

Perspective//

//// The Year of Change and Stagnation of the Compliance Officer

by Daniel Solo

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There has been an impressive evolution of the compliance function in the financial services industry over the last 15 years, considering it was barely a standalone function for many companies and largely tucked neatly under the legal department since inception. But since the enactment of the USA Patriot Act as well as various industry scandals in the securities, wealth & asset management, consumer finance, banking and derivatives segments, regulatory change and pressure emerged as the wind to the back of the compliance function's prominence as a core component of the second line of defense. Over the last several years there has been a much clearer thought process and approach to the compliance function being viewed as an independent function, and for the overwhelming majority of institutions, the reporting lines have shifted away from the General Counsel's office to either the Chief Risk Officer or the CEO directly.



Thus far, 2017 has turned out to be a very interesting year for the Chief Compliance Officer of today in financial services in terms of tenure, profile and leadership. The top 6 largest financial institutions in the U.S. (Source: [FFIEC's National Information Center](#)) include banks ranging in size from \$2.5T to \$841B in assets. Five of which (83%) changed their leadership in the compliance function during the calendar year.

Assets (\$B)	Bank	New CCO; Source & Background	Reporting Line	Prior CCO (tenure); next position
\$ 2,563	JPMorgan Chase & Co. New York, NY	Frank Pearn; Internal (Finance)	Chief Risk Officer	Lou Rauchenberger (3); Internal (Chief Auditor)
\$ 1,930	Wells Fargo & Company San Francisco, CA	Michael Roemer; External (Audit)	Chief Risk Officer	Yvette Hollingsworth Clark (5); Internal (Regulatory Innovation Officer)
\$ 1,864	Citigroup Inc. New York, NY	Mark Carawan; Internal (Audit)	CEO	John Davidson (3); External (President & COO, Options Clearing Corp.)
\$ 906	Goldman Sachs New York, NY	Sarah Smith; External (Finance)	CEO	Alan Cohen (13); External (Senior Policy Advisor, U.S. Securities & Exchange Commission)
\$ 841	Morgan Stanley New York, NY	Raul Yanes; External (Legal)	Chief Legal Officer	William Fenrich (1); External (General Counsel, AQR Capital)

**only company not listed is Bank of America and their Chief Compliance Officer since 2014, Lauren Mogensen, who reports to BAC's Chief Risk Officer; Mogensen was previously BAC's Deputy General Counsel & Corporate Secretary.*

Of these five management changes:

- **ALL** newly selected CCOs are not career compliance professionals
- **ALL** will maintain the same reporting line (2 to CEO, 2 to Chief Risk Officer, 1 to Chief Legal Officer)
- **4 of 5** have deep-rooted and proven leadership experience in the Finance (2) or Internal Audit (2) functions for their institutions; only Morgan Stanley selected an attorney
- **4 of 5** are New York-based banks
- **3 of 5** chose to select an internal successor, all of which have background in Finance or Audit
- **1 of 5** was recently serving in a compliance function for another bank (Michael Roemer, Barclays)

None of the CCO predecessors took on another Compliance role in their next position. Only 1 was tapped for another position within their institution, which was a progressive career step (JPMorgan Chase), while 3 parted with their respective banks completely. From a tenure perspective, with the exception of Goldman Sachs' former CCO, Alan Cohen, the average tenure of the CCO's is 3 years.

As a side effect, it's only natural that a new "head of" leads to typical changes in approach and sub-level management, however this consistent "compliance ceiling" could lead to a disheartening at the mid and junior ranks. It leads many to think whether there could ever be an opportunity to be the CCO of a big bank through a successful compliance career.

These results and changes bring to mind questions of whether the stagnation of the overall function will ever be considered on par with its internal peer group, namely Risk Management, Legal and Audit. The reporting lines and visibility of the function have definitely increased over the last several years, however the CCO position is still proving to be a position where functional outsiders are sought after and genuinely considered more than the capable direct reports.

These results also indicate an altered perspective the compliance function may need to take when hiring talent. Assessing the influential qualities of internal successors and enhancing the leadership development and coaching of senior staff would be a worthy investment for institutions to see their compliance executives rise to the next level.

Through all of this leadership change in 2017, we begin to learn about these new CCOs and the reasons for their selection. These chosen executives highlight a continued challenge for the compliance function as it matures through its evolution.

About the Author:

Daniel Solo is the Founder of Second Line Advisors and is an industry leading expert within the Risk, Regulatory and Compliance functions since 1999. He has conducted searches for executives in the compliance, risk, legal, internal audit and regulatory affairs functions throughout the world, particularly in Financial Services. His portfolio of work includes Chief Compliance Officers, Chief Risk Officers, Chief Auditors and Chief Legal Officers. He has been noted in various industry periodicals and is engaged in industry events with The Clearing House, SIFMA, ACAMS and GARP.

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