



2019 FINRA Small Firm Conference

October 23 – 24 | Santa Monica, CA

Managing Third-Party Compliance Vendors: Tips and Effective Practices **Thursday, October 24, 2019** **1:45 p.m. – 2:45 p.m.**

Establishing a strong third-party risk management program is an important step in mitigating risks. During this session, panelists discuss tips on performing an effective due diligence review and provide advice on evaluating services.

Moderator: Isabel Patel
Surveillance Director, Sales Practice
FINRA San Francisco District Office

Speakers: Sean Abbey
Examination Manager, Sales Practice
FINRA Denver District Office

Melinda LeGaye
President
Moody Securities, LLC

Managing Third-Party Compliance Vendors: Tips and Effective Practices Panelist Bios:

Moderator:

Isabel Patel is Surveillance Director in FINRA's San Francisco District Office. Prior to this role, Ms. Patel was an Examination Manager in the Los Angeles District Office where she supervised complex cases involving a variety of business lines and products. Ms. Patel has worked in financial regulation for almost 20 years, starting out as a regulator at the Nasdaq Stock Market where she helped develop and manage the market's real time trade surveillance system. Ms. Patel received her degree in Economics from George Washington University and works with youth groups at her local church.

Speakers:

Sean Abbey, CFA is Examination Manager in FINRA's Denver District Office and supervises a team of examiners who conduct firm and cause examinations to review for compliance with FINRA and SEC rules. Mr. Abbey has been with FINRA for more than eight years and previously worked as an Examination Manager and Examiner in FINRA's San Francisco District Office. Prior to joining FINRA, Mr. Abbey worked for the U.S. Treasury Department examining national banks. Mr. Abbey is a Chartered Financial Analyst (CFA), completed the Certified Regulatory and Compliance Professional™ program from the FINRA Institute at Wharton, and graduated from Colorado State University with a Bachelor's degree in Finance.

Melinda (Mimi) G. LeGaye serves as President of both Moody Securities, LLC and MGL Consulting, LLC. Ms. LeGaye has more than 30 years' experience representing the interests of small broker-dealers having held the positions of president, CCO and FINOP for several small broker-dealers over the years. She currently serves as President and CCO of Moody Securities, LLC and as FINOP and a registered representative for Silver Portal Capital, LLC. Ms. LeGaye also serves as a Small Firm Member on FINRA's District 6 Committee. Prior to forming MGL, Ms. LeGaye served as CCO of Horne Securities Corp. a broker-dealer which was formed to distribute Reg D private placements of real estate limited partnerships. During the early 1980s to late 1980s, she served on the Regulatory Affairs Committee and as president of the local chapter of the Real Estate Securities & Syndication Institute (RESSI) which was an affiliate of the National Association of Realtors. Ms. LeGaye is actively involved with ADISA (formerly Real Estate Investment Securities Association, aka REISA). As a consultant, Ms. LeGaye has worked primarily with small and mid-size broker-dealers, but she has also worked with many larger broker-dealers providing clearing services to introducing broker-dealers. Having served as president, CCO, FINOP, General Securities Principal, and Municipal Securities Principal for various broker/dealers since the mid 1980's, Ms. LeGaye has worked extensively with retail and institutional broker-dealers, as well as boutique broker-dealers which provide investment banking, mergers & acquisitions advisory services, or which conduct business in the wholesale/retail distribution of Reg D Private Placements, non-traded REITs or 1031 Exchange Programs. As a municipal securities principal, she worked for a small minority enterprise broker-dealer which was involved in municipal bond underwritings, capital raising and financial advisory activities. As President, CCO, FINOP and a small business owner, Ms. LeGaye has first-hand experience and an in-depth understanding of the challenges FINRA small firm members (less than 150 RR's) face on a day to day basis. Ms. LeGaye holds the Series 7, 24, 27, 53, 63, 79 and 99 registrations. She has previously held the Series 22, 39 and 3 registrations as well. She received her BBA from Sam Houston State University. An advocate for small broker-dealers and sensitive to the compliance, operational and regulatory challenges they face, she has spoken at numerous industry seminars and compliance programs over the years on topics ranging from supervision of independent brokers; surveillance using exception reports; compliance testing for small firms; product due diligence; and most recently at the SMARSH 2016 Connect Conference held in December 2016.



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Panelists


■ Moderator

- **Isabel Patel, Surveillance Director, Sales Practice, FINRA San Francisco District Office**

■ Panelists

- **Sean Abbey, Examination Manager, Sales Practice, FINRA Denver District Office**
- **Melinda LeGaye, President, Moody Securities, LLC**

To Access Polling

- Under the “Schedule” icon on the home screen,
- Select the day,
- Choose the **Managing Third-Party Compliance Vendors: Tips and Effective Practices** session,
- Click on the polling icon: 

Polling Question 1

- 1. How long has your firm been in business?**
 - a. 0-3 year**
 - b. 4-7 years**
 - c. 8-10 years**
 - d. Over 10 years**

Polling Question 2

- 2. Do you use vendors for any compliance services?**
 - a. Yes**
 - b. No**

Polling Question 3

- 3. What does your firm currently use vendors for?**
- a. FinOp Consulting**
 - b. Email Retention**
 - c. I.T. and Cybersecurity**
 - d. Compliance Consulting including Exam Prep and CE**
 - e. More than one service**

Topics

- **Do We Need A Vendor?**
- **Vendor Due Diligence – Small Firm Perspective**
- **Common Challenges for Small Firms**
- **Importance of Ongoing Vendor Reviews**
- **FINRA Examinations**
- **Resources**

Do We Need A Vendor?

■ Needs Assessment

- What should you consider when determining your vendor needs

■ Services Vendors are Commonly Used For

- FinOp, Technology, Email and Records Storage, Compliance, CRM Solutions

Vendor Due Diligence

- **Vendor should understand your business and regulatory environment**
- **Cheapest is not always the best solution in the long run.**

Due Diligence: Questions to Consider

- How do I find potential vendors for my firm's needs?
- What sort of information should I consider in evaluating the vendor?
- What are key services I should look for?
- Depth of Vendor's internal resources.
- Internal record retention policy
- What are common pitfalls?

Vendor Due Diligence: Tips

- **FinOp Consultant**
- **Email Retention**
- **I.T. and Cybersecurity**
- **Regtech Solutions**
- **AML Compliance**
- **Compliance, Exam Prep and Firm CE**

Polling Question 4

- 4. What have you found to be the Biggest Challenge in finding the right vendor?**
 - a. I don't know where to look**
 - b. I don't have time to research**
 - c. I don't have the expertise to evaluate the vendor, that's why I need a vendor!**
 - d. Many are too expensive for my firm's budget**

Common Challenges for Small Firms

- **Identifying potential candidates**
- **Limited Resources: time and money**
- **Limited Contract Negotiation**
- **Scaling vendor solutions to your small firm**
- **Ongoing Assessments: Limited in-house expertise**

Ongoing Vendor Reviews

- **My vendor is doing the job already, why do I have to review them again?**
 - **Regulatory Obligations**
 - **Benefits**
 - **Potential Pitfalls**
 - **Practical Considerations**

FINRA Examinations

■ What does FINRA look for?

- A list of vendors the firm uses
- Procedures and Controls for vendor outsourcing
- Evidence of reasonable review and supervisory approval

Resources

FINRA Resources

- **FINRA Compliance Vendor Directory**
- **Notice 05-48: Outsourcing**

Additional Resources

- **FDIC FIL-44-2008: Guidance for Managing 3rd-Party Risk**
- **OCC Bulletin 2013-29: Risk Management Guidance**
- **Federal Reserve Board, December 5, 2013: Guidance On Managing Outsourcing Risk**



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FINRA Resources

- FINRA Compliance Vendor Directory
www.finra.org/industry/cvd
- *Notice to Members 05-48, Outsourcing, Members' Responsibilities When Outsourcing Activities to Third-Party Service Providers* (July 2005)
www.finra.org/sites/default/files/NoticeDocument/p014735.pdf

Additional Resources

- Federal Reserve Board, *Guidance on Managing Outsourcing Risk* (December 2013)
www.federalreserve.gov/supervisionreg/srletters/sr1319a1.pdf
- Office of the Comptroller of the Currency (OCC) *Bulletin 2013-29* (October 2013)
www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html
- Federal Deposit Insurance Corporation (FDIC) *Third-Party Risk: Guidance for Managing Third-Party Risk* (June 2008)

Webpage: www.fdic.gov/news/news/financial/2008/fil08044.html

PDF link: www.fdic.gov/news/news/financial/2008/fil08044.pdf