

## 2020 examination priorities: OCIE pushes again on information security

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The Securities and Exchange Commission's Office of Compliance Inspections and Examinations [announced](#) its annual examination [priorities for 2020](#) that indicate its growing concerns about information security and digital assets. The priorities, which the office develops in collaboration with enforcement staff, commissioners, and other financial regulators, serve as a broad statement about the risk areas it expects "investment advisers and other market participants to identify and mitigate," SEC Chairman Jay Clayton said in a statement accompanying the report.

*2020 Priorities Compared to Previous Years*

OCIE's 2020 examination priorities include:

- Retail investors, with an emphasis on senior citizens
- Information security
- Fintech, with an emphasis on digital assets and electronic investment advice
- Anti-money-laundering programs
- Market infrastructure

Although the specifics vary, the priorities have stayed relatively constant in recent years; the report itself noted that most are "perennial risk areas OCIE routinely covers in its examinations." The most noticeable changes have been the addition of digital assets as its own specific area of focus (newly folded into fintech for 2020) and relabeling cybersecurity as information security — a change that indicates a broader list of topics and disciplines in which companies must demonstrate compliance.

*Emphasis on Information & Cybersecurity and Digital Assets*

Information & cybersecurity. OCIE's [2018 priority](#) (then referred to only as cybersecurity) included working with market participants to actively review and bolster their cybersecurity infrastructure primarily in an effort to prevent and repel cyberattacks. It expanded this focus [in 2019](#), with OCIE noting its intention to review cybersecurity practices specific to investment advisers (as well as all participants) and "retail trading information security," in addition to the general practices.

OCIE expanded its focus again this year, referring to the area more broadly as information security and announcing its intent to examine participants' infrastructure in relation to oversight of third-party and vendor management of cloud-based storage, controls surrounding client use of mobile applications for brokerage accounts, and Registered Investment Advisers' protection of their clients' personal financial

information. OCIE said information security was a priority in all “five of its examination programs in FY 2019” and would continue to be so through FY 2020.

These developments demonstrate OCIE’s ability to address risks that arise in the markets, sometimes very quickly — especially those related to technology. Its focus on cybersecurity in 2018 was narrower compared to the most recent examination priorities, which integrates it fully into security for all forms of customer information. Its 2020 priorities emphasize protecting consumer information accessible through the internet and, more notably, through mobile applications — both areas that are increasingly prevalent in day-to-day transactions for retail investors.

Digital Assets. OCIE’s 2018 examination release referred only to cryptocurrency, initial coin offerings, and “blockchain.” Further, it emphasized examination of “financial professionals” specifically, focusing on whether such individuals maintained appropriate controls and safeguards to protect the assets from theft or misappropriation and whether “financial professionals” appropriately disclosed the risks associated with these types of assets.

By the next year, OCIE had expanded its priorities to cover all digital assets, not just an enumerated few (a product of the volatile nature and form of the assets), and more notably referred to firms “actively engaged in the digital asset market,” as opposed to just individual financial professionals. This expanded OCIE’s warnings to entities dealing in more traditional areas such as portfolio management.

This year’s examination priorities follow a similar trend, adding a concern for retail investors who specifically “may not adequately understand” the difference between digital assets and “more traditional products.” OCIE reiterated its emphasis on both financial professionals and firms through its statement that it will continue to examine “SEC-registered market participants” (a broader term), as well as its new inclusion of “supervision of employee[s]’ outside business activities.”

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OCIE’s examination priorities suggest that it is paying close attention to market developments, and trying to cast a wide net for nontraditional market participants who might have flown under the radar in the past, in the name of protecting potentially unsophisticated retail investors.