

Morgan Lewis
C O U N S E L O R S A T L A W

BD Week
Audio Conference

Supervisory Controls and CEO
Certification
February 28, 2006

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Overview

- Role of Outside Service Providers in CEO Certification Process
- To Dos Before Your CEO Certifies
- Wrap-Up and Questions

Role of Outside Service Providers

- NASD and NYSE recognize that a member firm may consult with outside consultants, lawyers and accountants
- Use of outside service providers varies firm by firm
 - Exclusive use of in-house resources
 - Use of outside service providers purely in an advisory capacity
 - (e.g., review final drafts of reports)
 - Use of outside service providers to assist in all phases

Role of Outside Service Providers

- Considerations
 - Available in-house resources
 - Access to different industry color or perspective
 - Need for a second set of eyes
 - Specific areas of expertise
 - Attorney-client privilege

To Dos Before Your CEO Certifies

- Know your business and compliance and supervisory structure and systems
 - Interview relevant personnel
 - Take an inventory of businesses
 - Determine rule requirements
 - Perform “gap analysis” of current WSPs against the businesses and rule requirements
 - Establish plan to address deficiencies.

To Dos Before Your CEO Certifies

- Document your compliance process and controls
 - The process to establish, maintain, and review compliance policies and supervisory procedures
 - Compliance department structure
 - Lines of communication
 - Other control functions

To Dos Before Your CEO Certifies

- CCO/CEO Meeting
 - Meet at least once annually (or more frequently)
 - Focus on compliance/regulatory matters
 - Keep records of all meetings with CEO
 - Records of such meetings should reflect that the meeting was meaningful, and not perfunctory.
 - Date and subject matters discussed.
 - Follow-up steps resulting from the meeting.
 - Document successful resolution of issues identified.

To Dos Before Your CEO Certifies

- Test and verify supervisory procedures
 - If you cannot test all areas before certification, perform testing on risk-based approach
 - Create remediation plan if testing identifies deficiencies
- Prepare report for CEO describing:
 - Compliance processes
 - Testing approach/process
 - Anticipated testing plan for coming year
 - Action plan for enhancements

Wrap Up and Questions

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