

2021, Third Quarter

Compliance Newsletter

Because investment management compliance is constantly changing, we prepare this newsletter to summarize the latest rulings, guidance, proposals, and more from the most recent quarter.

To speak to a compliance expert on any of these topics, please contact us at info@joot.io.

HEADLINE SUMMARY

SEC

- Risk Alert on Wrap Programs
- Risk Alert on Fixed Income Principal and Cross Trades
- Input Requested on Broker-Dealer and Investment Adviser Use of Technology
- Proposed Enhanced Proxy Voting Disclosure by Investment Funds on Form N-PX
- Compliance Outreach Program for Municipal Advisers

FINRA

- Rule to Address Firms with Significant History of Misconduct
- Reminder of Supervisory Obligations Related to Outsourcing to Third-Party Vendors
- Alert About Phishing Email Campaign Using Multiple Imposter FINRA Domain Names

NFA

- Extension of Relief from Onsite Annual Inspection of Branch Offices and Guaranteed IBs

SEC Issues Risk Alert on Wrap Programs

The SEC recently issued this risk alert to highlight observations from exams of investment advisers managing client accounts that participate in wrap fee programs. The risk alert focuses on the most frequently cited deficiencies identified during exams. These deficiencies related to items such as policies and procedures regarding the tracking and monitoring of the wrap fee program, fiduciary duty and recommendations made in the client's best interest, and disclosures including conflicts, fees, and expenses. If you are an adviser who recommends wrap fee programs, this alert is a must read.

For more information: [SEC Risk Alert: Wrap Programs](#)

SEC Issues Risk Alert on Fixed Income Principal and Cross Trades

The SEC recently issued this risk alert citing the most common compliance issues identified relating to principal trading and agency cross trade transactions specific to fixed income securities. This risk alert is a follow-up to the [Principal and Cross Trading Risk Alert](#) published in September 2019. The deficiencies related to compliance policies and procedures, conflicts of interest, and written disclosures. This alert provides a thorough outline of the nuances of the fixed income requirements.

For more information: [SEC Risk Alert: Principal and Cross Trades](#)

SEC Seeking Comments on Broker-Dealer and Investment Adviser Use of Technology

The SEC is seeking input from the public on matters related to the use of digital engagement practices ("DEPs") by broker-dealers and investment advisers. The SEC wants to better understand market practices associated with firms' use of DEPs as well as the related analytical and technological tools and methods. This is a good opportunity for the industry to help the SEC understand the potential benefits that DEPs provide to retail investors and ways of mitigating any conflicts of interest.

For more information: [SEC Seeks Comments on Technology](#)

SEC Proposes to Enhance Proxy Voting Disclosure by Investment Funds on Form N-PX

The SEC has proposed amendments to Form N-PX to enhance the information mutual funds, exchange-traded funds, and certain other funds report about their proxy votes. The proposed rule would require

- funds to tie the description of each voting matter to the issuer's form of proxy and to categorize each matter by type;
- funds to organize their reports in a specific manner and require them to use a structured data language; and
- institutional managers to disclose how they voted on executive compensation (i.e., "say-on-pay" matters).

For more information: [SEC Proposes to Enhance Proxy Voting Disclosure](#)

SEC, MSRB, FINRA Hold Compliance Outreach Program for Municipal Advisers

The SEC, OMS, MSRB, and FINRA opened registration for the 2021 Compliance Outreach Program for Municipal Advisers held virtually on Thursday, October 7. Topics included managing conflicts of interest disclosures, operational considerations for registered municipal advisers, adviser participation in new issue pricing, and preparing for an exam.

For more information: [SEC, MSRB, & FINRA Hold Compliance Outreach for Municipal Advisers](#)

FINRA

FINRA Adopts Rule to Address Firms with Significant History of Misconduct

FINRA adopted new Rule 4111 to address risks from broker-dealers with a significant history of misconduct. FINRA will evaluate firms with a history of risk-related disclosures on an annual basis, based on predetermined identification metrics, to determine if they meet the definition of a “restricted firm.” Restricted firms would then be required to deposit cash or qualified securities in segregated, restricted accounts; adhere to specified conditions or restrictions; or comply with a combination of conditions set forth by FINRA.

For more information: [FINRA Adopts Rule to Address Firms with Significant History of Misconduct](#)

FINRA Reminds Firms of Their Supervisory Obligations Related to Outsourcing to Third-Party Vendors

FINRA issued this notice to remind firms of their obligation to establish and maintain a supervisory system, including written supervisory procedures, for any activities or functions performed by third-party vendors. FINRA highlighted exam findings that include cybersecurity and technology governance, books and records, and failure to supervise. This regulatory notice provides great detail of the necessary procedures and controls firms need to consider and implement when outsourcing.

For more information: [FINRA Reminder of Supervisory Obligations for Outsourcing to Third-Party Vendors](#)

FINRA Alerts Firms to Phishing Email Campaign Using Multiple Imposter FINRA Domain Names

This alert warns firms of an ongoing phishing campaign that involves fraudulent emails using imposter FINRA domain names (@finrar-reporting.org; @Finpro-finrar.org; @gateway2-finra.org). These domains are not connected to FINRA and firms should delete all emails originating from any of these domain names. If you happen to click on any links or images within these emails, make sure to notify the appropriate individuals within your firm.

For more information: [FINRA Warns Firms About Phishing Email Campaign](#)

Extension of Relief from Onsite Annual Inspection of Branch Offices and Guaranteed IBs

The NFA has extended the relief from onsite annual inspections of branch offices and guaranteed introducing brokers (IB) through the end of 2021. The NFA is continuing to allow members to conduct these inspections remotely. Members are still required to conduct the required annual inspection of each branch office and guaranteed IB by December 31, 2021.

For more information: [NFA Extends Relief of Onsite Annual Inspection](#)

About Joot

Joot is a fintech company that provides web-based technology and services to registered investment advisers, broker-dealers, and funds. Joot's clients include retail advisers, institutional managers, private fund managers, and mutual fund advisers.

For more information about us, please visit our website at joot.io or contact us at info@joot.io.

