

**Ep #305: Embracing an Expanding Compliance
Program: A Discussion with Shelby Brown and Terria
Heng**

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Full Episode Transcript

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Maddy Roche

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Ep #305: Embracing an Expanding Compliance Program: A Discussion with Shelby Brown and Terria Heng

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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 are in the right place.

Maddy Roche: [00:00:24] Hello and welcome to #XYPNRadio, I'm Maddy Roche your host. Today I have the privilege of talking to two compliance experts and women whom I get to call teammates Terria Heng and Shelby Brown are two of XYPN's Compliance Coaches, and together they bring nearly two decades of experience as examiners and compliance consultants to the XYPN team and membership. Today, we discuss their approach to compliance, the time commitment that they recommend advisors take to ensure that they create a culture of compliance within their organization. And of course, we riff about things that may or may not keep our owners up at night when it comes to compliance. Terria and Shelby give really great advice in today's episode. They talk about trusting your instinct and give valuable insight into how regulators and examiners approach their own jobs. They discuss how compliance changes when you add a teammate or four, when you approach SEC registration and when you make a serious mistake. Terria and Shelby's perspective on compliance is refreshing, and I can't help but absorb some of their energy and passion around compliance. And I'm sure you will, too. If you're interested in how compliance responsibilities will evolve as you scale your firm, the show is going to be for you.

Maddy Roche: [00:01:42] Avocado toast, selfies, a mountain of student loan debt. Gen Y is anything but traditional, and with over seventy five

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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.

Maddy Roche: [00:02:15] You can find any of the resources we mentioned during the episode at XYPlanningNetwork.com/305. Also, be sure to go to XYPlanningNetwork.com/VIP to join our private group just for #XYPNRadio listeners, the 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 Shelby and Terria.

Maddy Roche: [00:02:44] Hello and welcome to #XYPNRadio, Terria and Shelby. How are you both this morning?

Terria Heng: [00:02:51] Doing well. Thanks for having us.

Shelby Brown: [00:02:54] Yeah, doing great. Thanks for having us, Maddy.

Maddy Roche: [00:02:56] Absolutely. It's-it's always a good day when I can interview two of my wonderful teammates at XYPN. Today we're talking all about advanced compliance with some of our badass compliance

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consultants. I'm going to start off, of course, with just a discussion of our backgrounds and what you both bring to the compliance team at XYPN. It really doesn't feel like that long ago that our compliance team was itty bitty and now is one of our largest teams. And I'm proud to call you both colleagues. And I know our members have really, really enjoyed tapping into your expertise. So, Terria, I'm going to let you start it off. Just let the listeners know who you are and what you bring to team XYPN.

Terria Heng: [00:03:35] Sure. So my name is Terria and I'm a compliance consultant here. I have been doing compliance for the last decade, which is crazy. I actually had discussions this morning before when I was filing for people. I was really in my early twenties and all these advisors were much older than I was. And now I'm at that age where I'm here in the same year I was born. It's kind of crazy. But I started off at a law firm slash compliance firm in L.A. dealing with breakaway brokers, broker protocol in assisting with that transition for advisors. And then I ended up actually becoming a financial examiner for the Texas State Securities Board for six years. So I would do onsite inspections for registered investment advisors all throughout Texas, got to travel through Texas to gas country, to the panhandle is very interesting. And then I did a little stint going back into the firm capacity as a paralegal in, again, securities law. And now I'm here at XYPN and loving it.

Maddy Roche: [00:04:51] Wow, what a career. Cheers to you. It's always fun to pass the decade of work experience, and I feel you on finally being the age of the people you're working with. Shelby, I'd be interested in the same question to you. What is your background? What do you bring the team XYPN?

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Shelby Brown: [00:05:09] Yeah. So a different route than Terria and we found ourselves in the same spot I always find super interesting. I like to say I inherited compliance. I did other jobs for an SEC registered investment adviser, worked there for about a decade all through college and then a little bit after college and the gal in the compliance role departed for a new firm. So again, I inherited the job without really knowing what I was getting myself into, but started some education at the same time and the on the job training. And the education suite that I was working through was really just kind of the perfect side by side for me. It clicked instantly. Compliance just fits with my brain. So I liked it, decided to stick with it, became a consultant for a while and have worked with investment advisors only, fee-only investment advisors for about five years now. So not quite a decade, but hopefully some decades from now I'll still be doing the same thing. And when I found XY, I just felt it was serendipitous. This is my spot. I love-I love it here and I love being able to consult for so many members in-in different walks of life, different phases of their business. But all still fee-only investment advisors.

Maddy Roche: [00:06:30] Oh, I love that there's-there's always such energy around the teammates who do compliance at XYPN despite working with members on the topic that often makes their their stomach jump with nerves. So it's kind of nice, hopefully, for our listeners to hear some humanization of the compliance world. But Terria, bring us back to kind of post college. What drew you to compliance? I must say compliance was not on my radar when I graduated college.

Terria Heng: [00:06:58] Yeah, I think it definitely you know, it's not a major in college, you really major. And so I guess in that mindset it's I guess I fell into it as well, like Shelby did. What drew me to compliance, I think I'm a

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very critical person, and so a lot of compliance is telling people what they're doing wrong. And so I kind of like that, just like you did this wrong, you did that wrong. And that's just very detail oriented, which is probably my main strength. And so I just love a job where I can-I can do it well.

Maddy Roche: [00:07:39] Beautiful. And just to summarize to our listeners Terria, would you kind of describe your role at XYPN and just a few sentences?

Terria Heng: [00:07:47] So I work with members as a Compliance Coach. So basically, if any questions members have in regards to compliance, either teaching them how to deal with that or guiding them or assisting with those tasks.

Maddy Roche: [00:08:05] Beautiful. And Shelby, would you add anything to that?

Shelby Brown: [00:08:09] That was well said, Terria. I like just how you intro that. And also, in addition to coaching, I also hosts our office hours for existing firms and kind of try to focus on our education suite of things that we can provide to members and also some internal education for our team and just beefing up our-our knowledge internally. Like we said, I don't think that any one of our consultants knows everything on their own, but as a team, we certainly do.

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Maddy Roche: [00:08:39] I love that. Even as we are jumping on to this podcast, these two, we're giving each other tips on how to-how to approach different deficiency letters, things like that. So the work never stops. Terria I'd be interested after all these years of being not just a regulator, but now a coach in the space. You must have developed some sort of attitude towards compliance, a theory around it. What what is your approach to compliance and how you communicate kind of the responsibilities to say, just a registered advisor like our members?

Terria Heng: [00:09:09] It's always cheezy to say this, but obviously you want to create that culture of compliance. This is always repeated in every compliance conference, but it's true in that some, you can tell right away whether a member or an advisor cares about compliance or whether they don't or whether they know what they're talking about or whether they or whether they don't. And so it's just educating yourself and knowing how to think in that compliance mindset and then that culture gets developed.

Maddy Roche: [00:09:43] Yeah, absolutely. I've heard that culture of compliance. And Shelby, I'd be interested. How do you coach on that? I mean, how do you even begin the conversations about you need to care more about this?

Shelby Brown: [00:09:53] I think I tell people a lot to trust their instincts. It's you know, I think we inherently have ethically great people in our membership base and just kind of in our-in our fee-only advisor world in general, where we're pretty safe and like I said, inherently ethical, easy for us to provide good service and be good people. So when I say trust your instincts, I think, you know, if something is rubbing you the wrong way or

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you're unsure about something, that's when to take it further, do some more research and make sure that you do have a good understanding and just kind of push that feeling away, recognize it, but address it. And I think that that helps build confidence. That's a huge key in pushing down that tone of compliance from the CCO down through the rest of the firm.

Maddy Roche: [00:10:42] Great. And Terria, when you begin a relationship in the XYPN world with a member, what are their biggest concerns as they engage either coaching or consulting on compliance?

Terria Heng: [00:10:55] And the biggest concern that I get is I don't know, what I don't know. Is that they just don't know what they should be doing and they don't know what is compliance and what's not compliance, what they should be thinking about in terms of compliance. And they're just scared. They're just scared that they are going to do something wrong because they don't know whether they can do something or can't.

Maddy Roche: [00:11:19] From your experience, Terria, what is worst case scenario with not keeping a culture of compliance at a firm?

Terria Heng: [00:11:26] I mean, worst case scenario is that you get an order and lose your business. That is worst case scenario or a massive fine. And that comes from things that unfortunately are somewhat common, like unregistered activity is a common event. If someone was providing advice and not registered, hopefully that doesn't happen, but that can be something that can get you fined or an order that's on your permanent record. So those are things we try to avoid.

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Maddy Roche: [00:12:01] Shelby, what's your experience with kind of major red flags in the space?

Shelby Brown: [00:12:06] I hear that. I hear the same thing a lot. I don't know what I don't know. And so in order to figure those things out, I think our members. Has access to each other, which is huge, using your colleagues to gain their past experiences, especially if you're in a similar geographical location or your regulators are the same jurisdiction and can be very helpful to just see what people have experienced in the past, see their take on maybe a new idea that you have that you want to workshop and compliance consulting can always be a part of that. You can spend a very short amount of time with the consultant and get very, very far answering some of those don't know what you don't know questions. And even having a consultant just help you figure out what those questions are, formulate them for yourself.

Maddy Roche: [00:12:59] Yeah, absolutely. Shelby, I know one of the biggest concerns, of course, as advisors start their practices is that they're going to they're going to set up the culture the right way and that they can commit the amount of time that they need to do it. Can you talk a little bit about how you see the time commitment aspect change and evolve as a firm gets older?

Shelby Brown: [00:13:22] Yeah, I think with everything compliance, there's a little bit more work to do in the front end of things to prepare yourself for ease of use and efficiency with-with everything compliance going forward. So I think that's what kind of feels funny. People have a hard time just

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getting over that first speed bump of, okay, I've-I've accomplished becoming registered. Now what. And the now what for compliance can seem huge when you first get interested into your ongoing compliance responsibilities. So spending a little more time in the front end of things to set yourself up for success on an ongoing basis is always my recommendation. And then on an ongoing basis, you really can work it for you about how much time you need to spend on compliance and can spend on compliance. I mean, Terria, I'm curious if you agree, but I would say, you know, in a one person firm, like a lot of our members are, you're probably fine spending an hour or two per month on compliance. Honestly, it's, you know, an hour every other week or an hour every week just blocked out on your calendar when you can just think about compliance and try not to ignore that alert on your calendar. And if all that means is coming up with questions to ask, that's still progress.

Terria Heng: [00:14:45] I agree

Maddy Roche: [00:14:46] Now I love that. Shelby, what you just said, the questions to ask, what do you mean by that?

Shelby Brown: [00:14:51] Yeah. So I think office hours is sort of what's guiding my brain. There is we have these open Q&A sessions all the time with members who are up and running in their businesses. They're approved, they're serving clients and still trying to figure out where to fit in compliance into their daily business life. Being a business owner and being an adviser, there's a lot of things that go along with that. And oftentimes compliance is the last thing you have room for in your mind and your

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schedule. So I think-I think that can tailor just sort of your attitude around it in general.

Maddy Roche: [00:15:30] Great. Terria, I love this idea that a solo advisor can think about spending maybe an hour or two on compliance per month, but I imagine the stress of compliance they probably spend several more hours worried about. Can you speak to that a bit?

Terria Heng: [00:15:47] Um, sure. I think Shelby also said this, but being a fee-only adviser, you inherently have lower risk than most advisors out there. And I think there is a fear among a lot of members and advisers of compliance. And maybe that fear actually deters them from working on compliance. But honestly, it shouldn't be so fearful. Again, you have low risk. And so it's really just getting over the fear and the burden of compliance and just thinking of a checklist of just things you should watch out for and document-and documenting things and reviewing those documents and making sure that they're accurate.

Maddy Roche: [00:16:34] Yeah. When you say low risk, I think, though, about kind of what your worst case scenario is, which is your firm could get fined or you could be asked to close your firm. When you say lower risk, are you talking kind of in comparison to, say, the broker-dealer environment where-where you just you can't do anything?

Terria Heng: [00:16:52] Yes. Lower risks in terms of conflicts of interest, because people who aren't fee-only have a laundry list of conflicts of interest that they must disclose and find ways to mitigate little risks in terms

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of if lower employee number of employees, a lot of our members are solo firms. If the more employees you have, the more supervision responsibility you have as a CCO to make sure that none of those employees are going against any compliance rules. So really, your responsibilities are less and less depending on your size.

Maddy Roche: [00:17:29] Great. Shelby, I'd love to continue this-this line of questions about as you grow your firm, how does compliance evolve?

Shelby Brown: [00:17:40] Yeah, really, the supervision aspect, I think, is a huge part of it, if you plan to add people to your firm who will be working for you, it is the CCO's responsibility to as Terria said and make sure that everyone in the firm is remaining compliant, not just the firm itself, but the people, their actions, how they how they look in the public, how they talk about the firm in the public space. That all needs to be consistent with the messaging of-of the firm, the branding of the firm and, you know, disclosure, disclosure, disclosure. There's quite a bit of freedom in compliance when you just disclose what's happening. So as far as supervising that can take it can see more of a burden because it just takes more of your attention and more of your time. And I think in a one person firm, even as the firm grows without the supervision component, you know, increasing, you will have more-more clients to pay attention to more-more billing and invoicing processes to just check and make sure that that's all tight. There are just the volume of-of clients of AUM, for instance, can just affect your-your testing, your checks and just the time that you spend on compliance. I think just growing in volume doesn't make you more risky. However, I do want to just make that clear. I think, again, it's just the more volume of of your-your documentation and your processes and compliance that can seem like more just with volume. But it's not that you are less safe

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because you're bigger for any reason. And I also just want to add about the when we're talking about worst case scenario, I think we can also talk about best case scenario after an audit setting or an interaction with a regulator which they want to see that you are looking for holes and just trying to fill them. No firm is perfect. It's very rare that you will come out of an audit with no comments and no deficiencies to speak of. They just like to tell you to do things and like to see that you're paying attention. It's very rare that after your first or even second or third audit, that you will be disciplined unless you're purposefully doing something wrong, intentionally forgetting things, closing those compliance alert-compliance alerts that you have on your calendar. Every time they come up, repeat offenses, that's when you'll be disciplined. They get in trouble. So I think that takes a lot of the scariness away too just about that looming first audit is they really just want to see your understanding around compliance and kind of your your method for looking for holes and planning to fill them.

Maddy Roche: [00:20:29] Great. Terria, any thoughts on that?

Terria Heng: [00:20:33] I, 100 percent agree. Being on the regulator side, you also have to think of it as like when I was an examiner, of course I'm going to do a deficiency letter or else it doesn't look like I'm doing my job and hiding deficiency. So I yeah, I think again, when I was an examiner and visited advisers, some of them were very nervous and scared or fearful of the inspection. And we always told them, you know, there should be no fear. You know, if you're doing everything correctly, then or if you're not intentionally harming clients, then it's really, we were there to educate them on what their books and records requirements were. And at the end, it's-it's only to assist them in protecting their firm and their clients. So it wasn't and

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we weren't there to punish them or to try to find something to create a fine. We're not, you know, trying to find speeding tickets.

Shelby Brown: [00:21:38] Yeah, it wouldn't look great on the you know, for the state if if everyone that came out of an audit was getting disciplined and closing their doors and paying fines. So, you know, they want their advisers to be good and do better and understand how to be compliant. I think the rules can be so intricate at times that often an audit helps really to make, to bring your understanding of what you need to do a compliance sphere, full circle, because there's really no better resource to pick through your stuff and tell you what needs to happen than that audit. So, yeah.

Maddy Roche: [00:22:14] Totally. Oh, I love that. If I was an adviser here in Montana and I had just opened my firm or maybe was adding my first employee could, I called the regulator and just ask them for kind of like a, to help me go through things. I mean, what-what is the ideal relationship from the examiners perspective that our eyes have with them? Terria, I'll let you answer that first.

Terria Heng: [00:22:38] Most state regulators will tell you that they cannot give advice and to consult your attorney because they can't give advice, they can only tell you what the rules are and point you to the rules and you are supposed to interpret that. That's not to say you can't reach out to examiners if you have questions and they will be there to answer your questions. And having them point to the rule does help. So it's always good to know who your regulator is or examiners and have a good relationship with them, but sometimes don't expect an answer.

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Maddy Roche: [00:23:09] Interesting. I didn't realize that they can't give advice. So even in those deficiency letters, they're not telling you you need to do stuff. They're just tell you whether you're over the line or off of it or something like that.

Terria Heng: [00:23:23] And sometimes you can kind of push back on some of those comments because they can somewhat be subjective or give you their opinion or really just be asking you more information. And some advisers think, oh, this is the rule when it's not the rule. It's just them being inquisitive.

Maddy Roche: [00:23:38] Interesting. Shelby, what's your experience in that?

Shelby Brown: [00:23:42] I agree that that's that is what I've seen in the past, too. And I think it is-it's never a bad idea to try to reach out, because really just the clarification of the actual words of a rule or where it lives is sometimes what we can't find. And that helps. So as an answer, sometimes that that is what-what we need, even as consultants, we try this, too. We-we email questions to state regulators, to the SEC and very we get mixed responses. Half the time, it's sorry, we can't give you advice. And then the other half the time is, well, here's the rule. Here's what the rule says. So I appreciate those responses just because it's a response. And I think that, you know, the regulator, oftentimes I hear from members, they're afraid to reach out because they think that they're going to be like moving themselves higher on the list or they'll think, oh, this regulators going to think I don't know what I'm doing because I have a question. But we you know, we try and combat that feeling as much as we can, that that's

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typically not the tone that they take. And they will appreciate the want to know more and they want to educate yourself and they want to be better. So that won't make you more prone to an audit just for asking a question.

Maddy Roche: [00:25:01] I'm so glad you said that because I early on, when I was working a lot with members, I would hear over and over again that they didn't want to flag themselves for the regulator. So I was like, well, you're on their books no matter what, and I'm interested to. Where do advisers go to learn more about their rules? I mean, is it-is it do they need to be making flashcards on what these are? Or do you kind of do this as you start your firm or are you revisiting it kind of throughout the year?

Terria Heng: [00:25:29] Yeah, it's hard. Honestly, I think one of the reasons why compliance is hard because it's actually hard to get information like some of these state rules are like embedded somewhere out in the world. And it's hard to find, it's hard to read and understand. But I think XYPN does a great job with its compliance education, if I do say so myself intellectually. So the forums that XYPN has, you know, helps with communicating with other members and communicating with your regulator, if you can do that. Otherwise, publications that come out from regulators, it's really just this section of the industry has a lot of information and digesting the information and just where to find it can be a plethora of places. XYPN is one of it with our compliance corner newsletter that goes out as well as attending existing office hours.

Maddy Roche: [00:26:32] Yeah, great. I'm wondering, as firms get larger, they register in different states. That means, they're so, you know, subject to different state regulations. Shelby, how does that complicate or increase

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the amount of time advisers are spending if they're serving clients all around the country?

Shelby Brown: [00:26:49] Yeah, so certain states have some specific rules related to specific services and just certain ways they like to see them disclosed. And they take that direction really because they're protecting protecting their investors. They want the clients to be fully informed about what will happen and what will go on and what they will receive for the fee that they're putting out. And really the documentation and compliance around all of that is is it reasonable? Are your fees reasonable based on the service you're providing, all of that kind of thing? So I think documenting that is-is what can be a battle, because it's usually just your nature. I mean, you're-you're working naturally. You're doing your everyday thing and tracking it in certain ways and taking time out of your day to day work to document little pieces of things can feel very disruptive at times, but I think with the goal in mind of knowing that it is needed, necessary and good for you to do, you know, you will do them. Trying to find the answers and using all the resources that are out there, I think can be overwhelming just because there's so much out there. And even as consultants, we're sorting through rules and regulations often times to try and make a consistency across jurisdictions. Several states, as Terria mentioned, are very vague about their rules or they're so in like 10, 20 clicks into their secretary of state website, you finally actually find the rules and there's no summary of any rules. And maybe the website was last updated in 2015 or something like that. So in the absence of the clear answer right in front of you, there is a lot of digging around that that you could have to do for certain states sometimes. So it primarily your home state will be who audits you as far as, you know, firm financials, your minimum net capital requirements if your jurisdiction has that. Every so often, an out of state adviser will be examined by-by a state that is not their home state. But

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typically those are more narrowly focused to just the clients in that state and are more abbreviated in process. So there's a very small notion of just another regulator to answer to, possibly in the future. But with that said, the overarching rules that kind of shape our whole industry are pretty standardized. And so in the absence of being able to find an exact answer, you can go with what the SEC says. That's usually what we and the SEC being a federal body is very much more robust about putting out the regulations, sending alerts, telling us who gets disciplined and why, what changes they're making all those kinds of things. The states are a lot slower to release that type of news. But more often than not, they piggyback on what the SEC is doing in the absence of having their own regulation around it. So at the highest level, if you're really just need an answer right away, Google, your question just with investment adviser next to it. And SEC rules should come up and give you some information and then you need to dig further for a specific state. Sometimes that's when asking a regulator can come in handy.

Maddy Roche: [00:30:26] Fascinating. Terria, any thoughts on that?

Terria Heng: [00:30:29] No, I completely agree. And it, you know, again, these things are hard to figure out and it helps, you know, to have these compliance resources through XYPN to really try to find the answer. Because the hardest part, the hardest part is finding out the question. And the second half is finding the answer.

Maddy Roche: [00:30:55] Right. Different ways to approach it. You can I- can I publish a blog or what are the rules on marketing? There's two different ways of kind of looking into those questions. And I know that they-

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they vary state to state. And I wonder, Terria, from your experience as an examiner, how much does the state think about that, that what what Texas may require is completely different than North Carolina? Any discussion or thought on that?

Terria Heng: [00:31:22] Texas could not care what North Carolina does (laughter).

Maddy Roche: [00:31:27] On the record (laughter)

Terria Heng: [00:31:31] Yeah, for I mean, I can't speak on other states, but for Texas, we just concentrate on Texas and we definitely work with the SEC and communicate with FINRA and the SEC to make sure that we're relaying the same information to advisors and informing one another about bad actors in the industry or things to look out for. But for the most part, most states conform with their rules. Generally, it's just like little small nuances here and there.

Maddy Roche: [00:32:06] Yeah, I love it. Okay, so let's talk about how an adviser could avoid doing compliance. What are their actions, Shelby?

Shelby Brown: [00:32:19] Well, there's a little pieces that you'll always just have to have your hand in as the CCO, your-your signature on-on the paper. Just a couple of things. And in that supervisory aspect of things, if you do have more than one person in the firm, the supervisory aspect of compliance will not go away. But you can outsource compliance tasks, I

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think outsourcing the role of CCO is maybe a different discussion, that it can function properly, but it can often take quite a bit of explaining and demonstrating with documenting how that is feasible, efficient and compliant and why that is the best option for the firm. I think that oftentimes regulators view that as kind of the last option. So they really want to know why that was selected. But outsourcing just the, or I should say, using a consultant to work alongside you, to educate you, to train you how to do the things that you need to do and not just going through your checklist and checking things off because an alert popped up on your computer. But actually knowing what you're checking while you're in the check and therefore your findings or nonfindings are much more significant in that respect. So if you're looking for something on a quarterly basis, I'll just use fee billing as an example on a regular basis. It's good to just go back and check and make sure that your your billing and invoicing was done as you want it to be done, just to make sure that you haven't missed anything or made any mistakes. It happens and it's fine. But this is why we check so that we find them. And I think advisors will, you know, especially in their first year of business, do this check quarter after quarter, maybe three, four quarters in a row, and then say, oh, I'm not finding anything. I never find anything whenever I'm looking for compliance stuff. And that can feel like such a drag. But that's what you want. You want to look and not find anything. So I think after a few quarters of that cadence, it becomes, it settles better with the advisor. But I think that that can be-be a drag at first, you feel like you're finding nothing. But that's what you want. So just kind of training yourself to be comfortable with that?

Maddy Roche: [00:34:39] Yeah, great. Terria, from your experience, could you give us an example of maybe a major issue that an advisor that you were examining came across and how did they deal with it effectively? I

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mean, what if you really do figure out that you had a big mistake? What's the appropriate course of action?

Terria Heng: [00:34:57] In the example of an advisor. I mean, it really depends on the severity of the case. And honestly, you know, when we find large deficiencies with advisors, being a good person really helps. So it's the attitude of the advisor, whether they actually cared or if they are kind of just thinking it's not a big deal when to us that's again, not the best when trying to have a culture of compliance. So having the intention to correct your mistakes and to inform your clients and to look at the best interests of your clients versus yourself or your firm, that helps a lot. So if we know that they are going to correct the mistake, the mistake, billing mistake or failing to have signed agreements or failing to disclose an outside business activity like those are kind of smaller issues that can be corrected, large issues of billing on things you shouldn't be billing on or large disparities in billing or getting compensation. That's not disclosed. I mean, those can be larger issues. And again, being a good person and being willing to fix those corrections can really help.

Maddy Roche: [00:36:16] And if you were to catch, say, oh, I've overbilled this all of my clients. One hundred dollars, I didn't listed my ADV. How do you make good on that? I mean, do you tell your clients and then do you call the regulator and let them know that that happened? Or is it just documentation?

Terria Heng: [00:36:31] It's just documentation and telling the client, keeping a log, putting, you know, what happened, who was-who was

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affected, how did you correct the action and how to prevent the action in the future?

Maddy Roche: [00:36:45] Beautiful. Shelby, thoughts on that?

Shelby Brown: [00:36:48] Yeah, that's-that's what I was going to say, is and you're right, to be honest, taking it seriously, but not over seriously. And I think by that, I just mean, you know, there are certain people who just don't like being told what to do. And in an audit setting, that's-that's all that's happening, especially once you receive your deficiency letter. And so they can it your attitude helps a lot if you envision it as someone just micromanaging you and trying to make things inefficient, for you, trying to make you seem like a bad advisor to your clients. You know, if that's-if that's the tone, then it's going to be a bumpier road. If you just accept and agree with their findings. And like Terria said, make plans to fix that and then in your policies and procedures, make sure that we detail what preventative measures will be put in place to stop that from happening again. I think that there's a, you can take away as a learning experience from any deficiency that you get provided with. So just addressing them and moving on is going to be better for everyone, including your clients, I think. Yes, being-being informing clients is one thing. Informing regulators is typically not needed. So they will say, did you inform your clients? And so if you as long as you can document and prove that, that's what you want.

Maddy Roche: [00:38:19] Interesting. I love this idea that the fiduciary commitment does not stop when you have a compliance issue that that you have to you have to continue to put your client's best interests first, not your own. What an interesting approach mentally to if you were to stumble upon

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a major error. It's not just fixing it so that your business stays in business. You still have that fiduciary oath. Shelby, what are your thoughts in terms of how did the regulators look at that fiduciary oath? And I assume they're regulating folks that aren't all fiduciaries?

Shelby Brown: [00:38:51] Yeah, they are. And so really, I think it comes down to another kind of big tagline for compliance, which is, you know, do what you say and say what you do. If I mean, that is there's a lot of freedom and compliance when that is what's happening and your documents seem to be matching your actions. And that's almost as simple as it is. So when it comes to like trying to speak to that, I think really usually the documents speak for themselves.

Maddy Roche: [00:39:22] Yeah, Terria, I'm dying. Do we have more savings in the compliance world that we have not talked about? I love this. Do as you say, say as you do, the culture of -

Terria Heng: [00:39:32] The culture of compliance. Don't know what we don't know. What are the others

Maddy Roche: [00:39:37] There's got to be more.

Shelby Brown: [00:39:40] Oh, I know the age old compliance answer that you will all get from a compliance consultant in some time in your life, which will come with more after. But it's, it depends. That's-that's the compliance answer. Usually that's how I answer a lot of questions and I'll almost

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sometimes stop myself and say, well, I hate to say this, but it depends. And a good consultant will go on to what it depends on and they will help you formulate an answer and-and complete the thought. But that flies out of our mouths sometimes for sure.

Maddy Roche: [00:40:23] I love that. I'm interested in both of your ideas around women in this industry. There's a lot of different avenues we can all take. I thought I at one point would be a financial adviser. Nope, not going to happen. I will not be. And therefore, I'm, you know, my position here at XYPN. Each of you have had different, very interesting, beautiful roles in this industry. And I would love to talk directly to those listeners, male or female or other, that are considering a role. Maybe at an RIA, maybe they don't love financial planning. But there's a career path here, isn't there Terria?

Terria Heng: [00:41:00] Yeah, definitely. I mean in a RIA, you have many different roles, as you would in any company, marketing to client relationships, to compliance. Compliance is a great role for someone who is very detail oriented and who is very organized. I think those are probably the two biggest characteristics you need.

Maddy Roche: [00:41:23] And Shelby, how do you see staff members taking over the role of chief compliance officer? Because one of the things we did talk about prior to recording this is that someone at your firm has to have that title. It doesn't have to be the firm owner. Any tips to those listeners who maybe do want to join the firm, not as the owner, but take over compliance as CCO.

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Shelby Brown: [00:41:41] Oh, that's a great question. And I used to work in the compliance department, but not as the CCO for that SEC registered firm that I mentioned in the beginning of our chat. And that was a good way to work it, is you can do all the things and just not have the title and then you don't need to be you know, you're not a registered person. You're not serving clients or serving the firm. You are keeping the, you're the compliance department is kind of who you supervise, what you supervise. So it's definitely workable like that. Someone can I think after maybe some time getting orientated into the compliance program of a firm in that manner could take the role and title of CCO eventually. I think it feels heavier than it actually is on paper. Just having that C in front of your name, it can feel like you have an extreme amount of liability, which is just being put on a person by having that title, the firm has the liability that it has always will. You know, the duties you owe to clients, your fiduciary oath that will never go away. But you know what? What you can do as the CCO is not, doesn't need-you don't need to be registered even to just be the CCO. So I think firms that function the best in compliance, that have multiple employees, have a designated CCO and someone else who's also assisting the CCO in just those kind of ongoing tasks. And it can function with just a CCO, of course, obviously. But I think the more that the compliance department is only focusing on compliance, that's just going to make things run smoother for the firm. Those people will have more time. They will be those detail oriented people who the-the tasks are geared for and who are good at those tasks. So you can definitely have help. It does not need to all be the CCO and being the CCO for that matter, is not as scary as it sounds. You may be the one, you know, face to face with in an audit with the regulator if you are the CCO of a multi member firm. But that's also not the scariest part of an audit. Honestly, I think as we've led up to in today's conversation, it's it's more the hunting and gathering and delivering of things prior to the audit that that's intimidating and more work than being face to face with a regulator is typically the smooth part of things. You know, you're talking

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about your fees and services. It's almost what you do with clients on a daily basis. So I think even if you had to be that person with the C in front of your name in that audit setting, you wouldn't give that to a person in the firm who you weren't sure was could handle that and was willing and capable. That's what I'm trying to say.

Maddy Roche: [00:44:39] Yeah. Great advice. Well said. Terria for those firms and listeners who are state registered currently, but maybe rapidly approaching SEC registration, or do you have any advice on how to button up their their compliance? What do they have to prepare for as they look forward to SEC registration?

Terria Heng: [00:44:56] Surprisingly enough, it's actually a little bit I feel-I feel like it's a little bit easier to be SEC registered than to be state registered, their smaller number of state registered advisers in each state. So a lot of regulators are able to audit every single registrant in that state, whereas the SEC has fewer numbers of examiners because they are regulating the entire United States. So I think that their exams are more focused on, they do have like a limited newly registered advisors. But then after that, it's more risk based where they're kind of only going after advisors who, let's say have custody or are a little bit more run a hedge fund or a little bit more at risk. And there are some association firms that have been examining several years. And the SEC does have more of a uniform rule where as, again, a state adviser may be registered multiple states, they have to be informed about all the different states rules and, you know, annual submissions sometimes. And, you know, their contracts have to comply with two different states, whereas the SEC you just have to go with your home state and that's it. So it's actually a little bit more of a relief

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to be ASSECIC registered and you get a little bit more relief from regulators as well.

Maddy Roche: [00:46:16] Fascinating. Okay, so the goal is to get SEC registered.

Terria Heng: [00:46:21] Yes, I recommend it.

Maddy Roche: [00:46:24] Awesome. And that is something that XYPN has helped advisors with over the years. And we're going to continue to build out support for SEC registration. In the meantime, working with Shelby and Terria and other XYPN compliance consultants is an option if you join XYPN membership. Shelby and Terria, if you can believe it, we are rounding out this episode. I literally could talk about compliance with you two for hours. Shelby, any final tips of advice to our listeners about handling compliance of a busy, maybe multi staff firm?

Shelby Brown: [00:47:00] Yeah, I think just don't let it intimidate you. It's- it's not as scary as it sounds. And a little bit of legwork in the beginning of things can really make it run efficiently for you on an ongoing basis. And like we said, just a minimal amount of time to dedicate to this area of your brain per month, per quarter to keep yourself accountable is really what you need. And we're here as coaches to increase accountability, if that's really all you need is to just someone to give you homework and tell you to do it.

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Maddy Roche: [00:47:35] I love that. I love that. And I really have gotten from this interview with you two, that the sooner you put your brain towards structuring the compliance department, your firm, the better off you're going to be. That especially, I feel during your first year when you've got a lot of time and you don't have all these clients that you could really set up a nice routine for yourself as opposed to trying to do it retroactively.

Shelby Brown: [00:47:57] Absolutely, not getting behind and staying organized is going to be beneficial forever.

Maddy Roche: [00:48:05] Oh, I love that. Awesome. Okay, Terria, how about you? Any final pieces of advice to our listeners who are contemplating maybe starting their firm and have a pit in their stomach about compliance,

Terria Heng: [00:48:19] Starting your firm, do it. Just don't like compliance take that away from you. That can-that can be figured out. And you have plenty of resources if you do it with XYPN. In terms of tips, my biggest tip is read your documents. I would say the biggest issue is that people like, oh, you know, I don't actually do that. Or I think the regulators, I don't know why they're being so nit picking about this. Like, well, it says here you do this, so read your documents. That's my biggest advice. I think people just rely on either us to read their documents for them or the templates that they receive. But you got to read your documents people.

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Maddy Roche: [00:49:06] Totally got to read your documents so you can see if your clients would understand them when they read them. They're supposed to be written in layman's terms. Yeah?

Shelby Brown: [00:49:15] Yes. And so you can say what you do and do what you say.

Maddy Roche: [00:49:19] Okay, you heard in the mouths of Shelby and Terria today folks. Thank you so much to both of you. You've been wonderful teammates and I know the members who have worked with you have been really honored to work with you and found you both to be very helpful. So I hope our listeners do too. And thank you so much for joining me today.

Terria Heng: [00:49:38] Thanks, Maddy.

Shelby Brown: [00:49:40] Thank you. It was a pleasure.

Maddy Roche: [00:49:44] 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 wanna 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.

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Maddy Roche: [00:50:17] Be sure to join our VIP community at XYPlanningNetwork.com/VIP to hang out with other #XYPNRadio listeners, ask questions for future 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.

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