

# CYBERSECURITY ADVISORY



To our valued SDDco client,

On February 21, 2018, the Securities and Exchange Commission voted, in a unanimous [decision](#), to approve an interpretive guidance (“the Guidance”) in assisting public companies when providing disclosures about cybersecurity risks and incidents. The [Guidance](#), in effect as of February 26<sup>th</sup>, provides the Commission’s views about cybersecurity disclosure obligations under existing law and addresses the importance of cybersecurity policies as well as the application of disclosure controls and procedures.

SEC Chairman, Jay Clayton, commented on the issue, saying: “I believe that providing the Commission’s views on these matters will promote clearer and more robust disclosure by companies about cybersecurity risks and incidents, resulting in more complete information being available to investors. The SEC noted, “Whether it is the companies in which investors invest [or] their accounts with financial services firms [...] the investing public depend on the security and reliability of information and communications technology,

systems, and networks. In a digitally connected world, cybersecurity presents ongoing risks and threats [...]. As companies' exposure to and reliance on networked systems and the Internet have increased, the attendant risks and frequency of cybersecurity incidents also have increased."

The Guidance explains that companies that experience cybersecurity breaches incur substantial, ripple-effect costs and other ramifications, including (1) remediation costs, ie. liability for stolen assets, repairs of system damage, and incentives for customers to maintain relationships post-attack; (2) increased cybersecurity protection costs in response; (3) lost revenue from unauthorized use of proprietary information and loss of customers; (4) litigation and legal risks, including regulatory and authority actions; (5) increased insurance premiums; and (6) reputational damage, reduction in customer confidence, and loss of competitiveness.

While the SEC's Guidance was written as a directive for public companies particularly, we at SDDco Group believe that many aspects are applicable to the financial services industry as a whole. Additionally, we view this Guidance as a foreshadowing of more stringent regulations that the SEC and FINRA will likely place on broker-dealers, specifically.

Cybersecurity incidents can occur in various ways, including accidental events, deliberate insider attacks, or third party hacks perpetrated using a combination of strategies, such as malware, ransomware, phishing and spear phishing, and stolen access credentials, among others.

As always, we at SDDco Group strive to offer the best regulatory compliance and support services to our clients. In response to the looming threat of Cyberattacks and the recent demand for heightened Cybersecurity, SDDco

Group is developing an expansion of our current compliance service that will provide our clients with state of the art Cybersecurity procedures.

We expect to make these Cybersecurity services available to our SDDco clients in the second quarter.

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:

The Guidance explains, companies that experience cybersecurity breaches are likely to incur substantial, ripple-effect costs and other ramifications, including:

- Remediation costs, ie. liability for stolen assets, repairs of system damage, and incentives for customers to maintain relationships post attack
- Increased cybersecurity protection costs in response
- Lost revenue from unauthorized use of proprietary information and loss of customers
- Litigation and legal risks, including regulatory and authority actions
- Increased insurance premiums
- Reputational damage, reduction in customer confidence, and loss of competitiveness.

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SCOTT DANIELS  
Co-Managing Partner