MINDY DIAMOND ON INDEPENDENCE
A PODCAST FOR FINANCIAL ADVISORS CONSIDERING CHANGE

EPISODE TRANSCRIPT

Demystifying Compliance for RIAs: What You Need to Know

A conversation with Christopher Winn, CEO and Lead Consultant, AdvisorAssist

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is demystifying compliance for RIAs, what you need to know. It's a conversation with Christopher Wynn, founder and CEO of AdvisorAssist. I'm Mindy Diamond, and this is Mindy Diamond on independence.

Mindy Diamond:

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Mindy Diamond:

There are a few words in the wealth management lexicon that draw greater consternation amongst advisers, and that word is compliance. Yet it's the very fabric by which financial advisory businesses operate serving as the proverbial guardrails that all advisors operate within, whether they are seated in a big brokerage firm or independent business owners or somewhere in between. But for all the power that compliance wields, it remains somewhat amorphous in terms of the actual processes around it. Because if you're seated at a wire-house, compliance is managed for you. There's no need for concern other than following the firm's rules and coloring between the lines.

Mindy Diamond:

But what happens if you go independent? Who manages all of it? And what is it that even needs to be done? That's an important question. One that often stops advisors dead in their tracks when considering the leap. So Louis Diamond invited Chris Winn, founder and CEO of AdvisorAssist to this episode.

Mindy Diamond:

Chris launched AdvisorAssist in 2006 to provide comprehensive support to elite advisory firms, seeking independence and risk managed growth. With over 27 years of investment management industry experience and a focus on RIA formation, regulatory compliance, business transformation, and operations, Chris has worked closely with some 2000 plus firms to design, build and launch their RIAs. AdvisorAssist is one of the leaders in the space, managing compliance for over 600 RIAs with 150 billion in assets under management. Louis and Chris have their sights set on deconstructing the complexities around RIAs, how they manage compliance, the role of the chief compliance officer and a firm like AdvisorAssist. Plus they'll dissect the launch of an RIA firm and provide actionable advice for prospective breakaways.

Demystifying Compliance for RIAs: What You Need to Know

A conversation with Christopher Winn, CEO and Lead Consultant, AdvisorAssist

Mindy Diamond:

It's an episode designed to make compliance less daunting and provide some clarity around what you need to be aware of before starting your own RIA. So let's get to it.

Louis Diamond:

Thank you so much Chris for joining us today.

Chris Winn:

Oh, thank you for having me.

Louis Diamond:

Let's kick us off here. And can you tell us a little bit about your background and how you came to found AdvisorAssist in the first place?

Chris Winn:

Absolutely. I started AdvisorAssist after a career at Evergreen Investments, which is currently rolled into Wells Fargo. Previously they were First Union and then Wachovia Securities and essentially helped them grow from about 2 billion to 180 billion, mostly through mergers and acquisitions. And I was one of the few compliance folks before compliance was a requirement. Then back in 2004, the SEC implemented the CCO rule, which required firms to have a chief compliance officer. And I had the real appreciation for the entrepreneurial firm and saw the challenges that firms across the country were going to have with implementing compliance programs. And not everybody had a in-house counsel and an army of lawyers and others to help them manage the compliance programs and the risks there. So that's what really framed the concept.

Chris Winn:

But the unique aspect of how we designed this was really stemming from my operations and risk management background. So unlike a lot of compliance firms, we get into really the how and the why, and that really stems from that background.

Louis Diamond:

Excellent. It's hard to believe that it wasn't until 2004 that the SEC required a chief compliance officer for an RIA.

Chris Winn:

I don't believe it. I was half of the one and a half people that were doing compliance for that huge organization at the time.

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Louis Diamond:

Very interesting. And just like so many of our business owner audience, and you saw a gap or a need in the marketplace, and that's really what's been one of the more exciting things about the development of the RIA space, is the whole ecosystem that's been created to support, not just breakaway advisors, but independent advisors to begin with. So can you hit a little bit on the AdvisorAssist value proposition? What is it that you do for your RIA clients and for advisors that are considering breaking away for the first time?

Chris Winn:

Absolutely. But we help advisors in two, what I'll call, major phases of their life cycle. On the front end, where we help with the strategic design, build and transition into their RIA. So essentially helping them build it from scratch and then helping them protect themselves as they transition into their RIA. Then once they're up and running and established, we have structured compliance programs to help them mitigate the risk. So we're essentially their partner and an extension of their staff reporting into their management and their CCO to help protect them once they're live.

Louis Diamond:

That makes sense. So there's the upfront work and then the ongoing compliance quarterback role after they're already independent.

Chris Winn:

Absolutely.

Louis Diamond:

And roughly how many firms or clients do you serve today?

Chris Winn:

We serve over 600 registered investment advisors with approximately 150 billion in assets under management.

Louis Diamond:

Wow. And did most of them start as breakaways or have a lot of the clients been RIAs for a long time?

Chris Winn:

They come from several sources. Breakaways, those that have grown out of an independent broker dealer relationship, those that were in the institutional space and spun out of there, accounting and law firms that expanded their scope of services. And now as the RIA marketplace has matured a bit, I would not call it a fully mature, we are seeing those that are leaving other RIAs to start their own RIA.

Louis Diamond:

Very interesting. And compliance is a really scary concept for probably most advisors, but especially those who have spent a career practicing at one of the major wirehouses. It's compliance is seen as the enemy, it's what's getting in their way. But at the same time, everyone knows how important compliance is. And no one wants to read about themselves and the cover of The Wall Street Journal or in AdvisorHub for a mistake they made. So it's a really important concept, which is why we're here, is to demystify what it means to be the chief compliance officer or to be liable or responsible for compliance in the RIA space, especially in partnership with a company like AdvisorAssist.

Louis Diamond:

One of the biggest questions we get from some of our prospective breakaway clients, whether that means coming from a wirehouse or from an independent broker dealer is, "Do I, as the advisor, need to be the chief compliance officer?" So I'll ask the question in two parts. One, does AdvisorAssist become the outsource chief compliance officer, is one question, and second, does each RIA need to have their own CCO?

Chris Winn:

Yes. Well actually, if you don't mind me answering those in reverse, each advisor must have a CCO. So the registered firm must have in a person rule 206(4)-7 of the advisors act requires the chief compliance officer. And the role of the CCO is a knowledgeable person that has the ability to implement and enforce a compliance program. So that's pretty much verbatim from the rule.

Chris Winn:

Now, firms can outsource that role. The challenge is, and really the way the SEC has looked at this, is that can that outsource provider really be involved in all aspects of your risk management? So we do offer that as a service on a selective basis, but mostly it's more time-bound. And the reason is that we really want to help the firms build, grow and protect themselves and get themselves to a place where they are focusing on what's most important.

Chris Winn:

So with most of our clients, we provide, what I'll call, a compliance office. We are the arms and legs, the eyes and ears, and the administration of their compliance program. So we design and maintain their policies and procedures. We monitor for securities laws that impact the firm. We train people and handle the day to day aspects of compliance for most of the firms that we work with. But what we generally suggest is that the firm has someone who's knowledgeable and accountable inside the firm to ensure that everything is happening correctly on a day to day basis.

Chris Winn:

So we can really take the load or the burden off of that person, but we want them to be knowledgeable about what we're doing, how we're doing it, and to be fully in-tune with their compliance program in order to protect the firm and to demonstrate to the SEC or the state regulators that they are in fact doing all the things that are necessary under the CCO role.

Louis Diamond:

That makes sense. And another popular question we get is, "Do I, as the lead advisor and rainmaker, need to be the chief compliance officer?" Or, "Can my entry-level assistant become the CCO?" With the firms you're helping launch, and just from what you've seen on the SEC and the FINRA side, is there a best practice for who within a team or within a firm should take on the chief compliance officer hat, assuming that the firm doesn't need to hire a full-time CCO?

Chris Winn:

It's a great question. And the answer is actually somewhere in the middle. And the reason is if you go back to the definition, it needs to be a person who has the ability and the influence to enforce a compliance program. So in some firms, that staff person that you've just articulated has that influence and the firm has a culture where that person is taken seriously. If the culture of the firm is that whatever the CEO and main person, a person say goes, then it's really hard to have someone else be the CCO if they're not going to be taken seriously.

Chris Winn:

So that's the challenge in that. It's all in the execution. We firmly believe in extension of an operations or service role as always a great profile for a chief compliance officer, or at least a compliance manager, we'll call it to give it a title, that reports to someone who's an owner. alongside us as the eyes and ears, arms, and legs and training mechanism for compliance.

Louis Diamond:

Got it. So there's no cut and dry answer. So it sounds like it doesn't have to be the lead advisor. For some firms, that might make sense depending upon the profile of the group, but getting the most junior person on the ladder, the last one in, they were the short straw, probably doesn't work either because they're not going to have the influence or ability to really have control over the compliance decisions of the company.

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Chris Winn:

Absolutely. And again, it's different for each firm. And the key thing with that is you can make compliance as complex as you want to. One of the things I often hear from advisors is their firm pushing real hard on the compliance and the risks. And quite frankly, if I were creating a compliance program for a firm with 1,000 or 15,000 people, it would look a whole lot like a wirehouse compliance program. And what I try to explain to people is you have the same rules that you have to follow, but how you get to that end, so your fiduciary responsibility, your compliance and risk management, your books and records.

Chris Winn:

Well, you no longer have a denominator of 14,000 unrelated business practices or individuals. It's now being designed around what you do, how you do it. So what's really important for a firm, regardless of who they ultimately choose to be the CCO is how do we instill a culture of compliance and really weave compliance into what we do day in and day out. So the most successful firms don't necessarily have a really strong standalone CCO. Not that that is a bad characteristic. The firms that do the best from our perspective and compliance are the firms that have really thought through the flows of information in their business, everything that they send out to a client, what goes out of the firm, what comes back, how and where do we keep things, how do we know that we're doing a good job, and how could we prove that we're doing a good job? And the vast majority of that gets just woven into the systems, processes and workflows for most advisors.

Louis Diamond:

It's really interesting, one of the comments you made that it's not that an RIA or an independent firm has different rules or regulations they have to follow. It's more just the means or the way that they carry out, complying with those regulations. And we talk about it all the time, the idea of the lowest common denominator, whether it's in technology solutions or operations or in investment management, in this case compliance, is really what makes it so that compliance is so scary and onerous and restrictive in a captive world. It's not that a Merrill or UBS has different laws that they have to comply with. It's more that they just apply or interpret the rules differently because they have to make the rules to the worst possible person within the firm, versus an RIA firm where you and the team are building the firm from the ground up and creating a customized compliance program around their business, their clients, and their needs. Is that accurate?

Chris Winn:

That's spot on.

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Louis Diamond:

Excellent. And how much work is it actually to be the chief compliance officer of an RIA? I mean, it's hard to work with a captive advisor, whether they're captive at an independent broker dealer, a wirehouse or regional, et cetera, who isn't really worried about their full-time job becoming compliance, or that one of their trusted people is now going to be full-time compliance. So how much work is it actually, but say in two different stages, one in the beginning of the firm, while you're just learning the ropes. And then secondly, once things are steady state and everyone knows their roles, are you able to approximate how much time or how many hours a week that the job of chief compliance officer is?

Chris Winn:

Yeah. Well, that's certainly a loaded question. Let me start this way. The amount of compliance that a firm needs to handle is a combination of their complexity. So how many people, how many offices do they advertise or is it all by referral? What is their investment philosophy and process and their service model? So it's a combination of all those things. As I mentioned in the prior statement, what's compliance versus what's operations and what's prudent business management. Well-run firms have less compliance is really the best way of describing it.

Chris Winn:

So on the front-end and the setup, the firms that can really train their people well, build really strong tools and technologies and integrations to have exception-based reporting and structure around what they do, will spend a lot less time post activity checking the things that they do from a compliance standpoint, or they already have the tools to make that more efficient.

Chris Winn:

So with a typical firm, and just to put some parameters around it, a typical, say, 10 person SEC registrant, the chief compliance officer generally does not need to be a full-time role. So that role is going to generally range from half of a person's time or perhaps less, depending on if they have support from an outside consultant, or if they're doing things themselves. There are times of year, of course, such as the annual ADV renewal season that there's spikes in that level of activity. Or if the firm is active in other business practices like acquiring new advisors or very active in acquiring new clients. So it really all depends on all of the momentum and flows of the firm to determine how busy a compliance person is going to be.

Chris Winn:

One of the things we do at AdvisorAssist for that is we not only do have different levels of service, but we also have additional testing services so that we can jump in with additional resources to take some of that burden off. And the goal for most firms is to be able to have a well-balanced role where someone is both a CCO and the head of operations or head of client service, or some other role where they're able to get the most value out of, call it their salary dollars.

Louis Diamond:

That makes sense. So it doesn't have to be a full-time role with anything, the workload ebbs and flows. And it probably does take a little bit of time to understand what the job is. But once you're off to the races, it seems like it's pretty manageable, especially if they're partnering with a company like AdvisorAssist.

Chris Winn:

Yeah. And also your technology providers are very important. One of the things we really stress in the strategic launch of the firms, while our role is more heavily weighted towards the regulatory and compliance side, we ask the questions and get very involved in the how and the why and the flow of information in and out and through the firm. And the reasons for that is to share experience that we see where other firms are having success, but to make sure that they know exactly how these things are going to work and how it will happen. So if you just come back after the fact and just go "Test everything," that's a lot of work, if we know how to sample test or how to look at the exceptions.

Chris Winn:

So for an example, which clients haven't had and in-person meeting in the last X months? Which client portfolios have high cash balances or haven't been traded in X number of days, weeks, months. If you try to come up with various exception reports, you can call them compliance, but arguably if you think of those portfolio management reports, those are actually an advisory activity, but it's just an advisory risk management activity. So who does those can vary from firm to firm, and optimize the resources of the firm.

Louis Diamond:

Gotcha. How about on topic of risk. I mean, one of the great things of working within a captive platform is that you have the backing of a major firm or a broker dealer. And if there's a compliance issue, there's a legal settlement, or even just to give clients comfort that their assets are safe and the advisor is well behaved, that's one of the perceived benefits of being captive to a firm or a platform. So I'm curious, how would you talk to an advisor who's interested in going independent and share with them that the risk that they're taking on is changing?

Chris Winn:

Well, it's very interesting. I think you can look at this in two ways. So while there may be, in a captive or affiliated environment, there may be a large firm behind you. Recognize of course that the firm's first interest is protecting the firm. So you have a firm that has X thousand independent contractors, while of course their goal is to protect everybody, their first interests are for the firm. When you own your firm, your own firm, obviously your first interests are for your own firm. And that's obviously a natural approach and progression.

Chris Winn:

The other instance is, if there are client complaints or issues or something that's there, sometimes it's a lot easier for a direct interpersonal interaction to resolve an issue, as opposed to there automatically being a complaint or a formalized complaint which results in a mark on a u4 or a settlement or things of that nature.

Chris Winn:

So far too often do advisors end up creating their own RIA and they look back and try to get something expunged, so take some of the firms that had... we'll take something from 2008, the adjustable rate fund issue that was out there. A number of advisory persons just happened to be the advisor of record on a particular account where their firm had issues and had to rebate their clients because of the adjustable rate funds that they were invested. The advisor wasn't managing the adjustable rate fund. Right? But they happen to now be taking the burden of that compliance.

Chris Winn:

So there's good and there's bad. So it does cut both ways in that regard. I think the key thing that we always tell people is define your team and define "Your dream team." So when you're at a firm and you're captive, you are provided the tools and technology, the compliance, the support, the marketing, the operations, you get what you get. And maybe there are some decisions that you can make, but those things are predefined for you. The advisor should never be out there making it seem like the one, five, 10, or a handful of folks are alone in an office together, and it's the five of them. It's they now have the vantage point to go select the best of the best in terms of service providers, partners, custodians technologies. So all of the components.

Chris Winn:

So they still have the hundreds and thousands of people that are there supporting them. And they are a fiduciary that has responsibilities to ensure that even all of their partners and vendors are doing everything they're supposed to be doing. So the most important thing for an advisor is to communicate that fact to clients and why they've selected all the different people. It's not like an advisor is going to get a pass on breaking a rule just because they no longer are part of somebody else's firm. The rules are the rules that they have to follow them and be ready for inspection by the SEC or state regulators.

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Louis Diamond:

Right. So if there was a client complaint, and one that an RIA couldn't settle via an interpersonal conversation, as you alluded to, who's paying the legal settlement? Let's say it's a $500,000 settlement. Something like that. $500,000 could sink a small RIA firm and no advisor wants to pay that much. So how would that work in the RIA model? Whereas if you're at a major firm, a firm would likely either fund the entire settlement or at least take on a good portion of the legal fees required to defend it and maybe share in the cost of the settlement. How would that work as an RIA?

Chris Winn:

Sure. Well, of course the most important thing is to have the preventative control so you don't have those issues in the first place. But if an issue were to arise, let's say something like a cyber fraud issue or inadvertent wiring of funds, the first line of defense for this is errors and emissions insurance and directors and officers insurance. So these are not required by a registered investment advisor, but of course it's prudent for advisors to essentially look at their potential risk of their business model and how they would manage the risk if there was such an event.

Chris Winn:

So that's probably the key thing there. Of course, the flip side of that is even if you are at a big firm and there's a half a million dollar settlement, if it's something that the advisor did wrong, it's very unlikely that it would follow the same channels. They would utilize errors and omissions insurance for that. And the firm may pick up some of it, but they're certainly not going to absorb a loss of half a million dollars of that. It was clearly the advisor's fault.

Louis Diamond:

And what about for an advisors' transitioning and they're sharing with their client the reasons they went independent. One of the main questions or rebuttals a client might have is, well, what if there's an issue and isn't it better to have the deep pockets of Merrill, Morgan, UBS, LPL, Raymond James, et cetera behind me than your upstart RIA firm? Is the answer just we have E & O insurance or how would you counsel an advisor to address that question?

Chris Winn:

Yeah, well, that's a really good question. The starting point is the safety and safekeeping of the assets. So the custodian Schwab, Fidelity, Pershing, Raymond James, who's serving, LPL as well, who's serving in that capacity as the safe keeper of the assets is most important. So the advisor needs to make sure it's clear that they don't have access to the assets' custody in a physical sense to these assets. And that's equivalent to how these assets are being held at the large brokerage firms.

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Chris Winn:

Then in addition to that, how they are managing the various aspects of risk. So the best of breed technologies, the independent compliance consulting firm, that's there to assist them the internal controls and reports that they have there. And then I look at insurance is really the last step in that whole equation. So those preventative controls by picking the best of breed partners and knowing the controls and the workflows that are in place, the technology, the transparency, those are the areas that the advisor should be highlighting as to why they're making the move. And those providers have built their technologies to assist in that risk management as well.

Louis Diamond:

Perfect. Thank you for that, Chris. Let's pivot a little bit more to some philosophical questions that are top of mind for advisors. So something we hear often is that a fee only RIA, meaning a RIA that has dropped all broker dealer affiliations and is only driving revenue from advisory fees is going to have more freedom, flexibility, and control than a firm that operates as a hybrid, meaning they still derive some revenue from commissions and have a broker dealer relationship. What's your take on that, and that supposition?

Chris Winn:

The best way of answering that is it depends on the broker dealer partner that you have. A broker dealer as a responsibility to supervise any of the outside business activities. And even when you have a situation where 95% of your business is advisory, and "outside business activity" of a BD is only 5%, they still have that same responsibility to oversee that 95. It's interesting if you look at the various providers out there, the extent to which they feel that they need to be involved in that often correlates very heavily to how much they think they need to charge for that as well. Go figure, right?

Chris Winn:

But a lot of the firms out there that are what I call "RIA friendly" really leave a lot of autonomy to the RIA to run and operate their business. They still supervise emails and get data feeds of trading and code of ethics related items. But there's often the ability to bifurcate advertising for instance, between a product based and transactional advertising that would require a broker dealer review and approval to the advice being advertised and the capabilities of a firm as a fiduciary. So with that, there is clearly more flexibility in the advertising for a registered investment advisor that is either fee only or who has chosen a friendly broker dealer that allows that bifurcation, that a firm who is captive in a broker deal that has an RIA add on to it.

Louis Diamond:

Got it. And is that reason because in the first part of your example, the firm that's using an RIA from the broker dealer, that firm has more control because they own the RIA and they're the ones dealing with compliance versus in more of the captive world, whether you're doing advisory or brokerage business, it's all funneling through the same pipes and you're beholden to the same compliance rules for brokerage and for advisory because the firm doesn't really differentiate between your behaviors and the two categories.

Chris Winn:

Absolutely. Spot on. And also not only do they not differentiate, it's hard for them to take their broker dealer hat off.

Louis Diamond:

Yeah, that makes good sense. How about the concept of joining an RIA as an independent contractor versus launching your own RIA? In your opinion, more from the compliance side, if you're putting your compliance consultant hat on and a client came to you and said, "I want to be independent. I want to have my own brand own my own equity, but this compliance thing is really scaring me. And if I join an RIA as an independent contractor, then I don't have to deal with compliance." What would be your answer or how would you counsel that advisor? Maybe what are some questions you'd have to ask themselves to determine whether they're best suited to join an RIA or tuck into one, versus operating on their own?

Chris Winn:

Sure. Well, I guess I would bring it more to a broader sense of saying as someone truly cut out to be a business owner versus just a good advisor. That's really the key distinction between whether someone should have their own firm versus utilizing someone else's. And the compliance alone, I personally don't think should be the determinant because there's enough tools and resources out there to help the firm regardless. And the individual is both individually and as part of a firm, a fiduciary in the RIA space and still has mostly the same responsibilities.

Chris Winn:

So while you're removing the responsibility for being a chief compliance officer from the firm you are still paying for and participating in the compliance process and function. I think the key decision whether to join an existing firm or to start your own, it should be mostly driven by alignment. So does the firm that you would join provide you the infrastructure at a price point that would be more favorable than what you'd be able to obtain it for yourself? And do they give you the ability and support to help you grow your business in a manner that you wouldn't be able to do autonomously as well?

Chris Winn:

And then lastly, are they set up and structured in a flexible enough manner so that when you get to a point where you feel you're comfortable to go create your own RIA, you're no longer captive and have to go through the same thing that you just escaped from to get there? So it's really those kind of key points that we make the core discussion topics here.

Louis Diamond:

Got it. So the answer to, "Should I join an RIA or launch my own?" It sounds like it shouldn't be driven by who has the compliance responsibility. It's more about how do you want to live your business life? What are you trying to accomplish? And what are the value adds you get from a platform provider versus doing it on your own?

Chris Winn:

Yeah. And the compliance certainly factors into that. If the individual does not have the bandwidth focus or comfort level with handling their own operations, risk management, compliance, and technology, those are certainly reasons to join another firm.

Louis Diamond:

Yeah.

Chris Winn:

Compliance alone in its isolation, so if you have a single person firm just being afraid of compliance, shouldn't be a reason not to create your own firm, absent the other decision. So if everything else is pointing towards creating your own firm and it's just the compliance, again, as I stated earlier in the conversation, a lot of compliance is prudent business practices and integration of risk management into the day-to-day of what you do. So a single person firm that's considering joining another firm solely for compliance, there's an easy solve for that. It's all the other pieces in combination that need to be evaluated.

Louis Diamond:

Absolutely. Last segment of my questions here is talking about the choreography of a move. Since a big part of your business is helping nascent RIAs launch, and whether that's an advisor practicing at a wirehouse, who's taking their team independent for the first time or even a group that's been independent, but is now leaving more of the captive broker dealer world and launching their own firm. That's what this next segment will be about.

Louis Diamond:

So if we're looking there, can you talk to us about the cadence of making a move? What are the steps that your firm takes and that all advisors would likely need to take to form their own SEC or state registered investment advisory?

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Chris Winn:

Sure. Well, of course it varies greatly between the size of the firm and whether they will, in fact, be state registered versus SEC, whether they're independent contractors in their current situation or they're a captive employee with contractual obligations. So the first thing is we assess their existing situation and help them to determine whether or not they need to leave under the broker protocols, an example, or various other non-solicitation and non-competition aspects of their current situation. From there, that helps us to determine whether the firm can be directly registered with the securities regulator, or if they need a legal proxy such as AdvisorAssist to help them essentially incubate and create a private launch of their firm.

Chris Winn:

In either situation, we always advise the firms, of course, and the individuals to limit the number of people that you're sharing your business change with. That you owe a duty of loyalty to your firm right up until the moment that you resign from them. The preparation to compete is not necessarily in breach of that fiduciary duty, but working on if you're an employee working on the advisor systems and on their clock while you're being paid is certainly one could argue as a breach of that loyalty and duty to the firm.

Chris Winn:

So we help guide them in how do you take this really seemingly large project and break it down into a number of easily accomplishable, well sequence projects with their "dream team" that we talked about. So your custodian and transition team partners, your registration and transition consultant like AdvisorAssist, your technology partners and all the others that are going to be part of your team once you're launched. Bringing those together in a sequence to really help design the firm and prepare the team to not only continue to service the clients while it's being built, but to be ready to transition upon the expected live date for it.

Louis Diamond:

And how long does that all take?

Chris Winn:

It varies greatly. An SEC firm can be registered, I generally say, in as quick as five weeks. So on the front end, there needs to be access to the regulatory systems. And the SEC, while they have 45 days by statute to review and approve a registered investment advisor, they're very consistent to a 30 day timeline, give or take a day or two, for potential weekends. So that's fairly consistent. State registrants vary greatly by state and the resources and the throughput that they have there. And actually one of the key differences really gets into the level of review that an SEC firm... not even the level of review, the approach to review between the SEC firms and state firms.

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Chris Winn:

Of course, both firms have a requirement to have a perfect ADV and all of the documents ready to go, fully reflecting their business the day they go live. The difference between the SEC and the state regulators, the states do a lot more of their review of the firm and the individual in advance of them going live. The SEC, obviously looks back to day one, but they tend to come out post live and dig into everything thereafter. So it doesn't mean you can... one of the issues the SEC often sites out there as people putting out ADVs that are not accurate, whether it's false information to get the firm up and running and approved, or having information that just isn't fully thought out.

Chris Winn:

So that's a long-winded way of saying you can't just go slap an ADV into the system for the SEC and it will get approved, but it doesn't need to be fully reflective of what you do. But the process is much more consistent from a timeline.

Louis Diamond:

Got it. Thank you for that. How about some best practices? So the transitions that you help on that are the most successful, what are the attributes of those? And then the flip side, what about the ones that fall flat or that could have been better?

Chris Winn:

Sure. Well, the most important thing for the firms is to first identify what you like or what's working well and what you do today, and then what needs to change and why does it need to change? So it's not necessarily change for the sake of change. There's very few opportunities in life to redefine a relationship with a client, whether it's your services, your fees, your approach. So most important is to figure out what is this going to look like? What is a day in the life look like? What are the client's service model look like? The investment process look like? Those things are very important on the front-end. And the more time and energy that goes into those things on the front-end, obviously the better outcome, better documents, better ADVs.

Chris Winn:

The other aspect is really getting in touch with and understanding all of the vendors and how the information is going to flow through your business. And I mentioned before, that's an area both of opportunity and caution. On the opportunity side, you want to understand everything that's out there, but that's where other consultants, whether it be the firms like yourselves at Diamond, that help and participate in that, advisor says to participate the custodian in their practice management teams, but the trusted partners that are here in the ecosystem to narrow that playing field down to the things that are most likely going to be a good fit and important for the advisor.

Demystifying Compliance for RIAs: What You Need to Know

A conversation with Christopher Winn, CEO and Lead Consultant, AdvisorAssist

Chris Winn:

And then it's important for that advisor to really understand and get their technology and other pieces put in place. So essentially, what I'm saying is there's no substitute for hands-on training and preparation in these. Some of the missteps that firms take, one of them is on the technology. "Oh, we'll implement the CRM system once we go live. We'll use our admin Fridays to go do that." There's no such thing as an admin Friday, especially after you've launched a new business.

Chris Winn:

So thinking that you're going to go add something down the road is often wishful thinking and will slow you down once you're up and running. The other area remains with the privacy. We see a lot of folks that feel that their best clients won't be happy if they don't share with them what their situation is. And the challenge with that, of course, is clients don't know all the things that they need to go through. They don't know the securities laws. They don't realize the true duty of loyalty that the advisor has to play. And why would they? The client is buying the advisor. You're my person. Well, not knowing the wirehouse or others, the implications of an email back or a phone call or a text or anything that could expose the advisor.

Chris Winn:

So those are one of the challenges. We want to make sure firms don't have their plans exposed, or essentially be accused of operating in a business as an outside business activity. So preparation to compete versus actually competing are two different things. So reaching out to clients could be viewed as actually competing as opposed to preparing. So there's a lot of those aspects that will trip people up, but those are the two most important things is really keeping the privacy, keeping your circle tight.

Chris Winn:

And then lastly, just looking at these things as one large project, as opposed to breaking it up into milestones. So the firms that are successful tend to have weekly or bi-weekly meetings with a lot of their key players to... even if it's just to say hello and touch base, and just say, "Look, there's nothing new since last week," just to keep everybody in alignment with each other. We find those firms that are highly communicative with their partners are the ones that have much more success, and they don't end up getting out live and then changing their fee methodology or system providers or things of that nature.

Louis Diamond:

Last question. This is something we ask to every guest. Any parting words of advice for advisors who are considering going independent for the first time?

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Chris Winn:

Well, absolutely. I'm often asked, "When is the best time to create your own RIA?" And my sarcastic answer to that was, "Well, 10 years ago. But if that didn't work out, tomorrow's a good day too." Right? So all kidding aside, we see that there's a lot of opportunity out there and the most important thing for an advisor to do when they're starting up their firm is to look at just all of the core resources that are necessary to run a proper business and make sure that they have a partner, whether it's internal or an external resource, that's going to align with the delivery of that aspect of their business.

Louis Diamond:

Perfect. Thank you so much, Chris. This has been really helpful and I think eye opening, especially for me. You hear a lot of assumptions and get a lot of the empathize with advisors that are fearful over what it means to handle compliance. But it sounds like in partnership with your firm and someone who is honest about what they want to do and what they don't want to do, compliance shouldn't necessarily be scary. It should be an additive part of the business, and it doesn't have to become a full-time job. It's really just a necessary part of it.

Louis Diamond:

And if it's customized and built specifically for a firm, that could be a really powerful way to turbocharge your business. Now that doesn't have the shackles of a lowest common denominator platform behind it.

Chris Winn:

Yeah, absolutely. And a lot of firms will have a lot more flexibility in the things that they can do for clients, the types of investments they may want to use, the way they want to market, the reporting and various aspects because it isn't that lowest common denominator.

Louis Diamond:

Perfect. Thanks, Chris.

Chris Winn:

You're welcome.

Mindy Diamond:

It's firms like AdvisorAssist that fill the gap in the landscape, solving for those things that advisors need not handle, so they can focus on what they do best. As Louis and Chris shared, compliance need not be scary nor limit the power of an independent business. But instead, serve to enhance the ability to build an enterprise. I thank you for listening and I encourage you to visit our website diamond-consultants.com and click on the tools and resources link for valuable content.

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Mindy Diamond:

You'll also find a link to subscribe for regular updates to the series. And if you're not a recipient of our weekly email perspectives for advisors, click on the blog link to browse recent articles. These written pieces are an ideal way to stay informed about what's going on in the wealth management space without expanding the energy that full on exploration requires.

Mindy Diamond:

Feel free to email or call me if you have specific questions. I can be reached by cell at (973) 476-8578, or by email at mdiamond@diamond-consultants.com. Please note that all requests are handled with complete discretion and confidentiality. And again, if you enjoyed this episode, feel free to share it with a colleague who might benefit from its content. And if you're listening on the Apple Podcasts app, I'd be grateful if you gave it a star rating and a review. That will let other advisors know if it's a show worth their time to listen to. This is Mindy Diamond on independence.