Why implement a designated brokerage policy?

Discussion 1
A smart investing resource for employers, and employees.

As illegal trading dominates headlines, it’s no surprise that regulatory agencies—FINRA, the SEC, and the Department of Justice, to name a few—continue to point to insider-trading enforcement as a top priority for financial services firms. Broker-dealers and Registered Investment Advisors have traditionally been responsible for monitoring their employees’ personal trading activity. But now, even firms not falling under FINRA’s traditional jurisdiction (including accounting, consulting, and law firms) are electing to impose tougher standards on themselves. These firms are doing their best to stay ahead of future regulation by proactively preparing for situations in which conflicts of interest could arise, and, most importantly, by holding themselves accountable for maintaining the integrity of their workforce.

What is a designated brokerage policy?

Establishing a designated brokerage policy is a straightforward strategy for employers who wish to reduce risk and raise employee monitoring standards. These policies require monitored employees to hold brokerage accounts solely with designated broker-dealers. Each company can determine the breadth of broker choices it wishes to provide to employees; most choose to work with four or fewer national or regional brokers equipped to provide data and reporting. Many companies choose to start small, since it is generally easier to introduce additional brokers later than to remove previously selected designated brokers.

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.
What are the benefits of a designated brokerage policy?

- You may be able to reduce both regulatory risk and cost. If you choose this path, you’ll be free to select brokers that meet your specific requirements, which helps control data quality at the start of regulatory mandates.
- You will have an improved ability to be proactive in your own compliance enforcement, and be well positioned to respond to any inquiries or incidents.
- You can quickly detect and remediate violations and errors. And you can reduce the delays in data delivery that can occur with inconsistent reporting.

Fewer brokers typically translates into less paperwork and fewer data feeds, freeing up blocks of time and resources so your team can focus on other tasks. Support teams within your firm also benefit from fewer brokers:
- Legal may review fewer contracts and agreements
- IT resources can use automated, web-based systems that require minimal attention
- Administrative resources can reduce on-site scanning and storage of printed statements and confirmations

With a smaller core group of brokers, in the event of an audit or investigation, you have quick access to the information and reporting you need. And dedicated resources within your designated broker-dealer providers can assist your team. The result is a net gain in terms of operational efficiency and cost-effectiveness.

What are your risks without a designated brokerage policy?

Compliance departments with an open policy (the absence of a designated policy) must manage employee trade data as it arrives—in a variety of formats and from a variety of sources. Even in a best-case scenario, teams must accommodate multiple electronic feeds from an assortment of brokers with varying levels of support and data security. Teams also face limited solutions for reconciliation and reporting aggregation.

Those who are only receiving electronic data from a portion of the brokers they work with will also be required to handle paper, and lots of it. Employees with active trading accounts can generate a staggering amount of paper in trade confirmations and statements—all of which needs to be recorded, stored, and (most demanding of all) monitored. Sorting through mail, scanning and storing documents, and executing manual data entry are not only costly and time-consuming activities, but they can also lead to unnecessary risk exposure for your firm in the form of missing or erroneous data. This highlights the importance of having an automated solution in place to cover the bulk of your monitored accounts so that resources are available to manually manage the inevitable exceptions.
Implementing and enforcing a designated brokerage policy

Like any policy implementation, support and endorsement from senior leaders within your organization will go a long way toward 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. Call: 888-376-4682 Visit: tdameritrade.com/designatedbrokerage