

SEC 2017 exam priorities: Key takeaways

Amid the extensive list of exam priorities for this year, there are several highlights that will require attention from operations personnel



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Far from the White House and the halls of Congress, compliance officers are preparing their compliance plans for 2017. On everyone's mind: What will the Trump administration's commitment to deregulate mean for compliance priorities?

The short answer is "not much," at least for the near-future. To predict what's in store for the immediate future, compliance officers need only to look at the Examination Priorities for 2017 of the National Exam Program (NEP) of the SEC's Office of Compliance Inspections and Examinations (OCIE).

Regulations may come and go, but OCIE will stay focused on these key areas, and OCIE's examination efforts are likely to be insulated from the swirl of political and regulatory intrigue that surrounds them.

Retail investors

Deregulation and politics aside, the world has changed. Whether or not the Department of Labor's Fiduciary Rule goes into effect, robo-advisers and other digital platforms are growing in popularity. As advisers increase these services to their clients, so will OCIE's focus on their compliance programs, marketing formulation of recommendations, as well as operational procedures and data protection.

Similarly, OCIE will focus on whether "wrap fee" programs and exchange-traded funds (ETFs) are suitable for investors and disclosed properly.

Relatively new to the OCIE examination hit list is monitoring for recidivists, that is, employees with a track record of misconduct who are hired by new advisers and brokers.

OCIE also recently announced that it will focus on advisers that provide advisory services from multiple locations. OCIE wants to ensure that these so-called "multi-branch advisers" maintain consistent levels of supervision whenever they provide services away from the home office and, presumably, the compliance hub.

OCIE will also turn its attention towards conflicts of interest when investment advisory personnel, especially dual-registrants, recommend different share classes with different expense structures.

Senior investors and retirement investments

It should come as no surprise that OCIE will continue to focus on the services that investment advisers and broker-dealers provide to investors with retirement accounts. Similarly, OCIE will focus on how firms manage their interactions with senior investors. In particular, they will review how advisers' supervisory programs and controls relate to products and services directed at these elderly investors.

Assessing market-wide risks

The second installment of Money Market Reform regulations became fully effective in October 2016. Accordingly, OCIE will examine how money market funds are complying with the new amendments.

Also new on the priority list is enhanced oversight of FINRA. OCIE will continue to inspect FINRA operations and regulatory programs, and will assess the quality of FINRA's examination of individual broker-dealers.

And, important to note for operations, OCIE expanded its description of how it will focus on Regulation Systems Compliance and Integrity (SCI). For example, this year's priorities mention that OCIE will review, among other things, controls relating to how systems record the time of transactions or events, how they synchronize with other systems, and well as how they collect, analyze and disseminate market data.

Also new is that OCIE will assess enterprise risk management in the broad context of business operations. Particularly, these last few points should prove pertinent for fund operations teams who take part in running these systems and structuring risk management governance.

Conclusion

We expect that the role of compliance departments will continue to grow, even if the pace of new regulations slows, because compliance with existing regulations will become that much more important. ●