the RIA, as well as three of its senior officers.7 The RIA's officers did not make its compliance program a priority, as evidenced by the following actions:

- The president promoted an individual with minimal compliance experience and training to serve as CCO;

- The CCO only had a limited amount of time to spend on compliance;
- The president did not provide the CCO with adequate guidance regarding his duties and responsibilities nor was he given sufficient staff to assist him; and
- The president required the CCO to seek his approval before making compliance expenditures.

The president had insisted that the CCO give a higher priority to his other non-compliance responsibilities. Because of his research duties and other responsibilities, the CCO could only devote 10 to 20 percent of time to compliance-related matters. The SEC determined that the president's failure to devote sufficient resources to compliance contributed substantially to the RIA's compliance failures.

In another example, on January 21, 2015, the SEC alleged that a firm in New York City had failed to implement an effective compliance program.8 From at least 2008 to 2012, the firm's CCO carried out few if any of her compliance obligations and spent most of her time managing individual accounts. From 2008 until 2011, one of the firm's two principals handled the compliance responsibilities for the firm's advisory business, even though he had minimal training and knowledge regarding the Investment Advisers Act.

The SEC noted that when the firm finally engaged someone to be its designated compliance officer, a separate position from the CCO that person possessed inadequate training and knew little about the Investment Advisers Act. In addition, the SEC determined that the firm failed to provide adequate training to employees regarding the RIA's policies and procedures.

Cutting corners on compliance sends the message that compliance is not a priority for the firm. When firms allot only a small percentage of their budget to the compliance function, it might be an indication that they are not seriously committed to operating an effective compliance program

VIII. POTENTIAL BENEFITS TO BEGAINED FROM STRATEGIC OUTSOURCING

In view of OCIE's outsourcing risk alert and these recent enforcement actions, firms that outsource their CCO position can expect skeptical questions from examiners. Examiners are likely to test whether an outsourced CCO fully understands the RIA's operation, which is vital to administrating a compliance program. Sadly, some in-house CCOs do not understand their own firm's business model.

Although there can be pitfalls when the CCO position is outsourced improperly, it may be beneficial for firms to outsource specific tasks to a service provider. These providers can help firms to implement and manage compliance calendars. For example, a calendar makes it less likely that an RIA will overlook important compliance obligations such as the Rule 206(4)-7 requirement that SEC-registered investment advisers conduct annual reviews of their policies and procedures. Attorney Rita Dew of Delray Beach, Florida, offered this guidance in a white paper published by National Compliance Services, Inc., the predecessor of NCS Regulatory Compliance:

- Selective outsourcing can give CCOs an independent and fresh set of eyes for compliance reviews conducted by experts who deal on a regular basis with securities regulators. Compliance outsourcers also have access to state and SEC deficiency letters. These letters are issued by a firm's regulator following an examination, and pinpoint areas in which a firm's compliance is weak. A compliance consultant can use these letters, without identifying the recipient, to guide their clients on what examiners' priorities are, and how they will be scrutinized, in real time.

Compliance service providers become aware of regulatory trends and concerns before risk alerts are published. These providers see the deficiency letters advisers are receiving, which signals what issues examiners are focusing on during examinations.

Advisers would be naive if they were to think they can avoid responsibility for compliance problems through outsourcing. Nevertheless, strategic outsourcing can add value to a firm's operation in the following ways:

- Compliance questions can be answered quickly with a phone call or email;
- Existing resources can be used more efficiently and cost- effectively;
- Additional hiring may be avoided; and
- Potential compliance pitfalls can be identified and avoided.

Compliance service providers can even add value to hiring decisions. They can provide insight as to whether an applicant's disciplinary history will adversely impact the firm.

When compliance tasks are outsourced to a third party, that individual is not influenced by the firm's incentive structure. In many cases, supervised persons are more willing to accept advice from an outsider. Service providers might be able to suggest ways for the firm to streamline its operations.

Firms may also benefit from the expertise offered by most providers. Even if a member of the firm is willing to take time away from clients to become well-versed on compliance matters, it is doubtful that he or she will know as much as service providers dealing with these matters on a daily basis. Service providers are likely to be more current regarding regulatory developments, especially if they interact on a regular basis with the SEC, FINRA, and state securities regulators. Service providers can also help RIAs develop and implement policies and procedures to address regulators' priorities.

An outsourced service provider should do more than just supply boilerplate policies and procedures. In a risk alert published on February 7, 2017, OCIE published a list of the five compliance topics most frequently identified in deficiency letters sent to SEC- registered investment advisers. One of those deficiencies was a failure to tailor policies and procedures to the firm's business model.

Relying on boilerplate policies and procedures may undermine a firm's compliance program. There is no one-size-fits-all compliance manual. Examiners may question why a firm has policies and procedures that do not apply to its business model. The compliance manual may contain policies and procedures that are being ignored by advisory personnel. A customized manual is a better alternative than one replete with generic policies and procedures that are totally irrelevant to the firm's day-to-day business activities. Firms with simpler business models usually don't need overly complex policies and procedures.

Finally, outsourced service providers should offer checklists, so RIAs can evaluate their policies and procedures on an interim and annual basis. A few firms offer online tools to ensure that the evaluation process is meaningful.

IX. NEWLY REGISTERED ADVISERS MAY BENEFIT MOST FROM STRATEGIC OUTSOURCING

Although newly registered advisers often have limited budgets, they may benefit most by strategically outsourcing certain compliance tasks such as creating policies and procedures. One of the SEC's recent initiatives has been to examine newly registered advisers. The newly registered adviser may have no idea what policies and procedures are necessary. Many new RIAs possess little or no knowledge regarding how to become registered, how to market their services, or what fees to charge. Knowledgeable service providers can give novice advisers an overview of the prevailing practices in the area, as well as specific advice on how to stay within the lines.

Whether an RIA is newly registered or has been in business for years, building a relation- ship with a service provider can pay dividends. The provider will become familiar with the RIA's business model and can offer guidance regarding approaches taken by other advisory firms. The RIA's policies and procedures should be far more professional and thorough than if the adviser had drafted them alone. If questions are raised about the RIA's compliance decisions or books and records, the service provider can help the adviser explain why certain steps were taken. Conversely, if an adviser has ignored a service provider's advice and examiners find out, the consequences for the RIA are likely to be more severe.

Securities regulators expect CCOs to be knowledgeable and well versed on compliance matters. Service providers should provide educational materials and training to CCOs, as well as other members of the firm. Customer-oriented service providers offer newsletters and webinars on compliance topics and should also be proactive in notifying and explaining new rules and regulations affecting the RIA. In addition, a service provider's technology can help an RIA's compliance program to run more smoothly and efficiently.

X. FINRA AND BROKER-DEALERS' CONCERNS ABOUT OUTSOURCING

The outsourcing issue is not limited to the RIA space. FINRA's 2016 Regulatory and Examination Priorities Letter gave this advice:

— Firms continue to look for opportunities to reduce costs by outsourcing key operational functions. FINRA will review firms' due diligence and risk assessment of providers of outsourced services and their supervision of those services. FINRA reminds firms that while certain tasks can be performed by a third-party provider, the responsibility to supervise covered activities for compliance with applicable federal securities laws and regulations, as well as self-regulatory organization rules, remains with the broker- dealer. Moreover, firms must avoid outsourcing functions that are required to be performed by qualified registered persons. It is essential that broker-dealers appropriately supervise outsourced activities and that firms conduct adequate initial and ongoing due diligence of outsourced providers. This concern is also applicable to employees of affiliates conducting certain functions on behalf of the broker-dealer.

Firms should create books and records to prove they conducted due diligence of each and every service provider before deciding whether to engage them.

XI. CONCLUSION

Although firms should consider looking for a hand to help them with their compliance obligations, they cannot hand off their responsibilities entirely. They should not view third- party service providers as a crutch. Ideally, a service provider can do the heavy lifting for a firm and provide valuable insight.

In working with compliance service providers, CCOs should provide direction. For example, some CCOs barely look at an advertising piece before sending it to an out- side firm for review. The better approach is for the CCO to review the piece first in view of the firm's business model, strategy, and investment philosophy. It is helpful to identify statements that are inconsistent with how the firm transacts business. Aside from identifying those problem areas, the CCO might point out issues with a particular service or product that have generated complaints in the past. The outside compliance firm can then use its expertise to conduct a more in-depth review.

At some firms, the managing partner is a dominating force, which is why they are so successful. It can also explain why some CCOs are afraid to buck horns with that individual. Weak CCOs are sometimes reluctant to push back on a principal who wants to plow forward without regard for compliance. Those CCOs want an outside firm to be the bad guy. It is one thing to call upon an outside party to back up the CCO's position. It is another to seek outside help because of an unwillingness to stand up to the firm's principals. When this happens, it is clear that the firm has appointed the wrong person to be CCO.

Even if a firm's compliance staff members are experienced, professional, and knowledgeable, the firm may not have the expertise in-house to resolve all of the issues that arise. In those instances, it may be necessary for a firm to outsource certain tasks to a service provider. This might only require a one-time engagement if the CCO receives guidance on how to resolve those issues going forward. Outsourcing can give firms increased capacity and bandwidth.

Smaller firms usually rely on a principal to serve as CCO. Hiring a service provider can ease that person's work load. A firm with a simple business model may have less need to outsource compliance tasks to a service provider

No matter how big or small a firm is, it might make sense to have a service provider conduct a mock audit to measure whether its compliance program is in good shape. As part of their due diligence, firms should make certain that the service provider does not have a vested interest in selling additional services and will denigrate the current compliance program as part of its marketing strategy.

The decision whether to hire a service provider is usually more clear cut when principals and compliance personnel know what they don't know. If principals and compliance personnel are willing to recognize and admit their weaknesses, they know when it's time to ask for help. And if they choose to go it alone, they will need to master all of the rules and regulations that go hand-in-hand with compliance. If they meet that extremely high standard, principals and CCOs can proudly say that the word shokunin accurately describes their approach to compliance

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