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Finra to Examine Brokerage Firm Culture

Industry self regulator to focus on how culture affects compliance and risk-management practices

By **ANNA PRIOR**
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The culture at brokerages and financial advisory firms is getting a closer look from Wall Street's self-regulator this year.

In outlining its annual regulatory and examination priorities, the Financial Industry Regulatory Authority said Tuesday that it will scrutinize everything from whether supervisors are effective role models of firm culture to whether policy or control breaches are tolerated.

However, the regulator said that it won't seek to dictate firm culture and that its focus will instead be on understanding how culture affects compliance and risk-management practices.

It has been more than seven years since the financial crisis, yet some firms continue to have significant violations due to poor cultures of compliance, Finra Chairman and Chief Executive Richard Ketchum said in a statement.

This year, "Finra will be looking for firms to focus on their culture and whether it is putting customers first and promoting risk management adaptable to a changing business environment," he said.

In addition to firm culture, examinations will emphasize anti-money-laundering, cybersecurity, the management of conflicts of interest and technology management, among other things, the regulator said in its 2016 broker-examination priority letter.

Brokerage firms, meanwhile, have been grappling with stepped up attention to firm culture, especially when it comes to their so-called top producers. In prior years, firms had generally leaned toward giving second chances to these advisers when violations were discovered. Depending on the alleged offense, this could mean a letter of reprimand in an adviser's file, or ordering that the adviser submit to closer supervision or a suspension.

More recently, however, some firms like Merrill Lynch, seem to be taking a zero-tolerance approach. The Bank of America Corp. -owned brokerage in recent years has fired certain longtime financial advisers handling very large and lucrative accounts, saying those advisers had violated the firm's policies for dealing with clients and handling transactions.

While this move and the added scrutiny from Finra are positives for investors, Ross Intelisano—a partner at law firm Rich, Intelisano & Katz LLP who has represented investors in disputes with financial firms—said that there are still plenty of inconsistencies.

"It's hard to know when the firm is really going to crack down or when the firm is going to let a broker get away with stuff," he said.

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