

Thursday TIP

Account Periodic/Annual Review

A lot of information has been sent out by Securities America regarding the updates to their Inactivity policy and the new Account Periodic tool that will help with the monitoring of rep managed advisory accounts. There is a 17 minute 'Account Periodic Review' video within the Learning Corner. If you have missed any of the announcements you can go to the Training Tab on the business center, select Compliance, and the current top segment covers this topic. Within this section you will see the Policy updates, Frequently Asked Questions, Quickcards and webinar recordings.

There is also a new Annual Review Agenda form. Those who were using the Annual Review Certification form previously will see similarities in the forms. We reached out to a handful of associates within our group to get some feedback on modifications to make the form better. Attached is Sean's customization based on that feedback. He can provide this as a fillable PDF to anyone who would like to use this version. He will also help to further customize specific to your practice if you like.

Some of you are currently maintaining client notes in Redtail, sending an email summarizing those notes to clients following the meeting. These can easily be dropped in as support documentation when asked for annual review notes because they are dated.

Some offices have created client meeting note checklists to provide specific prompts geared to verify financials, risk tolerance, appropriateness of current strategy, with additional sections for action steps required either by the Financial professional or administrative staff.

Any of these are great tools to use. The key is to have a consistent system. We all know regulations are more likely to tighten than unwind. So develop practices that make it easiest for you to respond to requests for information.

Account Periodic mirrors the format of Trade Monitor Trade Summary so you should find navigation to be fairly simple. The resources referenced above will help with the basic navigation. Some of the nuances of note are:

 The filters run every Friday so fresh data will be in the tab on Mondays. If you assign someone to check for new items at the beginning of each week we can avoid flooding your inboxes by not checking the Send Email notification on each individual flag.

 Any accounts where there has been no action taken (21 or 24 months flags) will fire again 30ish days from when they first triggered. For example, if no action is taken on a 24 month flag that originally generated on 9/5, it will trigger again the Monday after 10/5 as a policy violation. At that time, once the flag is verified as valid, supervision will request the advisory agreement/fees be terminated. **Please note: Just like Large Cash/Zero Trades items within Compliance Tab didn't just go away by executing a trade, using the flag as an indicator to do a trade is not going to keep fees from being turned off. You have to address the flag by uploading your documentation showing you have met your obligations to have an annual review with the client. Those annual review notes, or a standalone note from the Financial Professional must explain why there was limited trading activity in the account justifying the maintenance of current fee structure.**

 It is also important to review whether an advisory account is wrap or unwrap. When the FAP accounts converted to Managed Ops earlier this year they were converted based on whether the rep originally indicated they would pay ticket charges or client would pay ticket charges, unless alternate

instructions were received. Since the decision can now be made on an account by account basis rather than tied to the rep code as a whole, it is important to review whether client account is coded correctly.

Wrapped account fee is all encompassing, no individual ticket charges paid by the client (with a few exceptions). If you have your client in an actively traded equity model with a lot of positions then a wrap account is likely the most appropriate structure.

Unwrapped accounts applicable ticket charges are paid by the client. If there is limited trading because the account was established for advisory share class investments like UITs or VAs, or your model consists of no transaction fee funds, this is the best option.

Additional factor for consideration is the actual size of an account. The wrap fee on a \$1million dollar account is different than the wrap fee on a \$10,000 account. Therefore, the number of ticket charges needed to offset is going to be different. Please review Thursday Tip-Rep Managed at NFS or Pershing Friday Edition (12/18/20) for a refresher on wrap vs unwrap fees.

Just like your practice may not look the same now as it did when you first started in this industry, your client's portfolio is going to change over time.

 If during a client review you discover the client should have been in wrap vs unwrapped or vice versa you can complete a goal modification with Managed Ops through the Service tab for the specific account. Your client will need to sign a new fee schedule and proposal.

 If you voluntarily turned the client fee off, you will need to review with supervision why those fees should be turned back on. If there is a valid reason, i.e. client wanted to stay in cash during the pandemic and now they are wanting to go back into the market, etc. you would also complete a goal modification as above.

 If your fees have been terminated for violating the 24 month policy the account will need to be repapered to an appropriate account type for the client. There is no turning the fees back on. **Additionally, Financial Professionals will be subject to a Letter of Caution for the policy violation that caused the fees to be turned off.**

 If during client review it is evident that advisory is no longer in line with client's suitability and they would be better served through a commission account you will need to generate new account paperwork and complete journal request form to move the assets from the advisory to commission account.

Some may see duplicate items to address within the previous Compliance Tab>Large Cash/Zero Trade system and within the new Account Periodic Review system. Please respond to the item in the Compliance Tab since it has been there the longest. Then a simple note can be entered in duplicate entry within Account Periodic indicating it was addressed in Compliance system.

Again, regulations are unlikely to simplify on this topic. So if the above makes you wonder how you are going to find enough hours in the day to be compliant, it may be time to evaluate some money managers. Third party managed accounts will not be part of account periodic inactivity reports. If you find a money manager that mirrors your investment style and is a match for your client's suitability/risk tolerance, they shoulder the responsibility of level of trade activity. You retain the obligation to complete an annual client review to make sure there are no changes in their financial means or goals, and that the current money manager is meeting their needs. The annual review requirement applies to all advisory accounts, not just those on SAA or APA platforms.