

# Anchin Alert

**Anchin, Block & Anchin LLP**  
**Accountants and Advisors**



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## **2016 SEC & FINRA Exam Priorities**

The Office of Compliance Inspections and Examinations (“OCIE”) of the Securities and Exchange Commission (“SEC”) and the Financial Industry Regulatory Authority (“FINRA”) have released their Exam Priorities for 2016. Each of the regulators have organized their focus around a number of key issues.

The SEC has focused their Exam Priorities around three areas:

1. Matters of importance to retail investors;
2. Market wide risks;
3. Using data analytics to examine registrants that may be engaged in illegal activities.

FINRA issued its 2016 Regulatory and Examination Priorities letter which identified the following broad areas of focus:

1. Culture, Conflicts of Interest and Ethics;
2. Supervision, Risk Management and Controls;
3. Liquidity.

The SEC’s focus remains in a similar direction as it was for 2015. In doing so they have identified a number of key elements for the coming year under each broad area noted above.

1. Matters of importance to retail investors.
  - Focusing on SEC-registered investment advisers and broker-dealers and the services they offer to investors with retirement accounts, which includes examining the reasonable basis for recommendations, conflicts of interest, supervision and compliance controls;
  - Focus on sales strategies, trading practices, and disclosures involving ETFs, including excessive portfolio concentrations;
  - Fee selection and reverse churning;
  - Assessment of the suitability as well as the adequacy of disclosure and the supervision of Variable Annuities;
  - Continued focus on pay-to-play and their key risk areas of public pension advisors.
2. Market wide risk, including structural risks and trends that may involve multiple firms or entire industries.
  - Cybersecurity;
  - Regulatory Systems Compliance and Integrity;
  - Liquidity Controls;
  - Clearing Agencies.
3. Using data analytics to identify signals of potential illegal activities
  - Recidivist Representatives and their Employers;
  - Anti-Money Laundering;
  - Microcap Fraud;
  - Excessive Trading;
  - Product promotion.

FINRA's 2016 Regulatory and Examination Priorities Letter identified both new and recurring items of interest.

1. When it comes to firm culture they noted five indicators that they will be looking to assess:
  - Whether control functions are valued within the organization;
  - Whether policy or control breaches are tolerated;
  - Whether the organization proactively seeks to identify risk and compliance events;
  - Whether supervisors are effective role models of firm culture;
  - Whether sub-cultures (e.g., at a branch office, a trading desk or an investment banking department) that may not conform to overall corporate culture are identified and addressed.
2. Within Supervision, Risk Management and Controls FINRA will focus on four key aspects for 2016
  - Management of conflicts of interest;
  - Technology;
  - Outsourcing;
  - Anti-money laundering.
3. Liquidity
  - Firm funding and a firm's practices to manage funding and liquidity risk.

FINRA's letter also listed numerous other topics that will be on their radar in 2016 including senior citizens and other vulnerable investors, private placements, financial and operations controls and overall market integrity issues.

See below for the links to the SEC & FINRA's 2016 Exam priorities in detail:

<https://www.sec.gov/about/offices/ocie/national-examination-program-priorities-2016.pdf>

<http://www.finra.org/sites/default/files/2016-regulatory-and-examination-priorities-letter.pdf>

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