

Financial Services
SEC Rule 17a Compliance for Broker-Dealers
and SEC Rule 31a-2 and 204-2 Compliance – Investment Advisors



July 2011

SEC Rule 17a Compliance for Broker-Dealers

Executive Summary

The SEC, as well as FINRA regulations, set specific compliance requirements for documents, records, and emails that must be addressed by financial services firms, specifically, SEC Rules 17a-3 and 17a-4 for Broker-Dealers; and SEC Rules 31a-2 and 204-2 for Investment Advisors. These requirements are designed to protect investors from misrepresentation and fraud via electronic communications and to prevent record tampering. Firms can no longer afford to be casual about recordkeeping and document management in order to prevent any regulatory actions, such as civil liability or loss of goodwill.

NetDocuments offers a unique solution in meeting the regulatory compliance requirements because of the monitoring, archiving, policy enforcement, and retention solutions to all electronic files under the Software-as-a-Service (SaaS) model. NetDocuments not only addresses specific SEC requirements, but its SaaS model also provides a very cost-effective best practice solution, allowing you to focus your energy and resources on your clients and mission critical line-of-business requirements. NetDocuments delivers a solution that eliminates the need to invest in expensive hardware and software to create an in-house system, and its associated ongoing labor, maintenance, updates and disaster recovery. In addition, NetDocuments includes a fully functional document and content management service.

A highlight of significant NetDocuments benefits offered to financial service customers include:

Organization and preservation of electronic records - Contents can be structured into cabinets and multi-tier folders or into powerful workspaces for clients or projects, with a sophisticated security model overlaid to define user and group access rights. The NetDocuments Service can be universally accessed from anywhere in the world through the Internet via workstations or handheld devices. Microsoft Office applications and Microsoft Outlook can be fully integrated into NetDocuments. Users can also find NetDocuments folders directly in Outlook and drag and drop emails and attachments directly into the Service.

WORM storage - NetDocuments provides virtual WORM cabinets, where electronic files can be written once, read many times, but never altered or deleted. Digital records stored in WORM cabinets are tamper proof. Not even the customer's systems administrators can remove or modify such files; neither can they reformat drives or physically damage the disks.

Multiple storage locations - Electronic files in the NetDocuments Service are physically stored in two off-site mirrored global data centers, one in the East and one in the West. Each data center is highly available with redundancy in all aspects of telecommunications, networking, hardware, security, and procedures. A total staff of over 800 people manages the data centers. Disaster recovery is built-in.

Serialization of original and duplicates are securely filed and indexed - NetDocuments offers best-of-breed searching technology indexing all documents, emails, attachments, images, and records in two redundant data center locations. Searching of all electronic contents and metadata (profile information) can be done in seconds. Search results can be displayed in any order, including relevancy ranking. Search capabilities include Boolean, keywords, phrases, linguistic lemmatization, and proximity functionality.

Retention policies and audit history - Multiple retention policies can be defined to preserve digital records, according to the customer's needs and SEC 17a compliancy requirements. Different record types can be preserved for any retention period, such as 3 years, 6 years, 15 years, or indefinitely.

Document collaboration and sharing - Increase client loyalty by securely sharing with internal or external users. All access to all documents is registered in history logs. Auditors and Compliance Reviewers can be granted immediate access to documents and indices.

Third-Party Downloader Service – All broker-dealer firms that store documents or other records electronically must have a third party designated with the SEC who can download the firm's archived electronic records. This designated downloader must be a third party who has access to the broker-dealers documents and provide the documents to the SEC if requested.

NetDocuments provides you as a broker-dealer a legal addendum to the NetDocuments Service Agreement authorizing NetDocuments to obtain legal rights access to your electronic documents in the case when the SEC requests them. NetDocuments provides a formal submission to the SEC (and for you to have on file) a **Letter of Undertaking** stating that NetDocuments will undertake to take reasonable steps to provide access to the information and will furnish the documents to the SEC, its designees or representatives if and when called upon.

“Such arrangements will provide specifically that in the event of a failure on the part of a broker or dealer to download the record into a readable format and after reasonable notice to the broker or dealer, upon being provided with the appropriate electronic storage medium, the undersigned (third-party downloader provider) will undertake to do so, as the staffs of the Commission, any self-regulatory organization of which it is a member, or any State securities regulator having jurisdiction over the member, broker or dealer may request”

- Excerpt from the SEC Letter of Undertaking document

The total solution of multiple data centers, powerful and fast searching, web-accessibility, and third-party downloader support ensures that the customer will be fully compliant with the requirements that records should be easily accessible, stored into multiple indices, and in secure and reliable electronic storage media. NetDocuments provides hosted document management for the entire Service (SaaS), ensuring not only trouble-free operations with absolutely minimal internal labor, but also superior solutions for SEC electronic file compliancy.

**U.S. Securities and Exchange Commission
SEC Rule 17a-3 and 17a-4 Recordkeeping Requirements**

COMPLIANCE REQUIREMENTS FOR BROKER-DEALERS	NETDOCUMENTS COMPLIANCE SOLUTION
<p>Every member, broker and dealer subject to Rule 17a-3 shall preserve for a period of not less than six years, the first two years in an easily accessible place, all records required to be made pursuant to paragraphs Rule 17a-3(a)(1), (a)(2), (a)(3), (a)(5), (a)(21), (a)(22), and analogous records created pursuant to Rule 17a-3(f).</p>	<p>Documents can be stored and accessible in NetDocuments for as long as needed. Policy-based retention can easily preserve records at least six years.</p> <p>All documents and records are “easily accessible” for not only two years, but for the duration of their existence in NetDocuments. Easy accessibility can be accomplished by users locating records by navigating the folder hierarchy, or by locating a client-centric workspace, or by searching documents through a powerful full-text and profile metadata index; all done through the Web.</p>
<p>The member, broker, or dealer must notify its examining authority designated pursuant to Section 17(d) of the Act prior to employing electronic storage media. 17a-4(f)(2)(i)</p>	<p>This is the responsibility of the broker-dealer/advisor. This document can be forwarded to communicate NetDocuments functionality.</p>
<p>Preserve the records exclusively in a non-rewriteable, non-erasable format. (Write Once Ready Many (WORM) devices. 17a-4(f)(2)(ii)(A)</p>	<p>The documents are stored in tamper-sealed WORM cabinets, where users and administrators are prohibited from altering or removing electronic records. Policy-based retention rules are the only method of purging records.</p> <p>NetDocuments gives customers the choice to use NetDocuments as only a WORM repository for compliance, while maintaining their production documents stored and managed under Microsoft Windows, or the choice of using NetDocuments for both WORM compliance <i>and</i> online document storage and management. In the latter case, NetDocuments could be implemented with two cabinets: one WORM cabinet for tamper-sealed record storage, and one Work-in-Process (WIP) cabinet for document creation and editing. As documents are published or externalized (sent to outside parties), the user would simply move the final document or version from the WIP cabinet to the WORM cabinet.</p> <p>Unique to NetDocuments is an option to mix work-in-process documents with final records in a single WORM cabinet. Electronic documents</p>

	<p>can be created in Word, Excel, or any editor compatible with Microsoft Windows. While being drafted, these documents are fully editable under the control of a highly sophisticated document management service. Once externalized or finalized, the particular version becomes tamper-sealed in WORM storage. However, for management purposes, users can view both work-in-process and WORM files under a single view. This combined WIP and WORM storage in a single cabinet makes the service extremely flexible and natural for both document management (WIP) and records management (WORM compliance). There is no need to “transfer” documents from one location to another, just flag the document version as externalized or finalized.</p> <p>An integral part of NetDocuments is the ability for work-in-process documents to have multiple versions (one version is designated as the official version). When both WORM records and WIP documents reside in a consolidated cabinet, NetDocuments allows externalized or official versions of documents to be tamper-sealed. <i>(note this versioning is a future release)</i></p> <p>Documents are physically stored in two, fully redundant data centers: One is physically in a commercial bank data center, federally-regulated and audited storage center; the other is in one of the largest and trusted global information service provider for law, credit services, financial and government publications.</p>
<p>Verify automatically the quality and accuracy of the storage media recording process. <i>The intent of this rule is to provide some level of confidence that the record has actually been stored.</i>(17a-4(f)(2)(ii)(B))</p>	<p>NetDocuments uses the technology to serialize what needs to be recorded, records the information, reads the data for verification and completeness, and informs the requesting service that the process completed successfully. Every transaction is time stamped and logged. The media storage itself is of the highest quality and reliability. A NetDocuments customer may, at any time, view or search all the documents to verify they are actually filed and stored.</p>
<p>Serialize the original and, if applicable, duplicate units of storage media, and time-date for the required period of retention the information placed on such electronic storage media. 17a-4(f)(2)(ii)(C)</p>	<p>For data storage and transmission, NetDocuments deploys object marshalling and serialization into physical and logical containers. The input stream is enumerated, audited, time-stamped, and verified for successful completion into the storage medium. Duplicate storage media is deployed in each datacenter (RAID and snapshots), with the data also mirrored into a second global datacenter. Policy-based</p>

	retention for record preservation is enforced.
Have the capacity to readily download indexes and records preserved on the electronic storage media to any medium acceptable under this paragraph (f) as required by the Commission or the self-regulatory organizations of which the member, broker, or dealer is a member. 17a-4(f)(2)(ii)(D)	All documents can be searched and identified and mass downloaded to a CD or file directory along with a log file describing its contents.
At all times have available, for examination by the staffs of the Commission and self-regulatory organizations of which it is a member, facilities for immediate, easily readable projection or production of micrographic media or electronic storage media images and for producing easily readable images. 17a-4(f)(3)(i)	<p>Customers can provide immediate access to an examiner to verify any contents of the NetDocuments repository. A username can be created for the examiner, who can verify not only the records and its metadata profile, but also all history associated with each document, and its organizational context. NetDocuments will also log every action by the examiner.</p> <p>NetDocuments will provide an <i>SEC Letter of Undertaking</i> to have on file or provide your FINRA office offering the service to provide the information directly to the SEC if necessary. This requires a legal authorization by you as our customer to authorize this service. An incremental fee is associated to this service.</p>
Be ready at all times to provide, and immediately provide, any facsimile enlargement which the staffs of the Commission, any self-regulatory organization of which it is a member, or any State securities regulator having jurisdiction over the member, broker or dealer may request. 17a-4(f)(3)(ii)	From within NetDocuments, an authorized user can mass print a set of documents to a local printer. The legibility of the documents will be dependent upon the customer's responsibility to ensure that electronic documents were scanned legibly. In addition, a user can simply open each document, which launches the PDF viewer (or whatever native format) to print.
Store separately from the original, a duplicate copy of the record stored on any medium acceptable under Rule 17a-4 for the time required. 17a-4(f)(3)(iii)	<p>Every record is always stored in two separate highly available global data centers, each with its own WORM cabinet. The Customers can also install a Local Document Server where all documents are replicated to a local server at the Customer's premises for a triplicate copy which can be accessible at anytime as well.</p> <p>One of the data centers is hosted by a US commercial bank, with its data processing operations monitored and regulated by the Office of the Comptroller of the Currency, The Federal Reserve System, the FDIC, the US Office of Thrift Supervision, and the Federal Financial Institutions Examination Council.</p> <p>The other data center is hosted by one of the</p>

	<p>world's premier content service provider (LexisNexis a division of Reed Elsevier), and its data center is certified by WebTrust, the AICPA, the Canadian Institute of Chartered Accountants, and annually audited by Ernst & Young.</p>
<p>Organize and index accurately all information maintained on both original and any duplicate storage media. 17a-4(f)(3)(iv)(A)</p>	<p>All documents are automatically indexed and organized by profile fields and/or folders and workspaces in both online global data centers. Furthermore the index will extract all metadata profile information as well as the full-text contents of the records. The index will respond to searches using key words, phrases, Boolean operators, wild characters, proximity operators, linguistic lemmatization, and relevancy ranking.</p>
<p>At all times, a member, broker, or dealer must be able to have such indexes available for examination by the staffs of the Commission and the self-regulatory organizations of which the broker or dealer is a member. 17a-4(f)(3)(iv)(A)</p>	<p>All documents are automatically indexed and all actions by any user against the document are recorded providing an audit trail with a date and time stamp based on the Navy Atomic Clock.</p> <p>The documents, index, audit trail, and organization structure are readily available for the staffs of the Commission via the Internet by providing them a user account to login.</p>
<p>Each index must be duplicated and the duplicate copies must be stored separately from the original copy of the index. Original and duplicate indexes must be preserved for the time required for the indexed records. 17a-49f)(3)(iv)(A)</p>	<p>An index which allows the retrieval of the records is automatically created in NetDocuments online repository. The index will exist as long as the documents are available. All documents and records are mirrored to a second datacenter, and a second copy of the index is also automatically created. Both index and both set of records are kept for as long as needed by the retention period. All required infrastructure for the second index is maintained separately from the original, ensuring high-availability of all components to continuous access.</p>
<p>PART 240 - RETENTION REQUIREMENTS</p>	<p>NETDOCUMENTS COMPLIANCE SOLUTION</p>
<p>Every member, broker and dealer subject to § 240.17a-3 shall preserve for a period of not less than six years after the closing of any customer's account any account cards or records which relate to the terms and conditions with respect to the opening and maintenance of the account.</p>	<p>This requirement specifies the ability to indicate that an account has been closed. NetDocuments can close accounts by specifying a closing date. After account closing, all digital files (either work-in-process or records) are tamper-sealed and considered archived records. The policy-based purging rules can specify that these archived records are retained for six years or more. When a document is purged, all references to that document are also purged. For example, if the purged record is stored in multiple folders, or if there are other documents linked to it, all references to that document are erased.</p> <p>Scheduled purging can be triggered by time or</p>

	<p>events (such as closing of an account).</p> <p>One of the issues of long-term records retention is to make certain that future digital formats and media are compatible with the currently stored records. The Broker-Dealer or advisor need to ensure they maintain compatibility with file formats, with PDF-A being the current standard.</p>
<p>Every member, broker and dealer subject to § 240.17a-3 shall preserve during the life of the enterprise and of any successor enterprise all partnership articles or, in the case of a corporation, all articles of incorporation or charter, minute books and stock certificate books (or, in the case of any other form of legal entity, all records such as articles of organization or formation, and minute books used for a purpose similar to those records required for corporations or partnerships), all Forms BD (§ 249.501 of this chapter), all Forms BDW (§ 249.501a of this chapter), all amendments to these forms, all licenses or other documentation showing the registration of the member, broker or dealer with any securities regulatory authority.</p>	<p>NetDocuments supports metadata fields, which can be associated with every document. One such metadata field is “Document Type. Document types can indicate that a particular document is an article of incorporation, minute books, stock certificates, form BD or BDW, licenses and registrations, etc. These documents types will be set to have no expiration date; therefore they will be kept forever.</p>
<p>Every member, broker and dealer subject to § 240.17a-3 shall maintain and preserve in an easily accessible place: All account record information required pursuant to § 240.17a-3(a)(17) until at least six years after the earlier of the date the account was closed or the date on which the information was replaced or updated.</p>	<p>The combination of multiple data centers, powerful and fast searching, and web-accessibility, ensures that the customer can maintain and preserve their information and have it easily accessible—all stored in a secured and reliable electronic storage media. Multiple retention policies can be defined for six years or other specific retention periods to comply with Part 240 requirements and other policies.</p>
<p>Every member, broker and dealer subject to § 240.17a-3 shall maintain and preserve in an easily accessible place: Each report which a securities regulatory authority has requested or required the member, broker or dealer to make and furnish to it pursuant to an order or settlement, and each securities regulatory authority examination report until three years after the date of the report.</p>	<p>Each report, which a regulatory authority has requested pursuant to an order or settlement, can be flagged with the appropriate Document Type (i.e. regulatory order or regulatory settlement) and the Customer can set its retention period for at least 3 years.</p>
<p>Every member, broker and dealer subject to § 240.17a-3 shall maintain and preserve in an easily accessible</p>	<p>Unusual activity report can be profiled with this particular document type (i.e. unusual customer activity). This will have an expiration date of 18</p>

<p>place: All reports produced to review for unusual activity in customer accounts until eighteen months after the date the report was generated.</p>	<p>months (or more if decided by management) past the date of creation.</p>
<p>Written advertisement never released to the public must also be kept, and made available to SSR. Customers must keep all compliance, supervisory, and procedures manuals, including any written procedures for reviewing communications.</p>	<p>The customer can implement a procedural policy that written advertisement materials are kept in WORM storage, although they have never been released to the public.</p>

Source: <http://www.sec.gov/rules/final/34-44992.htm> U.S. Securities and Exchange Commission Final Rule: Books and Records Requirements for Brokers and Dealers

U.S. Securities and Exchange Commission
SEC Rule Rule 31a-2 and 204-2 - Investment Companies and Investment Advisors

COMPLIANCE REQUIREMENTS FOR INVESTMENT COMPANIES AND INVESTMENT ADVISORS	NETDOCUMENTS COMPLIANCE SOLUTION
Funds and advisors may keep all of their records in an electronic format. (Amendment to Rule 31a-2 and 204-2)	Documents, reports, and communications can be imported, emailed, flagged, or scanned into electronic format and stored in the NetDocuments Globally accessible data centers. Additionally, they can comply with SEC 17-a, and have them stored in secured WORM storage. Emails can be automatically uploaded to NetDocuments and stored as tamper sealed records. Alternatively, work-in-process electronic documents (Word, Excel, WordPerfect, etc) can be created in NetDocuments and managed by the Service.
Reasonably safeguard the records from loss, alteration or destruction. (Rule 31a-2, 204-2, Part 270, Part 275)	The best technology is used to safeguard records. Lost data is mitigated by RAID and Mirrored storage technologies and dual geographically dispersed data-centers. Document integrity is enforced by concurrency control, check-sum processing, transaction-based closed loop processing, document snapshots, etc. Alterations of records are not permitted by the Service. Destruction is only possible via policy-based retention rules. Retention rules are audited, with every alternation or new rules recorded by in the history log.
Ensure that electronic copies of non-electronic originals are complete, true, and legible in the medium and format in which it is stored. (Amendment to Rule 31a-2, 204-2, Part 270, Part 275)	NetDocuments provides scanning and workflow capabilities. PDF format is the best to ensure that the document appears the same as the original paper-based document. The customer's personnel should ensure that all documents scanned are legible after being scanned and before being imported into the NetDocuments repository.
Limit access to the records to authorized personnel, the Commission (including its examiners and other representatives), and (in the case of funds), fund directors (Rule 31a-2, 204-2, Part 270, Part 275))	All documents are accessible by only authorized personnel as designated by customer's administrators. A user group for Commission examiners can be created and granted temporary access at anytime and upon request as controlled by customer's administrators for NetDocuments. Access control and ethical walls can be setup to practically any level of granularity desired by the customer.
Funds and advisors may be requested by the Commission to promptly provide legible, true and	NetDocuments provides universal access to anyone, including the Commission, as determined by the Customer's designated

<p>complete copies of records in the medium and format in which they are stored, and printouts of such records; and means to access, view, and print the records. ((31a-2, 204-2)</p>	<p>administrators. Users can search or browse to the documents and view, print, email, and share records, or create CDs or DVDs containing the desired documents.</p>
<p>Means to access, view and print the records in a legible, true and complete printout. (Part 270, Part 275)</p>	<p>From within NetDocuments, an authorized user can open the records and print to a local printer, or select from a list of records and request a mass print. The completeness of records can be ensured via opening the containers which group the records, such as workspace, folders, or well-formulated search criteria. Procedures must be in place to ensure that appropriate records are uploaded to NetDocuments.</p>
<p>Separately store, for the time required for preservation of the original record, a duplicate copy of the record on any medium allowed. (Part 270, Part 275)</p>	<p>All documents stored in NetDocuments are stored in a highly secure and redundant dual data center with automatic backups, firewalls, intrusion prevention, virus software and 24-hour monitoring – configured in a highly-available and load-balanced architecture. The customer can also install a Local Document Server where all documents are replicated to a local server at the Customer's premises for a triplicate copy which can be accessible at anytime as well, ensuring yet another copy of all documents.</p>
<p>Funds and advisors to retain records electronically for over fifteen years and easily accessible for two years.</p>	<p>Documents can be stored and accessible in NetDocuments for as long as the customer wishes. Policy-based retention can easily preserve records for fifteen years or beyond. All documents and records are “easily accessible” for not only two years, but for the duration their existence in NetDocuments.</p>
<p>Funds and advisors who choose to convert records into an electronic format must do so in the same fashion as they already keep electronically created or received records.</p>	<p>The responsibility of the customer to ensure that all electronic records are in the same format, the PDF-A format being recommended by NetDocuments. NetDocuments facilitates the requirement that conversion is done in the same fashion as the customer already kept electronically created or received records.</p>
<p>The rules standards are flexible and permit funds and advisors to modify their electronic record retention practices to take advantage of advances in electronic storage technology.</p>	<p>By storing documents with NetDocuments, the customer will have 24x7, secured access to their documents and will outsource to NetDocuments the administration and management of the hardware and software infrastructure to ensure that it is always the latest and most reliable technologies.</p>
<p>Funds and Advisors are free to adopt any combination of technological and manual protocols that meet the</p>	<p>NetDocuments becomes an ideal and cost-effective solution with the customer's total cost of ownership much less than doing it in-house.</p>

requirements of the rules.	
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Source <http://www.sec.gov/rules/final/ic-24991.htm>: U.S. Securities and Exchange Commission Final Rule: Electronic Recordkeeping by Investment Companies and Investment Advisors.

For more information, contact sales@netdocuments.com or +1.866.638.3627.

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4853-0441-8309, v. 1