



COMPLIANCE

MELINDA WOLFE-EXECUTIVE VICE PRESIDENT & CHIEF COMPLIANCE OFFICER

RICK SLAVIK-SENIOR VICE PRESIDENT OF SUPERVISION & CHIEF COMPLIANCE
OFFICER ADVISORY

Compliance Staff & Responsibilities

- **Principal Review Team**-Reviews and approves all accounts and product transactions. Works with you to help resolve NIGO's and all other product transaction related items.
- **Ben Weinstock**-Vice President of New Business
- **James Henriquez**-New Accounts Principal
- **Pamela Boodhoo**-New Accounts Principal
- **Michelle Castrillon**-New Accounts Principal

Compliance Staff & Responsibilities

- **Compliance Supervision**-Kovack Financial Companies is structured with a single Office of Supervisory Jurisdiction (OSJ) which is the corporate home office for both Kovack Securities, Inc. (KSI) for broker dealer business and Kovack Advisors, Inc. (KAI) for advisory business. This centralized OSJ conducts all aspects of the broker dealer and advisory supervision and surveillance to ensure advisors, registered and non-registered staff are in compliance with FINRA, SEC, state and MSRB rules as well as firm written supervisory procedures (WSP). Some of the areas of supervision that may directly impact your roles as assistants include, but is not limited to the following:
 - **Advertising Review**-All retail communications, Websites, Social media, Business cards, Stationary, Blogs, Newsletters and articles, Seminars and public appearances, Email disclosures, Voicemail disclosures, Office signage, Radio and Television, Videos, Telemarketing.
 - **Outside Business Activity Review**-Any activity outside the realm of the securities related activity for compensation and specified non-compensated activities.

Compliance Staff & Responsibilities

- **Registrations**-Ensuring you and the advisors are properly registered and the FINRA Form U4 is current and accurate.
- **Branch Examinations**-All branches are examined on a cycle based on a number of factors but typically are conducted every 16 – 24 months, or more frequently based on mitigating factors. Examinations consist of extensive books and records review which typically involves the branch office staff to assist in the production of requested documents. Branch exams may be unannounced.

Compliance Staff & Responsibilities

➤ Compliance Supervision Team

- **Melinda Wolfe**- *Executive Vice President & Chief Compliance Officer*
Overall supervision of the Compliance Department and team.
- **Rick Slavik**-*Senior Vice President of Supervision (OSJ Principal)& Chief Compliance Officer for Kovack Advisors, Inc.*
Overall supervision of the branch offices and advisors.
- **Amy Towle**- *General Counsel*
All legal and regulatory related matters.
- **Jordan Cushner**- *Senior Compliance Associate/ Senior & Vulnerable Client Coordinator*
Customer complaints, Regulatory inquiries, Senior citizen matters.
- **Andrew Wolfe**- *Anti Money Laundering Compliance Officer*
All aspects of AML, allegations of fraud, identity theft, Foreign Corrupt Practices Act, cybersecurity.

Compliance Staff & Responsibilities

- **Kendrea Lopez- *Compliance Officer***
Supervises all aspects of advertising and social media review.
- **Cecilia Mercado- *Vice President of RIA Compliance***
Overall supervision of advisors affiliated with KAI. On-going review and approval of advisory accounts, transactions, ADV amendments, financial plan approval, assist in maintaining compliance with SEC rules.
- **Samantha Alford- *Compliance Associate***
ADV Part 2B updates, Journals, Supervision of KAI activities and assists Cecilia with overall advisory business supervision.
- **Eric Robarge- *Trade Surveillance Principal***
Surveillance of trading activities, Outside brokerage accounts, Journals, Structured product review, Product switch review, Rollover disclosure review, OBA approval.

Compliance Staff & Responsibilities

- **Dawn Bliss- *Registration and Licensing Coordinator***
Registration items such as adding or deleting state registrations for advisors, Branch address changes, Form U4 updates, Email review, Outside brokerage account administration.
- **Darlene Lynch- *Compliance Assistant***
Assists with various compliance functions and projects.
- **Laurel Miller- *Compliance Associate***
Assist the Compliance Department with various supervision functions and projects.
- **Harvey Wolfe- *Branch Examiner***
Conducts branch examinations.

Compliance Staff & Responsibilities

➤ **Closing- Questions and Answers**

If you should have any questions, please feel to reach out to any of us on the compliance team, we will be happy to assist you.



Kovack Securities: Required Files/Blotters

WHAT WE LOOK FOR IN A BRANCH AUDIT

Required Branch Office Books and Records

- Branch office audits are a critical component of the firm's supervisory system and is required under FINRA Rule 3110 (Supervision) which FINRA refers to as internal inspections. Section 4 of the Kovack Securities WSP's reference the branch office audit requirements and are written to mirror the basic FINRA requirement promulgated in rule 3110. Some of the items inspected during a branch audit may consist of the following:
 - **Checks Received Blotter** – All columns must be completed and accurate. Examples of common errors include not logging the date the check was forwarded to be processed, date forwarded is prior to date received and the date received is not in chronological order. The Check Blotter can be accessed through *InTouch-Business Support-Forms-Compliance Forms-Required Logs and Blotters*.

Required Branch Office Books and Records

- **Notes** – It is a requirement for the financial professional to maintain notes of conversations and/or meetings with clients. These notes should include any recommendations made to the client which include any buy or sell recommendations. If the discussion decides that no changes are going to be made, this must also be documented as well. These notes should be maintained in a CRM such as RedTail but can also be maintained in other formats.
- **Quarterly Review** – Kovack requires that all reps and advisors document their review of client statements on a quarterly basis. **This task does not require but may include a conversation or a meeting with the client.** The purpose is to confirm that the account is performing as expected. This may be accomplished by utilizing a spreadsheet, downloading the statement to a folder on their computer or maintaining notes in a CRM.

Required Branch Office Books and Records

- **Trade Blotter** – A trade blotter is required to be maintained for all trades including Direct Business which includes but not limited to Mutual Funds, REIT's, VA contracts, reallocations and additional deposits. We are currently in the process of creating the technology to provide automated daily blotters which will minimize the time spent on this FINRA requirement.
- **ADV Part 2B** – This is known as a Supplemental Brochure to be given to Advisory clients. It is an SEC requirement that the client receive the ADV Part 2A (Kovack Advisors) brochure, which can be found on InTouch, in addition to ADV Part 2B.
- **Voicemail** – All voicemail must use the Kovack approved voicemail script.

Required Branch Office Books and Records

- **Website/Social Media** – If the financial professional has a website or uses social media for business and the disclosure includes the states where the rep is registered, it should be reconciled against their U4 for accuracy.
- **Laptop Security** – All laptops used for business must be encrypted. Currently, the only approved encryption by the Kovack IT department is Symantec. The only exception is on a MAC and File Vault is approved for MAC's
- **Computer Antivirus** – Kovack's IT Department has approved specific software for antivirus protection.



Kovack Securities Advertising Review

Kovack Securities Advertising Review

- ▶ FINRA 2210 Communications with the Public. For the purpose of this rule
 - Retail Communication means any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period.
- ▶ FINRA Rule 2210 sets forth the requirements for the review process. This is called the Content Standards. The general standards are:
 - All communication must be based on the principle of fair dealing and good faith.
 - No false, exaggerated, unwarranted, misleading statements or claims in any communication with the public.
 - Produce any communication that the firm or Registered Representative knows contains any untrue statement of a material or is otherwise false or misleading.

Submission Process

- ▶ Advertising requests can be submitted using the Compliance workflow and submission system (My Compliance Office). However, most Reps choose to use email submission.
- ▶ Email submission can be send to Kendrea@kovacksecurities.com and/or advertising@kovacksecurities.com.

Review Process

- ▶ We review all advertising request for compliance with FINRA 2210 and Firm's policies as outline in the Retail Communication Manual (RCM).
- ▶ Reviews are based on content of standards as listed by FINRA and appropriate disclosures.
- ▶ Review process can take up to 10 business days.

Approval Process

- ▶ Review must be evidenced by reviewer's signature and/or initials and date of review, noted on the file copy of the material.
- ▶ Approvals should be kept in the branch advertising files.

Key Take Aways

- ▶ Our RCM will be a quick reference guide on what contents are permitted and prohibited.
- ▶ All advertising materials must be submit for review and approval.
- ▶ When in doubt please reach out to Kendrea Lopez at (954) 670-0618 or email Kendrea@kovacksecurities.com.



Kovack Securities: Registering New Office Staff

DAWN BLISS-REGISTRATION/LICENSING COORDINATOR

Licensing Requests

- **State Licensing Requests**-Specify if the request is for Brokerage, Advisory or both.
- State regulatory approval time frames vary and may be longer if the advisor has U4 disclosures, such as customer complaints, regulatory actions or financial disclosures such as bankruptcies, tax liens or compromise with creditors. Time frames will also vary in cases where the specific state is backlogged.
- States that tend to request additional information and/or are more time consuming include: FL, IL, MA, MI, WA

Branch Office Location Changes- Additional Branch Locations

- Please send email request of any branch office re-location or creation of an additional branch at least 2 weeks in advance of the move with a copy of the lease/sub-lease.
- Shared office space with other businesses may or may not be allowed based on the activity of the other business. For instance, Kovack advisors are not allowed to share office space with advisors affiliated with other broker dealers or RIA's.
- If the branch office is sharing space or sub-leasing space to an unaffiliated business, specific procedures must be in place to comply with Regulation S-P, the safeguarding and protection of customer records and information.

Registered Persons Residential Updates

- FINRA rules require that all registered persons update their FINRA Form U4 to reflect their current residential address.
- This is a common deficiency as most advisors and registered assistants do not think of this requirement when in the hectic process of moving residences and all the utility and other service changes required during a move.
- FINRA requests this information on the Form U4 so that that broker dealers can run reports to ensure, among other things, that advisors are not receiving customer mail and statements to the advisors residential address.
- Residential address updates can be sent to Dawn Bliss and Debbie Eppolito-Senior Transition Coordinator.

Outside Business Activity (OBA) Requests

- FINRA rules and Kovack supervisory procedures require all OBA's are disclosed in writing to the firm and cannot be engaged in until Kovack provides a written approval and updates the advisors Form U4 accordingly.
- Any activity for which a registered person receives compensation outside of their activities as a Registered Representative of Kovack Securities and/or as an Investment Advisor Representative of Kovack Advisory Services, Inc. is most likely defined as an OBA.
- The more common OBA's are fixed insurance sales, tax preparation services and real estate. Also, some activities where no compensation is received may also be considered an OBA such as serving as an Officer or Director on a board of directors. You should always consult with the Compliance Department prior to engaging in any activity which may be considered a disclosable OBA.
- Submit OBA requests through My Compliance Office.
- Once approved, the Form U4 will be updated and the registered person will be notified of the approval.

Securities Examination Requests

- If you or an advisor wishes to open a window to take a new securities examination, please submit to Dawn Bliss at dawn@kovacksecurities.com.
- An examination window will be opened through the FINRA Central Registration Depository (CRD) which will allow you to set up an examination appointment at a FINRA approved testing center.

Questions?

