



SHARPEN THE SAW

RAISING THE BAR FOR COMPLIANCE: 10 TIPS TO PRACTICE MANAGEMENT

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Sky's the limit! Building a well-organized practice is challenging, but it can also be a rewarding process, as recent market conditions indicate. According to Charles Schwab's 2014 RIA Benchmarking Study, which is an analysis of more than 1,100 firms, registered investment advisors (RIAs) have achieved record growth since industry tracking began in 2006¹. Current industry growth, also boosted by the number of wirehouse advisors starting independent practices², will likely continue as the business outlook remains favorable.

WHAT'S NEXT FOR A GROWING FIRM?

Managing a practice is like driving a car with a high-performance engine. The business can accelerate at a fast pace, but a firm should have a methodical process in place to run efficiently. For newly-minted advisors, the steps could be in a sequence, such as: 1) servicing clients, 2) supervising operations, 3) generating income, and, last but not least, 4) in managing its compliance obligations. Seasoned advisors may desire to improve firm performance with updated procedures.

THE RIGHT PATH TO "GET IT RIGHT"

The answer is both rudimentary and complex. The method for success could be underpinned in the manner that the firm implements its service and product offerings for clients. Add a dose of technology! Advances in portfolio management software and third-party outsourcing services allow advisors an even bigger jumpstart on the road toward efficiency³. Lastly, get creative and find out what works best for the practice.

DISCOVER "BEST" PRACTICES

We suggest that firms categorize their business models in the following manner: 1) financial planning only, 2) financial planning/portfolio management, 3) independent RIA/registered representative, 4) independent RIA/fund manager/private fund manager, and/or 5) describe other firm structures. These categories may help give advisors an idea of the compliance obligations to clients, the SEC, state, FINRA, or other SROs. Note: Some firms will have larger obligations than others.

10 TIPS FOR PRACTICE MANAGEMENT

1: Use checklists.

Checklists are great tool to take tasks out of our head. We advise that firms get in the habit of transferring critical functions into written guidelines. It is also great for training purposes.

2: Keep books and records.

SEC Rule 204-2 (Investment Advisers Act) and many state rules require advisors to store their books/records for a minimum of five years (at least two years onsite and three offsite). For old clients, the firm should keep records for five years from the fiscal year-end date of the clients' last activity. Use discretion: some records should be held longer.

3: Use a policies and procedures manual.

SEC-registrants and many state advisors must have written procedures that detail a firm's review process. For most firms a manual should contain about 25-30 core policies.

4: IT and security reasonable safeguards are key.

Security is necessary. All firms, big and small, should take precautions for safeguarding its sensitive data, including trading, email, and other client records. We advise that advisors back up their records onto secure storage providers.

5: Registration and filings are required.

For most firms, the RIA registration is a straightforward process. The pending advisor will file under the appropriate jurisdiction (SEC, state, etc.) to become a registered investment advisor. Concurrently, the investment advisor (IAR) will register with: 1) the state that the firm's main office is located in, 2) other offices, and/or 3) other states where its clients reside (see NASAA De-Minimus rules). Who needs to register as an investment advisor? Short answer: any employee who operates in an advisory capacity.

Filings? These are required. Check deadlines and firm requirements.

6: Have a disaster recovery plan.

A disaster recovery plan is needed to ensure that the business runs in light of standard business disruptions (SBDs). Advisors can also reach out to other firms for disaster and/or succession planning.

Cory Roberson serves as the president of Roberson Consults Group, a consulting firm that provides compliance, operations, and business development consulting services for boutique investment advisory firms. Cory has worked in a number of positions within the investment management industry for more than 10 years.

7: Check all advertising.

Review advertising to determine if it is in compliance with SEC or state guidelines. The SEC defines “advertisement” to include any notice, circular, letter, or other written communication addressed to more than one person. See Rule 206 (4)-1 on Advertisements.

8: Annual review = audit prep.

Annual reviews are required for SEC registrants and are suggested for state-registered advisors. We advise that firms: 1) determine their risk level, 2) take an inventory of books/ records, and 3) review their procedures manual to determine any areas that need improvement.

9: Stay connected.

Pay attention to notices from regulators (SEC, state, and FINRA) as they pertain to the firm.

10: Focus on customer service.

The client is the heart of the business. As a fiduciary, clients should receive a copy of: 1) the firm’s most recent ADV Part 2A Brochure, Part 2B Supplement (advisor info), and 2) Privacy Notice.

Noted Resources

1. “Schwab’s 2014 RIA Benchmarking Study Shows Firms Harnessing Growth by Increasing Operational Discipline.”
<http://pressroom.aboutschwab.com/press-release/schwab-advisor-services-news/schwabs-2014-ria-benchmarking-study-shows-firms-harnessin>
2. “Two Reasons Why a New Wave of Breakaway Brokers Is On the Way.”
<http://www.thinkadvisor.com/2014/04/23/two-reasons-why-a-new-wave-of-breakaway-brokers-is>
3. “Adviser technology trends: Findings from an *InvestmentNews* survey.”
<http://www.investmentnews.com/assets/docs/CI81526824.pdf>

Links to Referenced SEC and NASAA Acts

1. SEC Investment Advisers/Investment Company Act of 1940 - Books/Records, Advertising, Investment Adviser Definitions: “General Information on Regulation of Investment Advisers.”
<http://www.sec.gov/divisions/investment/iaregulation/memoia.htm>
2. NASAA Uniform Securities Act (and similar state guidelines) - “Investment Adviser Guide.”
<http://www.nasaa.org/industry-resources/investment-advisers/investment-adviser-guide>

Methodology

Our firm, Roberson Consults Group, shares insight in assisting more than 100 registered investment advisors to fulfill its reporting requirements across the nation. We are available for assistance. For more information, please contact Cory: cory@robersonconsults.com. Our website is: <http://www.robersonconsults.com>.

We use a four-level reporting map for evaluating a firm’s requirements: 1) Advisory; 2) Rep; 3) Fund; and 4) Securities level. The advisor level is the advisory practice in itself, a business entity, registered with the SEC, state, under another advisor; and/or with a FINRA/SEC-registered advisor. The rep level refers to persons who work under the advisory firm (IAR). The fund level would refer to registered investment companies (i.e., mutual funds) as defined by the Investment Company Act of 1940. The security level refers to financial instruments, such as equities, private funds, and other securities (filings).

FPA OF SILICON VALLEY BOCCE BALL EVENT



Above: A big thank you to the sponsors of our 2014 bocce ball event.

Below: A fun event for everyone, especially the winning team! Congratulations to Allen Carr’s team: Greg Hacker, Scott Toomasson, Allen, Mira Ma, and Claire Silverman.



