

FLORIDA AML COMPLIANCE SURVEY 2015 REPORT FOR BROKER-DEALERS

WHAT WE'RE SEEING RIGHT NOW

Increased regulator scrutiny is a real issue facing broker-dealers, yet their investments of time and money may not reflect the demands made by regulators.

Methodology

This data was gathered as part of Kaufman Rossin's Florida AML Compliance Survey. The survey was conducted virtually; emails were sent to nearly 300 compliance officers, and the survey was promoted through conferences and events.

36 compliance officers identified their institutions as broker-dealers. This report analyzes those 36 respondents, including those who did not complete all questions.

The sample is primarily based in South Florida, with just 5 respondents in Central Florida and none in the northern part of the state. Their asset size ranges from under \$100 million to over \$1 billion. Nearly half have less than 25 registered advisors, with 10 in the 25-150 advisor range. Most are not affiliated with banks.



Executive Summary

We've been hearing more and more from both FINRA and the SEC about increased scrutiny including BSA and AML compliance. According to analysis by Morgan Lewis, last year was a record-setting year for enforcement, with 166 cases filed by the SEC regarding broker-dealers (an increase from 121 cases in 2013), and 1,397 cases brought by the Financial Industry Regulatory Authority (FINRA) with a record-setting penalty amount of \$134 million (an increase from \$60 million in 2013).

Annually, we survey compliance officers of banks and broker dealers, and report on the trends we see. One of our objectives is to identify areas where respondents may be at risk.

Based on this year's data, compliance officers at Florida's broker-dealers recognize that regulators' eyes are on them. When asked how important specific issues would be for the coming year, more than 70% called Increased Regulatory Scrutiny very important, the top issue identified. The data from this sample pinpoints some areas where that level of concern could lead to more action: board attention, training, and staffing.

I look forward to the opportunity to discuss these risk areas with all of you, to learn more about how we can help you address this high priority, and mitigate your risks.



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Director, Risk Advisory Services

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➤ ***Tone at the top may be an issue.***

Though only 14% of those surveyed admitted that BSA/AML/OFAC compliance isn't a top issue for their institutions, more than 21% get to discuss these issues with leadership just once a year.

➤ ***Broker-dealers' planned investments have changed.***

This year, their top reported investment is enhancements to customer risk rating process. They also plan spending on KYC/CDD/EDD documentation, increased training related to AML compliance and transaction reviews ("look backs").

➤ ***Reasons for SARs have changed.***

Money laundering dropped from 60% to 29% of SARs filed. Top reasons this year were transactions with no apparent economic, business or lawful purpose, identification/documentation, and transactions outside customer's expected activity and/or financial profile.

➤ ***Outsourcing and automation may be popular, but can they be trusted?***

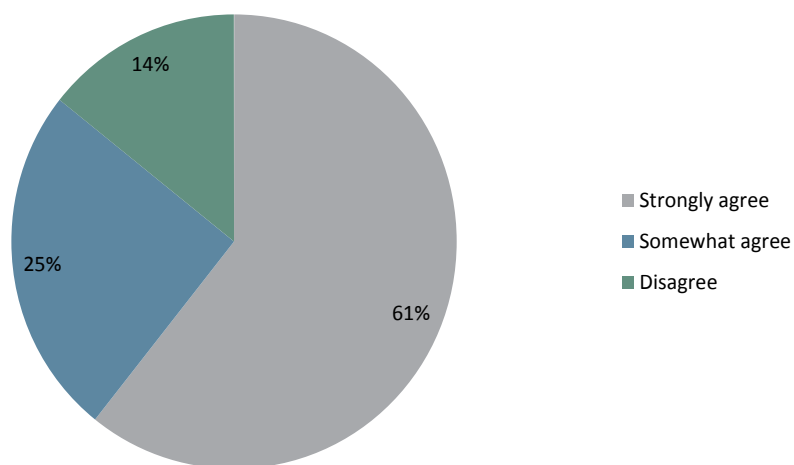
Confidence and satisfaction with these solutions isn't at the highest levels, and some of these systems have never been tested.

Are broker-dealers giving BSA/AML/OFAC compliance the attention it deserves?

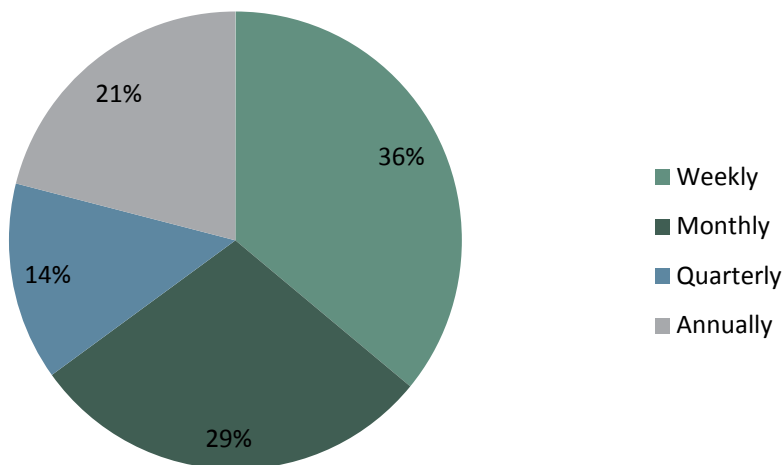
Firms agree that compliance is a top priority.

When asked whether BSA/AML/OFAC is a top priority for their organizations, Florida broker-dealer compliance professionals agree, in general, that it is.

BSA/AML/OFAC IS A TOP PRIORITY WITHIN YOUR ORGANIZATION



FREQUENCY THAT AML ISSUES ARE DISCUSSED WITH THE BOARD OF DIRECTORS, COMPLIANCE COMMITTEES OR SENIOR MANAGEMENT

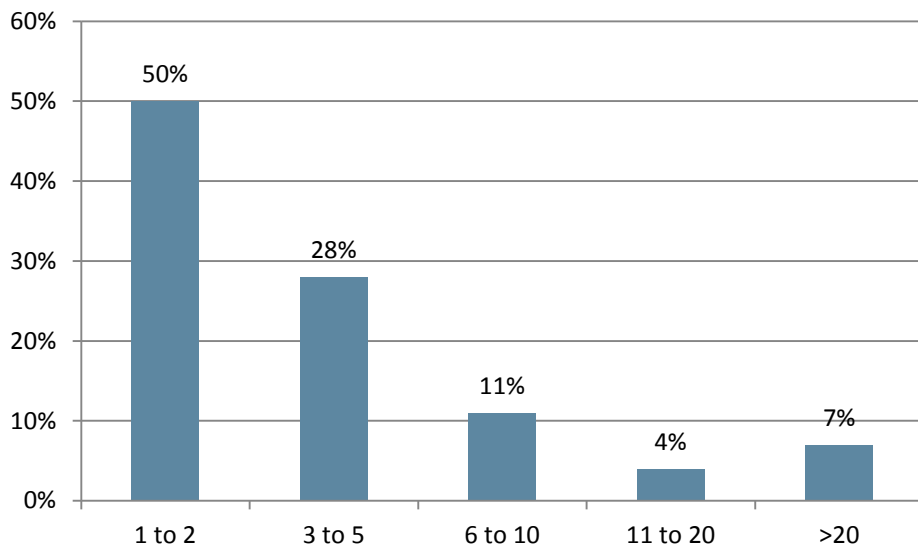


More than half of respondents get the attention of the Board, Compliance Committee or Senior management at least monthly.

But senior management is more active than their boards on these issues, despite the fiduciary responsibility that board members carry.



NUMBER OF EMPLOYEES IN THE BSA/AML/OFAC DEPARTMENT

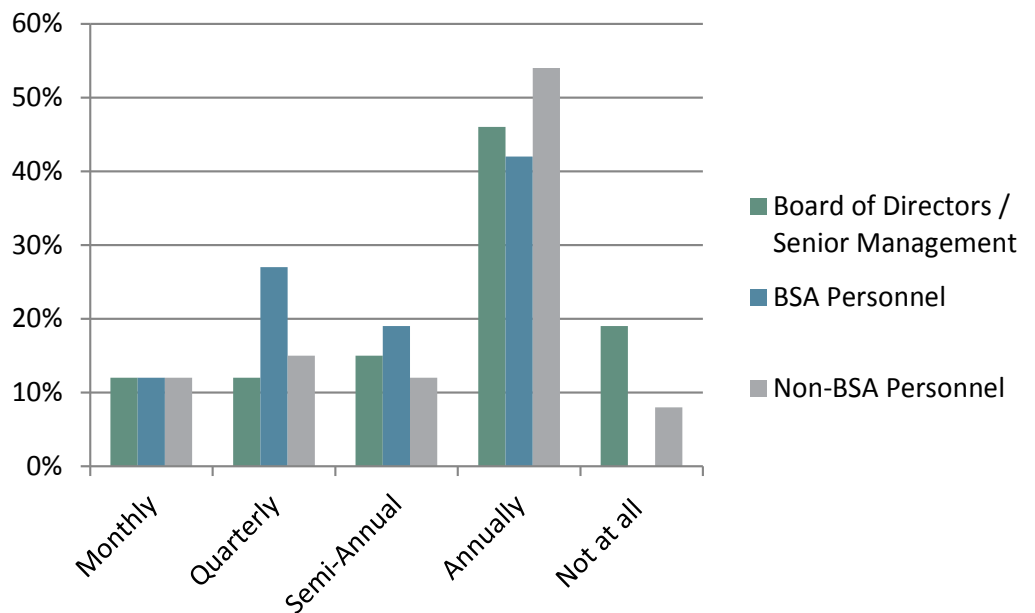


Are senior management and boards really paying the right attention to compliance?

The broker-dealers surveyed have small staffs dedicated to BSA/AML/OFAC. More than half of respondents had over 25 registered representatives associated with their firms, but nearly 80% had fewer than 5 employees in their BSA/AML/OFAC departments.

50% of respondents don't plan to add staff to those departments at all this year.

FREQUENCY THAT THE FOLLOWING PROFESSIONALS RECEIVE TRAINING



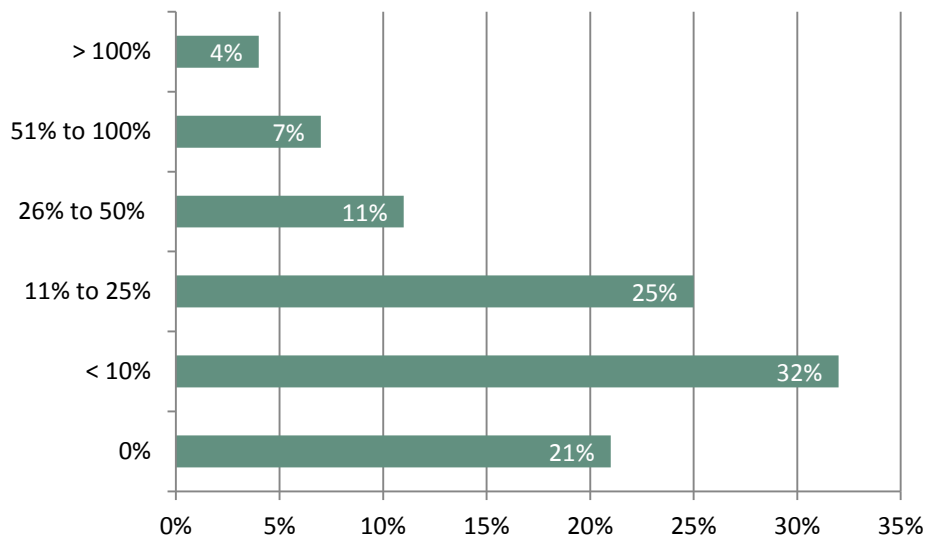
AML/BSA/OFAC compliance training at all levels tends to happen only annually.

Nearly 60% don't include BSA/AML/OFAC in their employee performance evaluations or reward systems.



They plan to increase spending.

PLANNED INCREASED SPENDING RELATED TO BSA/AML/OFAC COMPLIANCE OVER THE NEXT 12 MONTHS

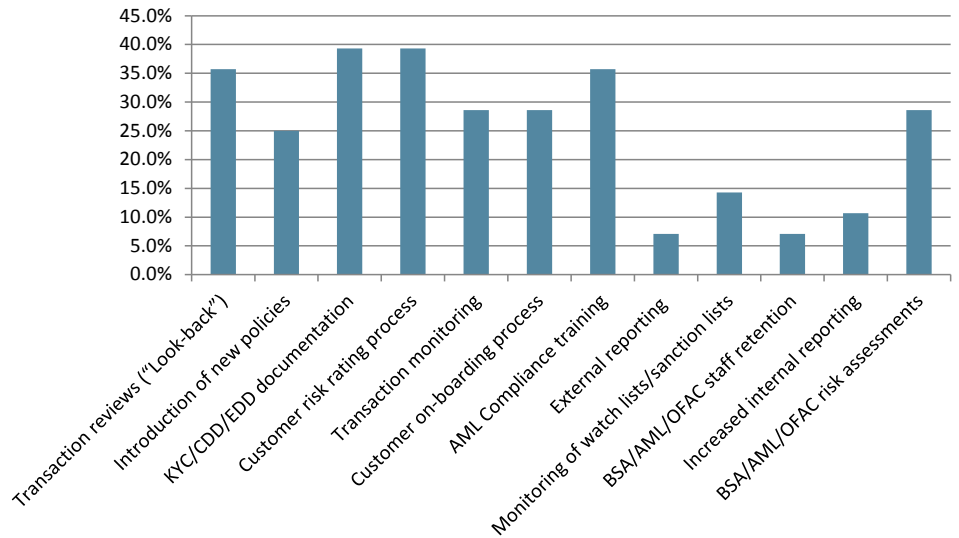


Their planned investments include assessments, monitoring and training.

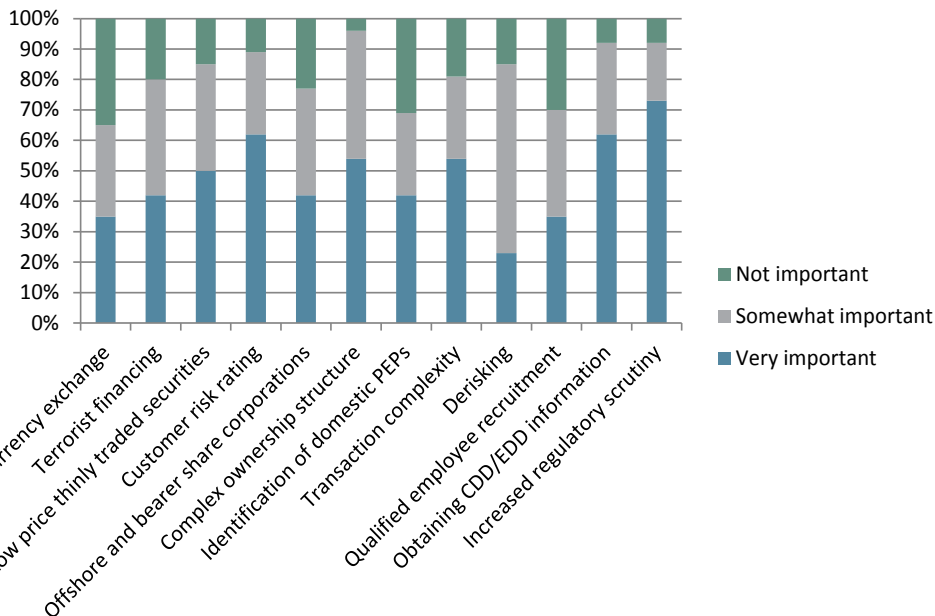
Enhancements to customer risk rating, KYC/CDD/EDD documentation, increased training related to AML compliance and transaction reviews were some of the most popular responses.

In 2014, top investments included enhancements to transaction monitoring, introduction of new policies and procedures and increased training related to AML compliance.

TOP 3 LARGEST INVESTMENTS IN AML COMPLIANCE OVER THE NEXT 12 MONTHS FOR EACH INSTITUTION



ISSUES RANKED BY PERCEIVED LEVEL OF IMPORTANCE OVER THE NEXT 12 MONTHS



That spending seems to be in line with the top issues they predict for the next 12 months.

Increased regulatory scrutiny, customer risk rating and obtaining necessary CDD/EDD information from customers were rated as very important issues for the next 12 months, yet recruitment and retention of qualified employees was rated as not important by more than 30% of respondents.

In 2014, top issues rated very important were identification of beneficial owners, identification of domestic PEPs and increases in illegal foreign currency exchange.

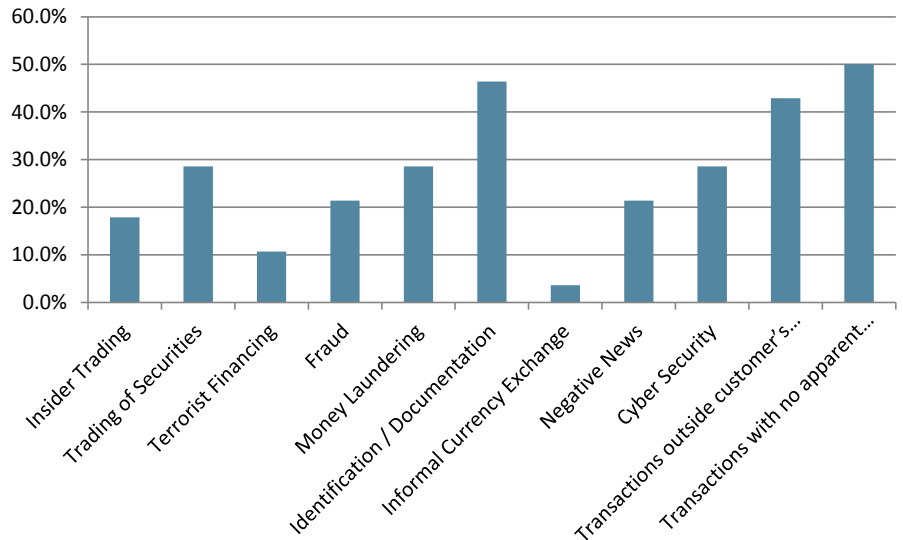
What systems and processes are in place, and how effective are they?

Suspicious Activity Reports

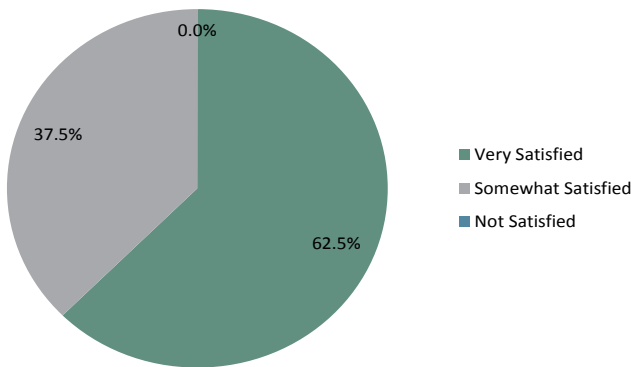
More than 90% of broker-dealers in the survey reported filing fewer than 5 Suspicious Activity Reports per month.

Money laundering, the top reason cited for filing SARs in 2014, dropped from 60% in 2014, to 29% in 2015.

THE TOP REASONS FOR SARs FILINGS IN YOUR INSTITUTION



SATISFACTION WITH THE INSTITUTION'S CURRENT AUTOMATED AML MONITORING SYSTEM



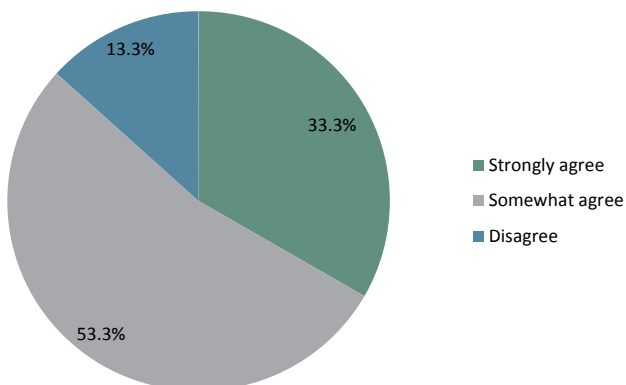
AML Monitoring Systems

Our survey sample of broker-dealers had few automated systems in place for AML monitoring.

46% of respondents reported using manual reviews, and another 25% use exception reports from clearing firms.

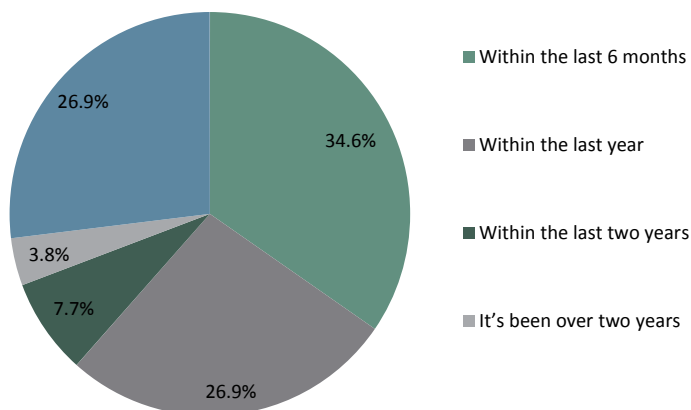
Those who use automated systems reported being satisfied with them. Those who use exception reports reported less satisfaction; only 33% strongly agree that reports are tailored to their institutions.

EXCEPTION REPORTS ARE TAILORED TO YOUR INSTITUTION





RECENCY OF VALIDATION/CALIBRATION OF OFAC SCREENING SYSTEMS



OFAC Screening System

More than half of respondents are satisfied with their institutions' current OFAC screening systems.

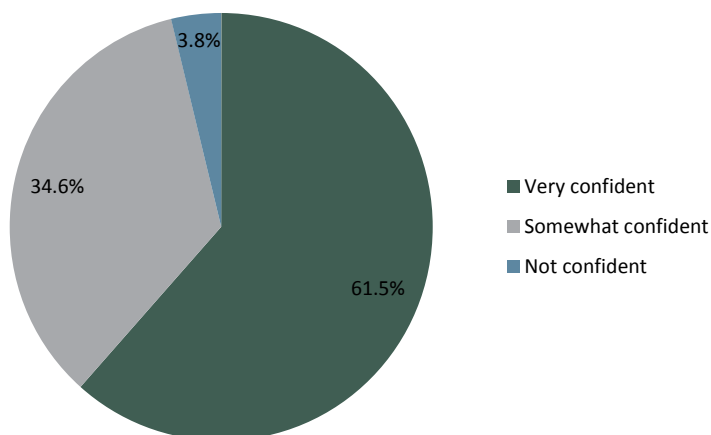
42% reported being very satisfied. However, nearly 40% haven't had the system validated/calibrated within the last two years... and almost 27% have never had it validated.

BSA/AML/OFAC Testing

Less than 20% of broker-dealers use internal auditors for their BSA/AML/OFAC testing.

While third-party outsourcing or co-sourcing can be an excellent route for small to mid-size broker-dealers who don't have internal audit staff, just 62% are very confident that the testing will identify material problems.

CONFIDENCE THAT BSA/AML/OFAC TESTING WILL IDENTIFY MATERIAL PROBLEMS THAT EXIST



Is your organization at risk of compliance violations?

Recent conference presentations from both FINRA and the SEC focused on BSA and AML compliance. Andrew Ceresney, director of the SEC's Enforcement Division, has publicly stated that some broker-dealers are not living up to their Bank Secrecy Act obligations specifically with filing suspicious activity. Furthermore, Andrew Goodman, National Associate Director of Broker-Dealer Examination Program at the Office of Compliance Inspections and Examinations (OCIE) stated that OCIE expects firms to implement robust compliance programs that are targeted to the specific risks at the firm, and AML is no exception.

Leaders in the industry say they recognize the importance of addressing these issues. Action – assessments of policies and procedures, systems testing, and staff and board training – can go a long way toward demonstrating to regulators that the focus is real.







Professional Biography

Bao Q. Nguyen, MBA, CAMS, CFE **Director of Regulatory Compliance**

Bao Nguyen is the Director of Risk Advisory Services at Kaufman Rossin. His expertise focuses on recognizing and assessing compliance risks for broker-dealers, investment advisers, and hedge funds. He provides compliance solutions including annual compliance program reviews, anti-money laundering independent testing, supervisory control risk assessments, fraud investigations, and customized compliance or product reviews. He has also assisted clients with broker-dealer and investment adviser registration with FINRA, the states, and the Securities and Exchange Commission regulatory examinations and investigations.

Prior to joining Kaufman Rossin, Bao was a Chief Compliance Officer for a broker-dealer and registered investment advisor in South Florida. He was responsible for developing and implementing the firm's supervisory systems to comply with federal and state securities law and FINRA Rules and Regulations. In addition, as the Anti-Money Laundering Compliance Officer, he was responsible for compliance with the USA PATRIOT Act, Bank Secrecy Act (BSA), Office of Foreign Assets Control (OFAC), and Foreign Corrupt Practices Act (FCPA).

Bao's experience also includes being a lead examiner with FINRA for six years where he examined FINRA member firms with respect to sales practice and financial reviews to determine compliance with federal and FINRA rules and regulations. Bao is a frequent speaker at various conferences and an author with published articles in Bloomberg BNA and ACAMS. In addition, Bao is frequently quoted in various publications such as, ACAMS.com, IA Watch, PAM Magazine, WealthManagement.com. In addition, Bao sits on the board of Families First of Palm Beach County Foundation and is also the Executive Board member of the ACAMS South Florida Chapter.

Bao earned a Bachelor's Degree in Finance and Marketing, and a Master's of Business Administration from Florida Atlantic University. He is a Certified Anti-Money Laundering Specialist (CAMS) and Certified Fraud Examiner (CFE). He was also a recipient of the Top 40 Under 40 professional by the South Florida Business Journal.

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Stephanie Richards

Manager of Risk Advisory Services

Stephanie Richards is a manager in the risk advisory services department of Kaufman Rossin's Boca office. She was formerly a principal regulatory coordinator and risk analyst at the Financial Industry Regulatory Authority (FINRA).

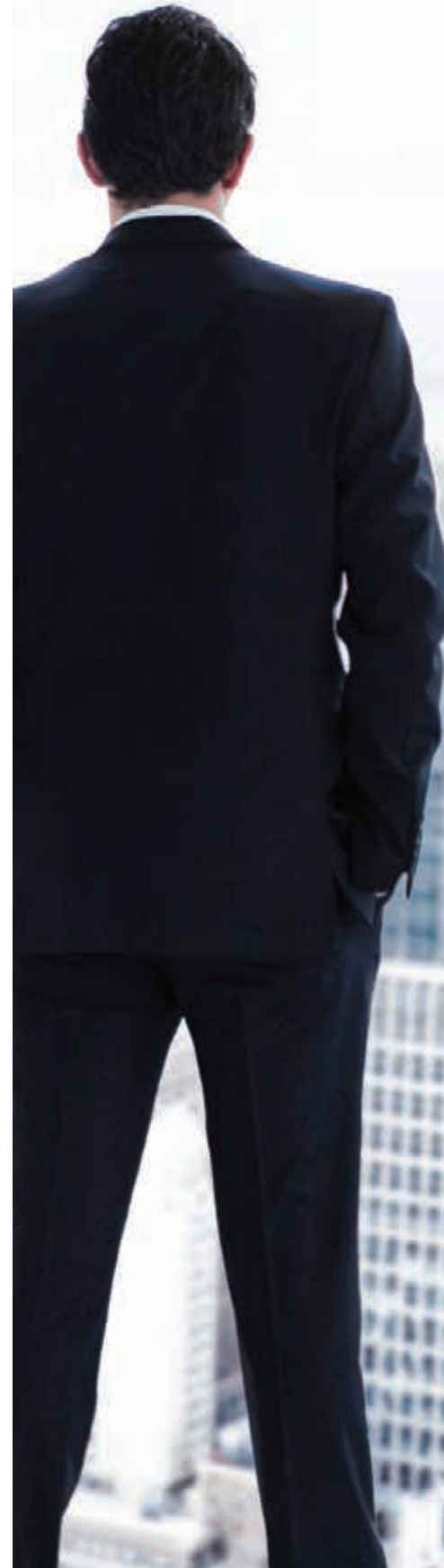
Stephanie is responsible for providing compliance solutions including annual compliance reviews, anti-money laundering independent testing, supervisory control risk assessments, fraud investigations, and customized compliance or product reviews. She also assists clients with broker-dealer and investment adviser registration with FINRA, the states, and the Securities and Exchange Commission.

She has 10 years of experience in operational, regulatory, compliance, audits, and business process control reviews. She has advanced knowledge and understanding of financial markets, industry regulations and compliance requirements, as well as securities industry systems, operations, controls and processes with proven record of exceeding performance expectations.

Stephanie earned her Bachelor of Arts in Criminal Justice from Florida Atlantic University.

She is fluent in English and Creole.

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