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Our partner in developing this white paper:



BEACON STRATEGIES, LLC

Broker-Dealer Sales Practices Oversight: Secrets of Their Success

Albridge Solutions, an affiliate of Pershing LLC, commissioned Beacon Strategies, LLC, a strategy and tactical consulting firm that focuses on the broker-dealer market to systematically examine the state of broker-dealer compliance and interaction with sales practice management. Best practices derived from this study will provide actionable insights that will enable broker-dealers to develop and implement new methods for monitoring sales practices.

To accomplish this objective, Beacon Strategies conducted personal interviews and in-depth surveys with 70 broker-dealer firms representing diverse business models and distribution channels. In addition, interviews were conducted with regulators and public statements made by high-profile regulators were monitored. This study, and its associated perspectives, is the synthesis of our fieldwork, benchmarks that surfaced during standardized research, and our ongoing dialogue with regulators at the state and national levels.

The insights covered in this report uncover the gaps and document best practices in broker-dealer compliance practices. In addition, we also identify the strategic and tactical “hot spots” regulators are emphasizing and preview the positive impacts of uniform compliance requirements for all broker-dealers, their investment professionals and clients. And, to help guide the development and implementation of these best practices, we feature case studies from a range of top performing broker-dealers.

A Tale of Two Perspectives

In our analysis, we found that regulators and broker-dealers are faced with competing challenges and objectives. Securities regulators are planning more stringent uniform standards while broker-dealers continue to struggle with monitoring compliance practices. While it is the responsibility of both to protect the investor, how they do so poses challenges for both regulators and broker-dealers.

Broker-dealers are being driven by competitive pressures, compressed profit margins and increased compliance challenges. In our comprehensive survey, we identified the “Top-Five Challenges of Broker-Dealers.”

Top Five Challenges of Broker-Dealers	% Mentioning
1. Sales practice monitoring	79%
2. Regulatory change	73%
3. Suitability review	71%
4. Product education	64%
5. Operational processes	54%

Despite strong awareness of these issues, we also found that broker-dealers have responded to the challenges in diverse ways—ranging from creating “best compliance practices” to being frustrated and having difficulty keeping pace with changes. An appropriate analogy may be that today’s broker-dealers resemble a pioneer wagon train spread out over hundreds of miles of prairie with the leaders confidently approaching the gold fields of their destination and the laggards still lost in the wilderness. In this report, we identify key characteristics that we believe separate the leaders from laggards.

Securities regulators, on the other hand, have revealed a sense of clear direction about what they will require in terms of sales practice oversight. Securities regulators will use “carrots and sticks” to ensure that all broker-dealers adhere to uniform compliance oversight practices. Fortunately, successful models and best practices exist to guide broker-dealers on how to boost oversight capacity and productivity.¹

As evidenced from the comments made by leaders from the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority™ (FINRA™) and state regulatory bodies, the securities regulators are committed to expanding their talent pool, diversifying expertise and removing the barriers that exist between regulators, and having broker-dealers implement more efficient standardized compliance practices. For example:

- > Carlo di Florio, Director of the SEC’s Office of Compliance Inspections and Examinations, stated: “We are not looking at a broker-dealer as a series of silos. Risk, fraud and compliance are something we will evaluate as a team during the exam process. We are recruiting professionals with expertise in trading, risk, operations and technology. Our examiners will no longer be only lawyers and accountants.”²
- > SEC Chairperson Mary Schapiro is on record as saying that her agency needs an additional 800 regulators to ensure compliance with provisions of financial regulatory reform and related compliance initiatives.³
- > At a recent industry conference, Jim Shorris, FINRA EVP and Executive Director of Enforcement, was asked to summarize what his agency will be looking for during an examination. He answered: “We want to understand that there was a reasonable basis for soliciting the business. This means not only due diligence of the sponsor or underwriter, but thorough due diligence and suitability analysis of the investor.”⁴
- > Rick Ketchum, Chairman and CEO, FINRA—“Our exam program is changing to be risk-based and determined by your business model. The Direct Exam Program puts

¹ Note: Where possible in this report, we have quoted regulatory leaders by name. In some cases, we have omitted the identities of regulators quoted based on agreements with them for research-gathering purposes.

² ICI Conference, Washington DC, April 2010

³ Schapiro: SEC Needs to Hire 800 More Workers, Investment News, 7/20/10

⁴ ICI Conference, Washington DC, April 2010

resources where they can be best used. It is the only way to effectively supervise the industry.”⁵

In short, regulators are aiming at more stringent sales practice oversight standards and will impose higher uniform compliance standards on all broker-dealers.

For reasons we identify in this report, uniform compliance standards are no longer an option for regulators, or for broker-dealers. We believe they are becoming become a necessity. They will increase cost/time efficiencies and create clearer expectations, improve two-way communication between broker-dealers and regulators, and standardize compliance processes across the industry.

Finally, we believe uniform compliance standards will make sales oversight requirements and compliance audits more systematic while helping regulators develop a deeper understanding of each broker-dealer’s business model and markets.

The Concept of the Uniform Compliance Standard

A uniform compliance standard would incorporate the philosophy that all investors receive the same standard of care regardless of whether the investment is made through a FINRA Series 7 investment professional, FINRA Series 65/66, or through a SEC Registered Investment Advisor. Regardless of the final regulation, two concepts that may be included create substantial impact on sales surveillance.

First, investment professionals will have the continued responsibility for monitoring the suitability or appropriateness of commissionable transactions after purchase as investment advisors for fee-based business do now. Investment advisors will also have to document that they have fully informed clients of the risks and costs of an investment in a similar manner to the way investment professionals are required to provide today. The implications for monitoring accounts under full discretion are currently being studied.

Second, all investments must be evaluated using a single universal broker-dealer standard. The standard will encompass know your customer, investment suitability, risk profile and investment objectives of both the investor and the investment itself. During an examination, or audit, a broker-dealer will be required to demonstrate the ability to consistently collect, evaluate and monitor adherence to the universal standard.

There is concern regarding the degree of guidance that will be incorporated within the actual standard. Creating comprehensive written supervisory standards and systems would be a significant task while insufficiently vague standards would only add to the complexity of ensuring adherence to a new uniform standard.

⁵ NAIBD Symposium, New York, NY, October 2010

Why Compliance Gaps Continue—Weak Spots

Why are some broker-dealers on the way to implementing best practices while others are lagging behind? Survey results hold answers that can be useful for self-evaluation and strategic planning.

In general, our findings indicate that bank and wirehouse broker-dealers are further along than their independent and insurance company counterparts. But significantly, we believe most differences can be attributed to specific “weak spots,” rather than to a broker-dealer’s structure or type. The weak spots include:

> **Diverse distribution channels and product lines.** The number of distribution channels and product lines that broker-dealers support impact their ability to carry out compliance and sales practice oversight. In essence, some broker-dealers support so many channels and products that they do not have a universal process that accommodates product and distribution nuances. Each channel may produce a separate set of demands from the field which can require compliance departments to “switch hats” many times a day as they interact with different channels. Some investment professionals continue to show strong loyalty to product suppliers that have performed well, even if those suppliers prefer to use methods that are not compatible with automated compliance systems.

Solution: Senior managers should recognize the potential of streamlining or consolidating channels and products to strengthen compliance practices.

> **Lowest common denominator mentality.** At some broker-dealers, compliance teams are positioned as outside agencies that consult with investment professionals and help to generate business. In the majority of broker-dealers we studied, transaction reviews combine business goals with compliance needs. Some may view the importance of maintaining “proven value” relationships—such as satisfying a top producer or working around the constraints of a vendor’s legacy system—more pressing than enhancing compliance surveillance. In these cases, the compliance department may be pushed to conform to the “lowest common denominator” of the constituencies it serves.

Under uniform compliance standards, regulators indicated that they would look more favorably on a broker-dealer’s business-driven decisions when they are consistently applied to all similar clients, accounts and problems.

Solution: Senior management should clearly separate business creation roles from compliance departments, so each can advocate independently to carry out its own mandate.

> **Reliance on products that are not integrated on the broker-dealer’s platform.**

Traditionally, many independent broker-dealers have built businesses around selling “packaged products” such as mutual funds, variable annuities and direct participation programs. These products have traditionally been anchored with paper, ranging from prospectus delivery to direct-to-manufacturer check-and-application orders. Although most broker-dealers are encouraging a migration to brokerage, clearing and custody platforms, habits can be slow to change, even if the underlying data supports a move away from paper processing to reduce cost and boost productivity. This is especially true with independent broker-dealers, a segment in which 66% of all business, on

Paper is expensive to store and maintain securely with sensitivity for personal privacy, assigned levels of need-to-know access, and disaster-recovery back-up. Regulators are accepting the superiority of electronic data and scanned documents over paper-based systems.

average, is direct-to-manufacturer. The transition of many retail practices to fee-based advisory services is increasing the need for products that can accommodate centralized data entry, storage, consolidation and review.

Solution: Broker-dealers may want to develop incentive “carrot and stick” programs to incentivize their investment professionals to adopt new processes that can streamline the gathering and standardization of client data and associated transactions.

- > **Reliance on legacy and stand-alone systems.** Broker-dealers continue to rely on commission accounting systems adapting them to perform “double duty” for investor know your customer data capture/storage. This practice has the greatest impact on independent broker-dealers. Our survey showed that fewer than 20% of independents are using clearing/custody broker-dealers as primary data repositories. This means that the majority of data is held in disparate applications by the broker-dealer and in the investment professionals’ offices in paper form.

Some broker-dealers are struggling to manage the accumulating quantities of data across multiple incompatible systems. For example, a growing number of broker-dealers are incorporating document imaging systems into their infrastructures. But in many cases, integration of these new systems with legacy systems such as commission accounting has been lacking. This means broker-dealers have effectively set up new electronic filing cabinets that operate independently. Incompatible data silos do not facilitate easy access to centralized data that would support automated compliance review processes.

Solution: In implementing new software or systems, compatibility should be a desired outcome and primary selection criterion. An integrated, centralized data-gathering/analysis solution should be capable of replacing all legacy systems. Most broker-dealers will need a planned technology upgrade cycle and consulting expertise to fill this need. Alternatively, they can leverage clearing firms with proven capabilities for consolidating data and integrating solutions.

In summary, we believe that it is the combination of two or more weak spots—as opposed to the type or size of broker-dealers—that tends to create compliance gaps. Although we have identified best practices more often in banks and wirehouses than in independent broker-dealers, we think this is because independents are more vulnerable to these weak spots and are having a more difficult time addressing them.

Regulatory Hot Spots

Just as broker-dealers have compliance weak spots, regulators have “hot spots” on which they are focusing. In the following analysis, we attempted to define regulators’ priorities using their own words, expressed either in public statements, or in private interviews.

At the strategic level, there are several drivers that are shaping regulatory reform, including:

- > **Sensitivity to fraud.** As the Madoff saga has shown, lack of fraud awareness can cost regulators their reputations, and broker-dealers vast amounts of money—in direct losses and through higher SIPC premiums. According to one regulator: “I don’t know how a broker-dealer can represent that she/he is providing oversight if she/he hasn’t aggregated all of a investor’s holdings and activities with the broker-dealer.”

Every time a broker-dealer’s Compliance Department manually handles and reviews a piece of business without being compensated for the additional work, it erodes profitability and drives down operational efficiency.

Broker-dealers that have implemented best practices consistently report that they have increased confidence in their ability to expand investment advisors and AUM, without having to increase in compliance staff headcount.

- > **Increased protection for elderly investors.** According to Carlo di Florio, Director, Securities and Exchange Commission: “Securities regulators are focused on ensuring a fair market for seniors, in which sales practices are responsible, the facts are clear and products are suitable.” In a 2010 Addendum on procedures for serving senior investors, the SEC and FINRA have specifically focused on obtaining information at account-opening, ensuring the appropriateness of investments for seniors and conducting senior-focused supervision, surveillance and compliance reviews. For the purposes of flagging clients’ ages in compliance systems, regulators have observed that “40 million Americans are age 65 or older, and this number is expected to more than double to 89 million by 2050.” **Short story:** Step up the surveillance system to know when your client approaches age 65.
- > **Convincing the public.** FINRA is expected to propose the permanent adoption of a rule that will give all investors the right to dispute resolution through an **all-public** arbitration panel. This rule would apply to all investor disputes against a broker-dealer, or an individual investment professional. Results of a pilot program involving public arbitration panels has indicated that broker-dealer defenses can be just as successful with public panelists as with industry experts, provided broker-dealers have enough account overview data to convince the public its methods are sound. Reams of complex or unconnected “data and dots” won’t help to instill confidence and win arbitration cases with all-public panels.
- > **Interconnected suitability analysis.** Suitability will no longer be sufficient when transactions are considered in a narrow or isolated manner, apart from a client’s other holdings and consequences. For example, regulators will require evaluation of mutual fund share exchange recommendations that consider the investor’s intended use, time horizon of funds, liquidity needs—in addition to the share class and miscellaneous benefits. Something interesting to think about is where life insurance fits in this mix.
Regulator: “The greater the number of objective controls the broker-dealer has in place and the more thorough the documentation, the fewer suitability questions arise.”
- > **More focus on profiling and trend analysis.** Regulators will expect broker-dealers to be proactive in conducting profiling. They will intervene when their own profiling methods detect patterns that broker-dealers are consistently missing or ignoring.
Regulator: “We are serious about profiling both investment professionals and broker-dealers. We are determined to make sure the same bad eggs don’t keep popping up.”
A Senior Level Executive: “Today, we struggle with being able to connect the dots. Every day we see individual transactions, but we struggle with being able to meld those unique transactions into trends.”
- > **Uniform Fiduciary Standard of Care.** If the SEC mandates uniform fiduciary standards of care for personal financial advice rendered at the point-of-sale, the most immediate impact on regulatory regimes may be in client disclosures and education. Broker-dealers will be challenged to prove that they communicated the advantages, disadvantages and costs for every recommendation.
Regulator: “The broker-dealer needs to provide a reasonable belief that the investor understands the recommendation. The best solution is a clear, consistent communication and review process.”

In addition, any conflicts-of-interest must be communicated to the client in plain English disclosures that convince regulators that the client had enough information to make informed decisions.

On a tactical level, there are several “hot spots” that are on the regulators’ radar that broker-dealers must develop a systematic process to address, including:

- > **Concentration risk.** Regulators will question whether broker-dealers can monitor the impact of each recommendation on an investor’s overall concentration—e.g., whether there is too much stock exposure in the aggregate among retirement plans, variable annuities, variable life insurance and mutual funds. Regulators are skeptical that “silo systems,” or paper-based processes can adequately address aggregate risk concentrations.
- > **Mutual fund breakpoints and trails.** It is the responsibility of broker-dealers and investment professionals to monitor mutual fund purchases and breakpoints, and to convert trail-based shares to A shares when specified cumulative fee levels are reached. Regulators believe manual review processes are notoriously time-consuming and prone to errors in these areas. They want to see investors protected by automated triggers embedded in integrated systems. Survey results indicate that 33% of broker-dealers are reviewing mutual fund breakpoints via manual processes, and an additional 33% are combining manual processes with reports. Only 34% of broker-dealers use automated compliance surveillance to monitor mutual fund breakpoints. For an area that received significant regulatory and industry scrutiny just a few years ago, we are surprised that so few broker-dealers have automated processes to ensure investors receive the right breakpoints.
- > **Variable annuity (VA) suitability and exchanges.** Federal and state regulators are concerned about VA suitability issues, especially those involved in exchanges. FINRA Rule 2330 requires suitability documentation of specific benefits that outweigh costs or disadvantages, and FINRA wants broker-dealers to focus extra attention on sales that trigger the 36-month look-back required by the Rule’s terms on exchanges. When exchanges force investors to give up “in-the-money” living benefit riders, the suitability bar increases significantly.

Rule 2821 requires a suitability determination and principal review of each initial sub-account recommendation in a variable annuity. Regulators will focus on aggressive sub-account recommendations made to investors for whom your customer information is lacking or sketchy, especially when these investors are told that embedded guarantees in the VA will protect them from market declines. Our survey indicates that 44% of broker-dealers currently meet Rule 2330 and 2831 requirements solely through manual staff reviews of individual transactions and accounts.

Regulator: “The standard of care should increase our ability to reach conclusions that recommendations are in the best interest of the investor, that the investor made the decision and understands the alternatives, and that the process has been fully documented. It will be the same logic for the purchase of a single product, or for a fully discretionary advisory relationship.”

Best Practices for Compliance Oversight

We believe the industry's best practices provide a window for evaluating where regulators want to go. They also help to define compliance gaps that broker-dealers must address, to measure up to the emerging uniform standards.

Electronic Data Entry at the Source

Regulators are skeptical that “silo systems” or paper-based processes can adequately address aggregate risk concentrations.

Real benefits exist when your customer information and orders are entered digitally at the source—usually by the investment professional, or a skilled paraprofessional. This step eliminates errors, duplication and delays that occur: 1) when know your customer information is paper-based and hard-copy filed 2) when orders are placed over the phone, or through “check-and-application” correspondence. This is an important step in a broker-dealer's transition from separate “data silos” to a centralized system for managing investor account data.

To draw a parallel, we believe that automated know your customer data capture will produce the same benefits for broker-dealers and securities regulators that are created for the IRS and taxpayers. More than 95 million U.S. taxpayers (or their preparers) are entering electronic data at the source by e-filing federal tax returns. The e-filing trend, which is taking place faster than most tax professionals expected, is eliminating paper forms and greatly reducing data entry by the IRS. It is also reducing data input errors, centralizing digital records, enabling more targeted audits and expediting refunds back to taxpayers.

Although virtually all professional tax preparers have converted their practices to support e-filing, we have found that some broker-dealers—especially independents—are reluctant to pursue electronic data entry at the source because they are concerned about investment professional complaints and defections in a competitive market environment. Due to ingrained habits, they continue to process business over the phone, or through paper and absorb the costs of data entry. Our survey found that more than 50% of data entry for both brokerage and check-and-application business is still being processed by broker-dealer home office personnel, rather than at the source.

Elimination of Paper

Forward-thinking broker-dealers are looking at paper in new ways. Although it's still difficult to create a totally “paperless environment” in the securities industry, huge strides are being made in eliminating paper and paper-based processes.

Our survey indicated that more than 60% of broker-dealers are systematically converting paper—at the point of entry to the broker-dealer—into PDF and TIF files, and more than 30% said they are using tools to convert scanned documents into digitized data. Significantly, this process is being combined with surveillance tools that integrate know your customer suitability data with compliance reviews of specific recommendations. A few broker-dealers are taking the next step in this evolution by adopting “electronic folder” systems which organize and digitize documents at the source on centralized servers of third-party partners, so they do not need to be mailed or faxed. This strategy supports the “write once, read many” best practice.

Underlying this best practice is the realization that it is difficult to centralize, store and organize paper. It is also expensive to store and maintain securely with sensitivity for personal privacy, assigned levels of need-to-know access and disaster-recovery back-up. Regulators are accepting the superiority of electronic data and scanned documents over paper-based systems. FINRA is willing to allow destruction of some paper documents (except original signature pages) for broker-dealers that meet secure electronic storage policies and standards. We expect the uniform compliance standards to greatly reduce paper-based retention requirements over time while also increasing meta-data retention.

Use of a Centralized Books and Records Repository

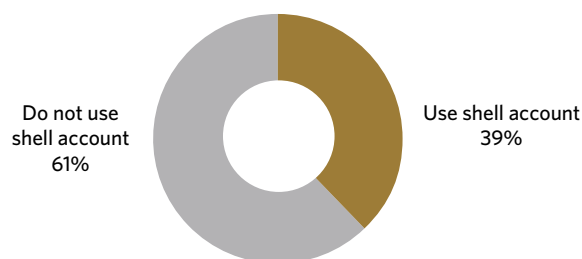
In the past, the technology needs of some broker-dealers (predominantly independents) revolved around one application—the commission payment system. As new compliance needs emerged, these legacy systems were retrofitted to meet them. Even now, the client data captured by some broker-dealers on check and application business is stored in commission payment systems that were never designed for this purpose. As a result, client profiling can be driven by inconsistent requirements of different manufacturers and products. In addition, important know your customer data can also be inaccurate, duplicated, or missing. We noticed that compliance department control over the quality of data may be limited by legacy system constraints.

In our experience, broker-dealers that process check and application business require their support teams to manually enter uniform client data into “shell accounts” with clearing broker-dealers. The shell account contains standard fields and consistent investor information, regardless of product or manufacturer. Although this practice has some merits, it should be considered a band-aid, not a best practice. As an alternative, broker-dealers that process a significant amount of direct-to-manufacturer business should consider using a third-party books and records warehouse solution, or fully utilize a clearing/custody platform.

According to our survey, 39% of broker-dealers use shell accounts. This makes compliance oversight more difficult and time-consuming, and it also means the investment professional must consult multiple sources to review clients’ overall holdings allocations and client profile information. Consistent use of shell accounts is one-way broker-dealers acknowledge shortcomings in their legacy processes.

The Use of Shell Accounts

Nearly 40% of broker-dealers use shell accounts to meet investor profile retention requirements.



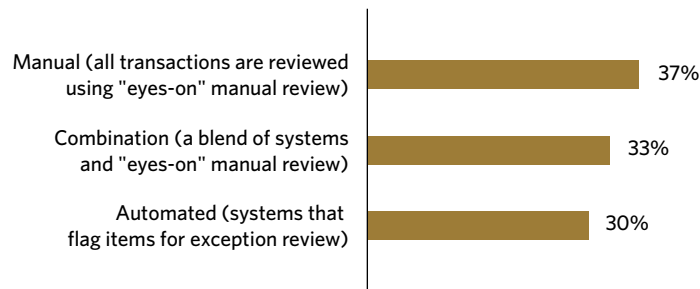
Reduced Reliance Exceptions Processing

In thinking about how to support and oversee the field force, a modern broker-dealer can benefit by visualizing an assembly line. As Henry Ford demonstrated, building each car in a one-off manner was less profitable and less efficient than leveraging streamlined mass-production methods. Likewise, every time a broker-dealer's compliance department manually handles and reviews a piece of business, it erodes profitability and diminishes operational efficiency.

This best practice goes beyond conversion of paper to digital data. It involves consolidating electronic data in ways that serve the needs of the compliance department and regulators, such as identifying unusual sales practices or employing risk-scoring systems to gain a quantitative view of overall risk to the broker-dealer. It can include making data easily accessible for purposes of running ad-hoc reports. It requires that compliance officers and staffers creatively rethink one-off review processes, perhaps by tapping industry experts and consultants for guidance to develop streamlined automated compliance surveillance.

Today, only 30% of survey respondents indicated they are using automated systems for compliance surveillance vs. 37% that said they are using "eyes-on" manual reviews; 33% said they are using a combination of disparate report and "eyes-on" surveillance methods. When business is placed directly by manufacturers, "eyes-on" surveillance increases to 40% of survey respondents and an additional 33% use disparate reports that include "eyes-on" surveillance.

Method of Surveillance



An Emphasis on Compliance Department Productivity and Expense Management

When broker-dealers focus on measuring the productivity and cost-efficiency of their compliance departments, we have found that other best practices generally follow. Conversely, reliance on outdated processes and legacy systems creates extra costs that are absorbed by the broker-dealer, investment professional and investor—and results in lower service levels, increased risks, longer processing times and higher error rates.

Most broker-dealers have established methods derived from compensation systems for measuring the field in terms of gross dealer credits, asset-based fees, AUM, and cross-sales. Yet, they do not measure how much value the compliance department or individual employers are adding, in relation to cost and productivity. Centralizing data and eliminating paper and one-off review processes will increase employers' productivity and make it easier for a broker-dealer's leadership to set productivity goals and measure progress.

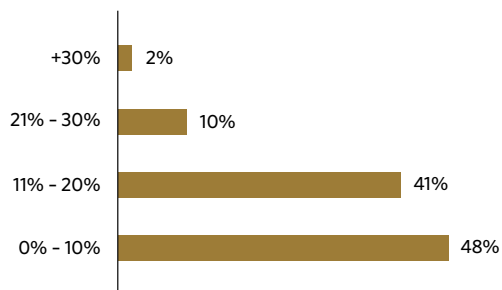
In the emerging uniform compliance standards, we believe there will be a direct relationship between compliance staff productivity and a broker-dealer's ability to minimize complex and costly regulatory/compliance issues. Regulators will be able to work faster and more efficiently with broker-dealers that have a clear focus on meeting regulatory needs and requests. They may reward those broker-dealers with streamlined audits and less time-intensive requests.

Overall, two-thirds of broker-dealers surveyed say there is an overall trend of growth in compliance staff. For more than half (53%), staff size has been increasing by more than 10% annually over the past three years.

Broker-dealers that have implemented best practices consistently report that they have increased confidence in their ability to expand recruiting efforts and increase AUM, without a corresponding increase in compliance staff headcount.

How Much Has Staffing Increased?

In an environment when most broker-dealers have reduced overall staff, more than half (53%) of broker-dealers increased compliance staffs by more than 10% annually.



Summary

Our analysis indicates that the broker-dealers behind the industry's best practices tend to share these attributes:

1. They are systematically replacing manual processes with automation.
2. They are upgrading from stand-alone data silos into integrated systems capable of centralizing reviews and scoring risks.
3. Their senior executives are mandating automated overview of offices, investment professionals, accounts and relationships.
4. They are working toward a goal of consolidating whole client relationships and incorporating know your customer data in compliance monitoring and suitability reviews.
5. They have the flexibility to meet compliance and supervisory needs with timely data and drill-down into questionable issues and requests.
6. They are increasing compliance department productivity and can demonstrate progress through tangible goals and metrics.

Broker-dealers may be well positioned to address uniform compliance standards through:

- > Internal and field awareness training
- > Strategic investments in new technology
- > Communications and training that drive accounts and assets onto clearing and custody platforms
- > Strategic relationships with partners who offer integrated platforms and compliance supervision solutions.

With increasing access to industry-leading compliance tools and value-added relationships, broker-dealers should feel confident that the industry's best practices are within reach.

Appendix

We are reporting case studies that illuminate today's best practices and how some broker-dealers strengthened their sales practice oversight by implementing them. We hope they provide models that will guide broker-dealers in making timely evaluations and strategic decisions as they develop their own methods for compliance monitoring.

Multinational Bank Broker-Dealer

Background: This bank broker-dealer, which serves 250 investment professionals, began its compliance upgrade processes with 100% of its business through a clearing and custody platform. However, compliance oversight processes were heavily manual and burdened its ability to meet escalating oversight demands. Simply, their methods were not scalable to meet the existing and future compliance oversight demands of their sales force.

Goals:

- > Transform compliance surveillance of field sales personnel to an automated "rules-based" application covering selected products (equities, fixed income, and annuities) initially.
- > Improve surveillance consistency, ability to "drill-down" on problems/issues, and speed of response to regulatory and management requests.
- > Increase the breadth of compliance oversight coverage to align with regulatory sales practices demands.

Course of Action to Meet Goals: This bank broker-dealer chose to adopt automated compliance software that sifts through suitability, security classification data and transactions to evaluate and flag sales practices that deviate from established sales practices norms.

Outcome and Challenges: The project took four months to get "up-and-running" and another eight months to fine-tune the rules parameters. Systems required extensive client suitability data and transaction histories to leverage the rules set.

Benefits:

- > Centralization of toolsets into one platform that provides immediate access to email, data and exception reporting.
- > More robust and flexible field sales supervision—a change from reactive to proactive oversight.
- > Confidence in ability to grow business volume without adding compliance group headcount.

Mid-size Independent Broker-Dealer

Background: With fewer than 250 investment professionals and 40% of its business processed direct-to-manufacturers vs. 60% with its clearing provider, they were challenged to maintain profitability and growth. The broker-dealer needed an automated compliance engine that could analyze both clearing and direct-to-manufacturer data.

Goals:

- > Fix inadequacies in internal handling of multiple data points and sources.
- > Convert to centralized data capture and sales practices surveillance.
- > Ability to analyze client profiles and suitability-related data.

Course of Action to Meet Goals: This broker-dealer determined that it needed to automate to meet its sales practices oversight demands.

Outcome and Challenges: The project was implemented in 60 days. Challenges included: 1) capturing electronic suitability data for its direct business 2) realizing that annuities and private REITs still demanded “eyes-on” surveillance due to an abundance of “false positives” 3) fine tuning rules parameters to meet its specific norms. Once implemented, the broker-dealer discovered and addressed major compliance issues including: 1) investment professionals operating in states where they were not registered 2) excessive commissions on some transactions 3) branches that were “pushing the envelope” on low-priced securities 4) investor accounts in which excessive commissions were generated in a short time frame.

Benefits:

- > Investment professionals with recurring issues were identified and counseled.
- > Customized reports by branch, producer, investor, and securities group.
- > More entities can participate in oversight including investment professionals, branches, OSJs and the broker-dealer.
- > The broker-dealer expanded capacity to onboard new investment professionals without increasing compliance staff or cost.
- > The adoption of an automated compliance solution reduces the time spent reviewing transactions and blotters from three hours to 30 minutes.

About Us

Albridge Solutions Inc., an affiliate of Pershing LLC provides enterprise wealth management services that deliver an accurate, single view of all of their clients' assets. Albridge consolidates client account data from hundreds of disparate sources—proprietary, banking, brokerage, insurance, retirement, alternatives, trusts, etc.—making it the industry's most scalable and reliable enterprise wealth management solution. Albridge enables firms to leverage the speed to market of a proven solution with an open architecture for maximum interoperability with your existing technology. With Albridge, you can focus on your core business, while we focus on delivering accurate data to help you expand and deepen relationships with your clients. Additional information is available at www.albridge.com.

About Beacon Strategies, LLC

Beacon Strategies, LLC was founded in 2005 as an independent “think tank” for supporting the evolving businesses models and practice management needs of broker-dealers. Since its formation, the firm has expanded its staff expertise in technology infrastructure planning, implementation, and advisor-facing applications and reporting systems.

The firm continuously publishes The Beacon 100™, a series of research reports to comparatively measure a spectrum of solutions providers to the financial and securities industries. The firm's reports focus on strategic and tactical choices facing broker-dealers and advisors in the Front Office, Back Office, Business Reporting Layer and “Broadside” critical thought-leadership insights.

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