



A periodic update of current finance-related issues covering audit and accounting, tax, and regulatory matters affecting organizations that operate within the financial services sector.

FINANCE ALERT

Broker–Dealer Books and Records

Books and Records and financial responsibility rules are of extreme interest and importance to the regulatory agendas of the Financial Industry Regulatory Authority (“FINRA”) and the SEC. There has been an increase in activity, proposed and enacted rules, and examinations focusing on how Broker-Dealers (including Prime Brokers) satisfy their accounting requirements.

There is no question that Broker-Dealers are on the regulatory radar screen, evidenced by recent decisions by FINRA and the SEC regarding the need for Broker-Dealers to employ a firm registered by the Public Company Accounting Oversight Board (“PCAOB”) to audit their annual financial statements. There was also a recent sweep examination of Broker-Dealers by FINRA, looking into referral activities of Broker-Dealers to Registered Investment Advisers (“RIAs”) from January 1, 2006 to December 31, 2008.

Broker-Dealers, regardless of size, need to employ strong supervisory controls pertaining to their books and records. All member firms, regardless of size, must comply with Rule 1022, which requires each member to designate a qualified financial and operational principal (“FINOP”) to oversee the Broker-Dealer’s accounting and reporting functions and supervisory procedures.

Depending upon a member’s registration status and net capital requirement, the FINOP must be registered pursuant to either Rule 1022(b), *Limited Principal – Financial and Operations* or Rule 1022(c), *Limited Principal – Introducing Broker/Dealer Financial and Operations*.

Supervisory Controls

According to FINRA, the following are key areas

for a Broker-Dealer regarding financial and operational supervisory controls:

- Contracts entered into by the member;
- Contracts entered into by an affiliate or parent of the member that may impact the firm;
- Any ongoing liabilities that may impact the member’s balance sheet, including for example settlements and/or arbitration awards;
- Any contingent liabilities that may impact the firm’s aggregate indebtedness calculation;
- The nature and timing of capital contributions and capital withdrawals;
- The proper treatment/handling of Expense Sharing Agreements; and
- A firm’s activities to ensure that the proper net capital requirement, based on those activities, is being reported accurately on the firm’s financial reports.

Now more than ever, Broker-Dealers must work with highly skilled advisers who can help them navigate the complexity of compliance related issues.

Holtz Rubenstein Reminick LLP, a PCAOB-registered audit firm, can help. The partners who lead the firm’s Financial Services practice group have extensive experience representing registered Broker-Dealers. We also understand the importance of partner involvement, and, as such, we ensure that our partners manage all aspects of client engagements. Our clients know that we are always available and knowledgeable about their business. Since a high degree of partner involvement allows for increased efficiencies, we are able to remove unnecessary bureaucracy. Our clients speak directly with the decision-maker to work through the issues.

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