

PANELLISTS

(left to right)



CLIENT KNOW-HOW

Proper background checks can help firms avoid serious hiring errors.

This month we ask our experts: With a recession on the horizon, and potentially more personnel movement within the financial services industry, how important are background checks going to be to protect firms from hiring the wrong people? How are these checks best conducted? Is there enough information in the registration depositories? And how do privacy laws diminish from the ability of compliance to get the full picture on either a new hire, or even a long-time employee of an advisory firm?

Wayne Bolton | Background checks are a must, and should be a standard element of the hiring process. Employers need to use reasonable care in the selection of employees. Hiring the wrong person can result in disruptions to the work place, liability issues, and potential financial loss. To draw a parallel with the securities industry, advisors are required to know their clients; employers are required to know their employees.

Jeff Kehoe | It seems odd, in such a heavily regulated industry, that due diligence would not be an integral part of the hiring process. Hiring a problem investment advisor creates risks for all of us in the industry. It can put clients at risk, potentially damage a firm's reputation if public disciplinary action is taken by an SRO, and may cost a firm resources and money if extraordinary supervi-

sory measures are necessary to monitor the problem employee. So why hire him or her in the first place? True, he or she may bring in a huge book with them but if that book also brings compliance, civil, regulatory, and criminal problems for a firm is it worth it?

Edward Iftody | Current privacy laws do not impede the gathering of relevant background information on a new hire. As a matter of fact, with the Internet, background checks are getting much easier. By searching for an advisor's name online, compliance personnel can review any complaints on regulator Web sites. If you don't run across any complaints or outrageous statements made by the advisor, you probably have a decent hire. I would only really worry in two situations: if there are serious complaints on a regulator's Web site; or if absolutely nothing comes up in your search. If nothing pops up, you need to consider the possibility the advisor may be hiding information. Lack of information about an advisor who's been in the business for some time always makes me a little suspicious. If you're active in financial services for any length of time, odds are you've had something written about you somewhere, by someone.

WB | The first step is making the prospective employee aware that a background check is necessary to be considered for employment. An em-

WAYNE BOLTON, chief compliance officer, AIM Trimark Investments, Toronto

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COMPLIANCE OUTLOOK is moderated by Philip Porado. Please submit scenarios you'd like to see addressed to philip.porado@advisor.rogers.com

ployer actually needs written consent to conduct certain investigations, such as a criminal records check. In many cases, employers may not have the resources or expertise to conduct such checks and the hiring manager may be motivated to cut corners in order to hire someone as soon as possible. To avoid that, employers can outsource the background check to a reputable company that specializes in conducting them. If the checks turn up any discrepancies or concerns, it is important that they be discussed with the prospective employee.

JK | As a matter of fact, many firms do routine background checks through local agencies. Obviously, the nature and scope of the check varies from agency to agency. It may be useful to review the content of background checks that the agency undertakes. For example, does the background check include a Google search? You may be surprised what you find, given that most securities regulators in Canada and the United States post disciplinary actions on their Web sites. It definitely makes good sense to ensure this due diligence is done, as it would arm you with the information you need to assess whether the prospective employee reflects your firm's culture and values. The firm could then clarify any **continued on page 40**

PANELLISTS



continued from page 39 problematic issues that emerge. Truly, the old adage “to forewarn is to forearm,” applies perfectly to this process.

EI | A search engine can also bring up

things a regulator’s site generally won’t, such as advisor Web sites; comments made on bulletin boards or public Web sites; any business activity conducted outside the financial industry; and potentially

unethical, illegal or otherwise embarrassing activity buried by legal red tape.

WB | Registration depositories are also a good source, in that they provide certain information, such as terms and conditions, and disciplinary sanctions on individual registrants. The information contained in the depositories could identify potential red flags that warrant further investigation. Registration depositories, however, don’t give the complete picture and therefore should not be relied on solely in satisfying a background check.

JK | The Investment Dealer’s Association also has an Information Request Service that provides a registrant’s complete disciplinary history. Some agencies utilize this service, but we also encourage any securities firms hiring new staff to make use of it. Requests are simple to complete, and cost nothing.

WB | Privacy laws don’t diminish the ability to get a full picture on a prospective employee. Employers can work within the limits of these laws by having a comprehensive privacy policy covering the use of personal information, a code of conduct that outlines expected behaviour, and other policies relating to human resources. Employers could also ask a prospective employee for a copy of his or her uniform termination notice. Anyone who is a registered employee with an SRO is responsible for completing the uniform termination notice in a detailed manner.

JK | We are in an age of due diligence for products, trades, and service. It defies good sense that member firms wouldn’t apply these same principles to the people they hire to represent their name and values. Why suffer the slings and arrows of a compliance headache when so much information may be at your fingertips? **AE**

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