



## **SDDCO's 10 Essential tips for Broker-Dealers Outsourcing Financial Duties**

*[The SDDCO Group of CPAs and consultants compiled a detailed checklist for broker-dealers looking to outsource their FINRA required, financial and operational responsibilities. Considerations include industry rules, provider reputation, background access, service models, face time, and fees.]*

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Broker-dealers have more to deal with these days. More regulatory requirements. More filing deadlines. More demands for transparency. Consequently, it's more of a challenge to run a brokerage firm while buttoning up the books, filing all the reports, and keeping the regulators satisfied.

The Right FinOp Matters:

Every US broker-dealer ("BD") is required to hire or align with a FINRA Series 27 or 28 licensed professional. A Series 27 Financial & Operations Principal ("FinOp") is empowered to perform the mandatory financial and operational functions of all BDs while the Series 28 license is limited by net capital rules. (NASD Rule 1022)

Outsourcing the Role:

Assigning the FinOp position to an outside professional, who will register with the BD, is a FINRA approved option. And, for many firms, it's a better option in terms of the high price of talent and experience. But as with any position to fill, understanding the job and properly evaluating the candidates is paramount. The SDDCO Group of CPAs and consultants assembled a detailed checklist for BDs looking to outsource their FINRA required, financial and operational responsibilities.

Forging a Good Alliance:

Know what every BD should know before signing up an outside FinOp:

1) Know the industry guidelines:

The NASD Notice 06-23 dates back to May of '06 but still states best the regulatory expectations of the FinOp position. (<http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p016627.pdf>)

2) Know a FinOp's reputation:

Network, research, and get references. Does a FinOp have a good rapport with clients? Maintain a good reputation with regulators? Hold other FINRA licenses or a CPA?

3) Know a FinOp's field experience:

Does the FinOp serve more institutional BDs or retail? Foreign securities or domestic? Emerging firms or established? Proprietary trading or private placements? Third party marketers or underwriters? Large BDs or small?

4) Know a FinOp's track record:

Get a detailed report on an individual FinOp via the FINRA BrokerCheck database (<http://brokercheck.finra.org/Search/Search.aspx>.) Find qualifications, employment history, and criminal or regulatory events, if any.

5) Know a FinOp's workload:

FINRA's BrokerCheck also lists current registrations, quantifying the BDs that an individual is already servicing. There's no official limit, but over a dozen firms could be overboard. On the flip side, if a FinOp is not registered with at least one firm, that FINRA license expires after two years of inactivity.

6) Know the levels of FinOp support:

An Assistant FinOp supports an in-house FinOp. A Designated FinOp is the licensed professional on record with FINRA and responsible for supervising the financial and operational duties. A CFO/FinOp assumes a variety of additional responsibilities.

7) Know the BD's back office needs:

And discuss the capabilities of the firm behind the FinOp. Does the firm also perform payroll and accounts payable? Bookkeeping, accounting and tax? Regulatory compliance and CCO functions? Multiple resources under one roof could afford convenience and more integrative service.

8) Know the duties a FinOp should assume:

(a) keeping accurate books and records; (b) preparing monthly financial statements; (c) performing member duties in line with Securities Exchange Act of 1934; (d) computing and monitoring net capital per SEC Rule 15c3-1 (e) filing timely reports, including the FOCUS, monthly or quarterly; the SSOI, quarterly; the SIPC, semiannually; and the FINRA Assessment Report, annually; and (f) interfacing with auditors and regulators.

9) Know the FinOp's work time and face time:

Will work be done remotely, on-site or in combination? Will on-site FinOp visits be monthly, quarterly or less? Will others be on the service team? And will mobile numbers be shared? Fully understand the resource allocation and accessibility.

10) Know the dollars involved:

Compare the fees of an outside FinOp to the salary and benefits package cost of a fulltime hire. Outsourcing the role can secure direct access to higher-level talent than a BD might otherwise afford.

Broker-Dealers Can Deal Upfront:

Brokerage firms can lessen the workload later by doing thorough legwork beforehand. "We created this checklist," said Rick Daniels, SDDCO FinOp, "to give the broker-dealer community key criteria to meet and steps to take when hiring a FinOp consultant. It's about BDs making an informed decision."

About The SDDCO Group

Founded 1952, The SDDCO Group delivers outsourced support to financial services clients including registered investment advisers, privately held funds, and domestic and international broker-dealers ranging in size and business lines. SDDCO services include levels of FinOp and accounting support and supervision, SEC and FINRA registrations, regulatory compliance consulting, tax assistance, AML testing, and brokerage advising.