

Dear Clients and Friends,

In case you missed it during the holidays, the SEC's Office of Compliance Inspections and Examinations (OCIE) [announced its annual list of examination priorities for 2019](#) in late December. The [annual list](#) provides an important barometer of what Quinn Emanuel clients can expect from the SEC's National Exam Program, which spearheads the agency's examinations function.

What do you need to watch out for in 2019? The good news is there are no major surprises, with one new twist. Of the six priority areas for exams, five are nearly identical to last year's list—adding only the notable exception of a new focus on cryptocurrencies. For 2019, the priority exam areas include:

1. **Retail investors**, including seniors and those saving for retirement;
2. **Critical market infrastructure**;
3. **Certain FINRA and MSRB** (municipal securities) **programs**;
4. **Digital Assets**;
5. **Cybersecurity**; and
6. **Anti-Money Laundering**.

The stand out addition here is the new entrant of “digital assets,” the catch-all term for cryptocurrencies, coins and tokens. Those clients following numerous headlines about cryptocurrencies over the past year—including the registration and regulation of some tokens as securities—will recognize the importance of this new area. Beyond the buying, selling, trading and offerings of digital assets, investment managers should be on the lookout for several other areas they need to consider, including the portfolio management of digital assets, the safety of client funds and assets and the difficult custody questions that can arise, the pricing and valuation of digital asset portfolios, and the necessary internal controls associated with digital assets. We have significant experience confronting the regulatory issues concerning cryptocurrencies, so please contact us if you want to discuss any of these issues.

Don't let the flashy headlines around digital assets, however, distract you from two other priority areas that have the most relevance to investment managers. While the names of these categories remain unchanged from last year, there are some new components under the hood. The protection of “Main Street” (**retail investors** in (1) above), for example, remains an SEC calling card. The SEC has its eyes focused on the proper disclosure of fees and expenses, fiduciary conflicts of interest, suitable and consistent portfolio management, the Customer Protection Rule for brokers, and sales of “microcap” securities (<\$250 M market capitalization), among other new subtopics under Main Street retail scrutiny. The SEC has similarly fleshed out its focus on **cybersecurity** in much more detail for 2019. Examination targets include the proper configuration of network storage devices, information security governance, and procedures related to retail trading information security. The SEC also calls out investment advisers for their cybersecurity practices in particular — especially those with “multiple branch offices,” or those that have “recently merged with other investment advisers.” As before, under the rubric of cybersecurity, the SEC will look at governance and risk assessment, access rights and controls, data loss prevention, vendor management, training, and incident response. Quinn Emanuel is available to provide a cyber-risk analysis to assess a firm's compliance with relevant regulatory requirements and pressure-test the readiness of its breach response plan.

Alex Spiro
Partner
alexspiro@quinnemanuel.com
+1 (212) 849-7364
[Biography](#)

Michael Liftik
Partner
michaelliftik@quinnemanuel.com
+1 (202) 538-8141
[Biography](#)