Reviewing your employee trading policy

Discussion 2
Why review your employee trading policy?

As illegal trading cases continue to appear in news headlines, firms are constantly reminded of the importance of maintaining and enforcing employee trading policies. In best-case scenarios, policies protect firms from contributing to those headlines. In the worst case, with a current policy, firms can respond quickly and decisively to inquiries or investigations. Either way, firms with the most thoughtful and effective policies (as opposed to those that are simply collecting data) are generally best positioned to handle any situations that arise.

Whether required by regulatory bodies or self-imposed, your policies are in place to protect your business from undue risk. As you go through the annual review process, evaluate whether or not the policies fulfill their intended objectives appropriately. And you can weigh your policies’ effectiveness against new regulations, technology advancements, and your own business impacts.

Considerations when reviewing your employee trading policy

Here is a list of common questions to ask when testing your policies and procedures:

- Are you prepared to respond to an investigation?
- Can you improve your policy, increase efficiency, or promote better enforcement?
- If you rely on third-party support, are you confident in the response and level of support when you need it?
- Do you collect data from too many brokerage firms?
- Do you use a software vendor?
- Are you at risk for scattered data, inconsistent records, and out-of-date points of contact?
- Could you reconcile data from multiple firms during an audit or investigation?
- How do you handle exception accounts, and are you inviting additional risk and work for your compliance team?
A designated brokerage policy can be an effective tool to manage this process and reduce both regulatory risk and costs along the way. Firms with restricted policies ask their monitored employees to hold brokerage accounts at only designated broker-dealers. In most cases, the list is usually limited to just a few (typically less than four) nationally recognized or regional brokers with the capability to provide data and reporting to your firm.

**What are the benefits of having a designated brokerage policy?**

With an unrestricted or open policy, compliance departments generally have to manage employee trade data coming from various sources and in a variety of formats. In the best case, they accommodate multiple electronic feeds from an assortment of brokers—with varying levels of support and data security—with limited options for reconciliation and reporting aggregation.

And if firms only receive data feeds from some brokers, they also handle paper, and lots of it. Employees with active trading accounts can generate a staggering amount of paper in trade confirmations and statements—which need to be recorded, stored, and (most demanding of all) monitored. Sorting through mail, scanning and storing documents, and manual data entry can lead to increased costs for your team. And these activities can create unnecessary risk exposure for your firm in the form of missing or erroneous data. This highlights the importance of an automated solution to cover the bulk of your monitored accounts so that resources are available to manually manage the inevitable exceptions.

Simply stated, firms enforcing designated brokerage policies may be able to reduce both risks and costs. By choosing to work with a smaller set of brokers who meet your specific requirements, your compliance team may be able to control data quality at the outset. Select firms that are committed to this space, with the infrastructure and processes to capture and report on the critical data you need. With consistent, high-quality data, you can be proactive in your own compliance enforcement and be well positioned to respond to inquiries or incidents. You can quickly detect and remediate violations and errors, and you can reduce delays in data delivery that may occur with inconsistent reporting.

Fewer brokers typically translates to fewer internal hours needed to support this function. With automated reporting systems, support and resources 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. And dedicated resources within your designated broker-dealer providers can assist your team.
Implementing and enforcing an updated policy

As with any policy implementation or update, 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.

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.
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