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## SEC Releases Its 2021 Exam Priorities

**Legal Update**

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It's that time of year again. The SEC, through its Division of Examinations (DoE), has published its exam priorities for 2021. According to the SEC, these priorities reflect certain practices and products that may present more risk to investors and/or the integrity of the U.S. capital markets.

Several items of interest to Registered Investment Advisers and Broker-Dealers are noted below.

### Reg BI / Form CRS

This year marked the implementation of the SEC's much anticipated Regulation Best Interest and Form CRS requirements. The SEC's exam priorities provide an update on efforts to comply with these new requirements. For Reg BI, the SEC notes that firms have responded primarily through written supervisory procedures (WSPs) and additional training. The SEC notes the importance of implementing firm-specific processes, including training programs, to comply with the requirements of Reg BI. In 2021, the DoE will conduct examinations to ensure compliance with Reg BI and its guidance for Reg BI examinations can be found [here](#).

For Form CRS, firms have responded with a variety of approaches, but the SEC emphasizes, as it has in previous guidance, the importance of "readability" to the average investor. Firms should avoid legalese and boilerplate language. The SEC also notes the importance of providing accurate and complete disciplinary disclosures and filing the form on time.

### Retail Investors

The Retail Investor category focuses on compliance with Reg BI, Form CRS and Fiduciary Duty. It also focuses on investment services provided to seniors, investments recommended for retirement accounts and securities products that are particularly important to Retail Investors including mutual funds (particularly high cost funds), ETFs (particularly niche or leveraged ETFs), municipal securities and microcap securities.

## Additional Focus Areas for RIAs

For RIAs and investment companies, the SEC will continue to focus on compliance programs. It will emphasize reviewing disclosures, valuation filings, personal trading activities, and contracts and agreements concerning commissions. While the SEC will focus on investments of particular interest to Retail Investors (mutual funds and ETFs), it will also review RIAs that manage private funds, with an emphasis on liquidity and disclosure of investments risks and conflicts of interest.

## Additional Focus Areas for Broker-Dealers

For Broker-Dealers, the DoE emphasizes the examinations will focus on sales practices and retail-targeted investments, such as mutual funds and ETFs, the safety of customer cash and securities, best execution in light of the effects of evolving commissions and other cost structures, certain types of trading activity and the operations of alternative trading systems.

## The Pandemic

In its exams, the SEC will also focus on how firms have responded to the pandemic. The SEC notes that the increase in remote operations in response to the pandemic has increased concerns about, among other things, endpoint security, data loss, remote access, use of third-party communication systems and vendor management. The SEC will focus on whether firms have taken appropriate measures to address these concerns and new challenges presented by the pandemic generally.

[View the DoE's Examination Priorities for 2021.](#)

## For More Information

To discuss any topic related to these exam priorities, please contact Ryan Young or Matt Boos in our Investment Management Group.