Enforcing your designated brokerage policy

Discussion 3
What is a designated brokerage policy?

Policies are only as good as their enforcement—a simple observation, but one with universal (and often frustrating) truth. Companies know that writing and maintaining policies are only part of the equation. In order for the policies to succeed in protecting businesses and reducing undue risk, firms must rely on efficient implementation and strict enforcement. This second phase often presents the biggest challenge—holding the role of enforcer among colleagues is a serious and complex matter.

For financial and professional services firms with designated brokerage policies, one key obstacle to successful enforcement is the proliferation of exception accounts.

Why do exceptions happen?

Policies that focus on procedures within the confines of the work environment are straightforward. However, employee trading policies require a broader level of complexity because they govern personal activities outside of the workplace.

Many employees’ personal investing practices include unexpected nuances and unique circumstances. As a result, your policy may face challenges due to people that have unique financial situations. In most cases, employees have perfectly valid reasons to hold their accounts elsewhere. When an employee cannot be brought under the umbrella of the designated brokers, an exception account is born.

Allowing some exceptions does not harm the absolute integrity of your policy, but limiting them, where possible, can certainly make it stronger.

The TD Ameritrade Designated Brokerage Services Team is positioned to assist with the complex compliance reporting needs of financial and professional services firms like yours. Knowledgeable and experienced in the employee oversight business, we are eager to share best practices and insights that may fit your needs and those of your firm.
Reviewing your exceptions

Every firm has exception accounts, even those with the strictest policies. Some occur because an employee is using an account type or service not offered by your designated brokers. Other exceptions are related to longstanding relationships with financial advisors and portfolio managers. Regardless of the reason, each exception poses a business risk and therefore needs to be monitored and reviewed regularly.

When reviewing your exception accounts, consider the following:

- Are your exceptions in line with your current policy?
- Were any awarded without full consideration of your policy or the services available at your designated brokers?
- Are new products available from your designated brokers that nullify the need for any existing exceptions?

If the need for an exception seems ungrounded or no longer valid, targeted enforcement may be your most effective tactic. For exceptions in this category, let employees know that they need to move their accounts. Provide information about your designated brokers, including key contacts and any special offers that may be available. Even if you are able to move just a few accounts at a time, this can go a long way toward minimizing overall risk.

Another approach to reducing exceptions is to evaluate the services and products provided by your current designated brokers. If you commonly award exceptions due to unavailable products or account types, then you might consider adding to, or replacing, the brokers on your policy. You can minimize the need for many exceptions up front by working with only those brokers who provide the most complete range of services, and who can accommodate employees and colleagues at all investment levels.

Benefits of limiting your exceptions

Simply stated, firms enforcing designated brokerage policies—and actively minimizing exception accounts—can typically reduce possible exposure to both risks and costs. By actively monitoring exceptions (and perhaps choosing to work with fewer, more industry-savvy brokers), your compliance team may be able to control data quality at the outset. And you can be well positioned to respond to any inquiries or incidents. You can quickly detect and remediate violations and errors, and you can reduce any delays in data delivery that can occur with inconsistent reporting.

Fewer exceptions also means that your team may face less paperwork and fewer data points, which translates to fewer internal hours. With automated reporting systems, support and resource requirements are minimal. And you can greatly reduce on-site scanning and storage of paper statements and confirmations. In the event of an audit or investigation, you can have quick access to the information and reporting you need, as well as dedicated resources within your designated broker-dealer providers to assist your team.
Implementing and enforcing a designated policy

As with any policy implementation, support and endorsement from senior leaders within your organization will go a long way in contributing to the success of your program. Leverage your broker providers to help quantify any cost savings you might achieve, and ask them to provide concrete examples of how they have helped other firms with similar compliance requirements and risk profiles. When appropriate, invite them to meet with your team and other decision-makers in person to help you present the case for developing and instituting a policy.

Employee engagement is also critical to the success of your policy. Ask your brokers about commission discounts and special offers that may provide value-added benefits for your employees. And consider rewards for active participation in the program. Brokers may also be able to lend support in terms of marketing and communications to your employees to create awareness of both the policy and any unique offers or pricing available.

While policy alterations can be off-putting to some employees, changes like these are certainly more appealing and easier to support when they are packaged with exclusive benefits and high-level service.

Employee communications are also likely to be most effective at times when they are making financial decisions. Educate new employees about your program and any preferred broker options during new-hire training—they may think about their overall finances as they enroll in your 401(k) program or fill out their W-4. Work in step with your payroll cycle, bonus payments, or seasonally, as employees prepare taxes. Any of these events could naturally trigger the evaluation of personal financials and predispose an individual to consider transferring brokerage accounts to designated providers.

How TD Ameritrade can help

The TD Ameritrade Designated Brokerage Services Team is committed to providing compliance professionals with industry best practices and access to a knowledgeable, tenured service team. Our team understands the complexities of mitigating risk, the importance of streamlining reporting, and the necessity of providing employees with an exceptional trading experience—all while managing costs effectively in an increasingly challenging expense environment. We can work with you to craft a monitoring strategy that prepares your firm for the evolving regulatory climate, meets your compliance reporting needs, and complements the personal investment strategies of your firm’s valued employees.

What’s on your mind? Please contact your Strategic Account Manager to suggest a topic.
Call: 888-376-4682
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