

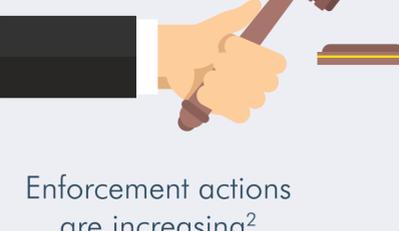


Survive FINRA and SEC Audits

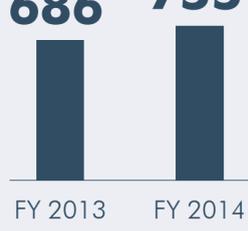
Regulators Aren't Letting Up

In 2014

FINRA referred **700+** fraud cases for prosecution¹



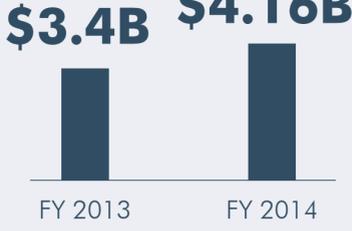
Enforcement actions are increasing²



FINRA levied **\$166.3M** in fines and restitution¹



Penalties have grown as well²



In Fact, Regulators Are Just Getting Started



Expect More Audits

The SEC seeks to hire **225 more staff members** in fiscal year 2016, which would **increase the number of audits** taking place.³

Prepare for More Rules

As of July 1, 2015, member firms face FINRA Rule 3110(e), requiring **verification of the accuracy and completeness** of information on an applicants' form U4.



Are You Prepared?

It is **rare** that an exam does not discover some deficiencies in a firm's policies⁴

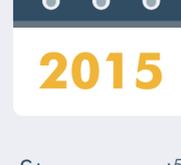


"... firms should keep in mind that sometimes it is the **one out of 20 items** that it failed to deal with that ends up going wrong and leads to a FINRA finding."⁴

Recommendations for preparing for an SEC audit include:



Organize all records⁵



Stay current⁵

Want to survive an SEC audit? Go Paperless³

An SEC exam can last weeks or even months. "... practices that are paperless typically get through an SEC exam ... much quicker."³



Most examinations succeed or fail based on books and records⁶



81% of firms examined in the past year were asked to produce email records



41% were asked for website pages



25% for instant messages



19% Bloomberg/Reuters messages



17% social media⁷

"It is never too late to adopt new procedures or make other changes before an exam. A firm avoids fixing the identified problem at its peril, since it only makes matters worse if, having identified the defect, it chose to do nothing about it."⁴

- The Review of Securities & Commodities Regulation

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¹ FINRA Statistics
² John Eisenberg, "2014 SEC and FINRA Enforcement Actions Against Broker-Dealers and Investment Advisors," K&L Gates Legal Insight, December 2, 2014
³ Alessandra Malito, "Want to survive an SEC audit? Go paperless," Investment News, April 22, 2015
⁴ Daniel Nathan and Justin Kletter, "Preparing for and Enduring a FINRA Exam," The Review of Securities & Commodities Regulation, Vol. 47, No. 2, January 22, 2014
⁵ Andrew Bloomenthal, "How To Be sure You're Prepared for a SEC Audit," Investopedia, August 10, 2015
⁶ John Anderson, "Five tips to Avoid Sabotaging Your SEC Exam," SEIblogs.com, January 30, 2014
⁷ Jimmy Douglas, "Tips on How to Successfully Prepare for FINRA or SEC Exam," Smarsh Blog, January 7, 2014