



# Exploring the Benefits of Professional Management for RIAs:

## A Deeper Look into Chief Compliance Officers

This is the eighth installment of our continuing white paper series designed to help advisors build their dream firm and continue our mission of **Promoting Financial Independence.**

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**Regardless of AUM, the mentality of the RIA owner has evolved over time from thinking of themselves solely as advisors focused on serving clients, to identifying themselves as owners of advisory firms who serve clients. With a business-first mindset, advisors realize that scale is now proving to be more important than ever.**

In their book, “The Enduring Advisory Firm,”<sup>1</sup> Mark Tibergien and Kim Dellarocca state, “Advisors must view scale not as a natural byproduct of growth, but as something that occurs only when the leadership is thoughtful about the business they wish to create, systematic in the processes they implement to manage growth, and aware of the metrics that indicate when their train is going off the rails.” To that end, PFI Advisors has created a significant amount of content around the Chief Operating Officer role, advocating that RIAs cannot grow significantly – organically or inorganically – without competent professional managers in place. We have written about this phenomenon in a [white paper](#), [blog posts](#), and developed our [podcast](#) to further evolve the discussion within the industry regarding operations professionals.

In describing this dichotomy between firms looking to create a true enterprise and advisors who are content remaining at lifestyle practices, John Furey of Advisor Growth Strategies states, “One key distinction is that many large RIAs make a strategic decision to hire professional business managers [when] the firm begins to outgrow the capabilities of the business owner who started it.”<sup>2</sup> He goes on to list the key benefits of professional management as, “The ability to hire and retain top talent; faster rates of growth; larger client bases; [and] more options in terms of business continuity and sale planning.”

We continue to preach to RIA owners that they realistically can't manage every aspect of the business themselves.

We continue to preach to RIA owners that they realistically can't manage every aspect of the business themselves. There simply are not enough hours in the day for them to serve clients, prospect for new clients, explore inorganic growth opportunities, handle internal HR processes and operational workflows, manage the firm's compliance program, and stay current on the ever-changing regulatory landscape. With an aging advisor community dominating the RIA industry, more and more advisors are contemplating an exit strategy and hoping to monetize firm value. And with the common adage of “if you aren't growing, you are dying” firmly placed in their consciousness, RIA owners are continuing to turn to professional management to handle the non-client facing aspects of running the business.

Further validating the dire importance of professional management, RIA consultant Kelli Cruz states, “[Firm] value is dependent upon the strength of the firm's operational processes – the skills and capabilities of staff. To create transferable value, firms must be able to demonstrate that not only is the business productive, profitable and growing, but also that it can continue to function successfully after the founder(s) depart.”<sup>3</sup> She goes on to recommend a human capital strategy that includes, “Creating a scalable organizational structure that transition employees doing multiple job functions to more role specialization (lead advisor, service advisor, support advisor), including creating

<sup>1</sup> [“The Enduring Advisory Firm: How to Serve Your Clients More Effectively and Operate More Efficiently”](#)

Mark Tibergien, Kim G. Dellarocca, November 30, 2016

<sup>2</sup> [“How Top RIAs Transition From Business Owner to Business Manager”](#) InvestmentNews, January 8, 2014

<sup>3</sup> [“How to Pick the Best Successor for Your Firm”](#) Financial Planning, September 9, 2019

dedicated management roles (operations manager, director of client services, chief operating officer, [and] chief compliance officer).”

For those looking to acquire other businesses rather than potentially selling to another organization, this specialization of roles is equally, if not more, important. A Buyer must convey to a Seller that should the Seller join their firm, the Buyer has Operations, Technology, HR, Finance, and Compliance covered. Buyers must clearly communicate to the Seller that they will finally be able to go back to being an advisor solely focused on serving clients and prospecting for new ones; the Buyer will take care of the day-to-day running of the firm.<sup>4</sup>

Pershing’s Mark Tibergien and Kim Dellarocca concur, “It is no coincidence that these fast-growing firms also added professional management, which also freed up the advisors to focus on new business opportunities and existing clients while still executing on their business plan.”<sup>5</sup>

“An effective CCO delivers strategy, risk management, operations, and technology expertise to the firm.”

Chris Winn, AdvisorAssist

With this white paper, our goal is to highlight the importance of the Chief Compliance Officer role within the C-suite of the organization and to share strategies successful CCOs are using within their RIAs to better run businesses. As Chris Winn of AdvisorAssist points out, “The CCO role has evolved from being viewed simply as a regulatory box-checker that knows the rules and regulations to someone who is actively integrated into the business itself. An effective CCO delivers strategy, risk management, operations, and technology expertise to the firm.”

We would like to thank Sean X. Chen of Camden Capital, Angela Shephard of Nachman Norwood Parrott, Eric Donofrio of Schechter, and Heather Fortner of SignatureFD for sharing their stories, knowledge, and viewpoints so that the entire industry can benefit from their wisdom and experience.<sup>6</sup>

**To view PFI Advisors’ previous white papers, [click here](#)**

<sup>4</sup> [“Capitalizing on RIA Consolidation: Branding Yourself a Successful Buyer”](#) PFI Advisors & DeSola Group, February 28, 2019

<sup>5</sup> [“The Enduring Advisory Firm: How to Serve Your Clients More Effectively and Operate More Efficiently”](#) Mark Tibergien, Kim G. Dellarocca, November 30, 2016

<sup>6</sup> Disclaimer: PFI Advisors has consulted with several of the firms profiled in this report

# Where Does the CCO Fit into the Organization?

Historically, short-sighted advisors have shied away from including Chief Compliance Officers in high-level discussions about the direction of the firm, viewing the CCO purely as the person responsible for being up to date on regulatory requirements.



This mindset limits a firm's approach to viewing their business from a holistic perspective, and could lead to a missed opportunity. As Brian Hamburger of MarketCounsel and Hamburger Law Firm states, "If the owner of the advisory business is solely prioritizing an operations perspective when making firm-wide decisions, they are neglecting compliance needs; while the owners are coming at the idea with the best of intentions, a dedicated CCO is able to conduct a better analysis of conflicts of interest and offer a more objective perspective."

"When companies try out new products, it's essential to have the CCO there to make sure different investments are crafted and processed with compliance in mind first."

Jack Rader, ACA Compliance Group

Jack Rader of ACA Compliance Group adds, "The CCO should be the person vetting potential conflict, and if that person doesn't exist at the table when you're in growth mode, then you're not properly involving the CCO in that conversation. Having that view at the table from the onset allows you to be much more thoughtful about how you're rolling out these [growth] initiatives. It doesn't mean saying 'No,' but thoroughly helps in doing things in the

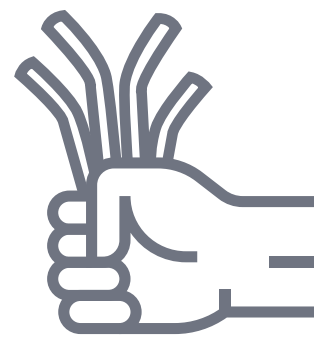
right order and taking the right steps to achieve your initiative." He continues, "When companies try out new products, it's essential to have the CCO there to make sure different investments are crafted and processed with compliance in mind first."

Not only can the CCO provide regulatory expertise as advisors contemplate various service and product offerings to better differentiate their RIAs in the competitive marketplace, but Matt Calabro of Compliance Solutions Strategies points out that "...if the CCO is part of the process and part of the

early discussions, issues can be addressed upfront before they become a problem." He adds, "It only takes a visit or two from the SEC to poke a few holes in your processes to really bring a firm to the religion of compliance. The most important asset of the firm is its reputation, and by having strong processes and culture in place, you uphold that reputation."

# At What Point Should RIAs Hire a Dedicated CCO?

When a team of advisors leaves the captive environment of a wirehouse or IBD, they typically draw straws and divvy up the C-suite responsibilities. In addition to their prospecting and client service responsibilities, one advisor takes on the role of CEO, one takes on the COO role, one is named the CIO, and another (usually the advisor who drew the shortest straw) is named the CCO.



Advisors of established RIAs often ask us what AUM level they should achieve before looking to hire a standalone Chief Compliance Officer. The answer to this question isn't dependent on a specific asset level; it's based on the complexity of the firm. In his experience working with RIAs, Brian Hamburger points out that some high-AUM firms don't necessarily require a full-time CCO because their operations are relatively clean and simple, while some firms with just a few hundred million of AUM, by contrast, require a dedicated CCO because they have a very sophisticated legal structure spanning many advisors and office locations.

When looking to answer this question, Matt Calabro asks inquiring advisors questions such as, "What's the current make-up of the firm? How many advisors are there? How

many office locations do you have? What's the product mix?" He points out that "It's a very different proposition for a firm exclusively using model portfolios as opposed to a firm with a more hands-on portfolio management process."

"What's the current make-up of the firm? How many advisors are there? How many office locations do you have? What's the product mix?"

Matt Calabro,  
Compliance Solutions Strategies

"RIAs need to hire a qualified person to be CCO a few years before they can afford to do so - it's not based on an AUM level."

Brian Hamburger, MarketCounsel

That said, it is important to note that firms cannot wait until after their business has gotten complex to bring in a dedicated CCO. Chris Winn advocates for firms to be proactive rather than reactive when hiring a CCO, noting one should be brought in as early as possible. Brian Hamburger elaborates, "RIAs need to hire a qualified person to be CCO a few years before they can afford to do so - it's not based on an AUM level." The regulatory and reputational risks are too great for firms to delay or put it off.

# Pros and Cons of Combining the COO/CCO Role

Many RIAs choose to combine the Chief Operating Officer and Chief Compliance Officer role, taking advantage of the fact that many of the tasks and responsibilities overlap. If a COO/CCO is working on shoring up the firm's cybersecurity policies and procedures, for example, are they acting in an operations or compliance capacity? The answer is surely both.

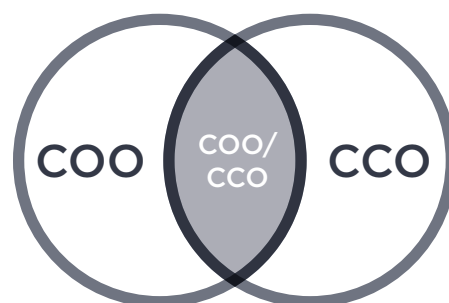
Whether an RIA has two people or one person to handle both roles, it is imperative that Operations and Compliance communicate closely and regularly. As Chris Winn points out, "Compliance is not just about the rules and regulations, but rather enterprise risk management. There is an inherent intersection between compliance and operations. Effective firms integrate operations and compliance in various ways to enhance internal controls and weave risk management into the routine functions of the firm. Whether it make sense for combining or separating the roles largely depends on the overall make-up of the firm." Jack Rader advises, "The only reason you'd need to gravitate away from a dual-hatted role is if/when [operations or compliance] tasks aren't being done and there becomes an internal conflict of interest."

Brian Hamburger admits that from an operational perspective, it's really tempting to capture perceived efficiencies and combine the role, but he warns, "You've got to look beyond efficiencies when thinking about a CCO. What primarily ails advisors is no longer the administrative aspects of the compliance function; it's seeing themselves for who they really

are. It's hard to identify and thereafter manage conflicts of interest, for example, when you approach it from with an operations mindset."

Matt Calabro explains, "There is an inherent conflict [in combining the roles]. If a COO's job is to make things run smoothly and protect the business and the CCO's role is to protect the client, there may be a point where those two priorities collide. It's not insurmountable or inappropriate in most circumstances, but that's where an outside consultant can mitigate some of those conflicts or bring some independence to a review."

Taking the above into consideration, RIAs gain tremendous scale by removing the COO and CCO functions from advisors whose primary function is business development. By placing these roles in the hands of dedicated individuals solely focused on the running of the firm, advisors can focus on what they do best, and what they enjoy most. As they continue to generate top-line revenue, these professional managers will be better equipped to mitigate potential business risks and manage the firm's bottom-line profit margins.<sup>7</sup>



<sup>7</sup> ["Why Professional Management Fails for RIAs"](#) PFI Advisors, March 17, 2019



## Sean X. Chen

Chief Compliance Officer, Director of Operations

### AT-A-GLANCE

**Founded** 2004

**Headquarters** El Segundo, CA

**Locations** 3

**Employees** 26

**AUM** Manage over \$4.5 billion in client assets\*

Sean Chen has spent his entire professional career in the wealth management industry. In a career that has spanned major wirehouses, large private banks, and rapidly growing RIAs, Sean has held many different roles throughout the operations side of the business. When he joined Camden Capital in 2016, they found his vast industry experience to be the perfect fit for their Chief Compliance Officer role. Sean believes his time in the industry has given him perspective on advisors' view of compliance and how to best communicate its importance, saying, "When your colleagues realize you understand a problem or where they are coming from, they have a little more perspective themselves on the objective you're trying to accomplish."

Sean, who also holds the Director of Operations role, shares oversight of the firm's operations with Camden Capital's Chief Operating Officer, with Sean's primary focus being on the creation of compliant workflows and processes. When asked how he splits his time between operations and compliance, he estimated about 60% is spent working on compliance, and the other 40% of his time is dedicated to operations, but most of his tasks overlap, containing both compliance and operations components to them.

While Sean acknowledges the industry's sometimes negative notion toward compliance, he would challenge that it's all about perspective. "I think if you walk people through and explain the importance of compliance and how it fits into the workflows of the firm, people understand and try to make it a priority." Sean credits his employees' shift in perspective to his efforts to not come across as "anti-business" in his approach to compliance.

Sean believes Camden Capital offers a great example of the benefits that professional management can have on a firm. Outside of Sean holding the Chief Compliance Officer/Director of Operations role, the firm also has a Chief Executive Officer, Chief Operating Officer, and Director of Finance. Camden Capital realized that **"...the firm has to look like everyone is pointing true north instead of five different advisors going in different directions, focused on their differentiated interests."** Sean likens this approach to a firm's model portfolios. While each individual client may have small deviations in their portfolio versus the firm's model portfolio, it's the firm's responsibility to ensure the client's portfolios are still heading in the direction of model's overall goal.

In an effort to continue his industry and regulatory education, Sean leverages Camden Capital's compliance consultant, whom they have been partners with since the founding of Camden. Sean is also pursuing his Investment Adviser Certified Compliance Professional (IACCP®) designation. Sean finds additional value in regulatory discussions and webinars curated by various industry partners and experts, and doesn't hesitate to reach out to Camden Capital's dedicated counsel should a pressing issue arise. These additional perspectives, along with his own experience, allow Sean to better communicate and effectively execute on his Chief Compliance Officer role.

\* As of 8/31/2019





**NACHMAN NORWOOD & PARROTT**  
WEALTH MANAGEMENT CONSULTANCY

## Angela Sheppard

Chief Compliance Officer

### AT-A-GLANCE

**Founded** 2007

**Headquarters** Greenville, SC

**Locations** 1

**Employees** 16

**AUM** Manage \$1.6 billion in client assets

Angela Sheppard's journey into wealth management has been atypical, to say the least. Her career started as an elementary school teacher, where she taught first and second grade. In 2000, she interviewed to be John Parrott's assistant when he was an advisor at First Union Securities. John and Angie then joined forces with Ben Norwood and Bob Nachman to become Nachman, Norwood & Parrott Investment Group. She remained with the team throughout mergers and acquisitions of the broker dealer – First Union Securities, to Wachovia Securities to Wells Fargo Advisors – and continued with the firm through May 2018 when they broke away to launch Nachman Norwood & Parrott as an independent RIA.

Angie first worked in client service before transitioning to financial planning and trading. John, like many partners in the RIA industry, had “drawn the short straw” and was named the compliance officer for the firm. When John announced his retirement after 43 years in the industry, Angie, who was looking to further grow with the company, seized the opportunity to use her diverse skill set and long history with the firm to work alongside John as a compliance officer for about a year before formally becoming the Chief Compliance Officer.

As Chief Compliance Officer, Angie actively considers each new request from her team within the boundaries of upholding the compliance and regulatory standards while still satisfying the client's best interest. While compliance initiatives are bemoaned

at some firms, Angie utilizes the positive reinforcement she learned as an elementary school teacher to help lighten her employees' attitude towards them. For example, she does periodic scans of the office after hours to make sure employees have left their desks clear of any paperwork containing sensitive client data. When she finds a desk that has been left clean, she'll leave a Reese's Peanut Butter Cup and a note saying, “Your desk has REESEntly been found free of sensitive client information.” She finds this method of positive reinforcement encourages her team and brings some levity to the cut-and-dry world of compliance.

When it comes to professional management, Angie believes the industry as a whole, **“has to embrace it because everyone doesn't have the same set of gifts. If we're not putting the right people in the right places and not allowing people to do what they do well... we won't achieve our targeted growth rates and we will not be providing the best for our clients.”**

Her role as CCO involves nearly every aspect of the business. Angie's experience in different areas of the firm has allowed her to better understand the what's, how's and why's of a successful compliance program.

In order to stay on top of the ever-evolving regulatory landscape, Angie has joined a compliance professionals networking group that she was introduced to by her custodial Relationship Manager. She relies on them for peer feedback and collaborative sharing of best practices. Outside of the networking group, Angie has compliance consulting resources, and she finds significant value in the conferences and webinars she attends as well as the email blasts she subscribes to.

Angie's involvement in Nachman Norwood & Parrott goes well beyond the typical responsibilities of a Chief Compliance Officer. Recently, she found herself mopping up after a water leak in the ceiling of the men's bathroom, but Angie doesn't mind. She's been with the team for so long that she really views the firm as her family and takes a lot of ownership and pride in the work she does.





## Eric Donofrio, JD

Chief Compliance Officer

### AT-A-GLANCE

**Founded** 1939

**Headquarters** Birmingham, MI

**Locations** 1

**Employees** ~55

**AUM** Manage-\$1 billion in client assets

In a career that has traversed the Securities and Exchange Commission (SEC) and National Futures Association (NFA), Eric Donofrio brings an invaluable expertise in regulatory knowledge to his role as Chief Compliance Officer at Schechter Investment Advisors and Schechter Private Capital. During his time with the SEC, Eric saw the Chief Compliance Officer role within a financial organization begin to transform from a glorified “box-checker” to truly being a part of a firm’s leadership team and strategic direction. He believes a good CCO enables the rest of an organization’s decision makers to conduct business without the fear of running into regulatory issues, and ultimately help develop scalable solutions that position an advisor for future growth.

Eric sees the SEC’s 2003 mandate requiring all firms to have a named Chief Compliance Officer and the increasingly sophisticated compliance landscape that has developed since then as two bellwether transformations in the industry’s mindset toward compliance. He notes, **“Nowadays, the CCO is most effective to an organization when viewed as a business partner, a collaborator, and a true part of the leadership team that’s making business decisions. No longer should the CCO be viewed by upper management as a barrier for conducting or growing the business.”** Eric sees this organic transformation as crucial to the validation of a Chief Compliance Officer’s messaging. He believes the best compliance programs are those where the owners of the business share responsibility in developing a good compliance culture by setting a “tone at the top” and backing up the CCO on important compliance decisions, which in turn empowers the CCO to implement effective compliance policies and

procedures. When the owners do elect to bring in professional management to handle compliance, their time is then alleviated to focus on clients and business development and crucial compliance initiatives are no longer met with a partially focused mindset.

Eric streamlines Schechter’s compliance program on a department-by-department basis. He feels this allows him to provide a more personal and customized touch to each division of the firm. This way, instead of forcing the entire firm to read lengthy rules and interpretive notices describing best compliance practices – the proverbial “take your medicine approach” – he’s able to break down a regulatory policy and tailor it to that given department’s role, enabling employees to truly understand why certain practices are important within a specified context. In turn, this also allows Eric to discover where issues might arise at a departmental or individual level, making it easier to track the adoption of the firm’s compliance policies and procedures.

Staying on top of the ever-evolving regulatory landscape is one of the biggest challenges of being a Chief Compliance Officer in this day and age. Eric dedicates a few hours every week to comb through the SEC website and other compliance publications in order to stay up to date on new policies and other regulatory developments. While Eric may have a better inherent understanding of SEC policies and procedures than most, given his background, he thinks the role goes far beyond knowing the ins and outs of what a regulator requires your advisor to do, stating, “It’s more than just creating a report or a compliance review to put in a file to show an SEC or FINRA examiner when they arrive for an audit.” Eric believes the true value to the firm is in the implementation of these new policies in ways that are tailored to the firm’s operations, ensuring that management is not wasting its time by performing unnecessary compliance tasks. A good Chief Compliance Officer is able to filter through new policies and events, filter out what’s not applicable to their firm, and implement those policies and procedures that could have potential ramifications on their firm.

In his time on both sides of the compliance table, Eric firmly believes that, for investment advisers and other financial services organizations, “The cost of noncompliance is now far greater than the cost of compliance.”

*The views expressed in this article are those of the author and many not reflect those of Schechter or their affiliates.*

# SIGNATUREFD

## Heather Fortner, MS, IACCP®

Partner, Chief Compliance Officer and Chief Operating Officer

### AT-A-GLANCE

**Founded** 1997

**Headquarters** Atlanta, GA

**Locations** 2

**Employees** 88

**AUM** Manage \$4 billion in client assets

As SignatureFD's Chief Compliance Officer, Heather Fortner is responsible for ensuring that the firm's client relationships and business practices are held to the highest regulatory standards. In her additional role as the firm's Chief Operating Officer, she is responsible for creating a focused and executable business strategy based on the firm's long-term vision. Wearing dual hats provides its unique set of challenges, but Heather feels it also presents a set of unique advantages such as being able to integrate compliance procedures into the day-to-day processes that enable the firm to operate smoothly.

Before being appointed as a Partner and Chief Operating Officer, Heather held the Chief Compliance Officer role for almost a decade, becoming the firm's main compliance officer two years after she joined the firm in 2003. In that same time, she earned her Master of Science in Professional Counseling with a vision to better help families communicate around financial issues. In practicality, her EQ skills were better utilized in helping to build a stronger, more vibrant and more innovative culture and team. With a unique opportunity to combine both of her passions - operational and regulatory excellence and a passion for developing others - Heather and the SignatureFD team grew from \$200 million in assets under management in 2003 to \$4 billion today.

When thinking about compliance, Heather believes it is critical to understand how the SEC evaluates risk. She believes there are parallels to how the SEC evaluates firms and the way RIAs think about risk allocation for their clients. Both parties look at a

situation holistically, seek to understand the risks present, and then design a plan and processes to mitigate those risks in the most efficient and effective way possible. Heather believes that the SEC examiners are there to partner with her and the firm to ultimately protect end clients.

Heather is a strong believer that "good compliance is good business." She credits the leadership at SignatureFD for having prioritized compliance at the firm from the outset and for understanding that ultimately, good compliance is all about protecting the clients. Heather understands that compliance is often viewed in a negative light, noting, **"Often-times, it's easier to say 'no' than to truly take the time to understand the business risks involved and craft potential solutions that meet both the needs of the business and regulatory requirements. This quick 'no' can potentially lead to CCOs getting a bad reputation."** To combat this perception, Heather strives to help everyone on the team understand that **"...a well-run business creates trust inside your organization and with your clients."**

As a Partner and Chief Compliance Officer, Heather believes she serves two clients in her role at the firm: the business itself and the business' stakeholders and clients. Sitting on the same side of the table with these stakeholders is critical for success. Heather understands that "...people love creative thinking and they want to feel like they have a partner in their goals, not just a critic."

Heather has become highly sought after to share her knowledge and wisdom with the industry. She's been a guest on Michael Kitces' Financial Advisor Success podcast, featured in webinars and interviews with RIA custodians, and a guest on PFI Advisors' podcast, The COO Roundtable. On top of this, Heather holds an Investment Adviser Certified Compliance Professional (IACCP®) designation. She aims to bring this continuing education back to the firm as she believes most compliance issues are simply results of a lack of education. Her continuing education helps create an organization that is up to date with the industry regulatory standards, allowing them to continually enhance their client relationships and grow their business.



PFI Advisors was founded in 2015 with the following mission in mind:

To further evolve the RIA industry from a collection of practices to businesses, and to be a continued voice in validating the industry as a legitimate landing spot for billion-dollar teams and their clients.

PFI Advisors is an operational consulting firm that supports the unique back office, technology, and operational needs of RIAs in growth mode. PFI Advisors conducts Technology Assessments, manages Technology Conversions, and provides M&A Preparation and Integration Services to RIAs seeking growth support. The firm announced the launch of **COO Resource** in January 2018, an ongoing retainer-based service in which RIAs and their Chief Operating Officers can leverage the knowledge and expertise of PFI.

For breakaway advisors, PFI Advisors manages full RIA set up and transition to Independence, including office buildout, RIA infrastructure development, client transition, and billing services – all for a simple consulting fee. There is no complicated long-term AUM fee structure or equity stake required to build the firm's future and provide advisors financial independence.