

Creating a Business Continuity Plan

Text by Kimberly A. Branch, CFP®, CLTC, Vice President of Marketing Strategy, American Portfolios Financial Services, Inc.
—an Independent Broker/Dealer

Ensuring that a financial advisor practice can continue operating and servicing clients following an unexpected business disruption may be one of the least appreciated and most fundamental obligations advisors have to their clients. Whether it's the California wildfires, Hurricane Harvey, Superstorm Sandy or some unforeseeable event like a global pandemic, financial advisors must have a business continuity plan that outlines strategies and procedures that will enable them to continue operating their practices in nearly any situation.

The existence of a realistic and comprehensive business continuity plan (BCP) is now clearly on the radar of the Securities and Exchange Commission (SEC) in its reviews of Registered Investment Advisors, making having a BCP considerably more urgent than ever before.

In this white paper, *Creating a Business Continuity Plan*, we discuss the purpose and scope of a BCP, review the lessons learned from the business disruption of Superstorm Sandy and outline what a model BCP looks like.



The Purpose of a Business Continuity Plan

Business continuity plans are created to ensure that businesses are not caught flatfooted during any form of business disruption, from utility outages and natural disasters to government actions and acts of terrorism.

A BCP is a compilation of processes and procedures that are to be put in place upon some triggering event in order to ensure that advisors can continue to service their clients and perform the day-to-day operations of their practice.

The BCP is not, however, limited to the preparation for when external forces upend normal business operations; a BCP must also address how a practice will operate in the event of the death, disability, or incapacity of the principals or key employees.

Before discussing in more detail the elements of a BCP, let's first review some of the lessons learned from the business disruption caused by Superstorm Sandy.



The Lessons of Superstorm Sandy

Many advisors will remember the destruction wrought by Superstorm Sandy in 2012, which affected 24 states from Maine to Florida, and across the Appalachian Mountains. New Jersey and New York perhaps bore the brunt of the storm, as buildings and subways were flooded, while millions were left without electricity for an extended period of time.

In the wake of this disaster, the SEC undertook a review of 40 advisors in the impacted area to assess their compliance with the laws, rules and regulations related to BCP plans.

Here are highlights of their findings:¹



Some advisors had BCPs that did not adequately address and anticipate potential events. These advisors generally experienced more business interruptions and inconsistent communications with clients and employees.



Some advisors did not have geographically diverse office locations, resulting in back-up space without electricity or access to communications or the Internet.



Some advisors failed to consider the BCPs of service providers and other key vendors, leaving gaps in their ability to maintain a satisfactory level of operations.



Back-up servers were not regularly reviewed to ensure that they were functioning, leading to unnecessary business interruptions.



Plans for how to contact and deploy employees were inconsistently maintained and, in many cases, did not identify which personnel should execute different parts of the plan.

Of course, every event is unique. It may be argued that some of the weaknesses cited above are no longer relevant given the relative effectiveness of the work-from-home response to the coronavirus pandemic. Technology may have widened the field of possible contingency alternatives, but work-from-home may not be a solution if a sufficient number of employee homes are affected by the same natural disaster affecting the business.

The Elements of a Business Continuity Plan

The North American Securities Administrators Association (NASAA) offers advisors a useful model for developing a BCP for their practices, though individual state rules may differ from the NASAA model.²

The NASAA model incorporates five key provisions, namely:

- 1 Provide for the protection, back-up and recovery of an advisor's books and records.
- 2 Identify an alternative means for communicating with customers, employees and regulators.
- 3 Provide for office relocation.
- 4 Name responsible individual(s) to act in the event of the death or disability of key personnel.
- 5 Identify ways to minimize service interruptions and client harm.



As advisors sit down to create or update their BCPs, they need to consider a wide range of possible events and ask themselves some critical questions. For example:

How is the practice prepared to continue operations in the event of a natural disaster, an equipment or system failure that results in a destruction of records, a terrorist act, or the loss of a key service or technology provider?

How can these risks be addressed? Does the practice have redundancies in mission critical systems? How is data backed up (hard copy/ electronic)? What alternative communications can be used in the event of a power outage? Has an alternate office location been identified or a work-from-home plan been created? How will clients have access to account information during the business disruption?

Have employees been educated and trained to meet the BCP protocols? Are the lines of responsibility clearly spelled out, and have employees been advised of their specific responsibilities?

How will the BCP be accessed when needed?





Planning for business succession in the event of the death, disability, or incapacity of a principal or key employee raises its own set of important questions, including:



Have individuals been identified to assume the responsibilities of key employees? Do such individuals have the licenses and experience to service clients in the same manner as they currently are?



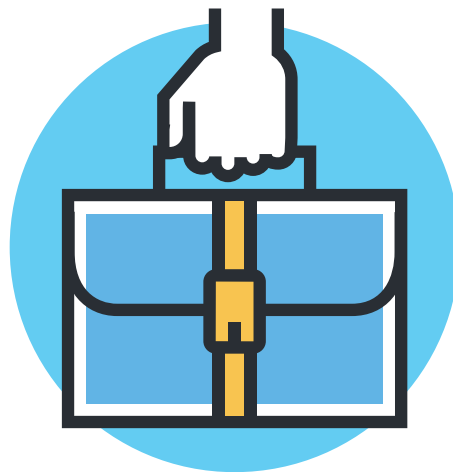
Have clients signed authorizations to permit a successor advisor to service their account?



If an equity owner dies, what is the plan for the practice?



Who will inform clients? Who will update the ADV, and does this person have access to the IARD system?



Does the successor have access to the books and records?

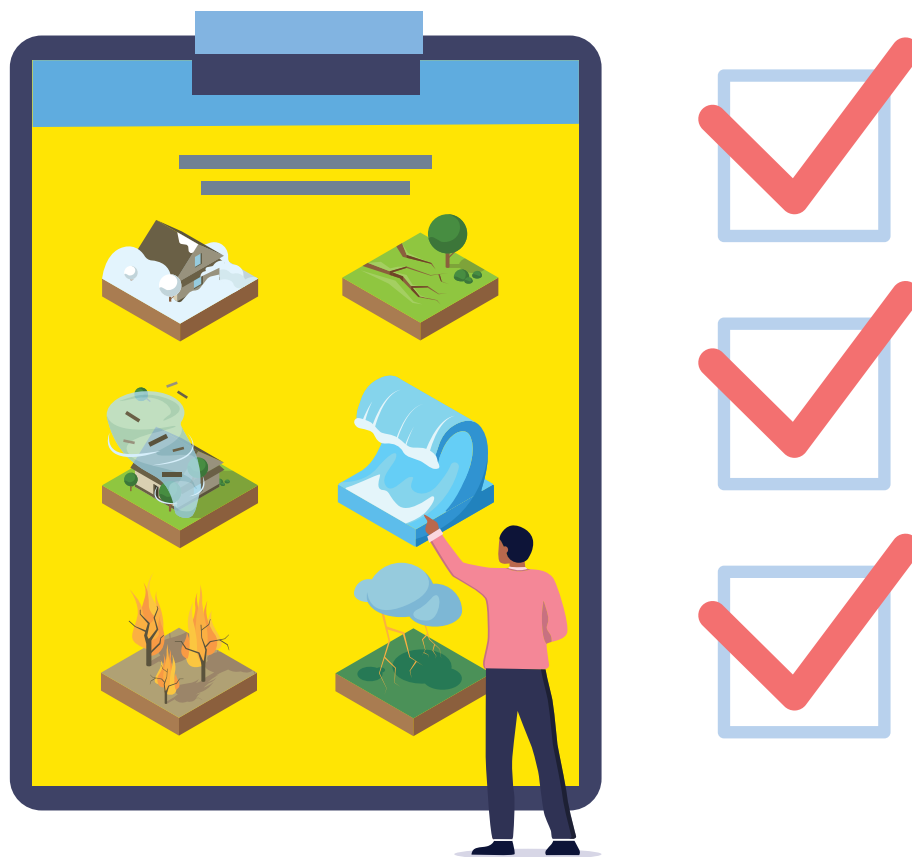


How will client assets be managed in the absence of a key employee?

The last thing any advisor wants is to have to implement the elements of a BCP and find out they are not workable. To avoid this, advisors should test-run their BCP processes and protocols.

Performing a trial run can help to identify weaknesses or unforeseen issues, such as an inability to conduct an essential operation, operate an essential system or monitor third-party vendors. Testing allows weaknesses and surprises to surface in a safe environment—a far superior alternative to discovering issues during a real-world implementation of a BCP following a business disruption.

No matter how thorough a BCP may be, it can never anticipate all possible events that could disrupt normal business operations. For instance, yesterday's BCP probably never anticipated a global pandemic and the shutdown of global economies, and tomorrow's BCP is unlikely to consider an EMP (electromagnetic pulse) or geo-magnetic disturbance and their potential for damage to computers, cell phones, communication infrastructure and the electrical grid. But, projection is not the aim of a BCP; rather, it's an understanding of the range of ways by which business operations can get upended and having plans in place to protect data and outline alternative means and methods for continuing to meet the needs of clients, regulators and employees.



We're Here to Help

Helping our financial advisors succeed is at the center of everything we do at American Portfolios. For advisors looking to create or upgrade their business continuity plan, we have a Business Continuity & Succession Planning guide and workbook to walk advisors through every step of developing a comprehensive BCP that can help them navigate the next business disruption, whenever that may be.

Sources:

¹ <https://www.sec.gov/about/offices/ocie/business-continuity-plans-risk-alert.pdf>

² <https://www.nasaa.org/wp-content/uploads/2011/07/NASAA-Model-Rule-on-Business-Continuity-and-Succession-Planning-with-gu...pdf>

American Portfolios Financial Services, Inc. has just the resources in place to help its advisors on many fronts. Reach out to *Vice President of Marketing Strategy* **Kimberly A. Branch, CFP®** at **631.439.4630**, or via e-mail at kbranch@americanportfolios.com, to strike up a conversation today on programs and needs of the advisor.

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* Based on a poll of registered representatives conducted by Investment Advisor magazine. Broker/dealers rated highest by their representatives are awarded "Broker/Dealer (B/D) of the Year."

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