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FINRA Targets ‘Cockroaching,’ Eyes Frontier-Fund Marketing

By Brendan Conway

Scott Patterson and **Matthias Rieker** of the *Wall Street Journal* have the story on the 2014 priorities of Wall Street’s self-policing body, the **Financial Industry Regulatory Authority.**

The watchword at FINRA is “cockroaching,” the appropriately yucko term for stockbrokers with lots of violations who move from one troubled firm to another.

Here are Patterson and Rieker on the letter FINRA sent to more than 4,000 registered broker dealers on Thursday outlining the year’s regulatory priorities:

AP/University of Florida

The Periplaneta japonica is a new strain of cockroach possessing pow ers to w ithstand harsh w inter cold, and possibly FINRA.

> “Finra is concerned about the potential risks posed by brokers who formerly worked at one or more firms that have been severely disciplined,” the regulator said in the letter. Finra has the authority to expel firms and bar brokers, making it illegal for them to sell securities. …
>
> Finra also said it plans to use a computerized analytic system called the Broker Migration Model to track brokers who move from an expelled firm to other firms. The system can “conduct focused or accelerated examinations and enforcement efforts,” the regulator said in its letter.
>
> Finra’s latest moves are an expansion of a program to police brokerage firms that hire rogue brokers.
>
> Finra says it has barred 22 brokers for a variety of rule violations in the effort, or about half of those it had identified as high-risk through regulatory-disclosure forms and from investors’ tips, complaints and formal arbitration claims.

From Patterson and Rieker on frontier markets:

> New on Finra’s priority list this year: mutual funds that invest in so-called frontier markets, which were among the best-performing assets in 2013. Such highflying funds “are the ones that worry us the most,” Mr. Ketchum said in an interview. Frontier markets, such as Nigeria and Vietnam,

are considered a step below emerging markets in terms of development.

Retail investors often follow trends that are better suited for institutional investors, Mr. Ketchum said. "Heightened risks associated with investing in foreign or emerging markets generally are magnified in frontier markets," Finra said in its letter.

"In many cases, these markets have relatively few companies and investment opportunities, and the local securities market may not be fully developed. This could mean less liquidity and lower investor protection standards."