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REGULATORY NEWS & COMPLIANCE BEST PRACTICES

Compliance pros reveal best practices for when a client virtually disappears

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Perhaps a client moved to a new address without notifying your firm. Or maybe removed the RIA from his brokerage account. Or even passed on. No matter the circumstances, some advisory firms run into a few clients each year who virtually vanish.

A CCO at a Virginia firm calls these situations "inactive accounts." Usually the firm chases down the client "based on whatever information we have in the file." The firm scripts a comprehensive financial planning process when a new client jumps on board. The abundant paperwork contains many channels for the firm to try to locate a missing client. If the client remains AWOL, the firm will halt billing, concluding the client has apparently moved without notifying the RIA. However, because the firm usually holds the bulk, if not all, of a client's investment assets, most clients don't tend to forget where they've put their money, the CCO notes.

A CCO at a Pennsylvania firm first finds the client's rep, then taps out a few Internet searches or pulls out the client's application form to learn of other people to contact for the person's whereabouts. If these steps fail, the firm will follow Pennsylvania's escheat process. The CCO tackles the task in June, when the firm prepares its annual privacy notices for clients.

Hungry states are hunting

The budget crisis battering many states have them "becoming hungrier" for cash and expanding their investigations into unclaimed property by using account dormancy as a trigger, claims **David McCrystal**, executive VP of corporate development at **The Keane Organization** in Wayne, Penn. Keane produces services to help firms with so-called dormant accounts.

State laws vary widely. Typically, statutes declare dormancy at between three to five years of inactivity, he says. States usually spend any captured funds, believing the person will never show to collect his cash, says McCrystal.

Returned mail "is a big red flag," obviously, he says. Best practices include to immediately correct outdated addresses, once a year check for client activity, and comb client lists to spot early on those who are elderly and most at risk of passing. Be sure you have contact info for the next of kin of these aged clients.

Sometimes a client will "de-link" the RIA from his custodian account by notifying the custodian he doesn't want the adviser connected to his account "and you never hear from that client again," says **Michelle Kennedy**, a consultant with **Compass Compliance Services** in Greenwood, S.C.

Kennedy runs a compliance test for these accounts as part of her annual reviews because many advisory contracts state that termination must come in writing from either party. While you could simply consider these accounts as closed, she recommends sending a termination letter to the client to satisfy the contract's terms.

Depending upon how anxious you are to find a missing client, you could consider trooping to the local courthouse and requesting a copy of a client's will, one of the tactics McCrystal's firm will deploy.

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