FPA-ACTIFI ADVISER TECHNOLOGY REPORTS

[COMPLIANCE EDITION]

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[ABOUT THE COMPLIANCE SOLUTIONS REPORT]

The Financial Planning Association® (FPA) and ActiFi are proud to announce the completion of the third of a planned total of seven technology reports: the Compliance edition. This is the first in-depth guide created for advisers to assist them in identifying compliance solutions.

A total of 4 software packages plus the use of non-compliance software for compliance purposes are reviewed in the research report, which is composed of data gathered from FPA members and software vendors.

[TAKE A LOOK]

Take a glance at what the report has to offer. The FPA-ActiFi Adviser Technology Reports: Compliance edition provides an easy-to-use guide to help advisers make smart software decisions to improve their work flow, potentially increase profits and advance their business.

But don't take our word for it. Take a glance at the following pages and see for yourself!

[PURCHASE AT A DISCOUNT]

FPA and TD Ameritrade Institutional are currently offering a savings of $100 off the regular retail price.

This report is valued at $295, but since you visited TD Ameritrade Institutional's website, you can purchase this report at a discounted price of $195. Visit FPA's online store at http://www.fpanet.org/professionals/FPAStore/TDCSEREPORT and add the report to your cart (you may need to log in or create a new login). Simply view your shopping cart, click on "promo/gift card", enter **TDCE201050** into the promotional code window and save $100 on the report purchase instantly.

Save even more with an FPA membership!

As an added value, individuals hearing about this great deal have the opportunity to become FPA members for $295. Membership includes these great benefits, as well as the Compliance Solutions report free of charge. In order to take advantage of this special offer, please call us at 800.322.4237, option 2 and mention this special price for the Compliance Solutions Report plus FPA membership offer from FPA and TD Ameritrade Institutional.

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[TABLE OF CONTENTS SAMPLE]

2010 Adviser Technology Reports — Compliance Edition

Contents

FPA-ACTIFI ADVISER TECHNOLOGY REPORTS

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[EXCERPT FROM THE CRM REPORT]

2010 Adviser Technology Reports — Compliance Edition

Introduction

The next time you walk into a new building take a good look around. Do you stop and worry the building might begin to crumble or walls could fall over? Let's hope not! We share a basic trust that a new building is not going to fall down on us. Though we rarely think about it, we know architects and builders must "comply" with building codes based on things such as analysis of loads and materials used. When the building is going up, inspectors make ongoing checks of the materials as well as the workmanship. There are also regular follow-up inspections to ensure the building is maintained, and sometimes changes to building codes may require additional updates and improvements. In short, there are elaborate and complex systems in place to ensure the building is built and works as expected.

In today's world you expect architects and builders to use the most up-to-date structural analysis programs, extensive drawing and project planning software, and detailed records kept in well-maintained computer databases and not random paper files. You would question the wisdom of the builders and the integrity of a building if you were told all the calculations and all drawings were done by hand or only on paper.

In 2010, financial professionals architect, design, plan, and build as part of what they do. They plan and architect client solutions, build and deliver advice and products, and do so in a highly regulated industry that demands they operate with equally rigorous compliance expectations. Compliance cannot be an afterthought of a well-run, successful adviser practice. To effectively execute and deliver, an adviser practice needs an effective "compliance system" that is a part of its overall adviser system(s). Technology and software are essential in efficiently maintaining an adviser practice, but compliance is not just about buying the right software packages. A compliance system consists of people, process, and tools, to ensure it operates appropriately within the regulations and codes and that it doesn't "fall down" on the adviser or the clients.

The basic compliance principles—"know your client" and "always act in your client's best interests"—place an expectation on financial professionals and advisory firms to do the right thing. Compliance rules define how to apply those general principles in specific client situations, for certain investment products, and in the organization of adviser practices. A compliance system integrates all aspects to define, execute, and maintain an effective, efficient, and compliant adviser practice.

Compliance is mandatory, but it is not at odds with what you do to run a successful practice; it is part of and woven into the basic fabric. It is embedded in the core processes and helps establish the trust and integrity that every client expects in an adviser relationship.

As an adviser you have myriad demands on your time, so it is extremely important for you to be able to capture required information and find it without adding to your ongoing workload. Technology solutions are key in achieving this balance and through this report you will learn more about how to implement these types of solutions in your practice.

ABOUT THIS REPORT

In this report we talk about how to evaluate a compliance system and a compliance solution beyond the technology choice. The size of your firm, your relationship with a broker-dealer, and who plays what role will likely affect both your processes and your technology needs or choices. We see a difference between the client-facing and the practice management compliance requirements.

Many compliance aspects of managing the client relationship may be integrated into the processes, workflows, and interactions of existing systems, tools, and solutions, for instance, in your client-facing processes where the data, content, and recording of communications, interactions, and instructions serve the practice needs as well as the compliance requirements. On the other side of things, compliance systems and solutions are needed to manage the process and workflows of the adviser practice—including expectations, activities, and appropriate behaviors, such as personal trading surveillance, case management, and registrations.

This report offers suggestions and questions that will help you assess and enhance your compliance systems for each of your needs. We specifically review compliance technology vendors who address the practice management activities and workflows. We also provide suggestions and questions to ask about the rest of your compliance needs and where other tools and solutions may fit.

In surveying advisers, roughly three-fourths indicated they have not purchased compliance tools and solutions for those adviser/practice-driven processes and activities. In discussion with technology vendors, most indicated they do not generally sell solutions to firms with 10 or fewer people. Technology is and will continue to be a critical enabler, but we encourage financial professionals to think about the totality of what is needed within a compliance system. In this report we review product offerings from "compliance software" vendors. These software vendors provide some to most of the functions of

[EXCERPT FROM THE CRM REPORT]

compliance technology, but again, the functional components, although necessary, are not sufficient.

Note that in the research and development of this report we did recognize that there are many compliance consulting services. Consulting services play a key role in providing expertise and staff augmentation. For the purposes of this report though, we explicitly chose not to review any specific consulting vendor services, primarily because it is difficult to compare them functionally. Without extensive (and often subjective) experience, we have no basis to compare them qualitatively. When engaging consulting services we suggest you interview both the vendors and their references.

We encourage you to use this report in two ways: first, the big picture, helping you recognize opportunities for overall improvement in how you structure and execute a compliant practice, and second, understanding how technology can help with building and/or enhancing your compliance solutions.

TRENDS IN COMPLIANCE

Compliance is in the midst of another significant change cycle driven both by lawmakers and regulatory agencies. As financial professionals we live in a regulated world that attempts to strike a balance between free markets and consumer protection. Recently the pendulum has shifted away from the belief in self-regulation toward oversight and protection coupled with risk aversion. What this means for an adviser is more changes and increased scrutiny, particularly in the "grayer" areas. That translates into an increase in transparency, which means more accurate data gathering, better records, and direct and detailed connections between advice and client outcomes.

The regulatory environment is primed for significant change. The latest market downturn has once again resulted in enactment of new major legislation, particularly the recently signed Dodd-Frank Wall Street Reform and Consumer Protection Act. When the industry fails—be it financially or at a trust level—increased scrutiny and change is to be expected. We believe this is ultimately good for advisers and investment firms. Trust and confidence are shaken; ill-founded optimism led to bad decisions and unrealistic expectations.

In a July 27, 2010, speech by SEC Chairman Mary L. Schapiro, "Moving Forward: The Next Phase In Financial Regulatory Reform," she stated,

> Over the next year the SEC is looking at a demanding schedule. The law calls on us to produce dozens of studies and rulemakings. But just as important, the law provides us with new data and new authority that will enable us to be an even more effective securities markets regulator—not just next year, but for many years to come.

Ms. Schapiro went further to indicate the necessary closure of a subtle but key difference in expectation between the financial professional and the broker with respect to fiduciary duty, saying,

> As it stands now, investors who turn to a financial professional often do not realize there's a difference between a broker and an adviser—and that the investor can be treated differently based on who they're getting their investment advice from.
>
> In particular, an investment adviser is held to a "fiduciary standard" meaning they must put the interest of their clients before their own. Whereas a broker-dealer has to observe standards which include an obligation to make recommendations that are "suitable" for their clients.
>
> In addition, quite different regulatory regimes surround the same activity for the two different registration categories. Until now, duty to the customer has flowed from the perspective and legal regimes of the adviser or broker, not from the perspective of the investor we are seeking to protect.
>
> At the completion of this study, we will have the authority to write rules that would create a uniform standard of conduct for professionals who provide personalized investment advice to retail customers. And, the new law requires that this standard be "no less stringent" than the standard applicable to investment advisers.

Dispute Filings—We continue to see a cyclic trend in compliance as it relates to the FINRA dispute filings. Take the following statistics published on the FINRA website Disputes area. Specifically looking at new case filings through June of each year from 2008–2010, there has been a 25 percent drop-off in 2010 vs. 2009, but 2010 is still 37 percent ahead of 2008.

Exhibit 1: New Case Filings Through June

2008	2009	2010	2010 vs. 2009
2,129	3,874	2,919	–25%

Source: www.finra.org/ArbitrationMediation/AboutFINRADR/Statistics/

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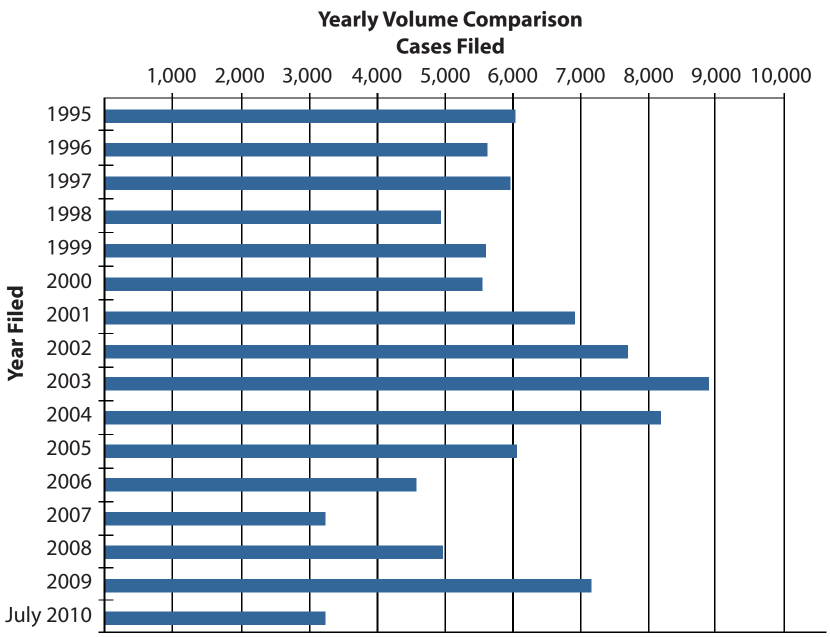
Exhibit 2: **Arbitration Cases Filed**



Source: www.finra.org/ArbitrationMediation/AboutFINRADR/Statistics/

If you look at the trends longer term, they follow a consistent pattern of lagging *down market* behavior; markets go down followed by disputes going up. (Note: as the market goes up, the losses are recovered, causing the dispute to no longer be an issue.)

Technology, Tools, and Compliance Implications—In today's world, technology is not an option, it is an imperative. There are increasing expectations and rules in place that assume an increase in the use of technology to both deliver and verify compliance. For example, in recent years new rules have been enacted with respect to the use and archiving of e-mail. It is critical that advisers have tools to document each client interaction, not just in general terms but specifics as well. Equally important is the ability to quickly and accurately retrieve any of those specific communications.

While approximately three-fourths of our surveyed advisers indicated that they do not use "compliance software," we know that most large broker-dealers have or are updating their compliance systems with compliance technology solutions. So, individual advisers may not actually purchase or use their own compliance software, but instead rely on the compliance capabilities of their broker-dealer arrangement.

We also know that advisers use a variety of tools that satisfy client-facing compliance requirements including CRM, document management capabilities, financial planning tools, and other client service tools. We believe technology can play a significant role in easing the effect of change as well as supporting adherence to workflow and recordkeeping.

Purpose and Methodology

Our purpose and approach to this report is to provide a framework by thinking broadly about what compliance means to you and your practice. There are many compliance rules, but it makes no sense to plan, invest, and execute compliance on a rule-by-rule basis. Thinking about compliance means thinking about compliance systems, adviser systems, compliance solutions, and adviser practice solutions. We draw from across