

# New SEC compliance rules spur outsourcing

## Advisers cite need to save time, money

By Charles Paikert

NEWYORK — The new Security and Exchange Commission compliance requirements have spurred a significant jump in the amount of compliance work that planners, registered investment advisers and asset managers are outsourcing.

The requirements, the latest of which went into effect this month, also triggered a demand for in-house compliance professionals (*InvestmentNews*, Feb. 7). According to a survey of 40 U.S. companies by Boston-based research firm Cerulli Associates Inc., more than half outsourced at least part of their compliance functions.

The respondents included asset managers of various sizes, industry experts as well as individuals representing third-party providers.

And in a survey of 450 RIAs by

AdvisorBenchmarking Inc., the research arm of Rockville, Md.-based Rydex Investments, more than a quarter of the surveyed advisers said they outsourced compliance functions last year.

Both surveys were taken in November.

"It's the first year we asked the question," said Maya Ivanova, the analyst who conducted the survey for Rydex. "But it's clearly an increase from previous years, driven by the expenses and time required to comply with the new SEC rules."

Ms. Ivanova said she expects the percentage of firms outsourcing compliance work to be much higher this year.

"When we took the survey, I think a lot of firms were trying to avoid outsourcing," she said. "But now that they see what's actually involved and that outsourcing is a way to reduce costs, you'll see the numbers rise considerably."

### 'Labor shortage'

In fact, outside firms that per-



Keith Newcomb: Decided to work with broker-dealer's in-house team.

form compliance functions for financial advisers are reporting a land-office business.

"Our business has increased exponentially," said Walt Zebrowski, director of strategic and channel partners in Orlando for Tampa, Fla.-based TurboCompliance, which provides firms with automated

Internet-based compliance software. "Two years ago, hardly anybody thought they needed regulatory compliance, and now there's a labor shortage in the market."

Jeffrey Morton, a partner in the Washington-based firm Advisor Compliance Associates LLC, reported a 45% increase in the number of his clients outsourcing compliance work in 2004, compared with 2003. The typical client, he said, was a midsize adviser with \$250 million to \$1 billion in assets under management.

Time and money are the primary concerns of advisers who are outsourcing compliance work.

"I want the firm to concentrate on what it does best," said Janet Brown, president and chief executive of San Francisco-based DAL Investment Co. "I don't want to devote [our] full resources to compliance. Outsourcing makes sense."

After much deliberation, Keith Newcomb, a private securities attorney and solo financial planner and owner of Full Life Financial LLC in Nashville, Tenn., decided not to hire internally but to work with his broker-dealer's in-house legal team at AIG Advisor Group Inc., the broker dealer network of New York-based American International Group Inc.

Despite the additional time required to ensure compliance with the new rules, he said, "this has proved more effective than hiring staff. Instead of spending thousands of dollars, I've spent hundreds."

Other benefits of outsourcing, say industry professionals, include independence, objectivity and expertise.

"There's a lot of former regulators working for outsourcing firms," said Tony Turner, principal of Greenwich, Conn.-based Financial Tracking LLC. "That's a very valuable person to have inside the tent when you're dealing with an SEC complaint."

The objectivity of outside firms is also viewed as a critical factor in outsourcing, said Karen Keene, senior analyst for Cerulli. In her report on how asset managers are handling compliance challenges, she noted that the managers are also "increasingly soliciting the expertise of outside legal counsel to obtain independent guidance on compliance issues."

Fiduciary and liability issues, in fact, rank among the leading concerns of firms that outsource compliance work.



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