



Virtual Office News Reprint

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for Financial Advisors

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ComplianceMAX by David J. Drucker

Compliance... your favorite topic, right? Don't stop reading now, though, because ComplianceMAX is one of the best solutions to every advisors' biggest pain in the arse, and you need to know about it.

It used to be you could operate an honest practice, keep good records (based on what you needed in your practice, not on what the SEC called for), and the occasional SEC audit would result in the examiner finding something minor overlooked or not kept to the strictest SEC specifications — no major transgressions, though — which would be followed by a slap on the wrist and, finally, a letter from you to the SEC stating you were now compliant.

Relations with the SEC (or NASD) are a lot less casual today. It's no longer just a matter of record-keeping; you now must demonstrate that you have procedures, often complicated ones, for ensuring fair treatment of clients, in general, and compliance with SEC regs, in particular. There are more activities than ever within your firm that you must document, and the documentation must be to regulators' liking.

Which leaves advisors with three choices for compliance: 1) hire an attorney — often expensive but, given the right choice, a reasonable way to go; the attorney will help you keep your records up to date, conduct a mock audit, if necessary, and your communications come under attorney-client privilege, which might come in handy; 2) hire a consulting firm that may do as little as providing you with template documents you modify to fit your firm (an often dangerous approach) or as much as providing you with a tight system for remembering what to do to be fully compliant, and; 3) muddle through it with your own system of compliance.

In today's compliance environment, 3) is no longer an option unless, maybe, you're a state-registered advisor in a place where rules are simple (i.e., the state hasn't all but adopted the SEC's Investment Advisor Act) and audits are non-existent. Good luck. And 2) isn't an option either if all it entails is buying a packet of templates and trying to adapt them to your practice. That's almost as bad as 3).

The real options are working with an attorney (outsourcing) or keeping most of the compliance responsibilities in-house, but doing so with the assistance of a regulatory consultant.

ComplianceMAX... *Continued*

ComplianceMAX is one such consultant, but the way it works with you distinguishes it from all other such consultants. ComplianceMAX is, essentially, an online (with optional human contact) compliance management system that *makes sure you do everything you need to do to be compliant at all times*. When you buy ComplianceMAX, you're buying an artificially intelligent *nag*, and that is, frankly, what most advisors need.

Visiting [ComplianceMAX](#)'s website for the first time tells you they have compliance solutions for Broker-Dealers, Investment Advisors and Hedge Funds. Under the Investment Advisor heading, there are two options: New Entrant services, such as help with registration, and services for Established Firms, i.e., compliance and regulatory solutions.

As ComplianceMAX states on its website, "Our Web-based compliance programs deliver proven compliance strategies in *manageable monthly units*." In other words, the concept behind ComplianceMAX is that it will eliminate as much as possible the pain of regulation if you can just commit to doing a little bit every month to keep yourself on track. Of its many solutions, this one is called Resources™ - Monthly Compliance for Investment Advisors and costs \$150/month.

I spoke with Lisa Roth, ComplianceMAX's President and CEO, and Mitchell Porche, it's Executive Vice President, to learn more about Resources™. Says Roth, "We began designing this system six years ago for RIAs to make compliance routine. We discovered we couldn't make it affordable if we didn't automate portions of it, so three years ago we made a commitment to put it online. Instead of advisors reading paper instructions from us every month, they now have an online management system that has been favorably received by the SEC and many states."

How do you take what has become a tangled web of compliance requirements and made it manageable, I asked? Porche said it all starts with "ComplianceMAX Institute," their team of people who continuously monitor SEC and NASD regs and interpret how they apply to advisors. "We then take that information," says Porche, "and draw up implementation plans for the Chief Compliance Officer (CCO) — practices he or she must follow daily, monthly, quarterly or annually — lay them all out on a 12-month calendar, and then deliver it to our clients in monthly modules."

Is everything done via the Web — I mean, where's the human element? "We go out and do field audits to understand advisors' challenges," says Roth. "What we learn from those audits we feed into our workbooks." Workbooks are part of the ComplianceMAX system, as readers will learn more about below.

An increased level of human interaction is, as well, available with ResourcesPLUS™ which costs \$300/month but incorporates an open line of communication with experienced compliance specialists. The basic Resources offering is so complete, though, you may not need any specialist interaction. I would try Resources™ and move up to ResourcesPLUS™ only if you find there are gaps in the process that only a consultant can fill.

So let's look at how Resources™ works to give you a hands-on feel for it. Your CCO (*you*, in many cases) logs on monthly and reviews a main screen that looks something like this:

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ComplianceMAX... Continued

This page is the primary navigation point for all of your compliance assignments. From here, you can see at a glance all of your compliance assignments. Assignments are organized according to their status.

Please check the **My Assignments** box in order to review your current Compliance needs.

My Tasks List

Please perform the tasks associated with the workbooks listed below.

All Items Status: (any) Period: last year Assignment: (all)

Assignment	Status	Due	Tasks	Catalog
Select February IA Resources	In Review		2	Resources/IA/2006
Select January IA Resources	In Review	10/12/06	1	Resources/IA/2006

My New Assignments

These are your new assignments. Please select a workbook below to start your assignment.

Assignment	Status	Progress	Score
Select Anti-Money Laundering Independent Test NEW	Assigned	0%	0.00%
Select Investment Adviser Self-Audit NEW	Assigned	0%	0.00%
Select August IA Resources NEW	Assigned	0%	

My Active Assignments

My Closed Assignments

Manuals

These are your assigned manuals and procedures. Click on select to access a manual or procedure.

Assignment

- [Select](#) IA Policies and Procedures Manual
- [Select](#) Business Continuity Plan

Supervisory Tables

These are your supervisory tables. These tables are used to collect and store critical compliance data and are integral to your monthly compliance program.

Click on select to access a supervisory table.

Assignment

- [Select](#) IA Employee/Associated Persons Accounts
- [Select](#) IA Best Execution (Custodians/Brokers)
- [Select](#) IA Customer Account
- [Select](#) IA Hedge Fund Investor File

Documents

Click on the document to download.

- Model Documents (IA)
- Monthly Compliance Seminars (IA)

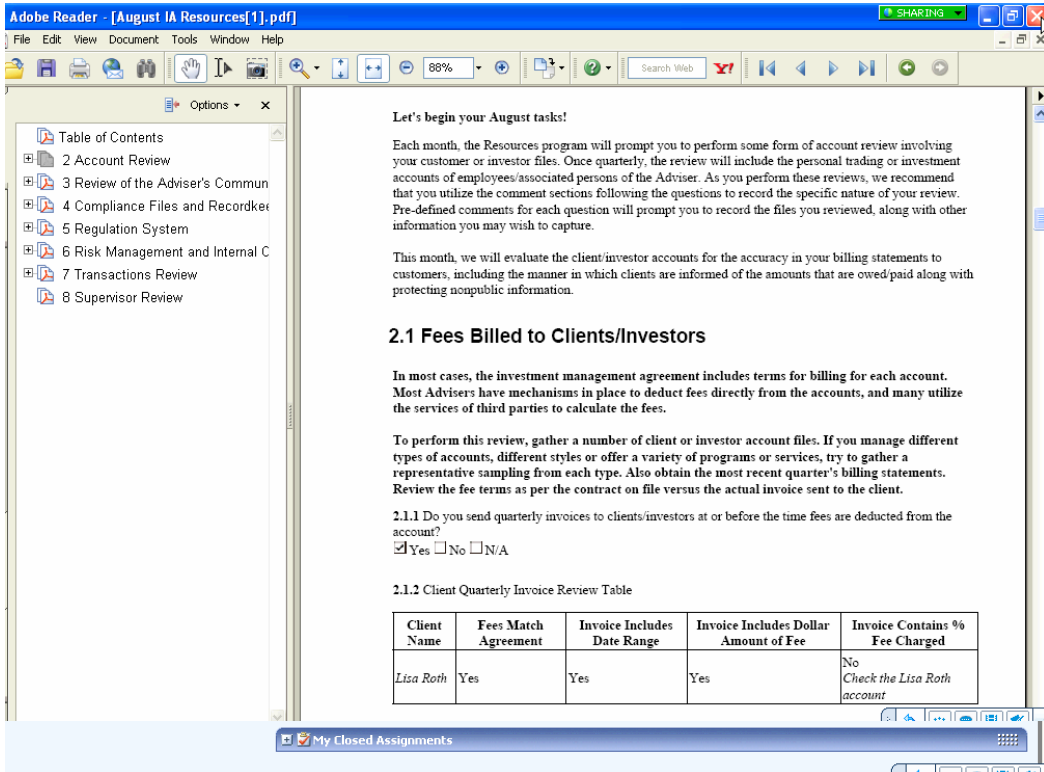
On the left are resources and work products, e.g., procedures manuals on which you are working, tables to collect and store information needed for compliance, such as employees' own investment account holdings, and critical documents ComplianceMAX makes available to you.

In the middle are two other types of sections: My Task List and Assignments. Under My Task List are tasks generated from the monthly workbooks, which are held under Assignments. Says Porche, "In Assignments, you see 'August IA Resources' which contains the CCO's monthly assignments and workbook for August 2006. These workbooks accumulate in the Assignments section as they are being completed."

"Actually, we look over clients' shoulders, and if we saw this much of an accumulation [example above], someone from consulting would have called the client and discussed the backup," says Roth.

Jumping into the August workbook (below), the navigation bar on the left shows the topics that were to be dealt with that month. "Some of these things need to be done every month, and others may just appear periodically throughout the year," says Porche. "We introduce the topic, give the advisor

ComplianceMAX... Continued



some background, and then ask the advisor to perform a test or activities related to that topic.”

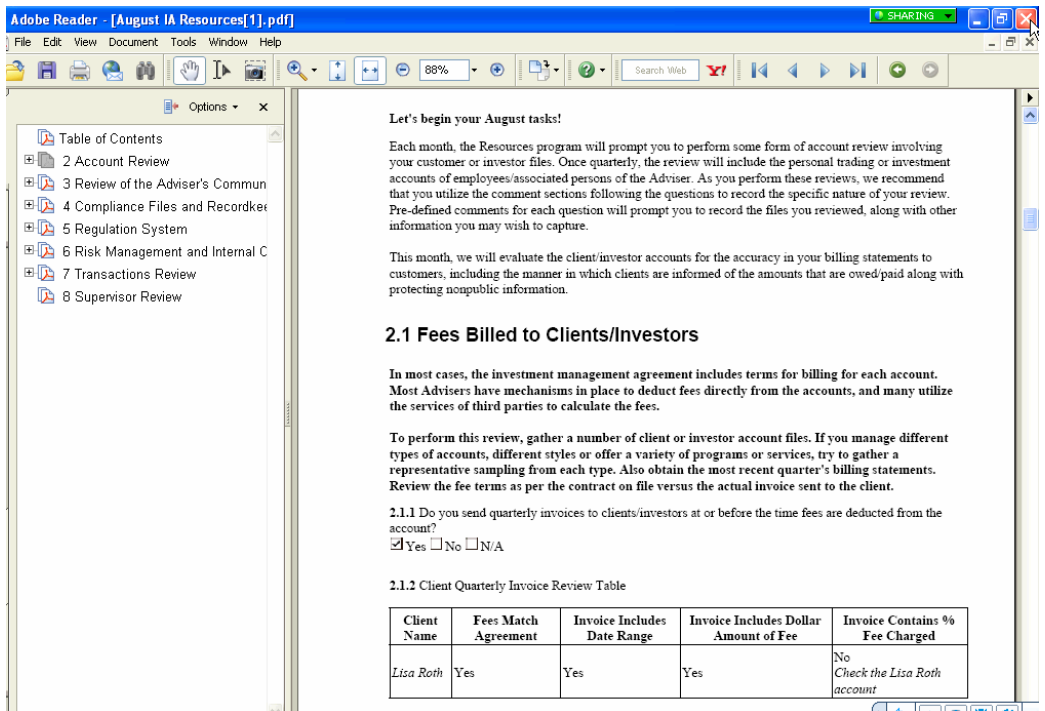
In completing the monthly Resource™ workbooks, says Porche, ComplianceMAX directs the advisor out to its supervisory tables or model documents library, as necessary, for the tools they will need.

The aforementioned manuals are there to be used for major workbook activities, like the creation of a policies and procedures manual, if the advisor

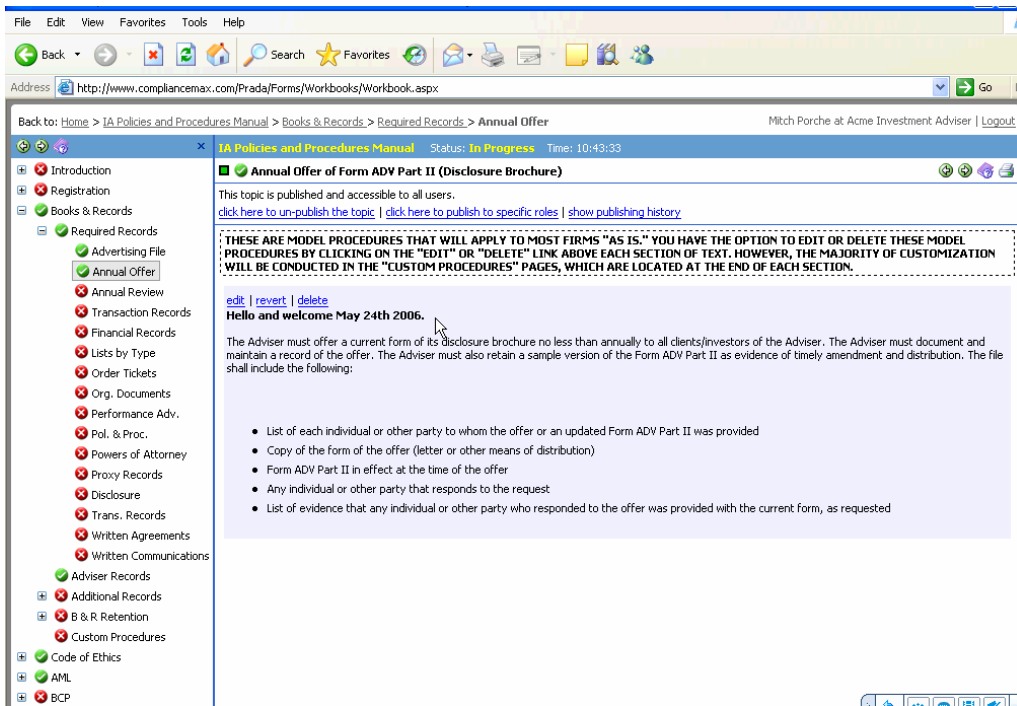
doesn't already have one. “It's a one size fits all manual,” says Porche, “the intent being that the advisor will customize it for her own firm.

Sound like a template operation? Not really, because ComplianceMAX provides page-by-page guidance through the process of completing the manual so that you make the right decisions along the way. It also tracks changes you make to the manual to create an audit trail.

The supervisory tables below the manuals, as mentioned earlier, help you collect data critical to your compliance program. And the model documents below the tables give you ready-made tools, such as a Privacy Policy you can send to clients. “Just go in the library and grab the form you need,” says Roth.

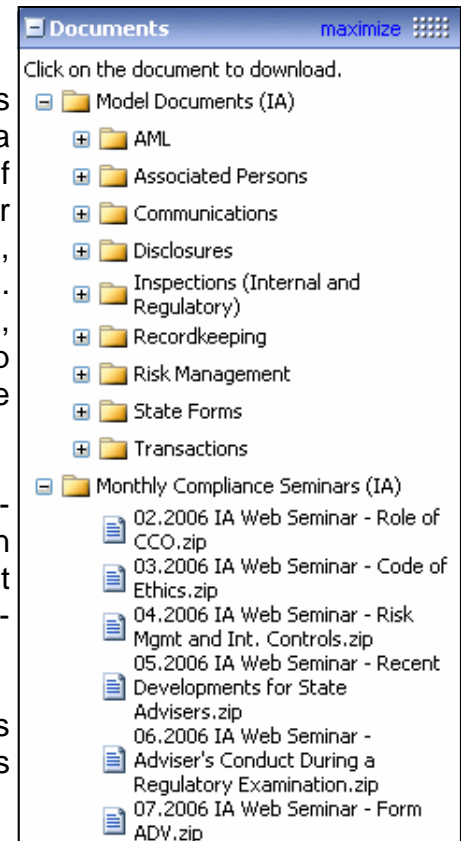


ComplianceMAX... Continued



Another listing under Documents is Monthly Compliance Seminars. “We do monthly seminars and the content is recorded for listening to later, along with PowerPoints and our quarterly newsletter,” she adds, “all of which are available on the website.”

Speaking to one of the advantages of their online system, Roth says, “When advisors were doing compliance with our earlier, paper-based systems, we didn’t know what each advisor was doing. Now, with Resources™, we can prompt them online and assist them more easily. We can also build rules into the system to prevent an advisor from doing something that could get them in trouble.”



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I asked, if the ComplianceMAX user is audited and shows regulators he’s keeping this program up to date, do they automatically give him a passing grade? “The regulators really like our system,” says Roth. “If an examiner asks how the advisor handles a compliance breach, for example, the advisor would say that when working in ComplianceMAX, a wrong answer generates a new task to correct whatever is wrong. That’s a really good answer from a regulator’s standpoint.” Adds Roth, Resources™ proves to regulators that the user/advisor is keeping up with compliance on an ongoing basis and thereby establishing the “culture of compliance” that regulators are looking for these days.

How about advisors who are just state-regulated... should they be using ComplianceMAX Resources™? “State regulators are usually blown away by ComplianceMAX. They might see it as a touch of overkill, but we do have a good number of state advisors on the program, particularly those who intend to grow into federally-covered advisors.”

Can advisors rely on ComplianceMAX to prepare for an audit? Says Porche, “The system incorporates a number of independent self audits and we’ll also do a real mock audit for a flat fee plus travel expenses.”

ComplianceMAX... *Continued*

It should be apparent by now that Resources™ is a unique system. It's comprehensive, highly organized, easy to use, and has artificial intelligence (auto-correcting) features that computers were built for — and, which humans regularly fail at. Unless you're still convinced you can save some cash by building your own compliance system (which I would argue is probably delusional), trying Resources™ on for size would seem to be a no-brainer.

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Virtual Office News is produced by...

<i>David J. Drucker, MBA, CFP</i>	<i>Joel P. Bruckenstein, CFP</i>
<i>Editor, Virtual Office News</i>	<i>Publisher, Virtual Office News</i>
<i>President, Sunset Financial Mgt., Inc.</i>	<i>President, Global Financial Advisors, Inc.</i>
<i>Albuquerque, NM</i>	<i>Miramar, FL</i>
<i>dd@daviddrucker.com</i>	<i>joel.bruckenstein@gmail.com</i>

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