

SEC Chairman Announces "CCO Outreach" Program

In a speech given at the Investment Company Institute's Mutual Fund and Investment Management Conference on March 14, William H. Donaldson, Chairman of the Securities and Exchange Commission ("SEC"), announced the launch of a program for chief compliance officers ("CCOs"). This "CCO Outreach" program is designed to reach out to and communicate with CCOs about how they can better fulfill their function.

Chairman Donaldson outlined several regulatory initiatives that are currently on the SEC's fund industry reform agenda. These include:

- requiring a fund board to consider whether to charge a redemption fee of up to two percent in order to address abusive market timing and short-term trading¹

¹ The SEC adopted Rule 22c-2 on March 11. The rule requires the board of directors (including a majority of independent directors) of most registered funds to either approve a redemption fee of up to two percent or determine that imposition of a redemption fee is not necessary or not appropriate for the fund. The proceeds of the redemption fee must be paid to the fund itself. The redemption fee is intended to allow funds to recoup some of the direct and indirect costs incurred as a result of short-term trading strategies, such as market timing. Rule 22c-2 also requires most funds to enter into written agreements with their financial intermediaries (such as broker-dealers and retirement plan administrators) under which the intermediaries must, upon request, provide funds with certain shareholder identity and trading information and carry out certain instructions from the fund. The requirement is intended to enable funds to obtain the information that they need to monitor the frequency of short-term trading in omnibus accounts and enforce their market timing policies. The SEC is also requesting additional comments to obtain further views on whether it should establish uniform standards for redemption fees charged under the rule. *Mutual*

- proposing rules to address late trading in mutual funds
- studying conflict of interest issues associated with the use of soft dollars
- potential revisions to rule 12b-1
- mutual fund disclosure reform

He also pointed out that ensuring compliance is fundamental to these reforms and that the CCO plays a pivotal role in ensuring the success of a fund's compliance program.

The new "CCO Outreach" program will feature a number of elements:

- *Regional Seminars* hosted by the SEC examination staff and expected to be held in the late spring and early summer. These meetings will provide an opportunity for CCOs to learn some of the "nuts and bolts" of the examination process and about the SEC staff and resources available to them, as well as to become familiar with the basics of the SEC examination process.
- *National Seminars* featuring presentations by SEC staff and expected to commence in early fall at the new SEC headquarters. In what is expected to become an annual event accommodating approximately 500 CCOs in person SEC staff will respond to questions and concerns expected to be raised at the *Regional Seminars* and elsewhere. It will also be webcast.

Fund Redemption Fees, Rel. No. IC-26782 (March 11, 2005).

- *Periodic Newsletter*, the “CCO Observer,” which will serve to communicate directly with CCOs about issues of interest. These would include new rules, interpretive releases, recent examination findings, and relevant enforcement actions. The newsletter will be written in a plain English format so it will be both usable and accessible, and will contain electronic links to relevant materials on the SEC’s website.
- *Email Alerts* for CCOs about emerging issues, including “compliance alerts” to CCOs to inform them of matters that might require urgent attention.
- *Exam HotLine*, newly established for CCOs who have a complaint or a concern about an SEC examination. Calls will be fielded by senior attorneys from the SEC examination program’s chief counsel’s office.

Chairman Donaldson stressed that the SEC does not seek to rewrite any fund’s reporting structure—fund CCOs will continue to report to the fund’s board, and the “CCO Outreach” program is not an effort to “deputize” CCOs as agents of the SEC. Instead, the program is intended to be an effort to communicate with CCOs, answer their questions, and give them the information and support they need from the SEC to perform their critical oversight function.

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