

MEMO# 1805

March 28, 1990

SEC STUDY ON BROKER-DEALER CHINESE WALL PROCEDURES

March 28, 1990 TO: SEC RULES MEMBERS NO. 25-90 BROKER/DEALER ADVISORY
COMMITTEE NO. 13-90 BROKER-DEALER ASSOCIATE MEMBERS RE: SEC STUDY ON BROKER-
DEALER CHINESE WALL PROCEDURES

_____ The SEC's Division of Market Regulation recently issued the attached report on "Chinese Wall" procedures used by broker-dealers to prevent the misuse of material, nonpublic information. The study was done pursuant to the Commission's rulemaking authority granted under the Insider Trading and Securities Fraud Enforcement Act of 1988, which requires broker-dealers to maintain procedures designed to prevent the misuse of such nonpublic information. The Division found that improvements had been made by broker-dealers in comparison to an earlier review of Chinese Wall procedures. However, the Division found that there were certain areas that still needed improvement such as reviewing employee and proprietary trading, memorialization and documentation of firm procedures and supervision of interdepartmental communication. The Division determined that the necessary improvements should be effectuated by self-regulatory programs, supplemented by SEC oversight, rather than by SEC rulemaking. In its report, the Division identified the following practices as necessary elements of an adequate Chinese Wall: a. substantial control (preferably by the compliance department) of relevant interdepartmental communications; b. the review of employee trading through the effective maintenance of some combination of watch, restricted, and rumor lists; c. dramatic improvement in the memorialization of Chinese Wall procedures; and d. the heightened review or restriction of proprietary trading while the firm is in possession of material, nonpublic information. Amy B. Rosenblum
Assistant General Counsel Attachment

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