Trade Compliance Through the Lifecycle of a Trade: Building an Environment of Trust Between Portfolio Management & Compliance

IMP consulting

Post-Webinar Q&A Session

Do you have some good examples of typical post-trade reports that are good tools for compliance trading reviews?

Jon Gold: This answer really depends upon what purpose the reports are intended to serve. For example, for a daily "Where are we with respect to guidelines" summary, it is preferable to separate out the violations (limit has been breached), the "warnings" (limit is close to being breached), and the passes (limit is in no danger of being breached). Overrides should be grouped by rule, which makes it easier to spot potential problems. Finally, if your system supports it, data exceptions (rules which could not be evaluated because necessary data was missing) should be grouped and provided to the data management team as soon as possible so as not to cause further disruption to daily trade operations.

Jane Stabile: I would also add that some compliance departments now monitor the number of overrides per user (e.g., the portfolio manager) and per desk on a rolling 30, 60 or 90 day cycle. When they notice a spike in activity, it prompts a discussion with the manager or desk to discover the cause.

One point to stress is that any changes made in rules should be consistent with disclosures in your Firm's ADV and marketing materials. Client investment guidelines should be in line with how the firm defines and classifies securities.

Jon Gold: This is a very key point. Often ADV and marketing materials make commitments that no compliance system can effectively enforce, whether due to data requirements, system limitations or other reasons. When these materials undergo Compliance review, this "sanity check" should be a component.

What are best practices for creating allocation statements for aggregated orders? Is this best stored in an OMS?

Jane Stabile: Allocation protocols should be documented, and some systems will allow you to link to other documents from the compliance library. Some OMS (trading systems) allow traders to apply custom allocation algorithms to orders that seek to address issues that can arise when allocating prorata to accounts of different sizes. If your firm uses allocation algorithms, those calculations should be documented and your trading support team should test the algorithms on a regular basis to ensure that they conform with written policies.

Cross trading: What if you are not intended to cross trade but you need to trade a thinly traded security and one client has a cash withdrawal so you need to sell and new accounts needs to buy? Does this need to be documented as a cross trade?

Jon Gold: As long as your firm does not outright ban cross trading, it is imperative that written documentation from both clients is received and maintained. There is nothing inherently wrong with a cross trade that serves the interests of both buyer and seller, is consummated at a fair price to both, and can be defended by both written authorization and adherence to the Firm's Cross Trades policies and pertinent SEC statutes. In the case of a thinly traded security, it would also be advisable to have documentation of how the fair cross traded price was determined, such as an established yield relationship with a more active security.

Email: info@impconsults.com   Tel: 617-314-7415