

# **Bond Case Briefs**

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## **FINRA Regulatory, Exam Priorities for 2014 Include Risky Munis, MAs.**

WASHINGTON — The Financial Industry Regulatory Authority has identified the suitability of the bonds of distressed municipalities for investors, as well as municipal advisor activity, as areas it will focus on in 2014.

FINRA on Thursday published its annual report on its regulatory and examination priorities, which it said lists the primary drivers of its activities for this year.

The self-regulator's 11-page open letter to its dealer-members focuses heavily on suitability, including the suitability of risky munis for retail investors. Municipal securities rules require a dealer to make an effort to confirm that a financial product is suitable for a customer. FINRA expressed some concern about the exposure to rising interest rates of debt of distressed municipalities, such as Detroit.

"FINRA examiners will especially focus on accounts with concentrations in interest rate sensitive securities and disclosures or omissions of material facts when these products are recommended," FINRA said in the letter.

As interest rates rise, the letter continues, municipalities may be forced to roll over their retiring debt that was issued at historically low rates and issue new debt at the higher rates.

"These incremental factors could exacerbate financial distress in municipalities already straining under the burden of falling tax receipts," FINRA's letter warned. "Most at risk would be those issuers with significant debt maturing in the near-to-mid-term, unrated issuers, and those with less capital and liquidity to absorb the additional expense."

The authority will also focus on something new in 2014 when it looks at MA activity.

The Securities and Exchange Commission finalized its MA registration rule in September, and also made FINRA responsible for monitoring and enforcing the rules of advisors who are already regulated as broker-dealers by FINRA. The final rules become effective Jan. 13. The Municipal Securities Rulemaking Board is working on rules, including a muni-specific fiduciary duty rule. MAs are already subject to the fair dealing rule and have a fiduciary duty to put clients' interests first. They also must be registered with the SEC.

In addition, FINRA said it would be expanding a program aimed at checking "recidivist brokers" who have displayed a pattern of behavior that could "harm investors as well as the reputation of the securities industry and financial markets." Examiners will look at firms' due diligence in hiring practices, and focus closely on the accounts of these "high risk" brokers, FINRA said.

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