

Compliance Solutions

Staying prepared:  
A proactive  
approach to exams



*Own your tomorrow.*

# Refine your strategy with this essential checklist

Amid increasing regulatory scrutiny, SEC and FINRA exams remain a key point of concern for many companies. Success is all about preparation. From document organization to employee behavior, how you first show up can make a considerable difference in the way examiners perceive your organization. Use this checklist to help confidently guide your company through an exam.

## Pre-examination

Building the foundation to efficiently respond to exams is an ongoing process that starts long before you receive a notice.

### Phase 1: Remaining ready 24/7

- Keep a list of remedial actions promised after prior exams.
- Perform yearly, quarterly, or monthly reviews.
- Review current request letters annually.
- Get internal buy-in on who will deliver each listed item.
- Perform periodic mock exams to help train staff and identify weak points.

#### TIPS:

- Double-check that you're upholding your promises from the last exam or that you can explain why you aren't.
- Reduce production time by documenting currently requested items and their locations, and maintain your records in the format of the request list.
- Use the Schwab Compliance Technologies® (SCT) Calendar function within Case Management as a planning tool to schedule reviews and scope and assign reviewers.
- Talk to your RM about how Compliance Solutions Client Services can help you retrain on the Case Management software.

### Phase 2: Receiving a notice

- Inform employees of the exam and their responsibilities.
- Review the letter for ambiguous requests, and ask for clarification.
- Determine whether requests seem unreasonably large; if so, negotiate a smaller sample size with the exam staff.
- Prepare employees for anticipated interviews, and specify appropriate office behavior.
- Determine a comfortable workspace for examiners, one that has a door and is away from heavy foot traffic.
- Alert all employees who work near where the examiners will be stationed.

#### TIPS:

- Create a case in SCT called "Examination Notification" to document who sent the notice and when it was received, plus all internal notifications and actions taken.
- Advise employees to limit business conversations to appropriate meeting places when an exam is under way.
- Ensure employees know how to answer questions honestly and aren't afraid to say, "I don't know." There shouldn't be any guessing. It's better to come back later with an answer.

### Phase 3: Compiling documents

- Review, or have your delegate review, all reports, electronic files, etc., before turning them over.
- Gather and label documents with the request number.
- Provide only the material that's been requested.
- Make three copies of requested documents so the examiners, the CCO, and general counsel all have them.

#### TIPS:

- An organized presentation of documents sets a good tone for the exam and makes it easier for you to retrieve information.
- Review document requests to see if you can pinpoint key themes or areas of investigation as the exam progresses.

# On-site examination

Concrete procedures—plus a healthy dose of practice—help you prepare your company and employees to show up well before exam staff.

## Phase 4: Setting up for the examiners

- Greet examiners and ask for business cards to confirm they're who you were expecting.
- Introduce examiners to their contact person, generally the CCO.
- Make the CCO and delegate available to meet with examiners, give them an office tour, and introduce them to senior management as appropriate.
- Have firm principals discuss your business and compliance program with examiners.
- Walk examiners to their working space, preferably far from the operations area.
- Make sure the contact person reviews all document requests.

### TIPS:

- Make the examiners feel comfortable. The staff can become great contacts after the exam, especially if you have questions later.
- Holding a meeting with principals and examiners demonstrates that compliance is important to your firm.

## Phase 5: Guiding employee interviews

- Encourage examiners to interview employees who can best state their responsibilities.
- Listen carefully to the questions and responses, and step in as needed.

### TIPS:

- The CCO and delegate should sit in on all interviews. Make sure employees know not to answer questions without the CCO or designated contact present.
- Remember, employees will not always understand the examiners' questions or may interpret them incorrectly if the designated contact is not present. That's why the designated contact person must be in the room for all interviews.

## Phase 6: Providing supplemental documents

- Set up daily check-ins with compliance staff and the CCO to review progress and outstanding requests.
- Hold regular meetings with the CCO and senior management to provide updates and progress reports.
- Deliver documents quickly, but make sure they're reviewed first.
- Keep a list and copies of all provided documents.
- Check regularly with the examiners to ensure they have all they need.
- Communicate a delivery timeline for outstanding items.
- Attempt to make any corrections before the exit interview.

### TIPS:

- Avoid giving examiners free rein to use your office or copier. That way, you know exactly what information they have and what they think might be important.
- Respond to identified issues while the examiners are still in your office. You may be able to agree on a resolution before they finish the examination.

## Phase 7: Navigating the exit interview

- Confirm outstanding items.
- Get agreement on materials requested but not provided.
- Make sure there are no misunderstandings from the exam.

### TIPS:

- In this meeting, you can proactively clear up confusion and prevent issues from appearing in your deficiency letter.

# Post-examination

The exam isn't over when the examiners leave your office. Remain proactive until any deficiencies are received, and take care to implement sound policies in response to them.

## Phase 8: Checking back after the on-site exam

- Contact the examiners after they are back in their office.
- Confirm there are no outstanding questions.

### TIPS:

- This is your last chance to address any issues of concern before the examiners make final decisions.

## Phase 9: Responding to a deficiency letter

- Consult with legal counsel on major issues before responding.

### TIPS:

- Don't overpromise. The staff will check your commitments in subsequent exams, so you must be able to deliver on them.

Exam success relies on staying organized, informed, and prepared—always.

Reduce surprises by building a robust employee-monitoring program with Schwab Compliance Technologies® and Schwab's designated brokerage services at your side.

**Talk to your relationship manager or call 877-456-0777 to learn more.**

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AHA (0218-8SP8) GDE93042-01 (02/18)

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