



**2012
BROKER-DEALER
COORDINATED EXAMINATIONS
PROJECT**

North American Securities Administrators Association, Inc.
Annual Conference
San Diego, California
September 9, 2012

Examination Overview

Results from 236 Examinations* Reported

- 23 % were home offices
- 44 % were one-person branch offices
- 20 % were branch offices with 2-5 agents
- 11 % were branch offices with more than 5 agents
- 2 % were non-branch offices

*(*Examinations/Audits/Investigations)*



Examination Overview

Who Conducted the Exams?

Securities staff from 24 states provided information.

When Were They Conducted?

Between January 1 and June 30, 2012.

Are any exams for the period still ongoing?

Yes, a substantial number of examinations are still ongoing and are not included in these numbers. The majority of these are complex cases relating to sales practice reviews.



Examination Focus

The 2012 Coordinated Broker-Dealer Examinations Project reflects the results of state securities regulators' examinations conducted in the normal course of business.

During the last few years securities regulators have been forced to leverage their resources. As such, the results reflect that a substantial number of examinations were focused. However, even in focused exams, a general overview of the firm's operations is conducted.

Areas reviewed during an examination:

Sales Practices

Supervision

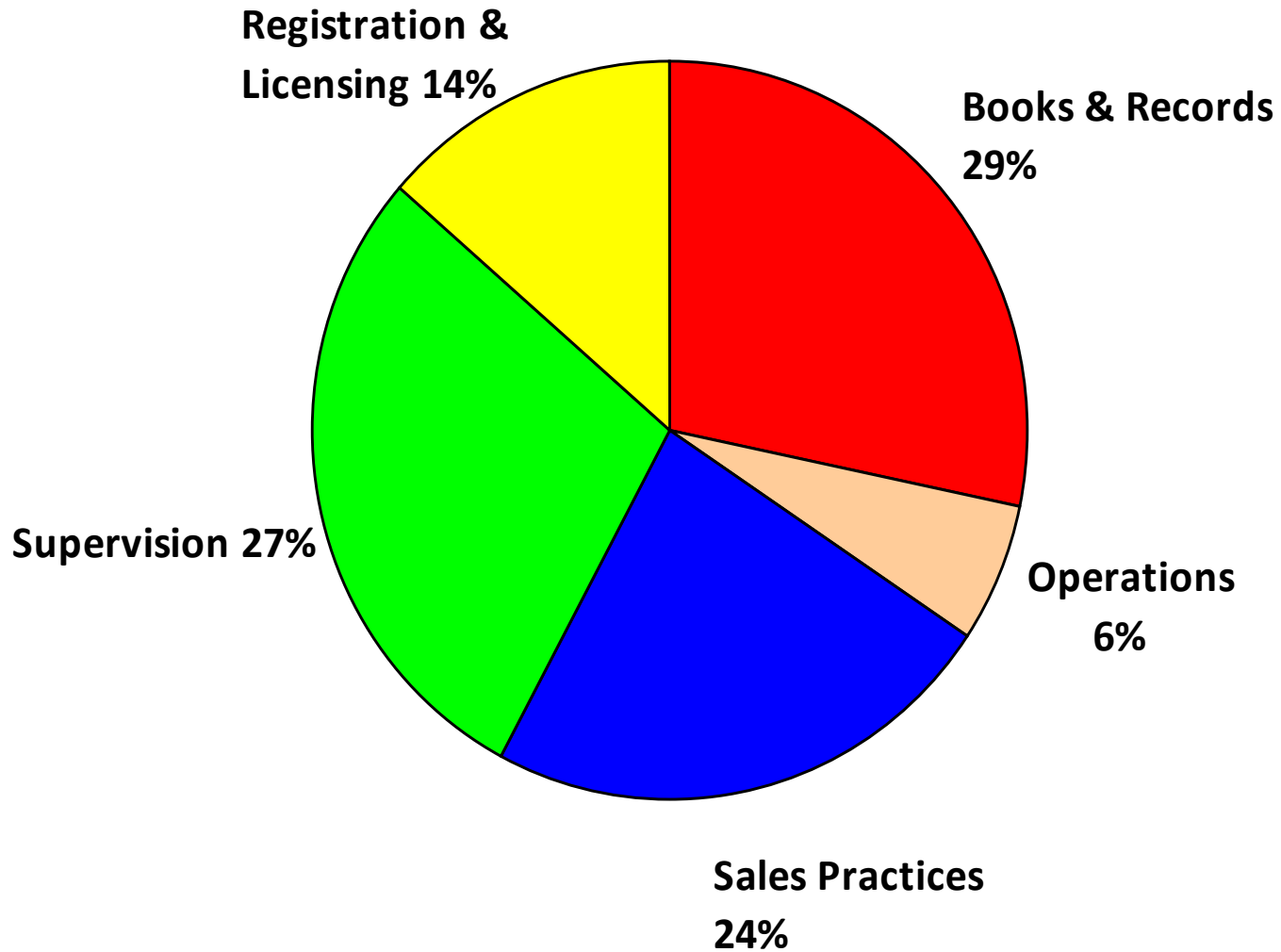
Operations

Books & Records

Registration/Licensing

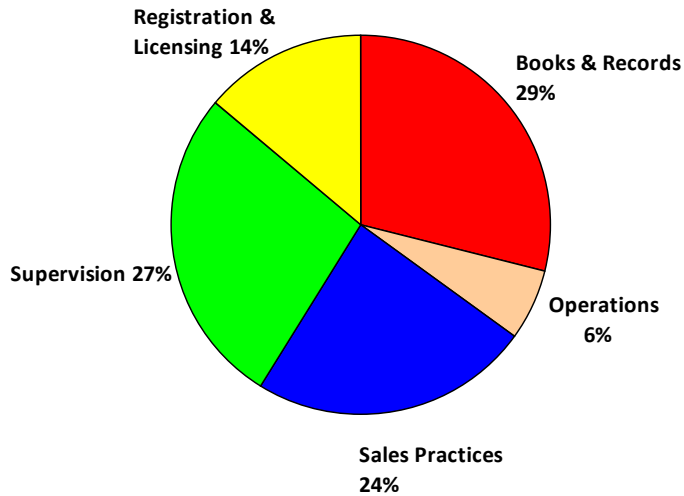


453 TOTAL VIOLATION TYPES FOUND in 2012

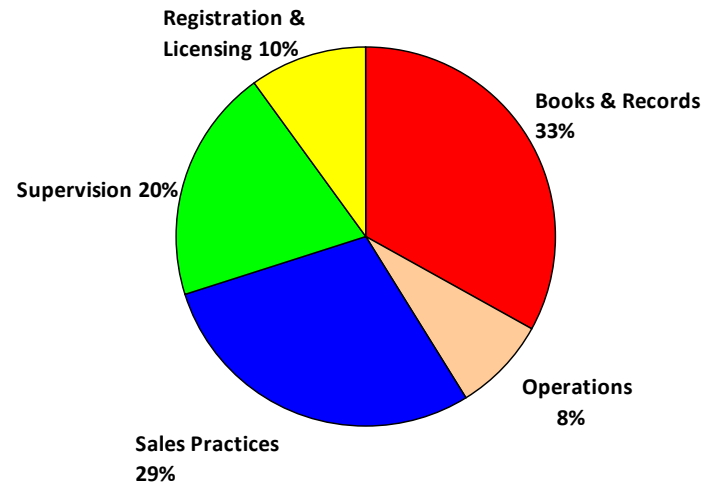


Violation Types 2012 vs. 2010

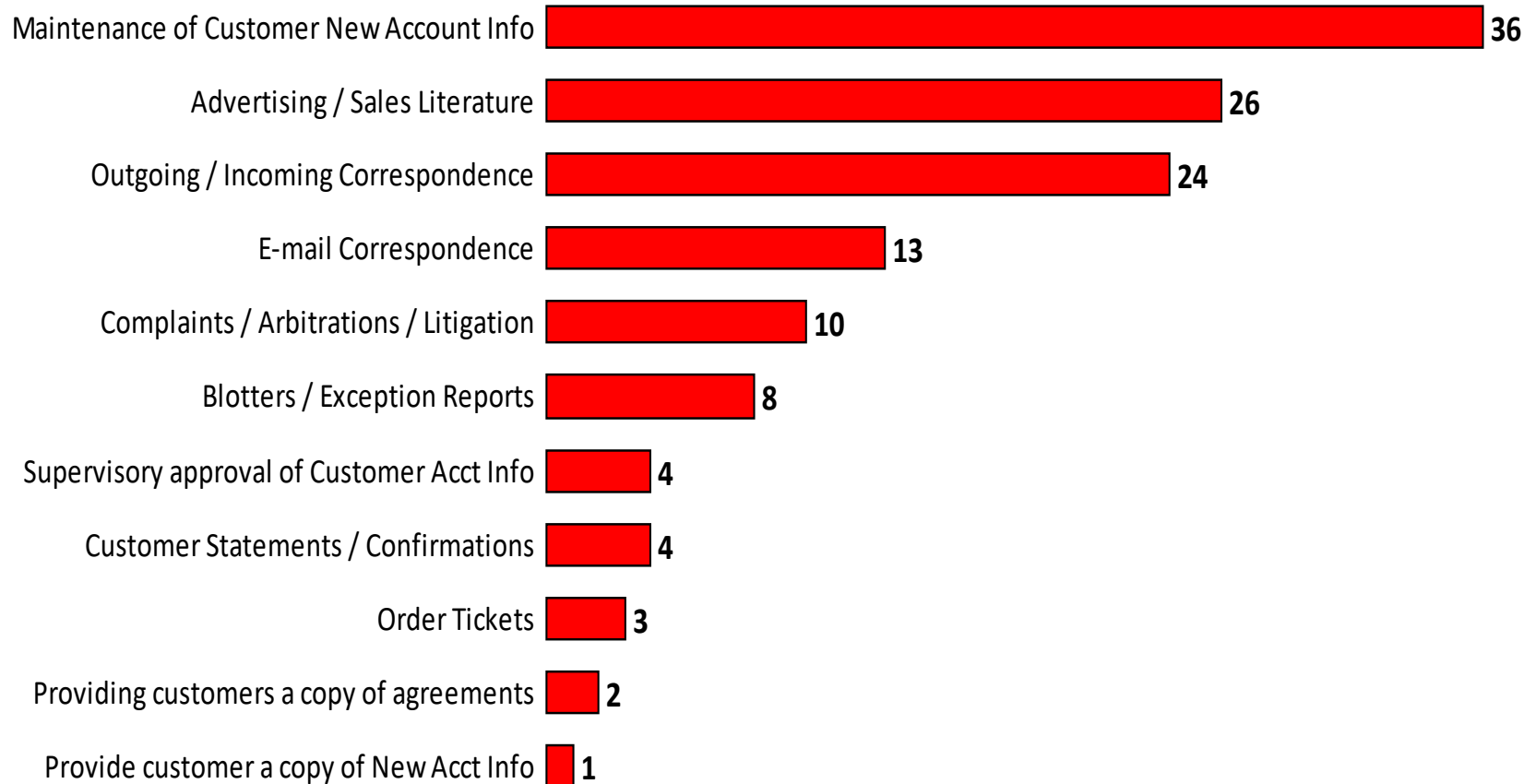
453 TOTAL VIOLATION TYPES FOUND in 2012



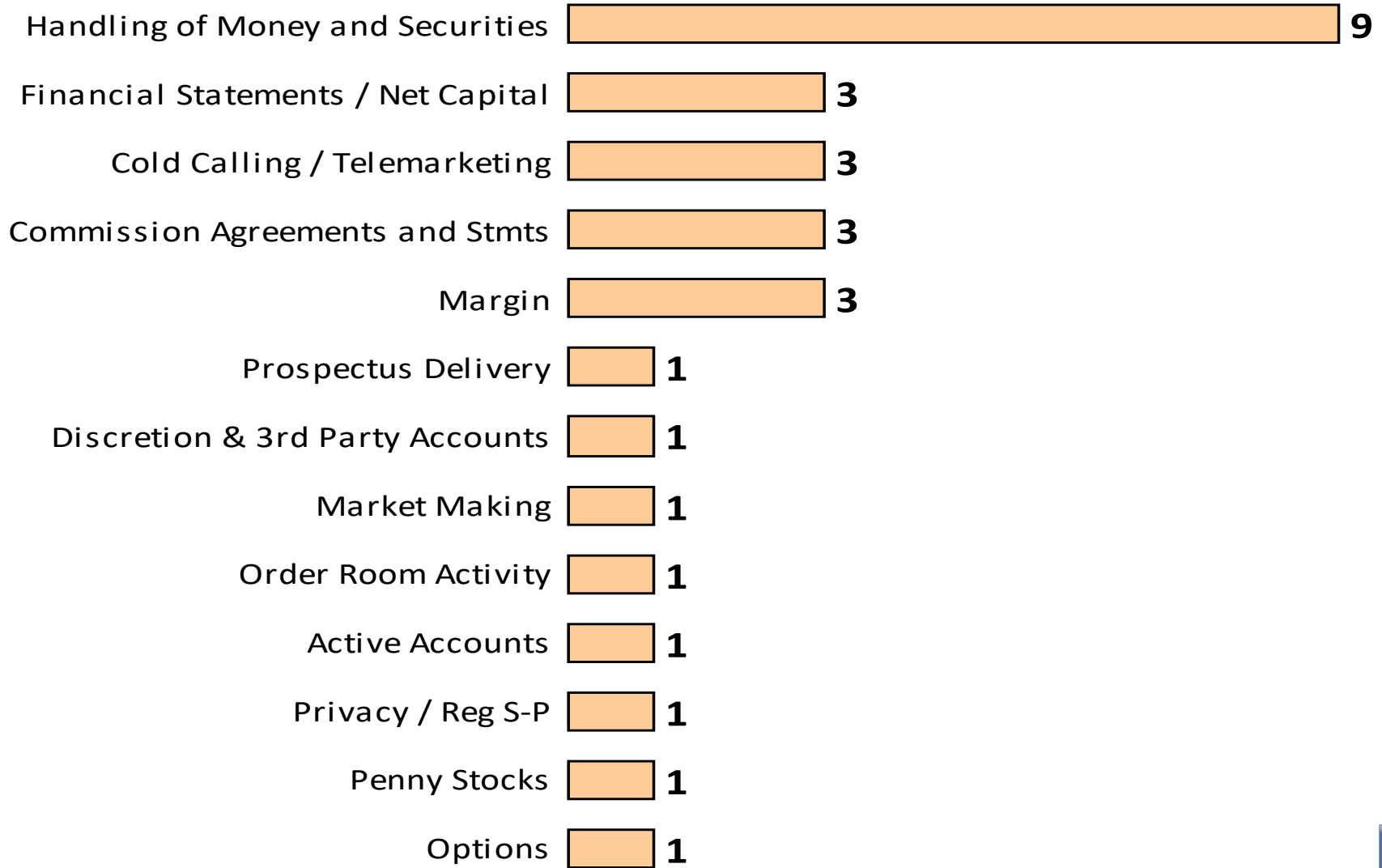
567 TOTAL VIOLATION TYPES FOUND in 2010



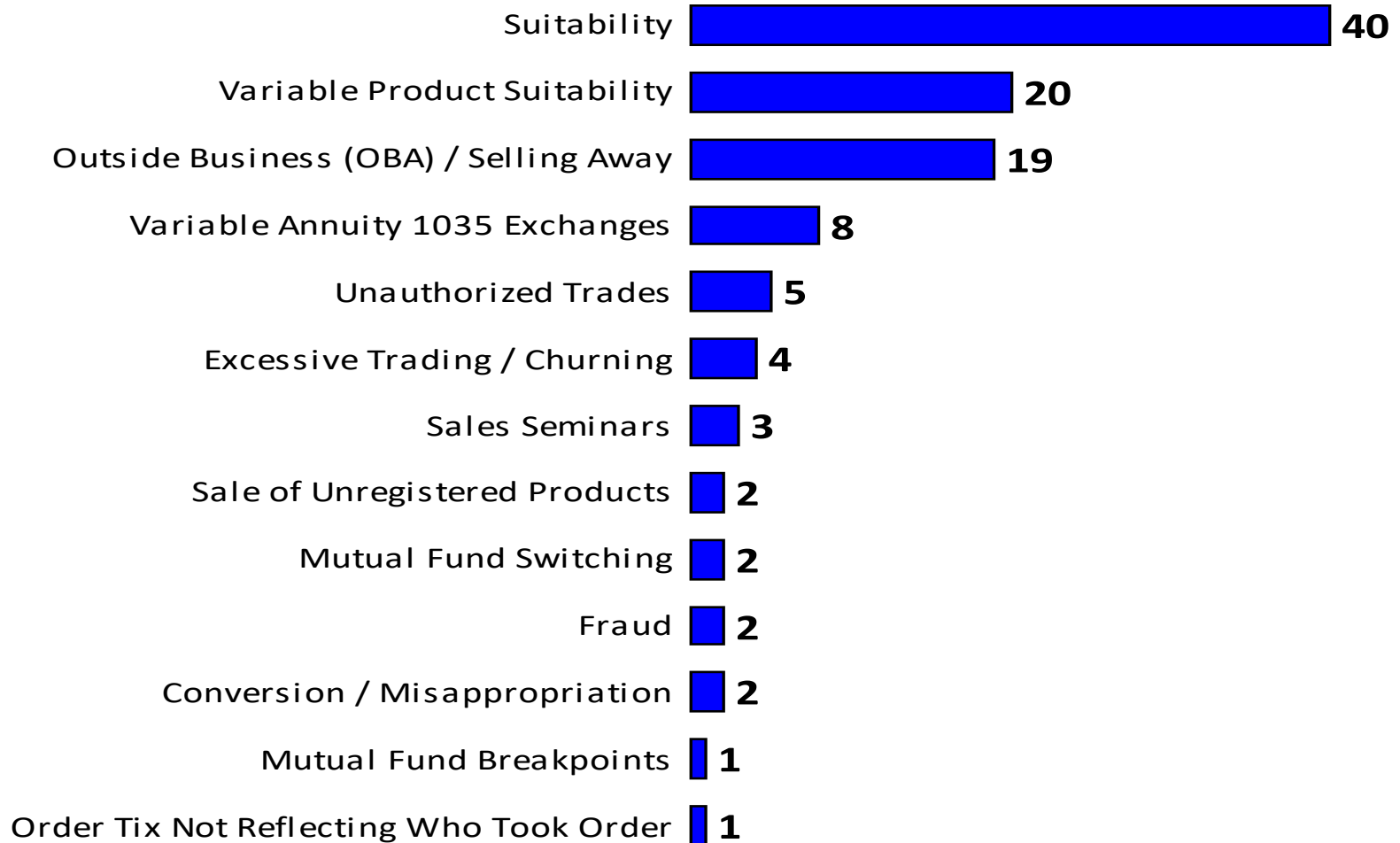
BOOKS & RECORDS REVIEW - 131 violation types



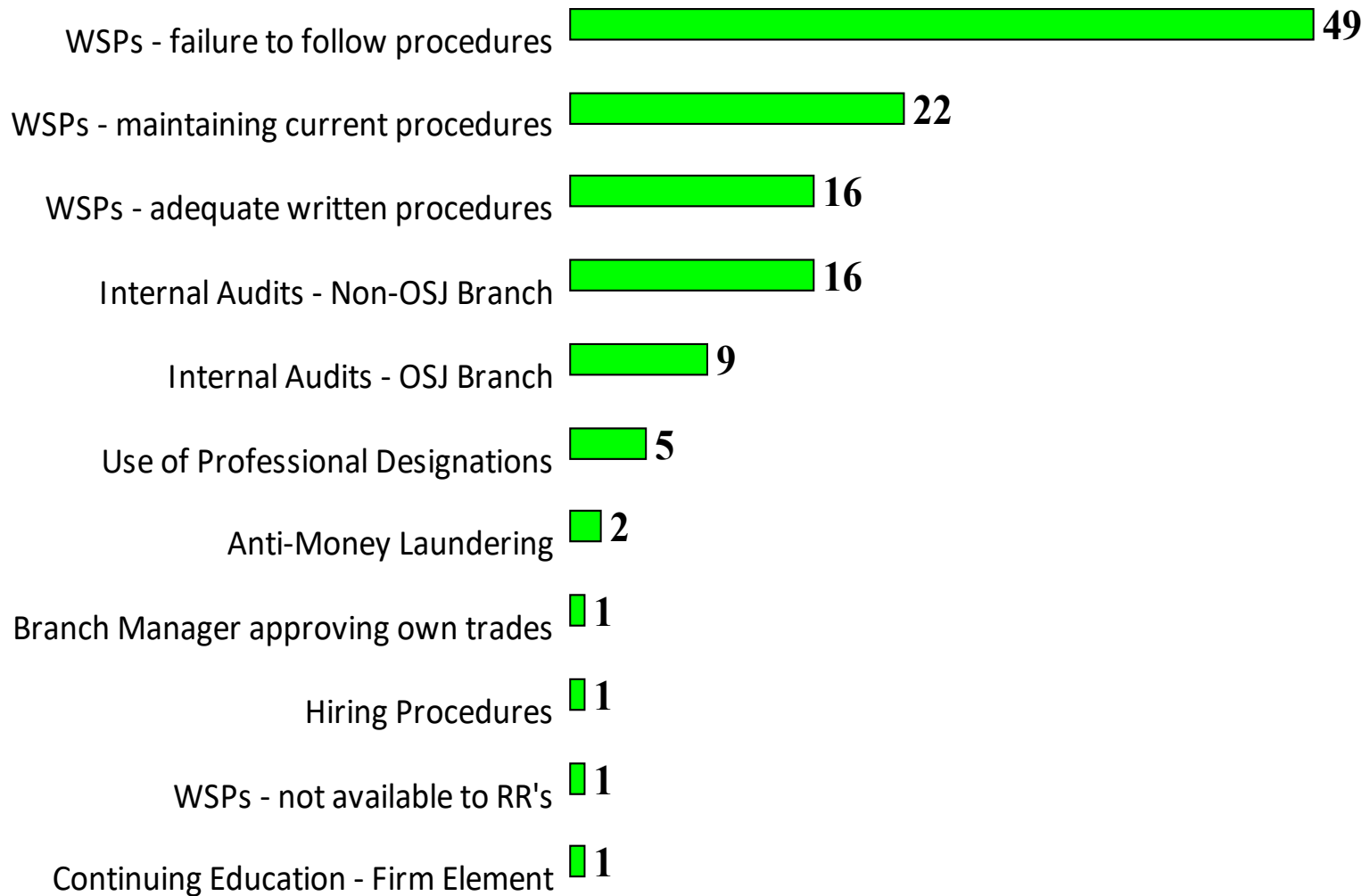
OPERATIONS REVIEW - 29 violation types



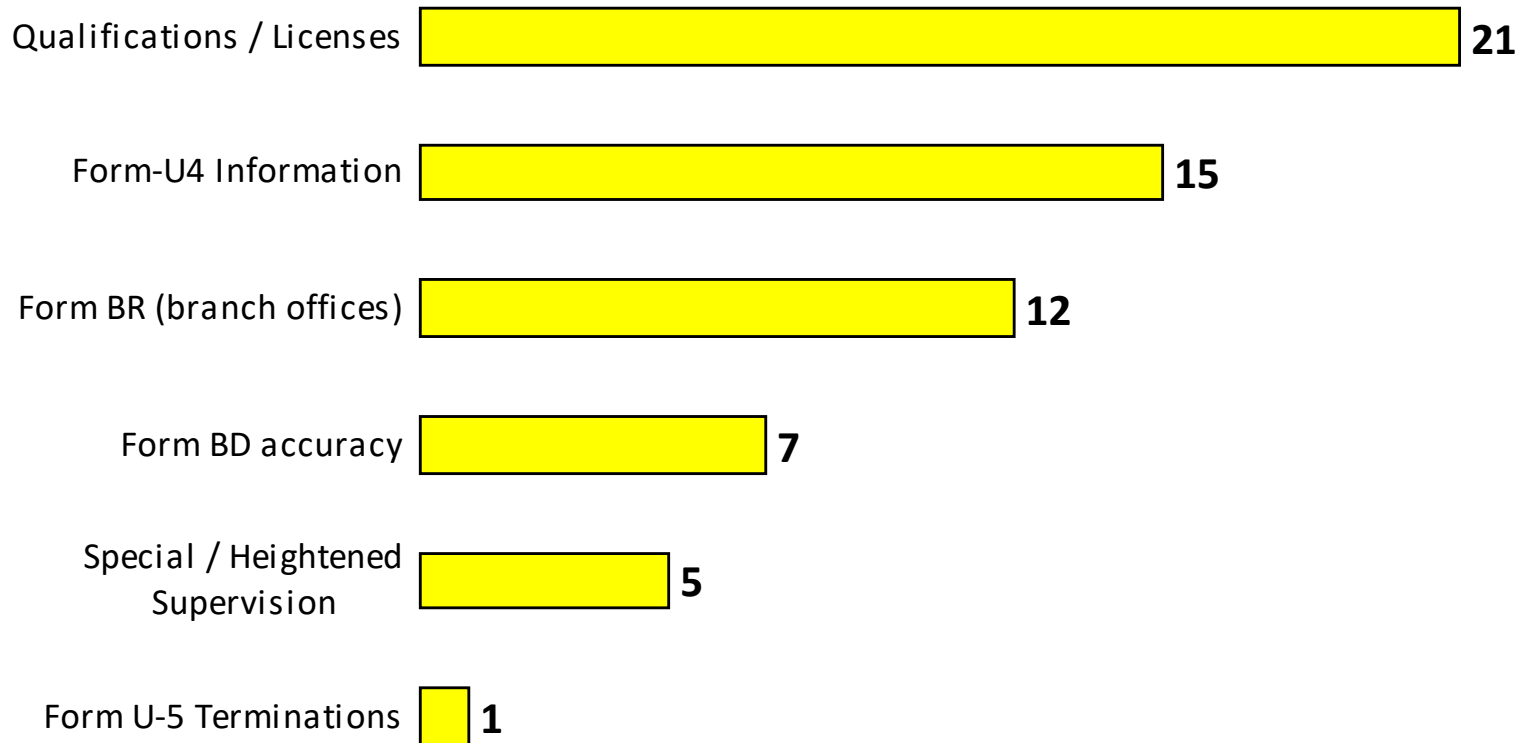
SALES PRACTICES - 109 violation types



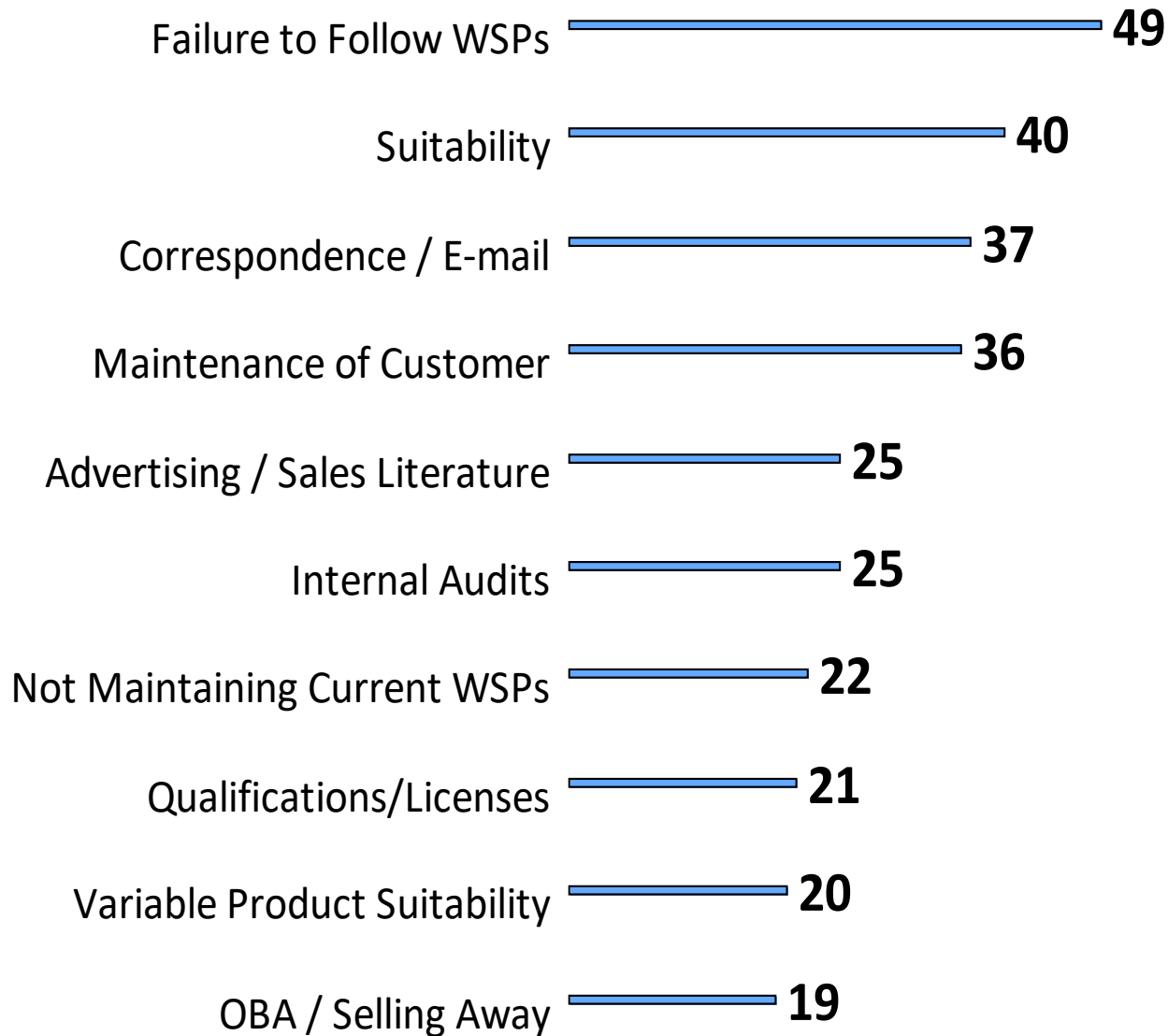
SUPERVISION - 123 violation types



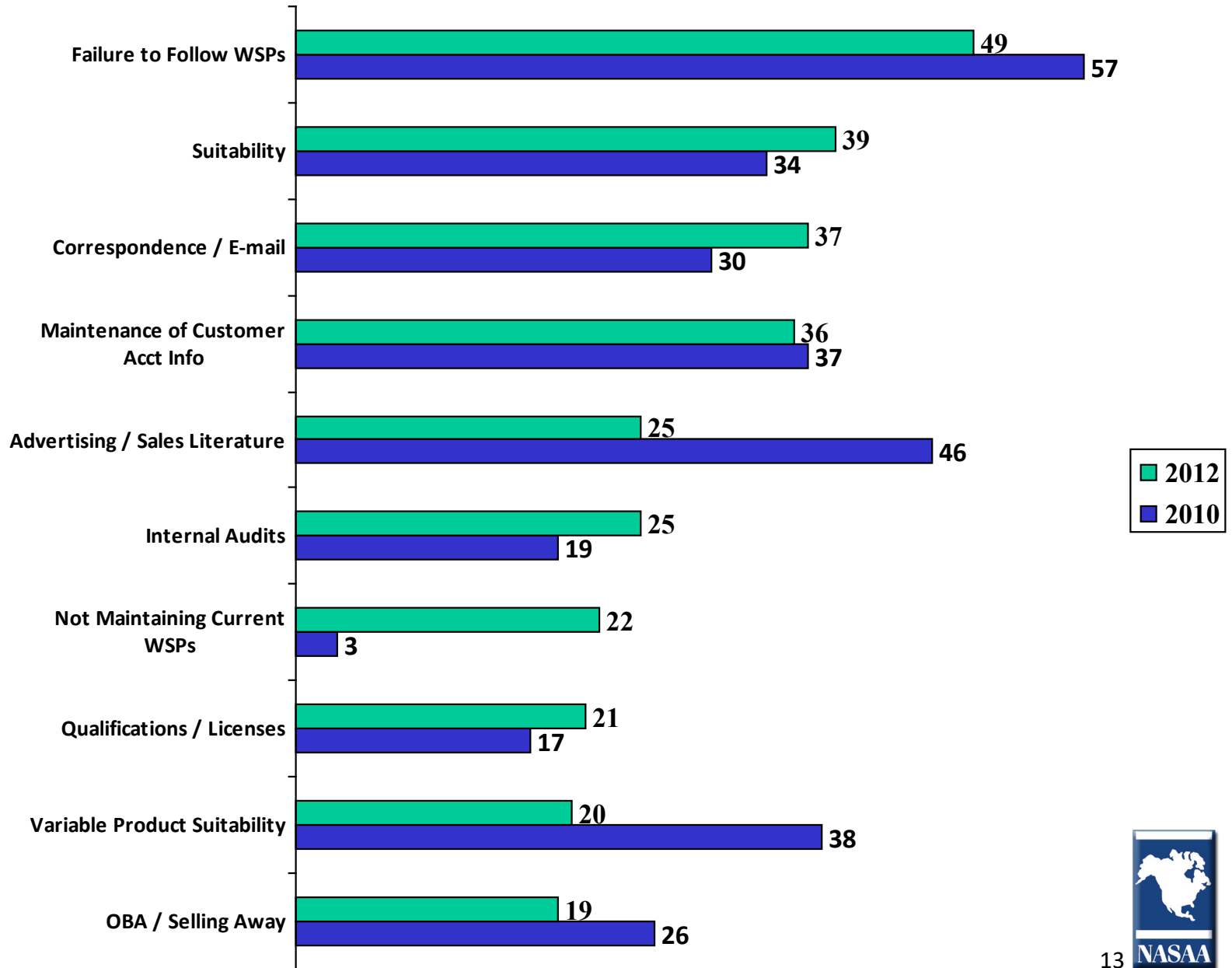
REGISTRATION & LICENSING - 61 violation types



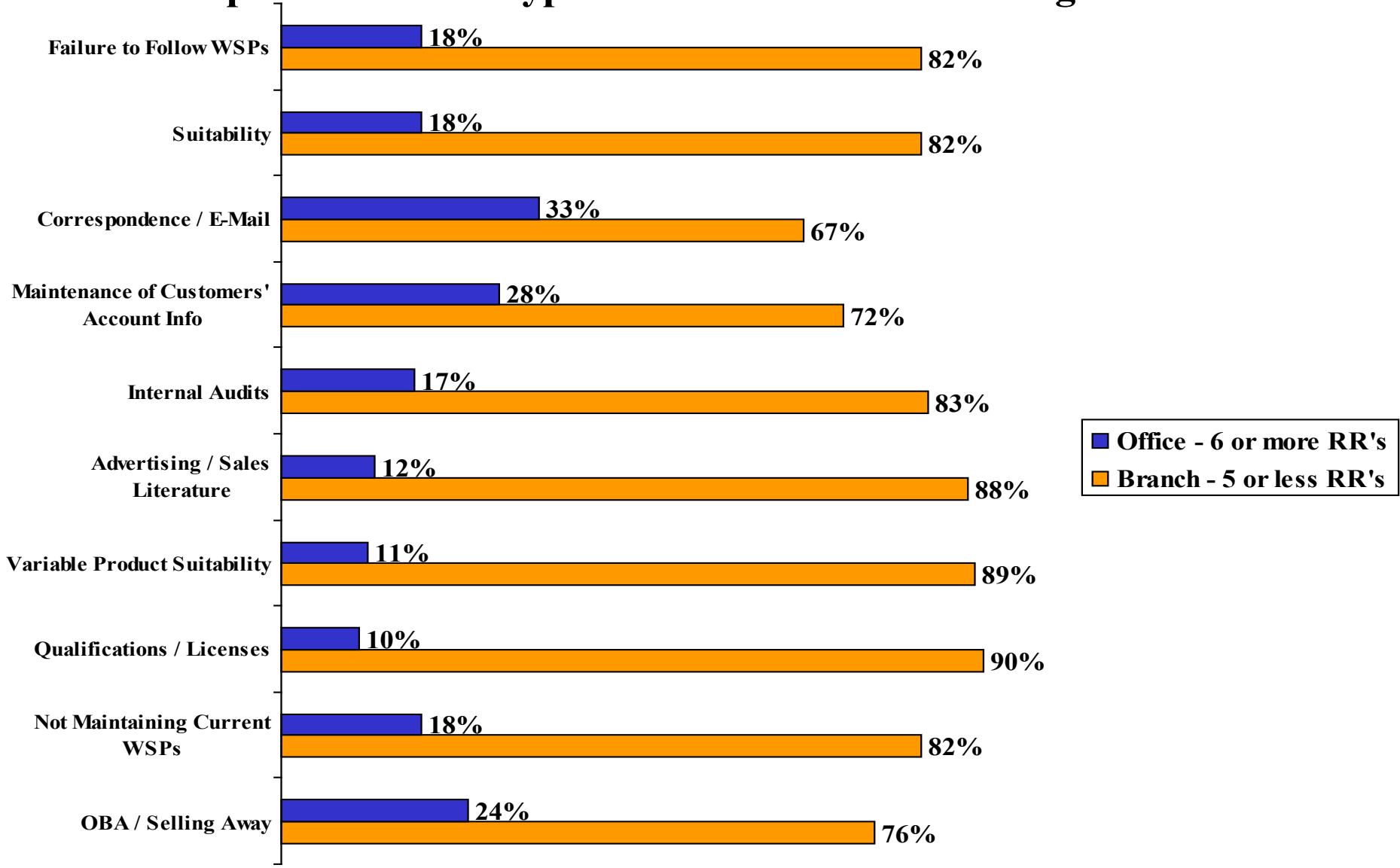
TOP 10 VIOLATION TYPES



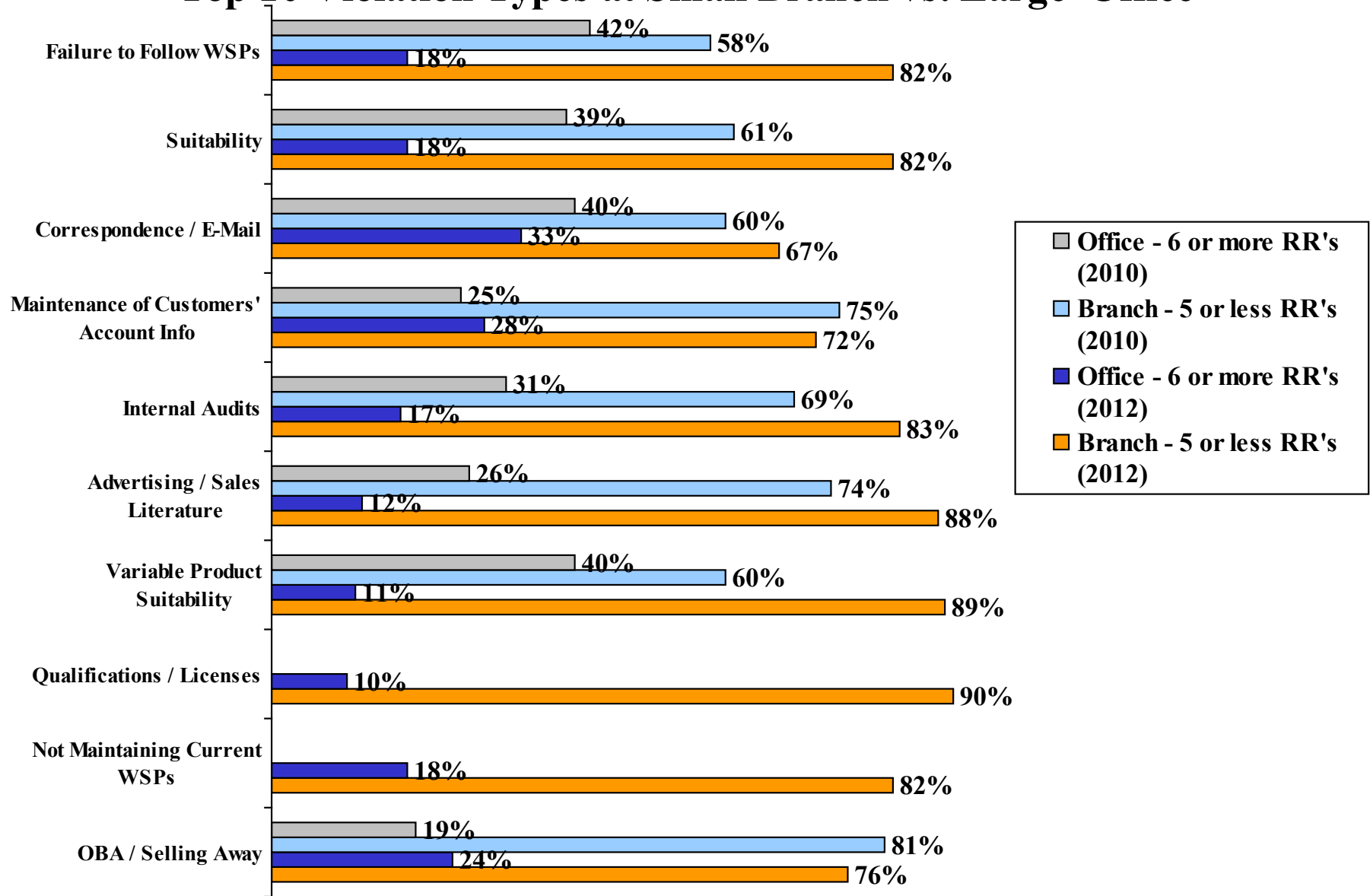
TOP 10 VIOLATION TYPES (2012 vs 2010)



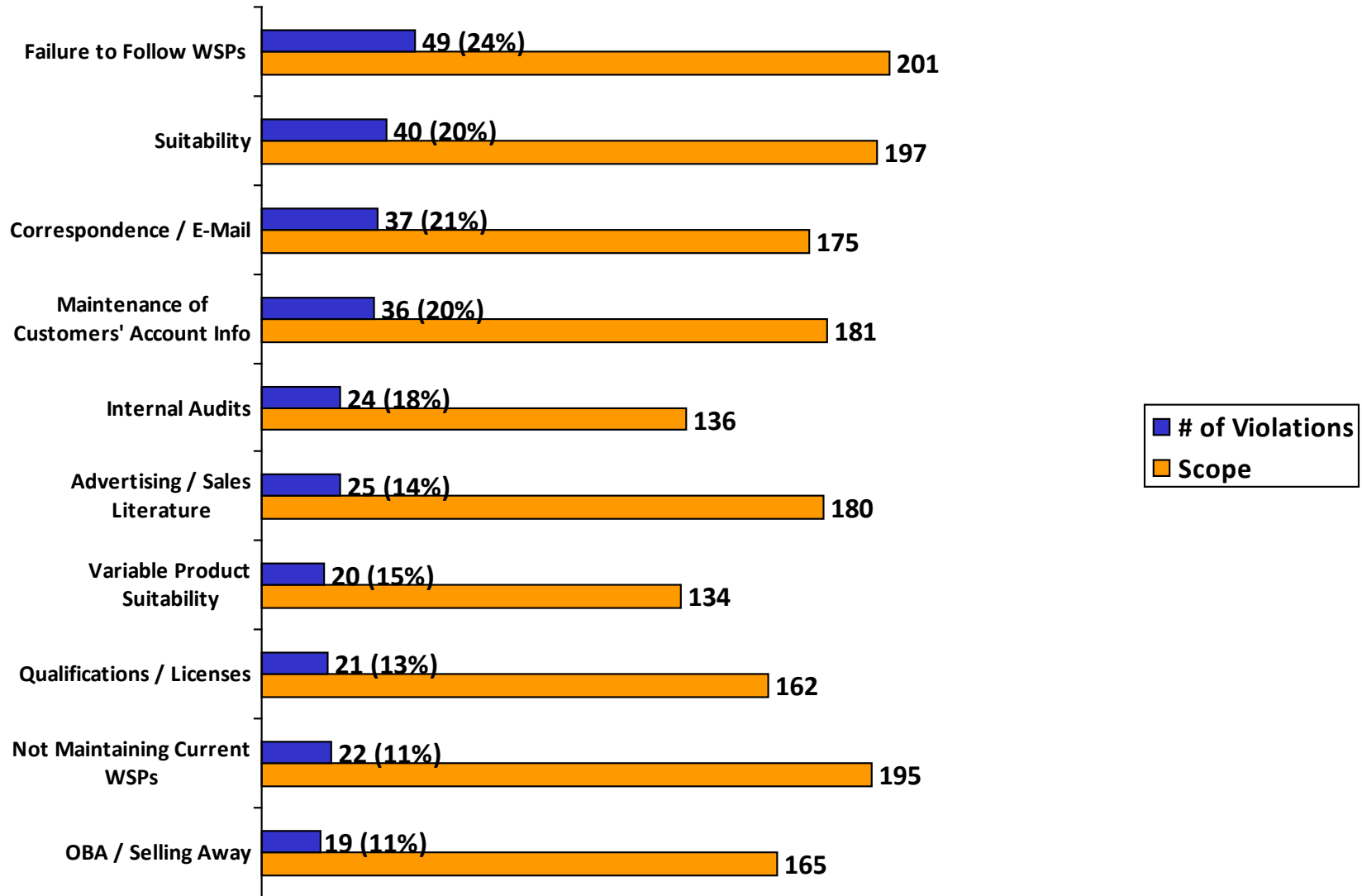
Top 10 Violation Types at Small Branch vs. Large Office



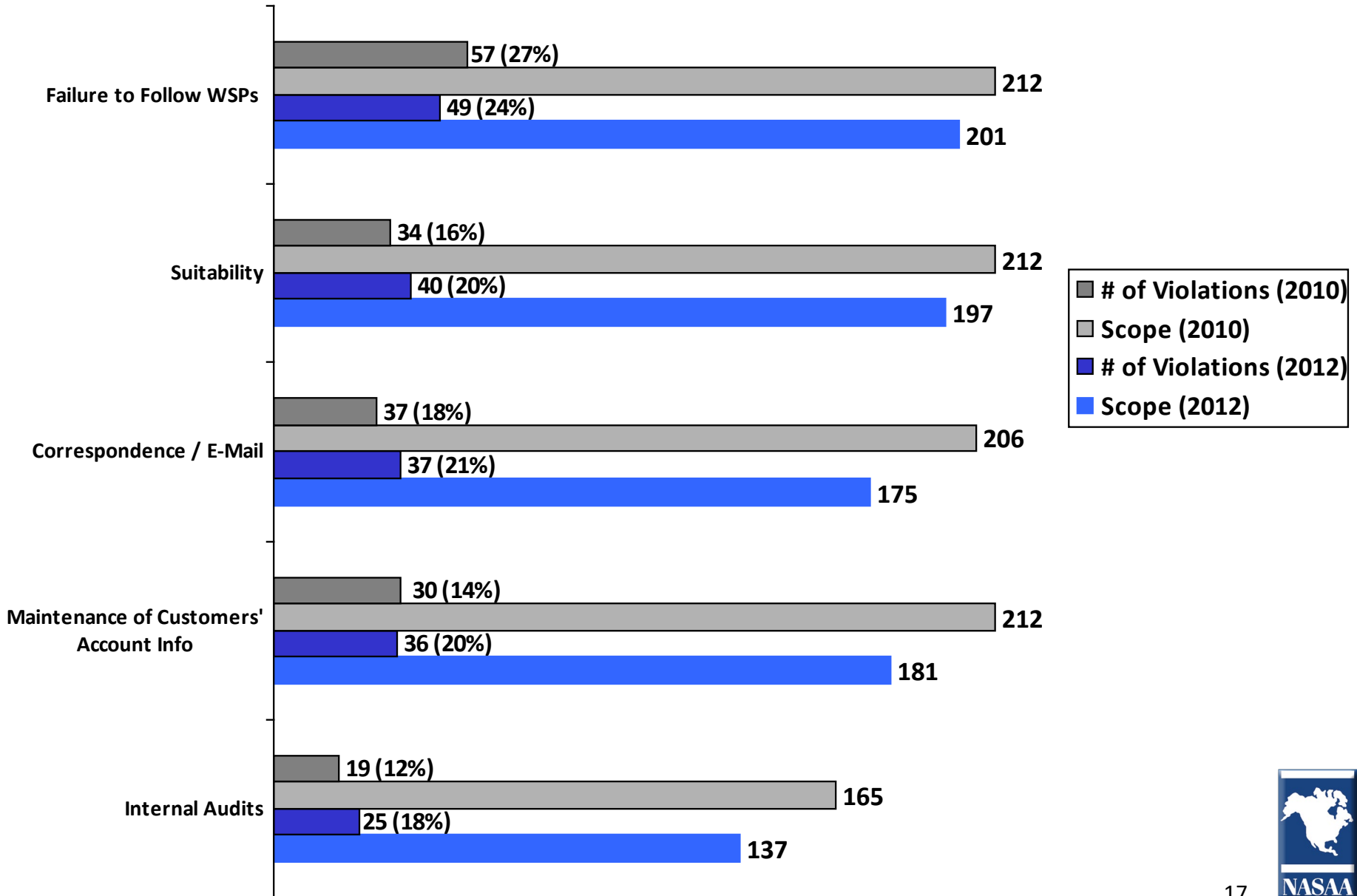
Top 10 Violation Types at Small Branch vs. Large Office



Number of Violation Types vs. Scope

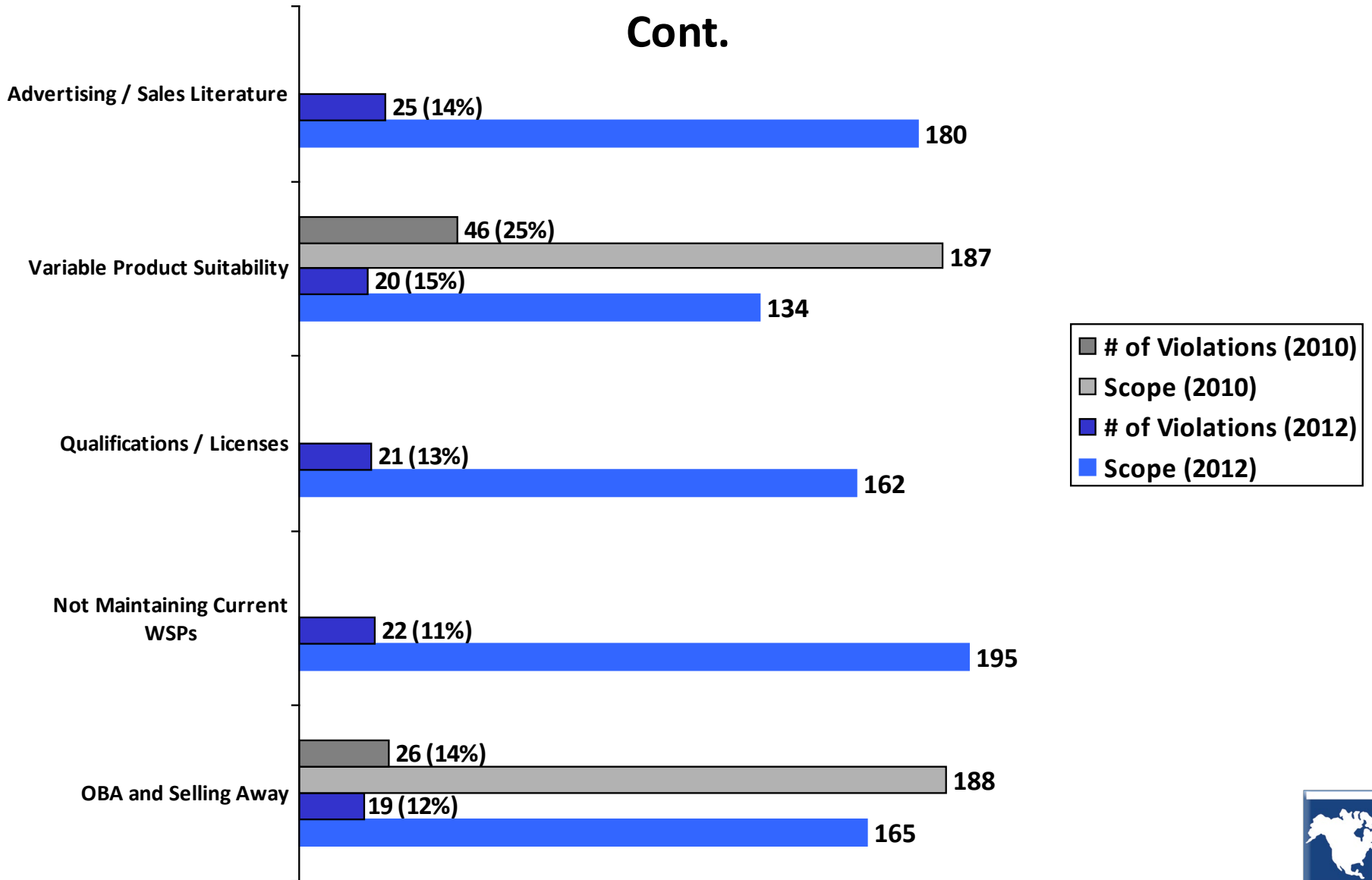


Number of Violation Types vs. Scope (2012 vs. 2010)



Number of Violation Types vs. Scope (2012 vs. 2010)

Cont.



HOT TOPICS AND BEST PRACTICES FOR BROKER DEALERS

1) Suitability

Broker Dealers (“BDs”) must develop effective standards and criteria for determining suitability. State regulations and FINRA Rules 2090 and 2111 require registered persons to “know your customer” and receive training sufficient to demonstrate knowledge of products prior to sale.

2) Develop, Update, and Enforce Written Supervisory Procedures

BDs should also ensure that staffing and expertise are commensurate with the size of the BD, type(s) of business engaged in by the firm, and the individual responsible for specific procedures. With recent announcements of BD staff reductions, state securities regulators are concerned that proper internal controls and the ability to respond to customer service and regulatory inquiries will continue to be maintained.



HOT TOPICS AND BEST PRACTICES (cont.)

3) Exception Reports

Introducing dealers should obtain the necessary exception reports from the clearing dealer to ensure proper compliance. Upon the generation of exception reports, all BDs must document and resolve “red flags” in a timely manner. BDs that rely solely upon conversations with salespersons to address exception reports without contacting investors may subject themselves and supervisory staff to regulatory and/or legal action.

4) Branch Office Audits

Develop a branch audit program which includes a meaningful audit document/plan, unannounced visits, a means to convey audit results, and a follow-up plan requiring that the branch take corrective action.



HOT TOPICS AND BEST PRACTICES (cont.)

5) Selling Away

BDs must ensure that adequate procedures are in place to address private securities transactions (selling away). If this activity is permitted, the firm's written supervisory procedures should be adequate to monitor this activity on an ongoing basis. The BD's procedures must have a mechanism to conduct a meaningful review of the request and in the instance where the request is denied, a process to determine the salesperson is/has not engaged in the activity. Additional violations which may be charged in selling away cases include, but are not limited to, fraud, sale of unregistered securities, and supervision.

6) Outside Business Activity

Written outside business activity requests from salespersons must be received, reviewed and approved by the firm prior to the activity. The BD and salesperson are required to report the outside business activity on the salesperson's Form U-4. The firm should have a supervisory procedure in place to address its approval/denial process and a requirement that the salesperson promptly report any changes to the approved outside activity.



HOT TOPICS AND BEST PRACTICES (cont.)

7) Advertisements

Advertisements and sales literature MUST be fair and balanced and MUST be approved by the BD and/or FINRA. Seminar notices/advertisements, programs, seminar materials utilized, and guest speakers must be approved by the BD. In instances where the salespersons routinely conduct seminars, a supervisory representative of the firm should randomly attend the seminar for compliance purposes. Remember, your advertisements are published into the public domain and regulators, the public, and your competitors are watching.

8) Correspondence

Correspondence, both electronic and hard copy, must be effectively monitored by the BD. This includes a system of capturing and maintaining electronic business-related correspondence sent by salespersons from websites and social network service providers outside the firm. For additional guidance, refer to FINRA Notice 11-39.



HOT TOPICS AND BEST PRACTICES (cont.)

9) Customer Complaints

Upon receipt of a complaint, firms must acknowledge receipt, conduct and document a thorough review of the customer's allegations, and, if necessary, update the salesperson's Form U-4. In situations where the firm discovers wrongdoing, the firm should redress customer harm. Timely reporting and remediating customer harm are some of the factors under NASAA guidelines to determine if the firm is entitled to credit for cooperation.

10) Dealing with Senior Citizens

Baby Boomers are now moving into retirement. As we age into our "golden years" our cognitive abilities begin to wane. BDs and, for that matter, financial professionals should develop procedures/best practices for handling accounts of "senior" investors. A number of the recommendations relating to these best practices are contained in joint reports issued in 2008 and 2010 by NASAA, SEC, and FINRA found below.

www.nasaa.org/1535/nasaa-sec-finra-publish-updated-best-practices-for-firms-serving-senior-investors/



Comments & Questions

