

# Regulatory Alert

## Regulatory Insights for Financial Services

June 2024

### SEC Risk Alert: Examining Broker-Dealers

#### KPMG Insights:

- **Expect More Scrutiny:** The SEC Risk Alert on examinations is an indication to the market that examination and scrutiny will continue/expand now and going into 2025.
- **Examination Preparation:** Firms can utilize the information in the Alert (including the sample initial information request) to anticipate/prepare for potential/upcoming examinations.
- **Firm Selection:** Selection of firms for examinations are based on varying factors beyond exam history/timing – e.g., tips/complaints, media coverage, and the holding of customer cash/securities.

The Securities and Exchange Commission (SEC) Division of Examinations (Division) issues a [Risk Alert](#) that is intended to aid SEC-registered broker-dealers (firms) in understanding how SEC assesses risks and scopes examinations, including the selection of:

1. Firms to examine
2. Examination focus areas
3. Documents to request, including a sample initial information request

#### 1. Firms to Examine

Factors that may be considered in the selection process include:

- Examination history
- Supervisory concerns (e.g., disciplinary history of associated individuals or affiliates)
- Tips, complaints, or referrals involving the firm
- Financial notifications or alerts indicative of the firm's financial stress

- Media reports involving or impacting the firm
- Customer base
- Length of time since the firm's last examination
- Associated risk factors (e.g., customer complaints) identified with specific offices or branches
- Filings by the firm with the SEC or with a self-regulatory organization
- Whether the firm holds customer cash and securities

#### 2. Examination Focus Areas

The Division notes that the scope of an exam varies based on multiple factors and may be adjusted based on information received and staff observations. *Note: The Division may consider whether the firm has been subject to an examination in a similar area by a self-regulatory organization.*

#### 3. Documents to Request

The Division includes a Sample Initial Information Request List in its Risk Alert. Information that may be requested includes:

## General Information

Area	Example Documents
Organizational Information	Structure, affiliations, and control persons Remote offices and branches Employees Committees (e.g., responsibilities, members, meeting frequency, meeting minutes)
Business & Operations	Firm's business, including any recent significant changes Clearing agreements Website domain addresses Compensation arrangements
Financial Information	Annual audited report(s) Income statement(s) General ledger(s) Profit and loss statement(s)
Legal & Disciplinary	Pending and settled litigation, arbitration or proceedings Regulatory inquires, complaints, investigations or subpoenas Associated persons subject to special/heightened supervision or termination for cause

## Supervisory and Compliance Structure

Area	Example Documents
Books & Records; Compliance & Oversight	Written supervisory and compliance policies and procedures Oversight processes (e.g., compliance reviews, surveillance, and/or supervisory reviews) Customer complaints and correspondence; process for monitoring (incl. e-communication) Employee guidance and training; documentation of attendance
Branch Office Oversight	List of branch offices, including "doing business as" names Description of process to perform branch office inspections Any Profit and Loss statement by branch Registered personnel within selected branches and compensation earned
Information Processing, Reporting, and Protection	Safeguards for the protection of customer records and information Electronic access controls Business continuity plan Cybersecurity incidents or breaches (e.g., incident description, impact, and remediation)

## Regulatory Requirements

Area	Example Documents
Sales Practices, Regulation Best Interest, Form CRS	List of products sold Customer fee schedule Written policies and procedures for Regulation Best Interest and Form CRS compliance Customer account list Conflicts inventory
Anti Money Laundering (AML)	Current or ongoing external regulatory investigations or inquiries into AML-related functions AML written supervisory policies and procedures List of customer accounts with risk rankings; date of onboard; most recent KYC review Surveillance, monitoring, and management reports Most recent reviews performed over KYC, transaction monitoring, SAR handling
Net Capital and Customer Protection	FOCUS reports Trial balance and balance sheets Net capital computation, including all supporting workpapers List of all bank accounts and customer checks Changes in ownership equity

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