

MEMO# 22063

December 21, 2007

GAO Reviews SEC Inspections of SROs

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 64-07
SEC RULES MEMBERS No. 156-07 RE: GAO REVIEWS SEC INSPECTIONS OF SROS

The GAO recently released a report entitled: "Securities and Exchange Commission, Opportunities Exist to Improve Oversight of Self-Regulatory Organizations." [\[1\]](#) The report explores the SEC's inspection program with regard to inspection of self-regulatory organizations' ("SROs") surveillance, investigative and disciplinary programs. It evaluates certain aspects of the inspection program, including guidance and planning, the use of SRO internal audit products, and the tracking of inspection recommendations. The report also describes and evaluates the SRO referral process to the SEC's Division of Enforcement, recent trends in referral numbers and related SEC investigations, and the SEC's information system for advisories and referrals. The report makes three recommendations designed to strengthen the SEC's oversight of SROs.

- Establish a written framework for conducting inspections of SRO enforcement programs and broaden current guidance to SRO inspection staff to have them consider to what extent they will use SRO internal audit reports when planning SRO inspections;
- Ensure that the Division of Trading and Markets makes certain that SROs include in their periodic risk assessment of their IT systems a review of the security of their enforcement-related databases, and that Trading and Markets reviews the comprehensiveness and completeness of the related SRO-sponsored audits of SRO enforcement-related databases; and
- Ensure that any software developed for tracking SRO inspections includes the ability to track SRO inspection recommendations, and consider IT improvements that would increase staff's ability to search for, monitor, and analyze information on SRO advisories and referrals.

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endnotes

[1] See GAO Report to the Ranking Member, Committee on Finance, U.S. Senate: “Securities and Exchange Commission, Opportunities Exist to Improve Oversight of Self-Regulatory Organizations” (November 2007) GAO-08-33. The report may be found on the GAO’s website at <http://www.gao.gov/new.items/d0833.pdf>.

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