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Compliance • Trust • Distribution



How do Trustees get the most out of their Interaction with the CCO?

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20TH "ANNIVERSARY" OF RULE 38A-1

20th “Anniversary” of Rule 38a-1

- **How We Got Here:**

- Leading up to Rule 38a-1 of the Investment Company Act (and Rule 206(4)-7 of the Adviser’s Act), the Commission and State Securities Authorities discovered widespread unlawful conduct involving several Fund Advisers, Broker-Dealers, and other Service Providers.

- **Effective Date - February 5, 2004**

- Rule 38a-1 requires written Policies and Procedures.
- Board Approval of Fund’s and Service Provider’s Policies and Procedures.
- Designate a Chief Compliance Officer – one individual responsible for administering the Fund’s Policies and Procedures.
 - Compensation must be approved by Board of Directors.
 - Reports directly to the Board of Directors and can only be removed by the Board of Directors.
 - Annual Report to the Board of Directors.
- Undue Influence Prohibited - No Officer, Director, or employee of the Fund, its Investment Adviser, or Principal Underwriter, or any person acting under such person's direction may directly or indirectly take any action to coerce, manipulate, mislead, or fraudulently influence the Fund’s Chief Compliance Officer in the performance of his or her duties under Rule 38a-1.



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INTERNAL V. EXTERNAL CCO



Internal v. External CCO

	<u>Internal/Adviser's CCO</u>	<u>External - Third-Party</u>
1. Quality	<p>Does internal CCO have the expertise and resources needed to monitor, analyze and navigate the “ever-changing” regulatory environment? Is the internal CCO a full-time CCO or does the CCO wear many hats?</p> <p>Adviser's CCO is involved in the day-to-day activities, including decisions made on behalf of the Fund. This gives the Adviser's CCO a level of insight into the Fund's activities, which can benefit the Fund. An Outsourced CCO must work hand-in-hand with the Adviser's CCO to ensure there is an open, independent dialogue with the Fund's CCO who can then discuss any issues with the Board.</p>	<p>Third-Party Compliance Experts focus only on compliance - and they have ample resources to monitor the new Compliance Rules and Regulations. This enables the Adviser's CCO to focus on their Compliance Program.</p> <p>Access to significant resources such as deficiency letters, interaction with SEC staff, industry trends.</p>
2. Communication	<p>Internal CCO is involved in the day-to-day operations of the Adviser. Their on-site presence serves as a reminder for employees regarding Regulatory Requirements.</p>	<p>Quarterly Certifications from Adviser and Service Provider, regular compliance calls, and interim reporting are required to ensure adequate controls are in place.</p>
3. Independence	<p>Possible conflict where the Adviser's business interests might discourage internal CCO from making forthright disclosures to Fund Directors of its Compliance Failures.</p>	<p>Fully independent and objective. Sounding board for Adviser's CCO. Can give additional support and guidance to Adviser's CCO.</p>
4. Cost	<p>Full-time CCO or named CCO - cost will include cost of employee benefits and additional resources for the internal CCO.</p>	<p>Often more cost effective - Adviser doesn't pay benefits. Additional resources included in outsourced model.</p>



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ROLE OF THE CCO AND HOW THE BOARD CAN UTILIZE THE CCO

Role of the CCO and How the Board can Utilize the CCO

- CCO reports directly to the Board and serves at the pleasure of the Board.
- Directors may satisfy their obligations under the Rule by reviewing summaries of Compliance Programs prepared by the Chief Compliance Officer.
- Direct line of communication with Board.
- CCO educates the Board on new and changing Regulations.
- CCO serves as eyes and ears to the Board.
- CCO Reporting:
 - Annual Written Report on the operation of the Fund's Policies and Procedures and those of its Service Providers.
 - The operation of the Policies and Procedures of the Fund and each Service Provider since the last report, any material changes to the Policies and Procedures since the last report.
 - Any recommendations for material changes to the Policies and Procedures as a result of the Annual Review.
 - Material compliance matters since the date of the last report.



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BUILDING THE RELATIONSHIP/TRUST

Building the Relationship/Trust

Establishing a Personal Relationship



Team Spirit and Sense of Comradery
(We have a Common Duty)

Regular and On-Going Communication



Credibility

Schedule adequate time for Board Reporting and Executive Sessions



Honesty

Accountability





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QUESTIONS?
