

Mutual Fund CCO Compensation in 2012

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MPI recently completed its eighth annual Survey of Mutual Fund Chief Compliance Officer Compensation and Organizational Practices. This bulletin summarizes the findings and is based on the submissions of 60 mutual fund CCOs from all regions of the U.S., representing funds with \$1.9 trillion in assets. This year's study found that 65% of the participants were full-time employees and serve as CCO to both the fund and the advisor.

After holding relatively steady through the financial crisis, many CCOs have now seen steady increases in the past couple of years. In this year's study the 60 participants received average total compensation of \$358,760, versus \$342,100 last year, a gain of 4.9%.

A subset of the survey participants, which includes 39 participant CCOs for whom data exists for two years (2011 and 2012), saw an increase in total compensation of 5.7% over the previous year.

The vast majority (94%) of CCOs receive a bonus as a part of their total compensation, typically ranging from 25% to 100% percent of base pay. While some of the highest-paid CCOs received as much as 200% or more before the market meltdown, that number has been decreasing and in 2012 the average bonus for large-fund CCOs was 61% of their base pay. The majority of CCOs reported that their bonus is influenced by management (92%) as well as the board (81%). 86% reported that corporate performance is a factor.

The range of CCO compensation for the reporting fund families was wide—\$115,000 to \$750,000—and depended on many variables, such as geographic location, number of funds and portfolios, retail or institutional distribution, number of sub-advisors, and mix of insurance related products. We also found that many CCOs were long term employees of the management company, or had many years of experience at another fund company. As a result CCO compensation was sometimes correlated with age and experience.

As the true costs and benefits of compliance have become clearer over recent years, there has been a trend toward splitting the cost of CCO compensation between the funds and the manager. 51% of CCOs reported being paid at least in part by the fund in 2012.

Benefits for CCOs continue to be below levels found before the financial crisis. Those qualifying for a matching defined contribution/401k plan decreased to 53%, down from 72% in 2008, reflecting the overall trend in the business environment where matching plans have not returned at many US corporations following the crisis. 22% of CCOs are eligible for defined benefit plans versus 38% before the crisis. Long term capital accumulation plans are also less common, with 31% of CCOs receiving some form of restricted stock and just 12% receiving stock options.

In addition to their compliance responsibilities, most participating CCOs perform other functions for the business. We found that 82% of the reporting CCOs perform analytical functions directly for the fund board, which might include involvement in the 15(c) contract renewal process or monitoring soft dollar expenditures. Also notable in this environment is a continued number of participants reporting “Risk Management Support” as an additional duty, at 67% in 2012, up from 54% in 2007. 51% reported involvement in “Legal Support”, and 38% reported having “Global Responsibilities”.

The increasingly complex regulatory environment may be responsible for a change in the typical background and skill sets of fund CCOs. This year 47% of the respondents were lawyers, up from 34% in 2007. CPAs, on the other hand, represented just 21% of the participants, down from 34% in 2007. 53% had some form of securities licensing.

Finally, new to the survey this year was a question regarding internal reporting (other than to the board). The study found that 38% of CCOs report directly to the CEO, with 28% to the general counsel or CLO (Chief Legal Officer). 16% report to a higher-ranked CCO at the advisor or parent company, with the rest reporting to the COO, fund president, or the CFO.

A CCO's compensation must be evaluated in proportion to the effort, expertise and exposure of that particular complex. CCO compensation, as with any other position, is the result of determining how best to attract, motivate and retain the requisite talent for the specific assignment. For more information regarding the MPI Survey of Mutual Fund Chief Compliance Officer Compensation and Organizational Practices, please contact Management Practice.

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