

OPERATIONAL OVERSIGHT AND BUSINESS CONTINUITY PLANNING FOR MUTUAL FUNDS

Recent releases from the Security Exchange Commission (SEC) have solidified the Commission's view on the criticality of planning ahead. Though no plan can cover every possible scenario, it is more important than ever to be prepared.

WHAT SHOULD FUNDS BE DOING? (OR ARE THEY ALREADY PREPARED?)

On June 28, the Securities Exchange Commission released two documents regarding business continuity planning for advisors and mutual funds. Based on public comments, these releases have been anticipated.

The releases have solidified the Commission's views on the criticality of planning ahead, but in many cases, institutional investors have been ahead of the curve on this one. Investors have increasingly been interested in understanding more about how their funds operate. In response, the focus on operational oversight has been heightened.

The first release is a proposal that would require registered investment advisors to adopt business continuity plans that include certain specific components. This takes the existing rules and guidance, which require a plan that is "relevant to the advisor," in a more specific direction. Specifics of the advisor business continuity planning proposal include:

- Maintenance of critical systems, including the protection, backup and recovery of data;
- Communications with clients, employees, service providers and regulators;
- An alternate physical location;
- Identification of critical third-party services; and
- Transition plans accounting for the possibility of winding down or transitioning the advisor's business to others under normal or stressed conditions.

At Northern Trust we have long recognized the need for comprehensive business continuity and disaster recovery plans, and how our plans may impact our clients. Through our Compliance Support Services and Client Response groups, we provide information and support to our clients to meet their needs as well as those of their investors and regulators.

The second release is a guidance update for registered investment companies

and includes a number of notable practices including:

- Fund compliance through plans that are tailored based on the nature and scope of their business;
- How to mitigate exposure to potential disruptions;
- Assessment of critical service providers;
- Service provider oversight programs which include initial and ongoing due diligence processes (which might include such things as on-site visits, questionnaires, independent control reports as well as comprehensive business continuity plans); and
- How the business continuity plans of critical service providers interrelate.

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Q59283 (8/16)