

FALL 2016  
Marina del Rey

# LEGAL AND COMPLIANCE STAFFING IN VIEW OF INCREASED REGULATION AND ENFORCEMENT

**DAVID CLAYPOOLE**

*Founder and President*  
Parks Legal Placement



# Managers Need More Legal and Compliance Professionals Today Than Ever Before and They Need to Pay Them More

# DEMAND and supply

# Effects of Increased Regulation and Enforcement

- Managers need larger legal and compliance staffs than ever
- Increased demand for qualified professionals has driven up compensation dramatically

# Mandatory Registration

## More Managers are Being Regulated

## Poll Question #1

Since mandatory registration was floated in 2003 to the end of 2015, what was the net increase in the number of advisors registered with the SEC?

- 1) 1213
- 2) 2543
- 3) 3621
- 4) 7342

## Registered Investment Advisors by Year

	# RIA	Change
<b>2003</b>	7852	
<b>2004</b> SEC Rule 203 (b)(3)-2 required most hedge fund manager so register by 02/01/06	8302	+450
<b>2005</b>	8614	+312
<b>2006</b> 02/01/06 Deadline for Mandatory Registration 06/23/06 Goldstein Decision Vacates rule 203(b)(3)-2 08/07/06 SEC declines to appeal	10,290	<b>+1676</b>
<b>2007</b>	10,446	+156
<b>2008</b> 03/26/08 Bear Stearns sold to JP Morgan Chase 09/15/08 Lehman files Chapter 11	11,030	+584
<b>2009</b> 06/09 Dodd Frank Proposed by Obama	11,257	+227
<b>2010</b> 07/21/2010 Obama signs Dodd-Frank into law	11,643	+386
<b>2011</b>	11,539	-104
<b>2012</b> 3/30/12 Deadline for Registration per Dodd-Frank	10,511	<b>-1028</b>
<b>2013</b>	10,533	+22
<b>2014</b>	10,895	+362
<b>2015</b>	11,473	+557

Largest group of new registrants in 2006 in response to 203(b)(3)-2 deadline

Large 2012 decrease likely result of failing advisors suffering “hangover” from crash

Total Increase 2003-2015

**3621**



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# Increased Enforcement

Investigations, Actions and Penalties at Record Highs



## Poll Question #2

Compared to 2011, the fines levied by the SEC on Advisors in 2016:

- 1) Remained Basically Flat
- 2) Increased by less than \$500MM
- 3) Increased by more than \$1Bn
- 4) Increased by more than \$2Bn



## SEC Actions by Year 2011-2016

YEAR	Independent Actions	Follow-on AP	Delinquent Filings	Total	Penalties
2016	548 (63.1%)	195	125	868	\$4+Bn
2015	507 (63%)	168	132	807	\$4.19Bn
2014	413 (55%)	232	110	755	\$4.16Bn
2013	341(50%)	203	132	676	\$3.4Bn
2012	Data Not Available			734	\$3Bn

# More Regulations

Significant growth in the number and complexity of regulations managers face

Expert Network

Code of Ethics

CFTC

Form PF

Political Contributions

OCIE

Bad Actor

INSPECTION

ADV

FCA

FINRA

13F

SEC

203-(3)(b)-3

USDJ

Audit

FCPA

Examination

AML

206(4)-7

Gift

Best Execution

13D

FINES

Non-Public Information

Insider Trading

Cyber

Penalties

Restricted List

Trade Allocation

# YIKES!

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# Structure and Staffing

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Acme Advisors 2001, 2BN AUM

# L&C Org Chart

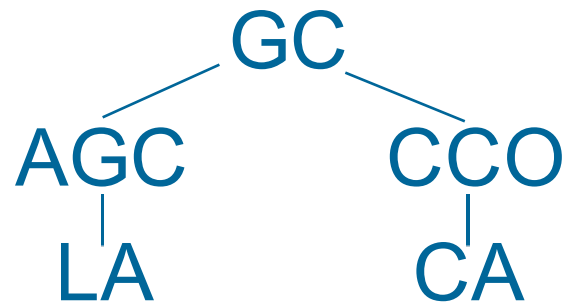
Acme Advisors 2004, 5BN AUM

# L & C Org Chart

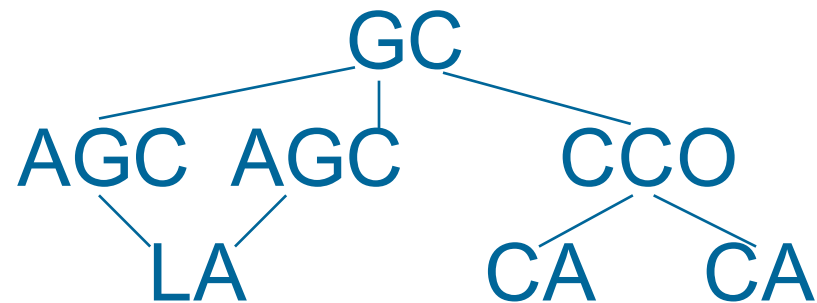
GC/CCO



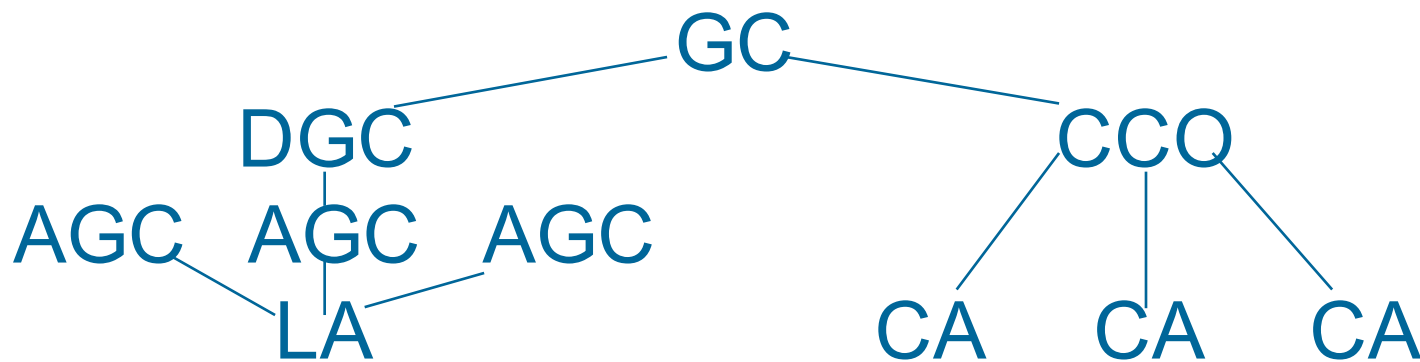
## L&C Org Chart



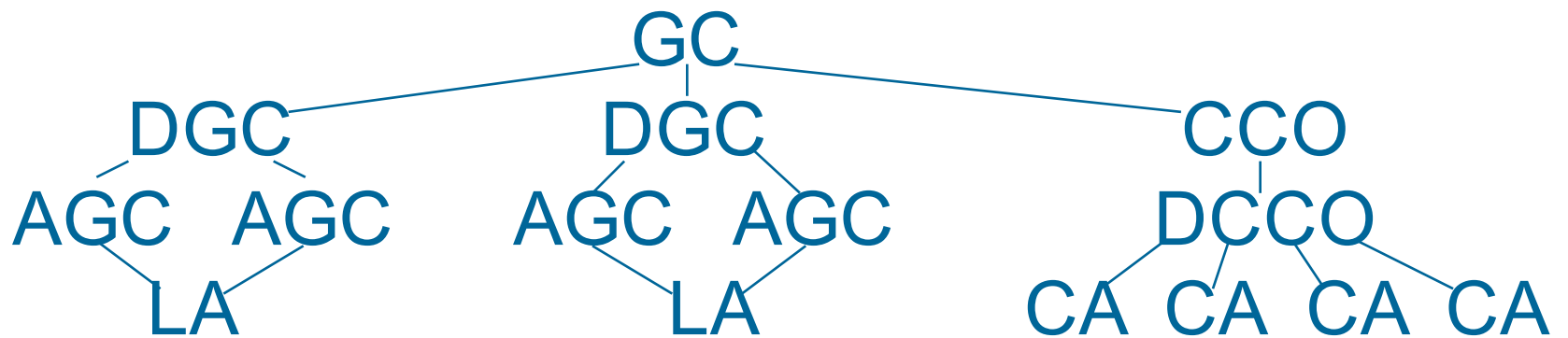
## L & C Org Chart



## L&C Org Chart



# L&C Org Chart



# Factors in Determining Comp

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# Objective Factors In Legal/Compliance Compensation

## Professionals

Seniority (decreases over time)  
Education (decreases over time)  
Experience (what? where?)

## Managers

AUM  
Complexity  
Returns  
Fee Structure

# Subjective Factors In Legal/Compliance Compensation

## Professionals

Do they “Get it”?

## Managers

How do they view the function?

How generous they are?

# Compensation Levels

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## Poll Question #3

In general, who pays more to their legal and regulatory talent?

- 1) Large Asset Managers/Fund of Funds
- 2) Investment Banks
- 3) Single Manager Hedge and PE Funds
- 4) Consultants
- 5) Mutual Funds

# The Pecking Order

## Who pays what?

- Single Manager Hedge and PE Funds
- Large Asset Managers/Fund of Funds
- ODD
- Investment Banks
- Mutual Funds
- Consultants

## Compensation for Executive Level Legal and Compliance Talent Alternative Asset Managers 2014 Total Compensation

Position	Sample Size	Low	High	Median	Average	Top Quartile		
GC	73	\$250,000	\$2,800,000	\$850,000	\$994,418	\$1,250,000	-	\$2,800,000
AGC	115	\$130,000	\$2,500,000	\$442,000	\$535,017	\$650,000	-	\$2,500,000
CCO	93	\$225,000	\$2,500,000	\$700,000	\$802,085	\$1,000,000	-	\$2,500,000

## Compensation for Non-Executive Legal and Compliance Talent Alternative Asset Managers 2014 Total Compensation

Years of Experience	Sample Size	Low	High	Median	Average
Everyone	113	\$65,000	\$500,000	\$180,000	\$206,540
12 + Years	24	\$200,000	\$500,000	\$277,500	\$295,792
8 – 11 Years	37	\$85,000	\$470,000	\$205,000	\$236,095
4 – 7 Years	35	\$85,000	\$350,000	\$150,000	\$164,329
1 – 3 Years	17	\$65,000	\$175,000	\$100,000	\$103,118