

# New Hampshire Business Review

## How to prepare for and survive a FINRA visit

**By Stephen Sussman**

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Recently enacted financial reform legislation has underscored the importance of financial transparency and regulations that protect consumers. For broker-dealers and registered representatives, regulatory compliance comes with their territory. Yet receiving word that FINRA, the financial industry's independent regulatory authority, is coming for a visit can still fill many with fear.

As in any regulated industry that conducts examinations, knowing what to expect and being prepared can reduce a firm's anxiety. For broker-dealers, taking these steps in addition to keeping current with compliance issues and having documents readily available can make news of a FINRA visit far easier to handle.

Having an ongoing, proactive compliance program in place, whether it is overseen in-house or by an outside compliance firm, can reduce angst before a FINRA examiner arrives, as well as help a firm maintain compliance.

As a start, firms need to ensure their procedures manuals are updated, CRD (capital requirements directive) filings are completed and annual notifications are made.

When a firm receives notice of a FINRA visit and a records request list, the firm should quickly and accurately address this information request to give FINRA time to evaluate the information before it sends a document request. Communication plays an important role in a successful FINRA exam, as well as recognizing who is the best source for answering each question that a firm may have. Sometimes FINRA itself may be the most appropriate source for clarifying its jargon or an exam request.

If a firm has questions about requested materials, its chief compliance officer or person assigned as the exam contact at the firm should call the FINRA examiner or consult with a compliance specialist to ensure that he or she understands what the examiner is seeking.

Responses to FINRA information requests should be concise and all requested information should be provided.

### **Organized documents**

Regulators require hard evidence of compliance, so documentation is key. A firm should be familiar with its written procedures, be certain the procedures are current and ensure the firm is following these procedures.

FINRA typically requests larger documents first, such as a firm's written supervisory procedures manual, anti-money laundering (AML) procedures and business continuity plan. By scanning these documents for key words, FINRA can be certain the firm is addressing critical issues, which may shorten the onsite visit.

Having a cohesive set of documents organized according to the FINRA document list, including a file folder for each document request, can streamline the FINRA review process.

A firm should include only the exact information that FINRA requests, nothing more and nothing less.

To help a firm ensure it has gathered all documents that FINRA has requested, a FINRA audit prep can be helpful. The firm also should conduct an independent test of its AML procedures annually, or every other year if applicable. This test examines whether the procedures are up-to-date, how the firm is implementing these procedures and whether appropriate records are kept.

Broker-dealers undergoing their first FINRA visit can benefit from a new broker-dealer setup visit performed by an outside compliance specialist. This type of review is also appropriate for any broker-dealer in preparation for a FINRA visit.

### **Be prepared, not scared**

When the FINRA examiner arrives for the exam, he or she will sit down with the chief compliance officer and other principals to learn about the firm's business and how the firm conducts business.

Although all broker-dealers must follow the same rules and regulations, they don't all transact their business in the same way. If a firm has a limited scope of business, an examiner understanding this before the exam can alleviate unnecessary requests for documents during the exam period.

The examiner should be placed in a comfortable space away from high traffic or noisy areas and have remote Internet and phone access. Putting an examiner in a dark, dingy room without the proper resources will not make an exam progress any faster.

Documents requested by FINRA should be neatly organized in the space where the examiner will conduct the exam.

Following the exam, the examiner discusses findings with the firm, so the final report that is sent within 30 days contains no surprises. The firm must respond to the final report, even if FINRA is sending only a reminder of a recommended action. The firm's response should outline how the firm plans to mitigate any findings. The response is viewed by the FINRA district's senior management team, which determines if the exam is closed without cause, a cautionary letter is issued or disciplinary action is taken.

If firms are not prepared, they can get caught up in the emotion and fear of a FINRA exam. Directing questions to knowledgeable firm staff, an outside compliance firm or FINRA itself can alleviate concerns.

Firms that proactively maintain compliance most likely will have nothing to fear from a FINRA exam.

When FINRA arrives at the door, these firms will be knowledgeable, confident and not afraid.

*Stephen Sussman is president of Londonderry-based Regulatory Compliance, which assists broker-dealers and investment advisers. For more information, visit [regulatorycompliance.com](http://regulatorycompliance.com).*