

**SIFMA Compliance & Legal Division Membership Luncheon**

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**Harvard Club, New York, NY**

**An Update on Regulatory Examinations**

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Panelists:

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I. Examination and Other Priorities for 2009

A. Recent events and their impact on examination programs

1. OCIE's enhancements and changes in its examinations of broker-dealers and investment advisers. (Lori Richard's presentation June 17<sup>th</sup> at the SIFMA C&L St. Louis Regional Seminar is attached)
  - Enhancing examiner's training and expertise in fraud detection
  - Enhancing examiner's expertise in complex financial products, trading and other areas

- Conducting focused examinations and an exam sweep of firms with higher potential fraud risk profiles
- Improving the tools available to examiners to detect fraud, and leveraging the work performed by the firm's independent auditor
- Improving surveillance and risk-based targeting
- Improving the handling of tips and complaints inside the SEC

2. OCIE's Exam Priorities in 2009

3. Requests for independent confirmation of assets

4. Coordinating and sharing information with other regulators

B. Financial, Operational and Internal Controls Issues

1. Fully paid for securities lending programs

2. Bank sweep programs

3. Reg SHO

4. Intercompany arrangements and reconciliations

5. DMA Controls

6. Valuations

C. Sales Practice Issues

1. Supervision, supervisory controls and compliance programs

2. Risky products and products marketed as safe

3. Third party and unaffiliated parties marketing materials

4. Sales to seniors and the seniors initiative

5. Proposed new reporting rule

6. New member application process

## II. FRB's Role and Responsibilities

### A. Bank Supervision

### B. Risk Focused Assessment

1. Market Indicators
2. Management Oversight
3. Ability to monitor and manage daily operations
4. Integrated corporate risk management
5. Overall quality of MIS
6. Systems integrity and capacity

### C. Continuous monitoring

1. Leveraging elements of the existing control infrastructure
  - Internal/external audits
  - Internal credit review
  - Compliance quality and assurance reviews
  - Ongoing surveillance
  - Management committees
  - Real-time access to information systems and reports
2. Coordinating with other supervisory entities

### D. Examination Types

1. Discovery
2. Targeted
3. Horizontal
4. Annual Risk Assessment

## 5. Supervisory Plan

### E. Looking Forward

#### 1. Increased interaction in the Broker-Dealer arena

- Payment and settlement
- Operational controls
- Overall risk-management focus and process
- Senior management and board oversight

#### 2. Securities Lending

- Collateral management
- Changes in liquidity management
- Use of separate accounts versus comingled accounts
- Effect of dislocation on ongoing operations
- Potential for legal or reputational risk

#### 3. Counter Party Credit

- Risk aggregation

#### 4. Stress Testing

- Capital/liquidity