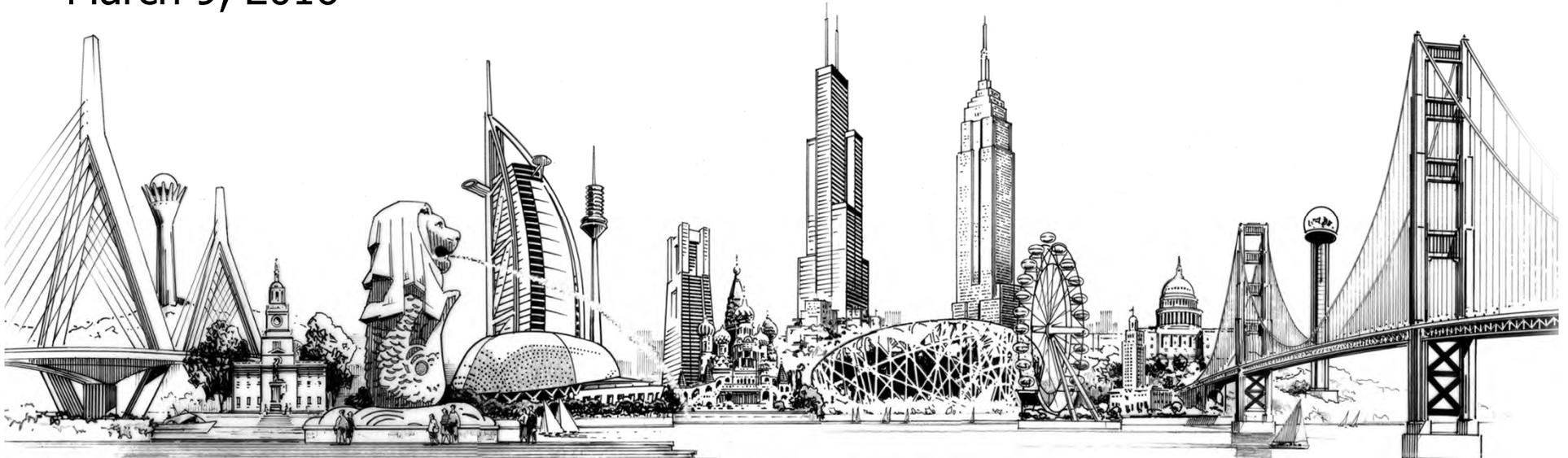


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**THE YEAR IN REVIEW 2015:
ENFORCEMENT AND
EXAMINATION DEVELOPMENTS**

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Agenda

- Statistics
- Regulatory Developments
- Notable Enforcement Cases
- 2016 Regulatory Priorities

2015 SEC Enforcement Statistics

- 807 cases brought, a record for the SEC and a 7% increase from FY 2014
 - According to the SEC, 507 of these cases were independent actions for securities laws violations, the balance were delinquent filing cases or administrative actions seeking bars based on injunctions or criminal convictions
- \$4.2 billion in penalties and disgorgement, a marginal increase from FY 2014
- Enforcement took 6 cases to trial in federal court, more than 20 cases were tried in administrative proceedings
 - Trial docket was much smaller, with more success in FY 2015
- Investigations opened/closed/ongoing – consistent with FY 2014
 - Investigative files are taking a bit longer to close

2015 SEC Enforcement Statistics

Percentage of Investment Adviser, Investment Company, and Broker-Dealer Actions



Type of Case	Number of Actions	Percentage
Issuer Reporting and Disclosure	135	16.7%
Delinquent Filings	132	16.4%
Investment Advisers and Investment Companies	126	15.6%
Broker-Dealer	124	15.4%
Securities Offering Cases	98	12.1%
Municipal Securities and Pension Plans	80	9.9%
Market Manipulation	43	5.3%
Insider Trading	39	4.8%
FCPA	13	1.6%
Miscellaneous	11	1.4%
Nationally Recognized Statistical Ratings Organization (NRSRO)	4	0.5%

2015 SEC Statistics Whistleblower Program

- In FY 2015, the SEC's Office of the Whistleblower received 3,923 tips, complaints, and referrals
 - Increase of 303 (or approximately 8%) from FY 2014
 - Most significant areas for TCRs: corporate disclosure and financials (17.5%); offering fraud (15.6%); and manipulation (12.3%)
- In FY 2015, the SEC paid \$37 million in awards to 8 whistleblowers
 - More than \$30 million paid to one individual was awarded in FY 2014
 - Commission and Claim Review Staff determined more than 150 claims for awards
 - More than \$1 million was paid to a compliance professional who, normally excluded under the rules from such award, reported original information to SEC believing disclosure would prevent substantial injury to the entity or investors
 - More than \$500,000 was paid to a corporate officer who would otherwise have been excluded under the rules, but reported a securities violation to the SEC, after the corporation was made aware of the violation and failed to act

2015 Preliminary FINRA Statistics*

- 1,512 new disciplinary actions (vs. 1,397 in 2014)
- 800+ fraud and insider trading cases referred to the SEC and other agencies
- 492 individuals barred (vs. 481 in 2014)
- 737 individuals suspended (vs. 705 in 2014)
- \$95 million in fines levied (vs. \$134 million in 2014)
- \$96.6 million in restitution to investors (vs. \$32.3 million in 2014)

*Source: FINRA website

SEC Regulatory Developments 2015

- More “firsts” and claimed “high impact” cases
 - “Broken Deal” expenses
 - “Distribution-in-Guise”
 - High Frequency Trading manipulation
- Focus on Gatekeeper Accountability
 - Compliance personnel, Accountants, Corporate Officers, Lawyers
- Crunching the numbers – innovative uses of data to detect violations
 - Enforcement collaborated with the Division of Economic and Risk Analysis on 120 projects in FY 2015 in matters relating to both investment advisers and broker-dealers, and addressing concerns of arising from market manipulation, insider trading, structured products, accounting fraud
 - Breaking down silos within the Commission to more effectively use resources

SEC Regulatory Developments 2015

- SEC Plans to Increase Adviser Examinations
 - OCIE plans to add 100 investment adviser examiners in 2016 (after adding 70 in 2015), which represents a 35% increase in adviser examination staff to 630
 - Third-party compliance reviews for advisers is also reportedly on the horizon
- Cybersecurity
- Insider Trading
 - In the post-Newman world, the SEC still charged 87 parties with insider trading
 - Waiting for the U.S. Supreme Court
- Forum Selection: Administrative Proceedings v. Federal Court
 - Open question

FINRA Enforcement Developments 2015

- Personnel Changes
- Sanction Guideline Revisions
- Sanctions for Late/Incomplete Document Productions
- Continued Focus on Potential Liability of Individuals

Notable SEC Cases from 2015

- **Municipal Securities**
 - 58 underwriters charged in Municipalities Continuing Disclosure Cooperation (MCDC) program; underwriter charged with pricing-related fraud; City of Allen Park, a Detroit suburb, as well as its mayor and administrator, charged with offering fraud
- **Market Integrity cases**
 - Alternative Trading System
 - Dark Pool cases
 - High Frequency Trading
- **Anti-Money Laundering/Suspicious Activity**
- **Focus on Investment Advisers and Investment Companies**
 - Distribution in Guise initiative, conflicts of interest; private equity broken deal expenses; performance advertising; asset valuation

Notable FINRA Cases from 2015

- FINRA Actions
 - Penny Stock/Anti-money laundering
 - Trade Reporting
 - Books and Records
 - Mutual Fund Sales Practices
 - Supervision

SEC Regulatory Priorities for 2016

- Investment Advisers/Investment Companies
(including private funds and separately managed accounts)
 - Focus on never-before-examined entities
 - Disclosures: conflicts, fees/expenses, performance, product disclosures
 - Valuation: difficult to value assets/infrequently traded securities
 - ETFs: compliance with regulatory requirements, creation/redemption, primary/secondary market trading
 - Overall compliance function, controls, governance

SEC Regulatory Priorities for 2016

- Investors Saving For Retirement
 - Dual Registrants: fee arrangements, compliance
 - Sales and Marketing Practices: suitability; churning and/or abusing trading; conflicts presented by sales of own firm products; promotion of new, high risk and/or complex products
 - Variable Annuity Products: suitability/disclosures
- High Risk Broker-Dealer Trading
 - Trade execution in fixed income securities
 - Equity order routing
 - Trading in sub-accounts

SEC Regulatory Priorities for 2016

- Data Based Enforcement Initiatives
 - Recidivist financial advisers
 - Liquidity controls
 - Anti-money laundering violations/suspicious activity
 - filing of SARS
 - market manipulation (spoofing, parking, excessive markups/ markdowns)
 - customer accounts that offer banking-type services
 - direct market access, particularly from higher risk jurisdictions
 - Microcap fraud and pump-and-dump schemes

SEC Regulatory Priorities for 2016

- Market Structure
 - Algorithmic and high frequency trading
 - SCI entities: policies and procedures, focus on security/resiliency
 - Cybersecurity: information technology compliance, controls, governance and supervision; policies and procedures related to security/business continuity
- Other Enforcement and Exam Priorities
 - Financial reporting and accounting fraud: revenue recognition, faulty valuations and impairment calculations, insufficient disclosures
 - Municipal Securities: Municipal advisors – compliance, policies and procedures; pricing in the primary/secondary municipal securities markets

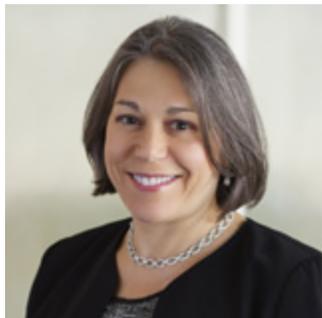
FINRA Regulatory Priorities for 2016

- Broad Issues
 - Culture, Conflicts of Interest and Ethics
 - Supervision, Risk Management and Controls
 - Management of Conflicts of Interest
 - Technology
 - Outsourcing
 - AML Controls
 - Liquidity
- Sales Practice
 - Suitability and Concentration
 - Seniors and Vulnerable Investors
 - Sales Charge Discounts and Waivers
 - 529 College Savings Plans
 - Private Placements, the JOBS Act and Public Offerings

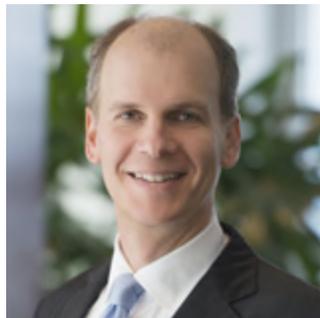
FINRA Regulatory Priorities for 2016

- Financial and Operational Controls
 - Market-Maker Net Capital Exemptions
 - Exchange-Traded Funds (ETFs)
 - Fixed Income Prime Brokerage
 - Internal Audit
 - Client Onboarding
 - Transmittal of Customer Funds
- Market Integrity
 - Vendor Display Rule
 - Market Access
 - Fixed Income
 - Regulation SHO
 - Cross-Market and Cross-Market and Cross-Product Manipulation
 - Audit Trail Integrity

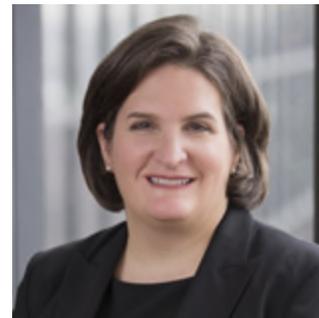
Speakers



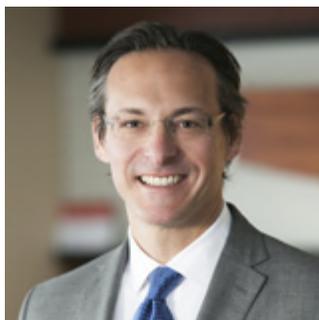
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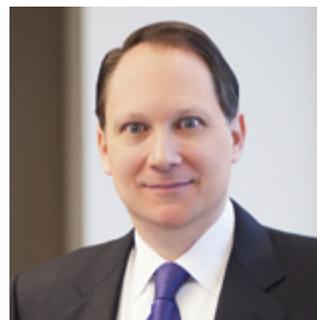
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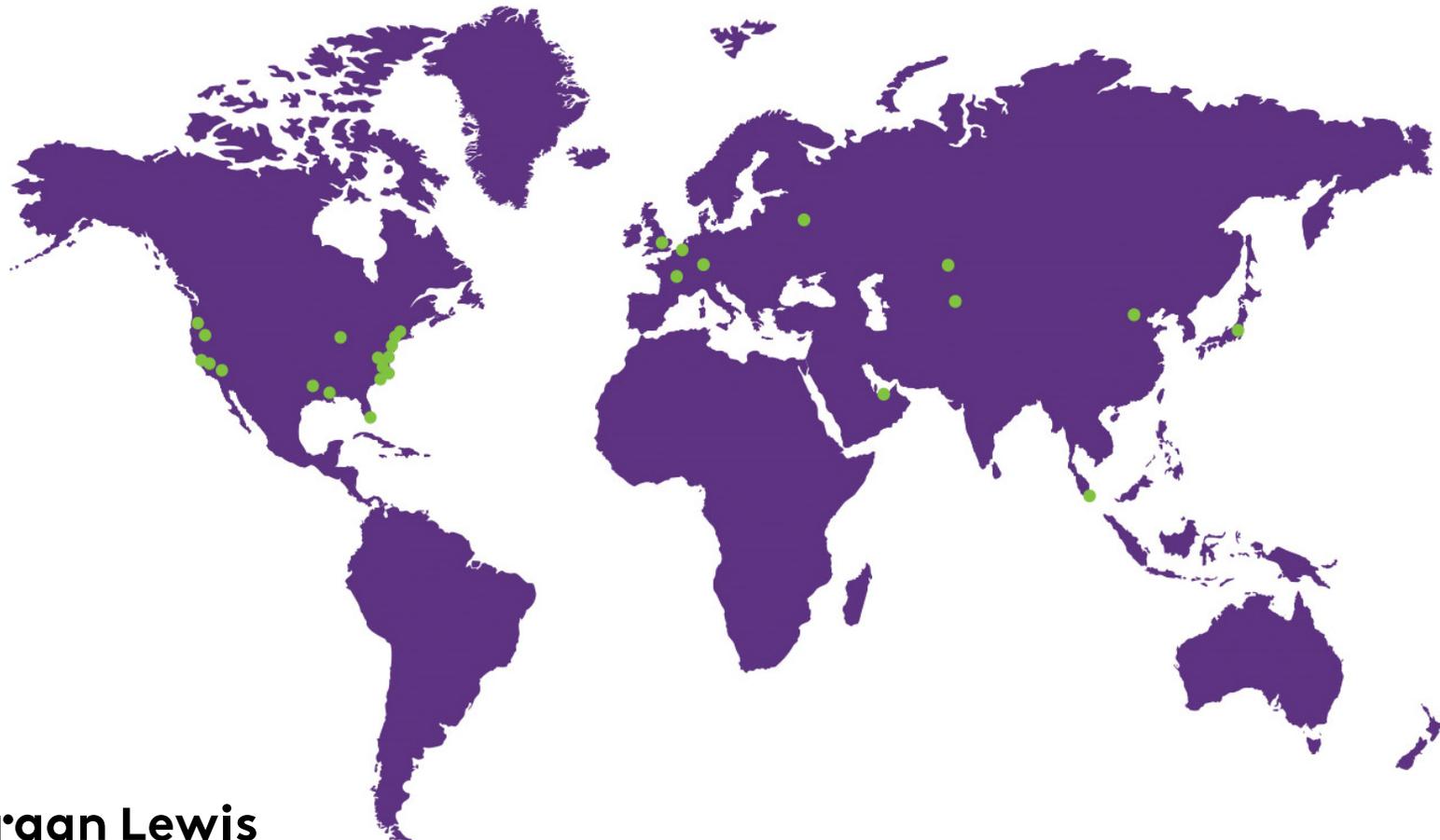
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