THE WALL STREET JOURNAL.

http://www.wsj.com/articles/finras-2017-priorities-monitoring-high-risk-brokers-and-protecting-seniors-1483570332

WEALTH MANAGEMENT

Finra's 2017 Priorities: Monitoring High-Risk Brokers and Protecting Seniors

Wall Street watchdog puts firms on notice about hiring repeated rule-breakers, asks them to step up safeguard elderly investors

Wall Street's self-regulator said in its yearly priority letter that it plans to focus on protecting seniors from financial exploitation, among other things. Here, the scene on Wall Street on a recent day. *PHOTO: BLOOMBERG NEWS*

By **LISA BEILFUSS**
Jan. 4, 2017 5:52 p.m. ET

Wall Street's self-regulator said efforts to monitor high-risk brokers and protect seniors would be priorities this year, consistent with recent years' agendas.

In outlining its annual regulatory and examination priorities, the Financial Industry Regulatory Authority said Wednesday that it also would remain focused on core issues of compliance, supervision and risk management.

Chief Executive Robert Cook, who took the helm in August, said he continues to meet with member firms, investor groups and regulators and expects to share more information in the coming months "about some concrete steps...to take a fresh look at certain aspects of Finra's programs and operations."

High-risk brokers who repeatedly violate regulations top Finra's 2017 agenda. Firms that hire or seek to hire such brokers, the regulator said, "can expect rigorous regulatory attention" in terms of firms' due diligence on prospective hires and the supervision of high-risk registered representatives.

Brokers who have violated industry rules can benefit from the fragmented landscape that governs investment advice in the U.S. Brokers, required to give only "suitable" investment advice, are overseen by Finra. Investment advisers, held to a fiduciary standard whereby they must put clients' interests first, are overseen by state regulators and the Securities and Exchange Commission.

"It's good to see they're focused on these bad brokers," said Ross Intelisano, a partner at law firm Rich, Intelisano & Katz LLP who has represented investors in disputes with financial firms. "We're seeing a lot more of that," he said, referring to brokers with repeated allegations of misdeeds.

Finra said it continues to see instances where firms recommend products that are unsuitable for customers. The regulator said it remains particularly concerned with suitability when it comes to elderly investors, citing "numerous cases where registered representatives have recommended that senior investors purchase speculative or complex products in search of yield."

Firms can take a number of steps to protect seniors from exploitation, Finra said, including by contacting elderly customers who place a place orders for penny stocks and questioning certain instructions to transfer funds.

Among particular areas of focus when it comes to suitability: excessive and short-term trading of long-term products, such as variable annuities and unit investment trusts, and brokers' outside business activities or "selling away" from their firm. Mr. Intelisano said focusing on outside business activities is one way to increase protection over senior investors, as the elderly tend to be targeted by advisers selling products that aren't actually backed by his or her firm.

"It's just hard to know," said Mr. Intelisano, when it comes to monitoring brokers' interactions with seniors. "The best way to do that is to keep brokers with prior issues outside of the industry."

A spokesman for Finra also highlighted the self-regulator's commitment to report more about what it is seeing in its examination process. Finra said it will this year begin publishing summary reports that outline key findings from examinations in selected areas, meant to alert firms to what Finra is seeing from a national perspective. Such reports, Finra said, will serve as an additional tool firms can use to strengthen internal controls.

Write to Lisa Beilfuss at lisa.beilfuss@wsj.com