



**Risk Management Update
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DEVELOPING AN EFFECTIVE TRAINING PLAN

An effective training program can benefit a Financial Services firm in many ways. It can increase employee productivity and morale, strengthen the firm's compliance culture, prevent violations of securities rules and regulations, avert costly client complaints and increase firm profitability. Despite the positive impacts effective training can have on a firm's bottom line, cost and the use of employee man-hours often override training as a priority. However, as discussed below, an effective training program can often be one of the least expensive and most effective methods to achieve growth and mitigate risks within a financial institution.

Broker-dealers have a regulatory obligation to have a formal continuing education program. Regardless if you are registered as such, FINRA's guidance on how to evaluate and create an effective training program can be used for other financial institutions as a foundation for various training areas to consider.

Broker-Dealer Requirements for Training Programs

Pursuant to FINRA Rule 1250, continuing education consists of two mandatory programs: a Firm Element and a Regulatory Element.

1. The Firm Element – The Firm Element is designed to keep registered persons up-to-date on job- and product-related subjects. In designing the plan, it should be customized to that firm's size, structure, and scope of business, with consideration for those regulations which govern their practice areas. The initial process through which the selection of topics for the training plan is decided is known as a "Needs Analysis." As the name infers, this relates to the analysis taken to determine what training needs the organization's registered persons require. From there, a written training plan is developed, which is then administered by Compliance in the form of either class room training,
2. The Regulatory Element – The Regulatory Element is a computer-based continuing education training program that registered individuals must complete within 120 days of the second anniversary of their registration approval dates and every three (3) years thereafter. The Regulatory Element focuses on compliance, regulatory, ethical and sales practice standards, drawing its content from industry rules and regulations, and standards of practices within the Financial Services industry.

Who Should Receive Training

FINRA Notice to Members 11-33 ("NTM 11-33") provides guidance as to those "covered persons" who must participate in the firm's training program. In accordance with NTM 11-33, a covered person is defined as:

1. senior management with direct responsibility over the covered functions;
2. any person designated by senior management specified in FINRA Rule 1230(b)(6)(A)(i) as a supervisor, manager or other person responsible for approving or authorizing work, including work of other persons, in direct furtherance of each of the covered functions, as applicable, provided that there is sufficient designation of such persons by senior management to address each of the applicable covered functions; and
3. persons with the authority or discretion materially to commit a member firm's capital in direct furtherance of the covered functions or to commit a member firm to any material contract or agreement (written or oral) in direct furtherance of the covered functions.

While such persons are required to participate in this training, each entity should determine whether all or some personnel should be required to participate in light of their roles, responsibilities and support of the organization regardless if they fall within the definition of a "covered person."

How to Begin Your Needs Analysis

In order to be effective, the Needs Analysis should be specific and well-conceived. Begin by outlining any changes to the firm's business model, the current product lines and services offered by the firm and consider the impact of new and existing regulations on such offerings. Take into account regulatory focus areas and assess their applicability to the firm. Consider prior regulatory audits findings. Work with managers to identify employee knowledge gaps and areas that may require training. Collectively, the firm can use this information to develop a solid, carefully targeted Needs Analysis and written plan to effectuate the firm's training program.

Authoring the Written Training Plan

The written training plan should be structured and cover four specific areas:

- Identification and Assessment of the Firm's Training Needs
- Description of Your Firm's Training Goals
- Objectives for the Training Plan
- The Training Program

Identification and Assessment of the Firm's Training Needs: In this section, describe the methodology used by the firm to categorize and select the firm's training topics. Include a description of who was involved in the process and what type of analysis was done.

Description of Your Firm's Training Goals: Firms should document specific training goals that can be measured at the end of the training cycle. One way to accomplish this is to tie specific training objectives to the functions employees perform at the firm. For example, for sales personnel who focus on selling mutual funds should potentially have training geared toward compliance "red flags" found in that area. On the other hand, marketing personnel may have a more customized training involving communications with the public. As part of the training, provide interactive Q&A which will allow you to measure the registered person's current knowledge and identify gaps so that additional training can occur in that area.

Objectives of the Training Plan: While in the previous section you have detailed specific and measurable training goals, the objectives section of your training plan allows you to detail how the achievement of these goals will help your firm. For example, providing personnel with training on business continuity plans could be a goal in helping to mitigate down-time in the case of a disaster while focusing a sales training on variable annuity contracts could possibly reduce the number of compliance “flags” on excessive switching, unsuitable sales and misleading marketing.

The Training Program: Now that earlier sections of the written training plan identify the firm’s training areas, training goals and objectives, here firms should describe the execution of the training. Specify what type of training will occur, when and where. Consider providing the following information:

- Identify who has overall responsibility for the management and implementation of the training program
- Detail the programs that will be covered and reference the specific training areas identified in the Needs Analysis
- Describe the training methodology that will be utilized (books, classroom setting, webinar, etc.)
- Provide a specific training schedule
- Document employee participation

An effective Training Program is critical to the strength of any financial firm. Well trained employees tend to be more productive and have more compliance awareness, which could lead to fewer internal control gaps, customer complaints and regulatory inquiries. Taking the steps necessary to develop a solid Training Program will have lasting benefits to your firm.

For more information, including on assistance in developing your Training Program, please contact us at (619) 278-0020.

Author: Kurt Nuñez, Compliance Consultant; Editor: Michelle L. Jacko, CEO, Core Compliance & Legal Services (“CCLS”). CCLS works extensively with investment advisers, broker-dealers, investment companies, hedge funds, private equity firms and banks on regulatory compliance issues. For more information about this topic and other compliance consultation services, please contact us at (619) 278-0020, info@corecls.com or visit www.corecls.com.

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