2014: The FINRA Force Awakens
A Review of a Blockbuster Year and What it Means for BDs in 2015 and Infinity and Beyond
2014 FINRA ACTIONS

• Number of 2014 Cases Filed: 1,397
  • 1,535 cases filed in 2013
  • 9% decrease in 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Cases</th>
<th>Change From Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1,073</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>1,158</td>
<td>8%</td>
</tr>
<tr>
<td>2010</td>
<td>1,310</td>
<td>13%</td>
</tr>
<tr>
<td>2011</td>
<td>1,488</td>
<td>14%</td>
</tr>
<tr>
<td>2012</td>
<td>1,541</td>
<td>4%</td>
</tr>
<tr>
<td>2013</td>
<td>1,535</td>
<td>-0.40%</td>
</tr>
<tr>
<td>2014</td>
<td>1,397</td>
<td>-9%</td>
</tr>
</tbody>
</table>

• The number of cases has declined three straight years
• 30% increase in the number of cases since 2008
“You wouldn’t like me when I’m angry.”
- Bruce Banner
(a.k.a. “The Incredible Hulk”)
2014 FINRA ACTIONS

• Approximately $135M of fines reported in 2014

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fines Assessed</td>
<td>$28M</td>
<td>$50M</td>
<td>$42M</td>
<td>$72M</td>
<td>$69M</td>
<td>$60M</td>
<td>$135M</td>
</tr>
<tr>
<td>Change From Prior Year</td>
<td>-</td>
<td>79%</td>
<td>-16%</td>
<td>71%</td>
<td>-4%</td>
<td>-13%</td>
<td>125%</td>
</tr>
</tbody>
</table>

• This is the most FINRA fines reported since 2005 ($149M)
  ▪ 382% increase in fines since 2008
2014 FINRA ACTIONS

- Approximately $52M of restitution reported in 2014

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restitution</td>
<td>$8M</td>
<td>$6M</td>
<td>$19M</td>
<td>$34M</td>
<td>$13M</td>
<td>$52M</td>
</tr>
<tr>
<td>Change From Prior Year</td>
<td>-</td>
<td>-25%</td>
<td>217%</td>
<td>79%</td>
<td>-61%</td>
<td>300%</td>
</tr>
</tbody>
</table>

- This is a new FINRA record.
“I’m the king of the world!”
- Jack
Supersized Fines of $1M+

• 2013: 12 supersized fines, $31M in total fines
• 2014: 25 supersized fines, $100M in total fines
  • 10 cases resulted in fines of at least $5M
“You got the wrong guy. I’m the Dude, man.”
- Jeff Lewbowski (a.k.a. The Dude)
2014 FINRA ACTIONS

Firms Expelled:
• The number of firms expelled by FINRA declined from 24 in 2013 to 18 in 2014, a decrease of 25% (following a 20% decrease in the number of firms expelled during the prior year).

Individuals Barred/Suspended:
• The number of individuals suspended increased from 670 in 2013 to 705 in 2014, an increase of 5%, and the number of individuals barred jumped from 429 in 2013 to 481 in 2014, an increase of 12%.
• This is the second year in a row where the number of firms that were expelled decreased significantly, but the number of individuals suspended or barred increased.

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2014 TOP FINRA ENFORCEMENT ISSUES
(by total fines)

1. Research Reports/Analysts: $59 million, 19 cases
2. Advertising: $17 million, 31 cases
3. Best Execution: $14 million, 83 cases
4. Anti-Money Laundering: $13 million, 34 cases
5. Trade Reporting: $11 million, 176 cases
2014 Top Enforcement Issue:
Research Analysts & Research Reports

- 2014: $59M in fines; 19 cases
- 2013: $1M in fines; 14 cases
  - 5,800% increase in fines and 36% increase in the number of cases in 2014
- Research analysts and research reports are usually not a top priority for FINRA, but these issues can lead to significant fines: $15M fine in 2014, $11M fine in 2012 (both the largest fines of each year)
- $15M fine for firm that allegedly failed to supervise communications of its equity research analysts with clients and the firm’s sales and trading staff during a nine-year period. For example, allegedly improper communications about stock picks took place at “idea dinners” hosted by the firm’s research analysts. Firm had issued approximately 100 warnings to its representatives about this issue.
“I don't know how to put this, but I'm kind of a big deal.”

- Ron Burgundy
2014 Top Enforcement Issue: Advertising

- 2014: $17.2M in fines; 31 cases
- 2013: $2.8M in fines; 53 cases
  - 514% increase in fines and 42% decrease in the number of cases in 2014
- Advertising has been a key enforcement issue for FINRA in recent years:
  - #1 issue in 2010 ($4.8M in fines) and 2011 ($21M in fines)
  - #4 issue in 2012 ($10.4M in fines)
- Large increase in 2014 fines due to one case resulting in a $15M sanction.
2014 Top Enforcement Issue: Best Execution

- 2014: $13.9M in fines; 83 cases
- 2013: $6.6M in fines; 48 cases
  - Increases of 111% in fines and 73% in the number of cases in 2014
- This is the first time best execution has appeared on Sutherland’s *Top FINRA Enforcement Issues* list
- $1.9 million fine for allegedly paying unfair prices for distressed securities in more than 700 retail customer transactions during a two-year period; $540,000 restitution.
- $1.85M fine for allegedly failing to provide best execution for 22,000 customer transactions involving non-convertible preferred securities; $640,000 restitution.
“I'm going to make him an offer he can't refuse.”
- Vito Corleone
2014 Top Enforcement Issue: Anti-Money Laundering

• 2014: $13M in fines; 34 cases
• 2013: $4.4M in fines; 35 cases
  ▪ 195% increase in fines and 3% decrease in the number of cases in 2014
• This is the first time AML has appeared on Sutherland’s *Top FINRA Enforcement Issues* list
• $8 million fine for a firm that allegedly did not have an adequate AML program in place to detect, monitor, and investigate suspicious penny stock trades. The firm executed transactions involving at least 6 billion penny stock shares over 4.5 years, but basic trade information was lacking.
• $1.5 million joint fine for two related broker-dealers that allegedly failed to subject 220,000 new customer accounts to a required identify-verification process over a nine-year period. This issue was the result of a design flaw in an electronic system.
2014 Top Enforcement Issue: Trade Reporting

- 2014: $11M in fines; 176 cases
- 2013: $12.1M in fines; 198 cases
  - Decreases of 9% in fines and 11% in the number of cases in 2014
- Trade reporting was the #2 issue on Sutherland’s *Top FINRA Enforcement Issues* list for 2013
- Three firms were each fined $1 million for allegedly failing to provide accurate “blue sheet” trade data to regulators. The firms submitted information without correct customer names and included inaccurate transaction details.
- $750k fine for allegedly reporting large conventional non-index option positions to the Large Options Position Reporting (LOPR) system as index options. The firm submitted incomplete or inaccurate reports to LOPR on numerous occasions.
Retirees and Seniors:
• These types of customers often mentioned in regulators’ speeches
• Significant increase in fines and restitution in these cases in 2014:
  • 2014: $8M in fines and $26M in restitution
  • 2013: $213k in fines and $1.7M in restitution
    • Increases of 3,656% in fines and 1,429% in restitution

Suitability:
• This had been a Top Enforcement Issue (#2 in 2008 and 2009, #4 in 2010 and 2011, #1 in 2012)
• Significant slowdown over last two years likely due to completion of most, or possibly all, of financial crisis cases
• 2014: $5.6M in fines; 75 cases
  • Decreases of 71% in fines and 33% in number of cases since $19.4M in fines were imposed in 112 cases in 2012
What is MyComplianceOffice?

- **Document Library**
- **Policies and Procedures**
- **Personal Trading**
- **Compliance Calendar**
- **Custom Forms, Questionnaires & Checklists**
- **Case/Issue Tracking**
- **Document & Report Review**
- **Certifications, Attestations & Affirmations**
- **Gifts and Entertainment, Political Donations**
Dashboard

Click on graph to see all open personal trading alerts

Click on graph to see details of cases

Click on graph to see details of all open assignments

Click on graph to see all open employee requests
Benefits of Automation

Before

Reduces Costs, Risks, Saves Management Time, Demonstrates Culture of Compliance to Regulators and Investors

After
“At no point in your rambling, incoherent response were you even close to anything that could be considered a rational thought. Everyone in this room is now dumber for having listened to it.”

- Principal Anderson
  (Billy Madison)