

## Monthly Report Narrative Template

### Key Activities

- Conducting risk-based examinations and inspections of registered entities and self regulatory organizations to assess compliance and effectiveness of regulatory programs.
- Providing staff with timely and effective exam/inspection training; improving expertise in certain areas.
- Improving examiners' ability to identify fraud and indicators of fraud.
- Improving and further developing surveillance program in order to more effectively monitor and identify high-risk registered entities.
- Conducting risk-targeted examination sweeps in areas of potential risk.
- Identifying and prioritizing risks for examination focus and review.
- Continuing to foster lines of communication with the industry through CCO outreach and frequent informal communications.
- Improving and identifying electronic tools that may facilitate examinations.

### In Process Activities

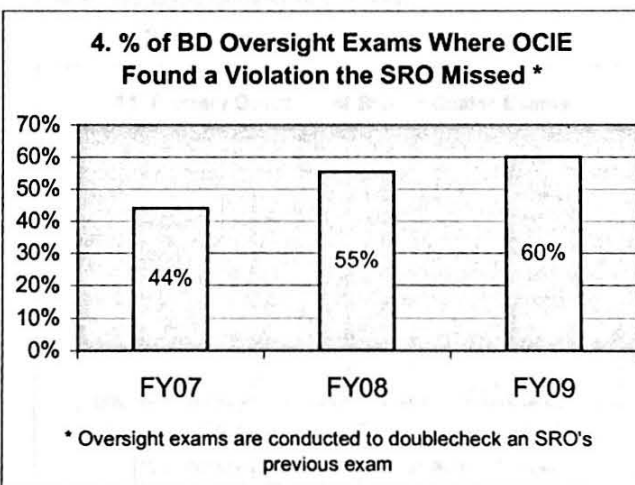
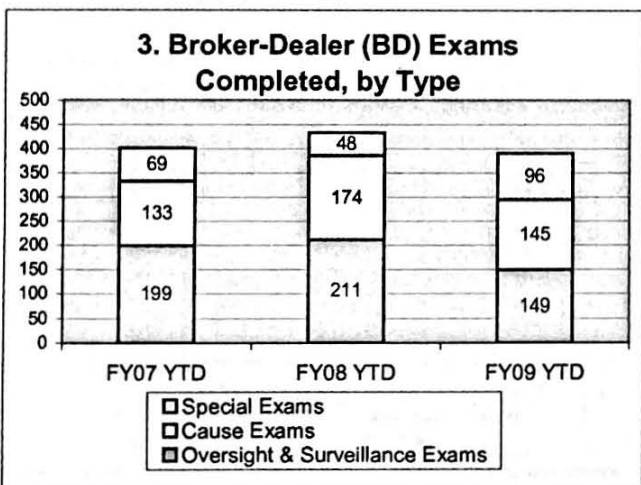
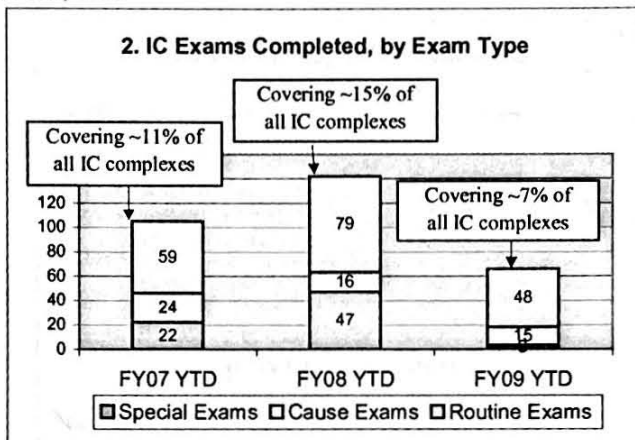
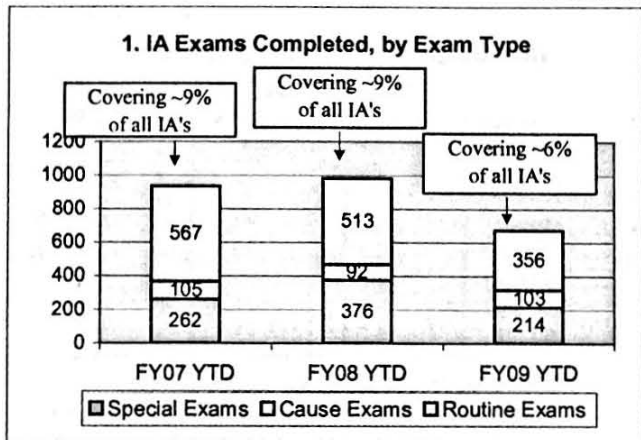
- Risk-targeted examinations of broker-dealers and investment advisers to confirm the existence of client assets.
- Analyzing and prioritizing risks identified by staff during our annual risk assessment review (RADAR).
- Developing inspection program for NRSROs.
- Analyzing and identifying potential data points and private data analysis tools to develop a more robust surveillance system.
- Conducting regional CCO outreach seminars and conducting compliance monitoring for select firms.
- Working with FINRA to improve examination program and processes at both organizations (e.g., developing fraud module, enhancing training, improving procedures for custody verification).
- Enhancing program for joint examination of dually registered and affiliated investment advisers and broker-dealers.
- Increasing coordination and information sharing with SROs and other regulatory agencies.
- Conducting key inspections: options trading; ROOR FinOp; AML; central counterparties for credit default swaps.

### Planned Activities

- Strategic planning session with senior managers to prioritize risk areas for examination focus and review in FY2010.
- Hiring staff with special industry experience.
- Joint regulatory training (with FINRA and NASAA) on fraud detection (focus on strategies to detect and investigate indications of fraud of various types).
- Acquire additional electronic resources, including visualization and linkage analysis tools that will help staff more efficiently prepare for and conduct examinations.

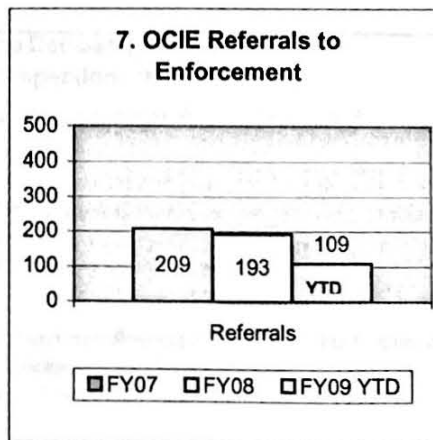
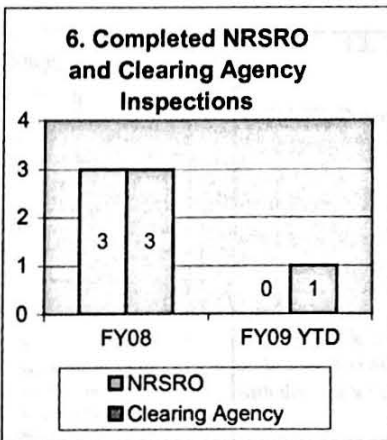
Office of Compliance Inspections and Examinations

Data as of June 30, 2009

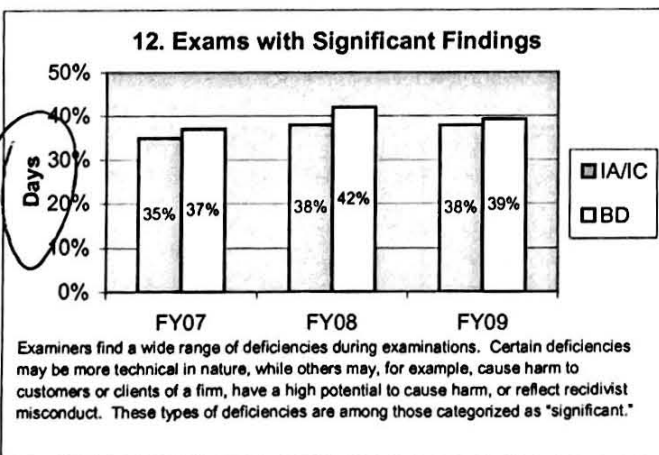
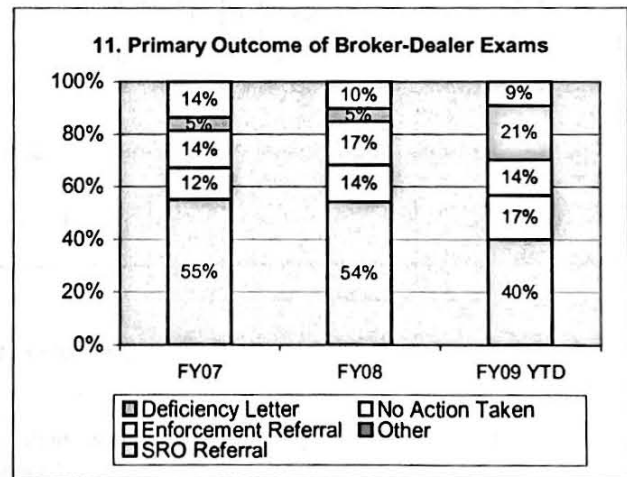
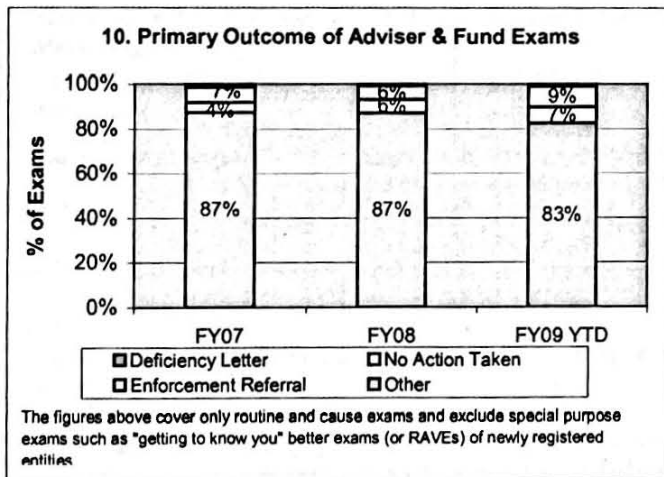
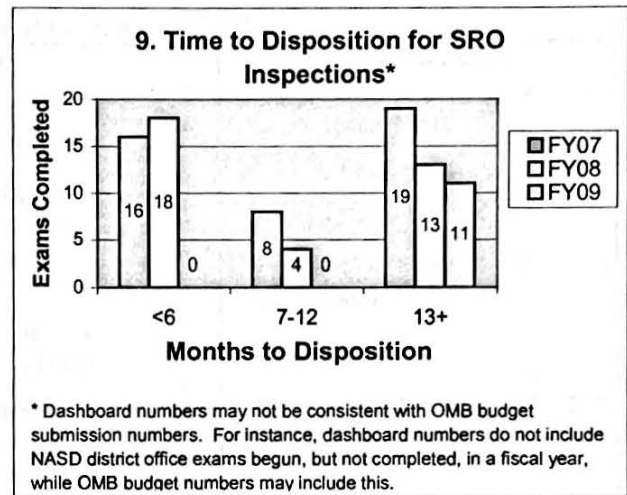
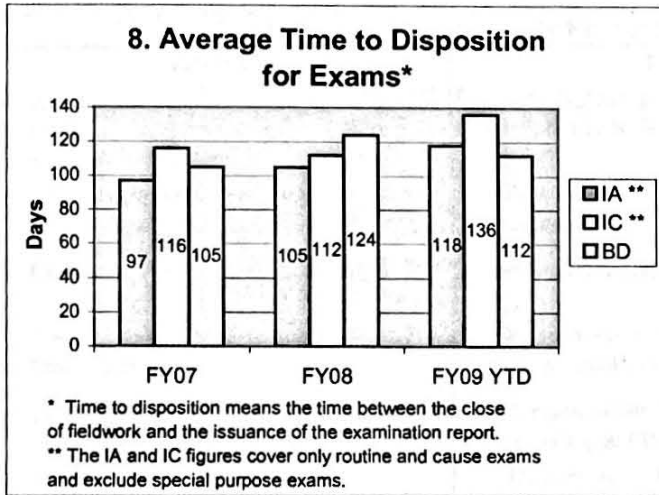


### 5. Select SRO Inspections, by # of Staff Assigned

- 1 CHX Validated Cross - 5 staff
- 2 Section 31 - 11 staff
- 3 SRO - NMS - 5 staff
- 4 FINRA Reg - 6 staff
- 5 NYSE ARCA ETFs - 5 staff



Office of Compliance Inspections and Examinations  
Data as of June 30, 2009



### 13. Top Deficiencies Found in SRO Inspections In Last Year

- NASD:** Provided altered and misdated documents during inspection
- ISE:** The Staff found weaknesses in certain ISE surveillance programs, inconsistency in investigative and disciplinary files, and inadequate documentation in investigative files.
- PHLX:** The Staff found recordkeeping deficiencies and indications of certain conduct by Exchange officials that may have been inconsistent with the Phlx's Code of Conduct.

**Office of Compliance Inspections and Examinations**  
Data as of June 30, 2009

14. Top 5 Deficiency Categories (By Percentage of Exams Uncovering Each Deficiency)								
ADVISERS			FUNDS			BROKER-DEALERS		
Category & Example	'09	'08	Category & Example	'09	'08	Category	'09	'08
<b>1. Information Disclosures, Reporting, &amp; Filings</b> > Inaccurate/Incomplete Filings, Reports, or Discl.	57%	60%	<b>1. Compliance Rule</b> > Rule 38a-1(a)(1): Policies & Procedures	52%	46%	<b>1. Supervision (NASD Rule 3010)</b>	69%	74%
<b>2. Compliance Rule</b> > Rule 206(4)-7(a): Policies & Procedures	56%	54%	<b>2. Personal Trading</b> > Personal investment activities of IC personnel / Code of Ethics	32%	32%	<b>2. Records to be Made (Rule 17a-3)</b>	32%	31%
<b>3. Personal Trading</b> > Rule 204A-1: Code of Ethics	44%	49%	<b>3. Information Disclosures, Reporting, &amp; Filings</b> > Deficiencies in Prospectuses/ SAIs	29%	35%	<b>3. Records to be Preserved (Rule 17a-4)</b>	25%	25%
<b>4. Performance Advertising &amp; Marketing</b> > Inaccurate or Misleading Advertising	28%	32%	<b>4. Corporate Governance</b> > Fidelity Bond	29%	32%	<b>4. Computation Error (Rule 17a-3)</b>	24%	25%
<b>5. Portfolio Management</b> > Risk Management/ Internal Controls	26%	27%	<b>5. Pricing of Fund Assets &amp; Calculation of NAV</b> > Risk Management/ Internal Controls	21%	22%	<b>5. Rule 17a-5 Financial Report (Rule 17a-5)</b>	19%	18%

**Notes -**

The examination program's tracking system (STARS) is the primary data source for the following graphs/charts: 1, 2, 3, 4, 7, 8, 10, 11, 12, and 14.

In general, internal tracking spreadsheets are the data source for graphs/charts numbered 5, 6, 9, and 13. Internal tracking spreadsheets also supplement STARS information for graph/chart number 7.