Financial and Operational Issues

**Dawn Calonge, Surveillance Director, FINRA, Boca Raton District Office**

Dawn Calonge is a surveillance director in FINRA’s Boca Raton District. She manages regulatory coordinator staff that is responsible for the ongoing financial monitoring and sales practice surveillance of member firms in the Florida District Office. Prior to becoming a surveillance director, she served as an examination manager responsible for managing examination staff that conducted cycle and cause examinations. Ms. Calonge joined FINRA as an examiner, investigating a wide range of member firm activities. Prior to joining FINRA, she worked at the U.S. Securities and Exchange Commission and the New York Stock Exchange. Prior to her regulatory work, Ms. Calonge worked in the accounting field and received her bachelor of business administration degree with a major in accounting from the University of Miami in Coral Gables, Florida.

**Kris Dailey, Vice President, Risk Oversight & Operational Regulation, FINRA**

Kris Dailey is a vice president in the Risk Oversight & Operational Regulation department in FINRA’s Member Regulation division. Ms. Dailey oversees the development of broker-dealer financial and operational policies and rule interpretations, FINRA’s margin rules and credit regulation policy, evaluation of market and credit risk methodologies and examination-related automation initiatives. Ms. Dailey was previously a managing director at FINRA’s predecessor, NYSE Regulation, where she held various staff and managerial positions and was responsible for financial surveillance of member firms and the supervision of member firm examinations. Ms. Dailey received a bachelor’s degree from St. John’s University and a M.B.A. from Fordham University.

**Susan Demando Scott, Associate Vice President, Financial Operations, FINRA**

Susan DeMando Scott, Associate Vice President, Risk Oversight and Operational Regulation, FINRA, is responsible for the supervision of the Financial Operations Policy Department (FinOp). FinOp is responsible for researching and providing interpretative guidance with respect to the SEC’s Net Capital, Customer Protection, and Books and Records rules for approximately 3,800 FINRA member firms that are supervised by FINRA’s 15 District Offices. In conjunction with her responsibilities as Director of FinOp, Ms. Scott has represented FINRA as a panelist, and also as a featured speaker, at various FINRA conferences, as well as at events sponsored by The American Institute of Certified Public Accountants (AICPA), The District of Columbia Bar Association, The Public Company Accounting Oversight Board (PCAOB), the New York State Society of CPAs, and Securities Industry and Financial Markets Association (SIFMA). Ms. Scott has been with FINRA and its predecessor NASD for 21 years. Prior to joining FINRA, Ms. Scott worked in the securities industry for approximately 12 years in various capacities. Her last industry position was as the Chief Financial Officer of Mitchum, Jones, and Templeton located in Los Angeles, California. Ms. Scott has a bachelor’s degree from California State University, Los Angeles, where she majored in finance.
South Region Compliance Seminar

Financial and Operational Issues
November 21, 2014

Financial and Operational Issues

• Moderator – Dawn Calonge, Surveillance Director, FINRA Boca Raton District Office

• Panelists – Kris Dailey, VP, Office of Risk Oversight & Operational Regulation, FINRA
• Panelist – Susan DeMando Scott, Associate VP, Financial Operations, FINRA
Overview

- FINRA Financial and Operational Update
- SEC Amendments to the Financial Responsibility Rules for Broker-Dealers
- SEC Amendments to the Broker-Dealer Reporting Rules
- SEC Removal of Certain References to Credit Ratings Under the Securities Exchange Act of 1934

1 FINRA Financial and Operational (FinOp) Update

- 2014 FinOp Examination Priorities
- FinOp Examination Findings
- Regulatory Issues and Concerns
FINRA Examination Priorities

2014 FINRA Examination Priorities

- Accuracy of Firm’s Financial Statements and Net Capital
  - Prepare Financial Statements Throughout the Year
  - Financial Statements Prepared in Accordance with GAAP
  - Accurate Net Capital Computation
- Funding and Liquidity Risk
- Risk Control Documentation and Assessment
- Cybersecurity & IT Governance
- Auditor Independence

FINRA Examinations – Issues - Concerns

Examination Findings

- Failure to Properly Value Assets, Failure to Properly Classify Assets, Improper Netting of Assets and Liabilities
- Failure to Record Liabilities, Improper Exclusion of Items from Aggregate Indebtedness, Improper Add-Back to Net Worth
- Improper Application of Expense Sharing Agreements
- Guarantees and Contingencies
- Customer Protection Issues - for Firms Claiming an Exemption from SEA Rule 15c3-3 & Carrying/Clearing Firms
- Books and records issues
- Other findings

FinOp Regulatory Issues and Concerns

- Part-time/Off-site FinOp Arrangements
- Supervisory issues at firms of limited size (risk of fraud)
Amendments to the Financial Responsibility Rules for Broker-Dealers

Includes Amendments to:
- Net Capital Rule – Rule 15c3-1
- Customer Protection Rule – Rule 15c3-3
- Books and Records Rules – Rules 17a-3 and 17a-4
- Notifications Rule – Rule 17a-11

SEC Release Number 34-70072

Financial Responsibility Rules Amendments

- On July 30, 2013 the Commission published a final rule, amending the broker-dealer financial responsibility rules
  - Financial Responsibility Rules for Broker-Dealers
    - Release 34-70072

- Addresses items of concern regarding the financial responsibility requirements for broker-dealers such as:
  - Liabilities or Expenses Assumed by Third Parties
  - Non-Permanent Capital Contributions
  - SEC Authority to Restrict Withdrawals of Capital
  - New Definition of “Insolvent”
  - Risk Management Procedures
Financial Responsibility Rules Amendments

- Additional items addressed in the final rule:
  - Codification of PAB requirements
  - Banks where Special Reserve Deposits Can Be Held
  - Treatment of Free Credit Balances
  - Securities Lending and Borrowing and Repurchase/Reverse Repurchase Arrangements
  - Allocation of Customers’ Fully Paid and Excess Margin Securities to Short Positions

- All Amendments Effective by March 3, 2014

Amendments to the Broker-Dealer Report Rules

Includes Amendments to:
- Broker-Dealer Reports Rule – Rule 17a-5
- Notification Rule – Rule 17a-11

SEC Release Number 34-70073
Broker-Dealer Report and Notification Rules

- On July 30, 2013 the Commission published a final rule, amending the broker-dealer reporting rules and notifications rule
  - Release 34-70073

- Highlights of the Amendments include:
  - Statement Regarding Independent Public Accountant
    - FINRA Reg Notice 14-39
  - Requirement to File Reports
    - Compliance Report
    - Exemption Report

- Amendments Effective by June 1, 2014

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4 Removal of Certain References to Credit Ratings Under the Securities Exchange Act of 1934

Includes Amendments to:
- Net Capital Rule – Rule 15c3-1
- Customer Protection Rule – Rule 15c3-3
- Books and Records Rule – Rule 17a-4
- Confirmation of Transactions - Rule 10b-10

SEC Release Number 34-71174
Deletion of NRSRO References

- On January 8, 2014, the Commission published a final rule, Removal of Certain References to Credit Ratings Under the Securities Exchange Act of 1934
  - Release 34-71194, 79 FR 1521
  - Amendments in response to Section 939A of the Dodd-Frank Act.
  - Amendments are effective July 7, 2014. Applicable to broker-dealers that maintain positions in commercial paper, nonconvertible debt, or preferred stock.
  - Changes the manner in which firms determine the haircuts on positions in each of the above referenced securities.
  - The Release references several factors that may be considered by a broker-dealer to establish that the securities involve a minimal amount of credit risk.

- No-Action Letters Discussion

FINRA Financial or Operational Rules: Adopted, Proposed, or Under Discussion
Topics and Status Update

- Form SIS
- Proposed Changes to the Rule 4210 Margin Requirements for TBA Transactions
- Frequently Asked Financial/Operational Questions
- Customer Account Statements
- Proposed FINRA Rule regarding Discretionary Accounts and transactions by Persons Other Than the Customer

What Questions Do You Have?