Agenda

CEFLI Compliance & Ethics Committee Meeting
Wednesday, January 15, 2020
2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Dial In: (800) 239-9838
Passcode: 3646069

I. Welcome and Introduction. — **Donald J. Walters**

A. Antitrust Statement.

II. Approval of Minutes – December 11, 2019 Meeting. — **The Committee**

III. Welcome - Carla Strauch – VP – Compliance & Ethics. — **Donald J. Walters**

IV. Issues for Review. — **The Committee**

A. Investigations of Contested Claims.

Life insurance companies receive claims to receive applicable benefits on life insurance products. In some instances, a request to receive benefits for a claim may be denied by the life insurance company. There are many reasons why a life insurance company may "contest" a claim including, but not limited to, failure to pay premiums, unusual circumstances (e.g., suicide), fraud or misrepresentation.

When these situations arise, life insurance companies will often conduct investigations of the circumstances underlying the claim.

Life insurance companies employ a variety of different practices with respect to the investigation of contested claims. In some cases, these investigations are handled by an in-house investigation team under the company's claims, legal, SIU, compliance or other departments or a life insurance company may enter into a contract with a private investigation firm to conduct these types of activities on behalf of the life insurance company.

Accordingly, questions have been presented concerning practices in this area including:

- *Does your company maintain an in-house investigative team to investigate contested claims?*

- *If so, are these investigation teams centralized in one geographic area or are they geographically dispersed throughout the US in states in which the company is authorized to conduct business?*

The Committee will be asked to discuss their company's practices with respect to investigating contested claims.

B. SECURE Act - Stretch Provision.

On December 20, 2019, President Trump signed into law the Secure (Setting Every Community Up for Retirement Enhancement) Act. Among its provisions were several changes to retirement planning accounts.

Under prior law, an individual could inherit an IRA or 401(k) and could extend Required Minimum Distributions (RMD's) over the individual's lifetime to minimize the taxation of distributions received from the account. These types of accounts were often referred to as "stretch IRAs" or "stretch 401(k)s" because these distributions could be "stretched" over the life of the beneficiary.

Under the SECURE Act, however, an individual who inherits an IRA or 401(k) after December 31, 2019 would have to receive all money left in the account within a 10-year timeframe.

In light of the passage of the SECURE Act, a question has been presented concerning whether life insurance companies may prohibit Qualified Immediate Annuities from having guarantee periods exceeding 10 years.

The Committee will be asked to discuss whether the passage of the SECURE Act has changed their company's plans with respect to product design elements such as prohibiting Qualified Immediate Annuities from having guarantee periods exceeding 10 years.

C. Fraudulent Activities - Producers Impersonating Customers.

Life insurance companies are subject to a variety of techniques used by individuals to conduct fraudulent activities. Unfortunately, some companies are now encountering fraudulent activities perpetrated by producers who try to impersonate customers as a means to transact fraudulent business.

These cases involve active producers, inactive producers, producers of record and producers unaffiliated with the customer's product. These producers have some or all of the customer's personal information necessary to gain access to their accounts to conduct fraudulent business activities.

The company is interested in determining whether other insurers are experiencing these types of activities and whether it may portend a trend in fraudulent activities. They would also be interested in determining what steps companies may be taking to address these types of fraudulent activities.

The Committee will be asked to discuss whether their companies have been experiencing fraudulent activities in which a producer attempts to impersonate a customer to gain access to their account to conduct fraudulent transactions.

D. Fraudulent Activities - Irish Travelers.

Unfortunately, the life insurance industry continues to be subject to fraudulent business activities perpetrated by the Irish Travelers group. It appears that they have become more active once again.

We have identified this issue in prior Committee meetings and CEFLI has conducted presentations at its Annual Conference concerning these practices.

Given that there appears to be a rise in these activities for some insurers, several questions have been presented for consideration by the Committee including:

- *What measures has your company taken to identify life or annuity applications coming from individuals associated with the Irish Travelers group?*

- *Knowing the Irish Travelers group's tendency for life insurance sales to be potentially fraudulent (e.g., random group members paying policy premiums, questionable relationships between owners and beneficiaries and questionable sources of income), what steps is your company taking, if any, to inform your producer sales force of these types of fraudulent activities?*

- *Has your company implemented any additional supervision and monitoring of agents or broker-dealers who may have a history of writing policies/contracts on individuals associated with the Irish Travelers group?*

The Committee will be asked to discuss their experiences in receiving fraudulent applications for life insurance policies or annuity contracts from individuals associated with the Irish Travelers group and, if so, what steps they may be taking to curtail these types of fraudulent activities.

E. Market Conduct Trends - Interest Rate Environment - Surrender Charges.

It has been reported that several states are conducting heightened oversight of surrender charges associated with annuity products in a lower interest rate environment.

Specifically, during recent market conduct activities examiners with certain states (MN and CA) have indicated that they find surrender charges with "high" interest rates in today's lower interest rate environment to be "per se" unsuitable or inappropriate.

The Committee will be asked to discuss whether they have observed that examiners in selected state insurance departments may have become more aggressive in their oversight of interest rates associated with surrender charges in today's lower interest rate environment.

F. State of Readiness - NYDFS Regulation 187 - Life Insurance Compliance - Key Issues and Decisions.

New York's Regulation 187 is scheduled to become effective for life insurance products on February 1.

Over the past several months, companies have been exploring various strategies to comply with the life insurance requirements of Regulation 187.

Now that we are approaching the February 1 effective date, we would like to explore any outstanding issues companies may be attempting to resolve in order to comply with Regulation 187's requirements.

Companies have been examining several issues including:

- *Whether to include additional questions on the life insurance policy application to gather information to conduct a best interest/suitability analysis?*
- *Whether to create a separate form to gather information to conduct a best interest/suitability analysis?*
- *Will an insurer's underwriting standards be considered as part of a suitability analysis for life insurance products?*
- *Where will the suitability analysis for life insurance products take place within a life insurance company (e.g., compliance, underwriting, etc.)?*

The Committee will be asked to discuss their state of readiness with respect to developing appropriate policies and procedures to comply with the February 1, 2020 compliance date for life insurance products with respect to NYDFS Regulation 187.

V. Reporting Items. **CEFLI Staff.**

A. FINRA and SEC Release 2020 Examination Priorities.

FINRA and the SEC recently released their 2020 Examination Priorities Letters. (See copies attached.)

In FINRA's Risk Monitoring and Examination Priorities Letter, FINRA confirms it will be examining firms to determine compliance with the SEC's Regulation Best Interest. Also, FINRA indicated that it will focus on communications to retail investors including the use of different electronic communication channels (i.e., texting and social media). As in past years, variable annuities are listed as an area of focus for FINRA examinations in 2020.

The SEC Priorities Letter begins by placing emphasis on the importance of compliance and emphasizes that compliance programs, Chief Compliance Officers and other compliance staff play a critical role at their firms. The SEC has indicated that they will be evaluating compliance on several different factors including: (1) whether compliance is "actively engaged" in a firm's operations; (2) whether the Chief Compliance Officer is knowledgeable and empowered with "full responsibility, authority and resources" to develop and enforce policies and procedures; and (3) whether the firm has a commitment from top executives who establish a "tone at the top that compliance is integral to the organization's success."

B. SEC Publishes Frequently Asked Questions on Regulation Best Interest Compliance.

The staff of the SEC's Division of Trading and Markets has published a series of responses to Frequently Asked Questions regarding compliance with Regulation Best Interest.

The Frequently Asked Questions can be found through the following link:

https://www.sec.gov/tm/faq-regulation-best-interest

The SEC has indicated that they will be providing additional updates in response to additional questions received in the future.

C. FINRA Announces Consolidation of Broker Exam Functions into One Program.

FINRA recently announced consolidation of several broker exam functions into one singular program. The effort is designed to streamline examinations of 3600 broker-dealers and 630,000 registered representatives within its jurisdiction.

The consolidation will bring FINRA's business conduct, financial reporting and training compliance exam programs under a single framework.

D. Passage of SECURE Act.

As noted previously in our Agenda, President Trump recently signed into law the SECURE Act which will institute various changes in retirement planning initiatives for individuals.

Among its key provisions includes:

- Annuities may now be offered in 401(k) plans;
- Increasing the required minimum distribution and contribution ages for IRAs and 401(k)s from 70 ½ to 72;
- Eliminating "stretch" IRAs; and
- Providing tax credits for employers that automatically enroll their employees in retirement plans.

E. Massachusetts Fiduciary Proposal.

Massachusetts Secretary of the Commonwealth, William Galvin, continues to move forward with Massachusetts' Fiduciary Conduct Standard Proposal (the "Proposal").

Several industry organizations submitted comments on the Proposal in anticipation of a public hearing that took place on January 7.

CEFLI will continue to monitor further developments with regard to the Proposal.

F. NAIC Life Insurance and Annuities (A) Committee Approves Revisions to the NAIC Suitability in Annuity Transactions Model Regulation.

On December 30, the NAIC Life Insurance and Annuities (A) Committee approved final revisions to the NAIC Suitability in Annuity Transactions Model Regulation. (See copy attached.)

The Model Regulation revisions must be approved by the NAIC's Executive/Plenary Committees to be formally adopted by the NAIC.

It is uncertain as to whether the Executive/Plenary Committee may meet via conference call prior to the NAIC Spring National Meeting on March 20-24.

CEFLI will continue to monitor further developments concerning revisions to the NAIC Suitability in Annuity Transactions Model Regulation.

V. CEFLI Activities.

A. Call for Volunteers - CEFLI Webinars and Events.

CEFLI conducts a variety of different informative webinars and in-person events over the course of the year.

We are always open to identifying those individuals who may be seeking a public speaking opportunity to share their knowledge and expertise with respect to specific compliance matters.

Anyone interested in participating in these opportunities should contact Don Walters or Carla Strauch at CEFLI for more information.

B. CEFLI Advisory Committee Meeting - Thursday, January 23.

CEFLI will be conducting the next meeting of its Advisory Committee on Thursday, January 23 from 10 AM-3 PM EST.

CEFLI's Advisory Committee is comprised of representatives from the NAIC, FINRA, SEC, NAIFA and AARP as well as representatives of several CEFLI Affiliate Member organizations.

Premier Partner companies are entitled to participate in meetings of CEFLI's Advisory Committee either in person or via conference call.

Please let us know if there may be any issues you would like us to present for discussion at the next meeting of CEFLI's Advisory Committee.

C. Compliance Resources Webinar - Tuesday, January 28 - 1 PM EST.

CEFLI will be conducting the next session in its Educational Webinar Series to review Compliance Resources available to all CEFLI member companies.

This session is designed to allow members of your staff to gain a thorough understanding of the resources available to all staff members through your company's CEFLI membership.

We hope you will be able to join us!

VI. Next Meeting.

The next meeting of the Committee is scheduled to take place:

Wednesday, February 12, 2020 - 2 PM EST/1 PM CST/12 Noon MST/11 AM PST

Please mark your calendar and plan to join us!

The remaining Committee meeting dates for 2020 will be as follows:

Wednesday, March 18, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, April 15, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, May 13, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, June 17, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, July 22, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, August 19, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, September 16, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, October 14, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, November 12, 2020 - 2 PM EST/1 PM CST/12 Noon MST/11 AM PST
Wednesday, December 16, 2020 - 2 PM EST/1 PM CST/12 Noon MST/11 AM PST

VII. Other Business.

The Committee will be asked to identify and discuss any other business to be brought before the Committee.

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Minutes
Meeting of the
CEFLI Compliance & Ethics Committee
December 11, 2019

A meeting of the CEFLI Compliance & Ethics Committee (the "Committee") was held via conference call on Wednesday, December 11, 2019 at 2 PM EDT/1 PM CDT/11 AM PDT.

The following CEFLI member company representatives participated in the meeting:

Angela Acker-Fisher, Securian Financial
Dwain Akins, American National
Marcie Allen, Texas Life Insurance Company
Jenna Austin, Guggenheim Life
Chad Batterson, Athene USA
Kate Blalock, Western & Southern
Laurie Blue, Amica Life
Diane Boyette, Southern Farm Bureau
Donna Brown, Lombard International
Nancy Campbell, Symetra Life Insurance Company
Andrea Christensen, Sagicor Life
Jacquie Crader, CUNA Mutual
John Cunningham, Fidelity Investments Life
Kathy Deputy, State Farm Life
Bruce Eshbach, Texas Life Insurance Company
Lynn Espeland, Woodmen of the World
Michele Kulish Danielson, American Enterprise
Jill Fiddler, Assurity Life
Patrick Garcy, Sagicor Life
Geoff Gentilucci, Legal and General America
Paula Gentry, Cincinnati Life
Mark Gill, Southern Farm Bureau
Jim Golembiewski, Sagicor Life
Brooks Graves, Southern Farm Bureau
Teaghan Grayson, Knights of Columbus
Hunter Hawkins, Southern Farm Bureau
John Hite, Securian Financial
Michelle Holmes, Voya Financial
Nathan Huss, Sammons
Martin Karp, Oxford Life

De Keimach, Delaware Life
Jennifer Knabe, Ohio National
Nate Kolle, Securian Financial
Marla Lacey, Homesteaders Life
Mark Lasswell, RiverSource
Brian Leary, Fidelity Investments Life
Dan Leblanc, SBLI MA
Kathy Mangum, Southern Farm Bureau
Ryan Meeham, Ameriprise
Morgan Milner, Modern Woodmen of America
Matt Missik, Pacific Life
Mark Neidinger, National Guardian Life
Andrea Nelson, Thrivent
Jim Odland, Thrivent
Sabrina Olender, Foresters
Liza Perry, USAA Life
Megan Phillips, Principal Life
Tony Poole, AAA Life
Sandy Ray, Symetra Life Insurance Company
Sheana Roginski, Cincinnati Life
Michelle Ross, Lombard International
Sally Roudebush, Lincoln Heritage
Heather Russo, Illinois Mutual
Rania Sarkis, Pacific Life
John Sarris, Southern Farm Bureau
Steve Schneider, State Farm
Michael Schwallie, Ohio National
Jeremy Singer, Cincinnati Life
Wayne Smiley, TIAA
Leslie Smith, Southern Farm Bureau
Alison Soderberg, Lombard International
Cindy Stubblefield, Cincinnati Life
Pamela Telfer, Lincoln Financial
Bill Turner, American Fidelity Assurance
Laura Van Laningham, Illinois Mutual
Bart Vitou, Jackson National
Elizabeth Washington, Southern Farm Bureau
Jaime Waters, Equitrust Life
Tracy Whitaker, Homesteaders Life
Stacey White, American National

I. Welcome and Introduction.

The meeting began with a recitation of CEFLI's anti-trust statement.

II. Approval of Minutes – November 13, 2019.

On motion, duly made and seconded and unanimously carried, the Committee: RESOLVED, that, the Minutes of the November 13, 2019 meeting are hereby approved.

III. Issues for Review.

A. A. California Policy Form Filing Requirements - Questions Related to Citizenship/Residency

In recent policy form filings with the California Department of Insurance, it has been reported that the Department raised objections to questions on application forms that sought information concerning the applicant's citizenship/residency.

A request seeking clarification of the application of the California Insurance Code sections §§ 10140 and 10142 was submitted to the General Counsel of the California Department of Insurance, by ACLHIC, noting life insurance companies maintain an interest in determining the citizenship/residency of applicants for life insurance and annuity products for identification purposes and also as a means to comply with other legal requirements such as the USA Patriot Act, Bank Secrecy Act and OFAC.

The Committee was asked to share recent company experiences regarding California Department of Insurance policy form filings containing application questions concerning an applicant's citizenship/residency and, to the extent such companies received feedback from the California Department of Insurance, whether such companies subsequently modified their policy forms to comply with the feedback received.

Several Committee members shared their filing challenges in this area. In many cases, the California Department of Insurance noted such questions were discriminatory. In some cases, Committee members were successful in obtaining approval of their forms. In other cases, Committee members continued to struggle with obtaining approval of forms containing citizenship/residency questions.

One Committee member noted they resolved their disapproval by revising the application question to read similar to: "Are you a resident o*r have you been granted citizen residence*…"

B. Conversions - Replacements.

The NAIC Life Insurance and Annuities Replacement Model Regulation offers exemptions from its requirements when a contractual change or a conversion privilege is being exercised.

The Committee was asked to discuss their company's strategy with respect to whether the exercise of a conversion privilege constitutes a replacement transaction under their company's policies and procedures.

One Committee member noted it was their position that a financed purchase would constitute a 'replacement' situation, even in the case of a contractual conversion.

Another Committee member noted a distinction between whether the source contract and the new contract were with the same carrier.

A Committee member posed a question to the group regarding situations when a contract is owned by another person but is used to fund a conversion policy insuring a different life. It was noted that a regulator could view such situations to constitute a replacement.

In summary, more complex cases may be viewed as replacements by regulators. However, such determinations would likely depend on the unique facts of each case.

C. Permitting Producers to Accept Applications via WebEx, Skype or Other Electronic Media.

As technology becomes more pervasive throughout the society, life insurance companies are exploring ways to allow their producers to accept life insurance and annuity product applications through the use of various electronic media such as WebEx, Skype or FaceTime. Given the fact evolving developments may present unique compliance concerns, the Committee was asked to share its practices in this area.

One Committee Member noted a policy had been considered and drafted, but not implemented. Generally, the member company would require the owner to be a resident of the state (of application) at the time the application was taken.

The consensus was that a minority of companies permit electronic platforms to accept applications. Several insurers recognized related issues including Know Your Customer (KYC) requirements. It was noted the issue may be more complex with regard to applications from new customers vs. applications from existing customers.

D. Use of CFP Designation by Advisers Who Sell Insurance Products.

The Committee discussed company practices with respect to allowing/prohibiting insurance producers from using the Certified Financial Planner ("CFP") designation when selling insurance products.

A few Committee members indicated they allow the use of the CFP designation when the required disclosure, as outlined on the CFP's website, is also used.

E. NYDFS Regulation 187 - Life Insurance Compliance - Key Issues and Decisions.

The Committee discussed various strategies insurers planned to implement to comply with the life insurance requirements of New York Regulation 187.

One Committee member noted their effort to create a separate suitability form (the member company does not sell annuity products) for use with the sale of life insurance in New York. The carrier is in the process of determining its review processes which will involve staff from the company's replacement team given the fact such staff already have suitability-related experience.

Another Committee member noted their plan will utilize life new business case managers, many of whom also handle NY Regulation 60 requirements, for NY Regulation 187 transaction views.

One insurer indicated a plan to utilize annuity principals to conduct life insurance reviews, in coordination with underwriting staff, as appropriate.

IV. Reporting Items.

A. Revisions to the NAIC Suitability in Annuity Transactions Model Regulation.

The NAIC met for its Fall National Meeting in Austin, Texas on December 6-10.

During the Fall National Meeting, the NAIC Life Insurance and Annuities (A) Committee met to review comments submitted on the November 5 draft of proposed revisions to the NAIC Suitability in Annuity Transactions Model Regulation. A revised version of the Model Regulation, dated 12/8/19, was issued by the NAIC.

B. NAIC Fall National Meeting.

The NAIC conducted its Fall National Meeting in Austin, Texas on December 6-10.

1.) Annuity Suitability (A) Working Group.

The Annuity Suitability Working Group had a brief meeting but did not carry out further drafting work during the meeting.

The Working Group will conduct a call on December 19th from 1:00 EDT to 3:00 EDT for the purpose of finalizing the templates within the Model Regulation. This includes Appendix A (Producer Relationship Disclosure Form) and Appendix B (Consumer Refusal to Disclose All or Partial Consumer Profile Information Form) of the Model. Aside from the work on the appendices, changes to other text within the draft Model Regulation are not anticipated. On Monday, December 30th at 2:00 EDT, the Life Insurance and Annuities (A) Committee will conduct a call to consider adoption of the revised Model Regulation.

During the Committee's call, it was noted there is some urgency due to the fact certain states must enact the revised suitability Model Regulation as a law through the state's legislature. Many state legislatures are back in session immediately following the first of the year. Other states are able to adopt updates to the Model Regulation by regulation.

2.) Privacy Protections (D) Working Group

During the Committee's call, it was noted Cynthia Amann, Missouri, will lead the Privacy Protections (D) Working Group's efforts to understand the information collected from consumers and will lead the Working Group's efforts to also collaborate with other Working Groups and Committees having similar privacy interests, while also recognizing California Privacy Act and GDPR issues.

3.) Accelerated Underwriting (A) Working Group

The Working Group meeting featured a presentation on the subject of data analytics conducted by Professor Patrick Brockett of the University of Texas at Austin. Professor Brockett shared some of the unique issues associated with the use of data analytics, including the potential for some bias within the algorithms used.

The Working Group is currently carrying out Phase I of its efforts -- information gathering. The Group will conduct another call in January.

4.) Officer Elections

During the NAIC National Meeting, the following officers were elected for 2020:

- President: South Carolina Insurance Director Raymond Farmer
- President-Elect: Florida Insurance Commissioner David Altmaier

- Vice President: Idaho Insurance Director, Dean Cameron
- Secretary-Treasurer: Missouri Insurance Director Chlora Lindley-Myers

C. Massachusetts - Proposed Fiduciary Rule.

During the Committee call, it was noted the Secretary of the Commonwealth of Massachusetts, William Galvin, is proposing a fiduciary standard of care applicable to broker-dealer representatives and investment advisers when offering recommendations to customers due to the state's view that the SEC's Regulation Best Interest fails to provide investors with the protections they need against conflicts of interest.

Massachusetts now joins New Jersey and Nevada in pursuing fiduciary rules which may be in conflict with SEC Regulation Best Interest requirements, increasing tensions between the state securities departments and the SEC. CEFLI will continue to monitor for new developments in this area.

V. CEFLI Activities.

A. 2019 CEFLI Summit Meeting - The Future of Sales Standards in the Life Insurance Industry - November 20-21, 2019 - Washington, DC.

CEFLI conducted its 2019 CEFLI Summit Meeting to explore *The Future of Sales Standards in the Life Insurance Industry* at the Fairmont Hotel in Washington, DC on November 20-21.

The Summit featured several sessions with various regulators serving as faculty, including state regulators working on the NAIC Suitability in Annuity Transactions Model Regulation. The Model Regulation seeks to go beyond suitability but does not rise to a fiduciary standard. The Model Regulation also seeks to harmonize with SEC Regulation Best Interest.

During the annuity suitability presentation, state regulators noted some insurers' practices of delivering the suitability report to senior management orally. The current draft Model language seeks to require the annual report be delivered in written form. The regulators also referenced the need for producers to inform consumers of the producer's role, consistent with the disclosure template in the appendix of the Regulation.

Committee members were informed of FINRA's plan to begin evaluating broker-dealer readiness for SEC Regulation Best Interest even though the regulation is not effective until June 30, 2020.

During the Summit Meeting, one panel included Department of Labor (DOL) faculty members who discussed the DOL's efforts to develop a new fiduciary

rule. The rule is expected to be released in December 2019 or very early in 2020.

It was also shared that while the NYDFS had been working on FAQs regarding NY Regulation 187 requirements, James Regalbutto's recent departure from the NYDFS could lead to further delays in the finalization and publication the FAQ document.

B. End of Year Webinar - Friday, December 20 - 1 PM EST/12 Noon CST/11 AM MST/10 AM PST.

The Committee was informed that CEFLI will conduct the next webinar in its Educational Webinar Series on Friday, December 20 at 1 PM EST/12 Noon CST/11 AM MST/10 AM PST. The webinar will examine the key compliance issues faced by the life insurance industry in 2019 with a view toward identifying anticipated compliance issues in 2020.

Faculty members for the webinar will include former Iowa Commissioner and NAIC President, Susan Voss; former Ohio Director, Mary Jo Hudson and former Assistant Director of the Ohio Department of Insurance, Sue Stead.

VI. Next Meeting.

The Committee will hold its first meeting in 2020 on:

Wednesday, January 15, 2020 - 2 PM EST/1 PM CST/12 Noon MST/11 AM PST

If you would like to receive calendar invitations for future Committee meetings, please contact Nancy Perez at NancyPerez@CEFLI.org.

Additional planned 2020 Committee meetings include:

Wednesday, February 12, 2020 - 2 PM EST/1 PM CST/12 Noon MST/11 AM PST
Wednesday, March 18, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
Wednesday, April 15, 2020 - 2 PM EDT/1 PM CDT/12 Noon MDT/11 AM PDT
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Wednesday, December 16, 2020 - 2 PM EST/1 PM CST/12 Noon MST/11 AM PST

VII. Other Business.

There being no additional business the meeting was adjourned.

2020 Risk Monitoring and Examination Priorities Letter

January 2020

Topics

Introduction

This 2020 Risk Monitoring and Examination Priorities Letter describes the areas of focus for FINRA's risk monitoring, surveillance and examination programs in the coming year. Continuing the approach we started in 2019, the letter addresses new and emerging areas in greater depth, and ongoing priorities with shorter summaries. (Information on the latter is available in previous annual priorities letters.)

In addition, we recognize the significant efforts that firms make to comply with federal securities laws and regulations, as well as FINRA rules. To support firms in this important endeavor, the letter includes a list of practical considerations and questions for each of the highlighted topics, which firms may use to evaluate the state of their compliance, supervisory and risk management programs. These considerations are not all-inclusive, may not apply to all firms, and should not be read to create obligations beyond those in federal securities laws and regulations and FINRA rules.

We also encourage firms to avail themselves of the resources offered in the endnotes and the appendix to refresh their understanding of their fundamental compliance obligations.

Sales Practice and Supervision

Introduction

FINRA will continue to evaluate firms' compliance with sales practice obligations to their customers—as well as the supervision of those practices—in areas that we have discussed frequently in previous annual priorities letters, exam findings reports (Reports) and other FINRA publications. These areas of focus include complex products,[1] variable annuities,[2] private placements,[3] fixed income mark-up/mark-down disclosures,[4] representatives acting in certain positions of trust or authority[5] and senior investors.[6] In addition to these topics, FINRA will review firms' compliance with obligations related to several new or emerging areas discussed below.

Regulation Best Interest (Reg BI) and Form CRS

On June 5, 2019, the U.S. Securities and Exchange Commission (SEC) adopted Reg BI, which establishes a "best interest" standard of conduct for broker-dealers and associated persons when they make a recommendation to a retail customer

of any securities transaction or investment strategy involving securities, including recommendations of types of accounts. As part of the rulemaking package, the SEC also adopted new rules and forms to require broker-dealers to provide a brief relationship summary—Form CRS—to retail investors. Firms must comply with Reg BI and Form CRS by June 30, 2020.

In the first part of the year, FINRA will review firms' preparedness for Reg BI to gain an understanding of implementation challenges they face and, after the compliance date, will examine firms' compliance with Reg BI, Form CRS and related SEC guidance and interpretations.[7] FINRA staff expects to work with SEC staff to ensure consistency in examining broker-dealers and their associated persons for compliance with Reg BI and Form CRS.

FINRA may take the following factors, among others,[8] into consideration when reviewing for compliance with Reg BI after June 30, 2020:

- Does your firm have procedures and training in place to assess recommendations using a best interest standard?
- Do your firm and your associated persons apply a best interest standard to recommendations of types of accounts?
- If your firm and your associated persons agree to provide account monitoring, do you apply the best interest standard to both explicit and implicit hold recommendations?
- Do your firm and your associated persons consider the express new elements of care, skill and costs when making recommendations to retail customers?
- Do your firm and your associated persons consider reasonably available alternatives to the recommendation?
- Do your firm and your registered representatives guard against excessive trading, irrespective of whether the broker-dealer or associated person "controls" the account?
- Does your firm have policies and procedures to provide the disclosures required by Reg BI?
- Does your firm have policies and procedures to identify and address conflicts of interest?
- Does your firm have policies and procedures in place regarding the filing, updating and delivery of Form CRS?

Communications with the Public

FINRA will continue to assess firms' compliance with obligations relating to FINRA Rule 2210 (Communications with the Public), as well as related supervisory and recordkeeping requirements set forth in FINRA Rule 3110(b)(4) (Supervision), FINRA Rule Series 4510 (Books and Records Requirements) and Securities Exchange Act of 1934 (Exchange Act) Rules 17a-3 and 17a-4 (Books and Records Requirements).

In addition to ongoing reviews for compliance with these core obligations, FINRA will also focus on the following two areas:

- **Private Placement Retail Communications** – FINRA will review how firms review, approve, supervise and distribute retail communications regarding private placement securities via online distribution platforms[9], as well as traditional channels.

  When reviewing a firm's communication materials, FINRA may consider the following:

  - Do they omit material information necessary to make the communications fair and not misleading by failing to, for example, explain that private placements may involve a high degree of risk, are not liquid and that investors may lose money?
  - Do they balance promotional content with the key risks specific to the issuer offered?
  - Do they contain false, misleading or promissory statements or claims, such as the likelihood of a future public offering of the issuer, claims about the future success of the issuer's new or untried business model, or inaccurate or misleading assertions concerning the regulation or relative risk of the offering?
  - When forecasting issuer metrics, such as revenue, are the presentations reasonable and accompanied by clear explanations of both the assumptions used to create the forecasts and the risks that might impede achievement of such forecasts?
  - Do they contain predictions or projections of investment performance to investors that are generally prohibited by FINRA Rule 2210(d)(1)(F) (Communications with the Public), unless they meet the stated criteria in the rule?

- **Communications via Digital Channels** – Firms', registered representatives' and customers' use of an increasingly broad array of digital communication channels (*e.g.,* texting, messaging, social media or collaboration applications) may pose challenges to firms' ability to comply with obligations related to the review and retention of such communications.

  FINRA may consider the following, among other factors, when reviewing firms' use and supervision of digital channels:

  - Does your firm have a process in place to evaluate new tools available to your registered representatives to determine whether there are digital communication channels that should be captured, included in your firm's routine electronic communications supervisory reviews and stored in accordance with books and records requirements?
  - Is your firm periodically testing its systems to ensure these communications are being captured for review and retention?
  - Do your firm's supervisors know the "red flags" they should keep in mind during their routine supervisory reviews and which indicate a registered representative may be communicating through unapproved communication channels? Are your firm's supervisors following up on such red flags, which include, but are not limited to:
    - email chains that include non-approved email addresses for registered representatives;

- references in emails to communications with a registered representative that occurred outside approved firm channels; or
- customer complaints mentioning such communications?[10]

Cash Management and Bank Sweep Programs

As commission practices change, cash management services that sweep investor cash into firms' affiliated or partner banks or money market funds (Bank Sweep Programs) have taken on a greater significance. Firms' Bank Sweep Programs may offer retail investors a variety of additional services, such as check writing, debit cards and ATM withdrawals.

While these Bank Sweep Programs may offer useful features to customers—and in some but not all cases, offer higher-than-average interest rates—they have also raised several concerns about firms' compliance with a range of FINRA and SEC rules. FINRA will evaluate these firms' compliance with, for example, FINRA Rules 1017 (Application for Approval of Change in Ownership, Control, or Business Operations),[11] 2010 (Standards of Commercial Honor and Principles of Trade), 2210 (Communications with the Public), Exchange Act Rule 15c3-1 (Net Capital Rule) and Exchange Act Rule 15c3-3 (Customer Protection Rule).

FINRA may take the following factors, among others, into consideration when reviewing your firm's Bank Sweep Programs:

- Does your firm clearly communicate the nature of the sweep arrangement?
- Does your firm clearly communicate the alternatives for cash management available to customers, the terms provided by the Bank Sweep Program and any alternatives?
- Has your firm incorrectly implied that a brokerage account is similar to or the same as a "checking and savings account" at a bank?
- Has your firm incorrectly implied that the brokerage accounts themselves are bank deposit accounts insured by the Federal Deposit Insurance Corporation (FDIC)?
- Do your firm's customer statements clearly disclose that the Bank Sweep Program deposits are obligations of the destination bank, and not cash balances held by your firm?
- Does your firm have a documented process to perform reconciliations of customer balances held at each destination bank in the Bank Sweep Program?
- Does your firm include in the Bank Sweep Program customer balances not yet swept into a destination bank as a customer credit in the reserve formula computation?
- Has your firm omitted or misrepresented material information concerning the:
  - amount of FDIC insurance coverage for the deposits;
  - nature and structure of the accounts;
  - relationship of the brokerage accounts to any partner banks in the Bank Sweep Program;
  - amount of time it may take for customer funds to reach the bank accounts;
  - nature and terms of the arrangements; or
  - risks of participating in such programs?

Sales of Initial Public Offering (IPO) Shares

As the IPO market has grown and received additional attention over the past year, FINRA is focusing its attention on firms' obligations under FINRA Rules 5130 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings) and 5131 (New Issue Allocations and Distributions).[12]

FINRA may consider the following factors, among others, when reviewing your firm's IPO practices:

- Does your firm have procedures in place to detect and address potential instances of flipping?
- When acting as book-running lead manager, does your firm provide reports of aggregate retail demand to issuers' pricing committees? How does your firm calculate this aggregate demand?
- How does your firm develop and implement its IPO allocation methodologies?
- What controls does your firm have to prevent allocations to restricted persons?
- What controls does your firm have to detect and address potential instances of "spinning"?
- How does your firm obtain, record and verify customer information for individuals receiving IPO allocations?

Trading Authorization

FINRA will assess whether firms maintain reasonably designed supervisory systems relating to trading authorization, discretionary accounts and key transaction descriptors, such as solicitation indicators. FINRA will review whether firms have reasonably designed supervisory systems to detect and address registered representatives exercising discretion without written authorization from the client, as required under FINRA Rule 3260 (Discretionary Accounts).[13]

FINRA may take the following factors, among others, into consideration when reviewing your firm's procedures and controls:

- How does your firm surveil for potential red flags of registered representatives exercising discretion without written authorization?
- Do your firm's supervisors know the types of red flags that may indicate that registered representatives are exercising discretion without written authorization (*e.g.,* trading in unrelated accounts in the same security in a certain time period, large numbers of trade reneges in the same security in a certain time period)?
- If a red flag is identified, what follow-up steps do your supervisors take to investigate them further (*e.g.,* phone log, email or other digital communication reviews to look for evidence of communications between the customer and the registered representative; non-complaining customer reach-outs)?
- How does your firm identify instances where registered representatives may be marking trades as unsolicited even though they are, in fact, solicited?

Market Integrity

Introduction

In addition to the areas of focus described in greater detail below, we will continue to review firms' compliance with the ongoing obligations discussed in prior years' letters, such as market manipulation, Trade Reporting and Compliance Engine (TRACE) reporting,[14] short sales[15] and short tenders.[16]

Further, FINRA reminds certain firms that they will be required to begin reporting to the Consolidated Audit Trail (CAT) in April 2020. We will continue to work with firms to answer their questions as they prepare for reporting. Once reporting begins, we will initiate our surveillance and investigative program to review firms' compliance with CAT reporting requirements.

We also remind firms to continue devoting necessary resources to ensure continually high levels of accuracy in their Order Audit Trail System (OATS) reporting. At this time, OATS remains a critical part of the audit trail data that FINRA uses to operate its cross-market equity surveillance program and meet its regulatory obligations.

Direct Market Access Controls

The continued growth in automated and high-speed trading increases potential risks to the financial condition of firms, the integrity of trading on the securities markets and the stability of the financial system. We will assess firms' compliance with Exchange Act Rule 15c3-5 (Market Access Rule),[17] focusing on issues relevant to firms' business activities and associated risks.

FINRA may take the following factors, among others, into consideration when reviewing your firm's direct market access controls:

- If your firm is highly automated, how does it manage and deploy technology changes for systems associated with market access, and what controls does it use, such as kill switches, to monitor and respond to aberrant behavior by trading algorithms or other impactful market wide events?
- How does your firm make adjustments to credit limit thresholds for institutional customers (whether temporary or permanent)?[18]
- Does your firm use any automated controls to timely revert *ad hoc* credit limit adjustments?
- If your firm uses third-party vendor tools to comply with its Market Access Rule obligations, does it review during vendor due diligence whether the vendor can meet the obligations of the rule, and how does your firm maintain direct and exclusive control of applicable thresholds?
- What type of training does your firm provide to individual traders regarding the steps and requirements for requesting *ad hoc* credit limit adjustments?

Best Execution

FINRA reaffirms the importance of firms' compliance with their best execution obligations.[19] FINRA will focus on whether firms use reasonable diligence to determine whether their customer order flow is directed to the best market given the size and types of orders, the terms and conditions of orders, and other factors as required by FINRA Rule 5310 (Best Execution and Interpositioning),[20] focusing on:

- **Routing Decisions** – FINRA will continue to review for potential conflicts of interest in order routing decisions, including the impact of the recent increase in zero-commission brokerage activity. FINRA may review, for example:
  - processes your firm implements to handle customer orders, particularly in light of remuneration received by the firm in the form of rebates or payment for order flow;
  - how your firm incorporates enhanced order routing information in its "regular and rigorous" review pursuant to FINRA Rule 5310 (Best Execution and Interpositioning); or
  - whether changing to the zero-commission model resulted in changes to your firm's routing practices, execution quality, regular and rigorous review policies, or the level of trading rebates or payment for order flow. FINRA may also assess disclosures and advertisements related to zero commissions.
- **Odd-Lot Handling** – FINRA has observed a significant increase in odd-lot activity, which has also become an increasing portion of U.S. equity trading volume. Odd lots in listed securities are currently not included in the National Best Bid or Offer (NBBO) distributed by the Securities Information Processors (SIPs), but are included in proprietary data feeds from individual exchanges. FINRA will be assessing whether firms are filling customer odd-lot orders at the NBBO disseminated by the SIPs and offsetting these trades with odd-lot executions at superior prices reflected in the exchanges' proprietary data feeds.
- **U.S. Treasury Securities** – FINRA will assess the reasonableness of firms' policies and procedures for best execution and fair pricing for U.S. Treasury securities. In conducting this assessment, FINRA may consider whether your firm takes into account differences in these securities' characteristics and liquidity, particularly if your firm includes them in more generally applicable fixed income policies and procedures.
- **Options** – FINRA has received complaints alleging large customer option orders received inferior execution prices. The complaints typically involve a number of small volume option executions at various prices (normally electronically), followed by a larger execution for the remainder of the order at inferior price levels for the customer. In response, FINRA initiated surveillance to identify this specific scenario, and we plan to expand our best execution surveillance to include additional scenarios to identify situations where customers may not be receiving best execution for their options orders.

Other considerations FINRA may take into account when reviewing your firm's best execution practices include:

- If your firm engages in fixed income and options trading, has it established targeted controls to perform its best execution obligations for these products?

- Does your firm perform its best execution obligations with respect to trading conducted in both regular and extended trading hours?
- Does your firm consider the risk of information leakage when assessing the execution quality of orders routed to a particular venue?

Disclosure of Order Routing Information

The amended Regulation National Market System (NMS) Rule 606 bolstered the requirements for broker-dealers to publish reports on their routing of held orders in NMS stocks and listed options.[21] The amended rule requires broker-dealers to provide new customer-specific reports for not held orders in NMS stocks. These disclosures serve an important role in enhancing the transparency of the U.S. securities markets with respect to broker-dealers' handling and routing practices for both institutional and retail customer orders.

FINRA may take the following into consideration, among other factors, when reviewing firms' compliance with amended Rule 606:

- Does your firm use the required layout and format and include all components of the detailed customer-specific not held order reports required by Rule 606(b)(3)?
- What policies and procedures does your firm have in place to address the accuracy and timeliness of published reports?
- If your firm claims an exemption from providing not held order reports required by Rule 606(b)(4) or (5), what policies and procedures does it have in place to determine if customers' order activity falls below the relevant reporting thresholds?
- Has your firm considered whether it should assess and analyze its use of third-party order routing and execution services (*e.g.,* algorithms and smart order routers) and determine how your firm's traders use these services?
- Has your firm considered how it will obtain the necessary data from downstream venues to prepare the new reports?

Vendor Display Rule

Capturing and reporting the current consolidated NBBO helps customers evaluate firms' routing decisions. Rule 603 of Regulation NMS (Vendor Display Rule) generally requires broker-dealers to provide a consolidated display of market data for NMS stocks for which they provide quotation information to customers. FINRA will evaluate the adequacy of firms' controls and supervisory systems to provide their customers with the current consolidated NBBO as required by the Vendor Display Rule.

FINRA may take the following factors, among others, into consideration when reviewing your firm's controls related to the Vendor Display Rule:

- Which firm systems or platforms provide quotation information to customers?
- How does your firm monitor whether the current quotation information is distributed to customers?
- Does your firm make the quotation information available to customers when they are placing their orders?
- Does your firm review the quotation information received from the SIP or vendors to determine whether that information is in compliance with all the requirements of Rule 603?

Financial Management

Introduction

In addition to our focus on the new areas noted below, FINRA will continue to evaluate firms' compliance programs relating to Exchange Act Rule 15c3-3 (Customer Protection Rule) and Exchange Act Rule 15c3-1 (Net Capital Rule), as well as firms' overall financial risk management programs.

Digital Assets

Digital assets raise novel and complex regulatory issues under federal securities laws and regulations,[22] as well as FINRA rules.[23] FINRA is receiving an increasing number of New Member Applications (NMAs) and Continuing Member Applications (CMAs) from firms[24] seeking to engage in business activities related to digital assets. For example, some firms are seeking to facilitate private offerings of digital asset securities, operate secondary trading platforms or facilitate trades of indirect investment products, such as private funds investing in cryptocurrencies.[25] Some firms' proposals also involve clearance and settlement of securities transactions related to digital assets, even when the firm does not plan to provide custody.[26]

FINRA continues to work closely with the SEC to understand firms' business plans and determine how securities laws apply to those plans. In July 2019, SEC and FINRA staff released a joint statement addressing certain non-custodial services, as well as challenges related to custody and critical Exchange Act Rule 15c3-3 obligations for digital assets.[27]

FINRA may take the following factors, among others, into consideration when reviewing your firm's digital asset activities:

- If your firm is considering engaging in digital asset activities, has it filed a CMA with FINRA?
- Does your firm provide a fair and balanced presentation in marketing materials and retail communications, including addressing risks presented by digital asset investments, and not misrepresenting the extent to which digital assets are regulated by FINRA or the federal securities laws or eligible for protections thereunder (such as Securities Investor Protection Corporation coverage)?
- Do your firm's communications misleadingly imply that digital asset services offered through an affiliated entity are offered through and under the supervision, clearance and custody of a registered broker-dealer?
- If your firm is engaging in digital asset transactions, what controls and procedures has it established to support facilitation of such transactions, including initial issuance or secondary market trading of digital assets?

Liquidity Management

FINRA will continue to review firms' liquidity management practices, as they are a critical control function and should be documented in a firm's books and records.[28] FINRA will focus on areas that we have addressed in *Regulatory Notice* *15-33* (Guidance on Liquidity Risk Management Practices), as well as those that may create challenges for clearing and carrying firms' contingency funding plans.

FINRA may take the following factors, among others, into consideration when reviewing your firm's liquidity management practices:

- Do your firm's liquidity management practices include steps to address specific stress conditions and identify firm staff responsible for addressing those conditions? Does your firm have a process for accessing liquidity during a stress event and determining how the funding would be used?
- Does your firm's contingency funding plan take into consideration the quality of collateral, term mismatches and potential counterparty loss of your financing desks (in particular, in repo and stock loan transactions)?
- If your firm is also a Fixed Income Clearing Corporation (FICC) member, how would it manage operational risks—for example, different credit limits and trading hours—that may arise if it needs to rapidly move large amounts of bi-lateral or tri-party U.S. Government or agency securities financing trades to the FICC repo platform?

Contractual Commitment Arising From Underwriting Activities

FINRA will review firms' compliance with their obligations under Exchange Act Rule 15c3-1(c)(2)(viii) when they engage in underwriting activities. FINRA may take the following into consideration when reviewing your firm's compliance with these obligations:

- Does your firm understand the nature of the underwriting (in particular, best efforts versus firm commitment underwriting) and maintain a list of all deals in which it is involved?
- Does your firm maintain evidence of the appropriate contractual commitment charges?
- What processes does your firm use to assess moment-to-moment and open contractual commitment capital charges when it engages in underwriting commitments?
- How do your firm's regulatory reporting groups track the appropriate net capital treatment of the underwritings in which your firm is involved?
- How is your firm documenting your compliance with the relevant requirements?

London Interbank Offered Rate (LIBOR) Transition

FINRA will engage with firms—outside the examination program—to understand how the industry is preparing for LIBOR's retirement at the end of 2021,[29] focusing on firms' exposure to LIBOR-linked financial products; steps firms are taking to plan for the transition away from LIBOR to alternative rates, such as the Secured Overnight Financing Rate (SOFR); and the impact of the LIBOR phase-out on customers.

Firm Operations

Introduction

In addition to the new areas of focus described below, FINRA will also assess firms' supervisory controls relating to Exchange Act Rule 10b-10 and FINRA Rule 2232 (Customer Confirmations) and firms' compliance with FINRA Rule 3310 (Anti-Money Laundering Compliance Program)[30].

Cybersecurity

As firms leverage technology for their business systems and infrastructure, as well as engaging with customers and business partners, cybersecurity has become an increasingly large operational risk. Firms should expect that FINRA will thoroughly assess whether their policies and procedures are reasonably designed to protect customer records and information consistent with Regulation S-P Rule 30. [31] FINRA recognizes that there is no one-size-fits-all approach to cybersecurity, but expects firms to implement controls appropriate to their business model and scale of operations.

Technology Governance

Firms' increasing reliance on technology for many aspects of their customer-facing activities, trading, operations, back-office and compliance programs creates a variety of potential benefits, but also exposes firms to technology-related compliance and other risks. In particular, problems in firms' change- and problem-management practices, for example, can expose firms to operational failures that may compromise firms' ability to comply with a range of rules and regulations, including FINRA Rules 4370 (Business Continuity Plans and Emergency Contact Information), 3110 (Supervision) and 4511 (General Requirements), as well as Exchange Act Rules 17a-3 and 17a-4.

FINRA may take the following into consideration, among other factors, when reviewing your firm's technology governance programs:

- If there have been material changes in your firm's business, what modifications, if any, has it made, or considered, to its BCP?
- During a BCP event, how will your firm maintain customers' access to their funds and securities, as well as manage back-office operations, to prevent delays or inaccuracies relating to settlement, reconciliation and reporting requirements?
- What controls does your firm implement to mitigate system capacity performance and integrity issues that may undermine its ability to conduct business and operations, monitor risk or report key information?
- How does your firm document system change requests and approvals?
- What type of testing does your firm perform prior to changes being moved into a production environment?
- What are your firm's procedures for tracking information technology problems and their remediation? Does your firm categorize problems based on their business impact?

* * *

If you have general comments regarding this letter or suggestions on how we can improve it, please send them to Steven Polansky, Member Supervision, at *Steven.Polansky@finra.org*, or Elena Schlickenmaier, Member Supervision, *Elena.Schlickenmaier@finra.org*.

Endnotes

1 *See also* the Product Suitability section of the 2017 Report on Examination Findings (2017 Report); Suitability for Retail Customers section of the 2018 Report on Examination Findings (2018 Report); Suitability Topic Page.

2 *See also* FINRA Rule 2320 (Variable Contracts of an Insurance Company); FINRA Rule 2330 (Members' Responsibilities Regarding Deferred Variable Annuities); Suitability for Retail Customers section of the 2018 Report; Variable Annuities Topic Page.

3 *See Regulatory Notice 10-22* (Obligations of Broker-Dealers to Conduct Reasonable Investigations in Regulation D Offerings); Reasonable Diligence for Private Placements section of the 2018 Report; Private Placements Topic Page.

4 *See* FINRA Rule 2232 (Customer Confirmations); MSRB Rule G-15; *Regulatory Notice 17-24* (FINRA Issues Guidance on the Enhanced Confirmation Disclosure Requirements in Rule 2232 for Corporate and Agency Debt Securities); *Regulatory Notice 17-08* (SEC Approves Amendments to Require Mark-up/Mark-down Disclosure on Confirmations for Trades With Retail Investors in Corporate and Agency Bonds); Fixed Income Confirmation Disclosure: Frequently Asked Questions (FINRA); Confirmation Disclosure and Prevailing Market Price Guidance: Frequently Asked Questions (MSRB); Fixed Income Mark-up Disclosure section of the 2018 Report; Fixed Income Mark-up Disclosure section of the 2019 Report on Examination Findings and Observations (2019 Report); Municipal Securities Topic Page; Fixed Income Topic Page.

5 *See* Abuse of Authority section of the 2018 Report; *Regulatory Notice 19-27* (FINRA Requests Comment on Rules and Issues Relating to Senior Investors); *Regulatory Notice 19-36* (FINRA Requests Comment on a Proposed Rule to Limit a Registered Person from Being Named a Customer's Beneficiary of Holding a Position of Trust for or on Behalf of Customer).

6 *See also Regulatory Notice 19-27* (FINRA Requests Comment on Rules and Issues Relating to Senior Investors); Frequently Asked Questions Regarding FINRA Rules Relating to Financial Exploitation of Senior Investors; Senior Investors Topic Page.

7 For additional considerations, please see the SEC's Federal Register notices for Reg BI, Form CRS and Interpretation of Solely Incidental.

8 *See also,* FINRA's Reg BI and Form CRS Firm Checklist.

9 *See also,* Online Distribution Platforms section of 2019 Annual Risk Monitoring and Examination Priorities Letter (noting concerns relating to certain online distribution platforms that are operated by unregistered entities, which may use member firms as selling agents or brokers of record, or to perform activities such as custody, escrow, back-office and financial technology (FinTech)-related functions).

10 *See also* Digital Communication section of the 2019 Report.

11 FINRA notes that Bank Sweep Programs or bank-like cash management services may require FINRA review, as they may be considered changes to firms' "business operations."

12 *See also Regulatory Notice 19-37* (SEC Approves Amendments to FINRA Rules 5130 and 5131 Relating to Equity IPOs).

13 For additional discussion of FINRA's concerns about discretionary accounts, see Abuse of Authority section of the 2018 Report.

14 *See* TRACE Reporting section of the 2017 Report; TRACE Reporting section of the 2018 Report; Trade Reporting Notice – 7/19/19 (FINRA Reminds Firms of Their Obligations Regarding TRACE Reporting).

15 *See* Regulation SHO section of the 2017 Report; Short Sales section of the 2019 Report.

16 *See* Exchange Act Rule 14e-4.

17 The Market Access Rule requires firms that provide access to trading in securities on an exchange or alternative trading system (ATS) to "appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system." U.S. Securities and Exchange Commission, Risk Management Controls for Brokers or Dealers With Market Access, Exchange Act Release No. 63,241, 75 Fed. Reg. 69,792 (Nov. 15, 2010); see also U.S. Securities and Exchange Commission, Division of Trading and Markets, Responses to Frequently Asked Questions Concerning Risk Management Controls for Brokers or Dealers with Market Access (Apr. 15, 2014).

18 *See* Direct Market Access Controls section of the 2019 Report.

19 *See* Best Execution section of the 2019 Report.

20 *See also Regulatory Notice 15-46* (Guidance on Best Execution Obligations in Equity, Options and Fixed Income Markets).

21 *See also* SEC Division of Market Regulation Staff Legal Bulletin 13A and SEC Division of Trading and Markets Responses to Frequently Asked Questions Concerning Rule 606 of Regulation NMS.

22 *See, e.g.,* Exchange Act Regulation D, Regulation S, Regulation A, Rule 15c3-1 (Net Capital Rule), Exchange Act Rule 15c3-3 (Customer Protection Rule), Exchange Act Rule 17a-5 (Financial Reporting Rule), Exchange Act Rule 17a-13 (Quarterly Securities Count Rule), as well as Exchange Act Rule 17a-3 and Rule 17a-4 (collectively, the Recordkeeping Rules).

23 *See, e.g.,* FINRA Rules 3110 (Supervision), 2210 (Communications with the Public) and 3310 (Anti-Money Laundering Compliance Program).

24 In addition, some registered representatives are engaging in outside business activities involving digital assets.

25 As discussed in *Regulatory Notice 19-24* (FINRA Encourages Firms to Notify FINRA if They Engage in Activities Relating to Digital Assets), we note that firms should inform FINRA if they plan to engage in digital asset transactions.

26 FINRA notes that the extent to which a broker-dealer comes into contact with customer funds and securities may impact its Net Capital Rule requirements and implicate the Customer Protection Rule for any assets received, held or deemed to be under the control of the broker-dealer.

27 *See* U.S. Securities and Exchange Commission, Division of Trading and Markets, Financial Industry Regulatory Authority, Office of General Counsel, Joint Staff Statement on Broker-Dealer Custody of Digital Asset Securities (July 8, 2019).

28 *See* Exchange Act Rule 17a-3(a)(23).

29 *See* U.S. Securities and Exchange Commission Division of Corporation Finance, Division of Investment Management, Division of Trading and Markets, and Office of the Chief Accountant, Staff Statement on LIBOR Transition (July 12, 2019).

30 *See also Regulatory Notices 19-18* (FINRA Provides Guidance to Firms Regarding Suspicious Activity Monitoring and Reporting Obligations) and *17-40* (FINRA Provides Guidance to Firms Regarding Anti-Money Laundering Program Requirements Under FINRA Rule 3310 Following Adoption of FinCEN's Final Rule to Enhance Customer Due Diligence Requirements for Financial Institutions).

31 Regulation S-P Rule 30 requires firms to have written policies and procedures that address administrative, technical and physical safeguards for the protection of customer records and information that are reasonably designed to: (1) ensure the security and confidentiality of customer records and information; (2) protect against any anticipated threats or hazards to the security or integrity of customer records and information; and (3) protect against unauthorized access to or use of customer records or information that could result in substantial harm or inconvenience to any customer. Regulation S-P also requires firms to provide initial and annual privacy notices to customers describing information sharing policies and informing customers of their right to opt-out of information sharing. Further, FINRA Rule 3110 (Supervision) requires firms to establish and implement a system that is reasonably designed to comply with Regulation S-P Rule 30, as well as related policies and procedures.

Appendix 1 – Additional Resources

Sales Practice and Supervision

Reg BI and Form CRS

- *Regulatory Notice* 19-26 (Regulation Best Interest: SEC Adopts Best Interest Standard of Conduct)
- Reg BI and Form CRS Firm Checklist
- Regulation Best Interest (Reg BI) Topic Page

Communications with the Public

- *Regulatory Notice* 19-31 (Disclosure Innovations in Advertising and Other Communications with the Public)
- 2018 Report – DBAs and Communications with the Public
- 2019 Report – Digital Communication
- Advertising Regulation Topic Page
- Private Placements Topic Page

Cash Management and Bank Sweep Programs

- 2017 Report – Net Capital and Credit Risk Assessments
- 2018 Report – Accuracy of Net Capital Computations
- 2018 Report – Segregation of Customer Assets
- 2019 Report – Observations on Liquidity and Credit Risk Management
- 2019 Report – Segregation of Client Assets
- Investor Alert – Cash Accounts: What They Are and How to Avoid Problems
- Update a Broker-Dealer Firm Registration
- Advertising Regulation Topic Page

Sales of Initial Public Offering (IPO) Shares

- *Regulatory Notice* 19-37 (SEC Approves Amendments to FINRA Rules 5130 and 5131 Relating to Equity IPOs)
- *Regulatory Notice* 17-14 (FINRA Requests Comment on FINRA Rules Impacting Capital Formation)
- Public Offerings Topic Page

Trading Authorization

- 2018 Report – Abuse of Authority
- 2019 Report – Suitability
- Suitability Topic Page
- Supervision Topic Page
- Books & Records Topic Page

Market Integrity

Direct Market Access Controls

- *Regulatory Notice* 15-09 (Guidance on Effective Supervision and Control Practices for Firms Engaging in Algorithmic Trading Strategies)
- *Regulatory Notice* 16-21 (SEC Approves Rule to Require Registration of Associated Persons Involved in the Design, Development or Significant Modification of Algorithmic Trading Strategies)
- 2017 Report – Market Access Controls
- 2018 Report – Market Access Controls
- 2019 Report – Direct Market Access Controls
- Algorithmic Trading Topic Page
- Market Access Topic Page

Best Execution

- *Regulatory Notice* 15-46 (Guidance on Best Execution Obligations in Equity, Options and Fixed Income Markets)
- 2017 Report – Best Execution
- 2018 Report – Best Execution
- 2019 Report – Best Execution
- Report Center, Equity Report Cards – FINRA's Best Execution Outside-of-the-Inside Report Card

Disclosure of Order Routing Information

- *Notice to Members* 01-30 (Member Obligations to Provide Statistical Information About Order Routing Under SEC Rule 11Ac-6 of the Securities Exchange Act of 1934)
- *Notice to Members* 01-44 (SEC Issues Interpretive Guidance Concerning Exchange Act Rules 11Ac1-5 and 11Ac1-6)
- 2017 Report – Best Execution
- 2018 Report – Best Execution
- 2019 Report – Best Execution
- Report Center, Equity Report Cards section – FINRA's Best Execution Outside-of-the-Inside Report Card

Vendor Display Rule

- *Regulatory Notice* 15-52 (SEC Staff Provides Insight Into Firms' Obligations When Providing Stock Quote Information to Customers)

Financial Management

Digital Assets

- *Regulatory Notice* 19-24 (FINRA Encourages Firms to Notify FINRA if They Engage in Activities Relating to Digital Assets)
- Report on Distributed Ledger Technology: Implications of Blockchain for the Securities Industry
- FinTech Topic Page

Liquidity Management

- *Regulatory Notice* 15-33 (Guidance on Liquidity Risk Management Practices)
- *Regulatory Notice* 10-57 (Funding and Liquidity Risk Management Practices)
- 2018 Report – Liquidity
- 2019 Report – Observations on Liquidity and Credit Risk Management
- Funding and Liquidity Topic Page

Contractual Commitment on Underwriting Commitments

- 2019 Report – Net Capital Calculations
- Exchange Act Rule 15c3-1(a)/001 Moment to Moment Net Capital
- Exchange Act Rule 15c3-1(c)(vii)/10 Marketability of Nonconvertible Debt Securities Which Are Not Highly Rated
- Exchange Act Rule 15c3-1(c)(2)(viii)(C)/03 Haircuts on Contractual Commitments
- Exchange Act Rule 15c3-1(c)(2)(viii)(C)/031 Underwriting Commitments
- Exchange Act Rule 15c3-1(c)(2)(viii)(C)/032 Offsetting Sale Commitments
- Exchange Act Rule 15c3-1(c)(2)(viii)(C)/04 Selling Group Participations
- Exchange Act Rule 15c3-1(c)(2)(viii)(C)/06 Underwriting Backstop Agreement

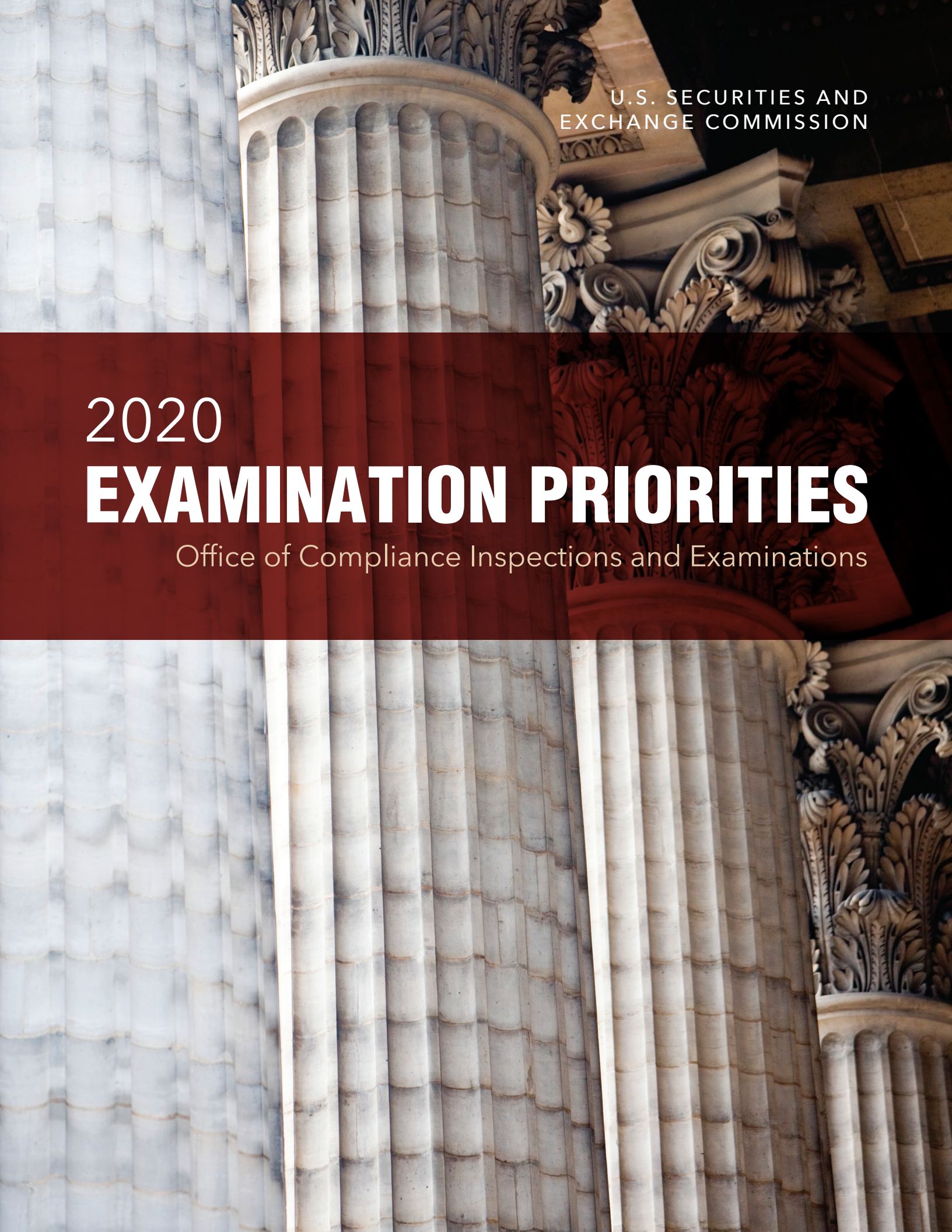
Firm Operations

Cybersecurity

- Report on Cybersecurity Practices - 2015
- Report on Selected Cybersecurity Practices – 2018
- 2017 Report – Cybersecurity
- 2019 Report – Observations on Cybersecurity
- Small Firm Cybersecurity Checklist
- Core Cybersecurity Controls for Small Firms
- Common Cybersecurity Threats
- Customer Information Protection Topic Page
- Cybersecurity Topic Page

Technology Governance

- *Regulatory Notice* 19-06 (FINRA Requests Comment on the Effectiveness and Efficiency of Its Rule on Business Continuity Plans and Emergency Contact Information)
- Business Continuity Plan FAQs
- 2019 Report – Business Continuity Plans
- Small Firm Business Continuity Plan Template
- Business Continuity Planning Topic Page



U.S. SECURITIES AND EXCHANGE COMMISSION

2020

EXAMINATION PRIORITIES

Office of Compliance Inspections and Examinations

CONTENTS

MESSAGE FROM OCIE'S LEADERSHIP TEAM

The Office of Compliance Inspections and Examinations (OCIE) of the U.S. Securities and Exchange Commission (SEC) is pleased to announce our examination priorities for fiscal year (FY) 2020, marking the 8th year of their publication. We hope you find our discussion of key risks, trends, and examination priorities valuable in overall efforts to promote and improve compliance and ultimately protect investors.

Importance of Compliance

As a threshold matter, we would like to emphasize that compliance programs, chief compliance officers, and other compliance staff play critically important roles at firms. Indeed, culture and tone from the top are key. In the course of conducting thousands of examinations of many different types of firms, the hallmarks of effective compliance become apparent. One such hallmark includes compliance's active engagement in most facets of firm operations and early involvement in important business developments, such as product innovation and new services. Another is a knowledgeable and empowered chief compliance officer with full responsibility, authority, and resources to develop and enforce policies and procedures of the firm. And perhaps most importantly, a commitment to compliance from C-level and similar executives to set a tone from the top that compliance is integral to the organization's success and that there is tangible support for compliance at all levels of an organization.

DID YOU KNOW?

A hallmark of effective compliance is a commitment from senior executives to set the tone that compliance is integral to the organization's success.

FY 2019 Results

For OCIE, quality is the most important aspect of the work we perform. Examiners ask themselves: Did our risk scoping correctly capture the highest risks at a firm? Did we appropriately expand our scope as we identified significant risks not initially scoped? Did we spend sufficient time and devote appropriate staffing resources (both in technical experience and team size) to ensure an effective examination? Did we promote compliance? And ultimately, did we identify errors, fraud or misappropriation at the firm, if present? Examiners ask these and countless other questions before closing an examination, all with the primary purpose of achieving OCIE's investor protection mission.

OCIE is mindful that numbers never tell the complete story of our effectiveness and efficiency. While certain statistics are discussed below, they do not completely capture or measure the quality of our examination program. Statistics do, however, convey certain reference points that provide some insights into our examination program. OCIE completed 3,089 examinations in FY 2019, which is a 2.7 percent decrease from FY 2018. This relatively minor decrease, when viewed in light of an approximate month-long suspension of virtually all examination activity due to a lapse in appropriations, is illustrative of the OCIE staff's hard work, continued improved efficiency, resiliency and dedication to the SEC's and OCIE's mission to protect investors. Examinations of registered investment advisers (RIAs) in FY 2019 remained strong at approximately 2,180, covering 15 percent of this population. Examinations of investment companies increased this year to over 150, increasing by approximately 12 percent, driven primarily by the six initiatives OCIE announced in November 2018.[1] OCIE completed over 350 examinations of broker-dealers, 110 examinations of national securities exchanges, and over 90 examinations of municipal advisors and transfer agents. OCIE also completed over 160 examinations of the Financial Industry Regulatory Authority (FINRA), including examinations of critical FINRA program areas as well as oversight reviews of FINRA examinations. Finally, OCIE completed 15 examinations of clearing agencies.

DID YOU KNOW?

The quality of examinations is the most important aspect of OCIE's work.

Through its examinations, OCIE is promoting compliance and making a difference for investors and our securities markets. For example, during FY 2019, OCIE issued more than 2,000 deficiency letters, with many firms taking direct corrective actions in response to those letters, including by amending compliance policies and procedures or a regulatory filing; enhancing their disclosures; or, returning fees back to investors, among other things. To fight against fraud and misappropriation of investor assets, OCIE also commits significant resources to verify the existence of investor assets at custodians and to ensure that they are valued properly, a process called asset verification. In FY 2019, OCIE verified over 3.1 million investor accounts, totaling over $1.5 trillion. Similarly, when RIAs have access to client funds or securities, OCIE prioritizes examination for compliance with the Custody Rule (Rule 206(4)-2 under the Investment Advisers Act of 1940 (Advisers Act)), which includes important client safeguards like third party audits and surprise examinations. For broker-dealers, OCIE reviews for compliance with the Customer Protection Rule (Rule 15c3-3 under the Securities Exchange Act of 1934 (Exchange Act)) and the Net Capital Rule (Rule 15c3-1 under the Exchange Act) to help ensure that customer securities and assets exist and are protected from misappropriation and that firms are adequately capitalized.

[1] https://www.sec.gov/ocie/announcement/ocie-risk-alert-registered-investment-company-initiative

Another way OCIE promotes compliance and protects investors is by encouraging firms to make investors whole when fees have been improperly calculated and charged. Examinations closed in FY 2019 have so far resulted in firms returning more than $70 million to investors. When its findings are significant with respect to such improper charges or other issues, however, OCIE may refer these matters to the Division of Enforcement.

Many important Enforcement matters have resulted from OCIE examinations and referrals, including, for example: the SEC's first two settled Enforcement actions with clearing agencies; two settled matters involving Regulation SCI; dozens of settled matters involving RIAs' selection of higher cost mutual fund share classes for clients when lower cost options were available; the first settled actions brought against providers of electronic investment advice; dozens of settled actions against advisers to private funds; and settled actions against broker-dealers that misappropriated retail client funds. More than 150 enforcement referrals from FY 2019 examinations have been made so far, and we anticipate more to come. Recoveries and referral metrics may lag fiscal year reporting as OCIE continues to work to get results for harmed investors, which, for example, included 30 additional referrals and $13 million in recoveries in FY 2019 from examinations that were completed in FY 2018.

Registered Investment Adviser Coverage

OCIE reports annually the percentage of the population of RIAs examined each year. This metric is important as OCIE is the primary, and often only, regulator responsible for supervising this segment of financial firms. The population of RIAs has grown significantly in recent years, as has the amount of assets those RIAs manage. More specifically, in just the last five years, the number of RIAs OCIE oversees increased from about 11,500 to 13,475, and the assets under management of RIAs increased from approximately $62 trillion to $84 trillion.

DID YOU KNOW?
In FY 2019, OCIE completed over 3,000 examinations.

In addition to this significant growth, the financial industry and marketplace are constantly evolving and responding to investor needs, regulatory changes, technology, and competition. RIAs' complexity, interconnectivity, and dependency on a variety of market participants also continue to grow: more than 3,700 RIAs manage over $1 billion in assets; approximately 36 percent of RIAs manage a private fund; more than 55 percent of RIAs have custody of client assets; more than 60 percent of RIAs are affiliated with other financial industry firms; and approximately 12 percent of RIAs provide advisory services to a mutual fund, exchange-traded fund, or other registered investment company.

Despite this significant growth and complexity, OCIE has made significant strides over the past several years to increase its RIA coverage, including through: (1) implementation of program efficiencies, both through process and technology; (2) realignment of internal staffing to address the coverage rates for RIAs; and (3) continued investment in our human capital, through ongoing training of staff and the onboarding of experienced subject matter experts, among other things. These efforts are paying dividends: OCIE has increased its examination coverage of RIAs over the past several years from 10 percent in FY 2014 to a high of 17 percent in FY 2018. OCIE's coverage of RIAs in FY 2019, a year in which the RIA population continued to increase and the SEC experienced a 35-day lapse in appropriations, was 15 percent.

While OCIE will continue to make improvements in efficiency, there remains a significant risk that, in light of industry growth and increased complexity and other factors, it does not have sufficient resources to adequately cover the RIA space. OCIE's coverage rates will likely not keep pace with the continued growth in the population and complexity, without corresponding staffing increases. While OCIE has made great strides to improve the coverage rate, the risks of diminished coverage, quality, and effectiveness are possible without further support. Ultimately, this trend is concerning and a focus for OCIE and Chairman Clayton.

Anticipated Impact of Significant Rulemaking

The Commission finalized many new rules and interpretations in FY 2019 that will impact firms and OCIE. The most significant is the package of rulemakings and interpretations designed to enhance the quality and transparency of retail investors' relationships with RIAs and broker-dealers, bringing the legal requirements and mandated disclosures in line with reasonable investor expectations, while preserving access, in terms of choice and cost, to a variety of investment services and products. Specifically, these actions include new Regulation Best Interest, the new Form CRS Relationship Summary, and two separate interpretations under the Advisers Act, which will be FY 2020 examination priorities.

OCIE recognizes that these new rules will require various market participants to make changes to their operations, including to required disclosures, marketing materials and compliance programs. In order to assist firms with planning for compliance with these new rules, the SEC established an inter-Divisional Standards of Conduct Implementation Committee—of which staff across OCIE are members. We encourage firms to actively engage with OCIE and other SEC staff as they plan for implementation. Questions may be submitted by email to: IABDQuestions@sec.gov.

Risk, Technology, and Industry Trends

In FY 2020, OCIE will continue to monitor industry developments and market events to assess impact on retail investors and SEC-registered firms, and continue to tailor its risk-based program to respond. The footprint of registered entities has become more global and diverse, often with an increased dependency on services and operations worldwide. And the use of third-party service providers and other vendors by registrants continues to increase, which can bring improved expertise and effectiveness, but also additional challenges and risks to organizations. OCIE will continue to focus on third-party risk management in FY 2020. OCIE will also closely track and evaluate the impact of several major risk themes affecting its registrant population, including information security and resiliency risks, geopolitical events, and the industry's transition away from LIBOR. OCIE, in coordination with other SEC Divisions and Offices, will engage with firms on these risks, among others, to better assess impact and what, if any, compliance challenges develop.

OCIE continues to make investments in human capital, technology and data analytics. In FY 2019, OCIE added over twenty-seven new staff positions, and it anticipates that these hires will each bring a wealth and variety of experience and knowledge to the examination program. OCIE's technology tools and data analytics work also continue to mature and help drive many of its risk identification efforts, initiatives and examination processes. All of these resources help OCIE identify potential stresses on compliance programs and operations, conflicts of interest, and conduct issues that may ultimately harm investors.

As OCIE continues to advance its use of technology and data analytics, it is mindful of its responsibility to ensure that information requested during an examination is appropriately calibrated and, once information is provided, is protected. During an examination, staff may request certain books and records that include sensitive information such as customer transactions, communications and other personal data to assess whether firms are complying with the federal securities laws. OCIE strives to appropriately tailor its requests for data and encourages dialogue with staff where a registrant may have a preferred or alternative data solution that would meet examination objectives.

While balancing the importance of data protection with effectively protecting investors, OCIE has experienced challenges with examining non-U.S. registrants that are increasingly subject to laws on data protection and privacy, among others, that may impact the cross-border transfers of certain information. These challenges are particularly acute with the growing population of off-shore RIAs that now number close to 1,000, managing

over $10 trillion in investor assets. U.S. securities laws, SEC rules, and registration forms require non-U.S. RIAs to certify that they will provide to the SEC required records necessary for inspection. In light of this conflict of law, OCIE is seeking additional information from non-U.S. applicants for RIA registration to ensure these firms can comply with inspection requirements of U.S. securities laws, which are designed to protect impacted investors. The SEC continues to work with both industry and its counterparts in other countries to address this challenge.

Firm and Investor Outreach and Risk Alerts

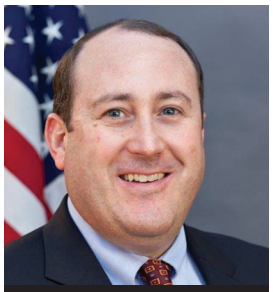
OCIE's priorities provide an overview of key areas where it intends to focus its limited resources. That said, the stated priorities and other examinations OCIE conducts do not encompass all of OCIE's efforts to improve compliance. To promote compliance, and to further the effective and efficient allocation of examination resources, OCIE proactively engages with registrants through outreach events, including national and regional compliance seminars. In FY 2019, OCIE staff participated in or held more than 100 such outreach events. OCIE staff also conducted outreach to investors, including specific efforts directed toward members of the military and teachers, designed to inform them about retirement planning and investment basics.

OCIE also engaged with and informed the industry through risk alerts in efforts to raise awareness of compliance and industry risks. During FY 2019, OCIE published the following eight risk alerts, which represent the most risk alerts in a year since it began publishing them in FY 2011.

- Investment Adviser Compliance Issues Related to the Cash Solicitation Rule;
- Risk-Based Examination Initiatives Focused on Registered Investment Companies;
- Observations from Investment Adviser Examinations Relating to Electronic Messaging;
- Transfer Agent Safeguarding of Funds and Securities;
- Investment Adviser and Broker-Dealer Compliance Issues Related to Regulation S-P—Privacy Notices and Safeguard Policies;
- Safeguarding Customer Records and Information in Network Storage—Use of Third Party Security Features;
- Observations from Examinations of Investment Advisers: Compliance, Supervision, and Disclosure of Conflicts of Interest; and
- Investment Adviser Principal and Agency Cross Trading Compliance Issues.

OCIE will continue its publication of risk alerts that both describe its national initiatives as well as outline findings from examinations in key areas with the hopes that sharing this information will further promote compliance within registered firms and ultimately further protect the investing public.

Finally, please know that OCIE is always interested in hearing more about new and emerging risk areas and products as well as how it can be more effective in its mission. OCIE's contact information can be found at: https://www.sec.gov/contact-information/sec-directory. Please engage with our staff. If you suspect or observe activity that may violate the federal securities laws or otherwise operates to harm investors, please notify SEC staff at https://www.sec.gov/tcr. And thank you for doing your part to protect investors and promote compliance.



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INTRODUCTION

In 2020, OCIE will prioritize the examination of certain practices, products, and services that it believes present potentially heightened risks to investors or the integrity of the U.S. capital markets. Examinations of these priority areas are designed to support the SEC's mission to protect investors, facilitate capital formation, and maintain fair, orderly, and efficient markets.

Many of the themes noted below are perennial risk areas OCIE routinely covers in its examinations. Their importance to retail investors, the seriousness and frequency of prior years' examination findings, or both, demonstrate the need for OCIE to continue to be vigilant in these significant areas. Moreover, the priorities described below are not exhaustive and will not be the only issues OCIE addresses in its examinations, published risk alerts, and investor and industry outreach.

DID YOU KNOW?
In FY 2019, OCIE achieved examination coverage of approximately 15 percent of registered investment advisers.

While the priorities drive many of OCIE's examinations, the selection of firms to examine and the related scoped risk areas of focus are determined through OCIE's risk-based analysis. OCIE's risk-based approach varies depending on the type of registered firm and the nature of its business. For RIAs and broker-dealers, OCIE considers dozens of potential risk factors, which can include: products and services offered, including certain products identified as higher risk; compensation and funding arrangements; prior examination observations and conduct; disciplinary history of associated individuals and affiliates of a registered firm; changes in firm leadership or other personnel; and, whether a firm has access to investor assets, *i.e.*, custody. While the aforementioned characteristics and factors are not exhaustive, they provide insight into criteria that OCIE considers in its risk assessment process. OCIE's risk-based approach results in examinations that are focused on key aspects of the SEC's regulatory oversight, such as the adequacy of disclosures concerning services, fees and expenses; firms' management and handling of conflicts of interest for RIAs; and sales practice, trading and execution quality issues for broker-dealers.

OCIE's analytic efforts and examinations remain firmly grounded in its four pillars: promoting compliance, preventing fraud, identifying and monitoring risk, and informing policy. The risk-based approach, both in selecting registrants as examination candidates and in scoping risk areas to examine, provides OCIE with greater flexibility to cover emerging and exigent risks to investors and the marketplace as they arise. For example, as our registrants and other market participants transition away from LIBOR as a widely

used reference rate in a number of financial instruments to an alternative reference rate, OCIE will be reviewing firms' preparations and disclosures regarding their readiness, particularly in relation to the transition's effects on investors. Some registrants have already begun this effort and OCIE encourages each registrant to evaluate its organization's and clients' exposure to LIBOR, not just in the context of fallback language in contracts, but its use in benchmarks and indices; accounting systems; risk models; and client reporting, among other areas. Insufficient preparation could cause harm to retail investors and significant legal and compliance, economic and operational risks for registrants.

RETAIL INVESTORS, INCLUDING SENIORS AND INDIVIDUALS SAVING FOR RETIREMENT

OCIE will again emphasize the protection of retail investors, particularly seniors and those saving for retirement. Concentrated in our two largest program areas, the Investment Adviser-Investment Company (IAIC) and Broker-Dealer and Exchange programs, OCIE will prioritize examinations:

- Of intermediaries that serve retail investors, namely RIAs, broker-dealers, and dually-registered firms, and
- Focused on investments marketed to, or designed for retail investors, such as mutual funds and exchange-traded funds (ETF), municipal securities and other fixed income securities, and microcap securities.

Fraud, Sales Practices, and Conflicts

It is critically important that registered firms provide investors with the disclosures required by the federal securities laws, including those relating to fees and expenses, and conflicts of interest, which will help enable the investing public to make better informed choices. Registered firms must effectively implement controls and systems to ensure those disclosures are made as required and that a firm's actions match those disclosures.

DID YOU KNOW?
In FY 2019, OCIE verified over 3.1 million investor accounts, totaling over $1.5 trillion.

Examinations will focus on recommendations and advice given to retail investors, with a particular focus on: (1) seniors, including recommendations and advice made by entities and individuals targeting retirement communities; and (2) teachers and military personnel. Additionally, OCIE will focus on higher risk products—including private placements and

securities of issuers in new and emerging risk areas—such as those that: (1) are complex or non-transparent; (2) have high fees and expenses; or (3) where an issuer is affiliated with or related to the registered firm making the recommendation. Examinations will relatedly focus on registered firms' disclosures and supervision of outside business activities of its employees and associated persons, and any conflicts that may arise from those activities.

OCIE will also continue to examine RIAs to assess whether, as fiduciaries, they have fulfilled their duties of care and loyalty. This will include assessing, among other things, whether RIAs provide advice in the best interests of their clients and eliminate, or at least expose through full and fair disclosure, all conflicts of interest which might incline an RIA, consciously or unconsciously, to render advice which is not disinterested. That RIAs are acting in a manner consistent with their fiduciary duty and meeting their contractual obligations to their clients is paramount to maintaining investor confidence in the markets and investment professionals. OCIE, therefore, will continue to focus on risks associated with fees and expenses, and undisclosed, or inadequately disclosed, compensation arrangements.

DID YOU KNOW?
In FY 2019, OCIE completed over 150 examinations of investment companies (IC) and conducted six national IC initiatives.

Fee and compensation-based conflicts of interest may take many forms, including revenue sharing arrangements between a registered firm and issuers, service providers, and others, and direct or indirect compensation to advisory personnel for executing client transactions. In addition, duty of care concerns may arise when an RIA does not aggregate certain accounts for purposes of calculating fee discounts in accordance with its disclosures. These potential breaches of fiduciary duty may adversely impact portfolio management costs, reduce investor returns, and inappropriately influence investment decision-making.

Retail-Targeted Investments

Certain securities products can pose elevated risks when marketed or sold to retail investors, whether as a result of the characteristics of those securities, the dynamics in the markets, or due to the significant amount or concentration of assets retail investors have invested in a product. As in past years, OCIE will continue to prioritize examinations

of issues focused on retail investors, including those related to mutual funds and ETFs, municipal securities and other fixed income securities, and microcap securities.

Mutual Funds and ETFs

Mutual funds and ETFs are the primary investment vehicle for many retail investors. In addition to the other mutual fund and ETF priorities identified below, OCIE will continue to prioritize the examination of financial incentives provided to financial services firms and professionals that may influence the selection of particular mutual fund share classes. OCIE also will review for mutual fund fee discounts that should be provided to investors as a result of policies, contractual or disclosed breakpoints, such as discounts provided based on achieving managed investments of a specific size.

Municipal Securities and Other Fixed Income Securities

OCIE will examine broker-dealer trading activity in municipal and corporate bonds for compliance with best execution obligations; fairness of pricing, mark-ups and mark-downs, and commissions; and confirmation disclosure requirements, including retail disclosures relating to mark-ups and mark-downs.

Microcap Securities

OCIE will examine broker-dealers and transfer agents to review for those that may be engaged in, or aiding and abetting, pump and dump schemes, market manipulation, and illegal distributions of securities of smaller market capitalization companies—*i.e.*, companies with a market capitalization under $250 million. Broker-dealers may be selected for examination based on factors such as employing registered representatives with disciplinary history, engaging in significant trading activity in unlisted securities, and making markets in unlisted securities. Focus areas for examinations will include: transfer agent handling of microcap distributions and share transfers; broker-dealer sales practices; broker-dealer supervision of high risk registered representatives; and broker-dealer compliance with certain regulatory requirements, including those concerning quotations under Rule 15c2-11 Exchange Act, the locate requirement of Regulation SHO, and the obligation to file suspicious activity reports (SARs).

Standards of Care

The Commission's June 2019 adoption of Regulation Best Interest, the Interpretation Regarding Standard of Conduct for Investment Advisers, and the Form CRS Relationship Summary will have a direct impact on the retail investor experience with broker-dealers and RIAs.[2] Regulation Best Interest requires broker-dealers, or a natural person who is an associated person of a broker or dealer, among other things, to act in the best interest of their retail customers when making a recommendation of any securities transaction or investment strategy involving securities without placing their financial or other interests ahead of the interests of the retail customer. The standard of conduct draws from key fiduciary principles and cannot be satisfied through disclosure alone. The Interpretation Regarding Standard of Conduct for Investment Advisers reaffirms, and in some cases clarifies, aspects of an RIA's fiduciary duty that comprises duties of care and loyalty to their clients.

In order to assist firms with planning for compliance with the new rules, the SEC established an inter-Divisional Standards of Conduct Implementation Committee, of which OCIE representatives are members.[3] To further assist broker-dealers before the June 30, 2020 compliance date for Regulation Best Interest and Form CRS, OCIE will engage with broker-dealers during examinations on their progress on implementing the new rules and questions they may have regarding the new rules. After the compliance dates, OCIE intends to assess implementation of the requirements of Regulation Best Interest, including policies and procedures regarding conflicts disclosures, and for both broker-dealers and RIAs, the content and delivery of Form CRS. Moreover, OCIE has already integrated the Interpretation Regarding Standard of Conduct for Investment Advisers into the IAIC examination program.

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[2] *See* Regulation Best Interest: The Broker-Dealer Standard of Conduct, Rel. No. 34-86031 (June 5, 2019), available at https://www.sec.gov/rules/final/2019/34-86031.pdf. Commission Interpretation Regarding Standard of Conduct for Investment Advisers, Rel. No. IA-5248 (June 5, 2019), available at https://www.sec.gov/rules/interp/2019/ia-5248.pdf; Form CRS Relationship Summary; Amendments to Form ADV, Rel. No 34-86032 (June 5, 2019), available at https://www.sec.gov/rules/final/2019/34-86032.pdf.

[3] The SEC encourages firms to actively engage with this committee as questions arise in planning for implementation. You may send your questions by email to IABDQuestions@sec.gov.

INFORMATION SECURITY

Information security is critical to the operation of the financial markets and the confidence of its participants. The impact of a breach in information security, including a successful cyber-attack, may have consequences that extend beyond the firm compromised to other market participants and retail investors, who may not be well informed of these risks and the potential consequences. OCIE is focused on working with firms to identify and address information security risks, including cyber-related, and to encourage market participants to actively and effectively engage regulators and law enforcement in this effort.

DID YOU KNOW?

OCIE prioritized information security in each of its five examination programs in FY 2019.

OCIE will continue to prioritize information security in each of its five examination programs. Examinations will focus on, among other things, proper configuration of network storage devices, information security governance generally, and retail trading information security. Specific to RIAs, OCIE will continue to focus its examinations on assessing RIAs' protection of clients' personal financial information. Particular focus areas will include: (1) governance and risk management; (2) access controls; (3) data loss prevention; (4) vendor management; (5) training; and (6) incident response and resiliency.

In the area of third-party and vendor risk management, OCIE will also focus on oversight practices related to certain service providers and network solutions, including those leveraging cloud-based storage. OCIE will continue to conduct examinations of registrants to review for compliance with Regulations S-P and S-ID. OCIE also will focus on the controls surrounding online access and mobile application access to customer brokerage account information. Finally, OCIE will examine for the safeguards around the proper disposal of retired hardware that may contain client information and potential network information that could create an intrusion vulnerability.

FINANCIAL TECHNOLOGY (FINTECH) AND INNOVATION, INCLUDING DIGITAL ASSETS AND ELECTRONIC INVESTMENT ADVICE

Innovations and advancements in financial technologies, methods of capital formation, market structures, and investor interfaces continue to grow at a rapid pace. For example, registered firms are increasingly using new sources of data, often referred to as "alternative data" by the industry that, among other things, may drive investment decision-making. OCIE remains focused on keeping abreast of these developments, and examinations will focus on firms' use of these data sets and technologies to interact with and provide services to investors, firms, and other service providers and assess the effectiveness of related compliance and control functions.

Digital Assets

The digital assets market has grown rapidly and presents various risks, including for retail investors who may not adequately understand the differences between these assets and more traditional products. Due to these risks, OCIE will continue to identify and examine SEC-registered market participants engaged in this space. Examinations will assess the following: (1) investment suitability, (2) portfolio management and trading practices, (3) safety of client funds and assets, (4) pricing and valuation, (5) effectiveness of compliance programs and controls, and (6) supervision of employee outside business activities.

Electronic Investment Advice

In addition, OCIE will continue its focus on RIAs that provide services to their clients through automated investment tools and platforms, often referred to as "robo-advisers." Areas of focus include, among others: (1) SEC registration eligibility, (2) cybersecurity policies and procedures, (3) marketing practices, (4) adherence to fiduciary duty, including adequacy of disclosures, and (5) effectiveness of compliance programs.

ADDITIONAL FOCUS AREAS INVOLVING RIAS AND INVESTMENT COMPANIES

OCIE typically assesses compliance programs of RIAs in one or more core areas, including the appropriateness of account selection, portfolio management practices, custody and safekeeping of client assets, best execution, fees and expenses, and valuation of client assets for consistency and appropriateness of methodology. In addition, OCIE will often assess the adequacy of disclosures and governance practices in the core areas reviewed.

RIA Compliance Programs

OCIE will continue to review the compliance programs of RIAs, including whether those programs and their policies and procedures, are reasonably designed, implemented, and maintained.

OCIE will continue to prioritize examinations of RIAs that are dually registered as, or are affiliated with, broker-dealers, or have supervised persons who are registered representatives of unaffiliated broker-dealers. Areas of focus will include whether the firms maintain effective compliance programs to address the risks associated with best execution, prohibited transactions, fiduciary advice, or disclosure of conflicts regarding such arrangements. OCIE will also prioritize examining firms that utilize the services of third-party asset managers to advise clients' investments to assess, among other things, the extent of these RIAs' due diligence practices, policies, and procedures.

DID YOU KNOW?
OCIE staff participated in or held more than 100 compliance outreach events in FY 2019.

OCIE has a particular interest in the accuracy and adequacy of disclosures provided by RIAs offering clients new types or emerging investment strategies, such as strategies focused on sustainable and responsible investing, which incorporate environmental, social, and governance (ESG) criteria.

Never-Before and Not Recently-Examined RIAs

OCIE will continue to conduct risk-based examinations of RIAs that have never been examined, including new RIAs and RIAs registered for several years that have yet to be examined. OCIE will also prioritize examinations of RIAs that were previously examined but have not been examined for a number of years to focus on whether the RIAs' compliance programs have been appropriately adapted in light of any substantial growth or change in their business models.

Mutual Funds and ETFs

As retail assets continue to flow into investment companies, OCIE will prioritize examinations of mutual funds and ETFs, the activities of their RIAs, and oversight practices of their boards of directors. Examinations will assess industry practices and regulatory compliance in various areas, including a focus on: (1) RIAs that use third-party administrators to sponsor the mutual funds they advise or are affiliated with; (2) mutual funds or ETFs that have not previously been examined; and (3) RIAs to private funds that also manage a registered investment company with a similar investment strategy.

RIAs to Private Funds

OCIE will continue to focus on RIAs to private funds that have a greater impact on retail investors, such as firms that provide management to separately managed accounts side-by-side with private funds. Moreover, OCIE will review RIAs to private funds to assess compliance risks, including controls to prevent the misuse of material, non-public information and conflicts of interest, such as undisclosed or inadequately disclosed fees and expenses, and the use of RIA affiliates to provide services to clients.

ADDITIONAL FOCUS AREAS INVOLVING BROKER-DEALERS AND MUNICIPAL ADVISORS

In addition to the aforementioned areas focusing on sales practices, broker-dealer examinations will also focus on the safety of customer cash and securities, risk management, certain types of trading activity, the effects of evolving commissions and other cost structures, best execution, and payment for order flow arrangements.

Broker-Dealer Financial Responsibility

Broker-dealers that hold customer cash and securities have a responsibility to ensure that those assets are safeguarded in accordance with the Customer Protection Rule and the Net Capital Rule. Examinations of broker-dealers will continue to focus on compliance with these rules, including the adequacy of internal processes, procedures, and controls.

DID YOU KNOW?

OCIE will continue to publish Risk Alerts describing its national initiatives and outlining findings from examinations in key areas. We believe sharing this information further promotes compliance and protects investors.

Trading and Broker-Dealer Risk Management

OCIE will also examine firms' trading and risk management practices. For example, OCIE will examine firms' trading and other activities in "odd lots," that is, orders under 100 shares. These orders often represent retail interest and require special treatment by broker-dealers to ensure compliance with applicable

laws and regulations, including best execution. OCIE will also continue to examine for controls around the use of automated trading algorithms by broker-dealers. Algorithmic trading has expanded into multiple asset classes and is subject to SEC and FINRA rules governing trading activity. Poorly designed trading algorithms have the potential to adversely impact market and broker-dealer stability. OCIE will, therefore, examine how broker-dealers supervise algorithmic trading activities, including the development, testing, implementation, maintenance, and modification of the computer programs that support their automated trading activities and controls around access to computer code. Finally, OCIE will examine registered firms' use of internal procedures, practices, and controls to manage trading risk.

Municipal Advisors

Municipal advisors provide advice to, or on behalf of, a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities or municipal financial products. OCIE will continue to conduct examinations of municipal advisors, concentrating on whether they have satisfied their registration, professional qualification, and continuing education requirements. OCIE will prioritize the review of municipal advisor fiduciary duty obligations to municipal entity clients, fair dealing with market participant requirements, and the disclosure of conflicts of interest. OCIE will also focus on the conduct of municipal advisors when faced with conflicts while representing their clients, and compliance with recently-effective Municipal Securities Rulemaking Board (MSRB) Rule G-40 concerning advertisements.

AML PROGRAMS

The Bank Secrecy Act requires financial institutions, including broker-dealers and investment companies, to establish anti-money laundering (AML) programs. These programs must, among other things, include policies and procedures reasonably designed to identify and verify the identity of customers and beneficial owners of legal entity customers, perform customer due diligence (as required by the Customer Due Diligence rule), monitor for suspicious activity, and, where appropriate, file SARs with the Financial Crimes Enforcement Network. SARs are used to detect and combat terrorist financing, public corruption, market manipulation, and a variety of other fraudulent behavior.

Given the importance of these requirements, OCIE will continue to prioritize examining broker-dealers and investment companies for compliance with their AML obligations in order to assess, among other things, whether firms have established appropriate customer identification programs and whether they are satisfying their SAR filing obligations, conducting due diligence on customers, complying with beneficial ownership requirements, and conducting robust and timely independent tests of their AML programs. The goal of these

examinations is to ensure that broker-dealers and investment companies have adequate policies and procedures in place that are reasonably designed to identify suspicious activity and illegal money-laundering activities.

MARKET INFRASTRUCTURE

Clearing Agencies

Title VIII of the Dodd-Frank Act requires the SEC to examine, at least once annually, registered clearing agencies that the Financial Stability Oversight Council has designated as systemically important and for which the SEC serves as the supervisory agency (SEC SIFMU Clearing Agencies). Pursuant to Section 807 of the Dodd-Frank Act, the Commission must conduct exams of SEC SIFMU Clearing Agencies in order to assess, among other things: (1) the financial and operational risks borne and presented by them to financial institutions, critical markets and the financial system; (2) their resources and capabilities to monitor and control such risks; (3) the safety and soundness of the organization; and (4) their compliance with the Exchange Act, the rules and regulations promulgated under the Exchange Act, and the Dodd-Frank Act. OCIE fulfills the SEC's requirements under the Dodd-Frank Act through examinations conducted by its Office of Clearance and Settlement and its Technology Controls Program.

DID YOU KNOW?

OCIE encourages market participants to actively and effectively engage regulators and law enforcement in identifying and addressing information security risks.

OCIE will conduct risk-based exams focusing on SEC SIFMU Clearing Agency's core risks, processes, and controls which touch on each requirement of the Dodd-Frank Act. OCIE will also conduct risk-based examinations of other registered clearing agencies.

The Standards for Covered Clearing Agencies are codified in the Exchange Act, and require most registered clearing agencies to, among other things, maintain sufficient financial resources, protect against credit risks, manage member defaults, and manage operational and other risks. Examinations of SEC registered clearing agencies will focus on, where applicable: (1) compliance with the SEC's Standards for Covered Clearing Agencies and other federal securities laws applicable to registered clearing agencies; (2) whether clearing agencies have taken timely appropriate corrective action in response to prior examinations; and (3) other areas identified in collaboration with the SEC's

Division of Trading and Markets and with other regulators. Areas of focus will include liquidity risk management, collateral and investment risk management, default risk management, cyber security and resiliency, and recovery and wind down procedures more generally, among other things.

As part of its examinations, OCIE will also examine registered clearing agencies' governance, legal, compliance and risk management frameworks by reviewing these entities' efforts to escalate deficiencies identified by OCIE and internal auditors and whether they have taken timely and appropriate action to correct those deficiencies and mitigate the risks associated with those deficiencies.

Finally, OCIE consults with the Federal Reserve Board each year on the scope and methodology of the SEC's Dodd-Frank examinations, as required by that Act, and routinely consults with the SEC's Division of Trading and Markets concerning risks it observes in its supervisory role over the above clearing agencies. These risks are incorporated into the risk-based planning of the examinations discussed above.

National Securities Exchanges

National securities exchanges provide marketplaces for facilitating securities transactions and, under the federal securities laws, serve as self-regulatory organizations responsible for enforcing compliance by their members with the federal securities laws and rules and the exchanges' own rules. OCIE will examine the operations of national securities exchanges, especially how they react to market disruptions. OCIE will also examine how the national securities exchanges monitor member activity for compliance with the federal securities laws and rules and will focus on exchange efforts concerning abusive, manipulative, and illegal trading practices to protect the integrity of the marketplace.

Regulation Systems Compliance and Integrity (SCI)

Regulation SCI was adopted by the Commission to strengthen the technology infrastructure of the U.S. securities markets. Among other things, it requires SCI entities, which include national securities exchanges, registered and certain exempt clearing agencies, FINRA, MSRB, plan processors, and alternative trading systems that meet certain volume thresholds, to establish, maintain, and enforce written policies and procedures designed to ensure that their systems' capacity, integrity, resiliency, availability, and security is adequate to maintain their operational capability and promote the maintenance of fair and orderly

markets. When certain personnel at these entities have a reasonable basis to conclude that certain events have occurred, these entities are required to begin to take appropriate corrective action to remedy the event as soon as reasonably practicable and immediately notify the SEC of the occurrence.

OCIE will continue to evaluate whether SCI entities have established, maintained, and enforced written SCI policies and procedures as required. Areas of focus will include IT inventory management, IT governance, incident response, and third party vendor management, including the utilization of cloud services. OCIE will also continue to perform examinations to review whether SCI entities have taken appropriate action in response to past examinations.

Transfer Agents

Transfer agents serve as agents for securities issuers and play a critical role in the settlement of securities transactions. Among their key functions, transfer agents are responsible for maintaining issuers' securityholder records, recording changes of ownership, canceling and issuing certificates, distributing dividends and other payments to securityholders, and facilitating communications between issuers and securityholders.

OCIE will continue to examine transfer agents' core functions, including: the timely turnaround of items and transfers, recordkeeping and record retention, and safeguarding of funds and securities. OCIE examinations will also focus on the requirement for transfer agents to annually file a report by an independent accountant concerning the transfer agent's system of internal accounting controls, as well as compliance with obligations to search for lost securityholders and provide notice to unresponsive payees.

Examination candidates will include transfer agents that serve as paying agents for issuers, transfer agents developing blockchain technology, and transfer agents that provide services to issuers of microcap securities, private offerings, crowdfunded securities, or digital assets.

FOCUS ON FINRA AND MSRB

FINRA

FINRA oversees approximately 3,600 brokerage firms, 156,000 branch offices, and 630,000 registered representatives through examinations, enforcement, and surveillance. In addition, FINRA, among other things, provides a forum for securities arbitration and mediation, conducts market regulation, including by contract for a majority of national securities exchanges, reviews broker-dealer advertisements, administers the testing and licensing of registered persons, and operates industry utilities such as Trade Reporting Facilities.

OCIE conducts risk-based oversight examinations of FINRA. It selects areas within FINRA to examine through a risk assessment process designed to identify those aspects of FINRA's operations important to the protection of investors and market integrity. The analysis is informed by collecting and analyzing extensive information and data, regular meetings with key functional areas within FINRA, and outreach to various stakeholders, including broker-dealers and investor groups. Based on the outcome of this risk-assessment process, OCIE conducts inspections of FINRA's major regulatory programs. OCIE also conducts oversight examinations of the examinations FINRA conducts of certain broker-dealers and municipal advisors. From its observations during all of these inspections and examinations, OCIE makes detailed recommendations to improve FINRA's programs, its risk assessment processes, and its future examinations.

MSRB

MSRB regulates the activities of broker-dealers that buy, sell, and underwrite municipal securities, and municipal advisors. MSRB establishes rules for municipal securities dealers and municipal advisors, supports market transparency by making municipal securities trade data and disclosure documents available, and conducts education and outreach regarding the municipal securities market. OCIE, along with FINRA, conducts examinations of registered firms to ensure compliance with MSRB rules. OCIE also applies a risk assessment process, similar to the one it uses to oversee FINRA, to identify areas to examine at MSRB. Examinations of MSRB evaluate the effectiveness of MSRB's policies, procedures, and controls.

CONCLUSION

These priorities reflect OCIE's assessment of certain risks, issues, and policy matters arising from market and regulatory developments, information gathered from examinations, and other sources, including tips, complaints, and referrals, and coordination with other Divisions and Offices at the SEC as well as other regulators. OCIE welcomes comments and suggestions regarding how it can better fulfill its mission to promote compliance, prevent fraud, identify and monitor risk, and inform SEC policy. Our contact information is available at https://www.sec.gov/ocie. If you suspect or observe activity that may violate the federal securities laws or otherwise operates to harm investors, please notify SEC Staff at https://www.sec.gov/tcr.

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