

# CYBERSECURITY ADVISORY



To our valued SDDco client,

In December 2017, the Financial Industry Regulatory Authority (“FINRA”) released its annual “Report on Examination Findings” (the “Report”) found [here](#). The Report summarizes its observations from recent cycle examinations of Broker-Dealer members (“Firms”) by highlighting specific key findings that FINRA believes to be pertinent based on “the potential impact on investors and the frequency with which [these findings] occurred.”

The Report’s purpose is to raise awareness within the financial services industry so that Firms can proactively improve their compliance and supervisory functions. It includes certain practices that FINRA found to be effective responses to problematic issues. While this Report is not creating new or interpreting existing legal or regulatory requirements, it should be used as a resource to identify deficiencies and address risk

areas in advance of individual cycle examinations.

One of the key findings from the Report focuses on Cybersecurity, i.e. the ability to protect the confidentiality and availability of sensitive client data, as a principal operational risk facing broker-dealers. While Firms are required to comply with certain Cybersecurity-related, SEC regulations, e.g. written policies and procedures, ID theft detection and prevention, and electronically stored record preservation, FINRA identified the following reoccurring problem areas where Firms should reduce vulnerabilities and improve their cyber-threat protection: Access Management, Risk Assessment, Vendor Management, Branch Offices, Segregation of Duties, and Data Loss Prevention.

For years, Cybersecurity has been a prevalent topic within the financial services industry and a point of discussion for FINRA in particular. And, while the SEC's Office of Compliance Inspections and Examinations [suggests](#) that FINRA's membership has implemented fundamental Cybersecurity procedures as a whole, FINRA conversely reports that Cybersecurity remains a top compliance risk to broker-dealers.

So, how should this be interpreted? In our opinion, these opposing ideas suggest that FINRA continues to raise the bar for what is expected of a Firm's Cybersecurity. FINRA's Report notes that as the "nature and sophistication of Cybersecurity threats continue to evolve, even robust Cybersecurity programs can be compromised." Considering the frequency with which global corporations fall victim to major Cybersecurity breaches, we can understand FINRA's urgency surrounding the topic.

SDDco Group firmly believes that Cybersecurity measures will remain a focus for FINRA moving forward. Although FINRA's Cybersecurity guidelines have only been advisory, they are progressively becoming more detailed and demanding, which suggests that an implementation of strict rules may be on the horizon. These types of novel changes always seem daunting, but SDDco Group is here to help. We strive to offer the best regulatory service to our broker-dealer clients. And in anticipation of the heightened Cybersecurity regulations, SDDco Group is working on a solution that will allow its clients to exceed FINRA and customer expectations with state of the art Cybersecurity processes.

We expect to make these Cybersecurity services available to our SDDco Clients in the coming months. Please anticipate its availability in the near term. Thank you for continuously trusting us with your regulatory support needs, and we look forward to addressing this Cybersecurity issue together.

Regards,

SDDco Group



RECAP:

FINRA safeguards a firm's ability to protect the confidentiality, integrity and security of sensitive customer information including each firm's compliance with SEC regulations:

- Regulation S-P ([17 CFR §248.30](#)), which requires firms to adopt written policies and procedures to protect customer information against cyber-attacks and other forms of unauthorized access
- Regulation S-ID ([17 CFR §248.201-202](#)), which outlines a firm's duties regarding the detection, prevention, and mitigation of identity theft

- The Securities Exchange Act of 1934 ([17 CFR §240.17a-4\(f\)](#)), which requires firms to preserve electronically stored records in a non-rewriteable, non-erasable format

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