

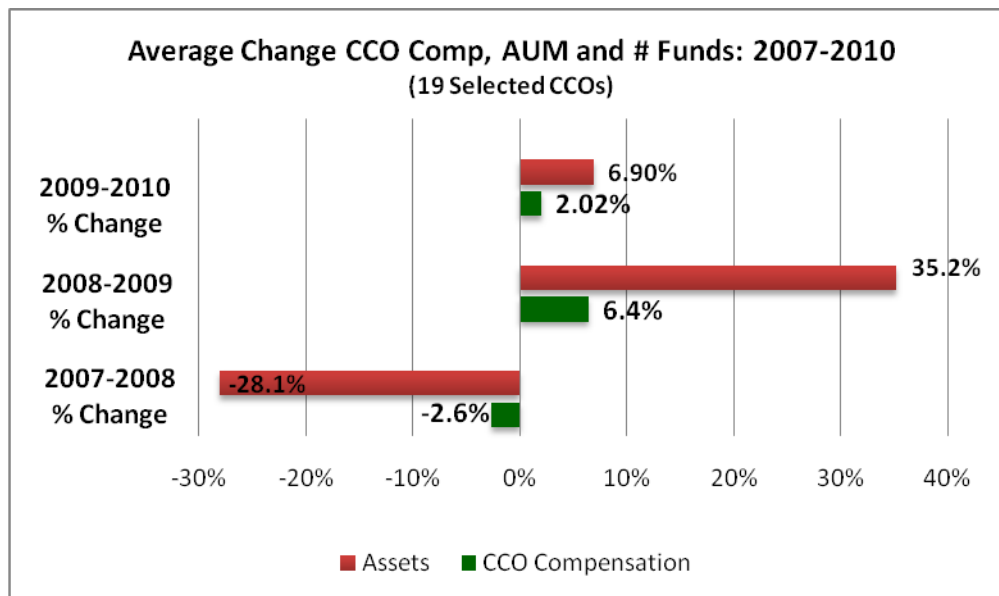
## **CCO Pay Holding Steady; Majority of CCOs are Lawyers**

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MPI recently completed its sixth annual Survey of Mutual Fund Chief Compliance Officer Compensation and Organizational Practices. This bulletin summarizes the findings and is based on the submissions of 63 fund CCOs, representing funds with \$3.4 trillion in assets. 65% of the participants were full-time employees and serve as CCO to both the fund and the advisor.

CCO compensation overall continues to hold steady through the financial crisis, with few CCOs seeing wide variability in their annual pay. The majority of participating mutual fund CCOs again saw moderate or no increases in total compensation in 2010 when compared to 2009. The 63 participants in the 2010 study received average total compensation of \$388,249. This is up from \$352,034 in 2009, however the number is not fully comparable as the participants vary each year.

A subset of the survey participants, which includes 19 participant CCOs for whom data exists for 2007 to 2010, saw a modest decrease in total compensation of 2.6% in 2008, but an increase of 6.4% in 2009 and again a modest increase of 2.0% in 2010, netting to a 5.7% increase over the 3 year period. The chart below displays this change, contrasted against the varying asset levels over the same period.



The range of CCO compensation for the reporting fund families was wide 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.

Bonuses for CCOs typically range 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 2010 the average bonus for large-fund CCOs was 59% of their base pay. The majority of CCOs reported that their bonus is influenced by management (87%) as well as the board (85%). 77% reported that corporate performance is a factor.

An important finding of our survey is that while most CCOs participate in the advisor's 401(k) plan, they do not always qualify for the advisor's long term capital accumulation plan. These plans are usually based on restricted share grants or qualified stock options, and are worth, in a good year, 20% to 30% of total compensation for an executive of the typical CCO's salary grade. As a result the CCO's base compensation is typically set 20% to 30% above that of his or her grade's salary range to make up for the loss of a capital accumulation plan.

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. 57% of CCOs reported being paid at least in part by the fund in 2010.

We continue to see a pattern of CCOs performing certain other functions for the business. We found that 83% 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 increase in "Risk Management Support" as an additional duty of the CCO, rising to 66% in 2010, up from 54% in 2007. 51% reported involvement in "Legal Support", and 45% reported having "Global Responsibilities".

Finally, the increasingly complex regulatory environment may be responsible for a change in the typical background and skill sets of fund CCOs. This year 52% of the respondents were lawyers, up from 34% in 2007. CPAs, on the other hand, represented just 20% of the participants, down from 34% in 2007.

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*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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