

Anchin Alert

Anchin, Block & Anchin LLP
Accountants and Advisors



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SEC Examination Priorities for 2014

The Securities and Exchange Commission's (SEC's) Office of Compliance Inspections and Examinations recently published the priorities of its National Exam Program (NEP) for 2014. Under this program, the SEC conducts examinations of registered entities, including broker-dealers, transfer agents, investment advisers, investment companies, the national securities exchanges, clearing agencies, self-regulatory organizations, municipal advisors, and others. The priorities set forth are areas the SEC's staff perceive to have heightened risk.

The NEP's examination priorities address the entire market as well as specific sectors.

Market wide initiatives focus on fraud detection and prevention, corporate governance and enterprise risk management, technology controls, dual registrants, new laws and regulations, and retirement vehicles and rollovers. The SEC indicates they will closely be watching compliance with the new regulations that have been recently adopted including Rule 506(c) under the Securities Act of 1933 which discusses general solicitation practices and certification of accredited investors status, as well as assessing compliance with recently adopted rules by municipal advisors.

Priorities for specific sectors within the financial industry include:

Investment advisers and investment companies –

- Safety of assets and compliance with Custody Rule
- Conflicts of interests with respect to compensation arrangement for the adviser as well as allocation of investment opportunities and risk controls and disclosures especially those with higher risk products targeted to retail investors
- Performance and marketing
- Advisers who have never been previously examined, including new private fund advisers
- Wrap fee programs
- Quantitative trading models
- Payments by advisers and funds to entities that distribute mutual funds

Broker-dealers –

- Sales practices and fraud – focus on sales to elderly investors, micro-cap fraud, pump and dump schemes
- Supervision over independent contractors and registered representatives with disciplinary histories and private securities transactions
- Trading issues, cyber security, market manipulation and excessive markups and markdowns
- Effectiveness of key internal controls functions
- Anti-money laundering programs
- Issues related to the fixed-income market
- Application of Market Access Rule (Rule 15c3-5)
- Suitability of variable annuity buybacks

Market oversight –

- Risk-based examinations of securities exchanges and FINRA
- Perceived control weakness at exchanges
- Pre-launch reviews of new exchange applicants

Transfer agents –

- Timely turnaround of items and transfers, accurate recordkeeping and safeguarding of assets
- Service of micro-cap securities and private offerings, as well as those that are third-party administrators

Clearing agencies designated as systemically important –

- Conduct annual examinations as required by the Dodd-Frank Act
- Pre-launch reviews of new clearing agency applicants

The priorities listed for 2014 are not exhaustive and may be adjusted throughout the year in light of ongoing risk assessment activities.

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