



Gerald Rome, Securities Commissioner

2018 Division of Securities Examination Priorities

The Division's 2018 examination priorities appear below. While not an exhaustive list of areas to be covered during an examination, the priorities reflect certain practices that the examination team has identified which heighten risk to Colorado investors.

1. Cybersecurity

Effective July 15, 2017, the Division implemented Rule 51-4.8 and Rule 51-4.1(IA) that require both broker-dealers and investment advisers to establish and maintain written cybersecurity procedures reasonably designed to ensure cybersecurity. Division examiners will review a firm's cybersecurity procedures and make recommendations regarding cybersecurity measures. To assist firms with compliance with the new rules, the Division developed a cybersecurity checklist, which is available on the Division's website.

2. Business Continuity and Succession Planning

The Division adopted Rule 51-4.12(IA) requiring investment advisers to implement and maintain written procedures relating to business continuity and succession planning. Examiners will review written policies and procedures and make recommendations regarding the inclusion of business continuity and succession planning policies.

3. Net Worth Requirements

Investment Advisory firms are now required by Rule 51-4.14(IA) to maintain a positive adjusted net worth at all times. Advisers with discretionary authority must maintain a minimum adjusted net worth of \$10,000 (\$35,000 for firms with custody of client funds and discretionary authority). Under the new rule, an investment adviser must notify the Securities Commissioner if the adviser's adjusted net worth falls below the minimum required by the rule. An investment adviser may meet the applicable minimum adjusted net worth requirement by securing a surety bond and by filing a Form U-SB with the Securities Commissioner. Examiners will review a firm's financials to ensure compliance with the net worth requirement.

4. Identifying Unlicensed Activity and the Sale of Unregistered Securities

Unlicensed salespersons and investment adviser representatives remain one of the top threats to investors. The Division will continue to identify unlicensed individuals who provide investment advisory services or act as broker-dealer sales representatives without the appropriate license and seek sanctions when appropriate. The Division will also review outside business activities of licensed individuals and identify cases where the sale of unregistered, non-exempt, securities occurs.

5. Scrutiny of Practices Related to Senior Investors and Investors Saving for Retirement

Protection of senior investors is a priority for the Division, particularly because the assets of these investors, once lost, are difficult to replace. Examiners will continue to pay particular attention to the care and maintenance of senior clients and their retirement accounts. Examiners will review client investment profiles, review the suitability of investments, and examine IRA/401(k) and pension roll-overs looking for potential exploitation.

Throughout our 2018 examinations we expect to allocate extra time and resources to these prioritized items. However, priorities may be adjusted during the year in light of new information learned from examinations, complaints, referrals, industry developments, ongoing risk assessments, and coordination with other regulators.

Note: Statutes and rules governing the Division's examination authority can be located online at www.dora.colorado.gov/dos.