

# The SEC's 2013 Priorities: What Should Broker-Dealers Be Worried About?

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Last week, we talked about the helpful heads-up that the SEC provided to investment advisers and investment companies in its recent release of exam priorities for 2013. You can check out the post [here](#). The [SEC report](#) also addresses the SEC's focus in 2013 for broker-dealers. These are the highlights:

- **Sales practice activities:** The SEC continues to focus on improper sales practices regarding retail investors. Specific concerns noted in the report include affinity fraud or fraud targeting seniors, unsuitable recommendations of higher yield products, conflicts of interest, and activities and products on the periphery of certain registered entities
- **Electronic trading:** It plans to focus on trading risk areas, including high frequency trading, algorithmic trading, proper controls around the use of technology, alternative trading systems and order routing practices.
- **Capital:** It intends to conduct exams of clearing firms with multiple correspondents engaging in high frequency/high volume trading, focusing on the clearing firms' internal controls for managing intraday liquidity risk, as well as assessing intraday net capital and other financial risks.
- **AML Programs:** The spotlight will be on clearing and introducing firms that appear to have weak anti-money laundering programs, especially customer identification programs, suspicious activity identification and reporting deficiencies, and weak due diligence procedures.

Two emerging issues are worth mentioning. The first is compliance with Exchange Act Rule 15c3-5 (the Market Access Rule), with particular attention to master/sub-accounts relations and proper controls relating to proprietary trading.

The second is a growing interest in exchange-traded funds (ETFs). The SEC will continue its focus on the suitability of recommendations of leveraged or inverse ETFs to retail investors.

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