

2010  
BROKER-DEALER  
COORDINATED  
EXAMINATIONS PROJECT

North American Securities  
Administrators Association

## **Results from 290 Examinations Reported**

- 19% were home offices
- 50% were one-person branch offices
- 18% were branch offices with 2-5 agents
- 10% were branch offices with more than 5 agents
- 3% were non-branch offices

## **Who Conducted the Exams?**

Securities examiners from 30 states provided information.

## **When Were They Conducted?**

Between January 1 and June 30, 2010

## **Are any exams for the period still ongoing?**

Yes, a substantial number of examinations are still ongoing. The majority of these are complex cases relating to Sales Practice Reviews.

# Examination Focus

The focus/emphasis of the last Coordinated Broker-Dealer Exam Sweep in 2006 related to firms' compliance with the then new books and records rules which were adopted in 2003 as we approached the 3-year anniversary.

The 2010 Coordinated Broker-Dealer Exams Sweep reflects the results of the states securities regulators' examinations conducted during 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.

**Examinations focused on number of different areas:**

**Sales Practices**

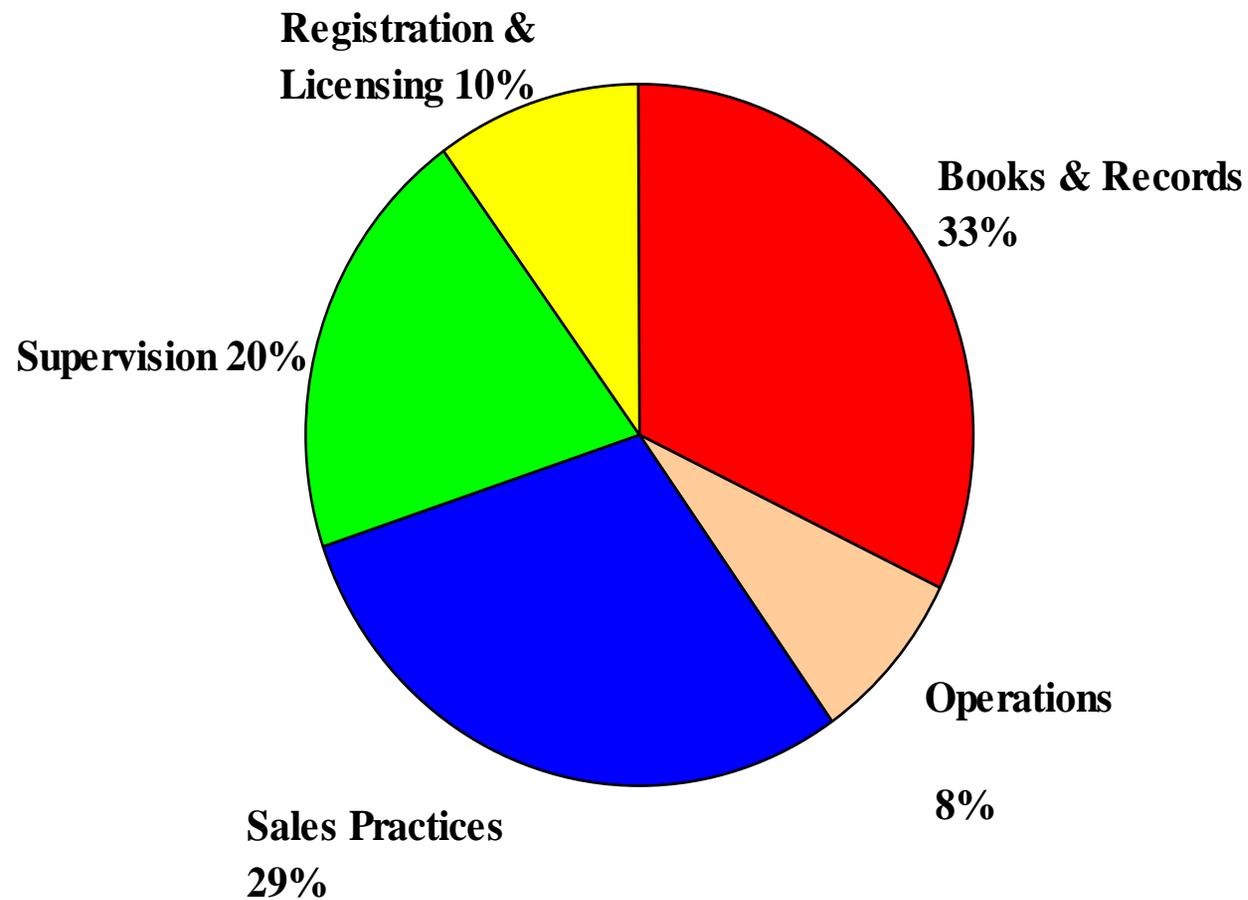
**Supervision**

**Operations**

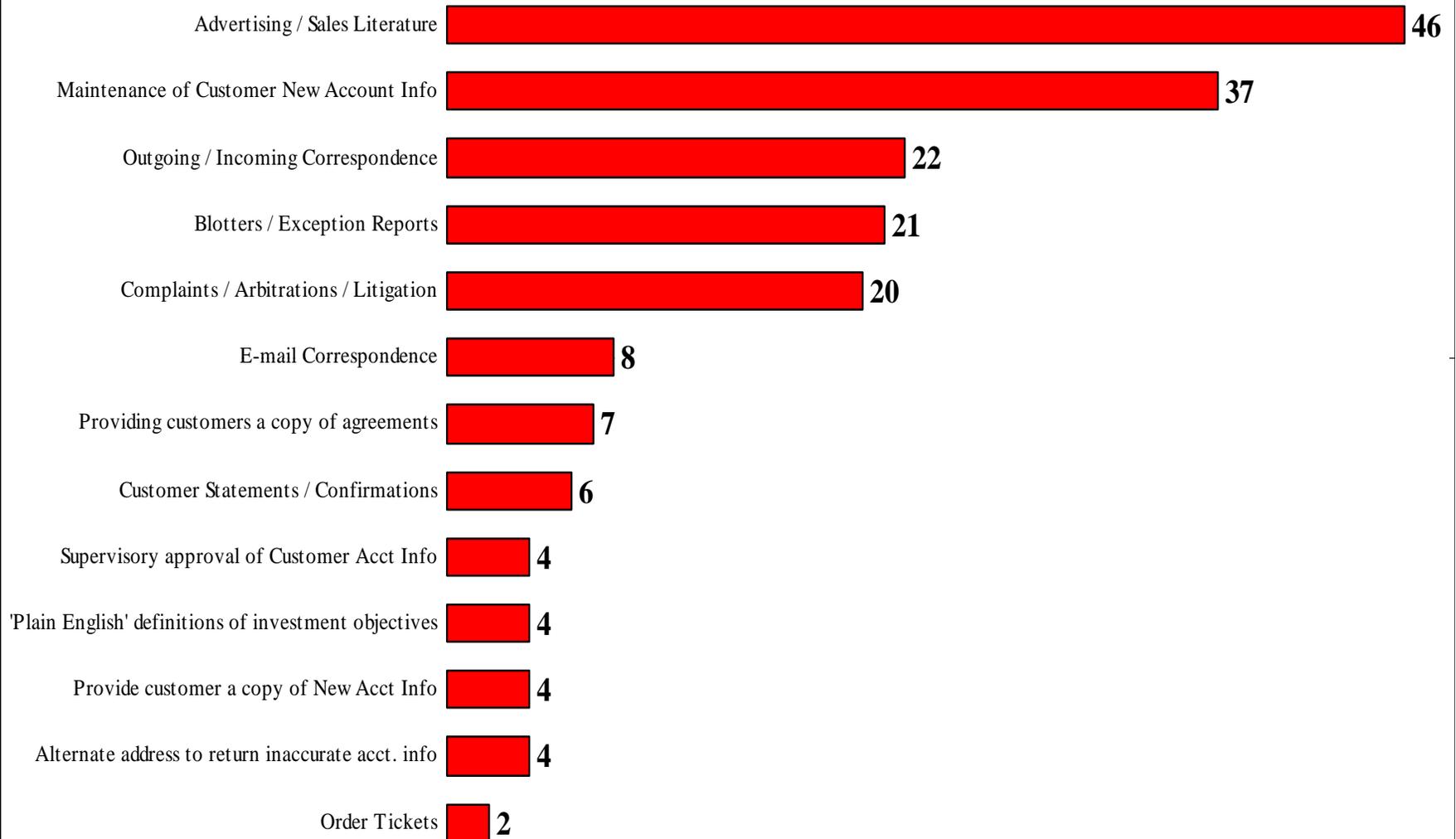
**Books & Records**

**Registration/Licensing**

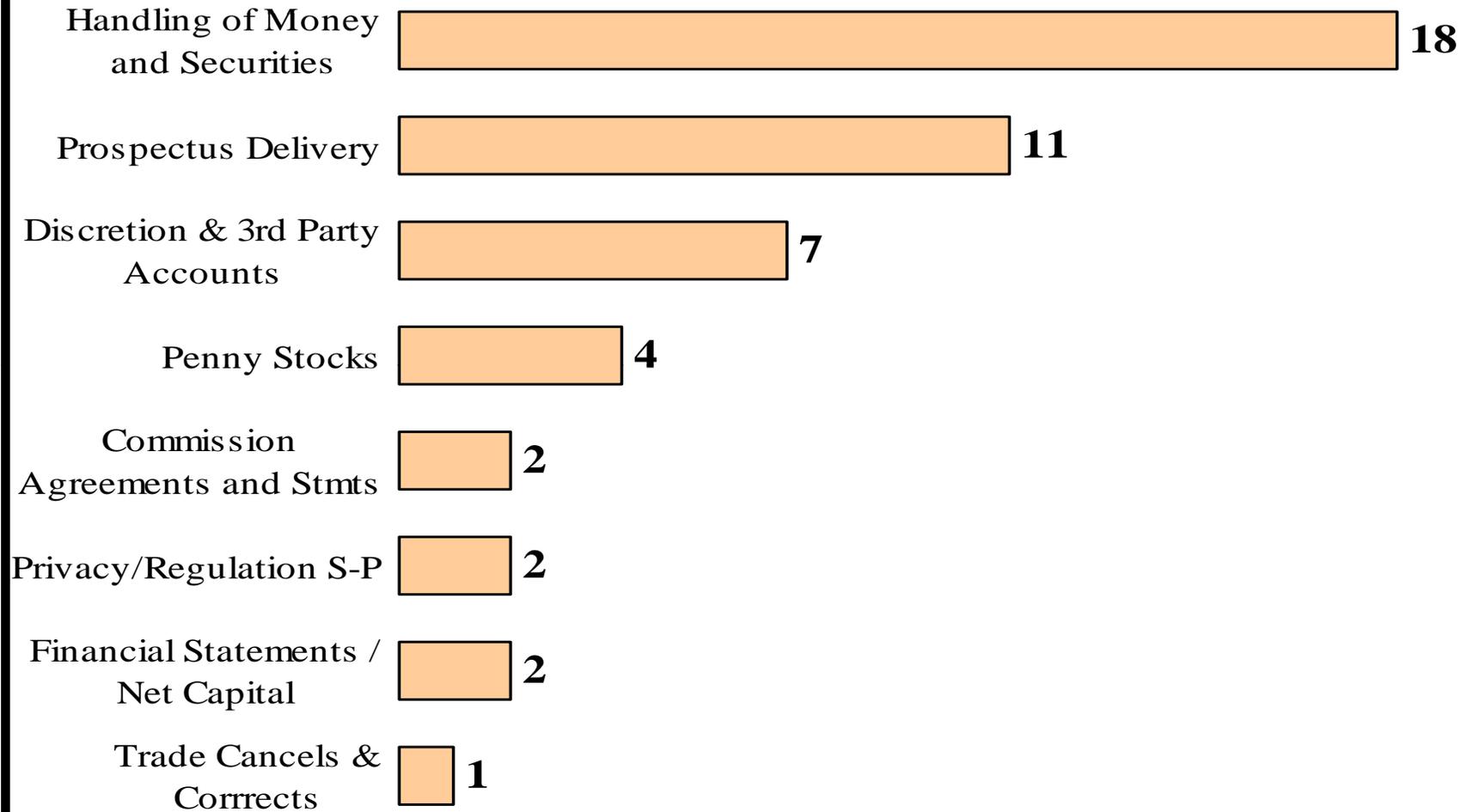
# 567 TOTAL DEFICIENCIES FOUND



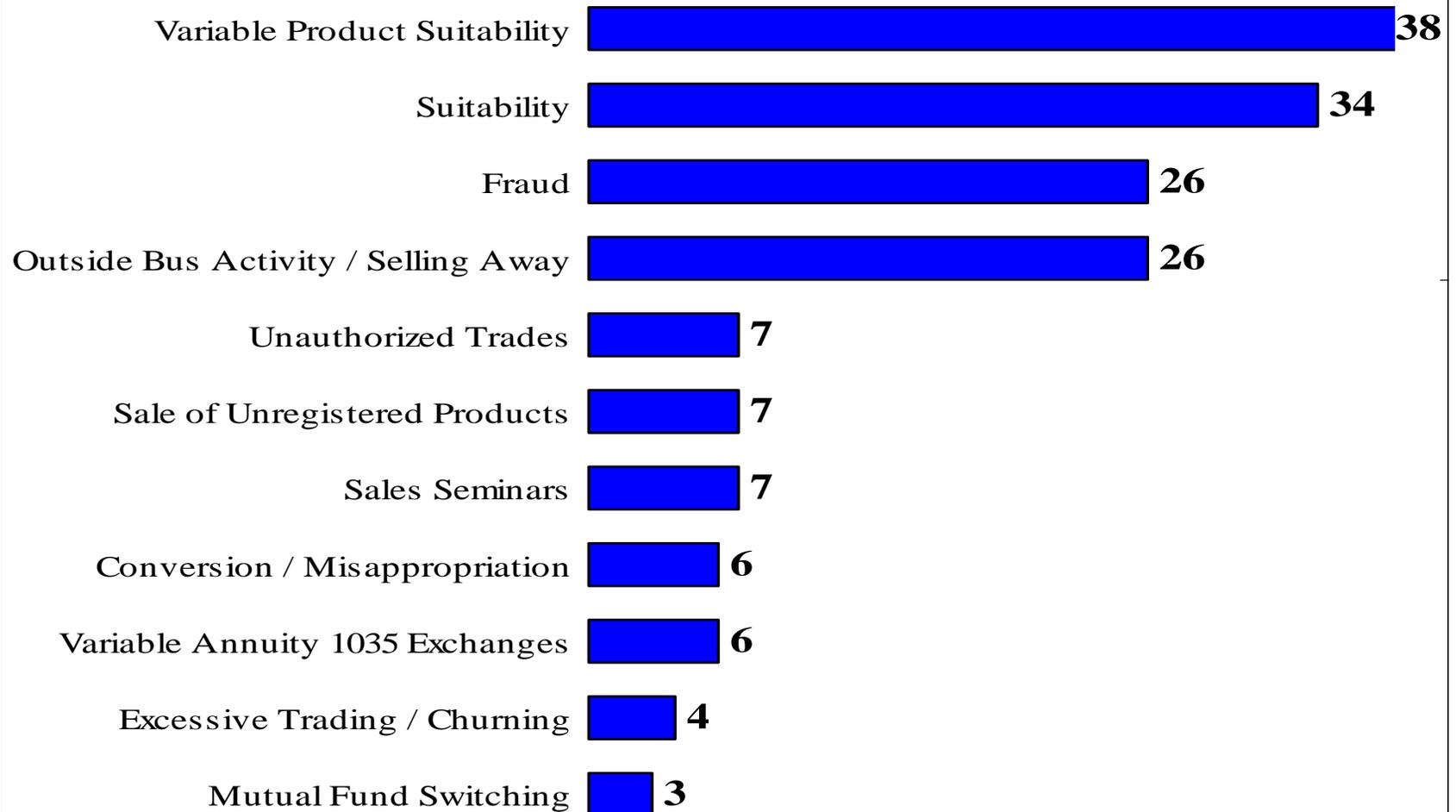
## BOOKS & RECORDS REVIEW - 185 deficiencies



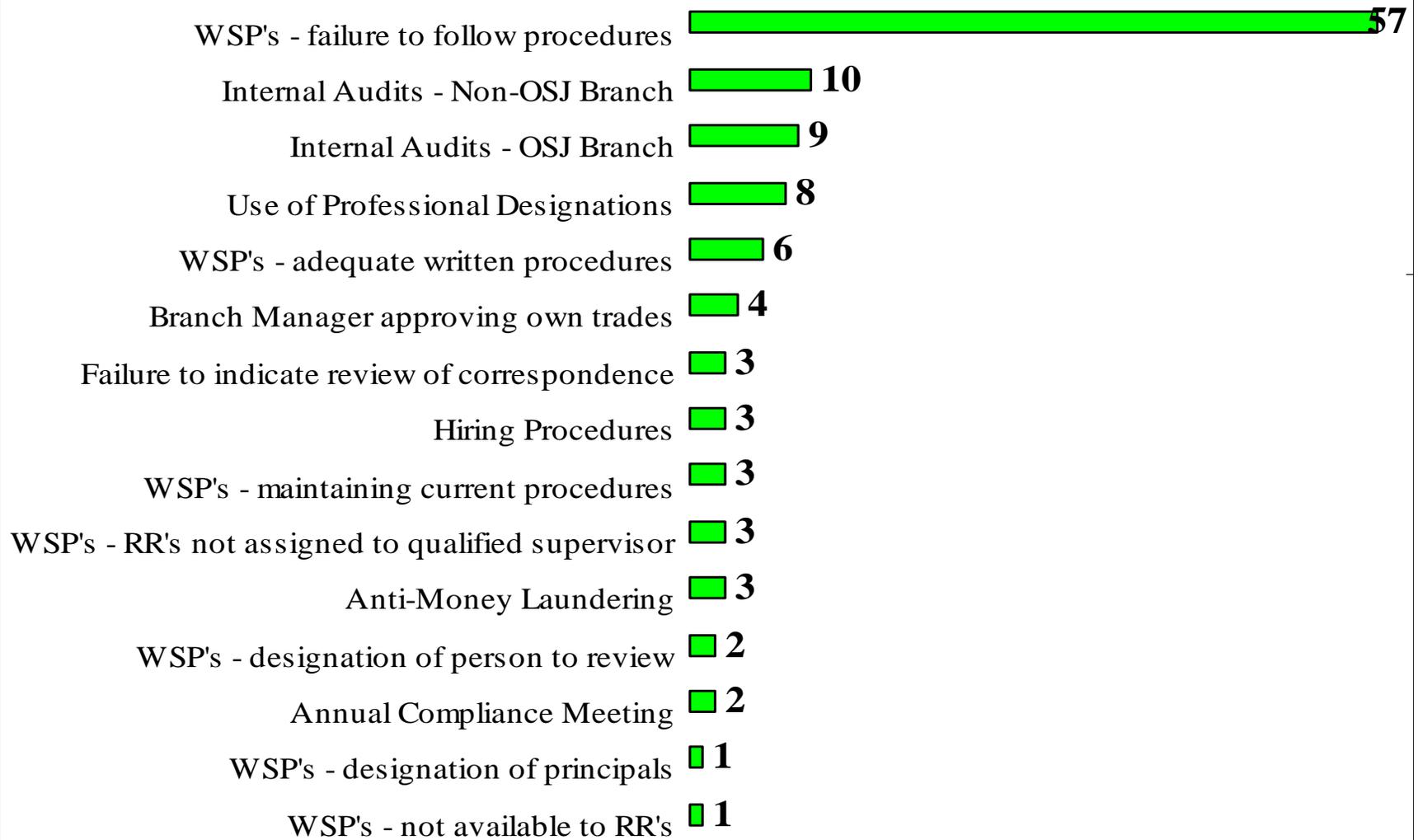
## OPERATIONS REVIEW - 47 deficiencies



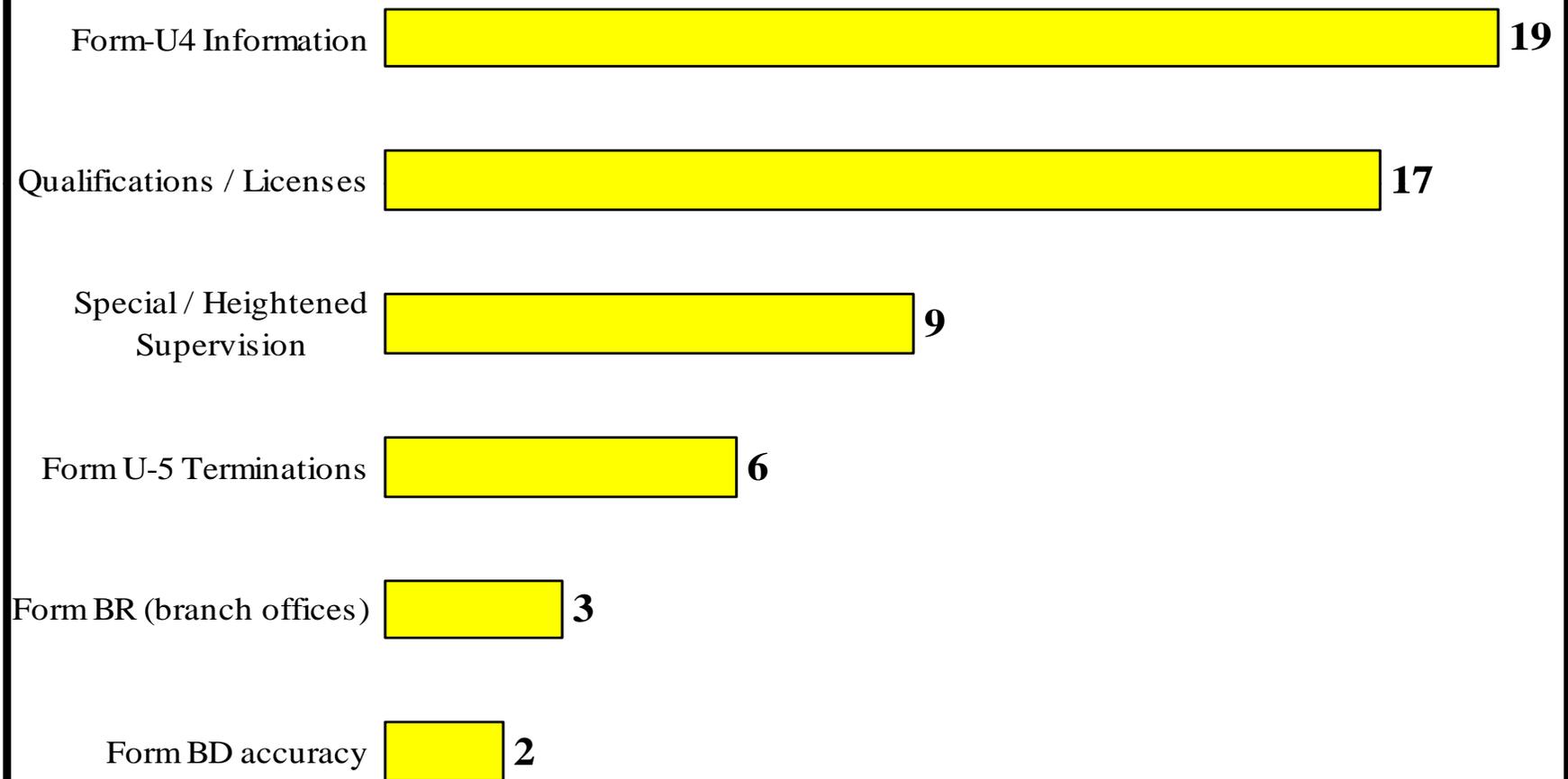
## SALES PRACTICES - 164 deficiencies



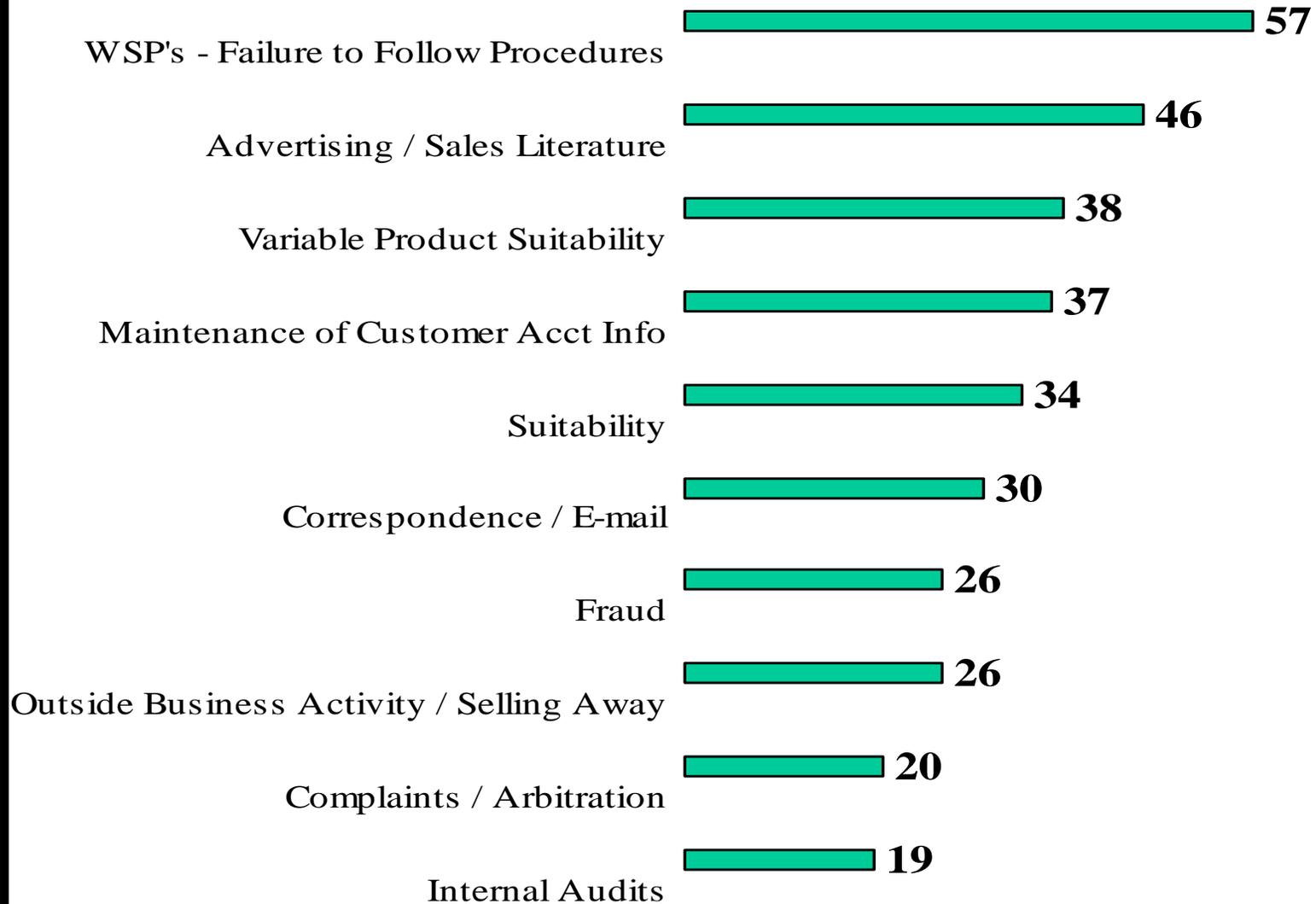
## SUPERVISION - 115 deficiencies



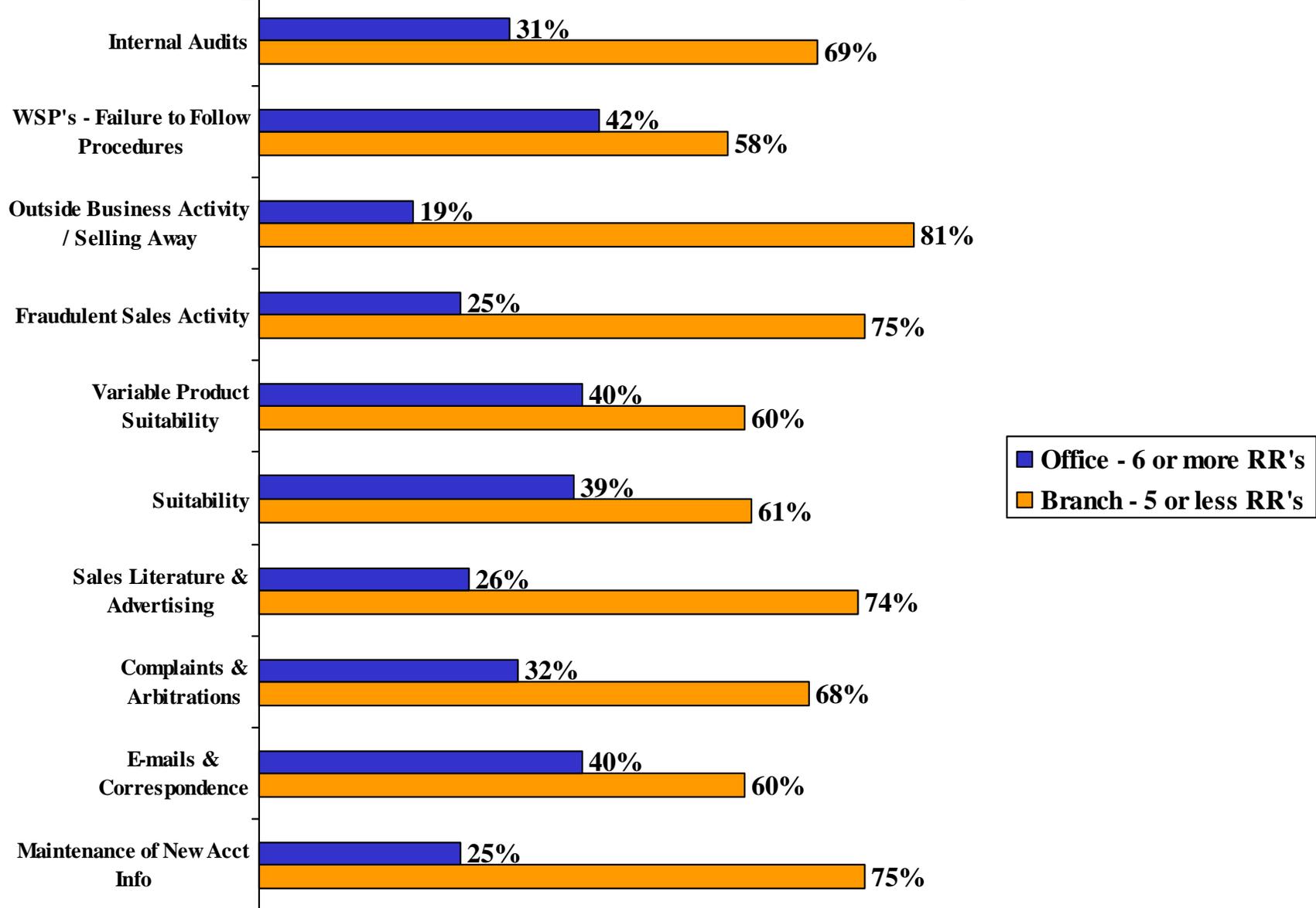
## REGISTRATION & LICENSING - 56 deficiencies



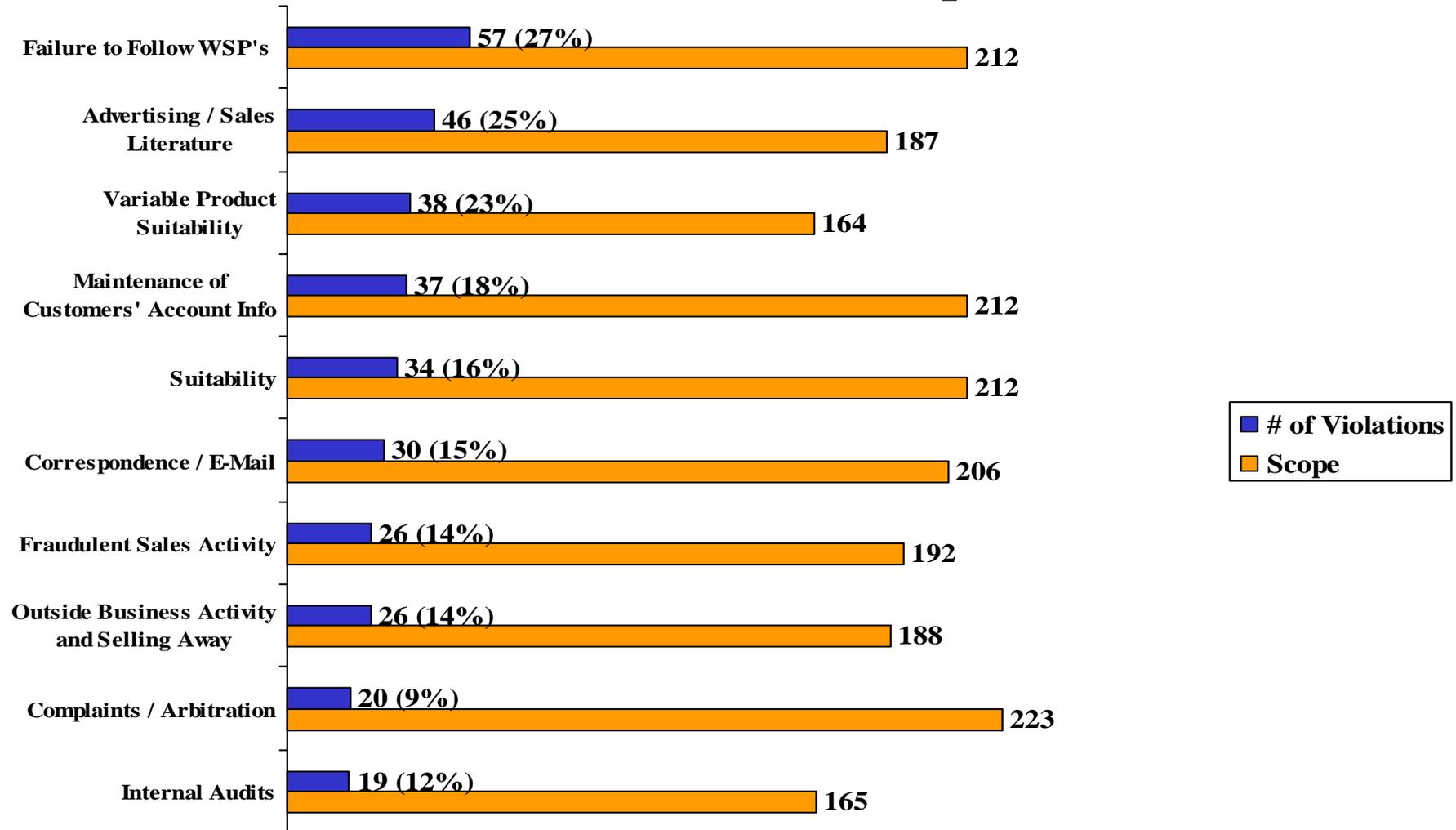
# TOP 10 DEFICIENCIES



## Top 10 Deficiencies at Small Branch vs. Large Office



## # of Violations vs. Scope



# HOT TOPICS AND BEST PRACTICES FOR BROKER DEALERS

- 1) Develop effective standards and criteria for determining suitability.
- 2) Ensure that exception reports are generated, when necessary, and that “red flags” are documented and resolved in a timely manner. If the BD elects to electronically recreate an exception report the BD must not only be able to recreate the report but also document how the exception was resolved.
- 3) Develop, Update, and Enforce Written Supervisory Procedures. BD’s should also ensure that staffing and expertise are commensurate with the size of the BD and type(s) of business engaged in by the firm.
- 4) Develop a branch audit program which includes an meaningful audit plan, unannounced visits, a means to convey audit results, and a follow-up plan for requesting that the branch take corrective action.

## **HOT TOPICS AND BEST PRACTICES (cont.)**

- 5) Firms must ensure that adequate procedures are in place to prohibit and detect unauthorized 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.
- 6) Outside business activity requests from RRs must be received and reviewed by the firm prior to the activity. The firm and RR are obligated to report the outside business activity on the RR's Form U-4. The firm should have a supervisory procedure in place to address its approval/denial process.
- 7) Advertisements and sales literature **MUST** be balanced, make full and fair disclosure, and be approved, as necessary, prior to use.
- 8) Seminar notices/advertisements, seminars, and seminar materials utilized **MUST** be approved by the BD prior to use and the seminar being held. Additionally, any guest speakers and their materials must also be reviewed and approved prior to the seminar. In instances where RR routinely conduct seminars, a supervisory representative of the firm should randomly attend the seminar for compliance purposes.

## HOT TOPICS AND BEST PRACTICES (cont.)

- 9) Correspondence, both electronic and hard copy, **MUST** be effectively monitored by the BD including a system of capturing and maintaining E-mails sent by RR's from websites and Internet Service Providers outside the firm.
- 10) Upon receipt of a complaint, the firms must acknowledge receipt, update RR's Form U-4, if required, conduct and document a thorough review of the customer's allegations. In situations where the firm discovers wrongdoing, the firm should redress customer harm. Failure to do so may result in enhanced penalties under NASAA guidelines.

# Comments & questions

