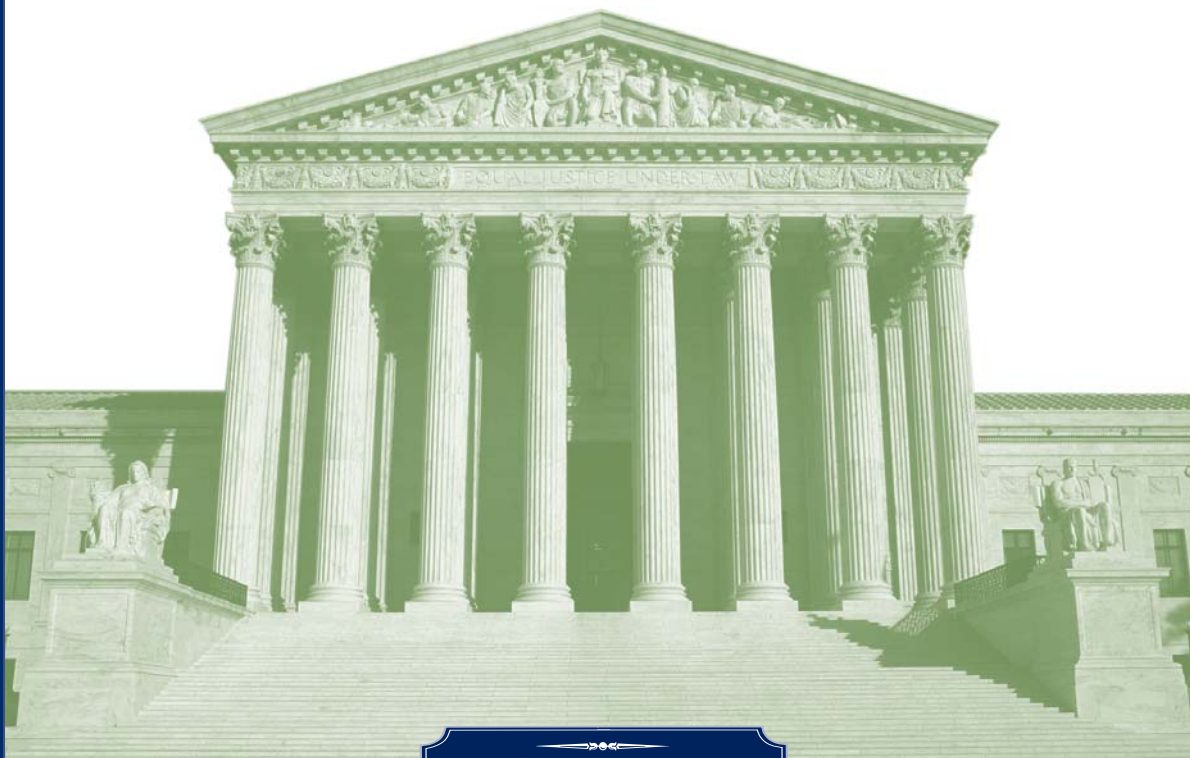




*Independent Broker-Dealers:
Building a Culture of Compliance*

*A White Paper from the
Financial Services Institute, Inc.*

No. 2



March 2007



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Section One

OVERVIEW OF FSI

Established in January 2004, the Financial Services Institute (FSI) is an advocacy organization for independent broker-dealers and independent financial advisors. At the end of 2006, FSI had 103 Broker-Dealer member firms with more than \$14 billion in annual revenue. Independent broker-dealers, as support organizations for financial advisors, and their affiliated advisors have an important place in the broad spectrum of companies that deliver financial products, advice, guidance, education, and services to Americans. Our member firms represent about 20 percent of all NASD registered representatives and serve more than 14 million American families. In 2005, FSI membership was opened to individual Financial Advisors. Approximately 5,400 advisors are now members of FSI.

FSI advocates on behalf of our members, providing insight, information, influence, and involvement—all in support of our mission to provide visibility, credibility, and an improved regulatory environment for the independent channel. Our strategy is to help our members get involved in the NASD governance structure and process, engage in the rulemaking process constructively and selectively, and build our political strength through the grassroots power and resources of our members.

FSI's advocacy efforts on behalf of its members also include research, industry surveys, and outreach to constituents such as legislators, regulators, and policymakers. FSI has also published and released other White Papers and On the Issues papers:

- Making the Case for Independent Broker-Dealers and Financial Advisors – January 2006
- *On the Issues: Rulemaking by Enforcement* – January 2006
- *On the Issues: Regulators' Institutional Bias Toward Cost As the Primary Basis For Determining Investment Suitability* – January 2006
- *On the Issues: Facts, Fads, and Fiction: Do You Really Want to Be a Solo RIA?*
- *On the Issues: To RIA or Not to RIA?*

Further information on FSI, its advocacy mission, and its accomplishments can be found by visiting www.financialservices.org.



Section Two

EXECUTIVE SUMMARY

The independent broker-dealer (IBD) community has been an important and active part of the lives of American consumers for more than 30 years. Independent financial advisors affiliated with these firms provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans with financial education, planning, implementation, and investment monitoring. Approximately 105,000 financial advisors across the country are affiliated with NASD-registered independent broker-dealers. These small business owners provide financial services in community-based practices with strong ties, visibility, and individual name recognition within their community and among their clients, who typically are “main street America.” The core market for financial advisors affiliated with IBDs are clients with a net worth, not investable assets, of \$250,000 to \$1 million. However, many independent financial advisors also serve families with much smaller accounts.

During its 30-year evolution as a core provider of comprehensive and affordable services to Americans—significantly distinct from Wall Street firms, with their “captive” advisor force, sales quotas, and depth of proprietary products—the IBD channel has continually evolved to give advisors choices on service models, organizational preferences, and compensation structures. In addition, IBDs have had to respond regularly to other changes—a complex and challenging tax, legal, and regulatory

environment, a highly competitive service environment, and significant demographic shifts driving new client needs. These demographic shifts, including a projected doubling of the older population by 2030, coupled with a shrinking number of experienced financial advisors are resulting in an emerging “advice crisis” in America.

IBD firms have invested millions of dollars in advances and enhancements to technology,

operations, and compliance. Despite this evidence of the IBD channel's commitment to securing and maintaining its position as a provider of choice for millions of Americans—through its affiliated independent advisors—it still is viewed by some industry regulators as operating with a model that is inherently flawed. These regulators argue that the objective of the independent contractor arrangement associated with the IBD channel “is to achieve a legally cognizable status as independent contractor for the securities salesperson by minimizing the firm’s control and supervision of that individual.” Further, they seem to believe that this focus results in IBDs inadequately supervising the activities of their financial advisors and that the independent business model “creates the conditions for abusive and fraudulent sales activities” to thrive. IBD firms strongly dispute these assertions and point to a robust “culture of compliance” as the foundation for their argument.

Overview of the Regulatory Framework

The Securities Exchange Act of 1934 established the registered broker-dealer firm as a key component in the regulatory framework for investor protection. Securities firms are thus the first line of defense against violations of securities laws and rules, with the NASD and the SEC as the second and third lines of defense. As the first line of defense, broker-dealer firms bear the principal burden of implementing and enforcing the nation’s securities laws and regulations. Our current regulatory structure, however, provides broker-dealers with a great deal of flexibility in how they choose to satisfy their supervisory obligations. Member firms are allowed to develop a system of supervision that is most effective under their particular business model, with the quality of supervision resting with the firm.

Nonetheless, the regulatory structure imposes certain specific requirements. Through a series of enforcement actions, the SEC has clearly established

policies concerning a broker-dealer’s failure to supervise. Broker-dealers must also develop suitable systems to investigate if indications of violations are detected. The Exchange Act provides a “safe harbor” provision for broker-dealers who establish appropriate supervisory procedures and discharge their duties and obligations in a vigilant manner but whose individual registered representatives engage in conduct that violates securities laws. The IBD business model emerged, in part, as a result of this supervisory framework, while providing the opportunity for independent, entrepreneurial financial advisors to serve clients outside the restrictions of a “Wall Street institution.”

Responding to Specific Regulatory Concerns and Establishing a Culture of Compliance

A 2004 Staff Legal Bulletin (No. 17) from the SEC raised concerns about IBD firms’ supervision of financial advisors in remote locations and set forth recommended supervisory “best practices.” The Bulletin and relevant enforcement actions had a significant impact on the compliance efforts of IBD firms, who tailored implementation of the best practices to the circumstances of independent broker-dealers. Recent research conducted by FSI and Cerulli indicates a strong focus on compliance enhancements among IBD firms, including the ratio of OSJ managers in the field, the expense allocated to account surveillance using sophisticated technology, the amount of staff time dedicated to field office audits, and the significant growth in home office compliance staff in order for the firm to stay compliant and to help advisors with an increasing compliance and regulatory workload.

These statistics, and anecdotal evidence, demonstrate that the senior executives of IBD firms are dedicating the resources necessary to improve the effectiveness of their compliance efforts and establish a culture of compliance. At IBD firms, this

culture of compliance is reflected in people proactively seeking to understand and act in compliance with the legal obligations affecting their work, through an articulated system of attitudes and beliefs that affect the way the company's employees perceive the firm, and by embracing compliance with the law as the dominant value within the organization. It is also reflected by senior management's allocation of resources, including appropriately skilled personnel, necessary to achieve the compliance goals of the organization.

In recent years, the senior management teams of IBD firms have demonstrated their commitment to creating and nurturing this culture of compliance by adopting a "compliance first" ethos, hiring top quality compliance talent, providing these professionals with the necessary resources, and remaining actively involved in the oversight of the firm's compliance efforts. IBD firms have taken the following tangible steps to improve their compliance efforts:

- Increasing the size and quality of the firm's compliance staff, with more and more top compliance managers taking their place in "C-level" positions.
- Involving all broker-dealer personnel in the supervisory system.
- Insuring the clear assignment of supervisory responsibilities within the firm, including responding to NASD Conduct Rule 3013 for annual CEO certification of the supervisory control process at the firm.
- Establishing thorough screening processes for the recruiting of new representatives to the firm and designating a group of decision makers throughout upper management to make decisions on potential affiliates.
- Improving methods of remote office supervision.
- Improving supervision of the outside business activities of their affiliated financial advisors.
- Enhancing the training and educational programs for their home office staff,

affiliated financial advisors, and their financial advisor's clients.

- Using technology to increase the productivity of compliance and other supervisory staff members.

Achieving Common Goals



As an important, active, and respected part of the lives of American consumers for the last three decades, independent broker-dealers certainly have a vested interest in maintaining this status—and in meeting the challenges of changing consumer demographics and preferences. They are no less interested in and committed to responding to regulators' concerns for filling perceived or actual "gaps" in their structure of supervising and supporting independent financial advisors. To do otherwise would jeopardize their standing as a provider of financial services and products to millions of Americans.

During the last decade, in particular, IBD firms have made substantial investments in improving their compliance focus, from the "C-Suite" on down. No supervisory system can prevent and detect every violation of the securities laws, but IBD firms are dedicated to improving their systems to the greatest extent practicable. Increasing the size and quality of their compliance staff has allowed these firms to dedicate trained and experienced professionals to specialized compliance areas. Insuring that supervisory responsibilities are clearly assigned to the appropriate members of that staff has helped to close any gaps that previously existed. Establishing thorough screening processes for the recruiting of new representatives has allowed IBD firms to avoid foreseeable problems before they occurred. Remote office supervision improvements, including creative uses of technology, have resulted in greater productivity and more sophisticated compliance review and analysis. More aggressive efforts to supervise and investigate the outside business

activities of their financial advisors allow IBD firms to prevent and detect fraud. Finally, improvements to the training and education of home office staff, affiliated financial advisors, and the clients of IBD firms have enhanced the overall effectiveness of their compliance programs. These improvements have had a tangible impact on the quality of the IBD firm's compliance efforts.

The commitment of IBD firms, including, and perhaps most importantly, that of senior management, to the essential ethos of a culture of compliance ensures that the message of full support for compliance efforts permeates the IBD at all levels. The result is a firmly established philosophy and operating model that serves as the foundation for future health and prosperity of IBD firms and for superior client service to middle-Americans. As the "advice crisis" continues to emerge during the next decade—with a huge number of aging Baby Boomers facing urgent and complex needs of retirement and longevity—independent financial advisors and the independent broker-dealers who serve them will be more critical than ever. It is incumbent on both regulators and broker-dealers to maintain their commitment to continued enhancements to a business model that offers compliant, comprehensive, affordable, and broadly available services to main street America.





INDEPENDENT BROKER-DEALERS: BUILDING A CULTURE OF COMPLIANCE

A Snapshot of the Independent Broker-Dealer Channel

The independent broker-dealer (IBD) community has been an important and active part of the lives of the American consumers for more than 30 years. Independent financial advisors affiliated with these firms provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans with financial education, planning, implementation, and investment monitoring. Due to their unique business model, IBDs and their affiliated financial advisors are especially well-positioned to provide middle class Americans with the financial advice, products and services necessary to achieve their financial goals and objectives. The IBD business model focuses on comprehensive financial planning services and unbiased investment advice with little, if any, proprietary product bias¹, while avoiding some of the pitfalls to which other financial service business channels have been susceptible in recent years.



In the U.S., approximately 105,000 financial advisors—or 35 percent of all registered representatives/advisors—practice in the IBD channel.² These individuals are entrepreneurial business owners who typically have strong ties, visibility, and individual name recognition within their communities and client base. The IBD model emerged in response to “first generation” financial professionals who sought a different, and better, way to serve clients than as employees of large Wall Street-based institutions with an emphasis on sales quotas. Prior to the emergence of this model, the

financial services industry was fragmented, institutionally-driven, and poorly regulated. During its 30+ year evolution, the IBD channel evolved to give independent advisors choices on service models, organizational preferences, and compensation structures. Most importantly, IBD firms recognize and respect the needs of their affiliated advisors’ clients—an established, affordable, on-going relationship with a trusted professional. Clients of independent financial advisors are typically “main street America”—it is, in fact, almost part of the “charter” of the independent channel.

The core market of advisors affiliated with IBDs are clients with a net worth, *not* investable assets, of \$250,000 to \$1 million.³

The IBD community's evolution has also involved responding to a continually changing—and increasingly complex—tax, legal, and regulatory environment, a highly competitive service environment, and demographic changes driving new client needs. IBD firms have invested millions of dollars in advances and enhancements to technology, operations, and compliance. These developments are part of a long-term commitment to investor protection and advisor support. What was once a “cottage industry” of independent-minded financial professionals has grown into a major force serving American families in a channel also known as the “financial planning” channel because of independent financial advisors’ emphasis and focus on comprehensive advice, guidance, plan implementation, and financial counseling.

Unfortunately, a perception has developed among some industry regulators that the independent business model is inherently flawed.⁴ The argument of those regulators is that the objective of the independent contractor arrangement associated with IBD firms “is to achieve a legally cognizable status as independent contractor for the securities salesperson by minimizing the firm’s control and supervision of that individual.”⁵ These regulators argue that in an effort to avoid the substantial burdens that would be imposed by federal and state labor and tax laws, independent firms endeavor to minimize their control over their affiliated independent financial advisors. They allege that this focus has important ramifications for IBDs’ ability to adequately supervise the activities of their affiliated financial advisors. In the minds of some regulators, these supervisory concerns are further complicated by IBD firms’ use of a decentralized supervisory structure to oversee widely dispersed branch offices housing small numbers of financial advisors who engage in a variety of outside business activities. They seem to believe that the independent business

model “creates the conditions for abusive and fraudulent sales activities” to thrive.⁶

IBD firms strongly dispute these assertions. Independent broker-dealers believe their business model offers several distinct advantages over the traditional wirehouse model. For example, IBD firms, and their affiliated financial advisors, take a comprehensive approach to their clients’ financial goals and objectives. They do so by offering primarily non-proprietary packaged products such as mutual funds and variable insurance. In addition, they are able to offer investment advisory services to clients for whom it is appropriate through either an affiliated registered investment advisor firm or advisor firms owned by their affiliated financial advisors. Many IBDs and their financial advisors are able to offer appropriate fixed insurance products via national or local insurance agencies to help insulate clients from risks to their life or property. The result is that IBD firms are able to offer their clients comprehensive and cohesive financial planning advice and implementation services designed to address all of the client’s major financial concerns and needs over the long term.

The financial advisors affiliated with IBDs are typically located in communities where they know their clients personally and provide them investment advice in face-to-face meetings—often over the client’s kitchen table. Most of the financial advisor’s new clients come through referrals from existing clients or other centers of influence in the community (e.g., attorneys, accountants, human resource personnel, and others). Maintaining their reputation is essential to their continued success. Due to their close ties to the community in which they operate their small businesses, these financial advisors have a strong incentive to make the achievement of their clients’ financial objectives their primary goal and operate with a goal of building equity in a community-based business in order to secure the future of their own family members.

Financial advisors and broker-dealers that offer comprehensive, affordable, and broadly available financial services to “main street America” will be critical in the coming years. In 2000, almost 13 percent of the population were age 65 or older, a number that has increased ten-fold since 1990.⁷ In 2011, the baby boom generation will begin to turn 65 and projections are that by 2030 one in five Americans will be age 65 or older.⁸ The size of the older population is projected to *double* between 2000 and 2030, to 70 million people. Individuals confronting age 60+ have urgent and complex needs to address retirement and longevity circumstances. By contrast, the registered representative/advisor population is shrinking. In 2001, there were 674,000 representatives registered with the NASD.⁹ In mid-2006, there were 658,000.¹⁰ According to LIMRA, the number of affiliated life-licensed agents has declined 35% in the past 25 years.¹¹ Across the financial services industry, more than 50% of registered representatives are age 50 and older.¹² Two key factors are influencing the decline in financial service professionals: (1) Firms supporting new entrants to the industry have slowed the “feeder system” due to the high cost of training and changes in their business model, and (2) Regulation has made it more difficult, costly, and risky to be a financial service professional—well-intentioned as regulators are, redundant, superfluous, and vague rules have driven some advisors out of the business. The result is an emerging “advice crisis.”

This advice crisis will only become more acute as aging Baby Boomers require more support, more resources, and more professional advice, and as aging advisors retire or leave the business. As the population increases and financial planning becomes more complex, affordable and available professional advice is being diluted. In addition, broad social programs that serve as a safety net for many are likely to be significantly scaled back in the future, at the same time that pension plans and private sector financial support are eroding. A strategy for individuals to “self-advise” on complex

financial situations and needs during what could be a long retirement phase is not the answer. Financial security for individuals and families is simply too important for a do-it-yourself approach. The evidence is in the recent past: during the “new economy” boom of the late 1990s, the peak of corporate scandals, and the environment post-9/11, consumers often made all the wrong moves at precisely the wrong times. What they needed then, and will need even more in the future, is the guidance, experience, and discipline of a professional advisor. Recognizing the implications of the advice crisis has driven much of IBD firms’ investment in the future of their business—including significant investments in compliance.

While IBDs acknowledge that the independent business model poses certain supervisory challenges, the independent community believes that these are no more significant than those attributable to the more traditional wirehouse model. In fact, the IBD channel has had fewer recent “missteps” than Wall Street firms. Specifically, IBDs were not involved in the IPO spinning, research, investment banking, trading, and other scandals that have tainted Wall Street in recent years. Nevertheless, IBD firms have invested huge sums during the last decade, in particular, in order to improve the quality of their compliance efforts. Investments in technology and staff, along with the development of innovative policies and procedures, have led to significant improvements in their compliance efforts and a long-term commitment to a culture of compliance within their firms.

The Regulatory Framework: an Overview



The Securities Exchange Act of 1934 (“Exchange Act”)¹³, as amended, established the registered broker-dealer firm as a key component in the regulatory framework for investor protection. “Current law provides a system of industry regulation that looks to securities firms as the day-to-day regulators for the conduct of securities professionals.

Securities firms are the first line of defense against violations of the securities laws.¹⁴ The NASD and the various national securities exchanges serve as the second line of defense through their role as self-regulatory organizations charged with the responsibility of policing members to ensure compliance with the securities laws. The third line of defense is the [SEC], which has the independent power to over see the activities of self regulatory organizations and enforce the securities laws.” This system of supervision has been adopted by the SEC, and other regulators, in recognition that they simply cannot bear the burden of supervision alone.¹⁵

As the first line of defense, broker-dealer firms bear the principal burden of implementing and enforcing the nation’s securities laws and regulations. The securities regulatory scheme, however, provides broker-dealers with a great deal of flexibility in how they choose to satisfy their supervisory obligations. For example, NASD Conduct Rule 3010(a) sets forth certain minimum standards that member firms must follow in developing their own supervisory systems.¹⁶ However, the method by which a firm chooses to comply with these requirements is left to the discretion of the firm’s own executive staff. In this way, member firms are allowed to develop a system of supervision that is most effective under their particular business model. The responsibility for the quality of the supervision provided by the firm’s supervisory system, therefore, rests with the broker-dealer firm and its staff.¹⁷

The SEC is empowered to impose sanctions on a broker-dealer firm which fails to reasonably supervise an affiliated financial advisor who violates the federal securities laws.¹⁸ The SEC has clearly established a policy concerning a broker-dealer’s failure to supervise through a series of enforcement actions.¹⁹ The policy requires broker-dealers to develop a system for implementing their procedures so that they can reasonably be expected to prevent and detect violations of the securities laws.²⁰

Broker-dealers must also develop suitable systems to investigate if indications of violations, often referred to as “red flags,” are detected.²¹ Liability for failure to supervise usually arises from the supervisor’s or firm’s failure to respond appropriately to these red flags or from a failure to develop a supervisory system designed to detect and prevent such violations.²²

Broker-dealer firms are not subject to strict liability if their registered representative engages in conduct that violates the securities laws.²³ The Exchange Act provides a “safe harbor” for those firms who establish appropriate supervisory procedures and a system for applying those procedures while reasonably discharging the duties and obligations incumbent upon them by reason of such procedures.²⁴ In the words of former SEC Chairman Arthur Levitt, “If a firm has strong compliance procedures that have been aggressively policed, we will take that into account when deciding whether to bring failure to supervise enforcement actions.”²⁵

A traditional business model has emerged, in part, as a result of this supervisory framework. The traditional business model has its origin in the wirehouse broker-dealer firms of Wall Street. The wirehouse model typically involves a full service brokerage firm with a captive sales force. The wirehouse firm utilizes a network of branch offices to house and supervise its registered representative employees. These branch offices typically house large numbers of registered representatives who are overseen by an on-site branch office manager who is also an employee of the brokerage firm. The branch office manager is responsible for the review of new accounts, securities transactions, customer correspondence, and other activities engaged in by the registered representatives assigned to the branch. In addition to supervisory responsibilities, the wirehouse manager often recruits, performs marketing duties, and trains new registered representatives and other employees. Most often, wirehouse firms market the services offered by their registered representatives and

branch offices through national or regional advertising campaigns utilizing the brokerage firm's brand name (e.g., Merrill Lynch, Prudential). For many years, this model was the most common in the retail securities industry.

In more recent years, firms utilizing the IBD business model have emerged as major providers of comprehensive and affordable financial services. Like wirehouse firms, IBDs utilize a branch office structure. However, the branch offices of an IBD firm typically house smaller numbers of financial advisors (e.g., one to four financial advisors operating from a branch office location). These financial advisors are affiliated with the IBD firm as independent contractors. As a result, the relationship between the IBD and the financial advisor is defined via the terms of a contract. The contract typically utilizes language to emphasize the degree of autonomy enjoyed by the financial advisor. This language is intended to insure that the financial advisor is properly characterized for tax and labor law purposes as an independent contractor. The following is typical of these contractual terms:

Independent Contractor. Nothing herein shall be construed to create the relation of employer and employee, partner or joint venture between Company and Representative, nor between any representative of Company and Representative. Representative shall be free to exercise his/her own judgment as to the persons whom he/she will canvass and the time and place of canvassing and, consistent with federal and state securities laws and regulations, the methods and means to carry on the business.

Representative, as an independent contractor, shall pay all expenses which he/she incurs in the performance of this Agreement, including, without limitation, expenses for income taxes, social security taxes, self-employment taxes and all expenses, costs and fees relating to Representative's licensing and registration.

Representative shall have no authority to bind or obligate Company, nor to incur any liability or expense on behalf of Company, and shall not purchase or lease office equipment, lease office space or contract for telephone service on behalf of the Company.

Independent financial advisors affiliate with IBDs because they are entrepreneurial in nature and want to own and operate their own businesses. In addition, many want to escape the traditional business model's focus on selling proprietary products. As independent contractors, not W-2 employees, they can make these decisions because they own their businesses and fund their operations. The cost to fund such operations includes office space, staff, benefits, equipment, client service systems, technology, research, travel, continuing education, and marketing. IBDs generally offer these financial advisors a comprehensive suite of support services. These services include securities clearance, business processing, compliance supervision, licensing, practice management, technology, product due diligence, marketing assistance, education, and training. These services are paid for, either in whole or in part, by the individual advisor through a monthly fee or by the broker-dealer keeping a percentage of the financial advisor's gross commission or fee income. IBDs compete for the business of independent financial advisors based upon the cost and quality of their support services.

Despite the philosophical and operational "independence" enjoyed by advisors affiliated with IBD firms, independent broker-dealers understand and embrace their ongoing obligation to supervise their registered representatives and have developed clear and strong control systems for compliance. IBDs are committed to compliance with the securities laws. This commitment is reflected in the registered representative agreement, as indicated in the example provided below:

Compliance. Representative shall conduct his/her activities in an ethical and professional

manner, observing high standards of commercial honor and just and equitable principles of trade. In the performance of all services hereunder, Representative shall:

- a. Comply with all applicable federal, state and local laws, rules, regulations and ordinances, as well as the rules and regulations of the NASD and any other applicable regulatory body and all Company policies implementing these laws and regulations.
- b. Conduct business only in states where the Company and Representative are registered.
- c. Only engage in transactions through the Company and not through any individual or other broker-dealer.
- d. Refrain from paying or offering to pay any rebate of consideration, directly or indirectly.
- e. Accept such required supervision by his/her OSJ manager and Company as is deemed necessary by Company to assure such compliance.
- f. Refrain from interviewing prospects or soliciting business until he/she has secured any and all licenses required by law and obtained a surety bond satisfactory to Company.
- g. Refrain from being licensed or housed with another broker-dealer, or having any agreement with another broker-dealer or its registered representatives without the express written consent of Company.
- h. Be financially responsible for any error by Representative concerning a client's account.

IBD firms typically use the services of independent contractor registered principals working in Offices of Supervisory Jurisdiction (OSJ) to facilitate the supervision of their affiliated financial advisors.²⁶ These OSJ Managers are appropriately licensed individuals who agree to undertake certain supervisory obligations for the offices under their supervisory jurisdiction as defined by the IBD firm. Frequently the OSJ Manager also dedicates time to servicing his own clientele. The OSJ Manager is

generally compensated for his supervisory services through a percentage of the commissions and fees generated by the financial advisors he supervises.

Responding to Specific Regulatory Concerns



Over the years, some securities regulators have raised concerns about key aspects of the IBD business model. While most regulators have been careful not to specifically cite the business model itself as a concern, their commentary has focused on certain characteristics common among IBD firms. These concerns include the perception that:

- The independent contractor business model, by definition, requires firms to minimize their control over the activities of their affiliated financial advisors.
- IBDs are vulnerable to financial advisor misconduct due to their use of widely dispersed small branch offices.
- Independent financial advisors frequently engage in outside business activities which further complicate the supervisory obligations of the IBD firm.²⁷

These concerns appear to have been first raised in a 1982 letter from the SEC's Division of Market Regulation to the NASD (SEC Letter).²⁸ The SEC Letter focuses on the regulatory consequences of the independent contractor business model under the Exchange Act. In the SEC Letter, the Division notifies the NASD that IBD firms cannot use contractual terms to limit their supervisory responsibilities for the actions of their affiliated financial advisors under the Exchange Act.²⁹ The SEC indicated that it was the SEC's "long standing policy" that independent contractors who engaged in securities sales activities under the supervision of their broker-dealer would be characterized as "employees" for purposes of the Exchange Act. The Division pointed out that "merely denoting a

salesperson as an independent contractor does nothing to resolve the status under the Exchange Act of a given individual.”³⁰

In a 1986 Notice to Members (NtM 86-65)³¹, the NASD expressed its concerns about the independent contractor business model when it stated: “A significant number of NASD members employ registered persons who engage in securities-related activities, on a full- or part-time basis, at locations away from the offices of the members. These off-site representatives, often classified for compensation purposes as independent contractors, may also be involved in other business enterprises such as insurance, real estate sales, accounting or tax planning. They may also operate as separate business entities under names other than those of the members. The NASD, in the course of its disciplinary proceedings, has observed a pattern of rule violations and other regulatory problems stemming from factors inherent in these arrangements and the manner in which they are effectuated.”³² In particular, NtM 86-65 noted that independent financial advisors often engaged in unauthorized private securities transactions or “selling away” activities. The NASD reminded IBD firms that “because of their location and other circumstances of their employment, off-site personnel have a greater opportunity than on-site personnel to engage in undetected selling away. Consequently, firms that employ such persons are responsible for monitoring their activities in a manner reasonably intended to detect violations. Further, the obligations imposed upon the firm and the associated person under [NASD Conduct Rule 3040] are neither altered nor lessened in any way by the fact that the individual is compensated as an independent contractor.”³³

The concerns raised by the SEC Letter and NtM 86-65 are central to several enforcement cases involving IBD firms.³⁴ These cases noted deficiencies at IBD firms in the way they:

- assigned supervisory duties among their staff,
- performed annual branch office inspections,
- supervised the use of signature guarantee stamps, and
- reviewed the employment history of their registered representatives for financial and disciplinary problems.³⁵

In 2004, the SEC’s Division of Market Regulation released Staff Legal Bulletin No. 17 on “Remote Office Supervision”³⁶ (Bulletin) in an effort to educate and inform IBD firms of these deficiencies. In the Bulletin, the SEC states: “Some broker-dealer firms have geographically dispersed offices staffed by only a few people, and many are not subject to onsite supervision. Their distance from compliance and supervisory personnel can make it easier for registered representatives (representatives) and other employees in these offices to carry out and conceal violations of the securities laws. The supervision of small, remote offices, therefore, can be especially challenging. The Commission staff has examined branch offices and the Commission has brought enforcement cases involving inadequate supervision of these small, remote offices. These cases address situations in remote offices where supervisory mechanisms failed to detect and prevent misconduct. These cases illustrate gaps in firms’ supervisory systems and provide insight into the steps that can help firms achieve effective remote office supervision.”³⁷

The Bulletin goes on to recommend the following supervisory best practices:

- Unannounced inspections of branch offices.
- Clear designation of supervisory responsibility.
- Careful review of Forms U-4 and U-5 when hiring representatives.
- Close monitoring of the outside business activities of representatives for evidence of selling away.
- Implementation of procedures to detect financial misconduct.
- Education programs for representatives.

- Adoption of procedures to monitor and verify customer address changes.
- Adoption of procedures to record use of the signature guarantee stamp.
- Review of incoming and outgoing correspondence.
- Confirmation of new account information with customers.
- Direction of customer correspondence to a central firm location.
- Customer notification of firm procedures.
- Procedures for direct communication between the firm and customers.
- Customer notification about information available to them from the regulators.³⁸

While IBD firms welcome and respond to the regulators' suggestion of compliance and supervisory best practices, they dispute the idea that these compliance problems are inherent in the independent contractor model. IBD firms point out that wirehouse firms have also been the subject of frequent enforcement actions related to their failure to supervise.³⁹ In fact, IBD firms are confident that the compliance and supervisory record of independent contractor firms is superior to that of their competitors with different business models. IBD firms are so confident that the data would prove them correct on this point that they have repeatedly asked the regulators to analyze the data related to the customer complaints and enforcement activity to determine which of the business models generate the greatest share of the enforcement actions and fines.⁴⁰ However, despite these frequent requests from the IBD community, the regulators have declined to conduct such an analysis. As a result, it is frustrating to the IBD community to hear comments like the following remarks of a senior executive of the NASD at an FSI meeting in September 2005: "I don't see any reason to keep track of business models" and, at the same time, "The business model of independent contractor broker-dealers presents some unique risks and challenges—a lot of them—in this regulatory environment."⁴¹

The Bulletin and relevant enforcement actions have had a profound impact on the compliance efforts of IBD firms. These firms carefully reviewed their own supervisory systems to identify and fill any remaining gaps. In addition, IBD firms reviewed the best practices recommendations and tailored the implementation to the unique circumstances of the broker-dealer. Recent research conducted by FSI and Cerulli indicates that:

- Independent broker-dealers spend an average of 10 percent of their gross revenue on compliance.
- The average IBD has 150 registered principals who serve as OSJ Managers in the field; the range is 58 for IBD firms with fewer than 500 advisor/representatives to 389 for IBD firms with more than 2000 advisor/representatives.
- Account surveillance using sophisticated technology (22.2 percent) and office audits (22 percent) represent more than 40 percent of the total compliance expense, with continuing education on compliance accounting for 12.5 percent and development of compliance policies, 11.4 percent.
- For individual compliance professionals at the home office, field/on-site office audits represent one-third (33.5 percent) of staff time.
- Almost all IBDs (90 percent) report that they expect increases in office audits in the future.⁴²
- Many IBD firms are experiencing significant growth in—and expenditures for—home office compliance staff in order to stay compliant and help their advisors with an increasing compliance and regulatory workload. At one IBD firm, home office staff increased by 36 percent, largely in compliance.⁴³

These statistics demonstrate that the senior executives of IBD firms are dedicating the resources necessary to improve the effectiveness of their compliance efforts and establish a culture of compliance within firms.

What is a Culture of Compliance?



A company's culture is a system of deeply held attitudes and beliefs that affect the way the company's employees perceive the firm, what it stands for, and the environment in which it operates. A company with a culture of compliance encourages observance of the law by promoting a positive attitude towards compliance activity at all levels within the organization. A company with a robust compliance culture establishes compliance with the law as the dominant value within their organization. A strong compliance culture is generally reflected in people proactively seeking to understand and act in compliance with the legal obligations affecting their work.

The values, attitudes, and beliefs exhibited by members of a firm's management team have the ability to exert a powerful influence on an organization's culture. If senior management is perceived as wavering in their commitment to a culture of compliance, they will send a message to all employees that compliance is discretionary or optional. However, if the management team demonstrates their belief that compliance policies and practices are integral to the achievement of the company's objectives, this attitude will permeate the organization. As a result, it is essential for senior management to recognize that establishing the right culture within their organization is their responsibility.

Once management has committed to address compliance issues, it is necessary to allocate the resources necessary to achieve the compliance goals of the organization. Appropriately skilled personnel are appointed to positions of responsibility and are made accountable for the development and maintenance of the firm's compliance program. Internal and external expertise is sought and assimilated. Corporate strategy takes account of compliance. Compliance policies are considered integral to company objectives. Compliance

becomes the way business is done and is no longer external to the revenue generating activities of the firm. Policies and procedures are developed to address compliance issues. Operational procedures take account of compliance and the performance of work duties in compliance with the law is the company norm. Compliant practices are expected and rewarded. Non-compliance is discouraged and prevented.

As Lori A. Richards, Director of the Office of Compliance Inspections and Examinations at the SEC, said during a recent event, building a culture of compliance "means establishing, from the top of the organization down, an overall environment that fosters ethical behavior and decision-making. Simply put, this means instilling in every employee an obligation to do what's right. This culture will underpin all that the firm does, and must be part of the essential ethos of the firm, so that when employees make decisions, large and small, and regardless of who's in the room when they make them, and whether or not lawyers or regulators or clients or anyone else is looking, they are guided by a culture that reinforces doing what's right. Having a strong compliance culture with a strong compliance program is in the best interests of securities firms, because (please forgive me for repeating this), what's good for investors, is good business for those who serve investors."⁴⁴

In recent years, the senior management teams of IBD firms have demonstrated their commitment to creating and nurturing this culture within their firms by adopting a compliance-first ethos, hiring top quality compliance talent, providing these skilled professionals with the necessary resources, and remaining actively involved in the oversight of the firm's compliance efforts. In practical application, IBD firms have taken the following tangible steps to improve their compliance efforts:

- Increasing the size and quality of the firm's compliance staff.

- Insuring the clear assignment of supervisory responsibilities within the firm.
- Establishing thorough screening processes for the recruiting of new representatives to the firm.
- Improving methods of remote office supervision.
- Improving supervision of the outside business activities of their affiliated financial advisors.
- Enhancing the training programs for their home office staff, affiliated financial advisors, and their financial advisor's clients.

IBD firms' efforts to build a culture of compliance through these concrete steps are having a significant impact upon the compliance and supervisory results at these firms. The positive impact of these efforts on IBD firms' compliance practices has been confirmed by at least one state securities regulator. Ralph A. Lambiase, division director for the Connecticut Department of Banking's Securities and Business Investments Division, analyzed his state's data for regulatory activity during a three-year period and found that independent contractor broker-dealer firms had no more misconduct than wirehouse firms, saying, "You just can't assume anymore, as a regulator, that these firms are more problematic."⁴⁵

Let's examine some of the specific steps undertaken by IBD firms in order to improve their compliance and supervisory results in each of these areas.⁴⁶

Compliance Department Staff



One of the many ways IBD firms have demonstrated their commitment to compliance is by dedicating a greater proportion of their resources to compliance staff. By increasing both the number and the quality of the members of their compliance staff, IBD firms are able to meet the compliance challenges of today's regulatory environment.

While the sheer volume of new rules, examinations, and regulatory inquiries in recent years is responsible for a significant portion of these new compliance staff-related expenditures, the vast majority of such expenditures are the result of IBDs' recognition that dedicating more skilled persons to the job of compliance will preserve the firm's reputation in the marketplace and improve its bottom line.

More and more top compliance managers are taking their place in "C-level"⁴⁷ positions at IBD firms. While NASD Conduct Rule 3013⁴⁸ requires firms to appoint a firm principal as chief compliance officer, or CCO, most IBD firms had done so long before the rule's adoption. IBD firms recognized that compliance was an integral component of their strategic planning. As a result, they have been willing to offer attractive compensation packages to entice the skilled professional managers they need to lead the compliance efforts of their firms. In the past, the chief compliance officer of many IBD firms was a person with a securities operations or legal background who had risen through the ranks of the organization. However, in recent years, many IBD firms have hired CCOs with extensive regulatory experience; other IBD firms have opted for a CCO with considerable industry experience. IBD firms have recognized that their CCO must be involved in the firm's strategic planning in order to succeed in the new market place. By including the CCO, these firms have sent an important message to their employees and affiliated financial advisors— compliance is essential to what we do.

IBD compliance departments have also seen rapid growth in middle manager and non-managerial personnel. Indeed, some IBD firms have increased their compliance staff by one hundred percent or more during the past several years. Most report that the compliance department continues to grow more quickly than other departments within the

firm. This reaction to the current regulatory environment is entirely predictable. Perhaps the easiest way to ride the recent wave of new laws and regulations was to add staff. However, the compliance hiring boom at IBD firms was more than simply adding bodies. Instead, IBD firms sought compliance personnel with specialized training and expertise in areas such as anti-money laundering, investment advisor issues, advertising, insurance products, and transaction review compliance to meet the compliance challenges of both today and tomorrow. These skilled and experienced professionals have brought much needed expertise to these specialized areas of compliance.

IBD firms are also making greater use of technology to improve the productivity of their office staff. This is especially true in the area of compliance. Most IBD firms utilize document imaging systems, automated exception reports, transaction review and processing systems, e-mail monitoring programs, and other technologies to multiply the impact of each additional compliance staff member. These systems allow the compliance experts to focus their attention on areas of considerable risk to the organization. The "hunt and peck" method of compliance has been replaced by a risk-based model that allows compliance officers to more effectively recognize and address developing issues of concern before they have significant client or regulatory impact.⁴⁹

IBD firms are convinced that properly staffing their compliance department will produce better bottom line results by allowing the firm to retain a greater share of each dollar earned. As a result, they have increased investment in their compliance staff. By elevating the compliance officer to the senior management team, adding additional quality compliance professionals to their organizations, and providing them with the latest technological tools, IBD firms are demonstrating their commitment to the culture of compliance within their organizations.

Development of Effective Supervisory Systems and Assignment of Supervisory Responsibilities



A recent series of enforcement cases indicates that the regulators have concerns about some firms' failure to adopt appropriate supervisory systems and clearly assign supervisory responsibilities within their organization.⁵⁰ These concerns are the primary basis for NASD Conduct Rule 3010 and the recent promulgation of the Conduct Rules 3012 and 3013.⁵¹ Conduct Rule 3010 requires firms to establish a supervisory system, including written supervisory procedures. NASD Conduct Rule 3012 specifically requires firms to identify principals that will be responsible for establishing, maintaining and enforcing a system of supervisory control policies and procedures that test and verify a firm's supervisory procedures.⁵² NASD Conduct Rule 3013 requires the CEO of a member firm to certify on an annual basis that the firm has a process in place that "establishes, maintains, reviews, modifies, and tests internal policies and procedures for compliance with applicable rules and regulations."⁵³

Rules 3010, 3012, and 3013 have been purposely designed to be complementary. Rule 3010 requires the establishment of a supervisory system, which includes policies and procedures reasonably designed to achieve compliance with rules and regulations. Rule 3012 requires the existence of a system of supervisory control policies and procedures that ensure that the policies and procedures required by Rule 3010 are effective in achieving compliance with rules and regulations. Rule 3013 requires CEO certification that there exists a process to ensure the controls required by Rules 3010 and 3012 are in place. The central theme that emerges clearly from these new rule requirements is the increased desire of securities regulators to see the industry take meaningful steps to self-regulate. The regulators expect senior management to set the appropriate tone regarding

compliance, or, more specifically, to develop and support effective supervisory control processes that establish a “culture of compliance.” The new rules have put the onus on the chief executive officer of the broker-dealer firm to ensure that appropriate supervisory control processes are in place and are operating effectively.

While IBD firms initially looked upon the proposal of 3012 and 3013 with understandable concern and skepticism, once the rules were adopted, they dedicated themselves to the process. IBD firms have responded by adopting robust supervisory control and annual certification procedures. Recognizing that compliance failures frequently can be traced to the failure to properly assign supervisory responsibilities within the firm, they have also worked to achieve greater clarity in the assignment of these responsibilities.

IBD firms have long endeavored to meet their obligations under NASD Conduct Rule 3010 to establish supervisory systems that clearly designate “appropriately registered principal(s) with authority to carry out the supervisory responsibilities of the member for each type of business in which it engages...” and assign each financial advisor “to an appropriately registered representative(s) and/or principal(s) who shall be responsible for supervising that person’s activities.”⁵⁴ In addition, IBD firms have routinely engaged in required internal investigations “reasonably designed to assist in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable NASD rules.”⁵⁵ These internal inspections have proven helpful in identifying gaps in the firm’s policies and procedures as well as the assignment of responsibilities. These efforts have been enhanced and formalized in response to Conduct Rule 3012’s mandate to formulate supervisory control procedures.

Some larger IBD firms have gone as far as to create formal internal auditing groups whose duty it is to continuously review the firm’s procedures

and the performance of assigned duties by employees of the firm for full compliance with regulatory requirements. The auditing groups engage in testing and verification of all of the firm’s written supervisory procedures in accordance with NASD Rule 3012. These auditing groups attempt to identify gaps in the firm’s current procedures and fill them before harm to clients or the firm’s reputation occurs. The auditing groups also ensure completion of the annual certification in accordance with NASD Conduct Rule 3013 by, among other things, facilitating the completion of sub-certifications by the various business units. Smaller IBD firms achieve compliance through the use of outside consultants or the dedication of appropriate compliance and other staff to the process. In either case, the process adopted is appropriate for the firm’s size, business lines, and supervisory structure.

As always, IBD firms responded to this recent NASD rulemaking by adopting robust procedures. These supervisory control procedures are appropriately designed to eliminate potential compliance problems before they arise. The result is IBD firms are constantly improving their compliance efforts and better equipped to face future challenges. The certification process has the effect of emphasizing for each person involved in the firm’s compliance efforts the importance of their role. Involvement of the CEO is guaranteed by the supervisory control certification process. The result is an IBD management team that is keenly aware of their supervisory obligations and dedicated to nurturing a firm-wide culture of compliance.

Recruiting of Representatives



Over the years, the NASD and SEC have also expressed concerns about the hiring practices of IBD firms. The regulators have encouraged IBD firms to more thoroughly review the employment history of the financial advisors they recruit for financial and disciplinary problems. The regulators

have also urged firms to engage in a careful review of Forms U-4 and U-5 when hiring representatives. This review is intended to help member firms “ascertain by investigation the good character, business reputation, qualifications, and experience of any person prior to” allowing them to affiliate with the firm.⁵⁶

In recognition of the regulators’ call for greater scrutiny in the recruiting process, many IBD firms have made substantial changes to their recruiting efforts and qualifications review. While all IBD firms have long complied with the obligations of NASD Conduct Rule 3010(g)⁵⁷, the firms have now gone far beyond the simple requirements of this rule to develop innovative recruiting and qualifications review programs. These programs frequently involve the collection of detailed documentation from the applicant. Specialized questionnaires seeking information about the prospective representative’s employment history, business mix, and disciplinary history are commonly used. The information collected on these forms is confirmed through the collection of additional documentation from the financial advisor. Securities production records, tax returns, prior audit reports, and other documentation are gathered to confirm the information provided by the financial advisor is complete and accurate.

The majority of IBD firms make use of background and credit checks to determine the character and financial status of the applicant. Background checks assist the IBD firm in verifying the accuracy of information provided by the financial advisor during the recruiting process. The background report may also indicate additional areas of concern or reveal when a financial advisor has been less than forthcoming. Credit reports allow IBD firms to obtain information about the financial advisor’s ability to manage his own financial affairs. The firm can also use the report to analyze factors (e.g., level of indebtedness) which could motivate an advisor to risk his reputation in pursuit of short-term gain.

The outside business activities of the prospective representative are also a significant focus during the qualifications review process. Many IBD firms begin their inquiry into the representatives’ outside activities through extensive interviews and the use of a detailed questionnaire. This information is reviewed by experienced compliance professionals to assess the applicability of NASD Conduct Rules 3030 and 3040⁵⁸ as well as the firm’s own internal policies and procedures. Appropriate follow-up is conducted on any outside business activities that raise concerns. Some firms will even perform an on-site inspection of the financial advisor’s office prior to affiliation to insure that they have a thorough understanding of the business activities conducted there. Appropriate compliance personnel conduct these inspections. The data gathered is utilized in the qualifications review process and, should the advisor be allowed to join the firm, to devise an appropriate supervision plan for the financial advisor’s office.

After all of this data is gathered, reviewed, and analyzed, most IBD firms require it to be circulated to a designated group of decision makers in order to determine whether the representative is an appropriate candidate for association with the firm. The senior management of the IBD is often involved in this process. Those who will be charged with supervision of the financial advisor (e.g., OSJ Manager or compliance department staff) are also involved in the review process. Many IBD firms report that approval by the firm’s chief executive officer or president is required prior to any financial advisor joining the firm. In fact, at least one IBD firm reports that approval of the firm’s president, chief compliance officer, chief financial officer, the designated supervising principal, and the firm’s recruiter is required prior to allowing any financial advisor to affiliate with the firm. In most cases, approval by the members of senior management is evidenced by their signature on the appropriate application documentation.

IBD firms also dedicate significant resources to training new financial advisors in the details of their firm's compliance policies and procedures. This training frequently occurs prior to or shortly after the representative joins the firm. Often, the training program is conducted in person to enhance its effectiveness. The training is designed to insure that the financial advisor's office establishes good compliance habits on the front end and to insure that any unanswered questions are resolved before they blossom into significant problems.

After a financial advisor has joined the IBD firm, it closely monitors the advisor's activities. This monitoring includes efforts designed to insure that the securities activity being conducted by the financial advisor is consistent with the firm's expectations based upon their extensive vetting of his past production. These firms will contact a financial advisor who is not actively transferring client accounts and producing new business to determine the cause for his slow transition. Additional training or support is frequently the answer. However, at other times, the failure to transfer accounts or produce business is an indication that the representative is interested in merely "parking" his license or engaged in unapproved outside business activities. If this is the case, the firm takes steps to quickly address the problem before it has a significant impact on the advisor's clients or the firm's business reputation.

The qualifications review, training, and supervision procedures described above have served as an effective means of avoiding the recruiting of problem financial advisors. These procedures send a clear message to rogue representatives that they are unwelcome. As a direct result, they often choose to affiliate elsewhere. If they persist in their desire to associate with the firm, the process is designed to identify their true business reputation, qualifications, and experience, thereby allowing the IBD firm to reject their application or to assist in

quickly identifying and discarding the "bad apples." In any case, the message is sent to all members of the IBD firm—only those financial advisors who share our commitment to compliance will be allowed to affiliate with our firm.

Remote Office Supervision and Monitoring of Outside Business Activities



IBD firms recognize that the regulators are greatly concerned about their ability to supervise remote branch offices that house a small number of financial advisors. The involvement of these financial advisors in varied outside business activities has the potential to complicate supervision. Nevertheless, IBD firms are confident that they are up to the task and their primary focus in recent years has been on making improvements to remote office supervision. Through the development and use of product specific disclosure documents, automated exception reporting, regional compliance supervisory systems, e-mail monitoring systems, risk based examination and inspection programs, and other measures, IBD firms have been able to vastly improve the effectiveness of their supervisory efforts. These improvements have involved substantial investments in technology, which have allowed the firm's compliance staff to work more effectively by dedicating their time to the most productive compliance tasks. The resulting systems of supervision are well suited for the challenges of the independent broker-dealer model.

Chief among the regulators' concerns about IBD firms is their ability to prevent fraud associated with private securities transactions or the outside business activities engaged in by their affiliated financial advisors. These concerns are understandable considering the serious investor harm that can be perpetrated through the use of a simple Ponzi scheme⁵⁹ or other fraudulent device by a financial

advisor who has the trust of his clientele. While these concerns are not unique to IBD firms, some regulators claim that the use of a decentralized supervisory structure by IBD firms to oversee widely dispersed branch offices housing small numbers of financial advisors is potentially more vulnerable to such schemes. IBD firms have responded to these concerns by adopting compliance practices designed to help ferret out undisclosed business activities and private securities transactions.

As part of this aggressive response, IBD firms have adopted procedures and practices that go well above and beyond the requirements of the NASD Conduct Rules.⁶⁰ The typical IBD firm requires their affiliated financial advisors to disclose in writing any and all outside business activities prior to engaging in them. In fact, many firms' written policies require written approval by the designated registered principal prior to the financial advisor's involvement in the activity. These procedures are more easily understood by financial advisors and allow the IBD firm's compliance staff to perform the sometimes difficult analysis as to whether an activity involves a private securities transaction.

The majority of IBD firms require their financial advisors to complete a detailed outside business activity questionnaire in reporting any such activities. These detailed forms are intended to elicit relevant information concerning the activities in which the affiliated financial advisor or prospect intends to engage. Some firms use forms that are specific to the type of activity engaged in by the financial advisor (e.g., a form for insurance that asks questions unique to the business activity). Members of the compliance staff review the responses received on these forms and contact the advisor to clarify any ambiguities. The appropriate supervisor's signature is required on the form in order to evidence approval.

Information about the approved outside business activities of the affiliated financial advisor is often included in the IBD firm's contact management system. This arrangement allows any member of the firm's home office staff to quickly review the list of approved outside activities on their computer desktop. For example, a member of the firm's operations staff calling a branch office affiliated with the firm can quickly and easily check to see if the business activities referenced in the financial advisor's voicemail message have been approved by the compliance department. This simple step has greatly enhanced IBD firms' efforts by providing each member of the home office staff the tools necessary to potentially detect undisclosed outside business activities.

IBD firms utilize information gathered through the recruiting process or past experience with their affiliated financial advisors to develop a risk profile for branch offices. The profile allows firms to adopt a risk based approach to onsite inspections. For example, many firms designate financial advisors of a certain risk profile as being subject to more frequent on-site inspections. Many of these inspections are unannounced. Detailed questionnaires are utilized during the on-site inspection process. The questionnaires insure that exams are conducted in a uniform and comprehensive manner. Many firms have procedures to insure that their examiners are well prepared for the on-site examination. Examiners are required to review the firm's records to insure they have a thorough knowledge of the financial advisor's past disciplinary and customer complaint history, marketing efforts, outside business activities, any past compliance deficiencies, and other relevant details. A pre-examination meeting with a senior examiner is often used to insure proper preparation and to identify areas of particular concern to be explored during the course of the audit. A debriefing session may be conducted at the time of the examiner's return

to the home office to insure proper follow up is conducted on any items requiring further attention.

IBD firms also monitor routine account activity in order to detect unusual transactions. Account activity is reviewed for investments in products that have not been approved by the firm for sale. Firms also review the checks cut from client accounts for disbursements to unknown entities, addresses, or persons. Many firms also forward customer survey letters to a random selection of clients in an attempt to foster communication and detect problems. These efforts have proven to be effective in preventing and detecting fraudulent conversion of client assets and investments in unapproved private securities transactions.

Detecting undisclosed outside business activities or private securities transactions is also a focus of the routine branch office inspections conducted by IBD firms. Examiners review client files, interview office staff, and inspect office filing cabinets and storage areas in an effort to verify that the firm has been informed of all business activities engaged in by the office. Branch office financial records (e.g., checkbook and bank statements) are reviewed for evidence of questionable activity. If any questions arise, IBD firms are not hesitant to contact clients directly to clarify or conduct unannounced follow up inspections of the branch office. These examinations often involve senior members of the firm's compliance or legal staff. Larger IBD firms have even created special investigations units within their compliance staff to perform high risk office examinations. These units are staffed by persons with specialized training and experience in conducting risk based branch office examinations. No matter who conducts the examination, when violations are found, IBD firms understand their obligation to inform the NASD via the appropriate filings.⁶¹ The disclosures are full, complete and accurate.

Comprehensive regional supervisory structures have been adopted by many IBD firms. Regional OSJ Managers are experienced compliance professionals responsible for performing advertising and transaction review. In addition, the regional managers perform on-site inspections of branch and non-branch office locations. Because they are located closer to the action and have a smaller constituency to monitor, they are able to conduct announced and unannounced inspections with greater frequency. IBD firms work closely with their regional compliance managers to insure they have the information and resources necessary to properly supervise their assigned representatives. Some IBD firms have also created separate supervisory units dedicated to the oversight of producing branch office managers on a full-time basis. These regional and branch office manager supervising OSJ managers are a very important and effective part of an IBD firm's compliance program.

Improved operations procedures are also assisting IBD firms in detecting and preventing other forms of fraud. Many IBD firms use sophisticated technology to analyze account status changes, such as changes in client address, for indications of trouble. Standard procedures include the verification of client signatures, address change notifications forwarded to both the old and new address, and the use of more sophisticated technological tools. IBDs also leverage the technology offerings of their clearing firm to assist in fraud prevention and detection.⁶² As one example of the use of technology in this area, many IBD firms use sophisticated databases to check client account addresses for association with the financial advisor, known mail drops (e.g., Mail Boxes, Etc. locations), motels, shopping centers, trailer parks, or other questionable locations. These same systems are used to identify addresses or customer names that have been associated with money laundering, terrorist financing, unpaid debts, or other forms of fraud.

Compliance and operations professionals use the data to determine the appropriate course of action.

Technology is also used by many IBD firms to perform transaction based monitoring. Transaction review at these firms is sophisticated and multi-layered. At many IBD firms, transactions are first reviewed for suitability and other compliance concerns by a field OSJ Manager. Approved transactions are allowed to be processed, but are subject to an additional review by a home office principal. Finally, all transactions are processed through sophisticated trade review systems that supplement and assist the traditional principal review. The systems review account activity for indications of money laundering, suitability concerns, inappropriate exchanges (“switching”), and misappropriation of funds or securities. The systems generate reports or daily alerts for review by specialized home office compliance staff or registered principals operating an OSJ. These sophisticated systems review activity for concerns with individual transactions and greater trends that may emerge across a financial advisor’s book of business. Detailed notes or other evidence of the firm’s inquiry and the final disposition of the matter are often tracked in the system’s database.

In the past, many IBD firms made use of a one-size fits all “prospectus receipt form” to insure that their clients received the necessary disclosure materials for the investment company and direct participation products they purchased. Over the past several years, these documents have become more and more refined. It is now typical for IBD firms to utilize a series of product-specific disclosure documents that inform clients of the factors relevant to their investment decision, as well as document that proper sales practice procedures have been followed. These disclosure documents require the inclusion of transaction specific data (e.g., sales charges and holding periods) and the signatures of both the client and financial advisor to insure full

and complete disclosure. The disclosure documents are forwarded to the home office or the designated supervising principal as part of the business processing. This allows the registered principal the opportunity to intelligently review the individual transactions for suitability and compliance with other relevant requirements.

In response to regulatory requirements and tough lessons learned through experience, many IBD firms have taken steps to run all e-mail communications through sophisticated filtering tools designed to alert the firm to messages worthy of close scrutiny. All securities related e-mail must be sent through the firm’s e-mail servers to insure that they are subject to monitoring system. Other correspondence is subject to principal review. Office computers are often subject to inspection during on-site examinations in an effort to identify correspondence and e-mail that was not properly routed and reviewed. The use of instant messaging, text messages and other difficult-to-monitor communication systems is prohibited by most IBD firms.

Finally, the majority of IBDs utilize fully electronic document imaging and workflow technology to greatly improve the firms’ ability to track submitted business and avoid lost or missing account paperwork. If paperwork is missing, IBD firms follow up with the financial advisor or his staff to obtain the material. Many IBD firms utilize systems that impose financial or other penalties on the financial advisor if paperwork is missing for an unacceptable period of time. The document imaging systems simplify book and recordkeeping, increase productivity, and allow compliance personnel to spend their time analyzing transactions rather than searching for documents.

IBD firms have responded to the regulators’ concerns over their ability to supervise remote branch offices by developing their own innovative solutions to compliance challenges, implementing

best practices suggestions, and making substantial investments in technology. IBD firms are confident that these efforts will result in fewer customer complaints, arbitration claims, and regulatory inquiries. The resulting systems of supervision are well suited for the challenges presented by the current regulatory environment and are part of the culture of compliance being created by IBDs.

Training and Education



IBD firms have recognized the increasing importance of training and educational efforts in creating a culture of compliance within their organizations. They have recognized that the firm's affiliated financial advisors, home office personnel, and clientele all have a need for ongoing training and education. As a result, they have developed extensive training programs and materials. Outside vendors with experience in professional education are frequently used to develop the materials. Other firms utilize internal resources to insure that the materials are relevant to their audience. In either case, the purpose of the training programs is to educate and inform while reinforcing the firm's culture of compliance.

Typically representatives at IBD firms have significant industry experience prior to transitioning to an IBD firm. Many have advanced educational degrees and industry designations. Nevertheless, IBD firms have established additional training programs for their representatives. These programs are in addition to the NASD-required firm element continuing education program. As described above, many of these training programs include extensive compliance and operations training for newly affiliated financial advisors and their staff. Most firms also offer extensive ongoing training and educational programs to their financial advisors. These training sessions cover a variety of important topics, including suitability issues arising in the

sale of new products or services (e.g., fees in lieu of commission accounts), compliance with new internal policies and procedures (e.g., equity indexed annuity processing), and a review of the financial advisor's ongoing obligations to comply with key NASD Conduct Rules and firm policy (e.g., duty to report outside business activities). These training sessions are offered in person, via conference call, or Webcast. The training sessions are designed to be interactive in nature. These arrangements allow participating financial advisors to ask questions of the presenters to clarify important points. It also allows the IBD firms to insure that the participants are actively engaged in the training process. The sessions are often recorded and maintained by the IBD in a library on the firm's Web site. Thus the financial advisor and office support staff can access a wealth of information at a later point in time for detailed study or as a quick refresher.

Many firms have also developed specific training programs for their OSJ registered principals. These programs focus on issues of importance for supervisors. They may include a review of recent NASD or SEC rulemaking, new policies or procedures, or emerging trends in customer complaints received by the firm. Once again, in-person or interactive technologies are used to engage in an ongoing training discussion. The result is greater knowledge and understanding of industry developments and firm specific issues. In addition, the training programs help to insure uniformity in the application of compliance policies and allow a forum for free discussion of current issues. IBD firms also invest in high quality training and staff development efforts to ensure that their employees have the necessary skills and knowledge to carry out their roles properly. IBD firms make use of the considerable training resources offered by the NASD. These resources include participation in the NASD's conferences, the Institute at Wharton⁶³, the Compliance Boot Camp, phone-in workshops, online learning programs,

and other training programs. In addition, the NASD's podcast and Webcast series are employed by IBD firms to insure their staff is aware of existing and emerging compliance issues and concerns. Many IBD firms have also instituted extensive cross-training programs to insure that members of their operations, accounting, marketing, and other departments are sufficiently knowledgeable about compliance issues to identify issues of concern and bring them to the compliance department's attention. The goal is to insure that each employee is aware that compliance is the responsibility of each person affiliated with the firm—not just those in the compliance department.

IBD firms realize that it is cheaper to avoid compliance problems than it is to remedy them after the fact. They also recognize that an informed consumer of financial products is their best customer. As a result, many IBD firms are investing resources in the creation and distribution of client-specific educational materials. These materials include firm-developed point of sale disclosure documents and other materials published by industry groups designed to inform clients of key factors in their investment decision. Educational materials are distributed during the sales process or are posted to the firm's Web site for quick and easy access by clients. New account welcome letters and communications to confirm address changes, changes in personal information, journals of asset, account transfers, or distributions are used to alert clients to activities often connected with fraudulent activities. Typically, these materials include the address and phone number of the broker-dealer, along with a request for clients who have concerns to contact the firm's compliance department.

These training and educational efforts are reviewed periodically by appropriate members of the IBD firm's compliance staff to insure they are achieving their purpose. IBD firms have established procedures to insure that compliance programs are

updated to reflect the current regulatory environment and areas of risk to the firm. Appropriate adjustments are made and new materials and programs developed to insure that each target audience is properly educated on the issues of most importance to them. The result is a well educated home office staff, knowledgeable affiliated financial advisors, and informed consumers—a perfect recipe for a culture of compliance.

Common Goals: Responding to the "Advice Crisis" With a Culture of Compliance



As an important, active, and respected part of the lives of American consumers for the last three decades, independent broker-dealers certainly have a vested interest in maintaining this status—and in meeting the challenges of changing consumer demographics and preferences. They are no less interested in and committed to responding to regulators' concerns for filling perceived or actual "gaps" in their structure of supervising and supporting independent financial advisors. To do otherwise would jeopardize their standing as a provider of financial services and products to millions of Americans.

During the last decade, in particular, IBD firms have made substantial investments in improving their compliance focus, from the "C-Suite" on down. No supervisory system can prevent and detect every violation of the securities laws, but IBD firms are dedicated to improving their systems

to the greatest extent practicable. Increasing the size and quality of their compliance staff has allowed these firms to dedicate trained and experienced professionals to specialized compliance areas. Insuring that supervisory responsibilities are clearly assigned to the appropriate members of that staff has helped to close any gaps that previously existed. Establishing thorough screening

processes for the recruiting of new representatives has allowed IBD firms to avoid foreseeable problems before they occurred. Remote office supervision improvements, including creative uses of technology, have resulted in greater productivity and more sophisticated compliance review and analysis. More aggressive efforts to supervise and investigate the outside business activities of their financial advisors allow IBD firms to prevent and detect fraud. Finally, improvements to the training and education of home office staff, affiliated financial advisors, and the clients of IBD firms have enhanced the overall effectiveness of their compliance programs. These improvements have had a tangible impact on the quality of the IBD firm's compliance efforts.

While these efforts are impressive on their face, they are most significant as an indication of senior managements' commitment to compliance. IBD firms have concluded that having a strong compliance culture dedicated to establishing and maintaining an effective compliance program is in their best interest. *Senior managers know that doing*

what is best for investors is good business for the firm. As a result, the senior management teams of IBD firms are setting the tone by dedicating enormous corporate resources, and their own time and attention, to these efforts. Their personal involvement in the development of enhancements to compliance procedures and systems, as well as properly funding these efforts, reinforces the message that the firm places the highest priority on compliance, establishing, as Lori Richards put it, "...an overall environment that fosters ethical behavior and decision-making...instilling in every employee an obligation to do what's right..." and a firm that is "guided by a culture that reinforces doing what's right."⁶⁴

The commitment of IBD firms to this essential ethos ensures that the message of full support for compliance efforts permeates the IBD at all levels. The result is a firmly established culture of compliance that serves as the foundation for future health and prosperity of IBD firms and for superior client service to middle-Americans.



REFERENCES

- ¹ Please note that there are some large independent broker-dealer firms who offer proprietary products such as mutual fund, variable annuity, and/or investment advisor products offered by an affiliated or parent insurance company, broker-dealer or investment advisor. Nevertheless, these IBD firms represent the exception to the rule.
- ² Cerulli Associates, "Trends in the IBD Market place," December 2004. Please note that this figure represents a conservative estimate of independent financial advisors. In fact, more than 128,000 financial advisors are affiliated with FSI member firms.
- ³ Ibid.
- ⁴ Supervision Challenges Facing Broker-Dealers Employing the Independent Contractor Small Branch Office Model: A Call to Action, 52 Bus. Law. 1359, 1362-1363. Please note that this law review article was authored by Charles V. Senatore. Mr. Senatore was then Regional Director for the SEC's Southeast Region.
- ⁵ Broker-Dealer Regulation Under the Securities Exchange Act of 1934: The Case of Independent Contracting, 1994 Colum. Bus. L. Rev. 189, 207. Please note that this law review article was authored by Alexander C. Dill. Mr. Dill was then Branch Chief, Office of Trading Practices, Division of Market Regulation, Securities Exchange Commission.
- ⁶ Ibid., 197.
- ⁷ See at www.agingstats.gov/chartbook2000/population.html.
- ⁸ Id.
- ⁹ See 2001 NASD Annual Financial Report at <http://www.nasd.com/AboutNASD/CorporateInformation/NASDAnnualReports-Financials/index.htm>.
- ¹⁰ See at <http://www.nasd.com/AboutNASD/CorporateInformation/index.htm>.
- ¹¹ Census of U.S. Sales Personnel, LIMRA International, 2006
- ¹² Survey of Producer Opinion – U.S., LIMRA International, 2000.
- ¹³ Securities Exchange Act of 1934 codified as amended at 15 U.S.C. §§ 78a-78nn.
- ¹⁴ Supervision Challenges Facing Broker-Dealers Employing the Independent Contractor Small Branch Office Model: A Call to Action, 52 Bus. Law. 1359, 1362 -1363.
- ¹⁵ According to page 8 of the 2005 NASD Year In Review, entitled Better Information Better Regulation, the NASD is responsible for the regulation of 5,111 member firms and the 655,832 registered representatives affiliated with these firms. Page 16 of the report reveals that the NASD has 2,432 employees, or approximately 1 employee for every 270 registered representatives, to complete this formidable task. See the 2005 NASD Year In Review report at http://www.nasd.com/web/groups/corp_comm/documents/home_page/nasdw_016705.pdf.
- ¹⁶ See NASD Conduct Rule 3010(a) at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&record_id=1159005868&element_id=1159000590&highlight=3010#r1159005868.
- ¹⁷ NASD Conduct Rule 3010(b)(3).
- ¹⁸ Securities Exchange Act of 1934, 15 U.S.C.A. § 78o(b)(4)(E).
- ¹⁹ See, e.g., In the Matter of John H. Gutfreund, Thomas W. Strauss, and John W. Meriwether, Exchange Act Release No. 34-31554, 51 S.E.C. 93 (Dec. 3, 1992); In the Matter of George J. Kolar, 70 S.E.C. Docket 2382 (Oct. 28, 1999); and In re SG Cowen Securities Corp., Exchange Act Release No. 34-48335, 80 S.E.C. Docket 2501 (Aug. 14, 2003).
- ²⁰ Securities Exchange Act of 1934, 15 U.S.C.A. § 78o(b)(4)(E)(i)-(ii) and NASD Conduct Rule 3010(a).
- ²¹ Id.

- ²² See, e.g., *In re Kantor*, Exchange Act Release No. 32,341, 54 S.E.C. Docket 207 (May 20, 1993); *In the Matter of John H. Gutfreund, Thomas W. Strauss, and John W. Meriwether*, 51 S.E.C. 93 (Dec. 3, 1992); *In re Vieira* Exchange Act Release 26,576, 42 S.E.C. Docket 1392 (Feb.28, 1989).
- ²³ Securities Exchange Act of 1934, 15 U.S.C.A. § 78o(b)(4)(E)(i)-(ii). See, e.g., *In re Huff*, Exchange Act Release No. 29,017, 48 S.E.C. Docket 767 (Mar. 28, 1991).
- ²⁴ *Id.*
- ²⁵ Arthur Levitt, "Our Partnership to Improve Practices," Remarks before the SIA Compliance & Legal Division (Mar. 18, 1996).
- ²⁶ NASD Conduct Rule 3010(g) defines an OSJ as "any office of a member at which any one or more of the following functions take place: (A) order execution and/or market making; (B) structuring of public offerings or private placements; (C) maintaining custody of customers' funds and/or securities; (D) final acceptance (approval) of new accounts on behalf of the member; (E) review and endorsement of customer orders, pursuant to paragraph (d) above; (F) final approval of advertising or sales literature for use by persons associated with the member, pursuant to Rule 2210(b)(1); or (G) responsibility for supervising the activities of persons associated with the member at one or more other branch offices of the member."
- ²⁷ *Broker-Dealer Regulation Under the Securities Exchange Act of 1934: The Case of Independent Contracting*, 1994 Colum. Bus. L. Rev. 189, 196-207.
- ²⁸ Letter to Gordon S. Macklin, President, NASD, from Douglas Scarff, Director, Division of Market Regulation, the Commission (1982-83 Transfer Binder), Fed. Sec. L. Rep. (CCH) paragraph 77,303, at 78,116 (June 12, 1982). The Division sent similar letters to other appropriate regulatory authorities including the NYSE and the Chicago Board of Options Exchange.
- ²⁹ *Ibid.*, at 78,117.
- ³⁰ *Id.*
- ³¹ See Notice to Members 86-65 at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&record_id=1159004789&highlight=86-65#r1159004789.
- ³² *Id.*
- ³³ *Id.* NASD Conduct Rule 3040 prohibits associated persons from engaging in "private securities transactions" unless they comply with the terms of the Rule. A "private securities transaction" is defined by the Rule as "any securities transaction outside the regular course or scope of an associated person's employment with a member, including, though not limited to, new offerings of securities which are not registered with the Commission, provided however that transactions subject to the notification requirements of Rule 3050, transactions among immediate family members (as defined in Rule 2790), for which no associated person receives any selling compensation, and personal transactions in investment company and variable annuity securities, shall be excluded."
- ³⁴ For examples, see *In re Royal Alliance Associates, Inc.*, Securities Exchange Act Release No. 34-31874, 63 S.E.C. Docket 1606 (Jan. 15, 1997) and *In re Signal Securities, Inc., et al.*, Securities Exchange Act Release No. 34-43350, 73 S.E.C. Docket 928 (Sept. 26, 2000).
- ³⁵ *Id.*
- ³⁶ Division of Market Regulation, Staff Legal Bulletin No. 17, Remote Office Supervision (March 19, 2004). See at <http://www.sec.gov/interps/legal/mrslb17.htm>.
- ³⁷ *Id.*
- ³⁸ *Id.*
- ³⁹ See, e.g., *In re SG Cowen Securities Corp.*, Exchange Act Release No. 34-48335 (Aug. 14, 2003), and its companion action *In re Lehman Brothers, Inc.*, Exchange Act Release No. 34-48336 (Aug. 14, 2003); *In re Prudential Securities, Inc.*, Exchange Act Release No. 34-33082 (Oct. 21, 1993); and *In re PaineWebber, Inc.*, Exchange Act Release No. 34-36724 (Jan. 17, 1996).

- ⁴⁰ February 17, 2005 letter from Stephen A. Batman, chairman of the Financial Services Institute's board of directors, to Mary Schapiro, then vice chairman and president of regulatory policy and oversight at the NASD; and February 7, 2006 letter from David T. Bellaire, general counsel and director of government affairs at the Financial Services Institute, to Mark H. Berman, counsel to then-Commissioner Cynthia A. Glassman.
- ⁴¹ Remarks by Barry Goldsmith, FSI 2nd Annual Public Policy Day, September 14, 2005.
- ⁴² FSI-Cerulli Associates research, May 2005. (Please Note: This footnote refers to the preceding bullet points in the text).
- ⁴³ "Keeping Up," *Investment Advisor*, June 2005.
- ⁴⁴ "The Process of Compliance" a speech by Lori A. Richards before the National Membership Meeting of the National Society of Compliance Professionals in Washington, D.C., October 19, 2006.
- ⁴⁵ "FSI Seeks Study on Broker Data," *InvestmentNews*, March 7, 2005.
- ⁴⁶ The sections that follow contain a summary of compliance and operations practices and procedures in place at one or more independent contractor broker-dealer firms. They are provided as a demonstration of independent contractor firms' commitment to compliance within their organizations, not necessarily as an indication of best practices or industry norms.
- ⁴⁷ "C-level" is an adjective used in a variety of industries to refer to "chief" or highest-level executives. The term arises from an urge to group together the alphabet soup of acronyms (CEO, CFO, COO, etc.) found in the upper echelons of the corporate world.
- ⁴⁸ See at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&record_id=1159005907&highlight=3013#r1159005907.
- ⁴⁹ Securities regulators are also utilizing risk-based compliance models to focus their resources where they can have the most impact. See, for example, the NASD's INSITE member examination program at <http://www.nasd.com/RegulatorySystems/INSITE/index.htm>.
- ⁵⁰ See *In the Matter of SG Cowen Securities Corporation*, 80 S.E.C. Docket 3154 (September 9, 2003), Securities Exchange Act Release No. 48335 (August 14, 2003) Administrative Proceeding File No. 3-11216. See also *In the Matter of Lehman Brothers, Inc.*, 80 S.E.C. Docket 3173 (September 9, 2003), Securities Exchange Act Release No. 48336 (August 14, 2003) Administrative Proceeding File No. 3-11217.
- ⁵¹ *In re National Association of Securities Dealers, Inc.*, Securities Exchange Act Release No. 49883 (Jun. 17, 2004), 83 S.E.C. Docket 192.
- ⁵² See at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&record_id=1159005868&highlight=3010#r1159005868.
- ⁵³ See at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&record_id=1159005868&.
- ⁵⁴ NASD Conduct Rule 3010(a)(2) and (5). See at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&record_id=1159005868&highlight=3010#r1159005868.
- ⁵⁵ NASD Conduct Rule 3010(c)(1).
- ⁵⁶ NASD Conduct Rule 3010(g).
- ⁵⁷ See at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&record_id=1159005868&highlight=3010#r1159005868.
- ⁵⁸ NASD Conduct Rule 3030 governs the outside business activities of an associated person. See it at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&element_id=1159000466. NASD Conduct Rule 3040 governs private securities transactions in which associated persons participate. See it at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&element_id=1159000466.
- ⁵⁹ A Ponzi scheme is a fraudulent investment operation that involves paying abnormally high

returns ("profits") to investors out of the money paid in by subsequent investors, rather than from net revenues generated by any real business. A Ponzi scheme usually offers abnormally high short-term returns in order to entice new investors. The high returns that a Ponzi scheme advertises (and pays) require an ever-increasing flow of money from investors in order to keep the scheme going.

⁶⁰ See NASD Conduct Rules 3030 and 3040.

⁶¹ See NASD Conduct Rule 3070 at http://nasd.complinet.com/nasd/display/display.html?rbid=1189&record_id=1159000595&element_id=1159000597&highlight=3070#r1159000595. Amendments to Form U-4 or U-5 may also be appropriate.

⁶² In recent years, competition among clearing firms has resulted in significant improvements in the quality and variety of technological tools they offer to introducing broker-dealer firms, like independent contractor firms.

⁶³ For example, one IBD firm reports that its president and chief compliance officer have completed the three year program. In addition, their compliance director, operations director, and a top producing financial advisor will begin the program in March of 2007.

⁶⁴ "The Process of Compliance," a speech by Lori A. Richards before National Membership Meeting of the National Society of Compliance Professionals in Washington, D.C., October 19, 2006.



VOICE OF INDEPENDENT BROKER-DEALERS
AND INDEPENDENT FINANCIAL ADVISORS

900 Circle 75 Pkwy., Suite 860, Atlanta GA 30339
888 373-1840 | 770 980-8480 | Fax 770 980-8481 | www.financialservices.org