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## Finra Begins a Review of Brokerage Firm Culture

By **LIZ MOYER** FEB. 23, 2016

The Financial Industry Regulatory Authority has begun a formal review of cultural values at more than a dozen brokerage firms, including how executives identify rogue employees whose actions contradict company policy.

The authority, known as Finra, sent a letter to the firms last week asking them to describe policies meant to establish a firm's culture, how management sets a "tone from the top," and how the firms follow through on those policies. Finra asked for the answers by March 21.

Culture is a gray area, but Finra made it its top priority for this year. The authority, which is Wall Street's self-regulating organization, said it was not trying to dictate culture, but to "understand how it affects compliance and risk management practices at firms," according to its 2016 outlook released in January.

Aggressive sales tactics have long been a focus of regulatory scrutiny, but now the focus appears to be shifting to less easily identifiable activities, such as how firms train sales managers and supervise sales representatives.

"It's hard to read the tea leaves on what they're looking at," said Ross Intelisano, a lawyer who represents investors in securities cases.

Regulators are focused on how and why companies do business and how their actions, including conflicts of interest, affect customers. Last year, Finra sent a letter

to brokerage firms asking them about potential conflicts in how they pay their brokers. Among the issues is whether commissions and other forms of payment might inadvertently encourage employees to act in ways that are not beneficial to clients.

In December, the wealth management units at JPMorgan Chase agreed to pay \$307 million to settle Securities and Exchange Commission charges that they failed to disclose to investors that they favored the bank's own mutual funds and hedge fund products over those of competitors, regardless of whether those investments were best for customers.

In the letter it sent to firms last week, Finra said it was reviewing how firms establish, communicate and fulfill cultural values and whether those values guide employee conduct. It is also looking at how firms reinforce their cultural values directly, indirectly and through reward programs.

It wants to know how firms identify and handle policy infractions and employee "subcultures" that may undermine the message from top management.

Once the firms submit their answers to Finra's eight questions, the authority will interview executives and come up with a test to see whether a firm's practices actually work. Ultimately, a report on industry best practices will be produced based on the analysis.