

2013 FINRA Exam Priorities

On January 11, 2013, FINRA released its 2013 examination priorities letter. Not surprisingly, FINRA will continue to prioritize core regulatory areas such as AML compliance and insider trading.

FINRA will also continue to focus on suitability and complex products, highlighting in the letter FINRA's recently revised suitability rule, and adding business development companies ("BDCs") and closed-end funds to its list of complex products. FINRA warns that BDCs expose investors to significant market, credit and liquidity risks and the newer "non-traded BDC funds" can limit investors' exit opportunities to "periodic share repurchases by the BDC at high discounts." FINRA also warns that some closed-end funds are returning capital to maintain high distribution rates, causing the fund to trade at high premiums compared to the fund's NAV.

New to the list is FINRA's focus on automated investment advice programs. FINRA is concerned that such programs, used to dispense automated investment advice to retail clients, may not gather the necessary information attributes of the investor to determine an investment profile, or that the platforms may fail to properly match securities with the investor's risk appetite.

Other areas included in the 2013 priorities letter that were not in the 2012 letter include cyber-security and data

integrity and alternative trading systems. Notably, social media and electronic communications were among the more significant items in FINRA's 2012 letter that were not addressed in the 2013 letter.

Firms subject to FINRA review should read the 2013 letter (the link is provided below) and, with the assistance of counsel, ensure that the firm has policies and procedures in place to effectively address the areas so outlined.

<http://www.finra.org/web/groups/industry/@ip/@reg/@guide/documents/industry/p197649.pdf>

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