



Regulatory Corner



FINRA EXAM—Fall 2018

FINRA surprised us with an out of cycle exam this past fall. IN fact, so were several other firms at HTS were surprised by early audits. Hmm could times be a changing with the culture at FINRA and they are getting in all the exams and fines they can before the boom is lowered?? Time will tell but the SEC has very recently asked Congress for additional funds so they can “supervise FINRA”. Maybe we are being heard?!? While we are always prepared with our books and records, the exam did come at an inconvenient time. For the most part, we had no issues that were of any merit. Mostly things here at the Home Office level, but we can never let our guard down with these dogs. The inexperience and lack of knowledge of their examiners led to a confrontational “show down” to which, we prevailed. Nevertheless, the atmosphere and general attitude of FINRA examiners is the worst we have seen in our combined careers. The blatant lies and misrepresentation was called out and they weren’t very happy with us. Their abuse has gotten out of control and Congress is finally taking notice. The firm is in contact with committees in Congress to voice our concern about the culture of FINRA. Thirty years ago it was not a hostile environment dealing with them, now—Mike & I look at each other when the caller ID shows FINRA and neither jumps to answer!

Hoping we don’t hear from them for another three years but something tells us they will be back before then....

Did you know this about HTS????



OH Jeepers!! Where do we start??

This year is going to bring about major changes for us in how we do business and the systems we use. In just a few short months, we will be a pilot firm to roll out the new FIS 360 (Sunguard) product that will replace HTS CSS Talysis. I did have the opportunity to review the program and at first glance it was impressive. More flexibility within the modules—easier to navigate and more bells and whistles to help you. Some come with and some are an added expense (if you want it-you pay for it type of a deal).

Please give the new system a fair chance when it is first rolled out. Remember, we will be a test pilot and need to let them know the bumps and sink holes and there will be some! Please be respectful and not only look for the bad—they need positive feed back as well.

The first part at the current moment is how new accounts are going to be opened. How you are doing it today and have done in the past will change. It will change dramatically. We will eventually may have electronic document signing which is a plus but one of the downsides is, no account can be opened without the Home Office’s approval and release. Sorry—just the way it is now with regulation. We are the least happy with all the compliance oversight but we don’t make the rules. For now, please send any new account opening to the Home Office (Sherry) prior to opening with HTS.

Reading the Hilltop weekly publications is the best way to keep on top of things. Be sure to read those and if you aren’t getting them—let me know!

REQUIRED READINGS

[FINRA Podcasts](#)

(link is to page that all are located on)
Monthly Recaps: Jul—Dec

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

- Documents & Blue Ink
- Crypto Currency
- Customer Acct Maintenance
- IRA Contributions
- Sr Abuse —Disbursement
- FINRA Principles & Budget
- Govt Reporting Documents
- Cyber Security Testing

New Forms or Revised Forms

Over the second quarter we will be revising the firm’s websites.



Techie Talk

[Back to Basics](#)

The three easiest ways to back up your files.

In the back of your mind, you know you need to back up all of your files and pictures. But where do you start? Here’s how to back up your digital life.



DOCUMENTS AND BLUE INK

Please please please—do not let your clients sign or complete documents in blue ink. This does not scan well, it does not transmit well and could cause a delay in the processing of whatever you are trying to do. If it is a fund disbursement, it could delay the request going out to your client. If it is new account documents, it could delay the opening and transferring of an account.



CRYPTO CURRENCY

The firm has been following the trend of investing in crypto currency (Bit Coin, Litecoin, Namecoin, Swiftcoin, to name a few) and wants to reiterate our policy that we do not allow trading in crypto currency even if it is an unsolicited transaction. Any client that comes to you asking, you must simply tell them your firm does not allow the acceptance or trading of any crypto currency (and there are over a thousand out there now). Many have referred to crypto trading as nothing more than a Ponzi or pyramid scheme. We will keep an eye on this trend and see where it goes ~ our guess is no where but who knows? Please read this article: [Cryptocurrency...is easy money for criminals](#)

CUSTOMER ACCOUNT MAINTENANCE

Certain types of accounts generate certain fees. Certain types of investments generate a holding fee. Lack of certain activity generates a fee. If the client does not have enough funds to cover those fees, you might be able to liquidate to cover, the client can send in a check or you can pay it for your customer. Either way, HTS will get paid. In the case of a retirement account, there can be no debit balance. NONE. HTS doesn't play with this and if not resolved by the deadline they give us, you will pay it and your clients get a nice notice saying how generous you are.

Go through your accounts and get rid of the ones that are no longer active and have little to no balance (these accounts generate an inactivity fee annually). If they have worthless securities, send the form and ask them to remove the position (tax implications-can write off in some cases). If the account has no positions, no cash but you want to keep it open, we may require that a minimum cash balance be kept to cover clients fees. This keeps you from having to pay them if client doesn't send them in.

IRA CONTRIBUTIONS

Just a reminder when sending a retirement account disbursement to let the Home Office know if it is for the past year contribution (catch up) or current year contribution, if it is. When we enter the disbursement we must answer yes or no to proceed to submission of the request. If we do not know, we default to a no response. By responding yes, HTS then files the appropriate documents with the IRS to let them know the client took a distribution to satisfy (in part or whole) their RMD. Remember that clients may have more than one retirement account and it might not be with you—they don't have to take a RMD from the HTS. It is a courtesy notice.

SENIOR ABUSE—DISBURSEMENTS

FINRA's rules relating to financial exploitation of seniors become effective February 5, 2018. New FINRA Rule 2165 (Financial Exploitation of Specified Adults) permits members to place temporary holds on disbursements of funds or securities from the accounts of specified customers where there is a reasonable belief of financial exploitation of these customers. Amendments to FINRA Rule 4512 (Customer Account Information) require members to make reasonable efforts to obtain the name of and contact information for a trusted contact person ("trusted contact") for a customer's account. See FINRA's [Frequently Asked Questions Regarding FINRA Rules Relating to Financial Exploitation of Seniors](#)

FINRA PRINCIPLES AND BUDGET SUMMARY

FINRA published for the first time its Financial Guiding Principles and a summary of its budget for the coming year. The additional transparency supplements the audited annual financial report FINRA has long published, responds to feedback received during CEO Robert W. Cook's listening tour and is another important outcome of the ongoing FINRA360 organizational review. "As a not-for-profit, self-regulatory organization whose operations are funded by industry fees—without the support of any taxpayer dollars—we must prudently manage our finances to ensure we can fund our mission to protect investors and promote market integrity in a manner that facilitates vibrant capital markets," Chairman William H. Heyman and CEO Cook wrote in a letter that accompanied release of the [Principles and Budget Summary](#).

GOVERNMENT REPORTING DOCUMENTS

We generally see an increase in customer communication now that tax season is here. Your clients call us and want their 1099's and we tell them they were mailed but they want a copy emailed to them. We do not know your customers like you do and therefore, the Home Office will refer those clients back to you to handle accordingly. For the timeline for government reporting, please refer to the Learning Exchange or your weekly HTS publication.

CYBERSECURITY TESTING

In the next quarter, we will begin to implement a cybersecurity testing program. We will be collecting information about all the devices you use for work purposes (desk tops, lap tops, tablets, phones, watches, etc.). This would include items like make, model, serial number, etc. Providing proof of security and back up for such devices (type of security software, is it live updating, where is your back up stored, etc.). In addition to that, as a firm we have to hire an outside service to test our email security penetration. What that looks like would be "fake" emails sent to you to see what you do about them. Because the firm does not run its own server, we do have some relief in that but as a firm, we have to test systems like HTS, Smarsh & Intermedia, any third party that handles any aspect of the firm's business using online vehicles. Fun times we are in!





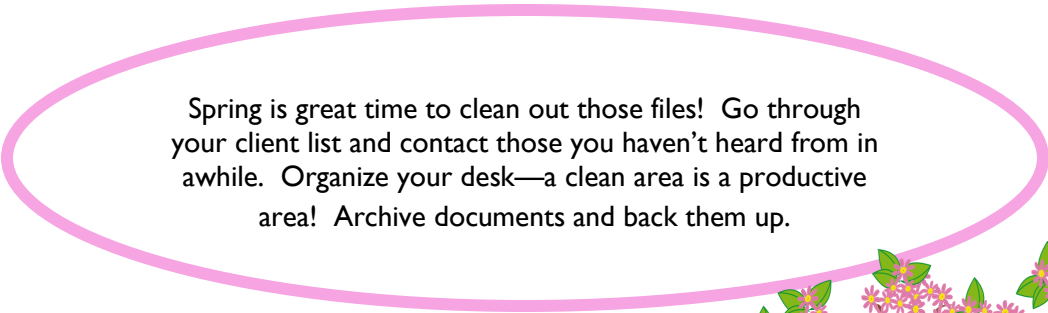
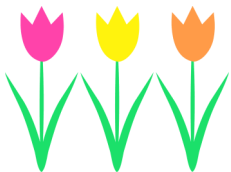
ANNUAL COMPLIANCE PROGRAM

It is once again time for the firm’s annual compliance program to begin. As in the year’s past, we expect every associate to complete all the necessary components of our program. This replaces having to spend money to take online or facility classes. There are many elements that must be covered in a compliance meeting and we feel our power point presentation does that. Please be sure to read all material presented and view all presentations. Follow instructions carefully as throughout the program you must acknowledge participation in various ways (done intentionally to keep you awake!) The deadline to complete the compliance program is 3-31-18—beat the rush, do it early!!

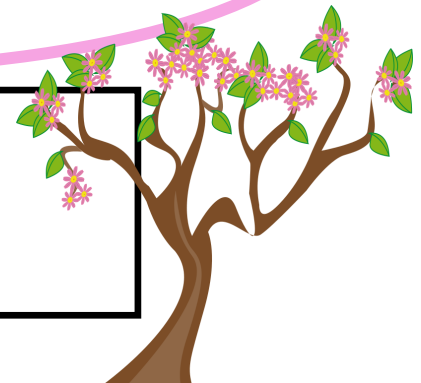
PICI Compliance Program Components:

- 1) Review your CRD Snapshot—no change, put in your files. Changes? Email Sherry Abbott.
- 2) Review your Outside Business Activity—review carefully and advise Sherry Abbott of any changes.
- 3) Read 3Q&4Q Quarterly Review—read all articles and any links associated with, view the FINRA podcasts and send us a referral for a new rep! (the last item is not required but if we successfully hire someone, you get a \$1000 finders fee!)
- 4) View the 2018 PICI Compliance Meeting—this is a power point presentation that the firm produces to facilitate our requirement to hold an annual compliance meeting. We expect that each of you watch the presentation through its entirety and answer the few questions regarding the presentation. The questions are right beneath were you clicked on the view the presentation.
- 5) If you received a Letter of Supervisory Understanding—sign and return to the Home Office (scan/email)
- 6) Annual Compliance Attestation—sign this and return to the Home Office (scan/email)

PLEASE NOTE: We no longer are going to require that you mail the original attestation forms. You must manually sign and you can scan in and email to Sherry Abbott. For those with an OSJ manager, send to them first (scan-email) and they will forward to the Home Office. When you scan, please be sure to do it as a document and not a picture image.



Spring is great time to clean out those files! Go through your client list and contact those you haven’t heard from in awhile. Organize your desk—a clean area is a productive area! Archive documents and back them up.



Alternative Investing

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

Featured Product: Carter Validus - Concentration on data centers, hospitality suite type hotels and medical facilities. Interested? Ask us more!

Upcoming Events Qtr 2 2018: WSP Updates
Qtr 2 2018: Firm website makeovers

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.