BRANCH OFFICE INSPECTIONS

Maximizing Value From Your Branch Office Exams During Covid-19 and Beyond: A Hands-on Perspective

RegEd

ESSENTIAL EDGE
COMPLIANCE OUTSOURCING SERVICES, LLC
EXPERIENCED PROFESSIONALS, BETTER COMPLIANCE

Presenters

Sander J. Ressler

Managing Director

Essential Edge
Compliance Outsourcing
Services, LLC

Spenser Rubin

*Senior Product
Manager*

RegEd, Inc.

Branch Office Inspections

Maximizing Value in your Branch Office Inspections

## Sander J. Ressler

303-594-8237 | sander@eefirms.com

ESSENTIAL EDGE
COMPLIANCE OUTSOURCING SERVICES, LLC

EXPERIENCED PROFESSIONALS, BETTER COMPLIANCE

Internal Inspections

FINRA Rule 3110

Conduct a review, at least annually (on a calendar-year basis). The inspections shall:

- be reasonably designed to assist the member in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable FINRA rules;

- inspect activities of each office, including the periodic examination of customer accounts to detect and prevent irregularities or abuses;

- retain a written record of the date upon which each review and inspection is conducted.
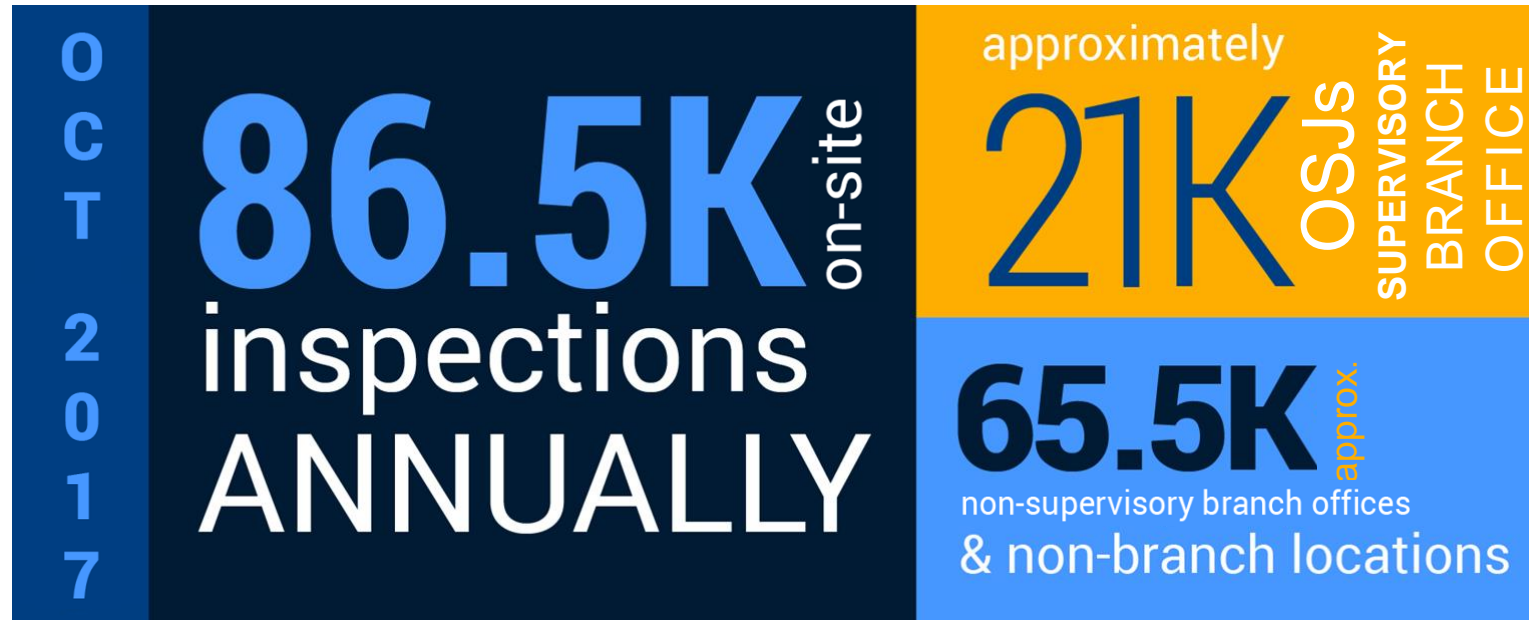
Source: FINRA

Based on data available as of October 2017, firms conduct approximately 86,500 on-site inspections annually, of which approximately 21,000 are for OSJs or supervisory branch offices and approximately 65,500 are for non-supervisory branch offices and non-branch locations.

Note: This excludes offices of convenience, which should be reviewed periodically.

6

Background of Branch Inspections

Historical Context

Branch Inspections: Historical Context

After the introduction of IBDs to the industry in the early 1980s, the requirement for conducting branch inspections was important because RRs had the ability to send funds and applications directly to mutual fund and variable annuity issuers without sending paperwork to the home office for supervision and record keeping. In many ways, branch inspections were the only windows into the conduct of a RR.

In the past 10 years, imaging workflow has eliminated the issue of applications being submitted directly to product issuers. Firms now see all transactions conducted by their RRs.

2010 (Imaging Workflow)

1980 (IBD Introduction)

2020 (Transactions by RRs)

What are we looking for in today's branch inspections?

- Selling away

- Pre-signed forms

- Improper relationships

- Undisclosed Outside Business Activities

- Ineffective cybersecurity

- Client privacy issues (electronic and hard copies must be secure)

What do these issues all have in common? They will not be detected in a remote inspection.

Background of Branch Inspections

Inspection Cost Limitations

Salaried Employees

Travel Time

Supervision Cost

Accounting Cost

Follow Up

Training

How do you conduct a thorough inspection in the face of these costs?

Preparation

How do you prepare?

The following should be made available to reviewer prior to the inspection:

- Occupants of the branch office

- Product mix of the RRs in the office

- Commissions earned over the past 12 months

- Summary of customer complaints since last inspection

- Deficiency letters from prior inspections

The following should be performed by the reviewer prior to the inspection:

- Internet Search
  - Google name of all branch personnel, all DBAs and all disclosed OBAs
  - Search Facebook, Twitter, LinkedIn and Instagram
  - Search branch website, if any

- Email search for OBAs and keywords

- An inspection should take 2-3 hours for a branch office with 1-2 RRs

- Do not schedule more than 2-3 branch inspections in a day

- Schedule 2-3 weeks in advance for announced inspection

- All PICs and RRs should be present to answer questions during the inspection

Who should conduct the inspection?

- Experience vs. inexperience: Send an examiner with experience who possesses at least a Series 7

- Sending an OSJ or his/her delegate to conduct an inspection provides little protection; they have little/no training and they have a conflict of interest

- Do not have the same examiner inspect an office 3 years in a row
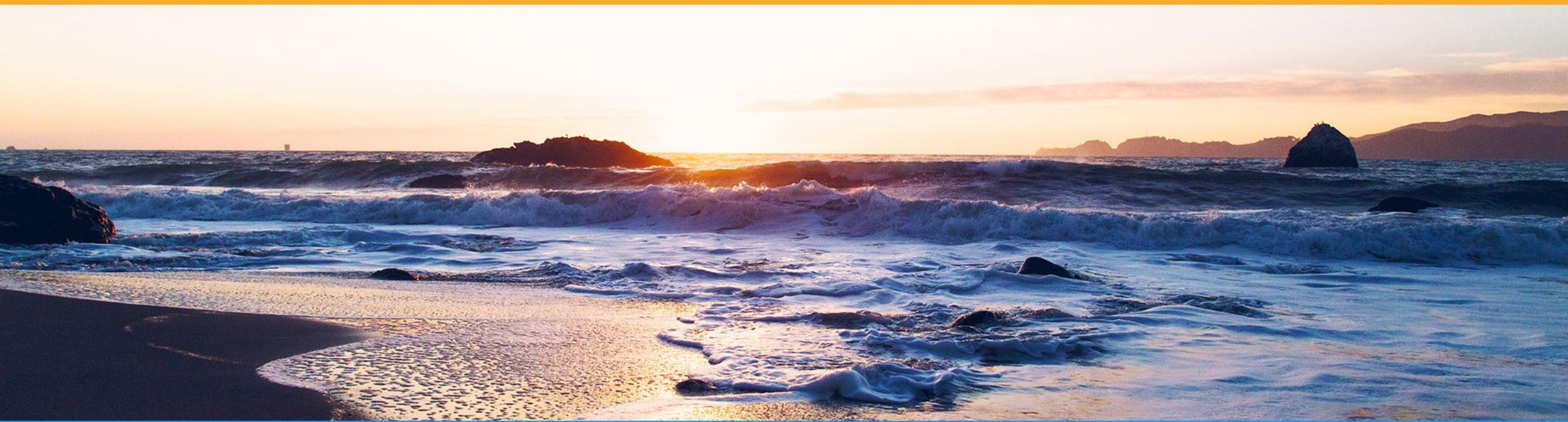
Getting Started

All you need to know

- Photos of the building directory

- Photos of door

- Photos of SIPC and BD signage

- Photos of the internal office structure and layout

- Photos of external signage, if any

Getting Started: The Questionnaire

1. Stop asking "airline" questions; save them for the ACQ

2. Stop looking at random customer files and reviewing transactions – what do you expect to find?

3. Review customer files for pre-signed forms

4. Open every drawer and office doors

5. Get details on office sharing, if any

6. Be aware of sharing mailboxes and/or office addresses

7. Verify that all computers are secure

8. Verify that WiFi is secure

9. Verify that anti-virus software is up-to-date

10. Copy of IT contract, as applicable; review for confidentiality clause

11. Verify "clean desk" policy (i.e., cleaning crew access may be an issue)

☑ **Business cards, letterhead and fax cover sheet**

☑ **OBA 1099s**

☑ **Bank statements**

☑ **Evidence of deposits of more than $1,000 when the funding source is not clear**

☑ **Brokercheck (detailed report)**

☑ **Check, transaction and gift logs**

☑ **Office sharing agreements, if any**

☑ **Cyber security: How are computers protected?**

☑ **Anti-viral software**

☑ **Personal e-mail (or any email not captured by BD)**

☑ **IT vendor contracts**

☑ **Client notes thru CRM**

☑ **Business continuity plan**

☑ **OSJs: Signature Guarantee Log and RR files**

☑ **IARs: ADV Part 2B**

☑ **Independent RIAs: Advisory service agreements**

☑ **Recommended: Credit Reports**

Ongoing Impacts of Covid-19 on Branch Inspections

FINRA Approves Remote Inspections

FINRA recently issued a new rule (2020-040) to allow remote inspections for 2020 and 2021.

PROS

- Better Staffing Allocation
- Cost Savings Due to Lack of Travel

CONS

- No Unannounced Visits
- Increased Risk Exposure to the BD
- RRs Know You're Not Visiting
- Increased Potential of Selling Away or Other Violations

Accelerated schedule beyond 2021? Do you want to wait 5-6 years to be on-site?

- Have you revised your WSPs to reflect remote reviews in 2020/2021?

- Should you request photos or video footage?

- Are you modifying your heightened supervision plans?

- Are your workpapers being securely transmitted?

- Are you modifying your questionnaire to reflect the exclusion of on-site visits?

- Heightened supervision plans in 2021?

- Accelerated number of reviews in 2022?

- Accelerated percentage of unannounced visits in 2022?

- Risk-based schedule?

THANK YOU.

ESSENTIAL EDGE
COMPLIANCE OUTSOURCING SERVICES, LLC
EXPERIENCED PROFESSIONALS, BETTER COMPLIANCE

Sander J. Ressler   303-594-8237 | sander@eefirms.com

Beth C. Barak   646-981-8034 | beth@eefirms.com

RegEd

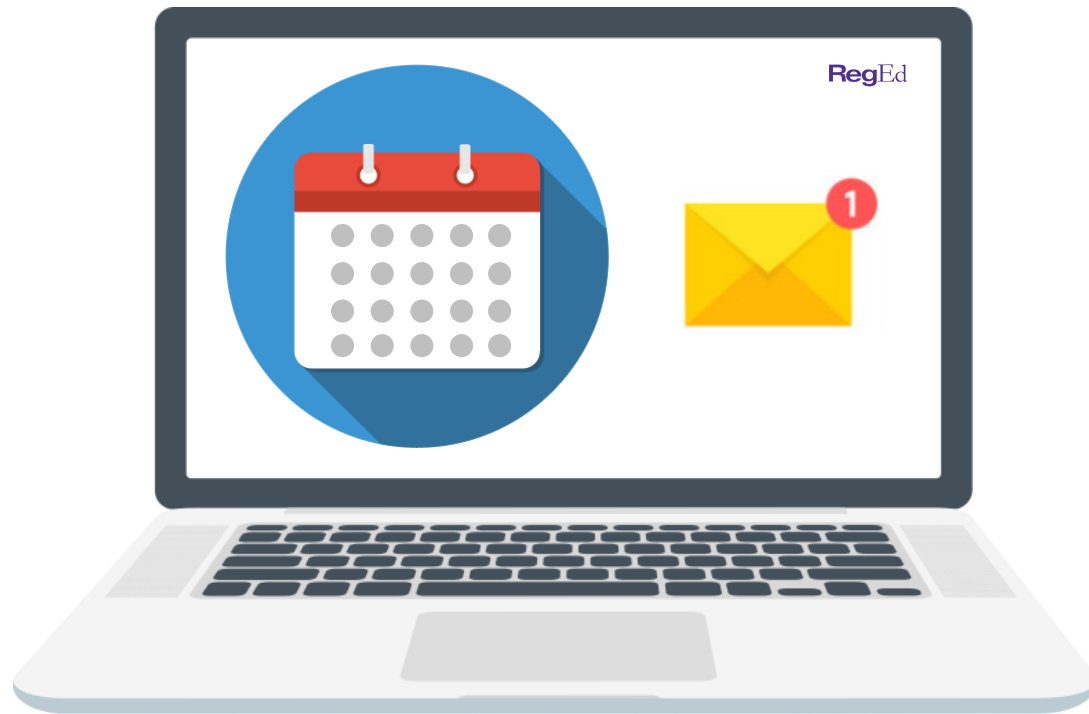# RegEd Branch Audit Management

Solution Overview

RegEd's Enterprise Audit Management Solution

The industry-leading solution that systematizes end-to-end management of a firms' branch supervisory and inspection program, from planning to execution and reporting, using advanced automation tools and configurable workflows.

RegEd

Typical Branch Audit Workflow:

Pre-Work
Scheduling & Prep

Day-of
Survey, Inspect, Collect

Post-Work
Findings & Reports

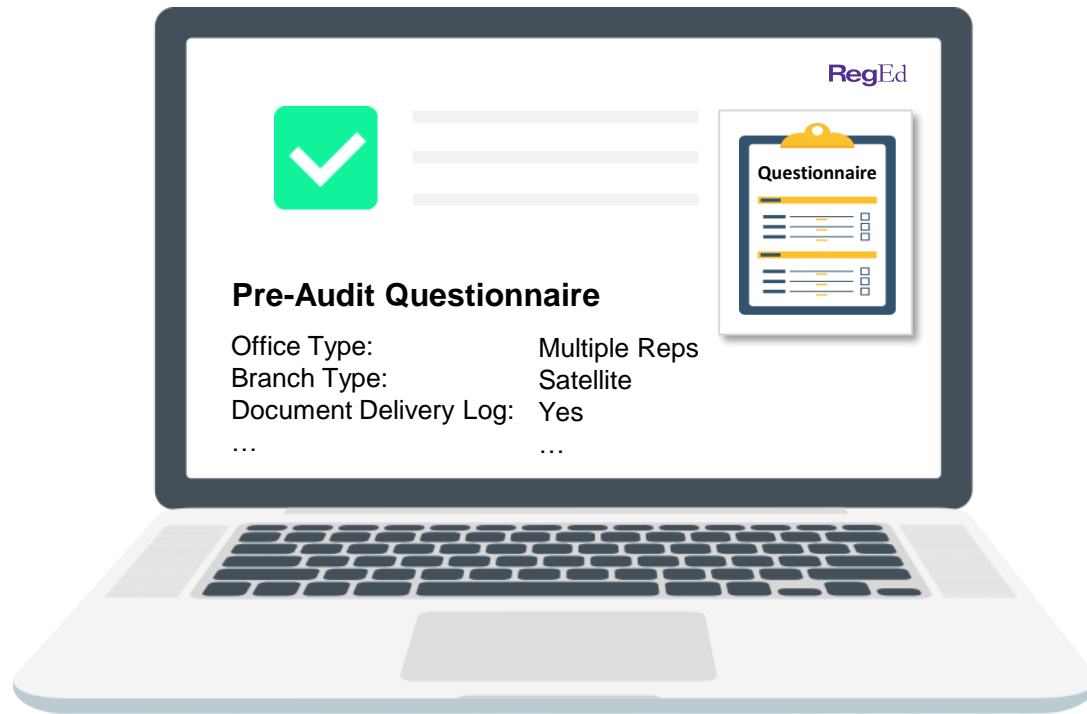*Maximizing Value From Your Branch Office Exams During Covid-19 and Beyond: A Hands-on Perspective*

Pre-Work | Scheduling & Preparation

- Flexible audit cycles – plan by branch type, location, or exam content

- Audit planning assistant – show upcoming and "overdue" audits

- Convert audit plans to scheduled events, triggering automated emails and opening exam content to auditors.

- Reschedule, reassign, and update audits at any time. Schedule an ad-hoc or for-cause audit without impacting planned audits.

- Distribute pre-audit questionnaires ahead of audits to reduce time spent on-site or in-person.

Pre-Work   Day-of   Post-Work

Maximizing Value From Your Branch Office Exams During Covid-19 and Beyond: A Hands-on Perspective

RegEd

Pre-Audit Questionnaire

Office Type:	Multiple Reps
Branch Type:	Satellite
Document Delivery Log:	Yes
…	…

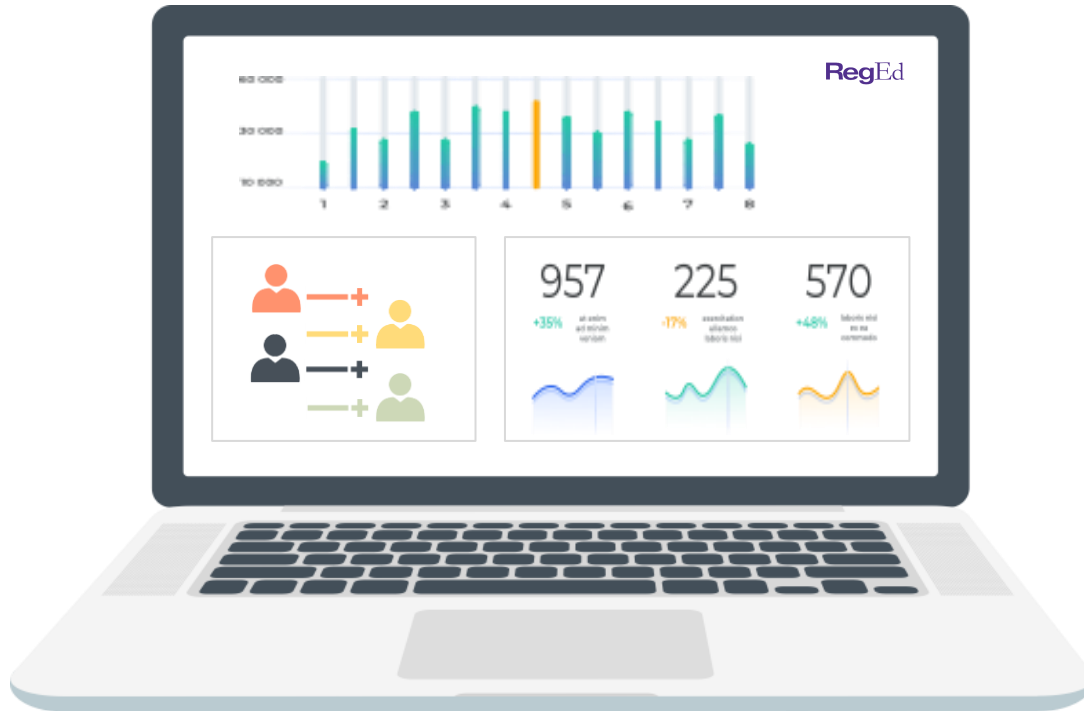**Pre-Work**   **Day-of**   **Post-Work**

Day-of | Survey, Inspect, Collect

- Pre-audit content may be analyzed ahead of audits to allow for necessary adjustments and effectively reduce audit cycle times

- Conduct audits from anywhere – use a live connection to the internet or download content for offline/remote use.

- Preview findings as you work. Instantly calculate deficiencies and rapidly generate automated close-out letters.

- Configurable workflows allow for intelligent routing based on pre-defined business processes.

Post-Work | Findings & Reports

- Generate and track tasks for auditors, supervisors, and auditees. Send findings and approve remediation without leaving the system.

- Improved employee satisfaction with a cohesive, centralized branch examination program that ensures audit consistency and timeliness

- 17a-4 compliant WORM storage and audit logs keep a permanent record of completed audit content, including attachments, for years.

- Research exam history, identify deficiency trends, take a snapshot of your exam program, and more with ad hoc or recurring reports.

- Export your critical exam data for advanced reporting needs.

Pre-Work   **Day-of**   **Post-Work**

Questions

Thank you!