Mutual Fund CCO Compensation in 2011

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MPI recently completed its seventh annual Survey of Mutual Fund Chief Compliance Officer Compensation and Organizational Practices. This bulletin summarizes the findings and is based on the submissions of 61 mutual fund CCOs, representing funds with $2.1 trillion in assets.

This year's study found that 58% of the participants were full-time employees and serve as CCO to both the fund and the advisor. This is down from 78% in 2008, which may reflect an increasing trend toward funds hiring an independent CCO.

After holding relatively steady through the financial crisis, some CCOs have seen significant increases in compensation over the past year. A subset of the survey participants, which includes 31 participant CCOs for whom data is available for two years, saw an average increase in total compensation of 8.1% in 2011 over the previous year.

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 2011 the average bonus for large-fund CCOs was 58% of their base pay. The majority of CCOs reported that their bonus is influenced by management (89%) as well as the board (80%). 79% reported that corporate performance is a factor.

The range of CCO compensation for the reporting fund families was wide—$115,000 to $800,000—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. 56% of CCOs reported being paid at least in part by the fund in 2011.

Benefits for CCOs appear to have decreased in the past year. Those qualifying for a matching defined contribution/401k plan decreased from 81% to 57%, a significant drop that may be in part attributable to the higher percentage of independent CCOs, but may also be reflective of an environment where such benefits are being reduced at many corporations. Those qualifying for defined benefit plans were down to 16% from 32%, and retirement health benefit plans dropped to 27% from 38%. Those qualifying for long term capital accumulation plans—i.e. restricted share grants or qualified stock options—represented approximately a third of the group again this year.

We continue to see a pattern of CCOs performing certain other functions for the business. We found that 85% 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 62% in 2011, up from 54% in 2007. 51% reported involvement in "Legal Support", and 34% 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 44% of the respondents were lawyers, up from 34% in 2007. CPAs, on the other hand, represented just 22% of the participants, down from 34% in 2007. 56% had some form of securities licensing.

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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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