



# PRIVATE CLIENT CONFERENCE

# **Fireside Chat: Preparing for the Unexpected**

## *The Ins, Outs and Value of Succession Planning*

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# INTRODUCTION:

## Preparing for the ~~Unexpected~~ *Inevitable*

### Synonyms

- retirement plans, legacy plans, transition plans, sunset plans

### Triggering Events

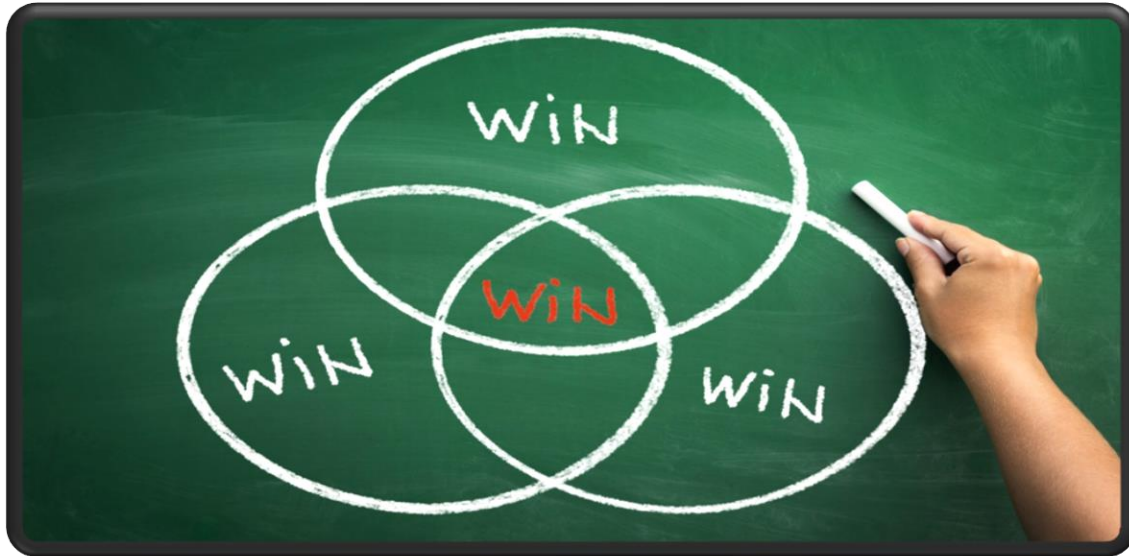
- An FA departs/takes leave from the industry due to retirement, death, disability or illness;
- A sale of a book of business or firm assets; or
- The reassignment of an FA's customer accounts.

### FINRA Notice 22-23

- <https://www.finra.org/rules-guidance/notices/22-23> (Nov. 1, 2022)
- Regulatory intent:
  - Benefits
  - Demographic Trends
  - Common Types
  - FINRA Rules/Processes
  - Questions for consideration



# Benefits of Succession Plans



## FAs

- Plan for life events (i.e., retirement, death, illness, disability).
- Get paid for their book of business.
- Prepare new FAs to support their customers.

## Firms

- Retain/preserve customer relationships.
- Minimize disruption in operations.
- Limit regulatory risks.

## Customers

- Ensure more orderly transition of their accounts; avoid disruptions in service.
- Investor protection.

# ↓ Examples of Downside Risk ↓ Without a Succession Plan ↓

- **Death of Key Executive.** A firm's co-owner dies without a succession plan. The remaining co-owner could not timely find a replacement to fulfill his operational and executive functions and had to cease operations.
- **Regulatory Bar of Key Executive.** A firm's CEO with no succession plan was barred, leaving the firm with only one registered principal. The firm ceased operations.
- **Death of Employee with Sole Access to Critical Firm & Regulatory Systems.** An employee with no succession plan, and sole access to critical firm and regulatory reporting systems, died. The ensuing operational and regulatory challenges faced by the firm caused it to shutter.
- **Cognitive Decline/Diminished Capacity of an FA.** There are a wide range of operational, legal, regulatory, customer relationship, and other risks that may arise when an FA suffering diminished capacity and/or cognitive decline – or any other disability – continues to operate without sufficient support from the firm.

# Fair Warning to FAs, Firms, and Customers

**FAs:** Understand and appreciate the potential personal and financial repercussions of not having a succession plan. A succession plan is not a nice to have – it is a must have.

**Firms:** Understand and appreciate the potential risks to your firm's customer relationships, good will, business reputation, compliance program – and your bottom line – if your FAs do not have succession plans.

**Customers:** Ask your FA if they have a succession plan. If they do, ask what it entails and consider whether it works for you. If they do not, ask who you would be working with if there is a triggering event and consider whether you need to develop your own exit strategy.



# Demographic Trends

- **Baby Boomers (1946 – 1964).** Once a sizeable cohort of the labor force, millions of Boomers are now retiring each year, and the pace has only accelerated during the recent Covid pandemic.
- **Millennials (1981 – 1996).** Since 2016, Millennials have been the largest generation in the American workforce.
- **Retirement Age – Brokerage Industry Demographics.** An increasing number of FAs are at or approaching retirement age. As of December 2021:
  - 16.32% were age 60 or older;
  - 8.2% were age 65 or older; and
  - 3.82% were age 70 or older.
  - The % in each age bracket has increased in recent years.
- **The Big Transfer.** An average of 57% of existing client assets will pass to the next generation by 2045.



# Types of Succession Plans

- **Internal Programs:**
  - Teams
  - Sale of Book of Business
  - Junior FAs
  - Designation of Another FA
  - Contingency Plans
  - Reassignment to Another FA
  - Firm Support
- **External Sale or Other Transaction:**
  - Sale
  - Merger or Acquisition





# How Can Your Firm Make Succession Planning a Top Priority?

- ✓ Executive Leadership Priority
- ✓ Centralized Business Support Teams
- ✓ Mandatory Contingency Plans
- ✓ Education and Training
- ✓ Matching Programs and Tools
- ✓ Financing & Valuation Support/Services
- ✓ Other firm best practices?



# Relevant FINRA Rules & Administrative Processes

- **Business Continuity Plan (BCP).** FINRA Rule 4370. Individual FAs are not required to adopt succession plans, but member firms are required to adopt a BCP.
- **Membership Application Program (MAP).** FINRA Rules 1011 – 1019. A firm's succession plan may involve the MAP rules. Consult with your firm's Risk Monitoring Analyst about firm succession plans.
- **Researching Professional Backgrounds.** BrokerCheck and Investment Adviser Public Disclosure. Beware of disciplined persons and/or bad actors.
- **Commission Payments to Retired FAs.** FINRA Rule 2040.
- **Customer Communications.** FINRA Notice 19-10 (Apr. 2019).
- **Customer Nonpublic Information.** Regulation S-P.
- **Customer Choice!**

# FINRA NOTICE 22-23

## QUESTIONS FOR CONSIDERATION



- **Plan Development**
  - Recognition & Incentives
  - Education, Tools & Resources
  - Ongoing Review
- **Program Elements**
  - Written Agreements
  - Supervision
  - Training
- **Compensation**
- **Customer Communications**
- **Customer Nonpublic Information**

*Thank You!*



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