

Save time and gain ideas for your annual review based on what your peers are doing

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Jotting down a note helps ensure you return from the grocery store with all the items you need so it's likely to work for the annual review as well.

"Every quarter, I'd write up a memo. It would contain any kind of changes that occurred at the firm," says **James Cullen**, a compliance consultant with **Financial Planners Assistance Corp.** in Barrington R.I., in recalling his top tip from his days as an in-house CCO.

Changes could involve a business line, employees, sales practices, a new fund or a substantial regulatory development.

"When it came time for the annual review, I'd review these memos and it would jog my memory about what has happened over the last year," says Cullen. This allowed him to prioritize and select the key items to focus on in his review. Combing the notes also would result in his pinpointing a recurring issue that deserved his attention.

Software solutions

A variation of this theme is seen in a new tool **Peter Rieke** uses for his annual review: **Microsoft's OneNote**. The software permits him to include such documents as Excel spreadsheets and PDFs. "It's a great way to collect everything [and] it's searchable," says the CCO at **Disciplined Growth Investors** (\$4.4B in AUM) in Minneapolis. "That's been a very useful tool," he adds.

Staff are encouraged to suggest new ideas for the annual review during **McKinley Capital Management's** (\$7.1B in AUM) year-end annual compliance training meeting. "We consider every employee a member of our compliance team ... because everybody is responsible for their own areas of compliance," says CCO **James McCarrey**. The Anchorage, Alaska-based RIA employs about 80 staffers.

He also instructs staff to review their area's P&Ps and point out if they differ from how business is conducted. "You'll be surprised" what such reviews may produce, McCarrey adds. "That's exactly what we want to hear."

An annual review compliance matrix guides a CCO at a Virginia firm. The Excel spreadsheet lists top challenges, such as soft dollars and trade allocation, where they appear in the compliance manual, items used in the assessment, key items to consider, the firm's response/findings/conclusions, recommended changes, who did them and when they were made.

The completed Excel document "demonstrates you did your annual review," says the CCO.

Having ready documentation to show examiners is one of the reasons Chicago-based **Arete Wealth Advisors** (\$588M in AUM) expanded its use of **Quest CE**, says CCO **Bob Chung**.

"The regulators want to see replicability," he says. Chung used to work in **FINRA's** enforcement division.

The Quest CE software contributes to the firm's oversight of annual certifications, personal trading, social media disclosures and outside business activity. With the latter, employees log OBA "even if they've disclosed it to us in paper form" in the past, says Chung. "There's a lot of upfront work because this is the first year that we're doing it," he adds. "In the long term, it's going to be a real shortcut for us."

Branch office documentation

The vendor also offers an electronic customizable branch office inspection form that staff who visit remote locations can use online, negating the need to haul paper to the sites.

A task in front of the Virginia CCO annually is to read through the firm's 200-page compliance manual. **Michelle Kennedy** recommends this exercise as a way to confirm that your firm is achieving what your P&Ps hold you to do. The president of **Compass Compliance Services** in Greenville, S.C., also points out that recordkeeping is a grossly underappreciated aspect of most firms' annual reviews.

When the clock is ticking

How fast can you produce client data? **SEC** document request exam letters often seek client data but too few firms test their ability to quickly assemble it, says Kennedy. Add this timing test to your annual review, she encourages. Same thing with your trade blotter. And produce a backup of your e-mail data as well. Review all of these results for completeness – so you can rest comfortably long before you must provide these materials to examiners.

You also could pick a sample best execution committee meeting to confirm the minutes and documentation are found to be in order, Kennedy suggests.

If you're at a small advisory firm, simplify, recommends Cullen. "They end up making it a bigger deal than it should be," he says of the annual review. Small advisers tend to focus too long on low risk areas, causing them to feel overwhelmed, he says.

Picking a timetable

The CCO in Virginia dedicates a month to complete his annual review, or an estimated 100 hours, he says. The timeframe occurs about now so the process falls "in line with our [Form] ADV filings" and gives him the opportunity to incorporate any annual review changes into his brochure.

Testing generally happens in summer or early fall at **NISA Investment Advisors** (\$144B in AUM) in St. Louis. "We pick the off time," says CCO **Marianne O'Doherty**. A summer intern can assist then, too.

The last three months of the year are taken up with updating compliance P&Ps and completing the review. At her old firm, O'Doherty would begin the year with these activities. "I like the flow of this. I didn't like it when I first came here," but now "I love it," she says. "It's got a calendar flow to it," O'Doherty notes.

Disciplined's Rieke does testing on a monthly, quarterly and annual basis – like most firms. He keeps a "master calendar" that "maps out each month what I have to get done," says the CCO. Each quarter he sends a summary of testing to management. Like O'Doherty, his annual review summary is completed by the end of the calendar year.

Editor's Note: Our new on-demand webinar [Peer-Proven Ideas and Tips to Invigorate Your Annual Review](#) now resides on IAWatch.com. Listen to it and earn 1 CLE credit.

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