

Supervisory Procedures



National Association of Municipal Advisors

WEBINAR

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Speakers

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Webinar Goals

- Review of MA Responsibilities in MSRB Rule G-44 and SEC MA Rule
- Importance of WSP
- Importance of Ongoing Supervisory Obligations
- Importance of Supervisory Recordkeeping Obligations
- Leveraging a Control Environment
- Making it Work in Practice
- Supervisory Snapshots – G-3, G-20, G-37, G-42

Overview of MSRB Supervisory Rule G-44

- Establish a Supervisory System
 - Reasonably designed procedures to ensure compliance with applicable rules
 - Aligned with scope of activities or services provided by firm
 - Considering firm size and organizational structure
 - Promptly amend and communicate amendments to relevant associated persons
 - Annual certification of processes for policies and procedures
- Designation of one or more Responsible Principals
- Designation of the CCO
 - Competency Requirements
 - CCO does not need to be a Principal
 - CCO does not need to be an employee of the firm
- Annual CEO Certification (Certifies that there is a Process to establish, maintain, review, test and modify policies and procedures at the Firm)

Overview of SEC MA Rule – Supervisory Responsibilities

- SEC MA Rule Provisions of Interest
 - MA Form Annual Update and Ongoing Updates [SEC Rule 15Ba1-5]
 - MA-I Form Updates [SEC Rule 15Ba1-5]
 - Obtain Consent to Service of Process [SEC Rule 15Ba1-6]
 - Recordkeeping Requirements [SEC Rule 15Ba1-8]
 - Advice Standard [SEC Rule 15Ba1-1(d)(ii) and SEC FAQs 1.1 -1.4]
 - Transaction

Supervisory System Concepts

Supervisory System

- The framework the firm establishes to develop and maintain policies and procedures that are reasonably designed to ensure the firm and its associated persons conduct municipal advisory activities consistent with applicable rules

Compliance Policies

- Generally lay out the conduct standards expected of the firm and its associated persons – expectations & any specific practices that are prohibited to conform with the requirements of applicable rules and firm standards

WSPs

- Specifically address the steps the firm undertakes to determine whether its associated persons are conducting municipal advisory activities consistent with the standards established in the compliance policies

Example: Compliance Policy vs WSP

Compliance Policy

- Teenager can not use cell phone after 9 pm on school nights

WSP

- Cell phone must be left on kitchen table
- Designated Parent takes cell phone from table and moves to secure location
- Frequency – every school night

Example: Compliance Policy vs WSPs

Compliance Policy

- Associated persons are prohibited from engaging in municipal advisory activities until (1) individual passes Series 50 and is qualified as a municipal advisor representative and (2) the firm has filed a Form MA-I on their behalf

WSP

- Firm will not submit Form MA-I for an individual until they have passed the S.50
- Training is conducted for all associated persons to identify conduct prohibited without the Series 50 and MA-I
- Periodic review of activities of non-Series 50 qualified persons to confirm not engaging in municipal advisory activities

WSP Considerations

- WSP Sample Template and Checklist – MSRB
 - <http://www.msrb.org/Regulated-Entities/~media/08C04C924B614C05AF63C04E672686C8.ashx>
- Considerations for Developing a Supervisory System & Compliance Program – MSRB
 - <http://www.msrb.org/msrb1/pdfs/MSRB-Rule-G-44-Considerations.pdf>
- Outsourcing Compliance Functions – MSRB
 - <http://msrb.org/Regulated-Entities/~media/4DE95DEC5AE04C09B7260CA36C9EF827.ashx>

Ongoing Supervisory Procedures

- New NAMA MA Compliance Reminders Resource
 - <https://nama2.memberclicks.net/assets/CUSIPresource.pdf>
- Establishing a Reminder System to Track Annual and Ongoing Responsibilities
 - How to Supervise
 - Parties Responsible
- Updating and Adapting to Your Firm's Needs and Circumstances

MSRB Rule G-8 on Books and Records

- Requires a Municipal Advisor to Make and Keep Records of:
 - Written supervisory procedures
 - Designations of persons responsible for supervision (i.e., municipal advisor principals)
 - Reviews of written compliance policies and supervisory procedures
 - Designations of persons as CCO
 - Annual certifications as to compliance processes
 - Any certifications made as to substantially equivalent supervisory and compliance obligations and books and records requirements (for bank MAs)

MSRB Rule G-9 on Preservation of Records

- Requires Municipal Advisors to Keep Records of:
 - Written compliance policies and supervisory procedures and related reviews of these policies and procedures
 - Must be preserved for five years
 - Designations of municipal advisor principal(s) and designations of persons as CCO
 - Must be preserved for the period that each person is designated *plus* at least six years following

Additional Recordkeeping Considerations

- How Does the Firm Supervise Their Recordkeeping Requirements on the Various MSRB Rules?
 - General Firm Matters
 - Transactions
 - Other

Leveraging a Control Environment

- WSP
- Training
- Detective and Reactive Controls
- Delegated Oversight and Review
- Use of Checklists
- Compliance Testing
- Principal Review

Delegation of Tasks and Reviews

- Is This Practice Allowed?
 - Tasks not Responsibilities
- What are Likely Tasks That Could be Delegated?
- What is the Principals' Supervisory Responsibilities When Tasks are Delegated?
 - Internal
 - External

Supervision Complexities

- Can WSPs be too General or Specific?
 - Importance of Defining How Supervision Will be Accomplished
 - Dealing With Extended Principal Absence
 - Supervising Ones Self
 - Use of Third Party Verification
 - How Do You Document Supervision?
 - Maintaining Supervision Book and Records?
 - Harmonizing Rules for Dual Registrants

Supervisory Snapshots

- Rule G-3: Continuing Education

REMEMBER: YOUR CE NEEDS ASSESSMENT, DEVELOPMENT AND IMPLEMENTATION MUST BE COMPLETE BY 12/31/2018!

- Complete Needs Assessment
- Develop Training Plan
- Deliver Training
- Document Process

- Rule G-20: Gifts & Gratuities

- Developing Policies and Procedures
- Gift Logs and Documentation
- Imposing a Control Environment
 - Review of Company Credit Card Receipts

Supervisory Snapshots

- MSRB Rule G-37: Political Contributions
 - Establishing and Implementing Policies and Procedures
 - Submitting Quarterly Information
 - Leveraging Control Environment/Third Party Verification
 - For example - Opensecrets.org

- MSRB Rule G-42: Duties of Municipal Advisors
 - Establishing and Implementing Policies and Procedures: Numerous Components!
 - Conflicts
 - Employee side hustle
 - Sufficient Knowledge
 - Documentation

QUESTIONS