

# **Bond Case Briefs**

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## **OCIE Announces Examination Priorities for 2020, Emphasizing Emerging Trends, Technologies, and Compliance with New Regulation Best Interest.**

On Monday, January 7, 2020, the Office of Compliance Inspections and Examinations (OCIE), the audit and examination arm of the U.S. Securities and Exchange Commission (SEC), announced its examination priorities for 2020, which include an emphasis on evolving financial technologies and innovative investment instruments. OCIE will also work with registrants to help them comply with new Regulation Best Interest (Reg BI), [click here to read more](#). The announced priorities are summarized below.

### **Protection of Retail Investors**

OCIE's number one priority, as it has been in past years, is to protect retail investors. Broker-dealers trading in microcap securities (companies with a market capitalization less than \$250 million) in particular will continue to face intense scrutiny of their compliance and supervision practices, including compliance with Section 5, Reg SHO "locate" requirement, and Rule 15c-211; registered representative hiring practices; and implementation of proper procedures and follow-through for required SAR filings. In 2020, OCIE has indicated interest in a few new areas:

- Reg BI, which becomes effective June 30, 2020, requires all registrants to act in the best interests of their clients when recommending an investment. OCIE has established an Inter-Division Standards of Conduct Implementation Committee to assist registrants in understanding and complying with this new standard. Registrants can send questions to [IABDQuestions@sec.gov](mailto:IABDQuestions@sec.gov).
- Broker-dealers trading in municipal securities and corporate bonds will face particular scrutiny for compliance with best execution and fairness of pricing requirements in addition to a thorough review of their trading and risk management practices, including trading in "odd lots" (orders under 100 shares) and use of internal procedures, practices, and controls to manage both human error and risks associated with computer code and trading algorithms.
- OCIE plans to closely examine certain RIA relationships with mutual funds and exchange-traded funds (ETFs) (including RIAs that use third-party administrators to sponsor mutual funds that they advise or are affiliated with and mutual funds or ETFs that have not previously been examined) and private funds that provide management to separate accounts along with other private funds.

### **Information Security**

For 2020, OCIE will specifically inspect network storage devices, third-party vendors, and cloud-based storage and review the firm's internal policies and governance practices respecting information and data security.

### **Financial Technology**

The OCIE acknowledges the rapid innovation in financial technology in 2020 and its intention to stay apprised of new developments and their impact on investors. OCIE continues to be concerned with

digital assets like Bitcoin and other digital- or blockchain-based assets. OCIE will observe RIA policies and practices surrounding “robo-advisers,” or automated tools used to recommend investments to clients. OCIE will examine the configuration of, and internal procedures and practices related to, algorithmic trading by broker-dealers.

### **Anti-Money Laundering**

While AML compliance has always been a significant component of OCIE examinations, examiners will place particular importance on a firm’s compliance with the AML programming requirements of the Bank Secrecy Act, specifically including how it identifies customers, monitors for suspicious activity, performs due diligence, and conducts independent tests of its own AML programs. In addition, OCIE will continue to examine whether broker-dealers and other registrants are filing suspicious activity reports (SARs) when required.

### **Market Infrastructure, FINRA, and MSRB**

As in past years, OCIE will conduct examinations of registrants that are critical to market infrastructure, including SEC SIFMU clearing agencies, FINRA, and MSRB, and will review their respective policies, procedures, and controls.

Contact the experts on Michael Best’s Securities and Capital Markets team for more information about broker-dealer and registered investment adviser compliance with securities laws, preparation for OCIE examinations, and understanding and compliance with new Reg BI.

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