



The New Normal: Cyber Data Breaches and Money Managers in 2014

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2014 Fall Solutions Conference

October 21-22, 2014

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Tuesday, September 16, 2014

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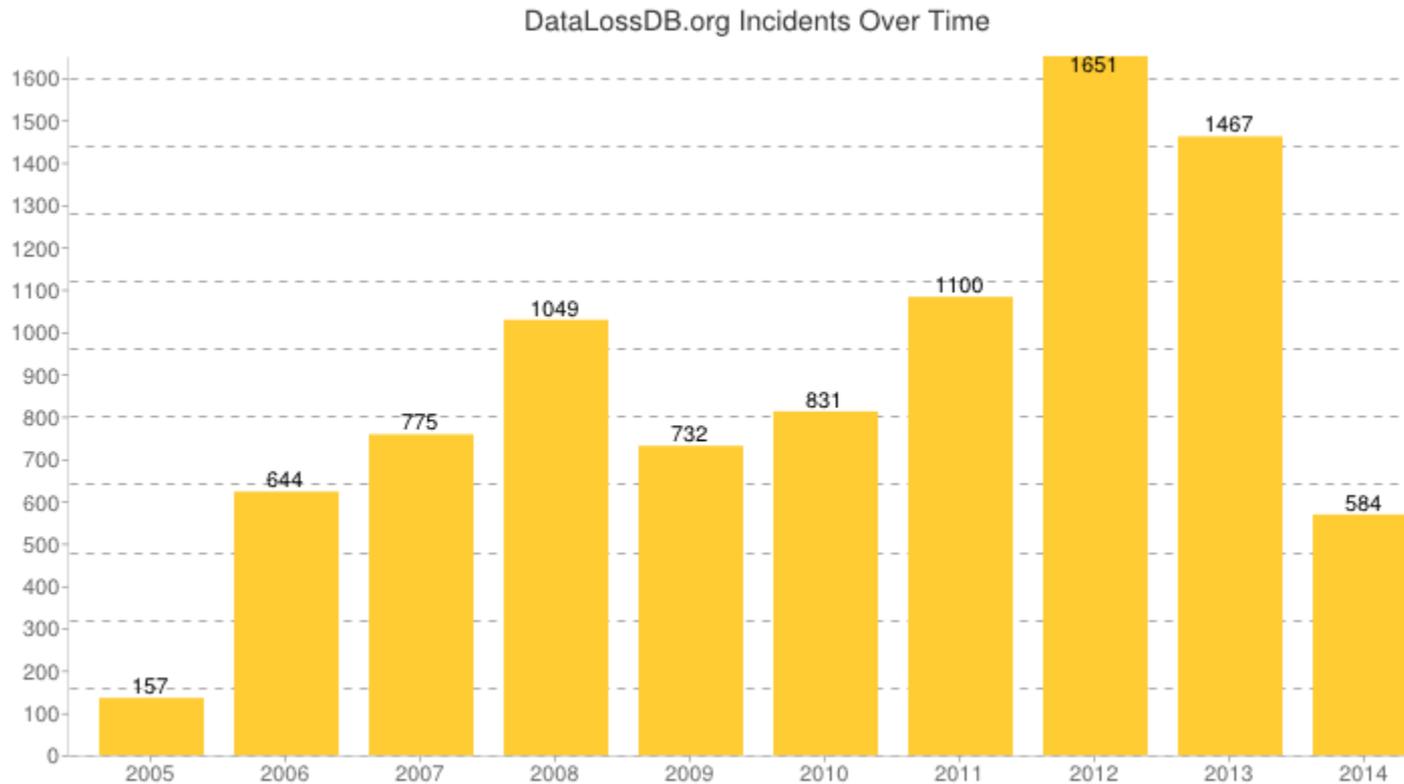
The New Normal: Cybersecurity Breaches and Money Managers in 2014

- Dealing with the inevitability of cybersecurity breaches
- Responding to the Securities and Exchange Commission's sweep, exam, and information requests
- Responding to cybersecurity breaches

Dealing with the Inevitable

- “2013 an epic year for data breaches with over 800 million records lost” -- Naked Security February 2014
- “Mid-year 2014 data breaches exposed over 502 million records far exceeding the mid-year point in 2013, the previous all-time record setting year” -- DataLossDB 2014
- Reports likely understate the number of breaches

Dealing with the Inevitable

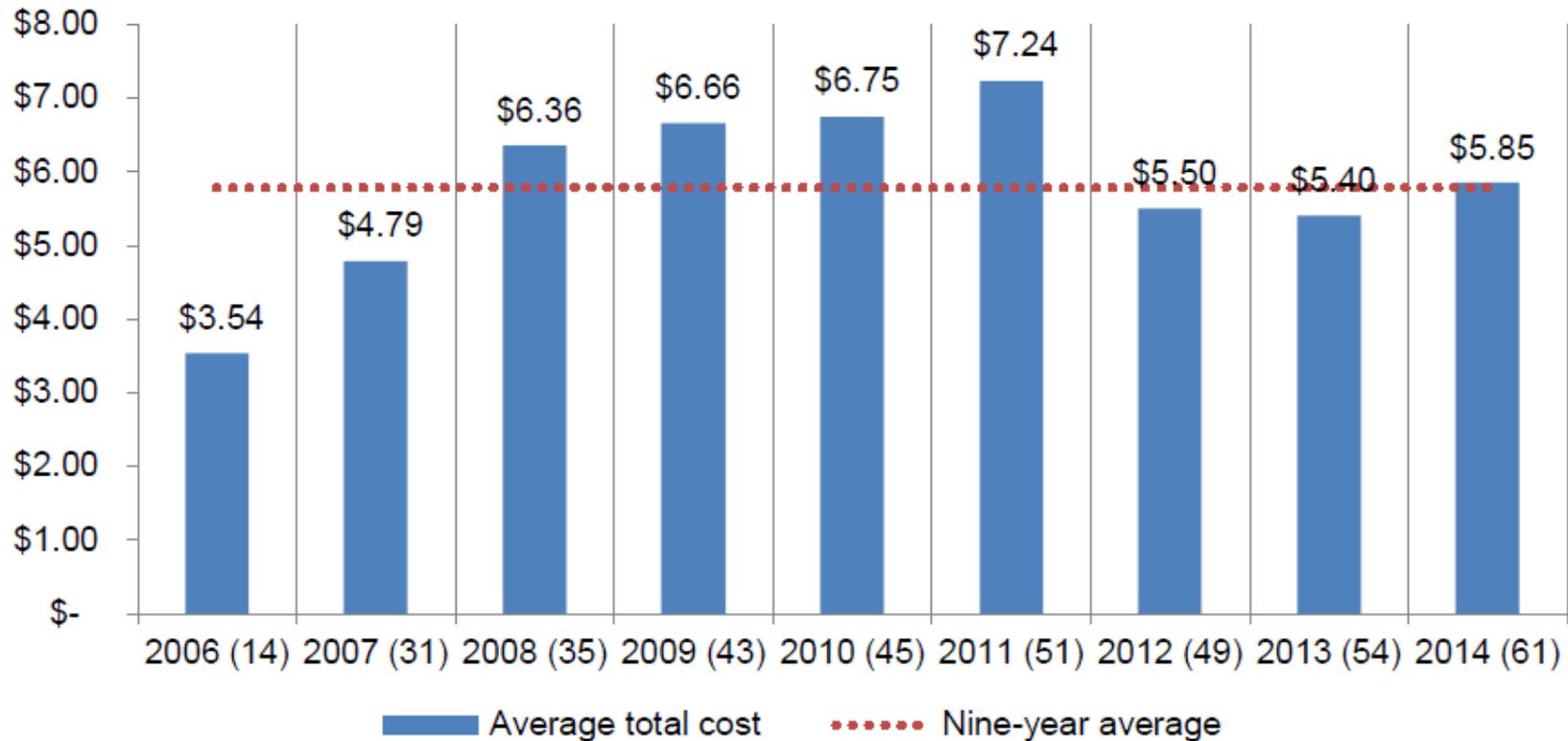


Source: Open Security Foundation and DataLossDB 2014

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Costs of Breaches

Figure 2. The average total organizational cost of data breach over nine years
\$000,000 omitted

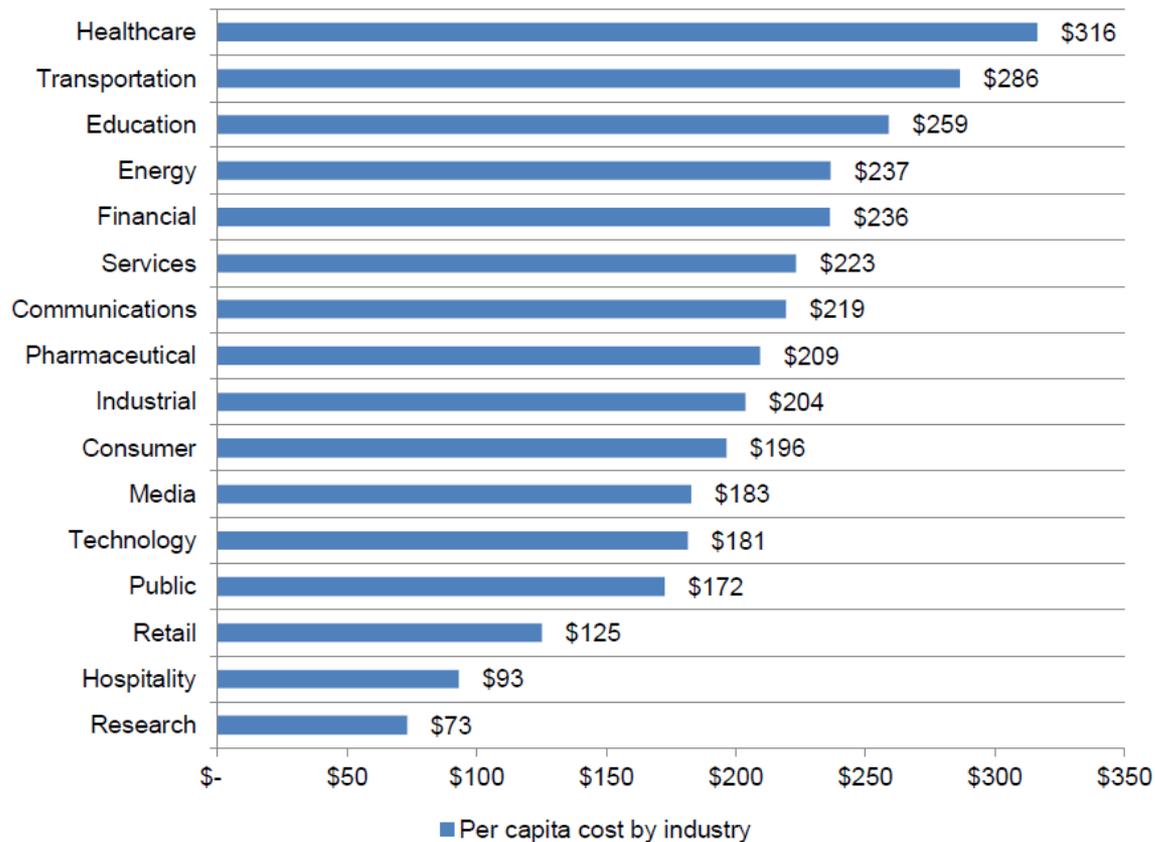


Source: Ponemon Institute Costs of Breach 2014

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Costs of Breaches – By Industry

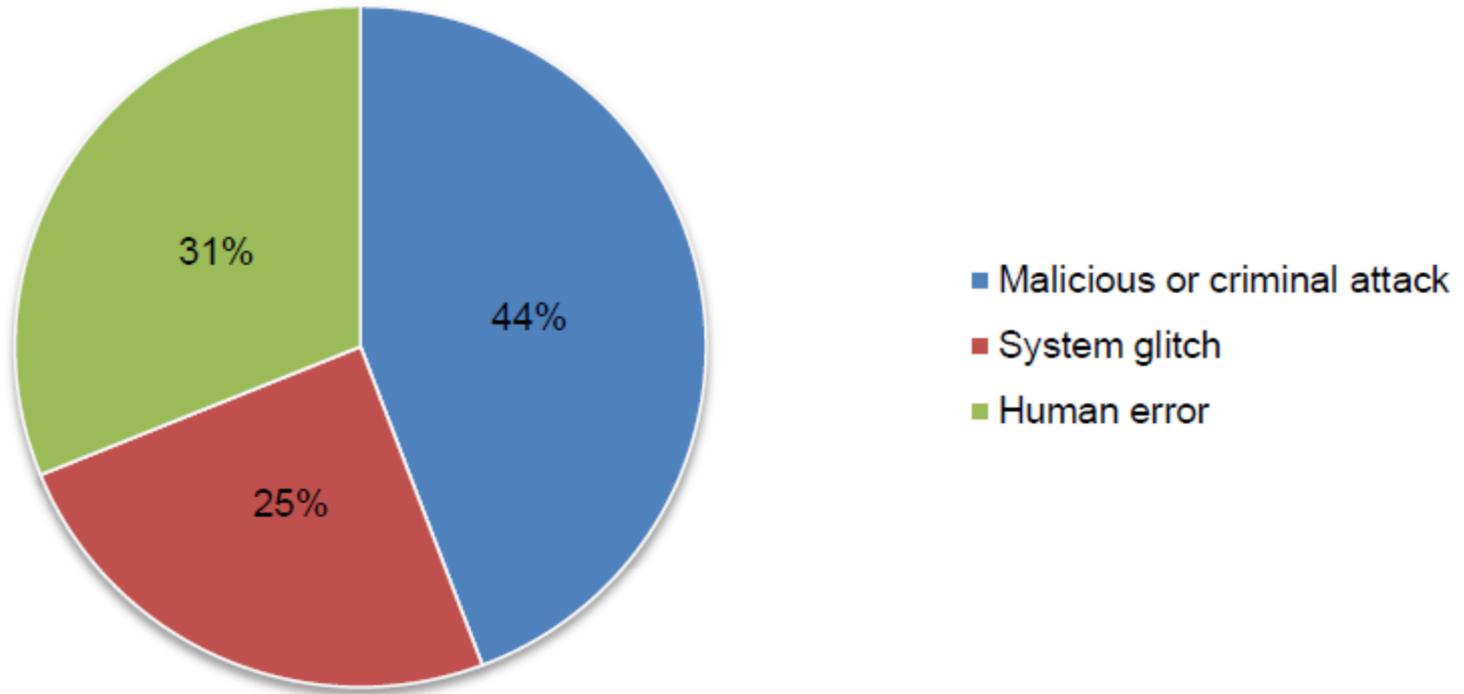
Figure 4. Per capita cost by industry classification of benchmarked companies



Source: Ponemon Institute Costs of Breach 2014

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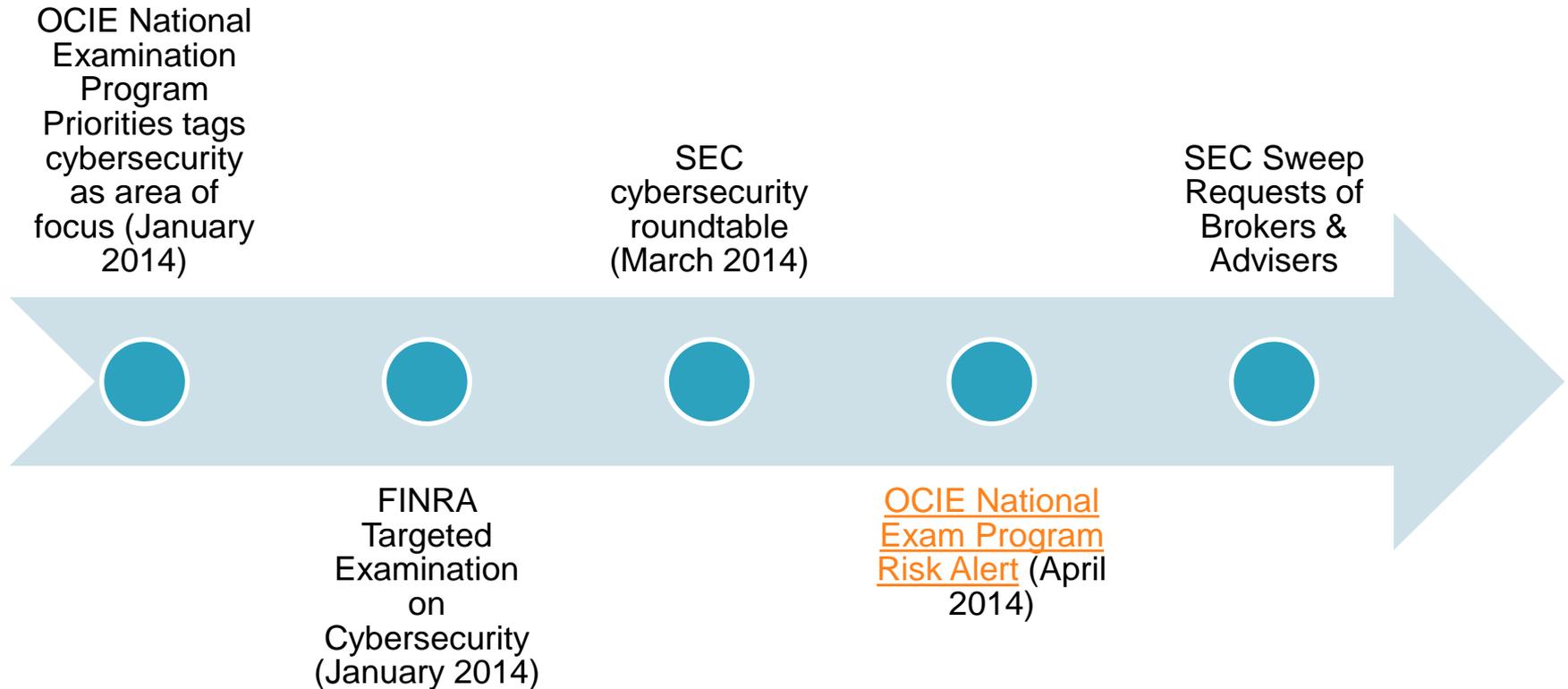
Cause of Breach



Source: Ponemon Institute Costs of Breach 2014

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Intensifying SEC Focus



SEC Cybersecurity Request

- Identification of Risks/Cyber-security Governance
- Protection of Firm Networks and Information
- Risks Associated with Remote Customer Access and Funds and Transfer Requests
- Risks Associated With Vendors and Other Third Parties
- Detection of Unauthorized Activity
- Other

Key Areas of Focus

- Security of Client Data
- Vendor Due Diligence & Risk Assessment
 - SSAE 16
 - Escalation and Notification Practices
- Data Transfers
- Training
- Audits of Systems, Controls & Testing
- Insurance

Factoring Cybersecurity into Your Rule 206(4)-7 Reviews

- Risk assessment
- Vendor arrangements
- Testing
- Policy and Procedures

Preparing for Cybersecurity Breaches

- Cybersecurity Breach Policies and Procedures
- Cybersecurity Breach Assessment
- Assess Vendor Arrangements and Documentation
- Cross-Disciplinary Rapid Response Team
 - IT
 - Legal & Compliance
 - Executive
 - Media Relations

Ten Steps for Responding to Cybersecurity Breaches

1. Assess the Breached Information & location of Affected Individuals
2. Mitigate Further Risk to Customer Information
3. Assess the Need to Alert Law Enforcement Agencies and File a Suspicious Activity Report
 - *Consider Contacting SEC or SROs*
4. Assess Customer Notification Obligations
5. Carefully Draft Customer Notification
6. Develop a Distribution Plan
7. Inform and Educate Your Client Service Team
8. Develop Press/Media “Talking Points”
9. Assess Insurance or Other Cost Recovery
10. Remediation and “Lessons learned”

Customer Notifications - Topics

- General description, including type of information breached
- Steps taken or to be taken by the firm, including to mitigate risk of further breaches (e.g., change of account credentials)
- How customers may obtain additional information
- A reminder that customers should monitor their accounts and be attentive of their credit reporting history, if applicable
- If the breach involves information that may be misused to steal a customer's identify, consider an offer of credit monitoring
- Information required by each state depending on where the individuals to be notified reside

Special Issues for Managed Accounts

- Special Protections Given Information Shared
 - Physical Safeguards on Shared Data
- Vendor Testing
- Consider Limits on Information Sharing
 - Best to Client Data on a “Need-to-Know” Basis

Useful Resources

- For Information:

- [U.S. Department of Homeland Security: Cyber Security Activities](#)
- [U.S. Department of Defense: United States Cyber Command](#)
- [National Institute of Standards and Technology \(NIST\)](#)
- [Federal Financial Institutions Examination Council \(FFIEC\)](#)
- [Secret Service](#)

- For Notification:

- [FBI](#)
- [SEC](#)
- [Secret Service](#)
- [State authorities](#)

Morgan Lewis Resources

- [Virtual Asset Management Roundtable Series: SEC Examination Trends for Investment Advisers](#)
- [New Cybersecurity Framework Revealed](#)
- [SEC Hosts Roundtable on Cybersecurity Issues and Challenges](#)
- [Select Broker-Dealer, Investment Adviser, and Investment Company Enforcement Cases and Developments: 2013 Year in Review](#)
- [President Obama Signs Executive Order on Cybersecurity](#)
- [Responding to Data Breaches in the Securities and Investment Management Industry](#)
- [Corporate Data Breach Checklist](#)

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