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IMA Pans FSA Fee Increase

The **Investment Management Association** wants the **Financial Services Authority** to justify ramping up its regulatory fees.

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Getting To Know You

SMALL FIRMS COME UNDER TOUGHER FSA SCRUTINY

The U.K. **Financial Services Authority** has started to subject smaller financial institutions to more regular scrutiny as part of its efforts to beef up oversight. **David Whitely**, spokesman for the FSA, said the regulator wanted to have some form of contact with all 2,500 small wholesale firms—such as investment



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No Hawaii Trip For You!

CCOs RETHINK TRAINING PLANS

Chief compliance officers at broker/dealers, hemmed in by budget constraints and facing tougher scrutiny, are rethinking their training strategy for the coming year. Some CCOs have found savings by chucking consultants and vendors and running more in-house compliance and legal seminars on their own. Others have ditched long-distance conferences covering old topics or are taking up Webinars or roundtables.

Compliance chiefs are looking to get more bang for their buck. **Mark Egert**, CCO and

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Help Wanted

FIRMS BRING BUSINESS STAFF INTO DATA SECURITY

Financial institutions are dragging more of their business staff and executives into helping with information security as they contend with tight budgets and concerns over the threat of fraud posed by insiders. According to a new study by **Deloitte & Touche**, the business lines of more than half (58%) of firms polled now contribute to their organization's information security strategy, up from 39% last year. They are more likely to have sign-off on the

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FUND WATCHERS EXPECT NEW ADVISER SRO

Fund industry professionals expect Congress to create the first self-regulatory organization for advisers—and there is a chance it will be a new body, according to *CR* sister publication *Fund Action*. The **Financial Industry Regulatory Authority** has also raised the possibility that it should be the SRO for advisers.

Congress is likely to favor legislation establishing an SRO for advisers to add greater oversight in the wake of the alleged **Bernard Madoff** fraud. Industry watchers say hedge funds—which face a crackdown following the scandal—favor an SRO over direct oversight

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FIRMS BRING

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strategy. Once in place, a growing minority are also embracing the plan, up from just 10% to around one quarter. Deloitte surveyed senior security officers at more than 200 institutions around the world in late 2008.

Mark Steinhoff, principal with Deloitte in Boston, said institutions often don't have large central information security teams and need to include other employees in their efforts. "Clearly this is not just a technology issue," he added.

Respondents pointed to a lack of resources and budget constraints as the most important barrier to ensuring security, while only one-third said their institution had the capabilities it needed to deal with security issues effectively. Though 60% of respondents said their information security budgets grew in the first few months of 2008, many only saw increases of 1-5%.

The need for firms to focus on information security was highlighted by a recent **Javelin Strategy & Research** study, which found that the number of identity fraud victims grew 22% to 9.9 million adults in the U.S. last year. Regulators are also paying more attention to data security. From next January, for example, Massachusetts will require customers' personal information to be encrypted when stored on portable devices or transmitted wirelessly or via public networks (see story, page 2).

Firms are particularly concerned about the threat they face from their own workers. Fifty-eight percent of respondents in the Deloitte survey said they were concerned about their ability to protect their organization against internal cyber-attacks. Industry professionals say those fears are driven in part by concerns that disgruntled employees, facing potential lay offs and restructurings, will have greater opportunities and motives to commit fraud (CR, 12/29).

SMALL FIRMS

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managers and broker/dealers—annually from now on. Until recently, the regulator only contacted small wholesale firms if a problem was reported. Although the program was launched early last year, industry professionals told *CR* that it is only in the past month that firms have started to see the heightened scrutiny.

Some firms are not prepared for closer oversight. "There are a lot of firms in regulatory denial thinking the FSA is only going after the large institutions," said **Chris Rexworthy**, director at **IMS Consulting**. Most small firms have never had contact with the FSA until now, so many have forgotten their regulatory obligations, he said.

Whitely said the program was launched in response to criticism that the FSA wasn't working closely enough with small wholesale firms. The intensified oversight is taking three

forms: thematic reviews, telephone interviews and site visits. "We are undertaking more intrusive supervision, looking at [small] firms' business plans and strategies," Whitely said. "It takes time to make the changes, but we are pleased that firms are starting to notice the difference and feel the benefit of closer supervision." He added that FSA staff, when looking at small firms, will be focusing on financial crime, sustainable business models and the ability to maintain a business-as-usual approach in tough times.

Julian Sampson, director of consultancy **Fulcrum Compliance**, said that last month a small B/D he works with had its financial crime systems and controls assessed by the FSA for the first time. He added that specialist teams that visit firms to assess specific issues under the new program tend to be more effective in understanding the institution's approach and give more useful feedback than a general supervisor would.

Rexworthy said FSA staff are using telephone interviews and site visits to ask firms about their business strategy, the risks they face and how those risks are being managed. Where there are concerns, the FSA will follow up with requests for documents, further visits and may require the firm to employ compliance help, he said.

—Jon Young

CCOs RETHINK

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managing director of **Cowen and Company** in New York, said he recently switched from using a vendor to lead his firm's annual anti-money laundering training to a cheaper online course provided by the **Financial Industry Regulatory Authority**. "That was a win-win. We paid half as much as we had in previous years and many employees liked it more," Egert said. He has encouraged compliance and legal staff in recent months to search for free training resources. "Take advantage of what's being offered for free by vendors, law firms and other consultants and experts," he said.

Mark Eide, CCO for the retail registered investment advisory business at B/D **Woodbury Financial Services**, told *CR* that he has organized a series of compliance roundtables as a means both to network with fellow compliance officers and as an inexpensive form of continuing education.

Firms are also being more selective about what conferences they send staff to. **James Adelman**, general counsel at **Commonwealth Financial Network** in Waltham, Mass., said his firm has started scrutinizing conference programs to make sure they square with Commonwealth's compliance and legal priorities, such as Regulation S-P and sales to seniors.

Compliance teams may be able to justify retaining staff if they start developing their own annual compliance seminars and