



Legal Risk Management Tip December 2006

'Tis the Season for Identity Theft

This holiday season, Federal regulators, including the SEC's Office of Compliance Inspections and Examinations (OCIE), are focusing particularly on the issue of identity theft. During recent sweep examinations, OCIE has reviewed firms' policies and procedures to assess whether organizations are adequately addressing how they protect records and confidential information of customers.

The Amendments to Rule 30 of Regulation S-P now require firms to:

- Maintain the security and confidentiality of customer records and information;
- Protect against anticipated threats or hazards to the security of that information; and
- Prevent unauthorized access to or use of customer records or information that may result in actual or potential harm to the customer.

Since communication and technology has grown more advanced, firms may find that their current policies and procedures no longer adequately address the protection of customer information. For example, wireless access, which broadcasts data into the airwaves, can possibly be intercepted. Has your firm addressed this issue? Remote access to corporate networks can also pose certain security concerns. To safeguard customer information, firms should consider using encrypted data, firewalls, routers and filters to prevent unauthorized access to customer information.

In assessing the effectiveness of your firm's policies on protecting customer information, consider the following.

- 1) Do firm policies and procedures address the technology used to protect customer information?
- 2) Have the firm and its employees taken appropriate precautions in how to dispose of papers and electronic communications that contain confidential customer information?
- 3) Has the firm provided training to its employees on how to use certain technology and procedures to ensure that the customer information is kept confidential?
- 4) Have you calendared periodic internal audits to detect potential vulnerabilities?
- 5) Have you inventoried where confidential customer information is maintained and assessed what safeguards are used to protect this information?

As the New Year and tax season approaches, remember these tips.

- Be sure to shred copies of your customers' *draft* tax documents
- Use appropriate disposal processes for the destruction of books and records no longer required
- Conduct due diligence on third-party service providers to ensure they have appropriate safeguards for protecting your customers' information
- Test the effectiveness of your firm's policies for protecting confidential client information

Following these tips will help to make 2007 a happy year for all. Happy holidays to you and yours.

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