MANAGING YOUR PRACTICE: A DIMENSIONAL PODCAST SERIES

Tips for Navigating the Compliance and Regulatory Landscape in 2022

Catherine Williams: Hi everyone, and thank you for joining us today. This will be the first podcast for 2022, so I'm going to take a moment and say Happy New Year. Wishing everyone health and happiness as we embark on a new adventure both professionally and personally as well too.

So thanks for joining us today. I'm really looking forward to our time today. I think when we engage with advisors really around the world, one of the key areas of business is thinking about compliance, the regulatory landscape.

How do we best conduct business for our people, for our clients? And that's really what we're going to focus on today. It's my pleasure to have with us today Leila Shaver, who is the founder of My RIA Lawyer based out of Atlanta with team members around the U.S. My RIA Lawyer is a women-owned, entrepreneurial and fast-growing firm working with clients around all 50 states here in the U.S. So great experience, great background and looking forward to our conversation today. Leila, it's great to have you with us.

Leila Shaver: Thank you for having me.

Catherine Williams: Leila, one of the first places that we often look as we think about what's going on in the advisor business is our Global Advisors Study. And the key question we often ask in that study is what are your top operational challenges?

What is, if not keeping you awake at night, certainly areas of the business that you're keenly focused on? And nearly a quarter of the participants in our study cited as a top operational challenge last year managing compliance and regulatory changes.

And so with that in mind, I thought it was a perfect opportunity to have a conversation with you and hear from someone who is in the trenches with advisors daily working within what's going on within the compliance landscape, the regulatory landscape.

So thank you for your time today and I'd love to just jump right on in.

Leila Shaver: Yeah, no. Thank you for having me. Of course I'm a complete compliance nerd, so happy to talk about it. And yeah, I think that 25% is a very clear indication of the challenges that come with running a business in a regulated industry.

And honestly, I think that number's probably a little low. I'm sure there are some who see it as a challenge. They just didn't make the selection. I think compliance is one of those areas of concerns for all firms and in my opinion, mostly because compliance is seen as a cost center.

It's overhead, right? So compliance departments are constantly understaffed and never have enough resources, and that can be a challenge for those in compliance trying to make sure they're meeting the regulatory requirements of being an RIA.

Catherine Williams: So with that in mind, I agree with you. I think that that number is actually a little bit low. I know when we engage directly with advisors and work with them around the country, you know, thinking about how to not only have a really strong culture of compliance in their business that is informative for their people as well their clients, but also staying abreast of what's going on, what are the changes that are happening? We're going to talk about a couple of them today around, you know, some of the recent changes around testimonials and things like that, but just feeling like they're staying in front of that. I know for many advisors, I have yet to meet an advisor who feels like they really have their finger on the pulse of compliance in a way that helps them feel, you know, super confident, if you will.

Leila Shaver: Well, I mean, there are tons of changes in regulation and especially in the last few years, and we're currently under an administration where, you know, the head of the SEC has come out and said there were going to continue to be more regulations.

You know, for us, as a law firm, we’re a securities law firm, we do legal work, we do compliance work, it's what we do. But to ask someone who is not a lawyer or who isn't in compliance, who is day to day, is managing their business, managing clients, servicing those clients. It's hard to find the time to keep up with those changes in regulation. And then on top of it, try to understand what it means and how it applies. So and that to me, just makes it even more important, especially in today's regulatory environment, to make sure you have a strong compliance team that it's properly staffed. You know, we see a lot of firms that get an admin or an advisor or another executive level person to take on the responsibility, but they don't have the background, the knowledge, the skill.

They don't know where to start. I mean, that's not helping the firm either.

Catherine Williams: We sometimes very carefully joke that the chief compliance officer is the person who maybe didn't back out of the room fast enough. A little bit to your point. But and I say that very carefully and as a former COO, could not imagine a firm, you know, being successful doing any aspect of the business successfully without having, as you said, the right resources at the table, both internally and as what we often see with so many of the firms we work with of all sizes and shapes, some sort of a of an outside resource as well too, to really supplement, if not outright strengthen the role within the organization. And I'd love to come back to that and explore that a little bit just to think about, you know, for any listeners we have today that are wondering, hey, what do I need to do to really sort of shore this up and make sure that I'm in as good shape as I possibly can be, so I definitely want to come back to that. But you mentioned, you know, with the current administration, some of the languaging and communication behavior, if you will, that's showing up as you do look back even over the last 18 to 24 months.

What have been some of the changes to the regulatory landscape that you've observed?

Leila Shaver: I mean, I think a few of the big ones that a lot of advisors have hopefully heard of. I mean, number one, being the changes to how advisors market, right? So that long-standing prohibition on testimonials, thank goodness the regulators got with it because everyone's on Yelp and Google and you know, every other website leaving reviews. Advisors can now get reviews, thank goodness. And so that's the big change that a lot of firms and advisors know about.

But there is much more to that rule. It was several hundred pages of discussion of the rule changes, and it covers more than that. It covers everyone I'm sure is familiar with solicitors and the solicitation role. This new testimonial rule or new marketing rule actually replaces the solicitor rule, so it discusses solicitors are now called promoters because it wasn't confusing enough to change the rule. Let's change the name while we're at it.

So there's a lot of distinguishing factors now between who's a promoter, who is just someone leaving review, how you can use those reviews, what rises to the level of being advertising, how you can put those reviews on your website.

You can't cherry pick the, you know, you can't pick and choose what reviews you want to advertise. So there is a lot that goes with it. And I think for a lot of our firms, frankly, they're overwhelmed by it.

So this great thing that brought at least a component of our current regulations into the 21st century is so overwhelming in all the different rules and caveats that a lot of our clients, for example, have chosen not to allow testimonials.

But I think that kind of goes back to what I mentioned before is they didn't have the manpower or woman power, as I like to say, to really be able to supervise, to review, to ensure that the firm is properly using testimonials that the disclosures are there in advertising with testimonials.

So I think that's one of the challenges that's going to be there for the near future is how staffing makes it difficult to implement these positive changes in regulation. You know, it also affected performance results and how those are used in advertising as well.

Aside from the marketing rule, we've seen changes the Department of Labor rules and ERISA in relation to retirement plans, how rollovers are documented. We're seeing that implementation of Reg BI and how to document that certain transactions are in the best interest of clients.

We're seeing a lot of interest from regulators on variable annuities and variable annuity switches or 1035 exchanges. So you know, this makes sense for us because we know we have a huge chunk of our population that's retiring, they’re retirement age.

And so a lot of these issues have come to the forefront and those are things that we're seeing now in these regulatory changes. So those are kind of the big ones that have happened in the last 18 to 24 months.

There are some rules that we're waiting on going into effect and those deal with, for those of you who have ever filed a Form 13F, if you know what a super huge pain in the rear end they are, so there's currently a rule change pending.

It has not gone into effect, but it looks to increase that threshold from 100 million in 13F securities to 3 billion. That threshold had not changed in the last, you know, 40 or so years. So they're looking to make an inflation adjustment, let's say.

And, you know, so we're seeing pending rules related to expungements in the timeframe you have to get a record expunged from your U4. We've already seen FINRA hike up the prices on getting an expungement.

So they're I mean, these are all indications of an industry that's getting more regulation. And you know, again, you need to make sure you have the right people helping you understand those new regulations and how they pertain to your firm.

Catherine Williams: So I'd love to dig in on that just a little bit, because I think absolutely you have the folks within your organization that are responsible for understanding what's going on. And quite honestly, thinking about the procedures, the way you deploy it in the business each day and you've got to operate from a pretty good set of knowledge in order to do that, whether you're leveraging outside resources or not to help you with that. And so as you work with advisors and you think about this area of OK, taking these rule changes, thinking about the policies and procedures within the business.

Any sort of stumbling blocks or blind spots that you tend to see pretty frequently with advisors and with firms that are trying to deploy around, whether it's some of these new rules or even some of the existing rules and they get they get a little stuck, if you will, or they have some blind spots when it comes to actually deploying it within their organizations.

Leila Shaver: My philosophy when it comes to compliance is keep it simple, stupid. I think a lot of times it's very easy. So I talked about the marketing rule before. It's very easy to look at that rule and get super overwhelmed, and I can see firms putting together committees to review it.

And these committees are meeting week after week. It's like, let's just keep it simple, right? That's so much time, so much energy, so many resources, getting a bunch of people together to talk about something they don't understand over and over again without any sort of action plan and things get lost in that.

So what I would recommend is to prevent the overwhelm and to be really consistent with what to do with these regulations and to prevent those blind spots. Even if you have an amazing compliance staff, get someone in who can say, hey, I'm a neutral third party. You guys may be so entrenched in your business you may not see this, but I'm coming in and I see this in a heartbeat.

Catherine Williams: It makes sense. We used to always say the only thing worse than having a procedure or a policy around something is having it and not being able to adhere to it because it was so complicated or it was buried on page, you know, 823 of the manual.

All right, so it could not agree with you more. But it is daunting. And I and even, for example, with regard to the change in rule for testimonials, you know, so many of the advisors we speak with say, you know, that's great.

There's a lot there. There's a lot there, as you said, to understand and I've had a couple of more than a couple of advisors refer to them as landmines. You know, like you have to be really careful, but they want to, you know, in net, they feel like it is a good thing, right?

They're absolutely wanting to grow and deliver their value prop, explain their value prop, leverage these tools that are now being made available to them. So if you're a firm, if the mindset is OK, we know we need to do something around, let's use those testimonials, for example. Any advice on maybe like where to start in the spirit of keeping it simple? You don't want to inadvertently get yourself into trouble, and we're going to talk about audits and things like that and just a few minutes.

But what would you recommend as a good place to start?

Leila Shaver: The first thing I would say is, you know, what's the biggest way to eat an elephant, right? You take a bite at a time. So start with something small. I think the first thing that a lot of our clients want to do is just start collecting reviews.

I want to claim my Google My Business page and have asked clients to leave reviews. I want people to go and look for an advisor in their area and see my firm and see that we have, you know, 30 five-star reviews.

So, OK, then let's start simple. Let's start with claiming your Google My Business page, or let's start with, you know, a Yelp page, and let's start asking clients for reviews. And then, OK, well, how do we want to ask clients for review or is this going to be one massive email that goes out to your entire client list that says, hey, leave us a review? Is this going to be you're going to select your top 20 clients and ask them? And what I would say is, what do you want to do? Give me the list.

What is the process? OK, yeah, I'm going to do this and then I want to email them and then I want them to provide the review. What if you get a bad review? Well, if I get a bad review this talk me through what you're going to do.

And then I'm going to take that and be like, OK, so let's talk about it now. Here's the rule. Since you want to do this, the rule says we have to have to have this disclosure. Since you want to cherry pick, I'm going to tell you, no, you can't do that.

So let's do this instead. And focus on that, create your policy and procedure on just that and then do that, get comfortable with the newness of getting reviews, you know, get in that cadence of getting reviews in that process.

And then once you've got that down, then let's take the next step. OK, now we want to advertise that we're getting all of these five-star reviews and then go through the same process.

OK, well, how do you want to do that? Where do you want to do that? What do you want to say? And then a compliance or legal person can come in and say, OK, great. This is what the rule says.

And go through again that process. And so that's what I mean. Take it piece by piece. Execute on one, work out the kinks and then move out to the next step. Create your process, look at the rules, see what you have to incorporate to comply.

And I think the other thing too with advisors, they confuse logic with regulation. Regulation is not always logical or rational. It doesn't always make sense. OK. The fact that they've prohibited testimonials for so long, I mean, that's the cornerstone of anyone running a business these days is look at me, I've got all of these positive reviews.

It's not logical, may not even be rational, but it happened, and they fixed it now. So I think that's also when we talked about blind spots, that's kind of a blind spot that happens that people think regulation has to be logical or rational.

Catherine Williams: And I like your approach to that, because certainly there are as you, as you in your example, there may be a couple of things where it's a hard no. We can't. We just can't do that. But for the most part, it's more it operates from a place of you can do this, but here are the things you need to have in place in order to do that. And as you know, it's yes but right, as opposed to only a hard no or a hard yes kind of a thing. So I think that's a that's great advice.

Well, let's talk a little bit about the audit landscape and what you're seeing out there in terms of the pace and cadence of audits that are happening. Any insights around, you know, are there certain themes or areas of focus, which I know not only shift from year to year and are often openly published as to areas that they may be that the SEC may be looking at, but tell me a little bit about what you're seeing in the in the audit landscape these days.

Leila Shaver: Sure. So a couple of things for advisors to be mindful of.

So a lot of state regulators and the SEC went through a period of time which there are hiring freezes. They didn't have a lot of resources. So in the last couple of years, that's really changed. The SEC lifted their hiring freeze, and they've hired a bunch of CPAs, attorneys, accountants, those people with real technical, practical kind of skills and knowledge. They're very, very, very precise and detail oriented. They've hired a bunch of them to do examinations. You know, so that's happening. It's also happening, some at the state level where we're seeing some states bring on fresh talent and they're getting more aggressive about the number of exams they're completing, the frequency of those exams and targeting those firms that haven't been examined before or haven't been examined in a long time. And at least for the SEC, I mean, they publish their findings every year and they publish the things they've done every year and in the middle of a worldwide pandemic, they kept up with their number of examinations.

They actually increased the number of fines they levied. Disgorgements were down. But I think fines tend to have more of a negative impact on firms than the disgorgement does. Them being home, they worked it out how to be as efficient and effective from home, which makes them super dangerous, right?

Because, you know, as they kind of find their ways back to their offices as well, they have worked out the kinks in their system as well. Plus, they have more staffing and then we have an administration that's going to be more aggressive from a regulation standpoint.

So guys, watch out. It's coming. Take all these things together. So yeah, taking this idea of being audit-ready very seriously. The other thing, too, about state regulators, a lot of states, their securities commissioner and their securities division is part of a Secretary of State.

Well, for a lot of these states, the Secretary of States are elected. And so at the state level, there's a lot of politics involved, and things can change depending on which party is in power in a state. And so that can come in play as well.

Not only that, but when it comes to audits, it's all the easy stuff that gets advisors in trouble. Right. So we have seen deficiencies for ADV Part 1. You didn't put the correct number of non-U.S. clients that you serve.

You know, your AUM numbers weren't calculated correctly because some of this AUM is not actually considered regulatory AUM. Your ADV doesn't disclose that your executives get additional compensation based on sales and incentives. You don't disclose that the private placements or the alternatives that you approve on your platform, that they're giving you guys access to free, you know, covering your cost to go to a conference they put on, they cover your flights. You know, you didn't disclose your forgivable promissory note at this broker dealer that where you're a registered rep. It's the easy stuff that gets them in trouble.

And that's the thing that the examiners take advantage of to broaden the scope of their audit. So your internal compliance team, if you don't have it, an outsource compliance team, this is the stuff we start with. What is the easy stuff I can spot and then take it from there?

Catherine Williams: And so as you think about being truly audit-ready, you know, when I think about that, it's a daily endeavor. It's not something that you just work on, you know, every once in a while or when you do get notice that someone is going to be visiting your office or conducting an audit.

So when you do think about an organization being truly audit-ready and staying audit-ready. What are some of the best practices that come to mind as you think about that?

Leila Shaver: The number one question I ask any prospect that our firm talks to is, do you have compliance technology in place? Our lives are crazy, especially the last couple of years. I know a lot of advisors are parents. They got kids, they got spouses, they've got this, they've got basketball games to go to.

You've got your regular life and then you have all the stuff that's just happening in your business day to day. You got clients, you've got employees, you've got admin is out sick, like there things you have to deal with.

If you're working off of a spreadsheet with due dates, it's easy to be like, oh, I got so much going on today. I'll do it tomorrow. I'll do it tomorrow. I'll do it tomorrow. And then six months later, like, I've got 48 tasks I have not completed that over the course of six months that may have taken you half an hour a day and now you're going to have to like, block off a week to get it all done. So I advocate for compliance technology.

There's tons of compliance technology out there. We know advisors who build something proprietary through their CRM. Whatever the case may be, a compliance technology automates your compliance calendar. It'll email you reminders. If you have it on your icon, on your desktop, it'll pop up an alert.

Hey, you've got tasks due today. You know, if you've got someone that's helping you get compliance done, it's something they can go in every day and check. What do we have to do today?

It helps remind you. It helps keep you accountable. So I highly recommend compliance technology.

Catherine Williams: Are there any that specifically stand out to you? I know many of our listeners are probably thinking, well, who should I look at? And, you know, conduct your own due diligence, but are there any that jump out at you as being pretty stellar?

Leila Shaver: You know, our firm uses Smart RIA, which is built for consultants, it's very streamlined. It's very easy to use. We actually are in the process of also onboarding Basis Code, which is a different type of compliance technology, you know, because it some of it comes down to preference.

What dashboard do you like better? What look do you like better? What functionalities do you like better? So there is a ton out there. There are consulting companies that have their own proprietary technology that comes as part of the service with them.

The one thing we like about Smart RIA, for example, is if a client leaves us, it's not proprietary to us so they can leave with their account. They don't have to worry then about how do I download data? Is there a cost to downloading the data?

It's like, take your account with you, with all of our pre-filled forms and tasks. And that's the other great thing about the technology. You build out your forms one time, you build out your calendar one time and it automates.

So then when you have someone go in and say, do a best execution review, your form has all the questions they should ask already in there. Which again, is a great reason to use an outsourced provider because they'll already have programs built out or if you have a good in-house team, I mean, that's if you don't have the technology that's something that can really help systematize your processes and make it more uniform so that, you know, maybe Jim-Bob over there is half-assing the best execution review. But Sally Sue over there is doing a bomb job, right?

And I just age myself by saying the bomb.

Catherine Williams: But me because I know exactly what you're referring to. Yeah.

Leila Shaver: But then it's like, Well, now Jim Bob is going to be held to the same standard as Sally Sue, and they're both going to be completing the same form. So I'm a big, big, big proponent of compliance technology.

That's the first thing I tell firms to do. And it's no matter your size. I've heard I'm small, my business is standard, it's nothing crazy. You know, I'm a lifestyle practitioner. I don't have a lot of AUM. I don't have a…I don't care. Get the tech. It's not that expensive.

Catherine Williams: Yeah, there's so much as you said, there's so many options out there, you can find the size that fits you, so to speak. Any anything else relative to the audit landscape preparation, anything that would be worth adding?

Leila Shaver: One of the questions I get asked is do I need an attorney to help? And I always say, it's a good idea. I say that because a lot of the examiners are attorneys. So when you have two attorneys that speak the same speak, things tend to go a little easier.

It also gives us an opportunity if there's a request that we believe is beyond the jurisdiction of the regulator or is unclear, we can go back and say, Yo, this is not clear. You need to be more precise in what you're asking. It's too broad. Or, hey, you can't ask about the insurance business because that's an outside business activity. It's not a service of the RIA. It's not something that's conducted through the RIA. So no, we're not we're not giving you insurance information.

There are those kinds of opportunities. We can review the documents to make sure you're absolutely not giving anything extra that could potentially trigger more questions. And then, you know, in our responses, we tend to be a bit more concise.

Answer the question directly and not get into too many additional details. Again, that would trigger additional questions from the regulators. So I don't think attorneys are always they're not necessarily required, but it's definitely helpful. It helps shorten the time frame of the exam because those things tend to go a lot faster and more smoothly doing that.

Having talked to a bunch of SEC examiners about it, they like working with firms that have an attorney involved because there's less of this, what does this mean? I don't know what this means.

A lot of times advisors are already stressed out by it. They're already on edge, which means they tend to get a bit more aggressive in responding. Whereas for the attorneys in the room, it's like just another day. You know, let's do this.

Catherine Williams: Can level that out a little bit.

Leila Shaver: So I think it's a good idea. In situations where the firm is aware of some serious issues, you definitely want an attorney involved. If you have already caught an advisor doing something that violates a rule or law.

For example, we had a client that found out they had the 12b-1 fees. We were proactive in that situation, reached out to the regulators, got some input.

And we were able to square that away with no issue for the firm because we took those proactive steps. Take it seriously. Don't think you're going to go into an audit and wing it.

Catherine Williams: Great advice. So the pandemic that we're all, of course, you know, still very actively living in, but it has changed for so many advisors permanently some of the ways they run their business, where people sit physically, communication technology, their digital landscape, how they're sourcing, closing and servicing existing clients.

Are you seeing anything that that this new business landscape, as we often refer to it as, might be creating additional areas of focus for auditors that advisors should be thinking about?

Leila Shaver: Yes. So there are a lot more people working from home, especially during that initial shutdown period where a lot of states completely shut down and it was essential services only, kids were out of school.

We saw a ton of advisors work from home and work from home for, you know, a substantial amount of time. Even where when some states opened back up, I mean the sheer volume of just all the infections, most firms took a more conservative approach and had people continue to work from home.

During that time period, we had a lot of guidance from the SEC and state regulators saying, OK, this is fine. This is response to a business continuity issue, right? But what we then dealt with is as things have started to normalize, some firms have said, hey, this works, people working from home.

So some have gone completely remote. They've gone to a hybrid situation where people can work from home some days of the week. So then that becomes a policy change. It's no longer in response to a substantial business disruption like a worldwide pandemic.

It's now a change in policy. So then it's like, OK, so now how are you supervising people who are working from home? How are you ensuring that client data is safe? How are you ensuring if they have a spouse that's working on a broker dealer, that creates some conflicts of interest, how do you ensure that that person is not like having access to your computer where all your client data is? Is your home internet safe? Is there a password on it? Is your connection encrypted? You know, is everyone in their mama like getting in on your computer because it's the family device? Do you have a separate work profile? Do you enter through a VPN?

And that gets into the cyber side of things, which is also an area of concern because during the pandemic, we saw a crazy increase in hacking. City of Atlanta's data was held hostage and these hackers are like, hey, pay us a ransom, we'll give it back. I mean, if it's happening to city governments, federal governments, why shouldn't that happen to an advisor? So these are some bigger things that have come out of the pandemic. I mean, the easiest points of access for a hacker are personal devices, because they tend to be less secure. And that's where we talk about our with our clients cybersecurity. What's your cyber policy? Do you have an outsource IT provider? Who's monitoring your devices? How do you know who's logging into your applications or through your VPN?

How do you know they're not selling away? How do you know they're communicating through the work email and not personal email? How do you know when they've printed out a bunch of client data they're not shredding it? What are you doing to verify all of this?

Catherine Williams: Well, hopefully everyone listening A) we've just given them a really powerful checklist of things that they should be thinking about and maybe raised a little bit of anxiety. But I think more so really have, I think, amplified the point that you've made, which is you have got to have great outside resources.

You can't wing this, as you said. I loved your distinction between business continuity and what was deployed early on in the pandemic versus what is now part of your general business. And it should be policy and procedure and is no longer part of that business continuity plan.

I think that's an a really important distinction. So I think, you know, for me, just amplifies why finding great resources outside of your four walls of your business is so critical because there are a lot of things to consider and probably a lot of this we won't know for a little while how important or how much scrutiny will be applied until we, you know, we start seeing more audits around this and more findings. So great checklist you just gave us.

Leila Shaver: Thanks. And I know it's easy to get overwhelmed and I get and again, this goes kind of to the point you just made. This is why you go to outsource providers. You don't have the time, energy or quite frankly, a lot of times the desire to learn about this, to figure it out.

It's beneficial to go to someone to get those additional resources and support.

Catherine Williams: As you do look ahead, what are some areas that you think advisors might want to pay a little closer attention to, or at least be aware of over the next 24 months or so?

Leila Shaver: I mean, I think cyber is a big one. Just because of all of the hacking, the sharing of data, the selling of data on the black market, how easy it is now to access emails and add, you know, passwords, all that kind of stuff.

Cyber security is going to continue to be a primary point of concern for regulators. And so we recommend to all of our, you know, firms get cyber insurance because it's not a matter of if it's a matter of when.

Make sure you have cyber insurance and for that matter, make sure you have good E&O (Errors and Omissions) insurance. Make sure you understand what your insurance covers because a lot of companies will carve out certain activities, certain securities or certain security types.

And you want to be aware of that. You don't want to be conducting business in something and your E&O insurance has specifically carved out that security or said, hey, if you if you do this kind of activity, this policy becomes null and void.

And then, you know, next thing you know, you're in the middle of a client complaint and your insurance is saying nope, we're not covering it. So get to know your business, get to know what's happening. I think a lot of firms, as they grow and evolve, it tends to be abdication.

And there's not kind of that continual supervision and oversight in understanding what's going on in your business. So, I mean, that's a big thing and I would say to regulations only going to increase. So now's not the time to dig a hole and stick your head in it.

I'm a securities attorney. I'm a complete compliance nerd. I go read the litigation releases every morning. I go read the SEC and FINRA press releases. I'm on the mailing lists for all the state regulators. I love to read that stuff because that's how we stay abreast of what's going on.

So I'm not saying that advisors should be on that level, but I think they should subscribe to something, whether it is to a publication or whether it is to an outsource provider that provides that information to them. They need to make efforts to stay in the know as overwhelming or sometimes angering as it can be to see some of the things that come out. That's no excuse. That's not going to save you from a deficiency, it's not going to save you from a fine. It's not going to save you from being pushed up to enforcement.

Catherine Williams: Something you said I want to make sure and emphasize because we saw, particularly even in our Global Advisors Study this year and the work we've been doing with advisors, that most firms have continued to grow quite nicely.

In fact, many had record years last year, which is wonderful. And of course, you know where the market has been able to contribute to that as well. But I think making sure that your compliance program and how you're thinking about compliance also keeps up with the growth of your business, like the additional services you may be doing for clients, the complexity of the clients you're working with now that maybe you weren't working with three or four years ago. I think all of that, you know, as you as you made that comment, it really struck home with me for so many firms that have grown quite a bit.

They've added people. They've added geographically, people as well. All of those things, add complexities to your compliance program, or at least things that should give you reasons to go back and make sure that your compliance program is current.

Leila Shaver: Yeah, I mean, I see it too. I see all the growth and we see firms every day that are adding new advisors, paraplanners, client service managers. And then, yeah, we're not seeing compliance grow. So we've seen multibillion dollar AUM firms with one compliance person or two compliance people.

We've seen organizations with a team of five people, for example, servicing 600 advisors. I don't know how they do it right? I mean, could you imagine the sheer number of advertisements that a group of five has to approve on top of the trading reviews, the billing reviews, the email from supervision, like I can't imagine.

On top of it. The RIA field has exploded in growth. We are seeing brokers move away, going fully RIA only and the industry has exploded. But the number of compliance people with ten years of experience hasn't exploded. The number of analysts that know how to do annual amendments or U4 filings or best execution review, for example, those haven't increased. Yeah. So you've seen this explosion. You have firms that are already short staffed and then there's a shortage in the industry.

Catherine Williams: In the spirit of that, I'd love to. Yeah. So it's lot. I feel like some of the folks listening might be breathing into brown paper bags now by this point. But like you said, this is so important.

We cannot run our businesses without taking great care of the compliance landscape. So I think this is all great perspective. But with that, you know, in the spirit of what you were talking about relative to the growth in the expansion, M&A is absolutely a hot topic.

We have almost daily conversations with firms that are buyers or sellers in the space that are pursuing that. Any comments you would share, any insights you would share? Let's call it that due diligence process as you're engaging with the firm and you start talking about compliance.

What are some top, you know, questions that a firm might ask another firm if they really want to understand what is their mindset around compliance? How do they operate? Anything like anything around that that you've seen and particularly in that M&A environment?

Leila Shaver: Sure. So when it comes to M&A, especially where you know, it's one thing if they're buying a book of business and that's it, when you're buying the entire firm, you definitely want to look at compliance. You want to ask for prior exams and those exit letters from those exams.

What were the deficiencies noted? You want to look at annual compliance review reports, which should incorporate if there was an exam that year, any changes they made to their program in response to those exams, those audits. I would look at the number of complaints.

I would look at the number of advisors with disclosures. That's a key risk area.

You want to look at the kind of products they're selling, the kind of securities they trade in. You want to look at, you know, the kind of data they're gathering from their clients. You want to look at how they systematize their business.

Is it consistent or is everyone living off of their own spreadsheet? And, you know, one doesn't know what the other is doing. I look at compliance as the umbrella under which everything else functions. Compliance hits on trading, it hits on operations, it hits on billing, it hits on every part of your business.

It hits on people, how they're supervised, what they can do, what they can't do.

It affects everything in your business. So it's super important to understand how that compliance program affects the culture of that business. Everyone wants to say, Oh, we have a culture of compliance, we take compliance very seriously. It's like, you have two overworked compliance people that are working 12 hours a day and still can't get everything done.

Catherine Williams: Or the chief compliance officer is not in the room when key strategic decisions are being made in the business or initiatives are being identified. You know, they're sort of like, well, we'll bring them in a little bit later.

You know, it's like, No, it's where do they fit into those early conversations about anything the business is going to do? I think that's for me often a litmus test, if you will.

Leila Shaver: Yes, that's a great one. That's a great one. And they should be. And one of the things you know, we talked about in last 18 and 24 months and especially this current administration, one of the shifts we're seeing in the litigation releases is more and more CCOs are being held personally liable.

You know, we're seeing advisors, we're seeing admins being tasked with the CCO role, and they don't have any understanding of what that means, the kind of liability and risk that comes with that position. So from an M&A perspective, if I'm looking at buying a business, I'm looking at, who is the CCO?

Is this someone with a background who has the skill, has compliance designations? Or is this just this poor, you know, kind of what you referenced before, the person that wasn't paying attention or drew the short straw because that is going to be reflective in how they run everything else?

Catherine Williams: Well, Leila, it has been a pleasure to speak with you. I know this is a topic that feels very it can feel very stressful. It can feel very anxiety producing. But I think hopefully at the spirit of this and certainly in speaking with you, it's really about empowering and getting in front of this and recognizing it as such an important part of the business and one that you can really actually you can do a good job, particularly if you get the right resources around you. So hopefully that came through today, even though we certainly talked about a lot of, you know, not quite doom and gloom by any means, but certainly some really serious areas and some things, hopefully that, you know, we want the advisors that you and I both work with to really be paying attention to and kind of have on their radar. So thank you so much for taking the time to share your insights, your perspective.

If anyone listening today would love to know more about you and My RIA Lawyer. Great website. You have some amazing resources there and great ways to get in touch with you, of course, with LinkedIn as well. So definitely want to put that out there and encourage our audience to look you and your team up.

I think you're doing some fantastic work and really appreciate your perspective around that.

Leila Shaver: Well, listen, thank you so much for having me and I will leave with this one last thought. I know I've probably scared the bejesus out of everyone, but regulators don't expect you to be perfect. What they expect is that, you know what's wrong and you do something to fix it.

So my hope is that anyone who's listening has at least identified a few things that they can leave from this podcast and really go and say, I've identified this as an issue. Let's go fix it. And that's the whole point of compliance.

It's to test, it's to identify and then it's to remediate.

Catherine Williams: I think that is the perfect set of words to end on. And with that, we'll see everybody next time. Thank you.

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