

THE ASPPA Journal

ASPPA's Quarterly Journal for Actuaries, Consultants, Administrators and Other Retirement Plan Professionals

Inside ASPPA's Self-regulation Program for Recordkeeping Firms

by Ronald E. Hagan

ASPPA's self-regulation program for recordkeepers embraces each of the three business models that dominate the industry. These models include firms that bundle recordkeeping services along with their proprietary investment products, firms that offer recordkeeping independent of investment products and firms that perform third party administration and compliance services only.

As I reported in my article in the last issue of *The ASPPA Journal*, the US Securities and Exchange Commission ("SEC") has already fired a warning shot across the bow of the recordkeeping industry. In 2005 it considered a proposal to start regulating independent recordkeepers. ASPPA responded on behalf of the industry with the design of a self-regulation program. If joined by the industry's providers, it would eliminate the need for federal oversight on a provider by provider basis. In order to qualify for "self-regulated status," however, ASPPA knew that providers would need to meet certain crucial benchmarks. Federal regulators revealed strong opinions to ASPPA's leadership on such issues as fee disclosure, conflicts of interest, competency of personnel and business continuity.

Consequently, ASPPA formed a task force in order to develop a standard against which recordkeepers who desire admission to a self-regulatory program would be judged. Participants on the task force included senior executives and operations officers of recordkeepers drawn from each of the types of business models described above.

Advisors to the task force included CEFEX. CEFEX had earlier developed certification programs for Investment Fiduciaries, which include



investment managers, investment advisors and investment stewards (e.g., plan sponsors). Roland|Criss, which is the leading audit firm in the US for CEFEX's certification programs, guided the development of the practices and produced the audit methodology to be used in ASPPA's Assessments. Fi360, which trains investment advisors and conveys to graduates its AIF® and AIFA®

Practice Standards for Admission into ASPPA's Self-regulation Program for Recordkeeping Firms

- Practice 1.1 Senior management demonstrates expertise in their field, and there is a clear succession plan in place.
- Practice 1.2 There are clear lines of authority and accountability, and the mission, operations and resources operate in a coherent manner.
- Practice 1.3 The organization has the capacity to service its client base.
- Practice 1.4 Information systems and technology have a strong infrastructure, staff support and are adequately secured.
- Practice 1.5 The organization has developed programs to attract, retain, train and motivate employees.
- Practice 1.6 There is a formal structure supporting effective procedural and operational oversight.
- Practice 1.7 There is an effective risk-management process to manage the organization's business risk.
- Practice 2.1 The organization provides disclosures which demonstrate that there are adequate resources to sustain operations.
- Practice 2.2 The organization maintains defined business strategies which support its competitive positioning.
- Practice 2.3 There is an effective process for allocating and managing both internal and external resources and vendors.
- Practice 2.4 There is adequate and appropriate disclosure and delineation of the cost of services provided to each client serviced.
- Practice 2.5 The organization has responsible and ethical reporting, marketing and sales practices.
- Practice 3.1 Trading and cashiering systems, processes and procedures are defined and documented. *(Administration only firms are exempt from this practice.)*
- Practice 3.2 Trade processing and cashiering are done in a timely and accurate manner. *(Administration only firms are exempt from this practice.)*
- Practice 3.3 Recordkeeping and administrative information is readily available, disclosed and accessible to authorized parties for prudent selection and monitoring of the service provider.
- Practice 3.4 Administration activities are performed in a timely and accurate manner.
- Practice 4.1 There is a process to review periodically the organization's effectiveness in meeting its client responsibilities.

designations, provided insights to the task force on the support needs of fiduciary organizations.

Over a ten-month period that started in early 2007, the task force developed the qualifications for admission to its self-regulation program. Organized into 17 major practices, including detailed criteria for each, an admission standard eventually emerged. (A copy of the practices, along with their related criteria, can be obtained upon request at no charge by e-mail at admin@rolandcriss.com). The 17 practice group headings are shown on the following page.

How an Assessment Works

In order to gain admission to ASPPA's program, recordkeeping firms undergo a certification *Assessment* that is performed by Roland|Criss. At the conclusion of the Assessment, Roland|Criss prepares a report and presents it to the Certification Registration Committee (the "CRC"). In order to maintain complete independence during the admission decision process, ASPPA asked CEFEX to manage the CRC, just as it does for its Investment Fiduciary programs.

The Assessment methodology developed by Roland|Criss adheres to the audit standard for quality management systems defined in ISO 19011. Incidentally, this standard is the very same method used to determine the qualifications of candidates for ISO 9001 certification. A major advantage in using the ISO approach is the undisputed independence that it applies to Assessments. In addition, its rigid structure ensures that every Assessment is conducted without deviation. In other words, every candidate gets the same treatment within its business model type. The methodology used in an Assessment is the independent, standardized and well-tested system that federal regulators want. It is customized for each of the industry's three types of business models.

Candidates for admission to ASPPA's program participate in a four step evaluation. The first step is the *pre-Assessment*. In this phase, Roland|Criss obtains documents and information from the candidate and constructs an Assessment profile. Next, Roland|Criss conducts an *onsite inspection* that includes interviews with the recordkeeper's senior officials, a sampling of the candidate's quality management system, analysis of its key personnel and their qualifications and a review of the candidate's financial history.

Subsequent to the completion of the onsite inspection, Roland|Criss prepares a report of its findings and conclusions for the CRC.

If the auditor conducting the Assessment finds that the candidate's alignment with one or more of the 17 practices defined in the ASPPA standard needs noticeable improvement, Roland|Criss publishes an Opportunity for Improvement report (the "OFI"). OFIs are submitted as they occur to the candidate. OFIs are also included in the auditor's report to the CRC. OFIs serve as useful tools for maintaining ongoing improvements in a recordkeeper's quality management system. The reporting of an OFI does not enter the CRC's certification decision.

On the other hand, if the Assessment auditor finds that the candidate is in substantial non-conformance in one or more practices in the ASPPA standard, then Roland|Criss publishes a Non-conformity Report (the "NCR"). This decision results in a suspension of the candidate's Assessment until the NCR is cured. The timeframe allotted by the CRC for candidates to cure NCRs is 90 days. If not resolved to Roland|Criss' and the CRC's satisfaction within 90 days, then the Assessment is terminated without certification.

Preparing Your Firm for ASPPA's Certification

Now that the initial certifications under ASPPA's standard for recordkeeping firms are finished, insights into how an Assessment actually works, the identity of pitfalls that recordkeepers should avoid in order to qualify and what to do to prepare for the assessment can be revealed.

Since a description of the process by which Assessments are conducted was discussed earlier in this article, I thought it would be useful to share with you the pitfalls that have emerged, and what to do about them, before you launch your firm on the pathway to ASPPA's certification. Based on the Assessments completed thus far, the most likely practices that will produce NCRs include the following:

Lack of evidence of business planning by a candidate's senior management

The task force was unanimous in its view that a firm deserving ASPPA's certification would need to be guided by a thoughtfully prepared road map for its business. Whether called a business plan, strategic plan or other such name, it should

be in writing and updated periodically. The Assessment does not test the format of the business planning document. A document containing reasonable detail and scope will, however, need to be presented that defines the key forces that drive the candidate's business. The auditor conducting the Assessment is given a fair amount of latitude in judging the relevancy and appropriateness of the candidate's guidelines that its management uses to steer the business.

Insufficient or non-existent succession planning

In order to ensure that certified recordkeepers have the ability to sustain their operations, the task force requires the auditor to confirm the existence of a defined succession plan for senior management in order to deal with sudden, unexpected disruptions. Such disruptions would include events like the death or disability of a key executive or a natural disaster. A succession plan is not required to appear in any prescribed form. It should, however, define the steps that would be immediately taken by the candidate in connection with the disruption scenarios contained in its succession plan.

Incomplete disclosure of fees charged to a recordkeeping firm's "administered vehicle," which includes retirement plans, public pensions, endowments and other charitable organizations

The Assessment evaluates whether there exists adequate and appropriate disclosure and delineation of the cost of services provided to each client serviced by the certification candidate. The candidate must show that it has a process to identify and disclose to its fiduciary clients all fees and expenses associated with its programs, including investment products in the program, internal expenses of the investments products, as well as expenses of any accompanying vehicles such as group annuity contracts.

The way in which the Assessment methodology permits candidates to have opportunities for improvement against the ASPPA standard shows that recordkeeping firms need not be in perfect conformity to the standard prior to applying for certification. The task force developed a self-regulatory program that seeks to admit any recordkeeping firm that is managed by trained, experienced and ethical executives that employ a management system that proves it.

ASPPA's mark of excellence stamps a recordkeeper with proof of conformity to an independent attestation of trustworthiness.

How to Start the Certification Process for Your Firm

You may request a planning kit from Roland|Criss that describes the activities needed to apply for ASPPA's certification. Among other things, the kit includes a sample certificate. You may request your kit by e-mail at admin@rolandcriss.com or by phone toll free at 800.440.3457.

Aware that "audit fatigue" permeates the recordkeeping industry, the audit process was purposely designed to utilize the work produced by candidates in order to satisfy the demands of other regulatory and financial audits in which they participate. Assessments typically take four to six weeks to complete.

The Competitive Advantage

Organizations that sponsor corporate 401(k), defined benefit and public pension plans are seeking recordkeepers that have achieved ASPPA's certification. Trustees and administrators of retirement plans are increasingly uneasy about the conflicts of interest that permeate the industry. ASPPA's mark of excellence stamps a recordkeeper with proof of conformity to an independent attestation of trustworthiness. This accreditation is an important benefit to certified firms. It gives them a competitive advantage over non-certified recordkeepers.

Regardless of how the industry's executives perceive the competitive advantage of gaining admission to ASPPA's program, they should not allow the window of opportunity to close that ASPPA has opened. ASPPA's leadership has done an excellent job of helping the industry gain a reprieve from onerous federal government oversight. Senior executives at recordkeeping firms must not let ASPPA's work be in vain. Take advantage of this opportunity to distinguish your firm and find out more about the certification process today. For information about ASPPA's certification program, you may contact the author at ronhagan@rolandcriss.com or visit the ASPPA Web site at www.asppa.org.



Ronald E. Hagan is president and CEO of Roland|Criss. He has a lengthy career in developing retirement plan governance systems and advising fiduciary committees on governance practices. Prior to joining the Roland|Criss team, Ron was a senior vice president with the First National Bank of Commerce and a fiduciary on its Asset Liability Management Committee. Subsequently, Ron was a principal with Booz, Allen & Hamilton. He serves as an advisor on the ASPPA task force that is working on the development of industry practices for a recordkeeper certification program. He is also Chairman of the Board of the Investment Fiduciary Leadership Council. (ronhagan@rolandcriss.com)

"An ASPPA task force developed practices against which certification assessments will be conducted. During the development phase, we asked the Center for Fiduciary Excellence ("CEFEX") to assist us. Initial assessments will be conducted by Roland|Criss, which is qualified to conduct assessments. CEFEX will be the registration body for ASPPA certification."

Brian H. Graff
Executive Director and CEO
American Society of Pension Professionals & Actuaries

Now, more than ever, retirement plan recordkeepers are under pressure and looking for peace-of-mind. With proposed federal oversight programs enforced by the Securities and Exchange Commission (SEC), recordkeepers are seeking effective ways to mitigate risk and pre-empt intrusive regulations.

The recordkeeper industry is dedicated to pre-empting federal oversight by promoting self-regulation and conforming to the highest standard of practices through the ASPPA Recordkeeper Certification.

Roland|Criss is the leading provider of ASPPA certification assessments. Roland|Criss uses the CEFEX process. It is based on the seventeen critical practices that define fiduciary support competencies for the retirement plan industry. The certification process mirrors the ISO 19011 audit methodology for testing quality management systems. The practices are approved by ASPPA. Sanctioned by CEFEX and fi360, this is the only process that strives to obtain the highest level of recordkeeper excellence.

Contact Roland|Criss today to learn how you can join other recordkeepers already operating with the peace-of-mind that only comes from ASPPA certification.



ASPPA™

WORKING FOR AMERICA'S RETIREMENT

fi360®

800-440-3457

admin@rolandcriss.com • www.rolandcriss.com