

OSJ Manager's Name: \_\_\_\_\_

OSJ Branch #: \_\_\_\_\_

Date of Audit: \_\_\_\_\_

## Introduction

- What is your background in the securities business?
- What are the functions of your support staff? Are they licensed? Fingerprinted?
- When you hire new staff, do you realize that you need to have FWG perform a background check?
- How do you handle client requests when you are out of the office? Do you understand that when you're out of the office, you need to fill out the delegation form and send to Compliance?

## Financial

- Is FWG your only means of income?
- Do you have (or plan to obtain) any business or personal loans? If so, for what purpose?
- Do you rely on any outside income to operate your FWG business activity?
- If there has been a substantial increase/decrease in sales/revenue in the past year, to what do you attribute the change?

## Mail Opening

- Is incoming mail that is subject to review, opened by a designated, qualified, fingerprinted individual?
- Is the reviewer qualified to focus on potential customer complaints, indications of selling away, market timing, misuse of customer funds, undisclosed outside business activities and other questionable practices during the review?
- Are customer complaints and other mail evidencing questionable practices provided to the OSJ and Compliance for handling?

## Prospecting

- How do you obtain new clients?
- Do you have any referral arrangements with any accountants, attorneys or any other professionals? If so, are they formal? Is there a compensation arrangement?
- Do you exercise discretion over client accounts? If yes, does this include accounts outside of your advisory business?

## Licensing and Registration

- Are you licensed in all states in which your clients reside and in all states in which you solicit business?
- Are you licensed with any other broker/dealer? If yes, is this arrangement disclosed and approved by both broker/dealers?
- Do you understand you must notify Licensing when a representative and/or assistant leaves your office?

- Do you understand that you must register in all states that the representatives under your supervision are licensed?

### **Documents and Disclosure**

- What is your business strategy moving forward? Will the current product mix be maintained?
- How do you determine what product(s) to suggest to a client?
- During this process do you use a fact-finder questionnaire or other documents during the sales process?
- What type of discussions or disclosures do you make to clients about investing in securities products?

### **Mutual Funds**

- What share class of mutual funds do you generally sell: A, B or C shares? How do you explain the different share class structures to the client?
- Do you make your clients aware of breakpoints and the rights of accumulation?
- Are you aware of FWG's A, B and C Share Policies?
- Do you obtain the FWG Mutual Fund Forms for mutual fund purchases, unless managed?

- When switching clients from one fund to another, what disclosures are made and how do you document the switch? (Discuss use of switch form for MF purchases with proceeds from other fund families, annuity or life cash values, unmaturred CDs, etc.)

### General Securities

- Do you recommend individual stocks to clients? If so, how do you do your research?
- Do your clients buy penny or low priced stocks? Do these securities represent a material portion of the client's liquid investments (10%)? What is the investment objective of those accounts?
- Do your clients buy or sell options? Are you aware that FWG Operations is providing the Options Risk Disclosure Document to the client?

### Variable Annuities, Variable Life & 1035 Exchanges

- After reviewing a client/prospect's financial situation, what is your basis or criteria for recommending a VA, VL or 1035?
- What disclosures are made to a client regarding the charges associated with annuities? (i.e. surrender charges, annual charges such as mortality and expense risk charges, administrative fees)
- Have you sold bonus annuities? Do you make clients aware that they generally pay higher expenses or have longer surrender periods to receive this bonus?
- Have you sold an annuity in a qualified account? If so, what was the basis for this decision?

- When switching clients from one VA to another, what disclosures are made and how do you document the switch? Discuss use of switch form for VA purchases with proceeds from other VAs, fixed insurance, etc. Do you use the Switch Form?

### **Limited Partnerships/REITS**

- What types of alternative investments do you sell?
- How do you prospect for limited partnerships? Reps may only solicit those with whom they have an “established relationship” and are known to be “accredited”.
- How do you determine that a client is suitable for an alternative investment? (Discuss the guidelines for alternatives: no one purchase over 5% of net worth, when client reaches total of 15% or net worth in DPPs they are “on our radar”, we must have a concentration letter for clients exceeding 5% on one order or a total of 30% of their net worth in DPPs.)

### **Direct Business**

- Do you know that you are responsible for updating client account information every 36 months for Direct Business?

### **Registered Investment Advisory Services (IAR and Independent RIA)**

- IAR – Describe the services you provide as an IAR of FWG.
- IAR – Do you provide the FWG Form ADV to new advisory clients and prospects?

- IAR – What advisory programs are you using for your clients?
- IAR – Do you utilize discretion or speak to your clients before trading? How do you mark these trades?
- IAR – Are you charging financial planning fees? If yes, please explain the fee structure that you are using (hourly, flat fee).
- IAR – What software packages do you use for preparing financial plans? Do you provide a copy to the client? Do you maintain a copy in your client file?
- IAR/RIA – How often do you review clients' portfolios? How do you document these reviews?
- RIA – Describe the function/services of your Independent RIA business. Is it set up for financial planning?
- RIA – Do you provide your Form ADV II to new advisory clients? Do you offer your Form ADV annually and maintain a written log of the offer?
- RIA – Do you send a copy of your Privacy Policy to all of your advisory clients?
- RIA – Under what name is your RIA registered?
- RIA – In what state(s) is your RIA registered? Or is it SEC registered?

## OSJ Audit Questionnaire

- RIA – Do you maintain the following: ADV Distribution Log, RIA Client Log, Beneficial Interest Trading Log, Compliance Manual, RIA Financial Records (if separate from branch records)?
- RIA – Do you have a designated Chief Compliance Officer?
- RIA – Are your advisory accounts discretionary? (if applicable) Are all advisory accounts held through FWG/NFS?
- RIA – What is your fee schedule/billing process? Do you charge an hourly rate?

### **Complaints, Litigation, Regulatory Inquiries and Audits**

- What is your procedure for handling a customer complaint? (make sure rep knows to immediately contact compliance to discuss next steps)
- Have you received any verbal or written customer complaints since your last audit? If yes, have you discussed it with the Compliance Department?
- Are you currently involved in any litigation or arbitration? If so, are you working with Compliance?
- Has any regulatory agency (FINRA, SEC, state) audited your office? If so, when? Did you notify Compliance? Did you receive a written report and forward a copy to Compliance?

### Advertising and Correspondence

- Do you advertise? If so, how much?
- Do you maintain copies of all Compliance Department approvals in your Advertising File?
- Have all business cards and letterhead been approved by Compliance prior to printing? Each individual's business card must have a specific approval.
- Do you conduct any seminars? If so, are all seminar materials including invitations, scripts, handouts, signs approved?
- Do you have a website? If so, who hosts it? What is the web address? (any additional sites?)
- Do you send any newsletters? Do you write them or use a 3<sup>rd</sup> party service? If so, how are they approved?
- Are you listed in the Yellow Pages or any online directories? Has that been approved? Under what section are you listed? (obtain a copy if possible)
- Do you send Form Letters? If so, are they pre-approved?
- Do you advertise in the newspaper or any other places such as school play programs, yearbooks, charity sponsorships?
- Do you utilize instant messaging?



- Do you write or receive correspondence? Do you understand the review requirements?

### Office of Supervisory Jurisdiction (OSJ)

- Do you understand that FWG Compliance is your OSJ and you cannot sign as rep and OSJ on anything?
- How do you review new business?
- What are your procedures for reviewing a rep's trade log? NFS? Direct? (Reviews of rep's trading activity should take place daily, but no later than weekly.)
- How do you process Direct Business in your office? Equity Indexed Annuities? Alternative Investments?
- Please explain your process for reviewing correspondence. Are you reviewing your Reps' emails through SECCAS?
- How do you process 529 plan applications? (OSJs must have Series 51 or 53 to approve 529 applications – otherwise, must send to FWG). **Effective February 29, 2008, all OSJs must have the Series 53 if they or any of their reps do any muni business.**
- What are your signature guarantee procedures? Are you maintaining a log?

- What are the criteria for hiring a new representative?

### **Miscellaneous Sales Practices/Outside Business Activities**

- Review current outside business activities already disclosed.
- Have you started any new outside business activities in the last year? Have you discontinued any previously disclosed OBAs?
- Which activities do you conduct at this branch location?
- How much time do you spend on each outside activity?
- Are you a trustee on any client accounts? If yes, has this been disclosed and approved in writing?
- Do you have signatory authority on any of your client's checking accounts or any other accounts?
- Do you maintain any personal securities accounts away from FWG? If yes, have these been approved in writing?
- Have you accepted from a product sponsor any cash or non-cash compensation? Remind rep of procedures – notify FWG in writing, any reimbursements must run through FWG.

- Have you borrowed or loaned money or securities from or to any customer?
- Have you given or received any gifts totaling in excess of \$100 to or from a client this year?

### **Securities Business Conducted in a Bank**

- Do you obtain a signed bank/credit union disclosure from clients during the securities sales process?
- Are bank tellers compensated for referring clients/prospects to you?
- Do you forward clients' personal information to other areas of the bank?
- Are marketing brochures for securities products being maintained in the deposit taking area?
- Is all securities business being conducted in a specified area that is as far away from the deposit taking area as possible?
- How do you disclose that investments are not FDIC insured and not issued by the bank?

## Comments

- Rep Complaints/Suggestions

- Auditor Comments

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OSJ Signature

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Date

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OSJ Name

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Branch #

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Auditor's Signature

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Auditor's Name