



**CYBER-SECURITY SURVEY RESULTS**

**OF**

**MINNESOTA INVESTMENT ADVISERS**

## **INTRODUCTION**

In June, 2014, the Securities Section of the Minnesota Department of Commerce mailed out an anonymous survey to the 272 Investment Advisers (IAs) under its regulatory jurisdiction. The survey sought to elicit information about the technology and data practices of state-registered IAs in Minnesota. The Department wanted to better understand the policies and procedures that IAs currently have in place to protect their data, as well as that of their clients. The response was overwhelming in that more than half (151) responded to the survey. The Section is now releasing the results of that survey which can be viewed on the Department's webpage: <http://mn.gov/commerce/topics/securities/investment-advisors/recent-events-impacting-investment-advisers.jsp>.

In conjunction with the survey, Minnesota participated with the North American Securities Administrators Association (NASAA) in collaboration with eight other states that conducted an identical survey. To achieve an equal distribution of responses from states, a random sample of all Minnesota responses were compiled with the other states' responses for NASAA's survey. That survey's results are anticipated to be released in the near future at which time they will be shared by the Minnesota Department of Commerce.

## **BACKGROUND**

The need to securely maintain private data has always existed. However, beginning late last year, the issue gained greater prominence as a number of companies, including some locally owned and operated, suffered from cyber-security attacks. During the spring of 2014, the SEC and FINRA became more involved with cyber-security issues involving the financial services industry from both an examination and enforcement context. As SEC Commissioner Louis Aguilar recently stated at the SEC's Cybersecurity Roundtable, *"Cyber-attacks on financial institutions have become both more frequent and more sophisticated. This is also true of cyber-attacks on infrastructure underlying capital markets."*

The Minnesota Department of Commerce has direct regulatory authority over Investment Advisers who have less than \$100 million of assets under management (AUM). These Investment Advisers are working with thousands of Minnesotans who are investing millions of dollars. In order to satisfy their fiduciary obligations, Investment Advisers obtain personal and confidential information from their clients (client information). The survey was designed to determine whether reasonable safeguards to protect such client information are in place and to help inform the Department's examination program about practices in this area.

The Department encourages you to review the survey results, to draw conclusions or make observations. Send conclusions or observations to the Department at [Securities.Commerce@state.mn.us](mailto:Securities.Commerce@state.mn.us). Include in the subject line: "Cyber-security survey."

## SURVEY OBSERVATIONS

- The majority of Investment Advisers (IAs) who responded have 5 or fewer employees.
- Approximately 50% of the surveys were completed by entities with more than \$25 million AUM with approximately 50% of the surveys completed by entities with less than \$50 million AUM.
- The Department could not discern any strong and compelling differences regarding cyber-security issues based on the level of AUM.
- The use of mobile devices and communications with clients through email is pervasive. Approximately 90% of those responding indicated that clients are contacted by email, but 50% of those who use email do not use secure email systems.
- While 50% of those responding reported having confidentiality agreements with third party providers, nearly 50% of those with such agreements were unsure whether or not the agreement included cyber-security provisions.
- Only a small fraction (2%) of the IAs who responded indicated that they had been subject to a cyber-security incident.
- Only 25% of respondents carry insurance for cyber-security attacks.
- While 98% of IAs have antivirus software, 20% do not use automatic downloads to keep their antivirus programs up to date.
- It is important to note that the use of free cloud services may become an issue with respect to losing ownership of the data to which an IA is responsible for maintaining.

For more Minnesota survey results, please visit the Minnesota Department of Commerce website. <http://mn.gov/commerce/images/CyberSecurityResults14.pdf>. The survey results will help inform the Department's examination program with respect to developing guidance and/or policies focused on the supporting IA fiduciary obligations specific to the protection of client information. The Department hopes the survey results will draw attention to the crucial issue of cyber-security and encourage the Investment Advisor community to direct its attention to addressing ways to make Minnesota's investors' assets more secure.

Thank you to IAs who responded. We encourage you to take the opportunity to email comments or observations to at [Securities.Commerce@state.mn.us](mailto:Securities.Commerce@state.mn.us). Include in the subject line: "Cyber-security survey."