

Adviser's Consultant: Outsourcing many compliance duties best move for CCOs

Unless firm can spend \$200,000-plus a year, don't keep most compliance functions in-house.



July 26, 2016 *By Liz Skinner*

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Ryon Beyer recalls spending a week of 17-hour days gathering information that Securities and Exchange Commission examiners wanted in preparation for a routine inspection at the first advisory firm he worked for 14 years ago.

The task required going through client statements from 15 filing cabinets and pulling information to create a spreadsheet. Nothing was automated, he said.

"I remember thinking, 'This is garbage, there has to be a better way,'" said Mr. Beyer, co-founder and chief compliance officer of Hemington Wealth Management, which has about \$525 million in assets under management.

That painful experience influenced Mr. Beyer's decision to outsource much of the compliance duties when he and his partner started their own company three years ago. The firm they enlisted files Hemington's annual Form ADV and updates other documents the SEC requires of registered investment advisers, such as internal procedures and a code of ethics.

It also has backdoor functionality of Hemington's systems, so their experts can monitor the advisory firm and report to Mr. Beyer any items that need attention, such as emails or social media conversations that regulators might object to during an exam.

(More: [What advisers can expect from an SEC exam](#))

With help from the compliance experts, he's trimmed his own compliance-focused activities down to about an hour a week.

Outsourcing can cost an advisory firm anywhere from \$12,000 a year to more than \$100,000 a year, Mr. Beyer said, depending on the number of fee models, investment philosophies and other complexities of the firm. But he thinks it's well worth it.

"Trying to do it all internally would be an incredibly inefficient and expensive approach," he said.

It would be a challenge for a single person to keep track of all the rule changes coming from regulators. Mr. Beyer estimates it likely would cost \$200,000 a year or more to hire someone with the breadth of compliance experience needed to do the role internally.

Even outsourcing many functions, Mr. Beyer still has to ensure the firm invests in the technology it needs to be ready to electronically produce data when the SEC comes knocking at Hemington's doors.

(More: [Top 6 SEC exam deficiencies](#))

The client relationship management system is the key to being able to provide the information the SEC wants, but it also has to be integrated with data from the custodian, Mr. Beyer said.

"You can't rely on the financial technology vendors to have what firms need; they just aren't focused on compliance," he said.

TIP SHEET

- Choose a chief compliance officer who doesn't have an ego, and does have the integrity and strength of character to resist being pressured to ignore something below board.
- Spend the time to clearly define the firm's service offering and build compliance around that. Keeping the service offerings limited can make compliance duties simpler.
- Consider having a compliance firm ***[conduct a mock audit](#)*** to look for areas of weakness or ways advisers could be more ready for an exam.
- Financial advisers who are breaking away to start their own firm should look to hire compliance experts at least two or three months before the move, because it takes time to get the regulatory paperwork in order.
- Make sure everyone at the firm receives at least annual training on compliance rules and changes so the firm has a culture in which everyone thinks about whether they are doing the right thing.

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