



## Regulatory Corner



### DOL Rule

Each day I go to update this and something difference has transpired with this rule! The latest is this: *Rep. Ann Wagner, R-Mo., introduced a bill that would do away with the Labor Department's new fiduciary rule and replace it with a best-interest standard for retail investment advice given by financial professionals, which has the full support of the Financial Services Institute, said FSI spokesman Chris Paulitz. The bill is due for discussion by the House Financial Services subcommittee Thursday, and David Knoch, president of 1st Global and chairman of FSI's political action committee, will be among the hearing witnesses.*

### IMPORTANT

Please know that we don't like doing things unnecessarily and we know you don't either but when folks don't follow the procedures and make more work for us, we get ugly. Especially if it puts us in a "compliance" position that could affect the firm or you adversely. Please don't question what we ask you to do and please don't gripe each time something new comes along. There are many many changes heading our way—some are in our control and some are not. We ask you to please be professional adults and know we do our best to alleviate the unnecessary things as much as we can. Sometimes it cannot be avoided. Thank you for understanding.

## Did you know this about HTS????

In the words of the late David Bowie...Cha cha cha changes!!

### NEW TRADING SYSTEM

As we announced briefly earlier, HTS is abandoning the CSS-Talysis software program that we have all used since 2002 when we joined SWS. The program replacing it is FIS Security360 and I had the opportunity to review the system at a meeting in Dallas. The "bells and whistles" are impressive and the system can be used on any device provided we are monitoring that device (Cyber Security). Much is streamlined and since it is web based—faster response time and no downloads! Target date for roll out is Summer 2018.

This of course will change how we do everything from opening new accounts to reviewing for our compliance blotters to entering orders. There will be many training webinars, so it will be up to you to register for them when we present them to you. If you don't, you will be lost and remember, we are learning it right along side of you. Those training webinars are your first source of information.

### NEW FED WIRE PROCEDURES

We appreciate everyone abiding by HTS's procedures regarding federal wire transfers. Points to remember are: all fed wires require a clients signature, your signature and HO Senior Principal signature and you must confirm the wire with the client verbally. Anything over \$25,000 and we get a phone call from HTS Cashier to verify so keep all that in mind and keep in mind cut-off times. This new procedure will require advance planning at times and unfortunately, there are NO exceptions to the rules or procedures. No one is exempt from this.

## REQUIRED READINGS

### FINRA Podcasts

(link is to page that all are located on)  
Monthly Recaps: Jan thru Jun

**\*\*\*Rule 4530 Attestation\*\*\***

### READ BELOW

Any customer complaints?  
Any criminal or civil activity?  
Any bankruptcy, liens or judgements?

By responding to the Quarterly Review you acknowledge a negative response to the questions above. IF you have a positive response, contact the Home Office immediately.

## Topics of Importance

- Cyber Security
- Returned Mail
- Account Clean Up
- DST Summaries
- Workbook Blotters
- Firm Fines
- Muni Bond—Diver Report
- HTS Education Conference

## New Forms or Revised Forms

**WSP Manual - Aug Publish**  
**HO P&P Manual - Aug Publish**  
**CIB - Aug Publish**



## Techie Talk

### Debunking the 5 Myths of Sophisticated Cyber Attacks

Cyber-attacks can originate from anywhere, but there appears to be an unabated trend of pointing the finger on either "sophisticated attackers" or, more blatantly, naming and blaming nation-states like China and Russia (alright, maybe North Korea and Iran).

[CONTINUE READING](#)



## Cyber Security

FINRA requires us to have a cyber security policy and in that we have a need to collect various information from you about the technology you use. A document will be provided for you to complete and it must be returned promptly when received. In past publications, we have asked you to provide proof of your security software and that will be an item in this verification to come out in the next quarter.

We are also required by FINRA to perform penetration testing of our cyber security policies. We do not use “the Cloud” to store client documents (there should not be a one of you that are doing this) as all our documents are either at HTS or on our hard drives (which you should be backing up). We will primarily be testing our email security and to do this, we have to hire a third party that specifically does that. As far as we know, the testing does not require anything on your part, except that you need to pay attention to “phishing” emails...we will know if you open one!

As with all new areas that FINRA regulates, they do not have any specific rules for this yet, but they are looking to find the violations against the rules that don't exist that firms are doing! Confused? Welcome to the world of FINRA! We will be publishing our cyber security policy by 3rd quarter which will require your participation.



## Returned Mail

It seems that more and more mail is being returned and we are seeing a lot of situations where it is the clients address. The problem is the electronic sorting machines—they pick up the account title information and it think that's the person who is supposed to live there and kicks it out as unknown. As of now, this is what happens with returned mail:

- ⇒ 1st piece of mail—HTS resends to client at same address and we get an email and I forward to you (I don't always get an email)
- ⇒ 2nd piece of mail—HTS codes the account as “bad address” beginning the escheatment process and we get an email and I forward to you. (I usually do get this email, but not always)
- ⇒ Original piece of mail—gets physically mailed to us and I scan in and send you a copy. We do not forward to the client, we destroy the returned mail. I don't always check for an email notice or your answer due to the volume, so please just respond with “take care of” if you've handled it already. If not, please contact client or let me know it's a good address.

One way to avoid this is to household all accounts that are at the same address. This provides the client with one envelope that has no title information. It does require some work on your part, but that is a part of client account maintenance!

## Account Clean Up

Over the next quarter, we are asking everyone to go through and clean up your accounts. Here are some points to remember when doing this:

- HTS now actively charges the inactivity fee for accounts that meet the requirements. If client doesn't pay it, you will. You can either close the account or if client holds others, perform the householding function and that will take care of it.
- Debits in accounts will be paid by you if the client doesn't pay them. You can liquidate to cover, with no approval from client. IRA's can not have debits and those are dealt with monthly now instead of just once a year.
- Returned mail is a big problem. Some times the address is good but HTS still sends it to escheatment. Check email and reports to be sure you don't have any that fall into this.
- Client files need to be reviewed for unnecessary papers. Good time to review client information. Remember to keep inactive client files separate from active files for 6 years from the time the client leaves. After that, you can destroy them.
- Worthless securities are the biggest pain to deal with! We can send the client a letter advising them to complete the form and if they do not reply within 30 days, their account will be coded “abandoned” and the escheatment process will begin. If the client does sign the form, send to the Home Office for processing. Retirement accounts will need a final distribution form to close.
- Lastly, ACAT residuals. Remember that HTS does not look for these and they do not send them out automatically. You can send an email to [acats@hilltopsecurities.com](mailto:acats@hilltopsecurities.com) and request they send it out per last known ACAT instructions.

## DST

In the past, brokers have provided me with their DST logons so I could get the occasional reports needed for HTS. We now need this information monthly and are asking all reps who have outside accounts with DST to login monthly and provide me an account summary and send to me each month with your blotters. Please attach as a PDF document. This will be very helpful in our review our your activity.

If you have alternatives in retirement account held at HTS, you may be asked on a quarterly basis to provide this information as well. Those requests will come from HTS and I forward to you. Most all price through feeds but some still don't.



## ← Recruiting Program →

You may be able to help us grow, reduce your overall costs and earn cash (without the responsibility of supervision) all at the same time! We have instituted a “recruiting inducement bonus program” (note: this program is not applicable to brokers who are contracted to your OSJ office). Just make the introduction and we'll take it from there! The program will pay a recruiting bonus once referral is contracted.

Please contact Mike Jordan to further discuss any situation you may be aware of – all we need is an introduction.



## Workbook Blotters

The challenge with independent BD's and their branch offices concerning compliance are always a concern of the regulators. We have in place very specific procedures that all must follow and comply with to keep us out of trouble.

One of those being the workbook blotters that were sent out at the beginning of the year. Those are to have daily entries in them, like a journal, of what you did, who you talked to, transactions (other than trades recorded in the HTS system) etc. These blotters, along with any incoming client correspondence is to be emailed to the Home Office (sabbott@polarinvest1.com) for review. These blotters are to be sent by the 10th of each month with no prompting or email reminder. We need to crack down on those who are not sending them and that means a fine.

## Firm Fines

It seems we have been a bit lenient on issues that would cause for us to implement a firm fine. The severity is not that which would cause a regulatory violation necessarily, but it may cause us extra time and work because we had a rogue broker. While it is up to our discretion as to whether we issue that fine or not, we are finding by not issuing the fine our brokers are continuing to ignore our policies and procedures. You are hear by put on notice that we are stepping up our compliance game and will be issuing fines for situations that you know you should or shouldn't do. If you do what you are supposed to, when you it is needed then you don't need to concern yourself with this. We will notify you of the fine and the amount via email should you do something that requires such severity.

## Muni Bond Trades—Regulation

For those that trade muni bonds, pay attention. In BondPro we have an item called Diver Report. This is an awesome tool that we will require bond traders to use that pulls the most recent information on an issue. When you view a report you have the option to email it to someone which creates a paper trail that the regulators like. Documentation is critical with muni trading and this feature covers all the rules. Please email the report to your client and indicate on the Muni Bond ticket sent to us for approval.



**Alternative Investing**

*What keeps you from talking to your clients about alternatives? Let us know—we can help!!*



**Upcoming Events** July 2017: Publishing new WSP, updated HO P&P Manual & CIB  
 July 2017: Fiscal Year End—Firm Audit



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## HTS Educational Conference—New Things on Horizon

In June I attended a conference in Dallas with HTS. They revealed many of the upcoming changes and I for one am excited for the changes that are coming. Briefly they are highlighted below. As systems and processes are put into place, we will notify you.

**Trade & Client System**—replacing CSS will be Sunguard FIS 360. We saw a demo of that and it appears to be much better than CSS. While CSS has served us well, many situations we experience are due to a lack of program updating. The transition to this will be by early summer 2018.

**Consolidated Confirms**—future confirms will consolidate to one confirm at the end of the day. This is good news for cancel and rebills. The client will no longer get 2 or 3 confirms.

**Docu-Sign**—yes folks it is coming!! Electronic signatures will be available with the new system. Can I get a woot woot??

**Service Cloud**—replacing the current "ugly" HEAT ticket system. No one hates the HEAT system more than the HTS folks!

**Laser App**—we are considering signing up for Laser App as it will be a function available in the new clearing system. There is a cost to set up but not to users so we are evaluating the benefit of it.

**Redtail CRM**—if any of you have been looking for a CRM (client management solution) this is one we approve of! As with everything, there is a cost involved but it does provide integration with many other services. It is a great tool to monitor broker activity and we may consider requiring use of it to replace other compliance review vehicles we use.

**BDA Bond Dealers of America**—the firm is considering joining this organization. They offer fixed income business solutions through key relationships with outside resources. BDA provides regulatory and legislative advocacy in Washington DC for small firms such as ours. It is a great resource in this area.

**Mediant**—a platform that provides a solution for delivery of corporate actions, proxy delivery and prospectus delivery to clients. Brokers can view what clients were sent which documents and when.

Most of these will be available with the roll out of the new system, FIS 360 (some refer to it as Sunguard). All in all, we are feeling better about the upcoming changes and we are hopeful HTS will come through with what they are promising! When the time comes, taking advantage of all the training sessions and tutorials will be the key to your success in navigating through what is coming up!