



## **EXAMINATION INFORMATION FOR BROKER-DEALERS, TRANSFER AGENTS, CLEARING AGENCIES, INVESTMENT ADVISERS, AND INVESTMENT COMPANIES**

**This brochure, prepared by the staff of the Securities and Exchange Commission (SEC or Commission), provides information about examinations conducted by the SEC examination staff, including the examination process and the methods employed by the staff for resolving problems found during examinations. This information, provided to firms under examination, should help you to better understand the Commission's objectives in this area.**

### **I. PURPOSE OF EXAMINATIONS**

The Securities Exchange Act of 1934, the Investment Advisers Act of 1940, and the Investment Company Act of 1940 authorize the SEC to conduct examinations of firms that are registered with the SEC, including registered broker-dealers, transfer agents, clearing agencies, investment advisers, and investment companies. These statutes also authorize the SEC, by rule, to require registered firms to maintain certain books and records. The purpose of SEC examinations is to protect investors. Thus, during examinations, the SEC staff will seek to determine whether the firm is: conducting its activities in accordance with the federal securities laws and rules adopted under these laws (including, where applicable, the rules of self-regulatory organizations subject to the SEC's oversight); adhering to the disclosures it has made to investors; and implementing supervisory systems and/or compliance policies and procedures that are reasonably designed to ensure that the firm's operations are in compliance with the law. The SEC staff appreciates your cooperation with the examination process.

### **II. THE EXAMINATION PROCESS**

Examinations are conducted by professional examination staff from the SEC's 11 regional offices, and its headquarters office in Washington, DC. The Office of Compliance Inspections and Examinations, located in Washington, DC, is responsible for the SEC's overall examination program.

Firms may be selected for examination for any number of reasons, including for a routine examination, because of an investor complaint, or in connection with a review of a particular compliance risk area. The reason why firms have been selected for examination is non-public information, and typically will not be shared with the firm under examination.

Examinations may be conducted on an announced or unannounced basis. When the examination is announced, the staff will send the firm a letter notifying it of the examination and containing a request list that identifies certain information or documents that SEC examiners will review as part of the examination. In some instances, the examiners may request that certain of the

information and documents be provided in an electronic format. The request list may ask that the information and documents: (1) be delivered to the SEC's offices by a specified date; (2) be made available for review at the firm's offices on a specified date; or (3) some combination of the two.

Please communicate promptly with the examiners if you have any questions about the documents and information requested. In all cases, producing requested information and documents in a timely manner will facilitate the efficient completion of the examination.

As part of our pre-examination planning process, we actively work to ensure that our regulatory efforts are not duplicative. If you have any concerns in this regard, please contact the examiners responsible for the examination.

The examiners will provide the firm with SEC Form 1661, "*Supplemental Information for Regulated Entities Directed to Supply Information Other Than Pursuant to a Commission Subpoena*," which provides information concerning the possible uses of information provided to the SEC (this form can also be accessed at [www.sec.gov/about/forms/sec1661.pdf](http://www.sec.gov/about/forms/sec1661.pdf).) Upon request, the examiners will also provide the name and telephone number of their supervisor.

In many examinations, the examiners will visit the firm to conduct examination work on-site. Upon arrival, the examiners will identify themselves and present their SEC identifications. The examiners may conduct an initial interview. During this initial interview, the examiners will ask a series of questions about the firm and the activities to be examined. This information assists examiners in understanding the firm and its operations, and often assists examiners in determining the scope of the examination. The examiners may also ask for a walk-through of the firm's offices to gain an overall understanding of the firm's organization, flow of work, and control environment. Some examinations may be completed through the examiners' review of records in the SEC's offices along with telephonic or other interviews, as needed.

If the examination is unannounced, as soon as the examiners arrive they will provide the firm with an information or document request list and conduct an initial interview. During the initial interview, the examiners will go over the information or document request list to ensure that you understand the information and documents requested.

Following this initial phase of the examination, the examiners will review the information and documents provided by the firm. During this review, the examiners may make supplemental requests for additional information and documents. They may also request meetings with firm employees to discuss the firm's operations and the information and documents provided. These meetings help the examiners gain a better understanding of the firm's activities and compliance processes. The examiners may also request relevant information and documents from third parties that, for example, perform work for, or in conjunction with, the firm or where the third party activity may have a material impact on the firm.

On the last day of the on-site visit, the examiners will typically conduct an "exit interview" during which they will discuss the status of the examination and any outstanding information and document requests and, if appropriate, the issues identified during the examination to that point.

During an exit interview, the firm will be given an opportunity to discuss any of the issues that the examiners found and provide additional relevant information, including with respect to any actions that the firm has taken or plans to take to address the issues.

The examiners will then return to the SEC offices. In many cases, the examiners will perform additional analyses of the information or data obtained during the examination. This may include contacting the firm to ask clarifying questions or to request additional information or documents. In formulating the findings of the examination, the examiners may consult with other staff within the SEC, including supervisory staff and staff in relevant offices and divisions, to ensure that the findings are consistent with Commission rules, regulations, and interpretations.

If work performed subsequent to completion of the on-site portion of the examination identifies issues in addition to those discussed during the exit interview conducted on the last day of the on-site visit, the examiners will contact the firm, usually by telephone, to discuss these additional findings. During this discussion, which may constitute a “final exit interview,” the firm will be given an opportunity to discuss any of the issues that the examiners found and provide additional relevant information, including with respect to any actions that the firm has taken or plans to take to address the issues identified.

### **III. COMPLETING AN EXAMINATION**

After the completion of the on-site portion of the examination, the examiners will normally complete the examination within 120 days. If the examiners are unable to complete their work within that time, on or about the 120th day they will contact the firm to discuss the status of the examination and the likely schedule for completing the examination and for providing a final exit interview.

When an examination has been completed, the firm will be sent a written notification. This notification will generally take one of two forms: (1) the examination staff may send the firm a letter indicating that the examination has concluded without findings (often referred to as a “*no-further action letter*”); or (2) the examination staff may send the firm a letter that describes the issues identified, asks the firm to undertake corrective action and to provide the staff with a written response outlining those actions, and possibly requests a conference at the SEC’s office (often referred to as a “*deficiency letter*”). If serious problems are found, in addition to sending the firm a deficiency letter, the examination staff may refer the problems to the Commission’s Division of Enforcement, or to a self-regulatory organization, state regulatory agency, or other regulator for possible action. Notwithstanding the above, on occasion (usually in the context of certain exigent circumstances) problems may be referred to the Division of Enforcement without an exit interview or a deficiency letter.

As described above, a written notification that the examination has concluded will generally be sent to the firm no later than 120 days following the end of the fieldwork phase of the examination. The firm will be asked to respond in writing to any issues identified in a deficiency letter, including any steps that it has taken or will take to address the problems and to ensure that they do not reoccur. This response will generally be due within 30 days of the date of the deficiency letter.

Providing a timely and complete response to a deficiency letter will facilitate the examination staff's review of your response. In particular, please be sure to address all of the issues identified by the examiners. If the examiners have comments on your response, they will generally either provide them to you within 60 days, or contact you toward the end of that period to discuss their schedule for providing them to you. If the examiners have no further comments after receiving your response to a deficiency letter, they will send no further communication and the examination will be closed.

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If you have any questions, comments, complaints, or concerns during an examination or after it is completed, please raise them with the examiners or with the examiners' supervisors in the respective regional office or headquarters office. Most questions and issues can be resolved by discussing them with members of the examination team. You may also communicate comments, complaints, or concerns through the *Examination Hotline*, (202) 551-EXAM. The *Examination Hotline* offers you a choice to speak with either a senior-level attorney in the Office of Compliance Inspections and Examinations in Washington, DC, or a staff member in the SEC's Office of Inspector General. The Office of Inspector General is an independent office within the SEC that conducts audits of Commission programs and investigates allegations of employee misconduct. When you speak with staff on the *Examination Hotline*, you may identify yourself or request anonymity.