



OCIE 2018 Examination Priorities

February 2018

The SEC announced its Office of Compliance Inspections and Examinations' (OCIE) 2018 priorities. Hedge fund managers, private equity firms and broker-dealers should pay attention to these priorities when evaluating their own compliance programs in the coming year. Specific areas in which the OCIE intends to focus their examinations include:

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. Cybersecurity
5. 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 including calculation of fees, expenses and other charges investors pay
 - Financial professionals must 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
 - Examiners will review whether fees and expenses are calculated and charged in accordance with the disclosures provided to the investors
3. **Electronic Investment Advice**
 - Investment advisers and broker-dealers that offer investment advice through automated or digital platforms, including "robo-advisers," will continue to be examined.
 - Examinations will include the oversight of computer program algorithms
4. **Investment Advisers who have elevated risk-profiles will be prioritized for examinations, as well as those who offer products and services to investors with retirement accounts.**
5. **Cryptocurrency, Initial Coin Offerings, Secondary Market Trading, and Blockchain**
 - The SEC will continue to monitor the sale of these products, and where the products are securities, examine for regulatory compliance.

- **Areas of focus:**
 - Financial professionals' maintenance of adequate controls and safeguards to protect the assets
 - Financial professionals providing investors with a risk disclosure, including the risk of:
 - Investment losses
 - Liquidity risks
 - Price volatility
 - Potential fraud

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 focus on:

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

PRIORITY: Manage Cybersecurity Risks

Examinations will focus on:

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

PRIORITY: Appropriate Anti-Money Laundering Programs

Require institutions to:

- Establish written programs 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

Examine institutions to ensure:

- The above requirements are being met
- 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, please visit:

<https://www.sec.gov/about/offices/ocie/national-examination-program-priorities-2018.pdf>

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.