

What Business and Regulatory Trends Does a Next Generation Compliance Solution Need to Consider?

CHAPTER 1



Game changing trends in both enterprise wealth management's business model and regulatory regimen have been underway for the last few years. Legacy compliance solutions, both automated and manual, had already fallen behind in their ability to satisfy the supervision and surveillance demands of B-Ds and RIAs prior to the current acceleration of digital transformation throughout wealth management.

Simply migrating the current generation of automated compliance solutions to a cloud platform may make them more compatible with the digital transformation process. It will not address the growing capability gap these legacy systems have to support the changing demands of wealth management business and regulatory models.

There are several major trends within wealth management that

next generation compliance system needs to address. Although the trends can be separated, many of the requirements are interrelated.

The continuing migration to fee-based business, places a greater burden on monitoring and identifying reverse churning. Being able to incorporate documented changes (or the absence of changes) in customer risk profiles, objectives, etc., into both the workflow and rules used in account review is already becoming an expectation of regulators.



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The multitrillion dollar transfer of assets, both intergenerational and for retiring investors, will require better point in time documentation of existing investments and investment recommendations. These will also require access to customer investment objectives, risk profiles, an intersection of Reg BI, and requiring better point in time documentation of investment recommendations.

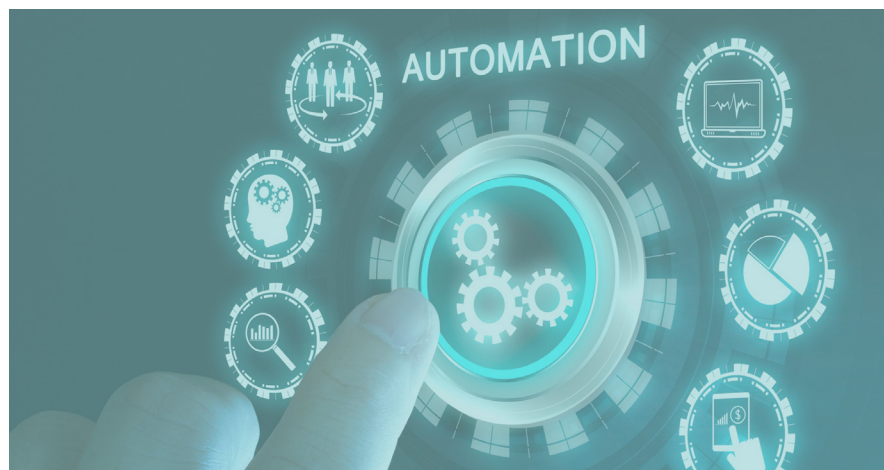
The growth of Direct Indexing adds significant information demands to the supervisory decision-making and account monitoring. Not just for Reg BI, but for risk management, compensation, and other operational aspects.

The increasing burden of Reg BI

Demonstrating a culture of compliance means having a better knowledge of the customer, related accounts, and a broad range of account activity and holdings. The issue is becoming one of feasibility from a regulatory perspective. If a firm has access to intelligence, the firm needs to utilize this information in its compliance regimen.

FINRA's growing focus on direct mutual fund business

Supervision of direct business is highlighted in the 2022 FINRA Examination & Risk Monitoring Report. If a firm has a material volume of direct business on its books, FINRA is cautioning that these accounts and transactions must be fully integrated into all firm supervisory and surveillance processes. These firms need an automated platform that seamlessly integrates



direct business into their review systems including effective and complete monitoring aspects like sales charges, house-holding, fund switching and share class.

The next generation of compliance systems need to be fully capable of addressing these issues.