

## Five Steps to Record Retention Compliance

By Michael Johngren  
President, Parallax Consulting

If a regulator came knocking and asked for information, how would you proceed? It depends on what they want, but the essential question is this: can you find and retrieve the necessary information quickly and efficiently? Broker-dealers, investment advisors, and other financial services firms have seen their peers hauled before the courts (as well as the court of public opinion) with violations that all amount to failure to adequately respond to requests for information – email messages, trading histories, marketing materials, what have you.

Much of the fuss has been about email. Penalties, fines and legal settlements have compelled top firms to implement technology solutions that archive all email traffic to allow for searching and retrieval. But what about all the other business records that a firm is required to preserve? Surprisingly, even the biggest names on Wall Street are only in the preliminary stages of addressing the problem in a systematic way.

With deeper pockets, you'd think the big firms have an advantage in tackling this issue, but that may not be the case. Large firms have an exponentially larger problem on their hands – more business lines, a litany of home-grown systems with little consistency in data structures, global reach that exposes them to more regulatory authorities, and the list goes on. Smaller firms have a much smaller mess to clean up, and this article proposes a simple five-step process to get control of the issue so you can get back to managing your business.

### The Five Steps Are:

(see also the cheat sheet, below)

1. Define your business environment
2. Conduct an inventory of your records
3. Decide on a retention method for each format type
4. Implement the program
5. Monitor and maintain

My company, Parallax Consulting, has helped big-name firms address this issue, and the steps are the same for them, only they will likely need to divide the work into phases to keep things manageable. The concepts discussed here apply to any size firm.

### Step 1: Define the business environment

This should be straight-forward. What are your business lines? What products and services are offered to customers? What types of customers do you serve? How are trades processed?

This step helps to narrow the scope of regulations that need to be followed, as well as limiting the types of records that must be retained to comply. By doing this, a basic file plan can be developed – an outline of the record categories and sub-categories that make up your record management world.

### Step 2: Records Inventory

This sounds arduous but can be just as straight-forward as the previous step. Where are your business records stored and what formats are used for each collection? Records typically come in the following format categories: Hardcopy (paper files), Electronic documents (e.g. Word, Excel and Powerpoint files stored on your network), and System data (databases tied to software applications like trade processing and portfolio management systems).

The outcome is a high-level inventory that shows the actual records your firm uses and where they are stored.

### Step 3: Retention Methods

This is the real meat of your retention plan, and where you'll need to make some choices. Each format category (Hardcopy, Electronic files, and System data) has a different set of retention options. We'll address each format in turn:

**Hardcopy:** The main choice is whether to store at an offsite facility or vendor, or whether to keep files on site at your office. This is mostly a question of volume – larger quantities suggest the offsite storage option. A common plan is to keep the most recent files on site and then ship them off for the remainder of the required retention period - some regulations (SEC rule 17a-4 in particular) require records to be “easily accessible” for the first two years.

**Electronic Files:** With business software like Microsoft Office on every desktop, users create all

manner of documents with these tools and store them on their computer or on the company's network with varying degrees of care and organization. These documents are easy to create and distribute but difficult to organize and find later. There are several ways to approach these documents, depending on their content and how regularly they are produced:

- **Print them out.** If they must be stored on a "WORM" media but are not produced or changed often, an easy workaround is to simply print final versions and file them. This is effective for documents like policies and procedures or annual review results.
- **Email them.** If your firm already has compliant email retention in place, you can email final versions of the documents to yourself or a colleague, using a standard Subject heading that makes the email easy to find through email search.
- **Automatic retention.** For documents that are produced regularly or in large quantities, there are computer-based tools that can automatically archive specific network locations that are designated "retention drop folders".

**System Data:** Trading applications, portfolio management software, accounting systems, and the like will require a technical solution. Data is usually stored in a database format that is not easily readable outside the application's user interface. The most robust solution extracts this data in the form of reports that can be understood without relying on the system's original software. Your IT department and/or an outside consultant can help create and automate the reports and set up an electronic compliance repository to house these reports, with the ability to search by date and other attributes.

**About Electronic Repositories:** Any records that stay in electronic form must be archived in an organized fashion to allow for search and retrieval if and when they are requested by a regulator, auditor or legal discovery demand. Electronic repositories have recently become much more affordable and there are also services that provide a complete retention environment for a monthly fee – essentially creating an electronic equivalent of the off-site paper document warehouse, only with the ability to search and retrieve over the Internet.

#### **Step 4: Implement**

Now that an approach exists for each type of document, you can execute your plan and implement the changes that are necessary to carry

it out – set up a filing procedure for required paper documents and also for electronic standalone documents, contract with an outside document warehouse, implement technology changes to automatically capture and retain trading histories and other system data.

Solid project management is essential to keep the effort focused and on track. If the scope is large, separate the initiative into manageable phases. Provide regular status reports to management and reward yourself and the team when milestones are reached.

#### **Step 5: Monitor and Maintain**

Both obvious and easily left behind, this step is in many ways the most important one. Do not treat the above steps as a one-time cleanup but as the beginning of a new way of managing important business records now and in the future. A solid maintenance plan should be added to your policies and procedures that include an annual review and a way of keeping abreast of rule changes as well as changes to your business that impact what records must be kept, or for how long.

#### **Conclusion: Continue to look for benefits**

While setting up a proper records management environment is a huge accomplishment of its own, there can be new ways to further capitalize on your efforts beyond just protecting your firm from fines and public relations fiascos. Organizing and centralizing your record keeping can save the firm money on storage costs, since archiving technologies take old data off of expensive online storage, compress it to a fraction of its original size, and store it on less expensive near-line storage media. In addition, some firms have found ways to serve their customers better by making historical statements and other information available to them on their websites.

In today's regulatory and litigious climate, a sound records management program can truly be a competitive advantage that sets your firm apart from your peers.

Michael Johngren is president and founder of Parallax Consulting, a firm that provides compliance and technology management services to the Financial Services and Pharmaceutical industries, with a strong focus on records management and process improvement.

**Cheat Sheet: Five Steps to Comprehensive Records Management**

<b>Step</b>	<b>Deliverable</b>
1. Describe your business & the records that are generated. Identify the products traded, types of clients, trade processing steps, etc.	A. Basic File Plan: Narrowed-down list of record types to include in program, based on applicable regulations
2. Identify major format categories and storage locations (e.g. paper documents, electronic files, communications, and system data all have different characteristics that influence their retention approach)	B. Inventory of existing record collections
3. For each collection, decide on retention method	C. Records Management procedures for your firm
4. Implement the procedures and technology changes	D. Progress reports and final sign-off
5. Establish a routine review process – annually or other frequency – to keep current on rule changes and to update your procedures	E. Maintenance plan