

Early Preview of 2015 SEC Exam Priorities

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The SEC continues to set its sights on certain types of funds that it believes may present a higher risk of conflict of interest and confusion in the way they are designed and marketed. After signaling earlier this year that it would increase its scrutiny of private equity and other private funds, Kevin Goodman, the National Associate Director of the Broker-Dealer Examination Program in the Office of Compliance Inspections and Examinations, recently indicated that sales of class L share variable annuities will also be on its radar of priorities for next year's compliance examinations. Of course, close regulatory scrutiny of variable annuities is nothing new. But what has now caught the SEC's attention is "an explosion" of "L share" annuities, a class that generally has higher front end loads than most other share classes in exchange for a shorter surrender charge period. Goodman said, "We want to make sure these share classes aren't being chosen or marketed based on the higher commissions they generate." The SEC will focus on the disclosure of the fees and costs associated with such shares, and whether they are appropriate for the investors purchasing them. The SEC will also turn its attention on the operations of broker-dealer branch offices on a stand-alone basis and not just review whether they are being adequately supervised by the firm. Additionally, broker-dealers with a history of disciplinary problems will likely see an increase in examination activity. The official list of SEC examination priorities will be published in January 2015.

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