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## KEY REGULATORY AND COMPLIANCE CONSIDERATIONS FOR SMALL AND REGIONAL BROKER/DEALERS

*In this article, the authors begin with suggestions for managing priorities with limited resources. They then turn to best practices for working with state regulators and tips for effective management of regulatory exams. They conclude that there are best practices that smaller and regional broker/dealers can adopt to mitigate regulatory risk, foster a firm-wide compliance culture, and build effective working relationships with regulators.*

By Paula D. Shaffner and Brandon M. Riley \*

When the health inspector visits a restaurant, the kitchen staff scrambles to make sure every last crumb is gone from the counters and that the kitchen is spotless. Ideally, however, the restaurant was *always* compliant with the health code and the inspection – while nerve-racking – should be a formality. Encounters with securities regulators are no different. Large and small firms alike must adhere to the same securities regulations, but small and regional firms must adapt to doing the same (or better) job with less – less in terms of resources and in terms of personnel. This article provides suggestions to small and regional broker/dealers for managing the multiple compliance priorities that leaner legal and compliance teams must navigate, as well as best practices when regulators arrive (and, like the health inspector, they most certainly will).

### **SUGGESTIONS FOR MANAGING PRIORITIES WITH LIMITED RESOURCES**

Where should firms focus their limited resources? More often than not, in smaller firms, the legal and compliance functions may overlap, and members of those teams may wear both hats, depending on the

circumstance and the needs of the firm. Regardless, the ability to issue spot and identify regulatory risk is the most important aspect of the legal or compliance professional's role. Smaller teams should consider cross-training the business and compliance professionals to issue-spot within their functions, as appropriate. For example, the firm can (and should) train the business employees to identify and report compliance issues and assign a point person on the legal team to field those inquiries. The legal professional here is important to maintain the attorney-client privilege, as well as help identify and mitigate compliance risk. The legal team can also train the compliance professionals to conduct internal investigations and interviews so that more members of the team can handle regulatory issues when they arise. Regardless of the level of training or involvement of the compliance professionals, a legal professional must direct all investigative activity to preserve the firm's attorney-client and work product privileges.

Training, of course, takes time and money, but this is where regional firms would do well to leverage their relationships with outside counsel, which is a consistent refrain throughout this article. Few opportunities

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