

CHECKLIST

FOR REGISTERED REPS CONSIDERING A BROKER/DEALER CHANGE



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Let's face it; the thought of changing broker/dealers is terrifying. The terror is usually caused by fear of the unknown. In this article, I'll try to address most of these fears and outline the process to make the right decision and follow it through.

WHEN SHOULD I CONSIDER MAKING A CHANGE?

There are lots of reasons to consider a B/D change.

- **The firm is going out of business** - This one is obvious and is happening more frequently. The typical scenario is when a small firm with marginal excess net capital is hit with one or more large complaints or arbitrations. Although the E&O carrier may cover the majority of the claims, the deductibles payable by the firm exceed their net capital. This could result in an immediate forced closure by FINRA.
- **The firm is having trouble meeting minimum net capital requirements** - See above. A firm's net capital requirement is set by FINRA and is dependent on the size of the firm and the types of products it sells. Excess net capital is the amount of cash on hand in excess of the minimum requirement. Firms struggling to meet *minimum* net capital requirements should be avoided.
- **Cultural mis-match** - This is often the result of not doing enough homework prior to joining the firm. Let's say you are an advisor building a fee based practice. If you are affiliated with B/D owned by an insurance company, you may be in the minority because you are not selling their proprietary products. Or, your practice is mainly selling "package" products (mutual funds, VAs, etc) but you are affiliated with a large wirehouse whose primary business is stocks and bonds. Although either of these situations is workable, the

mis-match between your practice and their business could impede your future growth.

- **Change in firm ownership** - The firm you have been with for many years decides to sell out to or merge with another B/D. This is disclosed to the field as great news. It's usually great news for the owners who are walking away with big checks but the individual reps may have another opinion - new leadership, new culture, new systems and lots of changes for you and your clients. The big decision is; do I stay and see what happens or do I leave immediately? This is a tough decision but keep in mind that if you take a wait and see attitude, your ability to execute a graceful exit may be impeded. This is because the new firm will want to re-paper the clients with their forms. If your clients go through this process and you decide after the fact to make a move, a significant number of your clients will be tired of doing paperwork and may choose to remain behind.
- **Change in senior management** - Like it or not, a firm takes on the complexion of its leader. Therefore, a change in senior management could actually be great news or bad news.
- **Too large or too small** - Like Goldilocks, you want a firm that's "just right." The largest BDs may leave you feeling like a number and insignificant. On the other hand, a firm that's too small poses its own set of risks; Net capital issues have already been discussed. In addition, small firms may only offer a limited menu of product choices and not be large enough to demand favorable pricing on tools and technology.
- **Recent, significant regulatory issues at the firm** - All firms will show some type of regulatory history. You should pay attention to significant fines for serious violations or net capital issues.

WHEN SHOULD I NOT CONSIDER MAKING A B/D CHANGE?

Although there are plenty of reasons to change B/Ds, there are also situations where a B/D change would not be advised.

- If you have been with more than two broker/dealers in the last five years – If you were interviewing someone for your staff and their resume showed multiple employers over a short period of time, would you hire them? With the cost of hiring and maintaining a registered rep, most firms would do the same. The only common denominator is *you*.
- If you are in the midst of a compliance or regulator investigation – It's always best to close the issue before making a change – otherwise the new firm may be hesitant to move forward and regulators may smell something fishy.
- If you have trouble meeting minimum production requirements – Every BD is getting pressure about reps “hanging” their license. In addition, the vast majority of compliance and regulatory issues arise from minimum production reps.

YOUR MIND IS MADE UP. NOW WHAT?

My Dad was a carpenter. He taught me to “measure twice and cut once.” You can't do too much homework in this phase.

- Determine what you are looking for – Be specific about your requirements and be sure to get specific answers.
- Interview as many B/Ds as possible
- Ask a lot of questions
 - What is your excess net capital? As we mentioned earlier, this will tell you a lot about the financial stability of the firm.
 - Who do you clear through? Although not a veto item, if your old firm and new firm both clear through the same entity (Pershing, for example), you may be able to negotiate reduced fees for your clients.
 - What is your position on fixed Index annuities (FIAs)? If you are selling these products, it's important you understand how the firm has chosen to supervise them according to Notice to Members 05-50.
 - What will it cost me to affiliate with the firm? What will my annual costs be? Beware of monthly affiliation fees or technology fees. Often, firms will trade high payout percentages for exorbitant fees.

- How many reps does the firm have? What is your average production per producing rep?
- Who will be my immediate supervisor or OSJ? This is the person with whom you will have the most contact on a daily basis.
- Look for a cultural match. Ask yourself, “I will be doing business with these people for a long time. Do I really like them?”
- Ask for references (or find them on your own). Ask for the good and the bad.
- Look up the firm's regulatory information at www.finra.org
- Don't be blinded by upfront cash offers (see my article, “The Truth Behind Securities Payout Offers”)

CREATE A TRANSITION PLAN

You've made your decision – congratulations. Now the *real* work begins.

- Read your Registered Rep Agreement with your current firm and be sure you understand all your (and their) obligations
 - What is your pre-notice requirement?
 - What is their policy on paying commissions to resigning reps?
- Are there other agreements you need to review? If you signed a forgivable note agreement when you joined your firm, there may be significant penalties imposed upon early termination
- Select a resignation date. This sounds simple but it may be the hardest decision you have to make. The resignation date can be affected by many factors
 - What is the makeup of your current book of business? If you have a large book of 12b-1 or fee business that generates income quarterly, you may want to pick a resignation date in the middle of April, July, October, or January in order to allow commissions from the previous quarter to be paid to you from the old B/D. You then have three months to get these accounts moved so commissions flow through the new firm.
 - Make the effective date a Friday
 - Don't confuse notice date with resignation date. In the above example, if your resignation date will be Friday, July 15th and your firm has a 30-day pre-notice requirement, your notice of resignation should be received by them on June 15th to be effective July 15th. It's always a good idea to send this notice FedEx so you have a delivery confirmation.
- Create a project plan. Everything is driven off the resignation date.

BROKER/DEALER CHANGE PROJECT PLAN

ASSUMING A 30-DAY PRE-NOTICE REQUIREMENT

BEGIN	END	ASSIGNED TO	TASK
-90	-60	Rep	Identify the new broker/dealer
-60	-60	Rep	Complete pre-hire screening
-60	-60	Rep	Select a resignation date
-45	-45	Rep	Complete U4 (To be held until resignation date)
-60	-30	Admin	Begin capturing all client data. Although unlikely, assume you will lose access to all web based information the day your resignation is received.
-60	-30	Admin	Download electronic versions of all client information clearing firm and broker/dealer databases
-60	-30	Admin	Download most recent account statements and previous year-end statements
-60	-30	Admin	Clean up and/or create your CRM system to expedite document preparation
-60	-30	Admin	Create a plan for document preparation. Typically, this breaks down to ACAT transfers for brokerage accounts and Dealer Change forms for direct accounts like mutual funds or VAs. Document systems like LaserApp are ideal for this purpose and can usually link to your existing CRM system.
-30	-30	Rep	Send notice of resignation
-30	0	Admin	Document preparation and organization. Generate transition packages for every account and group by household.
-30	0	Rep	Notify major vendors of intent to move
-30	+60	Admin	Work with new B/D transition team
-30	0	Rep	When working with clients inform them of your plans and tell them to expect paperwork in the near future. To avoid a potential selling away issue, be sure no paperwork for the new firm is presented to or signed by a client prior to the resignation date.
0	0	Rep	Resignation Date
		Admin	Send Dealer Change or ACAT packages
+1	+30	Rep	Meet with A and B clients as necessary
+1	+30	Rep	Identify new or previously undisclosed assets
+1	+30	Rep	Ask for referrals to build up your "pipeline"
+1	+30	Rep	Handle client calls and questions
+14	+30	Admin	Reminder calls to clients who have not returned paperwork
+30	+60	Admin	Clean up final missing documents

YOU MAY BE INDEPENDENT BUT YOU ARE NOT ALONE

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