

With new variable annuities rule, focus on procedures, compliance pros say

Make sure you don't take on the role of direct supervisor when it comes to your firm's adherence to **FINRA's** newly implemented suitability rule on deferred variable annuities, advises **Amy Lynch**, president of **FrontLine Compliance, LLC**.

Instead, create, implement, and monitor any new procedures the rule necessitates, she stressed.

FINRA's new suitability rule on deferred variable annuities, key portions of which took effect May 5, is "the first time a regulator has provided substantive guidance regarding what they expect a firm to consider as part of its suitability review" for deferred variable annuities, said Lynch, whose regulatory compliance services firm is based in Alexandria, Va.

"Firms should mirror the guidance provided and incorporate it within their procedures," Lynch said. Here are a few more tips to help with the new rule:

- ✓ Have the procedures you create be dedicated and separate for this rule, Lynch advised;
- ✓ Provide training on the rule to supervisors and reps - and the training should be done by somebody knowledgeable about variable annuities;
- ✓ Create a suitability form reps must fill out that reminds them what information they should try to get about a customer - such as age and financial situation - before making a recommendation;

✓ Develop checklists for supervisors to help them ensure reps are complying with various aspects of the rule. For instance, if your firm creates suitability forms for reps, the checklist can remind the supervisor to, among other things, check whether the rep filled out the suitability form;

✓ Create a list of approved variable annuity products based on customer type. Senior-citizens, for instance, might be more likely to benefit from products that enable them to get a cash pay-out without exacting a penalty, or that have a short surrender period, Lynch said;

✓ Make sure reps figure out what other products the customer owns, said **Timothy Morten**, director for Business Development for **WBB Securities**, based in San Diego. This can be easier if your firm has a relationship with an insurance group that provided products to the customer. The firm might have a waiver the customer can sign that allows your firm to call the insurance group and find out what products the customer has, Morten said.

✓ Remind the rep to figure out what has changed since the customer purchased the products the customer already has, Morten said. And your firm should document the process it used to determine whether changing products is suitable for the customer, he said; and

✓ The supervisor himself or herself should look over the rep's information and recommendation. ■

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