

Leadership at new BDs face closer scrutiny during registration process

FINRA is taking a closer look at the experience level of firm leaders, including CCOs, when it reviews membership applications from new broker-dealers, according to some industry pros.

For “firms that want to get registered as a broker-dealer, so it’s a new entity, they are really scrutinizing the background of the person that’s going to be named the CCO of the firm, and it has even held up registration for firms,” said **Amy Lynch**, president of **FrontLine Compliance LLC**, a regulatory compliance consulting firm based in Alexandria, Va.

Lynch said that when her company works with a client during the registration process, “we make it very clear to them in the beginning that they need to name someone as CCO that has the relevant background and experience to do the job.”

She said that currently FINRA would be especially skeptical if the CCO never worked in compliance *and* never held a supervisory position. But having a managerial background at a large firm can help even if the person wasn’t previously a compliance officer at a broker-dealer, Lynch said.

She said she isn’t sure how much supervisory experience FINRA expects CCOs with no compliance experience at a BD to have, but that “less than a year would probably not suffice. Three years probably would suffice. Somewhere in between a

one- and three-year period, maybe that’s up for grabs, depending on what the person did.”

Supervisory experience expectations

Such scrutiny has gotten tougher and it encompasses all of the firm’s upper management team, as well as the CCO, said **Brad Ziembra**, the chief compliance officer of **Duncan-Williams**, which is headquartered in Memphis. His dually-registered firm has bought some shell broker-dealers, and has gone through FINRA’s continuing membership application process recently, where it had to show FINRA that the leadership team was up to the job, Ziembra said.

“They’re specifically looking at how long they’ve been in the industry, what their background is in the industry, have they had any issues within the industry were they associated with another broker-dealer that had some problems internally, or something of that nature. They’re going to pay a lot of attention to that, specifically,” he said.

Example: His firm recently went through the membership application process to get approval for Duncan-Williams to do equity capital market research, which would be a new kind of business for his firm.

“If we had walked in there with our current management team and said, Okay we’re going to hire a bunch of analysts and build out this unit, my guess is they would not have approved us to do that business. We actually went out and hired two individuals with a substantial amount of experience in that business. They interviewed them. They looked at them with a fine-toothed comb,” Ziembra said.

FINRA officials asked the newly hired analyst questions such as how many reports he issued to the public annually, and they asked the newly hired sales manager about his experience, how successful he was, and whether he had a previous management role, Ziembra said. “They had to get very, very comfortable with the people who were going to run

(Registration, continued on page 2)

New trends in regulatory exams and best practices for dealing with regulators

Webinar Recorded June 9, 2009 - Now on CD!

ORDER TODAY!

Get all the benefits of a seminar without leaving your office!

www.bdweek.com

866-777-8567

Registration *(cont. from pg. 1)*

the department, and their capability of implementing the business plan.”

If you're embarking on a new business plan, expect FINRA to ask to see your written supervisory procedures for that plan that management and employees can follow to meet those requirements.

“They looked at me just as closely as they looked at our CFO because you all have a fiduciary responsibility of running that firm. They're looking at the strength of the management team, and each one of those persons individually.” Ziembra has been the CCO for four years, been with the firm for six years, and has been in the business since 1997, he said.

And if FINRA sees recent “hiccups” - such as something indicating lack of supervisory controls - on the Forms U4 of people on the management team, expect to be asked about that, said Ziembra, whose firm includes about 20 retail registered reps and 60 institutional registered reps.

If it happened in the mid-1980s, it might not be a problem. “If they had one two years ago - problem. Definite hurdle,” he said. ■

BDWEEK SUBSCRIPTION CERTIFICATE	
Name _____	<input type="checkbox"/> PAYMENT OPTION 1 — Charge \$1,595 to my credit card.
Title _____	<input type="checkbox"/> PAYMENT OPTION 2 — Enclosed is my check or money order for \$1,595 made payable to UCG (TIN: 52-1130564).
Firm _____	<input type="checkbox"/> PAYMENT OPTION 3 — Bill my company for \$1,595.
Address _____	<input type="checkbox"/> 
City _____ State _____ Zip _____	<input type="checkbox"/> 
Telephone (_____) _____	<input type="checkbox"/> 
Fax (_____) _____	Card # _____
E-mail address _____	Exp. Date _____ Signature _____
 For fastest service, call TOLL FREE (866) 777-8567 or fax this card to (301) 287-2535.	<small>* Discount applies to new subscribers only.</small>
BD Week • 9737 Washingtonian Blvd., Suite 100 • Gaithersburg, MD 20878-7364 • Fax (301) 287-2535	