

Ep #270: Scaling Your Compliance Program

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Full Episode Transcript

With Your Host

Maddy Roche

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Narrator: [00:00:01] Join your host, Maddy Roche, as she brings you into a community of fee-only financial advisers who are successfully building profitable businesses that serve the next generation of clients. Learn from innovative advisers whose unique stories will inspire you to dream big and take action on your goals. Are you ready to live your best life and help your clients live theirs? Then you're in the right place.

Maddy Roche: [00:00:24] Hello and welcome to this episode of #XYPNRadio, I'm Maddy Roche, your host. I'm honored to interview Scott Gill, XYPN Senior Compliance Consultant, and Abby Morton an XYPN member and owner of Goldman Financial Planning, a fee-only firm out of Maine, on the show today. Scott and Abby work together through XYPN compliance coaching program and as a large existing member firm, Abby has specific compliance needs that Scott and his team can help her with. Abby works with over two hundred and sixty clients, some on the AUM model, some on the retainer model and some financial planning only as she approached her looming SEC registration, she had a long list of questions that she needed expertise to answer. Since starting to work together, Scott and Abby have been able to implement a culture of compliance into her firm, addressing supervisory needs, documentation, protocol and consistent oversight. Abby talks about how she's been able to gain confidence in her processes and program and now doesn't fear an audit. Although compliance can take time and requires energy and focus, it can be fun and interesting, too. Abby explains how she feels like a weight has been lifted off of her shoulders now that she works with Scott. And Scott explains how members like Abby, who take the right attitude towards compliance, can sleep well at night, knowing that they're doing what's best for their firm and most importantly, for their clients. If you're interested in how you can scale a compliance program with your scaling firm, this episode is for you.

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Maddy Roche: [00:01:51] Avocado Toast Selfies, a mountain of student loan debt. Gen Y is anything but traditional, and with over seventy five million people, it's a population you don't want to ignore. Learn more about how to serve this unique population. In our guide called Attract and Profitably Serve Millennial clients in your RIA. Discover three key ways to tap into the millennial market in six things that they want from their financial advisor. Visit XYPlanningNetwork.com/Millennials for your free copy. You can find any of the resources we mentioned during the episode at XYPlanningNetwork.com/270. Also, be sure to go to XYPlanningNetwork.com/VIP to join our private group, just for #XYPNRadio listeners. It's a community of advisors we've all been looking for, that's there to provide support when we need it the most. Best of all, it's free. I encourage you to check it out. Again, that's XYPlanningNetwork.com/VIP. Without further ado, here's my interview with Scott and Abby.

[00:02:50] --swish--

Maddy Roche: [00:02:51] Hello, Abby and Scott. Welcome to #XYPNRadio.

Abby Morton: [00:02:55] Hi Maddy,-

Scott Gill: [00:02:56] Yes.

Abby Morton: [00:02:56] -Good to be here, thank you.

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Scott Gill: [00:02:57] Thank you for having me.

Maddy Roche: [00:02:59] I'm looking forward to talking to both of you about your expertise. Abby, you as a firm owner deep into this journey. And Scott, you as an expert in compliance, how you can help advisors like Abby continue to navigate the waters of compliance. So, Abby, let's start with you. I would love kind of high level about your firm. Who do you work with, where you located, things like that?

Abby Morton: [00:03:21] Sure. My firm's name is Goldman Financial Planning. So we're right smack in the middle of a rebranding effort. So we're actually going to be changing that soon. Scott's helping us with that as well. We have offices in Falmouth, Maine, which is southern Maine, and then we have an office in Bangor, Maine, which is where I'm located, and that's more central Maine. I work in the Bangor office with one member of our client service team. So I'm in the smaller office, but I do the compliance throughout the firm, so I go back and forth. Obviously, we use technology to make that work for us.

Maddy Roche: [00:03:53] Awesome and how many clients are you servicing?

Abby Morton: [00:03:55] We have so we-we do all the things that we have a very interesting service model, but we have about 230 clients, as of last year, that's what we served. About 60 or 70, probably at least 70 or seventy five of those are assets under management clients. And then we have another group that would be under a retainer model and then the rest of them tend to be planning clients who are do it yourselves. So we will do a plan for them and set them up to be able to go out and do that on their own.

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Maddy Roche: [00:04:25] Wonderful. And Scott, you have been a longtime XYPN teammate. -

Scott Gill: [00:04:30] Yes.

Maddy Roche: [00:04:30] - Lots of our listeners will know your name, but go ahead and let us know kind of your background and your position here at XYPN.

Scott Gill: [00:04:39] Yes, hi, and thanks again for having me. I was brought on to the XYPN team in January of 2016 as Director of Compliance at that time my job was to build a compliance office offering for our firms, including both services that would be included in the XYPN membership, as well as add-ons and premium compliance services. So, you know, the firm initial registration service, process for annual ADV updates, consulting engagements for ongoing compliance, all types of really great services that we offer. And at that time, I was also tasked to build and manage a team of compliance associates and compliance specialists that would ultimately provide compliance support for our firms as well. And then later in January 2019, I transitioned to the role of Senior Compliance Consultant. And that's where my job shifted from kind of management of the day to day, for the compliance team to building, growing and scaling an ongoing compliance consulting service for XYPN firms. And that's how our compliance coaching service came to fruition.

Maddy Roche: [00:05:48] It sure did. And it was it was one of our most requested member benefits over the years, which was more time with Scott. -

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Scott Gill: [00:05:56] (laughter)

Maddy Roche: [00:05:56] - And one way we were able to do that was to a build out, as you said, a compliance coaching program, which Abby is now part of. So Abby two hundred and thirty clients, that is no joke. How many teammates do you have? And tell me a little bit about the history of your firm and how you built it.

Abby Morton: [00:06:14] Yeah, so there are in the firm and its current iteration that I'm in now, is it's eight total people and we have four CFPs®. We have another fellow who is a portfolio manager and we have three service, client service experts, one of them is part time. So I started the my own business many years ago, back in 2004 as just an hourly planner and did that for a long time, for about 14 years. And then I merged in 2018 with my partner, Michael Goldman. And so he had and assets under management business and was doing retainer as well. So we merged our firms. And so I brought in many plan and clients and he already had planning clients as well. So when we merged it was a much bigger operation.

Maddy Roche: [00:07:06] Awesome, and what was it like to launch your firm that many years ago, were you the one that was kind of drafting the ADVs and the documents that needed to go to the state regulator?

Abby Morton: [00:07:16] I did do that on my own. I was leaving a firm that I had been with for five years. They were registered investment advisor in North Carolina, kind of a boutique value investing firm. So I knew something, I knew to take compliance seriously. We had a, you know, a full

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time compliance manager there, who was a partner of the firm. And it was for a small firm, it was still a fairly big investment advisor. And so I did have that behind me. I knew it was a big deal to stay on top of compliance. So I knew I didn't want to manage assets. I was getting ready to have a family and I wanted to keep things simple and hourly, was the way I chose to do that. So I did file all my own paperwork. I didn't have any clients yet and I didn't have any kids yet. So I had all the time in the world to be researching that. I am a long time member of the Garrett Planning Network, and so they did have a little bit of a coaching program there. I wouldn't actually call it a coaching program, but they did have a compliance program there and did a fairly good job of outlining what you needed to do. And I just made sure that I went and I have no idea how many ADVs I looked at when I was doing my own, but it was it was a lot of time for-for a simple ADV process, for a simple firm. But it did take me a long time to do it.

Maddy Roche: [00:08:31] So, Abby, why did you join XYPN that number of years into running your business?

Abby Morton: [00:08:38] My partner and I were very curious about XYPN. We had been, again, longtime members of the Garrett Planning Network and of the NAPFA. So we were longstanding members there and XYPN had been on our radar for a while. And they're very I think there are a lot of similarities in those associations but we were curious about what XYPN was doing and wanted to be able to check it out. So I did membership. I signed up for membership and we took it from there.

Maddy Roche: [00:09:09] Awesome. And Scott, I'm interested as we welcome members like Abby into the network who really have an established practice, we often encourage them to have a call with you and just get to know our program. What are some of the. -

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Scott Gill: [00:09:22] Yeah.

Maddy Roche: [00:09:22] - things that you look for in terms of how you can help an advisor like Abby and her firm when it comes to compliance?

Scott Gill: [00:09:30] Well, yeah. So, you know, when we are doing kind of initial consultation calls, the first thing we want to do is we want to identify the pain points for that compliance program and where we can identify or locate areas of the most substantial risk for that compliance program. Every compliance program is a little bit different. And so what we have to do is we have to ask probing questions like this allows us to kind of get to know the firm so that we can create a customized and tailored experience for them. So, I mean, most of it's just Q&A, right? It's a process by which we ask probing questions to find out how the compliance officer is currently dealing with various elements of their supervisory responsibilities and areas of compliance. We'll spend a little bit of time talking about their existing compliance solution, if you will, or if they have one. Some don't. But if they have an existing compliance solution, we'll talk about what-what things are and what things are not working with that solution. And and I think that that's the core of it. I mean, at the end of the day, what we want to be able to do is we want to be able to make sure that whatever it is that we're offering actually will work for that firm. You know, our services are unique in that our firms are members first. All right. And so we want to make sure that whether they utilize us for compliance or whether they utilize someone else, whatever we do is making the most, you know, making them making the best use of their time.

Maddy Roche: [00:10:58] Awesome. And Abby, when you joined us, why was compliance a pain point for you?

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Abby Morton: [00:11:02] Yes, absolutely. -

Maddy Roche: [00:11:02] (laughter)

Abby Morton: [00:11:02] - Yeah. So I went to the first my first conference for XYPN last year in 2019. So we joined at the end of 2018. We had a compliance service basically I wouldn't call it coaching, but we had a compliance service and it really just wasn't enough. We were registered in the state of Maine, North Carolina, and Texas. We're heading toward registering in Massachusetts and just weren't getting the support that we needed. And again, I had gone from an hourly firm very intentionally to kind of keep all my obligations, including compliance, manageable to a much larger firm with eight total employees. And at that time, we were about 90 million, I guess in assets and headed barreling straight toward SEC registration. So it was definitely a pain point. I was trying to put together a compliance program. I talked with Scott at a conference about it. And went away feeling hopeful. We set up a meeting to talk about the program and we had that initial meeting after the conference that Scott was just talking about. And I still remember how much better I felt after that meeting. It was like this weight had been lifted off. So just in that consultation, he answered, I had just pages and pages of questions. And I asked him a whole bunch of questions. He asked me about my pain points and he had answers, which was all I wanted. I wanted someone to be able to answer those questions for me and help me prioritize. And so he answered a bunch of questions that were top of mind and then just basically got immediately to work in putting together the action plan for putting together a stronger compliance program.

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Maddy Roche: [00:12:53] Interesting that you're able to personalize the service, Scott, so much in your conversations with folks as they enter into the network. What do you look for in terms of how much-how much do you let the member drive the conversation and the engagement with you?

Scott Gill: [00:13:09] Well, yeah, and that's a very good question. I hope I can give you a decent answer, because, quite honestly, I don't really know. When you get on the phone with someone who's in the process of running a compliance program, you usually encounter one of three scenarios. Right? You're going to get a firm that already has a solution in place but that solution isn't working. You're going to get a firm that has a solution in place and that solution is working, but maybe they're price shopping or they're just reevaluating the way they spend their time and then you get a firm with absolutely no solution in place. All right. And so I guess the first part is to identify what type of firm you're dealing with, and then you begin to really hone in on what's going to make the most sense for that firm. And what that actually ends up looking like is time management. All right. And so one of the questions we ask in our initial consultation, we asked the CCO about how many hours per week or per month are you willing to spend on your compliance program? We don't ask how much do you currently spend? We don't ask how much do you want to spend? How much time are you willing to spend on your compliance program? And the reason we ask that is because the customization or the source of what makes this customized is that we travel at the pace of the firm. So a truly customized solution has to take into consideration not only the task management and risk mitigation strategy, but also the resources that the firm has at its disposal to address the various areas of compliance and for most firms, their most valuable resources, their time. And so that's kind of the course of that's kind of the core of how we customize is by finding out how much time the compliance officer is willing to spend on their compliance program and then creating a process that's going to fit within the framework of that time.

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Maddy Roche: [00:15:01] Great. Go ahead, Abby.

Abby Morton: [00:15:04] I could speak to that as well in terms of I think Scott does a great job of prioritizing for the CCO saying this is what you should worry about. Don't get too far in the weeds on this right now and this and that later. But I also have more than once completely hijacked the agenda of meeting because I had a whole list of questions. So he's good about you know, I can say this is really paining me right now or I'm in the middle of this project and I need help. And he's good about-good about doing that. So I do think he-he lets the-the-the participant drive it to the extent that it's not derailing, you know, and not again, that you're not getting too far into the weeds on any particular issue.

Scott Gill: [00:15:46] And another piece, yeah, thanks Abby.

Maddy Roche: [00:15:49] What were some of the first things you and Scott worked through Abby?

Abby Morton: [00:15:57] Some of the first things we worked through? I had again, you know, I couldn't even tell you what all of those questions were, I just was kind of keeping a running log of things that I either didn't understand or didn't know how to approach or didn't. I just didn't know the answer to do it. Do we even have to do this thing, those kinds of things? And almost always the answer is yes, we have to do that thing. But we did. We basically he went through all our documents and so had some questions about that. And we started just kind of streamlining processes. I think that's what we were what our big focus was. And we also, again, were headed straight for SEC registration. So we were doing the things that we

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felt really needed to be, double checking that these things were in order before we went to that to that level.

Maddy Roche: [00:16:43] Wonderful. Scott, thinking back on when you first met Abby at #XYPNLIVE, what had Abby been doing right. Given that there's kind of those three buckets that members fall into, how would you categorize Abby's previous compliance work?

Scott Gill: [00:16:56] Based on just an initial impression? I would categorize Abby's firm as one with an existing solution, okay? And I felt like that solution was working, but I felt like we could really benefit from reevaluating the way that the firm was utilizing their time and almost provide a resource that would streamline processes so that the firm wouldn't end up spending too much time on compliance and can get back to what they're in business to do, which is servicing their clients.

Maddy Roche: [00:17:26] Yeah, great. Abby, how much time were you spending on compliance kind of prior to your relationship with Scott and how much afterwards are you doing?

Abby Morton: [00:17:36] I wouldn't say that the time commitment is very different, actually, but the effectiveness I'm getting a lot more done with the time that I'm putting into it, so. Compliance is obviously progress from when I had a little firm and no clients to having clients and continuing to try to do things in the margins, that you have to set aside time for it. And that's the hard realization as you have to. And you also have to understand. So whether or not you have a compliance consultant, you have to have some basic level of understanding of the requirements. And so that just takes a certain amount of time. So I set aside time every month, every quarter and

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every year for it. But I'm getting a lot more done. And the the all the projects are moving forward at a faster pace than they were before.

Maddy Roche: [00:18:27] Great. Scott, Abby says she's barreling towards SEC registration. Can you let our listeners know what when does a firm have to register with SEC? Because not everyone does, right?

Scott Gill: [00:18:40] Right. Right. Yeah, correct. So there's quite a few criteria that would trigger an SEC registration requirement for firm. The most commonly known criteria for SEC registration is the large advisor criteria, and that's if you have AUM, a regulatory assets under management, of one hundred million dollars. Right? And that's what everybody recognizes as kind of being that key point in which you have to register. There's a couple of states, most notably one state, in New York, where if you have twenty five million dollars of assets under management, that's where the registration required requirement would be triggered in New York State. And so that's that's probably the biggest one. There's a couple of others, like if you're a brand new advisor and you're just registering for the first time and you-you feel that you will be eligible for registration within 120 days of your registration effective date, you can register with the SEC. That was tricky, though, because if you don't make it within that 120 day period, you have to go back and register in the state in which you are where your principal place of business is located. And then just a couple of other kind of commonly known criteria. If you're a multi state adviser, which means you are required to register in 15 or more states, then you are eligible for SEC registration. And then also if you're an Internet adviser, like a robo advisor, where you plan to have like an automated digital investment advisory program, where you utilize a kind of computer algorithm to to execute your transactions based on a risk profile from the client, robo advisors, are required to register with the SEC as well.

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Maddy Roche: [00:20:25] Fascinating. You know, Abby, I'm interested in what kind of the responsibilities of an SEC registered firm are in comparison to that of a state registered. All right. What changed when you registered with the SEC for you?

Abby Morton: [00:20:41] I think-I think they're more similar than different, probably Scott could speak to that as well, but I think many states follow along pretty closely. I think, you know, and I think one way or the other, we had to we had just the problem was that we had grown so much and so quickly, both with employees that need to be supervised. And so all of those processes need to be tightened up. I think it's just the idea of it's the SEC and not your friendly little state regulators. And, you know, we-we knew our state regulators. We were cozy with them. And now we're kind of in this no man's land where we don't know anybody at the SEC and we're-we're waiting for an audit. So, you know, I think it's just I think the big thing is that it's pretty commonly expected that after you register with the SEC within a year or so, you'll be audited. And so it kind of puts that right in front of you where you're basically preparing to be audited at any time.

Maddy Roche: [00:21:37] Wow. Scott, anything to add to that in terms of the difference between state registered and registered?

Scott Gill: [00:21:45] Yeah, yeah, absolutely, you know, and it's hard to say across the board, right, because there are so many different factors, right. Some of those factors would include the type of SEC registered firm that you are. We were just discussing there's different types of firms. Also the state in which you're transitioning from. Um right, because different states have different requirements. There will be some similarities and some differences between what the state requires and what the SEC requires. And also the size of the advisory practice or the size of the

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business really plays a huge part in the the best practices for the workflows that feed into our ongoing supervisory procedures. So those are probably the biggest factors, I think, that that firms need to consider when you're transitioning from from state to SEC registration, more specifically as it pertains to the actual categories of compliance at the SEC level, I think firms should pay a little bit more attention and increase focus on best execution and trade valuation. Right. And that's where the advisor evaluates the quality of the trade executions for their clients and any commission costs and trade processing systems that they're using. We usually will see more regulatory focus for something like that on the SEC side. Why? Because generally speaking, those are larger advisors. And so they're trading practices are a little bit more extensive. Also, the code of ethics and compliance manual adherence. There is a compliance rule that basically requires that every firm maintain written policies and procedures that are reasonably designed to prevent violations of the advisers act. When we get to the SEC level, okay, what we find is that the items that are in that compliance manual become critical to the way that the firm is actually operating. So one of the biggest sources of deficiency or some of the low hanging fruit, if you will, for regulators is just to go into your compliance manual and start reading stuff that you say you do and then ask you if you do it right, and then if there's something that you have in that document that you're not doing and that's low hanging fruit, that's an easy deficiency for a regulatory exam. And so I think that-that we really want to increase focus on what's in that document as we transition to SEC registration.

Maddy Roche: [00:24:17] Interesting. Abby, I'm interested in, you mentioned an audit at the SEC level. You have yet to have that, although you suspect it's coming. Have you had any audits kind of prior to registration? And if so, what were they like?

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Abby Morton: [00:24:32] I've had-I've had officially 2, one when I was a registered advisor in North Carolina and then one when I was in Maine, again, on my own. Both of them went fairly smoothly, I think. I mean, they're always kind of terrifying. People in suits show up at your office and start going through all your stuff. So it is it's not a not a fun experience, but because, again, my-my-my model was intentionally simple. It really did go pretty smoothly. I had things where they were supposed to be. I was easily able to put my hands on everything that they needed. And so they were fairly short. Each one didn't last more than a day and not, not any deficiencies that I know were concerning, very small things, so they went pretty smoothly when we as a firm at Goldman Financial Planning and our in our larger firm, when we registered with the state of Massachusetts, that was basically an audit before they would allow us to register. And that was much more of an ordeal than either of my official audits had been. So, you know, they combed through documents, asked all kinds of questions about operations and procedures. And that was it took us, I think it was over two months to actually get registered with Massachusetts just because, you know, it was over the holidays and it was a very kind of grueling process. So I would imagine that that level of detail would be more like what we would experience in an upcoming audit.

Maddy Roche: [00:26:08] Yeah, Abby, I loved what you said about not being able to do compliance in the margins or just letting-letting all of your tasks kind of fall to the wayside and pick up where, wherever and however you need as time goes on, how do you structure your your week, your month and your quarter around compliance?

Abby Morton: [00:26:28] Yeah, I'm very intentional about it. I do set aside the time on the calendar and I defend it. So I take at least two days a month and sometimes three, depending if I have a project that I know I could use a day to just set aside and work on, then I will do that quarterly. I set aside anywhere between three and five days, but I think really at a

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minimum, I should have four. So that's the quarters where you're doing the personal securities transactions and we do have eight people, so it takes some time. Doing email and doing all those tasks. So I do set aside about four days a quarter and then annually it's a couple of weeks actually to get through everything that we do. It doesn't have to be all at the same time. But in total, about a couple of weeks to get through all of the due diligence and the supervisory kind of tasks that we have to do.

Maddy Roche: [00:27:23] Yeah, Scott, when an advisor decides to take on an employee, how does that change their compliance responsibilities? I've heard you both reference kind of work around this employee and the types of supervisory review that you have to do for them. What-what goes into having an employee when it comes to compliance?

Scott Gill: [00:27:44] Yes, absolutely. So very popular topic, we deal with it a lot. There's a couple of different critical points when you bring on an employee from a compliance perspective. Of course, the first is the initial onboarding process. Right. When you're first getting an employee on board, you have to determine to what extent your supervisory processes is going to apply to them. And ultimately, what we're referring to is whether or not they will be considered a quote on quote, access person. Will they be a person who has access to certain records of the firm that make them a required to be supervised under the firm's code of ethics? And so that classification has to be made up front. Once you've made that classification, there's certain documentation you have to receive from them. I won't go too much into the weeds there, but how you supervise a person, right, is very much predicated on what they will be doing for your firm and what information they will have access to. And so where a lot of advisors kind of missed the buck on that initial onboarding process for employees is by not sitting down and taking the time to ask, okay, what information will they have access to? What information do they need? Right. From a cybersecurity perspective, what systems will they have access to? Right.

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And how does that access translate into compliance for our firm's privacy or for our clients privacy policies? Right. And so that's kind of the first pieces. The onboarding after that is the ongoing supervision. Right. You got to be checking their emails. You got to check their correspondence, the written correspondence they have back and forth with clients. You have to know if they're receiving any gifts from clients or if they're giving gifts to clients or if they're doing political contributions or any outside business activities. Yeah, yeah. Yeah, right. So you have to do ongoing supervisory processes to make sure that you're monitoring that individual's activities. So you've got the initial onboarding, you've got the ongoing supervision. And then at the end, of course, you have offboarding. And when someone leaves your firm, you can't just let them continue to have access to your clients data after they've left. Right. Or do you have the records from them that you need to maintain for the required five your books and records policy? So it does tremendously increase the nature of the ongoing supervisory responsibilities for each individual that you hire.

Maddy Roche: [00:30:11] So, Abby, I'm going to use kind of Scott's words that he's institutionalized here at XYPN. Which is we really want members to embrace the culture of compliance in their firms and as Scott mentions at the SEC level, you're doing a lot of compliance on the team that you've built. And I'm wondering, how have you communicated that to your staff, that this is, in fact, something that they have to take seriously? It's not a violation of their privacy to have their emails reviewed by you. How have you embraced the culture of compliance?

Abby Morton: [00:30:39] I actually use that term to I think it's a great term. And we want to be able to we tell our employees, we want to be able to show people, the SEC included, that we have a culture of compliance. And so there are a lot of things that-that I repeat myself about. I we have annual meetings and we have we have a weekly team meeting and we'll take the opportunity to discuss compliance whenever I need to. There are things

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that I need to remind them about. One of them is our social media policy because we have a zero social media policy. I have to bring that up often because it's very easy to slip up on that. So repeating that, talking about our privacy policy quite a bit, reminding people what it means to actually keep clients information private and reminding them that if they were working with a financial planner, investment advisor, they would want the same kind of treatment and they would want to know that they were working with trustworthy individuals. And so, unfortunately, the only way we can prove this to regulators that we're actually doing this is to do it and document it. And so that's why this software for reviewing email exists and that's why we use it. And people are pretty good about it. I think they understand that. I think once you do have the culture of compliance, people are pretty understanding about this is just what we do and this is how we do it.

Maddy Roche: [00:31:56] Yeah. Scott, how do you train on the culture of compliance and what what is your goal with that?

Scott Gill: [00:32:04] Right. Sure. So the first thing is recognition, right. You have to recognize that there is the responsibility to maintain certain compliance with certain regulatory statutes. And you'd be surprised how many firms just simply do not acknowledge that responsibility. When we first sit down and talk to. Right, we hear all the time. Well, I know what my last firm, they used to do this for me. All right. And so I don't know anything about it. That's great. That's fine. You know, and every once in a while we're here know I'm trying to do this myself, but I just don't know what to do. That's great, because that's an initial-an initial acknowledgment that something needs to be done. Right. And so that's the first thing. The second thing is consistency. Right. The compliance officer cannot convince anyone at a firm that they're responsible for supervising, that compliance is important if the compliance officer themselves can't maintain some level of organization and create consistent processes so that people can

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understand and so that people can follow them. Right. The third thing I would say is education. All right. So a lot of the compliance concepts that we talk about with compliance officers. All right. Our new concepts or concepts, which, as we said before, we're taking care of for them that a previous broker dealer at a previous firm. So these are new concepts with a compliance officer. Imagine how new they are for a financial advisor. They could care less about compliance. So if we don't educate people on just the basic compliance concepts, not only will they not know what to look for in their day to day, but they also will have a hard time following policies and procedures and processes that are put in place to maintain compliance. So I think that that's probably the three biggest components to building a culture of compliance.

Maddy Roche: [00:33:59] Great. Abby, I'd love to pivot back to something you said. I heard you say that you have a zero social media policy. What does that mean?

Abby Morton: [00:34:07] It means that no one can text with clients about this isn't quite social media, but that's part of it is no one can use their phones to to text clients about anything having to do with work. They can't, we don't currently have a Facebook page. We probably will, but that also has to be documented and archived and all of that. So until we're ready to do all of that, we have a zero social media policy so no one can get on Facebook, they shouldn't anyway. But to get on their personal Facebook page and talk about work. Same thing with their LinkedIn or Twitter or any of that. So basically, at this point, we're not using those those tools in any way for the business.

Maddy Roche: [00:34:56] Yeah. Scott, what is the relationship that you expect the member firm to kind of have at the SEC level? I know a lot of

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our member firms end up through years and as you alluded to, developing a relationship with their state regulator. What kind of expectation should a firm at Abby's level have about their relationship with SEC.

Scott Gill: [00:35:17] Another great question, and as a part of our initial consultation, another question that we ask is on a scale of one to 10, how confident are you in reaching out to your regulator when you have questions and concerns about your compliance program? That's one of the very first questions we ask at the beginning of the engagement. And the reason we ask that is not because we are going to tell them to reach out to the regulator. Could tell the CCO, hey, call your regulator. That's not what we ask. We ask because we want to know how much of a relationship they want to have with their regulator. If they don't want to have a relationship with their regulator, then that lets us know as the consultant that we're going to need to step in a little bit more often. The other reason we ask that question is because we need to know how much coaching needs to go into the audit interview process. So in my opinion, the most nerve wracking process of the whole of the whole exam is when you're sitting across from the regulator and they're asking you questions like you've done something wrong and they're interrogating that part needs you know, it's very easy to say too much to try to defend yourself and to open up new can of worms for regulators to look deeper into your firm and make your audit even more painful. And so we ask that question. And so I-I come into it with zero expectations. I let them let the firm or the CCO decide to what extent they want to have that relationship with the regulator. And I try to fill in the gaps based on what they've communicated to me in terms of in terms of their interest in fostering that relationship.

Maddy Roche: [00:36:47] Now, that really echoes the sentiment that Kingston Hollman, another compliance consultant we have on the team during his podcast interview just four or five months ago, really talked about how to answer questions during the audit and really think about what is the

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question that they're asking, because they're asking it specifically. They're asking it for a reason. And as you say, Scott, it's very easy to get distracted with all these other answers that that does open kind of Pandora's box of compliance. Abby I'm interested in your experience having run this firm for a number of years in your fluency and compliance. Have you ever misstepped? I mean, did you ever feel like you caught something and were able to correct it in a timely and effective manner?

Abby Morton: [00:37:26] Yeah, I would say right now we're kind of actively we have a few open projects where we're just going back and looking at things where we might not have been monitoring things as strongly as we could have. So there are a couple of things we switched to having me as the CCO review all the contracts as they come in. And what I noticed was a few there was a miscommunication or misunderstanding in the firm as to how things should be. It's-it's a little bit hard to describe without looking at our contract. But there are certain things that kind of need to be checked off and circle as to what service we're providing. And it was a little unclear. So there were too many things being checked off and circled. And so the terms that we were giving to the client were not clear. And so by kind of changing that process so that I'm looking at every contract that comes through, we kind of caught them. We're able to correct it and make sure that everyone was on the same page that I took advantage of, of having a meeting time to talk about this is how we're going to fill out the contracts going forward for these different services. We also found and just kind of going back through our trades, that clients were being billed for fees that they should not have been. And so I was very, very glad to have found it and corrected it. So all the clients have been reimbursed. As soon as we found it, we brought it to it. It wasn't our fault, but we should have found it and I'm glad that we did. So it was the custodians fault and they were reimbursed and we took care of that. But I would much rather have it be me that finds it then the regulator.

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Maddy Roche: [00:39:08] Absolutely. And Scott, I imagine that's not the only thing you've ever seen in terms of oversights or little adjustments that need to get changed. How do you coach members and how to address this with with a level of confidence? Because as you've said many times, mistakes are we expect them. And it's not that you will get shut down for making one. It's about showing that you have a process in place instead to make sure it doesn't happen again. How do you coach members on that?

Scott Gill: [00:39:38] From my perspective, confidence comes from expertize and expertize comes from experience. And so just the entire process of meeting with the firm owner or the CCO is for me to provide them with the educational content and the process and workflow guidance that they need to gain the experience to feel like an expert. Right. And so that's that's the whole point. And so our point is not just to get together and check off a bunch of boxes. All right. The idea behind the coaching service and the reason we call it a coaching service as opposed to a consulting service. It is because we want, if the chief compliance officer wants to become self-sufficient as the local compliance expert for the firm, we want to foster that process. We want to start from where the CCO is and create an educational experience with a high level of accountability and a rhythm of compliance that inevitably makes the CCO feel experienced enough to operate as an expert for their firm. And then therein lies the competence. If they're the only person of the firm that has been through the process of making these tough decisions and implementing these procedures and documenting these processes, then of course they're going to be competent in communicating with others in the firm about compliance because they're the local expert and that's what we want to achieve through the process. Right.

Maddy Roche: [00:41:06] Abby, what has your experience been in terms of developing a level of confidence in this specific area?

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Abby Morton: [00:41:14] I think what Scott said was absolutely true. I mean, I think any job is made better by feeling competent. And so the difference between when I first talked to him at the conference and where I am now, just feeling so much further ahead in all these projects and feeling like I'm-I'm getting there, I'm definitely headed in the direction that I want to be in almost. I kind of feel like I will never be able to say, yes, I'm ready for an audit, but I feel like I'm-I'm getting really close to feeling like that. Like, okay they can come any time we're good. So that's that's what we want. And that feeling of confidence, kind of whether or not you signed up for this job and it's all your hopes and dreams to be your CCO for the firm, feeling competent at it helps a lot. And so I think that's absolutely true. You get confidence from-from having some experience and being able to do things, knowing that it's the right way to do it.

Maddy Roche: [00:42:11] I like the term project versus kind of these tasks that we often talk about. OK, we've got our compliance task. What are some of the projects that you're working on at this level of kind of firm development?

Abby Morton: [00:42:23] Projects that we're working on now. I have-I have a list, of course, but one of the ones that we're doing is going back and looking at our investment, our IPSs, our investment policies for the clients and making sure that it's part of the annual workflow to review that IPS with the client. So what I was finding was some sort of aged IPSs and so making sure that those are up to date and making that part of the process. And so now we're going to do just kind of a firm wide check of all of those IPSs making sure they are where they need to be. And then we know that if it's part of the annual process, that that will get picked up. So that's one of the projects we've done a couple of things. Sometimes they involve doing something with our CRM, adding a special field or something like that so

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that we can systematize data that has to do with-with compliance dates and compliance obligations. So that's been some-some tech things. Just help us be more organized around our compliance efforts.

Maddy Roche: [00:43:29] Great. And Abby one more question for you on this topic. How-how does this translate to a client experience? Or you do talk a lot about kind of the hard work that you do to keep your firm compliant when when you're interviewing your own clients?

Abby Morton: [00:43:44] No -.

Maddy Roche: [00:43:44] (laughter) Oh, man.

Abby Morton: [00:43:46] - (laughter) I don't-I don't talk about compliance with them very much. It's interesting with the AUM clients, everyone's sort of concerned about the whole Bernie Madoff thing. And it is interesting to talk with people about, hey, you know, we use we use fidelity as a custodian. You will get two statements. You can all you always have a statement from Fidelity and you will have a statement from us. And that's the way it should always be. If you go anywhere else, you should have a separate independent statement that shows you where your money is. And that's how you avoid that that kind of issue. They don't they don't ask a lot about it. I will-I will let them know that I'm CCO and that that takes a good portion of my time that that's one of my big roles at the firm. But I don't tell them a lot of the nitty gritty like they don't you don't know that I read everybody's email and look at all their personal securities transactions and all of that. Yeah, I wouldn't say it's a big part of that discussion.

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Maddy Roche: [00:44:45] Do you have anyone at your firm who's itching to be the CCO?

Abby Morton: [00:44:49] I do not have anybody who's itching to be it. We are looking at getting me a little bit of a deputy CCO, a deputy compliance person, that she is someone who's been in our client service team and she's part time and she could use some flexibility. So it's kind of a perfect role for her because we have deadlines for compliance. But it doesn't matter if she's doing it at eight o'clock at night or five o'clock in the morning. It just doesn't matter as long as she's doing that. And my only requirement really is that it be a detail oriented person because you really have to care about details and spreadsheets and whatnot. So this is looking like it might be a good fit and that might help me be a little more efficient as well.

Maddy Roche: [00:45:31] Great Scott, I'm interested in our use of technology and how we coach around kind of systematizing, as Abby says, some of these processes. We do offer technology to help with compliance. How much do you rely on that tech versus kind of creating a process and a culture within a firm with a member when you work with them?

Scott Gill: [00:45:53] Sure, yeah. So I always describe an effective compliance program as having kind of three prongs. Right. So you've got your documents. These are the documents that you create to serve as the policies and procedures for your firm. You've got your workflows, okay? These are the things you actually do to make sure that you're in compliance with those documents and then you've got the documentation of your workflows. And so all three of those things kind of if you envision a triangle with three points, all three of those things have to be connected. So you've got to document your workflows and then your task management processes or task management tracking the technology falls under that

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third category. Right. Where, you know, I always tell people with any piece of tech, garbage in, garbage out so you can log in to any software and click dun dun dun dun and go on with your day. But if you didn't actually do anything right to complete the task, then it's a moot point. Right? You just you're just clicking something to make yourself feel better. So we have a variety of firms that like to operate in lots of different ways. The task management systems, by and large, are designed to create reminders so that people don't forget the regulatory background, just commentary on what various tasks mean, as well as a place to document or a place to track the actual work that's done for the compliance program. I rely on it heavily. I did when I was a compliance officer and I rely on it heavily now. And the reason why is because it allows us to customize the technology specifically for the needs of the firm. We can change the frequency of the tasks, we can change the description of the tasks. And it allows me to keep tabs on what the advisors are doing in between our meetings. And so we'll get our we'll get off of one meeting. Let's say we have a monthly engagement and we'll say, okay, our goal is to complete the trading activity and the billing review task, okay? And then two weeks later, when I'm setting the agenda for the meeting, I'll say don't forget to complete those tasks. If I get onto the call and those tasks haven't been completed, then I can understand, as we discussed earlier, what pace the advisor is moving. Right. And so that helps me customize their experience. And I've got some advisors, you tell them to complete 2 tasks and they've complete 10 and I've got some advisors we're still working on the first four, six months later. That's fine, because the point of this process is not for you to do what I say. It's for us to figure out a solution that's going to work for you and your firm.

Maddy Roche: [00:48:40] Love that individualization so much. If you can believe it. We are approaching our time together. I could keep talking compliance with Scott and Abby all day, of course. But Abby I'm interested in words of advice from a woman who has really built her own firm and been the CCO for a long time. What advice do you have to another advisor who's thinking about either starting their firm or jumping into XY as an

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established firm when it comes to compliance support and your-your relationship with your compliance department over these years.

Abby Morton: [00:49:13] I would say don't wait too long to get it. It's okay again when you have zero clients and maybe zero kids and you've got all the time in the world to research compliance and do your own things and you have a simple model, that's one thing. But once you have a good set of clients and a plate full and you find yourself trying to find time to do it, it's probably time to get help because what's happening is you don't have time to keep up with those tasks and you also don't have time to keep up with the changes. You're not even hearing about them because you're not tuned in. So you bring in someone who can help with that. Case in point would be the form CRS, that was due today, today, which is a new form that everyone had to be. And it was on my radar. But at some point, Scott basically sent me a template and said, you need to fill this out -

Maddy Roche: [00:50:04] (laughter)

Abby Morton: [00:50:04] - because it's due on the 30th. And so it's just good to have that person keeping you on track and knowing that you want big things like that. Big changes won't catch you off guard. So get the help before you think you need it and just have someone on your side that can bring that extra level of intelligence to to your process.

Maddy Roche: [00:50:26] Great advice. Scott, I've loved working with you over these years because you've been so committed to this idea of trying to help advisors be their chief compliance officers, really help them enjoy this role. You were not one that that wants to be outsourced to to handle these tasks. And in fact, you've built now an entire coaching program that allows

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you to continue to do that. At what threshold you really feel like advisors should go from doing it on their own to possibly tapping an expert like yourself in our team to come in and help?

Scott Gill: [00:50:57] Sure. Yeah. And so, you know, it boils down to a revenue item on the balance sheet and an affordability and time. So at the end of the day, what a firm gets to SEC level registration. That's the first kind of place where they're going to want to take a step back and take a look at their business model. One of the interesting things, though, about a lot of firms is that you've got multiple layers by which the firm generates revenue, okay. Some firms are investment management services and financial planning services, and they may generate 50 percent of their revenue on investment management services and the other 50 percent of financial planning. So just the AUM alone is not a indicator of how much in assets or in cash that the firm is generating from a gross revenue perspective every year. And so it just-it just really has to be it has to be an individual decision. I can't really throw any numbers on it. My personal opinion is that firms should consider always having at least 10 percent of their gross annual revenue set aside for operations and compliance. Most firms, when they first make that transition to bringing someone in-house, they will love those two functionalities together because they are so closely related. Your operations deals with what systems you're using and you're filing and your processes and your workflows that goes directly into your compliance program. So the advice that I would have for someone who's really thinking of going in that direction is make sure that you create some link between operations and compliance as you're going through that process and then the rest. Quite honestly, this boils down to revenue per adviser. You may have one adviser that's generating two hundred fifty three thousand dollars a year. Right. Or you may have one adviser that's only bringing in forty thousand dollars a year. Your supervisory responsibilities over those two to advisers are the same. But clearly, you're going to have more gross revenue coming from the higher generating adviser that may allow you some flexibility to be able to hire compliance in-

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house. So it's a tough call. I think that this is kind of the evolution of the industry and where it's going. And I think that that we will be able to really give some good input to a lot of advisors and compliance officers from a practice management standpoint, as we as we move forward and receive feedback from-from-from firms as well.

Maddy Roche: [00:53:32] Awesome. Abby, congrats on building the firm that you have and remaining the CCO for as long as you have. I've always so appreciated talking to members who really enjoy compliance because working alongside Scott over these years has made me fall in love with-compliance. So I don't know how it does not translate to our members. Thank you so much for being on the call today.

Abby Morton: [00:53:52] Thanks for having me. It's been a pleasure to talk with you both.

Maddy Roche: [00:53:55] Yeah. And Scott, thank you so much for what you've done for XYPN and all of our member firms. I know you are probably the most complimented XYPN staff member we have -

Scott Gill: [00:54:03] (laughter)

Maddy Roche: [00:54:03] - because this is such a sore subject for so many people and you make it so fun and meaningful and you connect it to the real whys. So thank you, Scott.

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Scott Gill: [00:54:12] No thank you. And I-and I love you all. It's nice to speak to you. Thank you so much.

Maddy Roche: [00:54:17] Always.

Maddy Roche: [00:54:17] Avocado toast, selfies, a mountain of student loan debt. Gen Y is anything but traditional. And with over seventy five million people, it's a population you don't want to ignore. Learn more about how to serve this unique population. In our guide called Attract and Profitably Serve Millennial clients in your RIA. Discover three key ways to tap into the millennial market and six things that they want from their financial advisor. Visit XYPlanningNetwork.com/Millennials for your free copy. Be sure to join our VIP community at XYPlanningNetwork.com/VIP to hang out with other #XYPNRadio listeners, ask questions for featured mailbag episodes and finally to find a community of like-minded financial advisors. Thank you so much for joining me today. We'll see you next time.

Narrator: [00:55:06] You are not alone and you are not crazy. It's scary starting, building, and growing your own financial planning firm and that's why we put together a free private community just for you, the cutting edge financial planner. Go to XYPlanningNetwork.com/VIP or text #XYPNRadio to 33344 and join a network of thousands ready to change the lives of Gen X and Gen Y clients.