

The  
**LeGaye Law Firm P.C.**



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# Due Diligence Package

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## Due Diligence Package

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## Executive Overview

### Background

#### *Overview*

In 2009, The LeGaye Law Firm, P.C., (“The LeGaye Law Firm” or “Firm”) was established to provide focused and personal legal services to broker-dealers and financial advisers. The LeGaye Law Firm brings depth of knowledge and experience gained from years of hands-on experience in providing legal counsel and coordination of regulatory and financial compliance services to the financial services industry. The Firm’s expertise is targeted to answer and respond to the complex legal and practical questions and challenges facing broker-dealer and investment advisory entities on a timely and cost-effective basis. The legal advice and compliance services provided assists firms and managers in maintaining compliance with a multitude of regulatory requirements.

The LeGaye Law Firm provides regulatory legal support to broker-dealers and investment advisors in a manner meant to minimize regulatory threats and allow the respective clients to focus on business opportunities. The legal services provided by The LeGaye Law Firm includes FINRA, SEC, NFA, and CFTC registrations, overall compliance services and an experienced legal perspective on a wide spectrum of managerial, financial, regulatory, and business expansion

issues that face a broker-dealer and or investment adviser. Please go to [www.legayelaw.com](http://www.legayelaw.com) for more information on these services.

### ***Location***

The Firm is located at 2203 Timberloch, Suite 100, The Woodlands, Texas 77380. We can be contacted at 281-367-2454; Fax: 866-338-6353; Email: [info@LeGayeLaw.Com](mailto:info@LeGayeLaw.Com).

### ***Attorney***

Daniel E. LeGaye has been involved actively in Corporate, Securities and Business Law since 1980. Mr. LeGaye has successfully represented both individuals and businesses guiding them in a wide variety of commercial transactions, corporate structuring and regulatory compliance issues. Mr. LeGaye's primary career focus has been on the financial and securities industry where he has worked closely with institutions, broker-dealers, investment advisers and insurance agencies to ensure compliance with the myriad of applicable securities laws, rules and regulations.

Daniel E. LeGaye previously served as General Counsel and as Executive Vice President of a leading consulting service provider for over 23 years; as well as General Counsel for Horne Financial Corporation, Horne Securities Corporation and Bankers Capital Securities, where he specialized in the private placement of real estate securities and investment banking.

### ***Professionals***

#### ***Michael R. Schaps, Director Regulatory Compliance***

Michael R. Schaps brings over twenty years of securities related experience to the LeGaye Law Firm. During his career, Mr. Schaps has functioned as a FINOP for both NYSE and FINRA member firms as well as a branch office manager and chief compliance officer. Mr. Schaps spent the last 11 years as a securities regulatory consultant with the focus on compliance matters for broker-dealers such as anti-money laundering; FINRA examination preparation; new member applications; continuing member applications; business continuity plans, privacy policy testing; and review and preparation of written supervisory procedures. *Mr. Schaps is not a licensed attorney.*

*Debra M. Schaps, Director Administrative Support Services*

Prior to joining The LeGaye Law Firm, Debra M. Schaps previously worked over twenty years for a privately owned broker-dealer consulting firm as a Vice President of the Broker-Dealer Division, Supervisor of the Insurance Division, Special Projects Manager for internal and liaison between clients and corporate staff for Sentinel Clients for a leading consulting service provider. Prior to joining the previous firm, Ms. Schaps attended Sam Houston State University. *Ms. Schaps is not a licensed attorney.*

### ***Litigation History***

To date, The LeGaye Law Firm and its attorneys and/or professionals have not been involved in any litigation related to the delivery of professional or legal services.

## **Practice Areas**

### **Broker-Dealer**

#### ***Risk Assessments & Compliance Program Testing***

The LeGaye Law Firm is well equipped to assist broker-dealers in taking proactive steps required to identify, assess and reduce areas of risk. Part of the process provided by the Firm includes on-site mock regulatory testing of client systems and procedures. This independent third-party testing process is an important and integral part of the risk assessment and review necessary for broker-dealers to incorporate in meeting their annual testing requirement. As part of the testing and risk assessment process, The LeGaye Law Firm will evaluate the aspects of your business subject to regulatory compliance, including:

- Accounting Records
- Account Ledgers
- Trading and Transaction Records
- New Account Applications
- Customer Complaints and Arbitration Matters
- Associated Persons' and Representatives' Files

- Advertising and Marketing Materials
- Written Policies and Procedures Manuals
- Firm Registration Records
- Client Disclosure Documents and Privacy Notices
- Testing of Anti-Money Laundering Programs, Business Continuity Plans, Regulation S-P Controls and Other Compliance Programs
- Client Contracts and Account Files
- Supervisory Compliance Controls
- Processes for Evaluating Actual and Potential Conflicts of Interest and Mitigation of Conflicts
- New Products and Services, Including Processes for Business Development and Creation of New Policies and Procedures
- Regulatory Financial Matters
- Insider Trading and Chinese Wall Violations

Upon completion of the Firm's testing or risk assessment, the client will be provided with an initial finding report which will address any critical concerns requiring immediate action. Based upon the needs of our client's, the Firm is also able to issue a final report that address the annual report occasioned by NASD Rule 3012 and FINRA Rule 3130.

### ***Anti-Money Laundering Compliance***

The Firm offers comprehensive regulatory advice, remediation services and risk management assessment relating to all aspects of anti-money laundering ("AML") rules and regulations for broker-dealers and other financial institutions. Our firm can also provide comprehensive and diverse legal services including drafting AML policies and procedures, providing annual independent testing of AML programs and compliance-training related to best practices related to know your customer (KYC), Suspicious Activities Reports (SARs), Bank Secrecy reporting, and OFAC/Control list compliance. Finally, the firm can recommend technical solutions that will provide the most effective transaction monitoring and suspicious activity detection systems.

### ***Written Policies, Procedures & Internal Controls***

The Firm also assists financial services industry clients develop effective written policies, procedures and internal controls that help prevent abuses, detect and mitigate conflicts of interest, reduce firm risk and maintain legal compliance with protocols and regulatory requirements. This approach will assist in defining the roles and responsibilities of your senior management and supervisors while promoting successful business practices. To help accomplish this, ongoing counsel and support services offered by the Firm, both directly and through its affiliations, may include legal advice regarding:

- Creation, Review or Enhancement of Written Supervisory Procedures (WSPs) or Written Policies and Procedures Manual
- Guidance on Constructing a "Chinese Wall," Supervising Interdepartmental Communications Communicating Restricted and Watch Lists
- Employee Training on New Policies and Procedures
- Development of Business Continuity Plan Documents
- Development of Anti-Money Laundering Policies and Procedures, Including an Annual Independent Audit
- Analysis of Best Execution Practices and Review of Best Execution Processes and Compliance with SEC and FINRA Recordkeeping Requirements
- Evaluation and Implementation of Recordkeeping and Document Retention Policies
- Review and Assessment of Privacy Policies and Procedures Regarding Safeguards for Protecting Confidential Client Information
- Analysis of Conflicts of Interest Processes
- Annual Testing of Policies, Procedures and Internal Controls, with Written Assessment Upon Request

### ***Financial Industry Contracts***

The securities and financial industry requires contracts negotiation, agreement drafting and records maintenance, both for a business as well as a regulatory function. As a result of the Firm's

extensive industry and legal experience in broker-dealer issues, the Firm brings a unique mix of industry and regulatory experience, which assists our clients avoid problems and efficiently implement and manage corporate agreements, contracts and other necessary forms of documentation.

Legal services offered include advice related to the negotiation and drafting of contracts or agreements and review of proposed or existing contracts, agreements and other documents to ensure legal compliance with current regulatory requirements. The following is a representative summary of some of the contracts and other legal documents the Firm can negotiate, draft, evaluate or revise:

- Broker-Dealer Client Contracts
- Broker-Dealer Selling Agreements
- Broker-Dealer Independent Contractor Agreements
- Broker-Dealer Employee Agreements
- Finder's Agreements
- Third-Party Service Provider Contracts
- Qualified Investor Subscription Agreements
- Limited Liability Agreements
- Operating Agreements
- Confidentiality Agreements

### ***Client Disclosure Documents***

Regulatory authorities are scrutinizing client disclosure documents more closely than ever. The LeGaye Law Firm offers proactive legal services designed to provide you with comprehensive yet customized disclosure documents in conformance with various legislative acts, including the Securities Act of 1933 and the Securities Exchange Act of 1934.

After evaluating existing client disclosure documents, the Firm can provide an assessment of the findings along with recommendations on how to enhance current disclosure documents. The various legal disclosure documents the Firm can draft, evaluate or revise include:

- Client Agreements and New Account Forms
- Offering Memoranda
- Private Placement Memorandums

- Advertising and Sales Literature
- Hedge Fund Disclosure and Client Documentation

### ***Regulatory Inquiry Responses***

Response to inquiries from the SEC, FINRA or other regulatory bodies must be prompt, carefully considered and accurate in addressing each issue or deficiency, particularly if allegations of a securities law violation are involved.

The Firm understands our clients and knows their businesses, which enables us to provide prompt, effective responses to legal regulatory inquiries and allegations at both the state and federal levels. Having extensive experience in responding to SEC, FINRA and other official regulatory inquiries, the Firm is uniquely prepared to respond to your legal issues and claims, including regulatory inquiries related to cycle and sweep examinations, improper trade practices, and/or disclosure issues.

### ***Financial and Operations Services***

Daniel LeGaye and Michael Schaps are, and have been, registered with FINRA as a qualified Series 28 and Series 27 Financial and Operations Principals respectively in excess of 20 years. As a result, Messrs. LeGaye and Schaps act and have acted as a Financial and Operations Principal (FINOP) for a numerous broker-dealers. The Firm can also provide legal advice and compliance services on financial issues, and, through its strategic relationships, have regular monthly, quarterly and annual financial filings prepared as legally required for broker-dealer by FINRA, the SEC, and other applicable regulatory authorities. Our Firm also provides on-site reviews of financial records to determine their compliance with the financial reporting, maintenance and financial issues facing a member firm of FINRA.

### ***Distribution and Structuring***

Messrs. LeGaye Schaps have represented broker-dealers on a variety of distribution and structuring matters, including legal advice on mergers and acquisitions, the public and private offering context for selling group managers and placement agents affiliated with REITs, mutual fund and variable annuity products, as well as the placement

agents of private equity, venture capital and hedge fund interests in private offerings.

### ***Ongoing Industry Services***

The LeGaye Law Firm also provides broker-dealer legal counsel on the following issues:

- Structuring, implementation and co-coordinating of the annual review of the internal controls and supervisory procedures relied upon for regulatory compliance and sound risk management procedures and processes.
- Creation, review and analysis of corporate records, including by-laws, operating agreements and other legal documentation
- Create, review and analyze client legal documents (new account forms, privacy notices, prospectus receipts, 1035 exchange disclosures, quarterly performance reports, marketing disclosures, etc.)
- Creation and review of broker-dealer selling agreements
- Assessment of business continuity, disaster recovery and succession plans
- Due diligence of third-party service providers
- Advertising, research and communications with the public
- Gifts and entertainment issues
- Net capital and customer protection rules

### **Investment Advisor**

#### ***Mock Regulatory Exams & Risk Assessments***

The Firm is well experienced in assisting investment and hedge fund advisors in taking proactive steps to identify and assess areas of risk. Part of the legal process provided includes on-site mock regulatory exams. The exam process is also an integral part of the risk assessment and review necessary to meet a firm's annual testing requirement. As part of the testing and risk assessment process, the Firm will evaluate all aspects of your business subject to regulatory legal compliance, including:

- Trading and Transaction Records
- New Account Applications
- Customer Complaints and Arbitration Matters
- Affiliated Persons' and Advisory Personnel Files
- Advertising and Marketing Materials
- Written Policies and Procedures Manuals
- Codes of Ethics and Personal Trading Records
- Registration Records
- Performance and Web-Site Advertising
- Client Disclosure Documents and Privacy Notices
- Testing of Anti-Money Laundering programs, Business Continuity Plans, Regulation S-P controls and Other Compliance Programs
- Client Contracts and Account Files
- Supervisory Compliance Controls
- Bookkeeping Records
- Account Ledgers
- Processes for Evaluating Actual and Potential Conflicts of Interest and Mitigation thereof

Upon completion of the mock examination and/or risk assessment, the Firm will provide an initial finding report that will address any critical legal concerns that may require immediate action. The Firm will then issue a final report, which addresses the annual review process for the investment adviser.

### ***Regulatory Inquiry Responses***

Legal responses to inquiries from the SEC or other regulatory bodies must be prompt, carefully considered and accurate in addressing each issue or deficiency, particularly if allegations of a securities law violation are involved. The Firm understands our clients and knows their businesses. That enables the Firm to provide prompt, effective responses to legal regulatory inquiries and allegations at both the state and federal levels.

Having extensive experience in responding to SEC, FINRA and other official inquiries, the Firm is prepared to respond to issues or claims, including regulatory inquiries related to cycle and sweep examinations, improper trade practice issues, and or other regulatory issues.

### ***Other Investment Advisory Services***

The LeGaye Law Firm also provides the following ongoing counsel and legal support services:

- Transitioning to a new business association (such as an independent RIA)
- Compliance with the Investment Advisers Act of 1940, the Investment Company Act of 1940 and other laws pertaining to investment advisers and their representatives
- Mock SEC examinations and firm risk assessments to address the annual review of the policies and procedures to determine if they continue to work as designed or whether changes are needed to assure their continued effectiveness.
- Responses to regulatory inquiries and investigations
- Review and assessment of client disclosures in Forms ADV, Offering Memorandums, performance marketing materials and RFP responses
- Counsel regarding fiduciary obligations, reporting and recordkeeping requirements, soft dollar arrangements and best execution obligations, use of third-party solicitors and trade allocation and aggregation considerations
- Creation, testing and maintenance of compliance programs
- Customized Codes of Ethics
- Development of Regulation S-P policies (privacy notices) including processes to safeguard confidential client information

### ***Investment Advisory Contracts and Agreements***

The securities and financial industry requires legal contracts be negotiated, agreements drafted and records maintained, both for business and legal regulatory functions. The Firm's extensive experience in investment advisory issues, allows the Firm to bring a

unique mix of industry and regulatory experience, which assists our clients avoid legal and regulatory problems and efficiently implement and manage corporate agreements, contracts and other necessary forms of documentation.

Legal services offered include advice related to the negotiation and drafting of contracts and agreements, a review of proposed or existing contracts, agreements and other documents to ensure compliance with current legal regulatory requirements. The following is a representative summary of some of the various contracts and other legal documents the firm can negotiate, draft, evaluate or revise:

- Investment Advisor Client Contracts
- Sub-Advisory Agreements
- Investment Advisor Independent Contractor Agreements
- Investment Advisor Employee Agreements
- Solicitor's Agreements and Solicitor's Disclosure Document
- Third-Party Service Provider Contracts
- Non-Disclosure Agreements
- Wrap Program Agreements
- Operating Agreements

### ***Written Policies, Procedures & Internal Controls***

The LeGaye Law Firm assists investment advisers in the development of effective written policies, procedures and internal controls that help prevent abuse, detect and mitigate conflicts of interest, reduce client risk and maintain compliance with client protocols and regulatory requirements. This approach helps to define the roles and responsibilities of senior management and supervisors while promoting successful business practices. To accomplish this, ongoing legal counsel and support services may include:

- Creation, review or enhancement of Written Supervisory Procedures (WSPs) or written policies and procedures manual
- Development or review of Code of Ethics manual, including personal trading processes, mistreatment of material non-public information, and counsel on internal trading surveillance programs
- Employee training on new policies and procedures

- Development of Anti-Money Laundering policies and procedures, including an annual independent audit
- Analysis of portfolio management policies and procedures, including oversight of trading activities, allocation of mixed use items for soft dollar arrangements, assessment of investment opportunities and consistency with investor goals, disclosure of best execution practices and review of best execution processes and compliance with SEC recordkeeping requirements
- Evaluation and implementation of recordkeeping and document retention policies
- Review and assessment of privacy policies and procedures regarding safeguards for protecting confidential client information
- Analysis of conflicts of interest processes
- Annual testing of policies, procedures and internal controls, with written assessment upon request

### ***Client Disclosure Documents***

After evaluating existing client disclosure documents, The LeGaye Law Firm can provide a legal assessment of the findings along with recommendations on how to enhance current disclosure documents. Some examples of client disclosure documents the firm can draft, evaluate or revise include:

- Form ADV Part II (the client disclosure brochure)
- Client agreements and new account forms
- Private placement memorandums
- Advertising and sales literature
- Wrap-fee program client documents
- Hedge fund client documents
- Investment policy statements
- Financial plans
- Quarterly performance reports
- Monthly/quarterly invoice statements

### **Corporate Services**

The Firm offers extensive experience in all aspects of entity formation, including the corporate formation (LLCs, S-Corps, etc.) of

the various entities utilized in the financial industry and provide guidance, legal advice and corporate documentation to directors, officers related to the corporate activities of the respective companies.

## **Professional Affiliations**

### **Memberships**

#### ***Dan LeGaye***

Daniel LeGaye is a member of the following:

- American Bar Association
- State Bar of Texas
- Montgomery County Bar Association
- Woodlands Bar Association
- National Society of Compliance Professionals

### **Speakerships**

The LeGaye Law Firm's attorney and professional staff have been frequent speakers for the following organizations:

- SIFMA (Securities Industry and Financial Markets Association)
- NAREIT (National Association of Real Estate Investment Trusts)
- SILA (Securities Industry Licensing Association)
- CIAB (Council of Insurance Agents and Brokers).
- Charles Schwab Institutional
- Mesirow Financial
- RBC Dain
- IMN REIT Conferences
- TD Waterhouse/Ameritrade

## **Business Continuity Plan**

### ***Overview***

Our firm's policy is to respond to a significant business disruption by safeguarding employees' lives and firm property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the firm's books and records, and allowing our clients the ability to access legal services so as to allow for their ability to maintain regulatory compliance and transact business.

**Contact Persons**

In the event of a disruption, our clients are able to contact the professionals of The LeGaye Law Firm at the following phone numbers:

Daniel LeGaye <i>Attorney</i>	Home phone: 281-719-0056 Cell phone: 713-805-4400
Michael Schaps <i>Director Regulatory Compliance</i>	Home Phone: 281-296-7235 Cell phone: 713-294-5589
Debra Schaps <i>Director Administrative Support Services</i>	Home Phone: 281-296-7235 Cell phone: 832-326-7599

**Data Maintenance and Recovery**

Our business continuity plan addresses: data backup and recovery; all mission critical systems; financial and operational assessments; alternative communications with customers, employees, and regulators; alternate physical location of employees; critical supplier, contractor, bank and counter-party impact; regulatory reporting; and assuring our customers prompt access to their consulting and regulatory support.

The LeGaye Law Firm maintains its back-up hard copy books and records at electronically and in paper. Daniel E. LeGaye is responsible for the maintenance of these back-up books and records. Our firm backs up its paper records by copying and taking them to our back-up site.

When you conduct business with our assistance, we take steps to assure that you have paper or electronic copies of everything that you have signed and or obligated yourself to, which results in your having access to essentially the same records as us, should you be unable to contact us during a an emergency situation. Finally, while most business done through us is not time sensitive, every emergency situation poses unique problems based on external factors, such as time of day and the severity of the disruption.