

Make these five areas the foundation of your annual review

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When it comes to your annual review, consider dividing it into these areas: (1) best execution, (2) review of Form ADV (3) marketing reviews, (4) disaster recovery and (5) prior annual review topics and previously cited deficiencies.

You would drill down from there. For example, as part of your marketing review you would click around your Web site; your scrutiny of best execution would segue into soft dollars, commissions, trade reviews, trade errors and cross trading, said **Michelle Kennedy**, Assistant Vice President, **WealthTrust**, Greenwood, S.C., in speaking July 15 at **IA Week's** webinar, [How to Conduct Efficient & Compliant Annual Reviews](#).

Don't neglect other areas you may need to consider for your review, cautioned **Veronica Stork**, CCO, **Trilogy Advisors**, New York, who also spoke. To save time, you could alternate or rotate topics annually or add as part of your review a seldom encountered policy in your compliance manual.

Hot topic list

Stork recommended you create a list of **SEC** hot topics - drawn from what's showing up in exam letters - and include these in your review. Her firm hired a compliance consultant to conduct a mock audit and added the top 10 things the auditor found to its review. These "were the areas we tested," she said.

You can save more time by spreading your review throughout the year. For instance, if you check personal trading each quarter, there's no need to go back at the end of the year and repeat the exercise, said Kennedy. Your quarterly reviews constitute the inquiry. If you relegate the review of personal trading to an assistant, then the CCO should look over the results each quarter, and initial and date them. "You don't want to overlook what you're already doing" that could become part of your annual review, she added.

The webinar speakers also discussed various tests you could conduct as part of your annual review. For example, valuation remains one of the SEC's top hot button issues. Each month, you could give your back office the task of looking up the value of a random sample of securities and compare the results against your custodian's, producing a report that lists significant discrepancies. "That is an internal control that you can count [toward] your annual review process," said Kennedy.

Tone at the top

A culture that breeds compliance, especially with the involvement of top executives, impresses the SEC. But testing for this can be difficult. One way to demonstrate this is by saving e-mails from top executives that mention compliance. "Those could be good evidence of a culture of compliance and 'tone at the top,'" said Stork.

If you run into many problems testing in one area, this could be a sign you need a new policy or procedure for that issue. "That's a separate project outside your annual review," she added.

To test for insider trading violations, take the top 5-10 trades or the best performers at an interval of your choosing (monthly, quarterly, e.g.) and search for press releases concerning those companies. Examine the timing of the transactions and the public news. Look for patterns, e.g., someone who was buying big before the news came out, recommended Stork.

Focus on trade blotters

Kennedy noted that during a recent visit examiners asked for copies of checks. However, the firm had switched banks and it was difficult to get electronic copies, so she advised firms to make copies of their checks. She also related that at a recent conference an SEC examiner mentioned they spend 40% of their time in trade blotters. Her experience confirms this, so it would be wise to review your blotters.

The speakers also discussed triggering events that should signal the need for a review, ways you can document your efforts for future SEC review and a simple test to see if your firm can produce e-mails (because the SEC likely will ask). Don't worry if you missed the national webinar. You can [acquire the audio CD of the entire event at our Web site](#).

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