



Internal Auditors Society

Internal Audit Guidelines

SEC Rule 15a-6

Exemption of Certain Foreign Brokers or Dealers

October 2015

The Audit Guidelines (the "guidelines") are intended to provide members of the Internal Auditors Society ("IAS"), a society of the Securities Industry and Financial Markets Association ("SIFMA"), with information for the purpose of developing or improving their approach towards auditing certain functions or products typically conducted by a registered broker-dealer. These guidelines do not represent a comprehensive list of all work steps or procedures that can be followed during the course of an audit and do not purport to be the official position or approach of any one group or organization, including SIFMA, or any of its affiliates or societies. Neither SIFMA, nor any of its societies or affiliates, assumes any liability for errors or omissions resulting from the execution of any work steps within these guidelines or any other procedures derived from the reader's interpretation of such guidelines. In using these guidelines, member firms should consider the nature and context of their business and related risks to their organization and tailor the work steps accordingly. Internal auditors should always utilize professional judgment in determining appropriate work steps when executing an audit. Nothing in these guidelines is intended to be legal, accounting, or other professional advice.

SIFMA Internal Audit Guidelines for Compliance with Rule 15a-6

Note: The following guideline is to assist the internal auditor in reviewing the firm's compliance with the Rule on Exemption of Certain Foreign Brokers or Dealers, under Securities and Exchange Commission ("SEC" or the "Commission") Rule 15a-6 (the "Rule"). From time to time, there are updates to the Rule and related interpretations. This guideline should be used in conjunction with the current version of the Rule and authoritative interpretations.

I. BACKGROUND

SEC Rule 15a-6 under the Securities Exchange Act of 1934 was adopted on July 18, 1989 in recognition of the fact that the pace of internationalization in securities markets around the world would continue to accelerate. The SEC noted that multinational offerings of securities were becoming more frequent and that the linkages between secondary markets and clearing systems were growing in number.

An outcome of the growing interest in foreign securities was the development of an international securities business amongst U.S. and foreign broker-dealers with offices established throughout the world. The Commission noted that the number of New York Stock Exchange members with ownership interests grew from four in 1973 to approximately fifty in 1988.¹

The SEC's response to the international expansion was to address two goals:

- 1) The Commission sought to make known the existing U.S. requirements for the registration of foreign broker dealers.
- 2) The Commission sought to facilitate investment by U.S. institutional investors in foreign securities markets by increasing access to foreign broker-dealers, consistent with the investor safeguards afforded by broker-dealer regulation.

In adopting SEC Rule 15a-6, the Commission acknowledged that it generally uses a territorial approach to applying broker-dealer registration requirements to the international operations of broker-dealers. Under this approach, all broker-dealers that operate within the United States that effect or play a role in attempting to induce a securities transaction would be required to register as broker-dealers with the Commission, even if these activities were directed only to foreign investors outside the United States. However, the SEC explained that U.S. entities would not be required to register if they conducted their sales activities entirely outside the United States.

Also, the Commission indicated that it uses an entity approach when a foreign broker-dealer operates a branch in the United States and thus becomes subject to U.S. registration requirements. However, if the foreign broker-dealer establishes an affiliate in the U.S., only the affiliate must be registered; the foreign broker-dealer parent would not need to register. Then only the U.S. affiliate would be authorized to perform securities functions with a U.S. person.

1) Securities Exchange Commission Rule, 15a-6, Release No. 34-27017, Adopting release July 18, 1989, effective August 15, 1989

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The Commission also explained that if a transaction with a United States person is solicited, the broker-dealer effecting the transaction must be registered. Solicitation was defined broadly as any affirmative effort by a broker or dealer intended to induce transactional business for the broker-dealer or its affiliates.

On April 9, 1997, the SEC issued a “no action letter” on behalf of nine major firms that sought clarification of the implementation of SEC Rule 15a-6 (SEC Division of Market Regulation Letter to Giovanni Presioso, Esq. - the “Nine Firms Letter”)². Specifically, the SEC provided guidance on these topics:

- 1) Expanded the definition of “Major U.S. Institutional Investor”;
- 2) The direct transfer of funds and securities between U.S. Investors and U.S. affiliated foreign dealers, and related books and records; and
- 3) Permissible Contacts with U.S. Investors by Foreign Associated Persons of U.S. Affiliated Foreign Dealers, including chaperoning and electronic quotation systems.

II. THE RULE

The following is a list of the text of specific sections of the Rule that define the conditions that enable a foreign broker or dealer to be exempt from the registration requirements of Sections 15(a)(1) or 15B(a)(1) of the Securities Exchange Act of 1934:

- 1) Effecting unsolicited securities transactions;
- 2) Furnishing research reports;
- 3) Inducing or attempting to induce the purchase or sale of any security;
- 4) Categories of customers that do not trigger registration; and
- 5) Definitions. This section of the Rule provides definitions to the following terms:
 - Family of investment companies
 - Foreign associated person
 - Foreign broker or dealer
 - Major U.S. institutional investor
 - Registered broker or dealer
 - United States
 - U.S. Institutional investor

III. GUIDELINE ORGANIZATION

This guideline is divided into topics. Each topic lists Risks to be Managed, Types of Controls to Manage Risks, and Potential Audit Work Steps. The topics are listed below:

- 1) Registrations;
- 2) Solicitation and research; and
- 3) Unique net capital issues.

2) Securities and Exchange Commission, letter dated April 9, 1997, to Cleary, Gottlieb & Hamilton.

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Risks to be Managed	Types of Controls to Manage/Mitigate Risks	Potential Audit Work Steps
Eligibility of the business to be subject to SEC Rule 15a-6		
<p>A. The risk that foreign broker-dealers and foreign associated persons that are potentially subject to SEC Rule 15a-6 are not properly identified.</p>	<ul style="list-style-type: none"> • Periodic review of non-customer relationships with foreign entities engaged in the financial services industry to determine: <ul style="list-style-type: none"> - The nature of the relationship with the foreign entity; - The nature of the business conducted by the foreign entity; - The nature of contacts with U.S. persons; and - The foreign associated person is not subject to a statutory disqualification specified in Section 3(a)(39) of the Securities Exchange Act of 1934, or otherwise does not qualify for the exemption from registration as set forth in SEC Rule 15a-6(a)(3)(ii)(B). • An educational component exists to provide sufficient training to responsible employees and registered representatives to ensure awareness of regulatory requirements, firm policies and new matters. • A compliance manual and relevant supervisory procedures include appropriate discussion of registration requirements for broker-dealers and exclusions from registration requirements for certain activities of foreign broker-dealers, including, but not limited to, appropriate definition of: 	<ul style="list-style-type: none"> • Check that the reviews are taking place in accordance with firm policy and by appropriate supervisory personnel. • Confirm that appropriate training has been provided to relevant business units. • Check that the compliance manual has the appropriate procedures and instructions and is regularly updated, and that receipt of the manual is acknowledged by appropriate employees.

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	<ul style="list-style-type: none"> - Foreign Broker or Dealer (See SEC Rule 15a-6(b)(3)); and - Foreign Associated Person (See SEC Rule 15a-6(b)(2)). 	
<p>B. The risk that foreign broker-dealers and persons associated with foreign broker-dealers are subject to the statutory disqualification provisions of SEC Rule 15a-6.</p>	<ul style="list-style-type: none"> • Periodic review of non-customer relationships with foreign broker-dealers and foreign associated persons to determine continued eligibility to qualify for exemption from registration, including: <ul style="list-style-type: none"> - The nature of the relationship with the foreign entity; - The nature of business conducted by the foreign entity; - The nature of contacts with U.S. persons; and - The foreign associated person is not subject to a statutory disqualification specified in Section 3(a)(39) of the Securities Exchange Act of 1934, or otherwise disqualified for the exemption from registration as set forth in SEC Rule 15a-6(a)(3)(ii)(B). • Obtain written documentation confirming the ability of the foreign broker-dealer to provide information as requested by the SEC pursuant to SEC Rule 15a-6(a)(3)(i)(B). • Obtain written documentation confirming the agreement to accept service of process for any civil action by or 	<ul style="list-style-type: none"> • Check that the reviews have taken place in accordance with firm policy and by appropriate supervisory personnel. • Confirm receipt from the foreign broker-dealer, with respect to each foreign associated person, of a questionnaire or other appropriate document containing the types of information necessary to evidence satisfaction of the qualification requirements set forth in SEC Rule 17a-3(a)(12). • Review the documentation obtained to determine that the broker-dealer has satisfied the cited SEC Rules and firm policies and that the documentation is checked by appropriate supervisory personnel. • Review the documentation obtained to determine that the broker-dealer has satisfied the cited SEC Rules and firm policies and that the documentation is

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	<p>proceeding before the Commission or a U.S. self-regulatory organization pursuant to SEC Rule 15a-6(a)(3)(iii)(D).</p> <ul style="list-style-type: none"> An educational component exists to provide sufficient training to responsible employees and registered representatives to ensure awareness of regulatory requirements, firm policies and new matters. 	<p>checked by appropriate supervisory personnel.</p> <ul style="list-style-type: none"> Confirm that appropriate training has been provided to relevant business units.
<p>C. The risk that documentation supporting the eligibility of the broker-dealer to do business under SEC Rule 15a-6 is not maintained.</p>	<ul style="list-style-type: none"> Written supervisory procedures should identify controls to collect, maintain, and update documents required to be maintained under SEC Rule 15a-6(a)(3)(iii)(E), including: <ul style="list-style-type: none"> Consents required from each foreign broker-dealer; and Information related to each foreign associated person. 	<ul style="list-style-type: none"> Confirm such documents kept and retained pursuant to this Rule are maintained in an office within the United States.
Identification of Customers Eligible to Conduct Business with an Unregistered Foreign Broker-Dealer or an Associated Person of a Foreign Broker-Dealer		
<p>A. The risk that customers' eligibility to conduct business with unregistered foreign broker-dealers is not properly identified or documented.</p>	<ul style="list-style-type: none"> An educational component exists to provide sufficient training to responsible employees and registered representatives to ensure awareness of regulatory requirements, firm policies, and new matters. A compliance manual and relevant supervisory procedures include appropriate discussion of the requirements for a customer to be eligible under SEC Rule 15a-6, including, but not limited to, appropriate definitions of: 	<ul style="list-style-type: none"> Confirm that appropriate training has been provided to relevant business units. Check that the compliance manual has the appropriate procedures and instructions and that receipt of the manual is acknowledged by appropriate employees.

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	<ul style="list-style-type: none"> - “Major U.S. Institutional Investor” (see SEC Rule 15a-6(b)(4) and the Nine Firms Letter); - “U.S. Institutional Investor” (see SEC Rule 15a-6(b)(7)); - "Family of Investment Companies" (see SEC Rule 15a-6(b)(1)); and - Other eligible classes of customers. <ul style="list-style-type: none"> • Intake procedures exist to obtain documentation to verify that new customers satisfy the requirements of SEC Rule 15a-6. • Firm procedures exist to periodically update the documentation obtained by appropriate personnel. • Appropriate firm supervisory personnel review the procedures for intake and update. 	<ul style="list-style-type: none"> • Review documentation for compliance with firm policies and regulatory requirements. • Review documentation for compliance with firm policies and regulatory requirements. • Review documentation for compliance with firm policies and regulatory requirements. • Discuss with appropriate supervisory personnel their role in the process and solicit any additional observations they can provide.
<p>B. The risk that business activities conducted with customers fall outside those activities permitted by SEC Rule 15a-6.</p>	<ul style="list-style-type: none"> • Monitor customer interactions with foreign broker-dealers and persons associated with foreign broker-dealers. • Evaluate business activities involving non-customer relationships with foreign broker-dealers, including but not limited to: joint ventures, affiliations, distribution agreements, and other similar arrangements. 	<ul style="list-style-type: none"> • Review documentation for compliance with firm policies and regulatory requirements. • Review documentation for compliance with firm policies and regulatory requirements.

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	<ul style="list-style-type: none"> Appropriate firm supervisory personnel review the procedures for monitoring interactions and other business activities. 	<ul style="list-style-type: none"> Review documentation for compliance with firm policies and regulatory requirements. Discuss with appropriate supervisory personnel their role in the process and solicit any additional observations they can provide.
Distribution and Dissemination of Foreign Research		
A1. The risk that research will be foreign distributed without required disclosures or with inaccurate disclosures.	<ul style="list-style-type: none"> An educational component exists to provide sufficient training to both analysts and supervisory personnel to ensure awareness of regulatory requirements (including FINRA Rule 2711), firm policies, and new matters. 	<ul style="list-style-type: none"> Confirm that appropriate training has been provided to relevant business units.
A2. The risk that foreign research will be distributed without required disclaimers or with inaccurate disclaimers.	<ul style="list-style-type: none"> Appropriate firm supervisory personnel review disclosures for appropriate content and check for appropriate disclaimer language in accordance with written supervisory procedures. Foreign analysts should be screened for statutory disqualification and sign a consent to service of process. Foreign research should be reviewed by qualified personnel. 	<ul style="list-style-type: none"> Check that disclosures and disclaimers are reviewed by designated supervisory personnel and that such disclaimers are consistent with firm policy. Review documentation to verify that the personnel reviewing research have qualifications that meet firm standards.
A3. The risk that foreign research improperly recommends using a foreign broker or dealer to effect transactions or contains express or implied understanding that a U.S. person will	<ul style="list-style-type: none"> A compliance manual and relevant supervisory procedures include appropriate discussion of firm policies and procedures concerning research and industry standards about information barriers, analyst compensation, conflicts of interest, personal trading, 	<ul style="list-style-type: none"> Check that the compliance manual has the appropriate procedures and instructions and that receipt of the manual is acknowledged by appropriate employees. Confirm that written supervisory procedures incorporate the provisions that prohibit recommending a foreign

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direct commissions to a foreign broker or dealer.	etc.	broker-dealer to effect transactions.
A4. The risk that research content is reviewed but is not reviewed using the correct standards of review (i.e., independent third-party research may have different requirements than globally branded research, etc.).	<ul style="list-style-type: none"> • Research is reviewed before distribution by qualified supervisory personnel for appropriate content, disclosures and disclaimers, including the use of research report checklists that reflect firm policies. • Periodic review of research activities to monitor research activities and supervision. 	<ul style="list-style-type: none"> • Check firm procedures to verify that they contain material covering research, industry standards, information barriers, analyst compensation, conflicts of interest, personal trading, etc. • Review a selection of research and related supporting documentation for compliance with firm policies. • Discuss with appropriate review personnel their role in the process and solicit any additional observations they can provide. • Review books and records for appropriate documentation.
B1. The risk that foreign research will be foreign distributed to ineligible recipients (i.e., those other than U.S. institutional investors, major U.S. institutional investors, and others eligible under SEC Rule 15a-6).	<ul style="list-style-type: none"> • The broker-dealer should maintain books and records to record all contacts (written and oral) between analysts and eligible SEC Rule 15a-6 customers. 	<ul style="list-style-type: none"> • Review the log of contacts between analysts and customers to determine that research concerning foreign companies has not been distributed to customers that are ineligible to transact with foreign broker-dealers.
B2. The risk of inappropriate communications or statements to customers.	<ul style="list-style-type: none"> • Supervisory personnel perform appropriate reviews of electronic communications, using search words or other available means appropriate for SEC Rule 15a-6 activities, to monitor for improper communications with customers. 	<ul style="list-style-type: none"> • Review the log of contacts between analysts and customers to determine that research concerning foreign companies has not been distributed to customers that are ineligible to transact with foreign broker-dealers. • Review books and records for appropriate documentation.

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	<ul style="list-style-type: none"> Supervisory personnel that perform communication reviews have appropriate language skills (written and oral) to monitor communications in foreign languages. 	<ul style="list-style-type: none"> Determine by review of documentation that personnel reviewing communications are fluent in the languages in which there are communications with customers.
<p>C. The risk that foreign research is provided pursuant to a soft dollar agreement.</p> <p>Best Practice: A service agreement will ensure that the parties are committed to an understanding that there will be no soft dollar agreements.</p>	<ul style="list-style-type: none"> A periodic review of documentation files with customers to confirm that there are no soft dollar arrangements based on trading that is based on foreign research. 	<ul style="list-style-type: none"> Review books and records for appropriate documentation. Inquire of responsible executives that there have not been and are not presently any soft dollar arrangements.
Chaperone Arrangements under SEC Rule 15a-6: the U.S. FINRA and Foreign Broker-Dealer		
A. A Written Chaperoning Agreement		
<p>A1. If the firm has adopted the policy of requiring agreements to document arrangements to chaperone, there is a risk that the U.S. broker-dealer may enter into a chaperoning arrangement without a written agreement executed by both parties in contravention of firm policy.</p> <ul style="list-style-type: none"> A written chaperoning agreement is not a requirement, but is a best practice. 	<ul style="list-style-type: none"> Written supervisory procedures should identify the process for establishing a relationship with a foreign broker-dealer, including identifying the person(s) with the authority to execute the agreement for both parties. In the absence of a signed chaperone agreement, written supervisory procedures clearly identify the obligations and responsibilities of each party and the documentations to be maintained in order to evidence compliance. 	<ul style="list-style-type: none"> Review that for each formal relationship with a foreign broker-dealer there is a written “chaperoning” agreement on file signed by both the U.S. and foreign broker-dealer. Review that the agreements address the conditions under which the exemption from U.S. registration applies to the foreign broker-dealer. Review that the agreements identify an agent to accept service of process for both the foreign broker-dealer and their associated person(s) covered by the agreement. The agreement should state which types of U.S. investors are qualified to participate in the international research and trading process. (Please see section on the “Eligibility of U.S. Investors.”)

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<ul style="list-style-type: none"> In the absence of a written agreement, the written supervisory procedures should establish the firm policies in order to comply. 		<ul style="list-style-type: none"> Check the documentation that has been maintained as evidence of compliance.
<p>A2. The risk that sufficient due diligence is not conducted by the U.S. broker-dealer and that the foreign broker-dealer is not qualified under SEC Rule 15a-6(a)3(ii) and is also not located entirely outside of the U.S.</p>	<ul style="list-style-type: none"> Determine how due diligence on a prospective foreign broker-dealer is conducted and that the U.S. broker-dealer has written supervisory procedures to identify and document the eligibility of the foreign broker-dealer. 	<ul style="list-style-type: none"> Assess how the U.S. broker-dealer performs due diligence to verify that the foreign broker-dealer is not subject to statutory disqualification and has not been convicted of any foreign offense or made false statements or any another condition as stated in SEC Rule 15a-6(a)(ii)(B). Determine how the U.S. broker-dealer monitors that the foreign broker-dealer does not subsequently become disqualified after the initial agreement is signed. If the foreign broker-dealer is not qualified, it could be subject to U.S. securities registration requirements, raising a host of other regulatory concerns.
<p>A3. The risk that employees are not aware of their responsibilities.</p>	<ul style="list-style-type: none"> An education component exists to provide training to responsible employees and registered representatives to ensure awareness of regulatory requirements, firm policies, and new matters. A compliance manual and relevant supervisory procedures include appropriate discussion of chaperone requirements for broker dealers under SEC Rule 15a-6. 	<ul style="list-style-type: none"> Confirm that appropriate training has been provided to relevant business units. Review sign-in sheets and training material to verify that training is attended and meets the firm's needs. Check that the compliance manual has the appropriate procedures and instructions and that receipt of the manual is acknowledged by appropriate employees.
B. Requirements for Chaperoning Visits of Foreign Broker-Dealer Associated Persons		
<p>B1. The risk that the U.S.</p>	<ul style="list-style-type: none"> Written supervisory procedures 	<ul style="list-style-type: none"> Assess how the U.S. broker-dealer

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<p>broker-dealer may lack a standardized procedure for tracking visits between U.S. investors, U.S. associated persons, and foreign associated persons as some visits with certain types of U.S. investors require chaperoning and others do not.</p> <p>B2. The risk that non-eligible U.S. investors participate in and with U.S. and foreign broker-dealer activities.</p>	<p>should set guidelines and identify the eligibility of U.S. investors and when an associated person of a U.S. broker-dealer needs to chaperone visits between U.S. investors and foreign associated persons.</p>	<p>determines whether or not a U.S. investor is eligible to participate.</p> <ul style="list-style-type: none"> • Review that records are maintained for all visits between major U.S. institutional investors and U.S. institutional investors, including the nature of the discussion. • There is no chaperoning requirement for major U.S. institutional investors so long as the number of visits is not greater than 30 days per year. • Determine that each foreign associated person does not meet with major U.S. institutional investors for more than 30 days per year. <ul style="list-style-type: none"> - Comment: The 30-day limitation applies to each individual foreign associate and not the entity; however, audit reviews need to ensure that there are not a rotating series of individuals involved in an attempt to circumvent the Rule. • Determine how the firm documents that the U.S. broker-dealer accepts responsibility for oral communications during chaperoning visits. • If a person is both a foreign associated person and securities licensed with the affiliated U.S. broker-dealer, that individual could have “un-chaperoned” visits with eligible U.S. institutional investors.
<p>B3. The risk that transactions are effected when the foreign associated person visits with U.S. investors on unchaperoned visits.</p>	<ul style="list-style-type: none"> • Written supervisory procedures should identify the when and how orders in foreign securities are accepted for execution. 	<ul style="list-style-type: none"> • Determine how the U.S. broker-dealer verifies if a bona fide, pre-existing relationship with the foreign broker-dealer exists before the foreign associated person is temporarily present in the U.S., if applicable. • Review controls and general trade desk

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<p>Comment: A foreign broker-dealer may effect transactions with a foreign associated person temporarily present in the U.S. with whom the foreign broker-dealer had a bona fide, pre-existing relationship before the foreign person entered the U.S.; otherwise, no orders are to be accepted to effect transactions while a foreign associated person is in the U.S. The foreign associated person cannot be a U.S. citizen or lawful permanent resident, i.e., a “Green Card” holder.</p>		<p>procedures.</p> <ul style="list-style-type: none"> Review how supervisory oversight is documented.
<p>B4. The risk that oral communications requiring chaperoning between the U.S. broker-dealer and U.S. investors are not documented.</p>	<ul style="list-style-type: none"> Written supervisory procedures should document the terms under which oral communications may occur and discuss how the U.S. broker-dealer provides training to their associated persons involved in the foreign trading process. Without the involvement of the U.S. broker-dealers' associated persons, oral communications are permitted outside of NYSE trading hours (9:30AM-4PM EST) to accept orders in foreign securities with U.S. investors. 	<ul style="list-style-type: none"> Determine how supervision of oral communications is documented and how U.S. associated persons involved are trained in this regard. Review a sample of trades executed inside and outside of NYSE trading hours and whether there was or was not oral involvement on behalf of the U.S. associated person.
<p>C. Identifying Foreign Associated Persons</p>		
<ul style="list-style-type: none"> The U.S. broker-dealer needs to obtain identifying documentation on foreign associated persons. 	<ul style="list-style-type: none"> Determine that there is a written supervisory procedure and that all foreign associated persons fill out a Foreign Associated Persons questionnaire, including disciplinary history, if any. 	<ul style="list-style-type: none"> Review that the identifying information obtained by the U.S. broker-dealer on the foreign associated person is substantially the same as the information on Form U4. The U.S. broker-dealer has record-

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		keeping responsibilities under SEC Rules 17a-3 and 17a-4.
D. Books and Record Requirements for Chaperoning U.S. Broker-Dealers		
<ul style="list-style-type: none"> Complete and accurate records need to be maintained by the U.S. broker-dealer. 	<ul style="list-style-type: none"> Written supervisory procedures need to list required records to be prepared and preserved. 	<ul style="list-style-type: none"> The chaperoning U.S. broker-dealer must maintain records of transactions and fails for trades executed in the foreign market by the foreign broker-dealer. The U.S. broker-dealer must comply with SEC Rules 17a-3 and 17a-4; therefore, the audit process needs to sample and verify that records are being made and retained accordingly.
Net Capital and Other Matters		
A. Compliance with minimum net capital requirements		
A1. The risk that the broker-dealer's business activities have changed without corresponding change against the amount of minimum net capital that is required.	<ul style="list-style-type: none"> Periodic comparison of business activities against available guidance. 	<ul style="list-style-type: none"> Check current business activities against the various minimum net capital amounts determined by the SEC. Authoritative guidance from the SEC is located at: http://www.sec.gov/divisions/marketreg/faq-15a-6-foreign-bd.htm, Questions 10 to 14. See the Appendix
A2. The risk that haircuts on fails are based on inaccurate information with respect to foreign-issued securities.	<ul style="list-style-type: none"> Daily review for accuracy and completeness of the reports of fail to receive and fail to deliver of foreign-issued securities. 	<ul style="list-style-type: none"> Review the procedures to ascertain that the list of fails produced by the clearance and settlement desk are accurate and complete as to the following: <ul style="list-style-type: none"> - Fails related to customers of the foreign broker-dealer are filtered out and only fails related to customers of the U.S. broker-dealer remain; - Fails are stated in United States dollars; - Fails are properly aged; and - Haircuts are properly computed. Review the procedures to ascertain that all fails are reflected by review of activity on the subsequent trade date.

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<p>A3. The risk that employees are not aware of their responsibilities for books and records, including, but not limited to, SEC Rules 15c3-1 and 15c3-3.</p>	<ul style="list-style-type: none"> • An educational component exists to provide sufficient training to responsible employees and registered representatives to ensure awareness of regulatory requirements, firm policies and new matters. • A compliance manual and relevant supervisory procedures include appropriate discussion of compliance requirements for the net capital rule and the customer protection rule and who is responsible for compliance with these rules. 	<ul style="list-style-type: none"> • Confirm that appropriate training has been provided to relevant business units. • Check that the compliance manual has the appropriate procedures and instructions and that receipt of the manual is acknowledged by appropriate employees.
B. Reconciliation of fails to books and records		
<ul style="list-style-type: none"> • Where the broker-dealer or its non U.S. affiliate performs settlement, the risk that the list of securities that are fail to receive or fail to deliver do not agree to the books and records of the entity responsible for settlement. 	<ul style="list-style-type: none"> • Best practice: The list of fails is periodically reconciled to the stock record maintained by the firm's office responsible for settlement. 	<ul style="list-style-type: none"> • Review the procedures of periodically reconciling the list of fails to receive and fail to deliver foreign-issued securities.
C. Customer funds and compliance with customer protection rules		
<p>C1. The risk that customer funds and securities, if any, are not promptly transmitted in line with the timeframes set forth in applicable in SEC Rule 15c3-3.</p>	<ul style="list-style-type: none"> • Written supervisory procedures should identify the correct steps for addressing these circumstances. Any customer funds received should be deposited in the appropriate reserve account established with a bank pursuant to SEC Rule 15c3-3. 	<ul style="list-style-type: none"> • Review the procedures for identifying customer deposits for securities transactions and making the proper segregation of funds received in accordance with SEC Rule 15c3-3: <ul style="list-style-type: none"> - Broker dealers operating under the provisions of paragraph k(2)(i) should deposit the funds in a separate account and remit the funds to the parent company by noon of the next day. - Broker dealers not operating under

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		the provisions of k(2)(i) should segregate the funds in a separate reserve account in accordance with SEC Rule 15c3-3.
C2. The risk that the U.S. broker-dealer has not correctly performed its responsibilities under SEC Rule 15c3-3 (the customer protection rule).	<ul style="list-style-type: none"> The firm follows its written supervisory procedures for compliance with respect to segregation of customer cash or compliance with the executive requirements of SEC Rule 15c3-3. 	<ul style="list-style-type: none"> Obtain the firm's membership agreement with FINRA or other self-regulatory organization to check for compliance.
D. Disclosure to customers and data management		
<ul style="list-style-type: none"> The risk that customers are not fully informed as to the role of the U.S. broker-dealer in executing the transaction. 	<ul style="list-style-type: none"> Written supervisory procedures are maintained and regularly updated to reflect firm determinations of required disclosures to customers. For example, where the broker-dealer acted as an agent rather than a principal. 	<ul style="list-style-type: none"> Review the procedures that ensure that informative messages that are required for confirmations intended for customers of the U.S. broker-dealer are in place at the office that produces confirmations. The procedures should: <ul style="list-style-type: none"> Correctly identify U.S. customers; Contain a correct message that is authorized by appropriate personnel; and Safeguard changes to the database of customers and the message by restricting access to authorized personnel.
E. Compliance with the Financial Responsibility Rules as defined in SEC Rule 17a-5		
<ul style="list-style-type: none"> The risk that findings that are relevant to the broker or dealers Compliance or Exemption Report (the "Report") are not submitted to the personnel or team responsible for submitting the Report to regulatory authorities. 	<ul style="list-style-type: none"> Written supervisory procedures should identify the personnel or team that are responsible for preparing the Report. Findings should be delivered to the appropriate personnel in a timely manner. 	<ul style="list-style-type: none"> At commencement of the internal audit, the audit plan should include delivery of findings to the appropriate personnel in a timely manner.

SIFMA Internal Audit Guidelines for Compliance with Rule 15a-6

APPENDIX

Net Capital and Other Matters. Procedure A1.

Authoritative guidance that relates the business activities of the registered broker-dealer to the minimum net capital requirements of SEC Rule 15c3-1

Authoritative guidance from the SEC is located at: <http://www.sec.gov/divisions/marketreg/faq-15a-6-foreign-bd.htm>, Questions 10 to 14. These questions are listed below:

Question 10: What is the minimum net capital required for a registered broker-dealer that has entered into a chaperoning arrangement with a foreign broker-dealer pursuant to Rule 15a-6(a)(3)?

Question 11: What minimum net capital requirement applies to a registered broker dealer acting as a chaperone to a foreign broker-dealer if the foreign broker-dealer's business under Rule 15a-6 is limited to M&A advisory services to a U.S. counterparty or a non-U.S. counterparty contemplating the acquisition of a company?

Question 11.1: What minimum net capital requirement applies to a registered broker dealer acting as a chaperone to a foreign broker- dealer if the foreign broker-dealer's business under Rule 15a-6 is limited to providing private placement services in the U.S. to a U.S. institutional investor or a major U.S. institutional investor?

Question 12: Can a registered introducing broker-dealer act as chaperone for a foreign broker-dealer under Rule 15a-6(a)(3) and rely on all the terms of the Nine Firms Letter if the registered broker-dealer has in effect a fully disclosed carrying agreement with another registered broker-dealer that has agreed to comply with the financial responsibility rules?

Question 13: Can a registered introducing broker-dealer act as chaperone for a foreign broker-dealer under Rule 15a-6(a)(3) and rely on all the terms of the Nine Firms Letter if the registered broker-dealer has a minimum net capital requirement of \$100,000 in accordance with Rule 15c3-3(k)(2)(i)?

Question 14: What is the minimum net capital required for a registered broker-dealer that has entered into an arrangement under Rule 15a-6(a)(3) with a foreign broker-dealer to act as a chaperone for DVP/RVP transactions with institutional investors?

SIFMA Internal Audit Guidelines for Compliance with Rule 15a-6

REFERENCE MATERIAL

1. *Securities and Exchange Commission*, Rule 15a-6 Release No. 34-27017, Adopting release, July 18, 1989 effective August 15, 1989.
2. *Securities and Exchange Commission*, Letter dated April 9, 1997, to Cleary, Gottlieb & Hamilton.
3. *National Association of Securities Dealers* Rule 2711, Research Analysts and Research Reports last amended October 11, 2012.
4. *Securities and Exchange Commission*, Frequently Asked Questions regarding Rule 15a-6 and Foreign Broker-Dealers, March 21, 2013 (Updated April 14, 2014) <http://www.sec.gov/divisions/marketreg/faq-15a-6-foreign-bd.htm>.
5. *AICPA: Audit and Accounting Guide: Brokers and Dealers in Securities* by the American Institute of Certified Public Accountants, 2013.