

# **FINRA Outlines Top Enforcement Priorities for Broker-Dealers**

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The Financial Industry Regulatory Authority recently released its [regulatory and examination priorities](#) for 2012. The 16-page letter offers valuable insight into what examiners may be looking for and can help firms sure up their compliance programs accordingly.

As detailed in the letter, “FINRA is informing its examination priorities against the economic environment that investors have faced since 2008, as these circumstances have steadily contributed to conditions that foster an increased risk of aggressive yield chasing, inappropriate sales practices, unsuitable product offerings, and misappropriation and fraud.”

“Given the low yields on Treasuries, we are concerned that investors may be inadvertently taking risks that they do not understand or that are inadequately disclosed as they chase yields,” the letter said.

FINRA listed lack of liquidity and inadequate cash flow in investments among its chief concerns. It cautioned brokers about inflating their balance sheets by taking on excessive debt or manipulating their assets and liabilities.

“FINRA is concerned about the additional risks that are being taken as a result of increased leverage, including market, credit and liquidity risk,” the letter stated. “We will continue to monitor firms that employ a high degree of leverage, both on-balance-sheet and off-balance-sheet, during the upcoming year.”

FINRA also noted that fees will be a top enforcement priority.

“We remain concerned about firms’ charging retail investors hidden, mislabeled or excessive fees,” according to the letter. “In 2011, FINRA brought cases against several broker-dealers that charged such excessive fees in the form of postage-and-handling charges that were unrelated to actual costs, and we will continue to investigate firms that appear to be taking advantage of investors through fee schemes.”

Finally, it is important to note that state securities regulators also take note of FINRA’s priorities when creating their own watch lists. As such, broker-dealers should be sure to address any compliance shortcomings in these areas.

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