



**Risk Management Update
January 2007**

TOP 10 LIST FOR BROKER-DEALER ANNUAL REVIEWS

1. Gather all past Deficiency Letters from the SEC and SRO regulators. Ensure that all deficiencies noted have been corrected.
2. Perform a GAP Analysis utilizing existing controls. This would include a list of all customer complaints within the last 12 months, branch office examination reports, most common deficiencies noted, “red flags” on your exception reports and internal audit findings.
3. Evaluate how your Business Products and Services have changed over the last year. Identify conflicts of interest that need to be mitigated or eliminated and policies and procedures which need to be created and/or updated.
4. Assess whether there have been any Rule Promulgations, Guidance Statements or No-Action Letters that could impact your policies, procedures and processes and update accordingly.
5. Consider having a Mock SEC Exam conducted. Test to see if the firm’s risks are managed effectively. This independent review will help provide a non-biased view of the “tone at the top,” the strength of the firm’s WSPs and the adequacy of the tests performed by the Broker-Dealer; *i.e.*, are you capturing what you really want to.
6. Clearly define your associated persons’ Roles and Responsibilities. It is imperative that the broker-dealer analyze the applicable regulatory requirements and prohibitions and detail *how* the firm will meet those requirements, *who* is responsible for them and *what* methods will be followed. (*E.g.*, The firm will need to provide guidance on what the OSJ Branch Manager must do if he/she supervises a registered representative who is under heightened supervision.)
7. Training. Once policies and procedures are updated and roles and responsibilities are defined, training must occur to ensure that all associated persons and applicable business units know what they are accountable for in various areas.
8. Review the adequacy of your Supervisory Controls. The firm’s controls should ensure that a senior or “otherwise independent” person reviews producing managers’ activities, unless the broker-dealer meets the limited size and resource exception. As part of your review, assess your staff, technology

solutions, training requirements and needs for enhanced policies and procedures.

9. Develop an Annual Review Committee and Compliance Calendar. During committee meetings, discuss your assessment of the annual review tests and propose solutions to areas that may require enhancement. Particularly for smaller firms, consider technology applications and outsourcing solutions and budget your resource needs accordingly for next year. Present senior management with a compliance calendar, illustrating what reviews you will conduct during which quarters and inform them of the resources that you may need to conduct testing.
10. Remember that Compliance is Everyone's Responsibility. WSPs are designed for the *firm*. They are not merely the Compliance Department's policies. In order to assess the effectiveness of the broker-dealer's compliance program, consider doing the following.
 - a. Interview firm personnel for their knowledge of policies and current procedures, sales practices and concerns of senior management.
 - b. Review examination report findings (NASD Rule 3010) to evaluate the strength of the firm's books and records, controls, the culture of compliance and the transactional patterns of its registered persons; (*e.g.*, review cancel and correct trade errors to see if a "pattern" is developing).
 - c. Assess surveillance control processes (NASD Rule 3012) to look for possible sales abuses by financial advisers.
 - d. Enhance your CEO Certification Report (NASD Rule 3013) by determining what was not addressed last year and include in this year's annual review process.

For more information, or to learn about how CCLS may be of assistance, please do not hesitate to contact us at (619) 278-0020.

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