

CORPORATE COMPLIANCE ALERT

7/9/13

Securities and Exchange Commission Announces New Enforcement Initiatives

The Securities and Exchange Commission (Commission) announced three new initiatives that will build on its Division of Enforcement's (Division) ongoing efforts to concentrate resources on high-risk areas of the market and bring cutting-edge technology and analytical capacity to bear in its investigations.¹ The initiatives are:

Financial Reporting and Audit Task Force: The Financial Reporting and Audit Task Force will concentrate on expanding and strengthening the Division's efforts to identify securities-law violations relating to the preparation of financial statements, issuer reporting and disclosure, and audit failures. The principal goal of the Task Force will be fraud detection and increased prosecution of violations involving false or misleading financial statements and disclosures. The Task Force will focus on identifying and exploring areas susceptible to fraudulent financial reporting, including ongoing review of financial statement restatements and revisions, analysis of performance trends by industry and use of technology-based tools such as the Accounting Quality Model.

Microcap Fraud Task Force: The Microcap Fraud Task Force will investigate fraud in the issuance, marketing and trading of microcap securities. These abuses frequently involve serial violators and organized syndicates that employ new media, especially websites and social media, to conduct fraudulent promotional campaigns and engage in manipulative trading strategies to amass ill-gotten gains, largely at the expense of less sophisticated investors. The principal goal of the Task Force will be to develop and implement long-term strategies for detecting and combating fraud in the microcap market, especially by targeting "gatekeepers," such as attorneys, auditors, broker-dealers, transfer agents, and other significant participants, such as stock promoters and purveyors of shell companies.

The term "microcap" refers to companies with low or "micro" market capitalizations. These are companies typically ranging between \$50 – \$300 million in market capitalization. Microcap companies primarily trade on the Over-the-Counter Bulletin Board (OTCBB) or the pink sheets.

The OTCBB is an electronic quotation system that displays real-time quotes, last-sale prices and volume information for many OTC securities that are not listed on the Nasdaq or other major securities exchanges. Although the National Association of Securities Dealers (NASD) oversees the OTCBB, the OTCBB is not part of the Nasdaq.

Fraudsters often claim that an OTCBB company is a Nasdaq company, but this is misleading; it suggests that a company is larger and more liquid than it probably is. The pink sheets are named for the color of paper on which they have historically been printed. Many stocks quoted on the pink sheets are "penny stocks." The pink sheets are not a stock exchange and it is unregulated.

Center for Risk and Quantitative Analytics: The Center for Risk and Quantitative Analytics (CRQA) will support and coordinate the Division's risk identification, risk assessment and data analytic activities by identifying risks and threats that could harm investors, and assist staff nationwide in conducting risk-based investigations and developing methods of monitoring for signs of possible wrongdoing. It will work in close association with other Commission offices and divisions, especially the Division of Economic and Risk

¹ <http://www.sec.gov/news/press/2013/2013-121.htm>

Analysis, and provide guidance to the Enforcement Division's leadership on how to allocate resources strategically in light of identified risks.

According to Andrew J. Ceresney, Co-Director of the Division of Enforcement: "These initiatives build on the Division's unmatched record of achievement and signal our increasingly proactive approach to identifying fraud. By directing resources, skill, and experience to high-impact areas, we will increase the potential for uncovering financial statement and microcap fraud early and bring more cases aimed at deterring these types of unlawful activity."

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