

AN ALERT FROM THE BDO FINANCIAL SERVICES PRACTICE

BROKERAGE INSIGHTS

2017 SEC AND FINRA REGULATORY EXAMINATION PRIORITIES

Earlier this month the SEC and FINRA released their respective examination priorities for 2017— please see a brief overview and link to the releases below.

FINRA

Five Areas of Regulatory Focus

FINRA CEO Robert Cook calls this year's priorities "a focus on core blocking and tackling issues of compliance, supervision and risk management." Here are the highlights.

1. HIGH-RISK BROKERS

Regulators will review how firms hire and supervise brokers with disciplinary records, including branch office inspection practices, the use of unapproved email addresses for business, and client communications via social media, radio, seminars and podcasts.

2. SENIOR INVESTORS

Broker suitability standards will be under scrutiny as regulators look to ensure sound sales practices targeting senior investors, particularly with penny stocks and complex yield-generating products.

3. FINANCIAL RISKS

Liquidity and financial risk management practices and contingency planning will be reviewed as regulators seek to understand if firms are adequately prepared to endure market stresses.

4. OPERATIONAL RISKS

Cybersecurity remains a priority with regulators focusing on how well firms understand and manage sensitive data, prevent data loss, monitor passwords, ensure physical security and maintain books and records.

5. MARKET INTEGRITY

Regulators will focus on surveillance programs targeting trading activity at the open and close, cross-product layering surveillance, best execution, pre- and post-trade market access controls, as well as expand OATs and TRACE reporting programs.

See the full text of the release here:

<http://www.finra.org/industry/2017-regulatory-and-examination-priorities-letter>



BDO'S FINANCIAL SERVICES PRACTICE

BDO's Financial Services Practice provides assurance, tax and advisory services to Broker Dealers asset management entities.

ABOUT BDO USA

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 500 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 67,700 people working out of 1,400 offices across 158 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

© 2017 BDO USA, LLP. All rights reserved.

SEC

The SEC sets sites on Robo-Advisors and FINRA Supervision

The SEC's Office of Compliance Inspections and Examinations (OCIE) selected its 2017 examination priorities by focusing on five thematic areas: examining matters important to retail investors, risks associated with elderly and retiring investors, market wide-risks, FINRA oversight and cybersecurity. While many of these priorities are not new, the SEC will be focusing more on electronic investment advisors ("Robo-Advisors") and oversight of FINRA examination.

1. RETAIL INVESTORS

The SEC will be examining investment advisors who provide advisory services through electronic means with a focus on meeting retail investors' needs, as well as wrap fee programs that provide advisory and brokerage services for a single bundled fee.

2. SENIOR AND RETIREMENT INVESTMENTS

Meeting the needs of senior investors and those preparing to retire is an important expansion of the regulatory examination program. The OCIE will monitor pension advisors and broker-dealers that offer high risk products in the area of variable insurance products to retirement accounts and manage target date funds.

3. MARKET-WIDE RISKS

Regulators will continue their mission of ensuring registrants focus on the integrity of the systems they use by complying with

Regulation SCI and anti-money laundering rules. Money-market fund compliance with SEC amended rules, effective October 2016, is a new addition to this initiative.

4. FINRA

Regulatory inspections of FINRA's operations and regulatory programs will continue. Resources will be directed to access the examinations of individual broker-dealers.

5. CYBERSECURITY

The examination staff will continue to examine investment advisors' and brokers' cyber compliance, in accordance with previous pronouncements, related to a cyber framework with policies, procedures and controls to protect the integrity of information systems.

See the full text of the release here:

<https://www.sec.gov/news/pressrelease/2017-7.html>

For more information,
please contact:

JOHN IACOBELLIS

AICPA Expert Panel Member,
Assurance Partner, New York
212-798-4029 / jiacobellis@bdo.com

NATHAN DICK

Assurance Partner
Los Angeles
310-557-8275 / ndick@bdo.com

CARMINE ANGONE

BDO Consulting Director
New York
212-515-5419 / cangone@bdo.com

NICK MAROULES

Assurance Partner
Chicago
312-730-1332 / nmaroules@bdo.com

KEITH MCGOWAN

Assurance Partner
New York
212-885-8037 / kmcgowan@bdo.com

BHARATH RAMACHANDRAN

Assurance Partner
Boston
617-239-4161 / bramachandran@bdo.com

JOE PACELLO

Tax Partner
New York
212-885-7375 / jpacello@bdo.com