



OCIE 2019 Examination Priorities

January 2019

The Securities and Exchange Commission (SEC) announced its Office of Compliance Inspections and Examinations (OCIE) 2019 priorities. The examination priorities are published annually by OCIE to promote transparency of its examination program as well as insights into areas the OCIE believes to be riskier to investors or to the integrity of the U.S. capital markets. In 2019, hedge fund managers, private equity firms and broker-dealers should continue to focus on these priorities when evaluating their own compliance programs. **OCIE intends to focus their 2019 examination priorities to the following six areas:**

1. Matters of importance to retail investors, including seniors and those saving for retirement
2. Compliance and risks in critical market infrastructure
3. Financial Industry Regulatory Authority (FINRA) and Municipal Securities Rulemaking Board (MSRB)
4. Digital assets
5. Cybersecurity
6. Anti-Money laundering programs

The experts at Richey May believe that the following examination priorities are of particular importance to Registered Investment Advisors, managing pooled investment vehicles and separately managed accounts, as well as broker-dealers.

PRIORITY: Protect retail investors, including seniors and those saving for retirement

Areas of focus:

1. **Pursue examinations of firms that provide products directly to this demographic**
2. **Disclosure of the Costs of Investing**
 - Proper disclosure of the costs of investing continue to be an area of focus, including calculation of fees, expenses and other charges investors pay.
 - Examiners will continue to review whether fees and expenses are calculated and charged in accordance with the disclosures provided to the investors and the adequacy of such disclosures.
 - Financial professionals must continue to inform investors of any conflicts of interest that might provide incentives for the financial professionals to recommend certain types of products or services to investors.
The 2019 OCIE examinations will emphasize reviewing policies and procedures related to the following:
 - **Use of affiliated service providers and products** that present conflicts of interests related to portfolio management practices and compensation arrangements
 - Adequate disclosure of risks and conflicts of interests by registrants offering **Securities-based Non-Purpose Loans and Lines of Credit**
 - Adequate and consistent disclosures, including the financial condition of investment advisers **borrowing funds from clients**

3. **Investment Advisers who have elevated risk-profiles will continue to be prioritized for examinations, as well as those who offer products and services to senior citizens and investors with retirement accounts.**
4. **OCIE will continue to conduct risk-based examinations of never-before-examined investment advisers (including newly-registered investment advisers) or not recently examined investment advisers, that may have substantially grown or changed business models.**
5. **In 2019, examinations of Broker-Dealers Entrusted with Customer Assets like cash and securities will focus on compliance with the Customer Protection Rule (Exchange Act Rule 15c3-3) and the procedures and controls to promote such compliance.**
6. **OCIE will continue examinations of broker-dealers involved in selling stocks of companies with a market capitalization of less than \$250 million.**

PRIORITY: FINRA and MSRB

FINRA is the primary regulator of the vast majority of SEC-registered broker-dealers.

Examinations on FINRA will focus on:

- Their operations and regulatory programs
- The quality of FINRA's examinations of broker-dealers and municipal advisors that are also registered as broker-dealers

The MSRB regulates the activities of broker-dealers that buy, sell, and underwrite municipal securities.

Examinations on MSRB will continue to focus on:

- The effectiveness of select operational internal policies, procedures, and controls

PRIORITY: Digital Assets

- Digital assets include cryptocurrencies, coins and tokens
- The SEC will continue to monitor the sale, trading and management of these products, and where the products are securities, examine for regulatory compliance

Examinations will focus on:

- Portfolio management, including pricing of digital assets
- Safety of client funds and assets
- Compliance and internal controls

PRIORITY: Manage Cybersecurity Risks

OCIE will continue to prioritize cybersecurity in each of its five examination programs.

Examinations will continue to focus on:

- Governance and risk assessment
- Access rights and controls
- Data loss prevention
- Vendor management
- Training
- Incident response

PRIORITY: Appropriate Anti-Money Laundering Programs

The Bank Secrecy Act requires broker-dealers to:

- Establish policies and procedures to identify customers
- Perform customer due diligence
- Monitor accounts for suspicious activity
- File Suspicious Activity Reports (SARs) with the Financial Crimes Enforcement Network when suspicious activity is noted

Continue to examine institutions to ensure:

- Entities are implementing all elements of their AML program
- Entities are taking reasonable steps to understand the nature and purpose of customer relationships
- Entities are taking reasonable steps to address risks
- Entities are filing timely, complete, and accurate SARs
- Entities are performing robust, timely and independent tests of their AML programs

To read the SEC's exam priorities in its entirety, visit: <https://www.sec.gov/news/press-release/2018-299>.

As the published priorities are not exhaustive and may change as the year progresses, our Alternative Investment industry experts at Richey May will continue to monitor the SEC for updates. Should you have any questions, please contact **Stephen Vlasak** at svlasak@richeymay.com or visit our website at www.richeymay.com.