Sandra Sensebe, Examination Manager, FINRA, Dallas District Office

Sandra Sensebe is an examination manager for FINRA within the Dallas District Office. Ms. Sensebe began her career in 1998 as an examiner in the New Orleans District Office, relocating to the Dallas District Office in 2005. Her responsibilities centered primarily on cause matters, with a focus on Class B Mutual Fund Share issues, as well as the mutual fund breakpoint sweep. In 2012, Ms. Sensebe was promoted to an examination manager, where she supervises a team of examiners and oversees the execution of cause examinations. She graduated with a bachelor’s degree in Finance from Louisiana State University.

Greg Brown, Examination Manager, FINRA, Dallas District Office

Greg Brown is an examination manager in FINRA’s Dallas District Office. He began his career in 2006 as an examiner in the Florida District Office, where he conducted reviews involving routine, cause and membership application matters. Specifically, Mr. Brown spent the majority of his time participating in high-profile examinations involving issues with private offerings, improper trading and outside business activities. In 2012, he relocated to Dallas to become an examination manager, where he supervises a team of examiners and oversees the execution of routine examinations. Greg graduated with a bachelor’s degree in Finance from the Florida State University.

Laura Cognetti-Bornheimer, Senior Vice President and Chief Compliance Officer, GWN Securities, Inc.

Laura J. Cognetti-Bornheimer is currently Senior Vice President and Chief Compliance Officer of GWN Securities, Inc. She entered the securities industry in 1987 as an operations manager with a national broker-dealer. With an extensive background in broker-dealer operations, she transferred into compliance in 1992. In 1994, she became Vice President and Chief Compliance Officer of PMG Securities, Inc. In 2004, she joined GWN Securities, Inc. as Vice President and Chief Compliance Officer. As a start-up firm, her primary task was to create and establish the compliance model for the firm. Today, her current responsibilities include overseeing the overall compliance of the firm as well as reviewing and monitoring the firm’s compliance with FINRA rules. Ms. Cognetti-Bornheimer is currently a chair arbitrator and obtained the Certified Regulatory and Compliance Professional (CRCP) designation in 2004.

Ron Klimas, Senior Vice President and Director of Compliance, Securities Service Network, Inc.

Ron Klimas is Senior Vice President, Director of Compliance with Securities Service Network, Inc., a Knoxville, TN-based independent contractor broker-dealer with approximately 400 producing registered representatives. He has been the head of compliance at SSN since 1998. Mr. Klimas graduated from Widener University School of Law in 1992 and is a member of the Florida Bar Association. He initially started in the industry as a retail broker but quickly moved onto compliance. In the early part of his career, he worked as compliance examiner with INVEST Financial Corporation, and also served as in-house counsel for InterSecurities, Inc. and Western Reserve Life. Mr. Klimas’ registrations include Series 4, 7, 24, 63 and 65.
South Region Compliance Seminar
Branch Office Supervision
November 20, 2014

Developing a Supervisory Program

- Moderator – Sandra Sensebe, Examination Manager, FINRA Dallas District Office
- Panelist – Greg Brown, Examination Manager, FINRA Dallas District Office
- Panelist – Ron Klimas, Compliance Director, Securities Service Network, Inc.
- Panelist – Laura Cognetti-Bornheimer, SVP and CCO, GWN Securities, Inc.
Developing a Supervisory Program

- Key considerations for an effective supervisory program
  - Firm model / business lines
    - U.S. vs. foreign-based operations
    - Introducing vs. self-clearing
    - Independent contractor model
    - FINRA, NYSE, SEC and state-registered investment advisory business
    - Niche-based business
    - Proprietary trading, market making, employee stock services, public finance, etc.
  - Products offered
    - Complexity of the products
    - Concentration in certain products
  - Types of customers serviced
    - Seniors, high net-worth investors, etc.

Developing a Branch Office Inspection Program

- Inspection cycles
  - Office of supervisory jurisdiction and non-OSJ branches that supervise non-branch locations
    - Annually
  - Non-supervising branch offices
    - Every three years

- Factors to consider when developing an inspection program
  - Use a “risk-based” approach
  - Know your resources
  - Consider frequency of visits
  - Perform announced vs. unannounced visits
Branch Office Inspection Program Implementation

- A broker-dealer’s branch inspection program is a key part of its supervisory system
  - Firms with an effective branch office inspection program, typically have:
    - Tailored the focus of branch exams to the business conducted in that branch
    - Engaged in a significant percentage of unannounced exams, selected through a combination of risk-based analysis and random selection
    - Scheduled the frequency and intensity of exams based on underlying risk posed at the branch
    - Deployed senior branch office examiners who understand the business and will challenge assumptions

Roles and Responsibilities

- Supervision of branch offices can be centralized (offsite) or decentralized (onsite)
  - Field supervisor / branch manager may perform the following supervisory responsibilities
    - Review and approve new accounts and trades
    - Monitor trends
    - Handle and investigate customer complaints
    - Review and approve correspondence
    - Maintain office such as physical safeguards, information security (e.g., shredding)
    - Hiring / firing
    - Preparation of advertising or marketing materials
    - Monitor and report gifts, gratuities and entertainment
    - Conduct annual compliance interviews with registered representatives and client file reviews
    - Conduct firm Element (Annual Compliance Meeting)
Roles and Responsibilities

- **Home office may perform the following supervisory responsibilities**
  - Review of field supervisor’s / branch manager’s producing and supervisory activities
  - Conduct onsite visits
  - Report and investigate customer complaints
  - Approve advertising and marketing materials
  - Conduct certain specialized reviews (e.g., unique product oversight, broad-based email reviews, etc.)

Roles and Responsibilities

- **The compliance department should**
  - Maintain and support supervisory procedures
  - Develop compliance training programs
  - Review, approve and archive advertising and sales materials
  - Handle reporting of customer complaints
  - Conduct investigations of representatives
  - Facilitate periodic reporting requirements
  - Conduct email and social networking reviews
  - Conduct personal trading and outside activity reviews
Preparing for a Branch Office Inspection

■ Exam preparation pre-onsite visit
  • Examiners should prepare by gathering as much information as possible
    – Google representatives to help identify outside business activities
    – Notify other areas in home office of upcoming visit to solicit any concerns and / or areas to be reviewed
    – Review areas of concern identified during monthly home office OSJ oversight meetings
    – Review transaction and trend monitoring system reports to identify any concerns / areas to be reviewed
    – Obtain completed questionnaires from representatives prior to inspections

Executing a Branch Office Inspection

■ What to do when onsite?
  • Discuss completed representative questionnaires
  • Review required books and records
  • Review client files for suitability documentation
  • Review supervision files
  • Tour the branch

■ Pursuant to NASD Rule 3010, the written inspection report must also include the testing and verification of the firm's policies in
  • Safeguarding of customer funds and securities
  • Maintaining books and records
  • Transmittal of funds between customers and registered representatives and between customers and third parties
  • Validation of customer address changes
  • Validation of changes in customer account information
Learning from a Branch Office Inspection

- Assess the risk associated with findings by weighing aggravating and mitigating factors
  - Isolated or systemic
  - Procedural deficiency
  - Customer harm
  - Repeat finding
  - Administrative oversight

How to Address Branch Office Inspection Findings

- There are several best practices to address findings from the branch inspection process
  - Develop and implement escalation process
  - Communicate findings to branch office management
  - Implement corrective action process
  - Leverage findings in ongoing training efforts
  - Implement heightened supervision
  - Develop feedback loop
Branch Office Inspection Program Deficiencies

- FINRA and the SEC have noted that firms with significant deficiencies in their overall program, typically:
  - Utilize generic examination procedures for all branch offices
  - Leverage novice or unseasoned branch office examiners
  - Perform the inspection in a “check the box” fashion
  - Devote minimal time to each exam

- FINRA and the SEC have noted that firms with significant deficiencies in their overall program, typically (cont’d):
  - Fail to follow the firm’s own policies and procedures by
    - Not inspecting branch offices as required
    - Announcing exams that were supposed to be unannounced
    - Failing to generate a written inspection report
  - Fail to have adequate policies and procedures
  - Lack heightened supervision of individuals with disciplinary histories or individuals previously associated with a firm with a disciplinary history
Branch Office Inspection Program Sound Practices

- FINRA and the SEC have identified some strong compliance practices, which include:
  - Using risk analysis to determine frequency of branch inspections
  - Using surveillance reports and current technology to help identify risk
  - Employing checklists that incorporate previous inspection findings and trends from internal reports
  - Tracking corrective action that is taken
  - Elevating the frequency and/or scope of branch inspections when necessary

- FINRA and the SEC have identified some strong compliance practices, which include (cont’d):
  - Conducting unannounced branch inspections
  - Including in the written report of each branch inspection any noted deficiencies and areas of improvement
  - Using examiners with sufficient experience
  - Designing procedures to avoid conflicts of interest
  - Involving qualified senior personnel in several branch office examinations per year
  - Providing branch office inspection findings to management
  - Using a centralized compliance database
  - Requiring branch office managers to take corrective action on findings
### FINRA and SEC Examinations

#### Common Areas of Review
- Supervision
- Customer Specific Suitability
- Correspondence
- Outside Business Activities
- Onboarding Process
- Items on the FINRA Examination Priorities Letter

### FINRA and SEC Examinations

#### Common Findings
- Supervision of Outside Business Activities
  - Investment Advisor Activities
  - Non-Securities Activities that Trigger a Suitability Requirement
- Outside websites and email addresses
- Social Media
Detection Tips

- Popular Resources
  - Internet Search Engines
  - Archive.org
  - Social Networking Sites
    - Facebook, Twitter, MySpace, LinkedIn
  - SEC EDGAR
  - State-Specific Division of Corporations
    - Sunbiz.org, etc.
  - Public Records Sites/Lexis-Nexis
Detection Tips

Detection Tips

Search Results for Jan 01, 1996 - Nov 28, 2008

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Detection Tips

Search the Next Generation EDgar System

U.S. Securities and Exchange Commission

Search Tips:

- Keyword search
- Company name
- SEC No.
- Date range
- Filing type
- Search within filing

Customized searches:

- By tickers
- By issuer's name
- By filing type
- By SEC No.
- By date
- By filing type

News Resources:

- Press releases
- SEC releases
- News articles
- SEC Bulletins

Visit SEC's website for more information.
## Tools and Resources

### SEC Resources
- Staff Legal Bulletin No.17: Remote Office Supervision

### FINRA Resources
- NASD Notice to Members 99-45, NASD Provides Guidance on Supervisory Responsibilities (June 1999)

### Branch CRD registration