



HOW TO HANDLE A REGULATOR INSPECTION

— By Thomas R. Kestler, CFP, CLU, ChFC, CMFC —

A regulator visiting your office can be an intimidating experience. But, just like anything else, practice makes perfect. We have found it helpful to educate all employees – especially frontline personnel – on the steps to follow whenever the unexpected occurs.

Most regulator visits are scheduled in advance but occasionally happen on an unannounced basis. Don't read anything into either. Visits can occur for multiple reasons:

- Your name was picked at random – lucky you
- The regulator was in your area to see another rep and decided to do a “cold call” at your office
- During an inspection at your firm's home office, they came up with a list of reps to visit
- A recent client complaint has put your name on the radar screen

Whatever the reason for the visit, the way you handle the visit can go a long way towards a favorable outcome. In a perfect world, the site inspections conducted by your own firm are designed to prepare you for one of these visits. Unfortunately, many reps tell us the inspections conducted by their firm are either overly oppressive or a golf outing in disguise.

When we conduct site inspections at our branch offices, we have three goals:

1. To ensure that the office is abiding by all firm and FINRA policies and procedures
2. To provide a detailed report for the firm (and our files) that the inspection was conducted
3. To identify and remedy any issues that need to be addressed, and
4. To help the rep and his/her staff to run a more efficient and profitable business

One of the tools we provide to our branches is our Fire Drill Procedures document. This is something we review with our entire staff on a regular basis. Just like a fire drill, this document walks through the step by step procedures to handle any type of regulator inspection. (If you'd like a copy of this document, send me an e-mail at tkestler@cfiemail.com).

Your firm probably requires you to contact them immediately at the outset of a regulator visit. They will most likely outline how they would like you to proceed.

Once the inspection begins, the regulator will usually ask to see:

- Your logs and blotters for the past several months
- Your advertising file
- Your personnel file (which contains your current U4 and all updates)
- Your correspondence file

From these, he or she will typically ask to see specific client files. Be sure to give them everything they ask for – nothing more, nothing less.

It is important to maintain a knowledgeable and business-like demeanor throughout the inspection. Regulators understand that you have a business to run and typically try to be as unobtrusive as possible.

Once they have completed their inspection, they will usually conduct an exit interview where they will summarize their findings. After leaving, they will report their findings to their superiors and go visit the next person on their list. If there are issues that need to be addressed, they will typically notify your firm. If everything is up to snuff, you will probably never hear from them again. No news is good news – You will never receive a communication saying “you passed.”