



*Summary of the SEC's Division
of Enforcement's Activity
for the Fiscal Year Ended
September 30, 2022*

ANNUAL REPORT 2022

CONTENTS

Highlights	1
Our Process and Methodology	1
Highlights from the SEC's Annual Reporting for the Twelve Months Ended September 30, 2022	2
Highlights from the SEC's 2022 Annual Report to Congress on the Whistleblower Program	7

Introduction and Our Objective

We are pleased to present you with our summary of the U.S. Securities and Exchange Commission's ("SEC," "Commission") Division of Enforcement's results for the fiscal year ended September 30, 2022.

As an independent consulting firm with financial and accounting expertise, we are committed to contributing thought leadership and relevant research regarding financial reporting matters that will assist our clients in today's fast-paced and demanding market. This report is just one example of how we intend to fulfill this commitment.

The Division of Enforcement at the SEC is a law enforcement agency established to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. As such, the actions they take and the releases they issue provide useful interpretations and applications of the securities laws.

For those involved in financial reporting, SEC releases concerning civil litigation and administrative actions that are identified as related to accounting and auditing are of particular importance. Our objective is to report on the major items disclosed in the SEC's annual enforcement results, while also summarizing useful insights that the readers of our report will find valuable.

We welcome your comments and feedback, especially requests for any additional analysis you would find helpful.

Floyd Advisory
DECEMBER 2022

Highlights:

- The SEC filed 760 actions in FY 2022, surpassing FY 2021 in both standalone and non-standalone enforcement actions. The SEC Enforcement Program in FY 2022 included a robust action plan to deter future misconduct and ensure public accountability.
- SEC monetary remedies reached a record high of \$6.4 billion in FY 2022, including \$4.2 billion in civil penalties, which was also the highest in SEC history.
- The SEC prioritized enforcement actions against gatekeepers in FY 2022, including auditors, lawyers, and transfer agents, imposing the highest ever penalty against an audit firm.
- In response to the rapid evolution of the crypto market, the SEC announced changes to its Crypto Assets and Cyber Unit (formerly known as the Cyber Unit), to improve its investigation capabilities in detecting potential misconduct in the crypto space.
- The Whistleblower Program received over 12,300 whistleblower tips in FY 2022, representing the highest number of tips received by the Commission in a fiscal year. In total, \$229 million was awarded to 103 whistleblowers in FY 2022, the second highest in history in terms of both the dollar amount awarded and number of whistleblowers awarded in a fiscal year.

OUR PROCESS AND METHODOLOGY

At the end of each fiscal year, the Commission summarizes its enforcement actions, including Accounting and Auditing Enforcement Releases (“AAERs”), and highlights a few of its most significant achievements and key initiatives.

To meet our objective of summarizing the major items reported by the SEC in FY 2022, we reviewed the SEC’s press release on the Division of Enforcement’s activity in FY 2022, the 2022 Annual Report to Congress on the SEC’s Whistleblower Program, and select releases identified and disclosed by the SEC, all of which can be found on the SEC’s website, www.sec.gov.

As part of our review, we gathered information and key facts, identified common attributes, noted trends, and observed material events.

Highlights from the SEC's Annual Reporting for the Twelve Months Ended September 30, 2022

The SEC Reported an Increase in Total Enforcement Actions

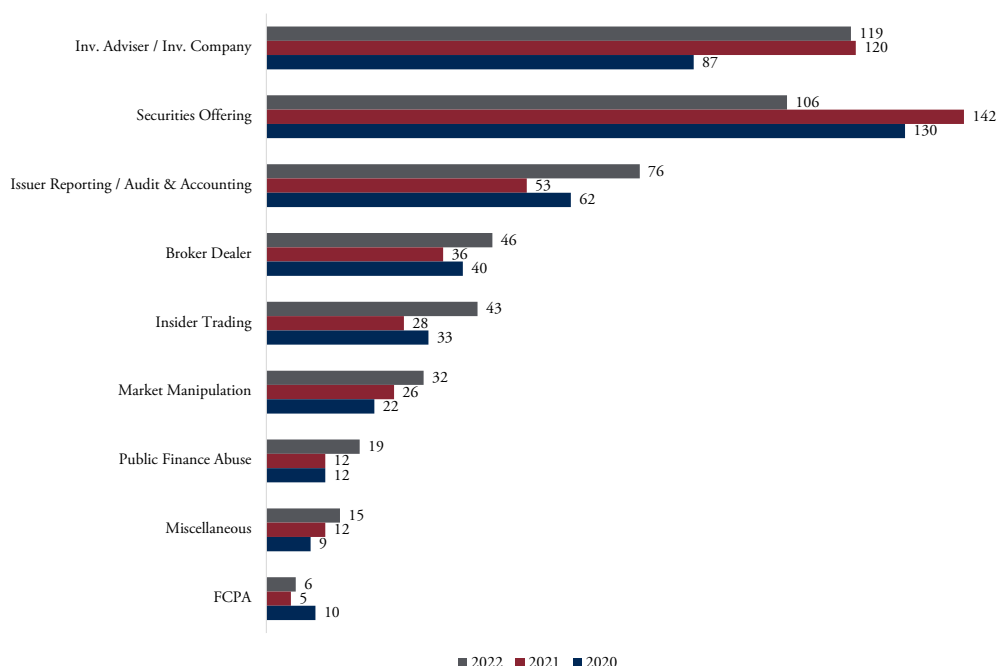
The SEC filed 760 enforcement actions in FY 2022, constituting a 9% increase in the number of actions filed compared to FY 2021. Of the total enforcement actions, 462 were standalone actions (i.e., actions related to new matters). More than two-thirds of the Commission's standalone enforcement actions in FY 2022 resulted in charges against one or more individuals, including a number of CEOs, CFOs, accountants, auditors, and other gatekeepers.

The number of standalone enforcement actions increased by 6% from the prior year to 462. A review of the types of enforcement actions taken by the Division of Enforcement in FY 2022 suggests that the Commission increased scrutiny on enforcement related to issuer reporting/audit and accounting, which increased by 43% from FY 2021 and accounted for 16% of the total standalone enforcement actions for the year. Additionally, enforcement actions related to insider trading increased by 54% from FY 2021 and accounted for 9% of the total standalone enforcement actions for the year. In contrast, security offering enforcement actions decreased by 25% in FY 2022, representing the lowest number of actions filed in this category since FY 2017, potentially signaling a shift in the Commission's near-term focus.

"The breadth of issues covered in last year's actions amply demonstrates [the Division of] Enforcement staff's skill in uncovering violations, its resourcefulness in deploying the right investigative tools and case strategy, and, above all, its doggedness in pursuing wrongdoers and obtaining remedies that promote market integrity while helping to protect investors."

Sanjay Wadhwa,
Deputy Director
Division of Enforcement
November 15, 2022
SEC Announces Enforcement
Results for FY22

Standalone Enforcement Actions by Classification FY 2020 to FY 2022



As previously noted, standalone enforcement actions increased by 6% in FY 2022 as compared to FY 2021. Following an increase in the number of filed enforcement actions between FY 2018 and FY 2019, the number of enforcement actions declined in FY 2020 but have since been on the rise. The overall decrease in total enforcement actions in FY 2020 and FY 2021 compared to the years prior is likely at least partially attributable to COVID-related uncertainties and challenges.

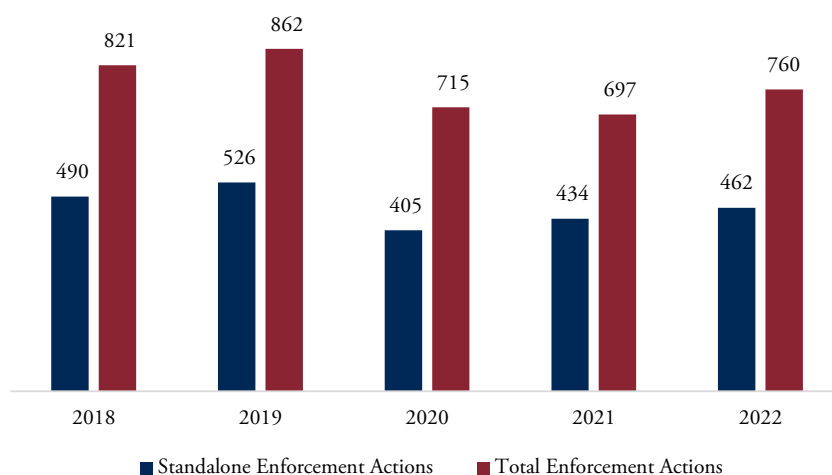
Standalone Enforcement Actions										
Classification	FY 2022		FY 2021		FY 2020		FY 2019		FY 2018	
	#	%	#	%	#	%	#	%	#	%
Inv. Adviser / Inv. Company	119	26%	120	28%	87	21%	191	36%	108	22%
Securities Offering	106	23%	142	33%	130	32%	108	21%	121	25%
Issuer Reporting / Audit & Accounting	76	16%	53	12%	62	15%	92	17%	79	16%
Broker Dealer	46	10%	36	8%	40	10%	38	7%	63	13%
Insider Trading	43	9%	28	6%	33	8%	30	6%	51	10%
Market Manipulation	32	7%	26	6%	22	5%	30	6%	32	7%
Public Finance Abuse	19	4%	12	3%	12	3%	14	3%	15	3%
Miscellaneous	15	3%	12	3%	9	2%	5	1%	8	2%
FCPA	6	1%	5	1%	10	2%	18	3%	13	3%
Totals	462	100%	434	100%	405	100%	526	100%	490	100%

Note: Each percentage displayed in the table above has been rounded to the nearest whole number for presentation purposes.

The total percentage for each fiscal year is derived by summing the true percentage values, inclusive of decimal places.

Overall, total enforcement actions increased 9% in FY 2022 as compared to FY 2021. The chart below illustrates total enforcement actions for FY 2018 through FY 2022.

Total SEC Enforcement Actions for the Years Ended September 30,



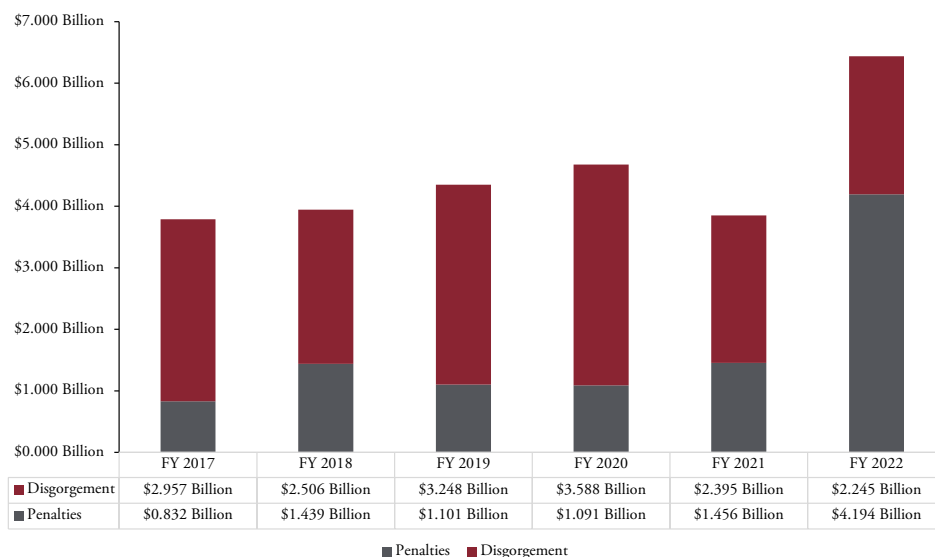
SEC Monetary Remedies Reached a Record High in FY 2022

In FY 2022, \$6.4 billion in monetary relief was ordered, which is nearly a 67% increase from FY 2021. This is the result of a significant increase in civil penalties compared to FY 2021. Civil penalties totaled \$4.2 billion, also the highest on record as compared to \$1.5 billion in FY 2021. Additionally, the remaining \$2.2 billion was related to disgorgement of ill-gotten gains. Of note, the Commission returned approximately \$937 million to harmed investors, representing an 80% increase from FY 2021.

"As reflected in these results, the Enforcement Division is working with a sense of urgency to protect investors, hold wrongdoers accountable and deter future misconduct in our financial markets."

Gurbir S. Grewal,
Director
Division of Enforcement
November 15, 2022
SEC Announces Enforcement
Results for FY22

Penalties and Disgorgements Ordered FY 2017 to FY 2022



“The SEC will not permit the submission of misleading information or any action that delays or frustrates our mandate to protect investors and our markets.”

Melissa R. Hodgman,
Associate Director
Division of Enforcement
June 28, 2022
Largest Penalty Ever Imposed by
SEC Against an Audit Firm

The SEC Prioritized Enforcement Actions Against Gatekeepers in FY 2022

Throughout FY 2022, the Commission focused its efforts on investigating violations involving gatekeepers (i.e., a person who has a professional obligation to spot and prevent potential misconduct), including auditors, lawyers, and transfer agents.

During FY 2022, one of the Commission’s key focus areas was bringing enforcement actions against entities and individuals who engaged in improper professional conduct. For example, in June 2022, the Commission charged an audit firm that failed to act with the ethics and integrity standards required of a public company auditor. Additionally, from 2017 to 2021, several of the firm’s audit professionals cheated and/or facilitated cheating on the ethics portion of the CPA exam as well as on continuing professional education courses required to maintain their CPA license. Upon receiving a formal request from the SEC’s Division of Enforcement to obtain information regarding complaints the firm had received involving cheating, the firm denied the cheating allegations in its submission. The firm’s audit professionals continued to cheat on the ethics portion of the CPA exams, violating overall ethics and integrity standards. Ultimately, the firm admitted to the findings in the release and submitted an offer of settlement, which the Commission accepted. The firm was censured and ordered to pay a \$100 million civil penalty, which represents the largest penalty imposed by the SEC against an audit firm. Gurbir S. Grewal, Director of the SEC’s Division of Enforcement, stated “[t]his action involves breaches of trust by gatekeepers within the gatekeeper entrusted to audit many of our Nation’s public companies. It’s simply outrageous that the very professionals responsible for catching cheating by clients cheated on ethics exams of all things.”¹

Another focus area of the Commission was enforcing penalties for entities and individuals who violated auditing requirements. In one such example, the Commission filed action against a China-based affiliate of a large audit firm for failing to comply with U.S. auditing standards and requirements for U.S. issuers and foreign entities listed on U.S. exchanges. The China-based affiliate allowed their clients to prepare their own audit documentation, which failed to comply with U.S. auditing requirements and resulted in charges imposed by the Commission. Similarly, in July 2021, the Commission charged a certified public accountant and audit firm partner for violating professional standards when conducting an audit for a public company client.

¹ SEC Press Release 2022-114, dated 06/28/2022

The Commission's enforcement actions extended beyond professional conduct and auditing requirements to securities offerings. As an example, in July 2022, the Commission announced a settlement of charges against an attorney who engaged in a fraudulent offering of unregistered securities. According to the SEC's investigation and findings, the attorney violated registration and antifraud provisions of the Securities Act of 1933 and the Securities Act of 1934 by including material misstatements and omissions in private placement memoranda and misrepresenting securities to investors and prospective investors.

The SEC Continued to Enhance its Investigation Capabilities in the Cryptocurrency Market

Throughout FY 2021 and FY 2022, the SEC continued its efforts in investigating violations related to digital asset securities, also known as cryptocurrencies (i.e., digital coins and tokens). In response to the increased risks associated with investors engaging in the offer, sale, and trading of digital assets, the Commission released a risk alert entitled "The Division of Examinations' Continued Focus on Digital Asset Securities" in February 2021, providing investors with risk and compliance considerations for engaging in cryptocurrency transactions.

In May 2022, the SEC announced its expansion of its Crypto Assets and Cyber Unit by 20 positions, nearly doubling the unit's staffing from the previous year. The Crypto Assets and Cyber Unit is responsible for investigating cyber-related threats and protecting investors in crypto markets. The unit was created in 2017 and has since imposed more than 80 enforcement actions for fraudulent and unregistered crypto asset offerings, spanning across multiple securities platforms.

In early FY 2022, the Commission charged a crypto lending platform for violating registration provisions related to its retail crypto lending product. The Commission enforced a \$50 million penalty in addition to \$50 million in fines across 32 states. Gary Gensler, Chair of the SEC, stated "[t]oday's settlement makes clear that crypto markets must comply with time-tested securities laws, such as the Securities Act of 1933 and the Investment Company Act of 1940. It further demonstrates the Commission's willingness to work with crypto platforms to determine how they can come into compliance with those laws. I'd like to thank and commend our remarkable SEC staff and state regulators for their efforts and collaboration on this settlement."²

The Commission also brought action against individuals for manipulating the cryptocurrency market. For example, the Commission charged eleven individuals with engaging in a fraudulent crypto pyramid and Ponzi scheme, resulting in more than \$300 million of capital raised from retail investors worldwide. The founders of the fraudulent crypto scheme created a website that allowed investors to execute transactions using smart contracts. Additionally, investors earned profits by recruiting others for the website, contributing to a fraudulent pyramid scheme involving millions of investors. The Commission also determined that the platform allegedly utilized assets contributed by new investors to pay earlier investors. The Commission filed enforcement actions against the individuals responsible for violating federal securities laws, resulting in disgorgement and civil penalties.

In addition to market manipulation, the Commission also focused on protecting investors from insider trading in the cryptocurrency space. In July 2022, the Commission charged three traders who engaged in a trading scheme that generated illicit profits amounting to over \$1.1 million. One of the traders was a former product manager at a cryptocurrency trading platform who allegedly obtained and distributed material nonpublic information to execute trades ahead of multiple public announcements. The SEC's investigation related to this matter is ongoing.

"The Division of Enforcement's Crypto Assets and Cyber Unit has successfully brought dozens of cases against those seeking to take advantage of investors in crypto markets. By nearly doubling the size of this key unit, the SEC will be better equipped to police wrongdoing in the crypto markets while continuing to identify disclosure and controls issues with respect to cybersecurity."

Gary Gensler,
Chair of the SEC
May 3, 2022
SEC Nearly Doubles Size of
Enforcement's Crypto Assets and
Cyber Unit

² SEC Press Release 2022-26, dated 02/14/2022

Subsequent to the SEC's fiscal year end, in December 2022, the Commission brought action against a former CEO/co-founder of one of the largest cryptocurrency exchanges for orchestrating a fraudulent crypto scheme. According to the SEC's complaint, the individual raised more than \$1.8 billion from equity investors, since at least May 2019. The individual allegedly deceived equity investors by falsely promoting the safety and associated risks of the platform and concealing a fraudulent diversion of investors' funds to a privately held crypto hedge fund. The Commission charged the former executive with violating antifraud provisions of the Securities Act of 1933 and the Securities Act of 1934.

New Areas of Enforcement

In FY 2022, the Commission filed enforcement actions across several new areas, including a number of first-of-their-class actions. Summaries of select new actions are included below.

- The Commission initiated its first enforcement action involving the violation of Best Interest Obligation regulations.*** Best Interest Obligation regulations are designed to help retail investors make informed decisions and enhance their relationship with broker-dealers and investment advisors. The Commission charged a registered broker-dealer and five of its registered representatives for recommending and selling L Bonds, or unrated, high risk debt securities, to retirees and other retail investors. From July 2020 through April 2021, the broker-dealer sold a total of \$13.3 million of L Bonds. Per the Commission's complaint, the broker-dealer sold these securities to customers who had moderate risk tolerances, despite the high-risk profile associated with L Bonds. Additionally, the SEC's complaint states that the defendants allegedly failed to comply with Reg BI's "Care Obligation" and "Compliance Obligation," which require brokers to exercise reasonable diligence when making recommendations to customers as well as establish and maintain written policies and procedures.
- The Commission initiated its first enforcement action in the municipal bond space for failure to meet disclosure requirements.*** In September 2022, the SEC charged four financial services firms for violating municipal bond offering disclosure requirements. Per the Commission's investigation, each firm relied on the limited offering exemption and failed to obtain required disclosures prior to selling new issue municipal bonds. Additionally, the SEC's complaint states that one firm also engaged in unfair practices that involved making deceptive statements to its issuers. Three firms consented to a cease-and-desist order that included approximately \$750,000 in disgorgement and \$500,000 in penalties, in total. These charges represent the first actions imposed by the SEC against underwriters who failed to meet legal disclosure requirements when offering municipal bonds. As a result of its findings, the Commission has begun investigating other firms that potentially rely on the limited offering exemption to bypass proper disclosure requirements.

Other Key Areas of Enforcement

Enforcement actions brought by the Commission in FY 2022 also included violations involving the misuse of complex products and strategies. For example, the Commission charged a global financial services firm for failing to accurately market and sell its complex investment strategy to its clients. Per the settled SEC order, the financial services firm did not provide its financial advisors with sufficient training and oversight related to its complex options trading strategy, which involved high investment risks.

As a result of the firm's lack of communication, oversight, and transparency, the financial advisors were unable to accurately convey the associated risks to their clients, resulting in many clients closing their accounts when they suffered losses. The firm paid \$25 million to settle the fraud charges imposed by the Commission. Per Osman Nawaz, Chief of the Division of Enforcement's Complex Financial Instruments Unit, "[a]dvisory firms are

"Underwriters must take seriously their responsibility to ensure municipal bond investors get the information they are entitled to."

LeeAnn G. Gaunt,
Chief

Division of Enforcement's Public
Finance Abuse Unit
September 13, 2022

SEC Charges Four Underwriters in
First Actions Enforcing Municipal
Bond Disclosure Law

obligated to implement appropriate policies and procedures to ensure all parties involved in the sale of complex financial products and strategies have a clear understanding of the risks those products present.”³

Another area of focus in FY 2022 was the investigation of disclosure and compliance issues associated with Environmental, Social, and Governance (“ESG”) investment decisions. Sanjay Wadhwa, Deputy Director of the SEC’s Division of Enforcement and head of its Climate and ESG Task Force, noted that investment advisors and funds are continuing to evaluate more investments that incorporate ESG. During FY 2022, the Commission brought actions against registered investment advisors and entities that defrauded investors for misstatements and omissions related to ESG considerations and failed to meet the appropriate ESG quality review score.

In May 2022, the SEC charged an investment adviser for material misstatements and omissions related to ESG. The company implied that its investments from July 2018 to September 2021 had been quality reviewed, however, it was discovered that many investments did not have a quality review score. The company settled with the SEC, and without admitting to or denying the findings, agreed to comply with a cease-and-desist order and pay a \$1.5 million penalty.

In FY 2022, the SEC continued to combat bribery and other foreign corrupt practices. Of note, in September 2022, the Commission charged a global database management company a penalty of more than \$23 million for using slush funds (i.e., monetary reserves utilized for illicit actions) to bribe foreign officials in exchange for business between 2016 and 2019.

Highlights from the SEC’s 2022 Annual Report to Congress on the Whistleblower Program

The SEC’s Whistleblower Program Has Another Strong Year

For the SEC’s Office of the Whistleblower, FY 2022 was another strong year. In FY 2022 alone, the Commission issued approximately \$229 million related to 103 awards, which increased the total amount of awards since the program’s inception to \$1.3 billion. Despite the number of awards in FY 2022 remaining similar to the prior year, the total amount awarded was only about half of that awarded in FY 2021. This disparity is primarily the result of two large monetary awards made last fiscal year: (1.) \$114 million awarded to one whistleblower in October 2020, and (2.) a combined \$114 million awarded to two whistleblowers in September 2021.

On October 15, 2021, the Commission issued the largest award of FY 2022, a combined \$40 million to two whistleblowers. In comparison, this award is nearly \$75 million less than the highest award made in FY 2021, noted above. The largest five awards in FY 2022 represent about half of the total amount awarded this fiscal year:

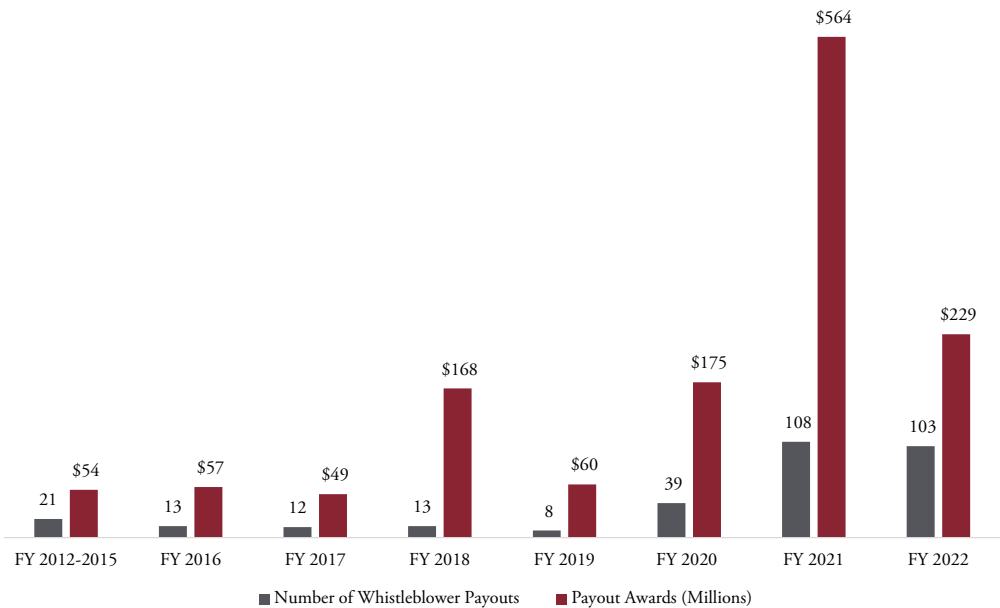
- October 15, 2021 - \$40 million awarded to two whistleblowers
- January 21, 2022 - \$37 million awarded to two joint whistleblowers
- July 19, 2022 - \$17 million awarded to one whistleblower
- August 9, 2022 - \$16 million awarded to two whistleblowers
- November 10, 2021 - \$15 million awarded to two whistleblowers

“Over the past decade, the SEC’s whistleblower program has played a critical role in the Division of Enforcement’s ability to effectively detect wrongdoing, protect investors and the marketplace, and bring violators to justice.”

Gurbir S. Grewal,
Director
Division of Enforcement
July 29, 2022
Statement in Honor of National
Whistleblower Day

³ SEC Press Release 2022-117, dated 06/29/2022

Dodd-Frank Whistleblower Program - Historical Awards

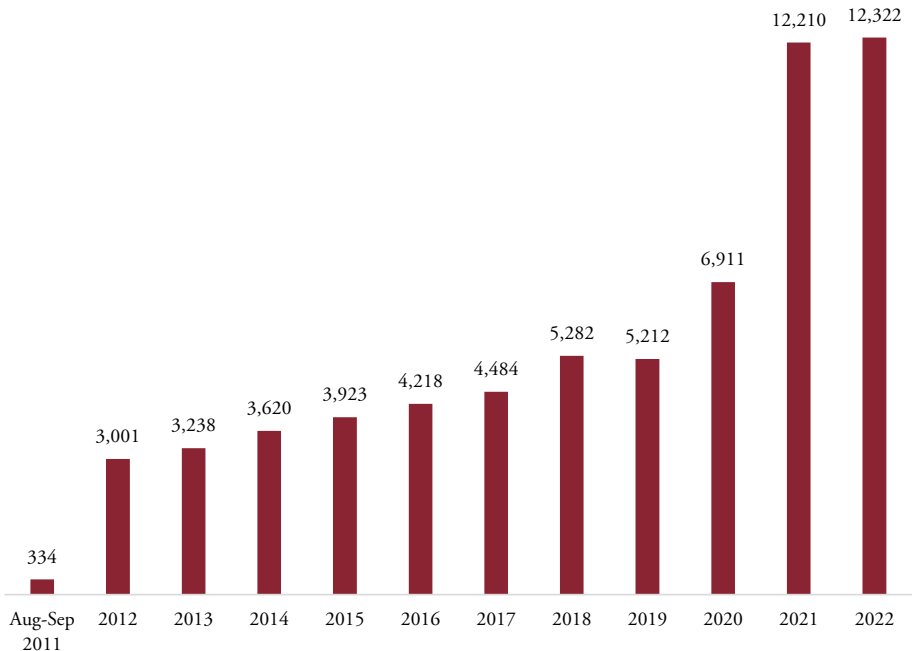


“The significant increase in the number of whistleblower tips and awards since the program’s inception shows that the program, with its enhanced confidentiality protections, is effectively incentivizing whistleblowers to make the often difficult decision to come forward with information about potential securities-law violations.”

Creola Kelly,
Chief of the Office of the
Whistleblower
November 15, 2022
SEC Whistleblower Office
Announces Results for FY 2022

Since the program’s inception, the SEC has received nearly 65,000 tips and allegations through its whistleblower hotline. In fact, in FY 2022, the SEC received a record-breaking number of whistleblower tips – 12,322, reflecting a small increase of 112 tips compared to FY 2021. Enforcement actions that were issued as a result of information from whistleblowers led to more than \$6.3 billion in sanctions since the inception of the program.

Whistleblower Allegations for the Years Ended September 30,



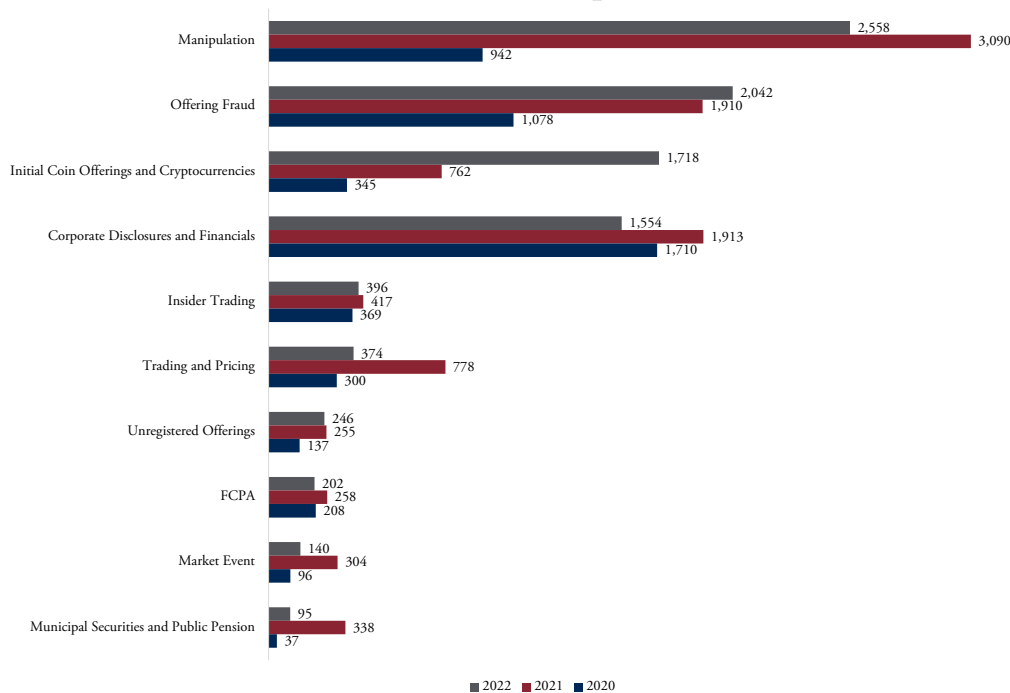
In FY 2022, the SEC adopted two amendments to the Whistleblower Program rules. The first amendment allows the Commission to award individuals for certain actions brought by other entities. The Commission may do so when the award issued by the entity is not comparable to the award the Commission would issue or if the total amount awarded could not exceed \$5 million. However, only one award can be issued on a given action, and the award must be in connection with an SEC enforcement action.

The second amendment revises Rule 21F-6 and asserts that the Commission has statutory authority to consider the dollar amount of the potential award. This is permitted only for the purpose of increasing the award amount, and not for the purpose of decreasing it.

Both FY 2021 and 2022 had record-breaking years for the number of whistleblower tips, which appears to be driven by the whistleblower rule amendments adopted in December 2020 as well as those adopted in FY 2022. Specifically, one of the amendments from December 2020 was the 30% presumption, which sets awards at a maximum of 30% of monetary sanctions collected for awards under \$5 million. Additionally, amendments adopted in FY 2022, as mentioned above, likely increased the incentivization to submit tips and contributed to the all-time high number of tips in FY 2022.

The types of misconduct reported by whistleblowers in FY 2022 were largely consistent with prior years in which Manipulation and Offering Fraud were ranked in the top three allegation types, with respective percentages of 21% and 17%. However, Corporate Disclosures and Financials, which was ranked in the top three in prior years, was surpassed by Initial Coin Offerings and Cryptocurrencies by approximately 1%, pushing it to the fourth most common complaint this year. Of note, the percentage of allegations regarding Initial Coin Offerings and Cryptocurrencies, a category added by the SEC in 2018, more than doubled this year, from 6% in FY 2021 to 14% in FY 2022.

Whistleblower Tips by Allegation Type Comparison for the Years Ended September 30,



The SEC reported that it has received tips from all over the world, with the top foreign countries for FY 2022 being Canada, the United Kingdom, Germany, China, Mexico, and Brazil. Similarly, in FY 2021, the Commission received the most tips from individuals in Canada, China, and the United Kingdom. Within the United States, the most tips in FY 2022 came from Florida, South Carolina, California, Texas, and New York as compared to FY 2021, which included California, Maryland, Florida, New York, and Texas.

In FY 2022, the Commission continued its efforts to protect whistleblowers. As stated by Creola Kelly, Chief of the Office of the Whistleblower, “[r]egardless of whether a whistleblower is a corporate insider, a main street investor, or an unrepresented claimant, the Commission vigorously safeguards their identity while rewarding eligible individuals who identify bad actors in our markets.”⁴ This will ensure that whistleblowers continue to play a critical role in the SEC’s enforcement efforts in the future.

“High-quality tips from whistleblowers represent an important tool in the Commission’s enforcement program.”

Mark T. Uyeda,
SEC Commissioner
August 26, 2022
Statement on the Final Rules
Related to the Whistleblower
Program

⁴ SEC Whistleblower Office Announces Results for FY 2022, dated 11/15/2022

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ACKNOWLEDGEMENT

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ABOUT Floyd Advisory

Floyd Advisory is a consulting firm providing financial and accounting expertise in areas of SEC reporting, transaction advisory, investigations and compliance, litigation services, as well as business strategy and valuation.

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