

The Mission: Episode 3
How does the SEC protect investors?

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Shawn: I'm here with three other SEC professionals who will give some insight about how the SEC protects investors, and some ways that the SEC helps investors protect themselves.

With me today are Pete Driscoll, the Director of the SEC's Office of Compliance Inspections and Examinations, also known as the National Exam Program; Lori Schock, the Director of the Office of Investor Education and Advocacy; and Tracey McNeil, the SEC's first Ombudsman. Good morning everyone.

Driscoll, Schock, McNeil: good morning.

Shawn: OCIE or the National Exam Program is probably not very well known because what they do is not made public. But, it is critical to the SEC's mission. Can you talk to me about what the exam program does?

Pete Driscoll: The National Exam Program is made up of around a thousand employees of the SEC. We are considered the eyes and ears of the Commission. We are represented in 12 different offices throughout the country we call regional offices. The largest ones are where you'd expect — in Los Angeles, New York, Chicago. But we also have a number of offices in San Francisco, Miami, Atlanta which are more middle tier in terms of size; but very important because we cover every state in the country. We look at close to 13,000 investment advisers, over 10,000 mutual funds and exchange-traded funds. Broker-dealers, roughly around 3500; transfer agents, around 450; as well as the stock exchanges, FINRA.

And we have examiners that specialize in the five main program areas, our largest being the mutual fund/investment adviser space, which goes directly to retail investors. We also do a lot of work in the broker-dealer space, as well as retirement plans, pension plans. It's a broad mix of different types of investors that we seek to protect by doing compliance inspections. We go on-site, we interview and look at records. We look to ensure that registered firms are complying with the federal securities laws.

And to the extent they don't, we cite them through deficiencies or refer our findings to the Division of Enforcement. Typically, if we believe that investors are being harmed, the Division of Enforcement will immediately go in to federal court and seek to get an asset freeze and a preliminary injunction to halt the fraudulent activity. And then typically with Ponzi schemes or other fraudulent schemes where money is being misappropriated from clients or from investors, the criminal authorities will, in parallel with us, we'll refer and notify them that they can proceed on a criminal track similar to our civil track that we take.

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Shawn: Let's say I'm standing in the shoes of an investor, and — regardless of whether or not I know an exam is going on — I've lost some money. Will you sue someone on my behalf?

Tracey, do you have any thoughts on that?

Tracey McNeil: One of the chief complaints I get about the SEC is that our mission statement says that we're here to protect investors. And so investors often contact me from the standpoint of "protect me" — as in, "get me my money back." And so I have to be the bearer of interesting news, at times, to let them know that's not quite what we mean when we say "protect investors."

For the SEC, that typically means, on the front end, we protect investors by making sure they have all the information that a reasonable investor would need to make a sound investment decision.

Shawn: So given that, what do we do as the SEC— even before investors invest— to make sure they have enough information?

Tracey: We regulate publicly traded companies, broker-dealers, investment advisers and other folks who are market participants and we require most of them in some form or another to give us information on a regular basis.

For instance, in our Division of Corporation Finance—that's where we review all of our public company filings, so—your Amazons, and your Googles—all of those corporate filings come through Corp Fin, as we call them. And they review all the disclosures to make sure that they are telling the public what the public needs to know. All of that information, for the public companies, for investment professionals, and other market participants we keep on the SEC website.

Shawn: Lori, that sounds like your area.

Lori Schock: It is my area!

Shawn: Tell us what OIEA provides to investors.

Lori: Our Office of Investor Education and Advocacy has three main parts. One, we put out the investor alerts and bulletins to try to warn investors about issues that we're seeing or try to educate them around items that we think are important. We also maintain an outreach program to go out and talk to folks, and to explain maybe new rulemakings that have taken place that will impact them from the Commission. And then also we have an investor assistance side. And you can access that information, or to contact us if you have a question or complaint, and we handle about 20,000 complaints and questions on an annual basis.

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Shawn: What else can investors do — or just members of the public — to give us information?

Lori: You know, we'll take all the extra eyes and ears in the community, especially around investment fraud. We have about 4500 people on staff, but there are about 300 million people in the United States, and we'll take any information that they have, to contact us. Even if they just think, "hey, this doesn't sound right." I'd rather hear from 100 people, and it ends up being something that's legitimate, versus not hearing from anyone and it ends up being a fraud. Because the only way we can stop a fraud, is if we know about it.

And there's some red flags of fraud that I would like people to know about. There are no guaranteed returns when it comes to investing. So if anyone says there are guaranteed returns, then they're lying to you. There just aren't. Investments have risk, and so when we hear, "hey, it's a guaranteed return of say, 10% per month," and it sounds too good to be true, you're dealing with an amateur. You can help protect yourself if you do a couple of things.

One — if you get pulled over by the police on the way to work for speeding, what's the first thing the cops are going to ask you? License and registration. Well, if you'll check out the license of the individual who is selling the product, and you can do that from investor.gov, you can just put in the person's name. And if they're not in that database, that's a big red flag. I would not turn over any money.

The other part is the product, and the product should be registered. And so you can go to Edgar, which is Electronic Data Gathering Analysis and Retrieval tool — that's why we just call it Edgar — and you put in the product. Doing these two things, go a long way to help protect people against investment fraud.

Shawn: That's a great way to end things. Thanks Lori. Thanks Pete. Thanks Tracey.

Tracey: Thanks, Shawn.

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