Are your brokerage feeds putting your data at risk?

Exploring brokerage feed options
As a compliance officer, determining which brokerages to include in your personal trading policy is an important step in setting up your employee-monitoring program. One of the critical factors to consider is how each brokerage will deliver and handle your employees’ data.

While choosing brokerages that offer electronic transaction feeds is a good start, many firms find that this alone isn’t enough to curb inefficiencies and potential risk. Instead, firms can benefit from understanding the different types of electronic feeds—direct and indirect—and seeking to work with brokerages that offer the most effective option.

Many firms are finding that using direct brokerage feeds—consolidated electronic files sent directly from the brokerage—and lowering the total number of brokerages offered to employees can maximize efficiencies, reduce the potential for error, lower costs, and make it easier for employees to comply.
Understanding electronic data feeds

The type of electronic feeds you select can affect many aspects of your employee trade monitoring program, including the employee experience, compliance resource requirements, data quality, security, timeliness, and cost.

**Employee experience**

Employee-monitoring programs should be easy for employees to understand and navigate. The less obtrusive and demanding the procedures are, the better the employee experience will be, and the easier it will be for employees to comply.

Once established, direct feeds provide back-end communications sent directly from a brokerage to a firm’s compliance program. This simple, streamlined data-delivery method is nearly invisible to employees.

Direct feeds are typically established with the support of a blanket 407 letter, which means that after setup, notification is required only to add or remove accounts from a feed. This notification process is managed and controlled within the compliance department with little to no need for additional employee involvement. (Note: a small number of brokerages may still require employees’ consent.)

By contrast, indirect feeds put the burden of authentication on employees. Indirect feeds require employees to share their credentials, their online user name, and password at the onset of account disclosure. Employees may also be asked to re-authenticate their credentials based on the carrying firm’s security protocols.

A common example of this occurs when a brokerage firm makes a change to its platform or website, which may result in an indirect feed failure. At that point, employees who hold accounts at that brokerage must re-enter their credentials and may need to answer additional security questions before their data can be provided for compliance review. Compliance administrators and employees have no visibility into when financial institutions make these changes, so failures can happen at any time and must be corrected by the employee after the fact. This experience can be frustrating for employees and compliance administrators alike.

Because direct feeds send data straight from the financial institution to the employer, they aren’t as easily disrupted and are much easier to maintain. This means employees don’t need to worry about failures or the extra work of re-entering information to authenticate.

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**What are direct feeds?**

- Direct brokerage feeds are electronic data files sent directly from the carrying brokerage.
- The electronic data files include account transactions and holdings for all requested brokerage accounts for one firm in aggregated files.
- Direct feeds are available through a secure back-end connection.

**What are indirect feeds?**

- Indirect feeds provide front-end, read-only access to data for one account, through the brokerage’s online portal.
- The data files sent by indirect feeds are not aggregated.
- These feeds require employees to enter their personal credentials before their employer can access data.
Compliance resource requirements

Policies that use indirect brokerage feeds often require greater oversight by the compliance department, which acts as the first line of defense against failed feeds. This requires the department to work closely with employees to ensure data continues to flow.

In contrast, direct feeds provide a single, consolidated file for all employee accounts. Fewer employee requirements and issues result in fewer demands on administrators. With fewer feed management issues to handle, the compliance team gains time to focus on other important tasks.

Data quality

The type of information in indirect feeds can vary widely from brokerage to brokerage—which means that while indirect feeds are automated, the data they provide may be less than optimal because it is not standardized for consistency. Issues with data consistency may increase the time needed for the compliance team to reconcile data and can lead to:

- Non-uniform data symbology, especially for options
- Missing data fields, such as daily holdings
- Inconsistent receipt of dividends, reinvestments, and transfers

Direct feeds benefit from a more robust data set that allows data standardization, which results in a more consistent and reliable data exchange. This gives the compliance team greater insight and transparency, because they can feel confident that data is consistently available, and they can see what’s going on. By streamlining the data management process, the team can focus their attention on transactions that trigger alerts. This helps make problem identification and resolution faster, and the entire process more efficient.

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Security

Direct feeds do not require credential retention, while indirect feeds require that credentials are retained at third-party facilities. In either scenario, all data is encrypted and delivered securely.

Timeliness

For both direct and indirect feeds, electronic data is sent each night, usually reflecting activity from the previous business day. In a direct feed, all individual account data is batched into a single file for electronic delivery. Indirect feeds provide a separate file for each individual account—leading to many more files and less consistency in the data.

Cost

In addition, indirect feeds require an annual recurring, variable cost. This cost is based on the number of employee accounts. Direct feeds also necessitate an annual recurring cost, but the cost is fixed and does not depend on the number of accounts.
What about paper?

Although electronic data feeds represent best practices, many firms today still rely on paper statements and confirmations. Others take the middle ground by scanning paper documents and entering them into an electronic compliance system. Either way, paper-based data sources present considerable limitations, including added work for the compliance staff, increased risk of errors and security breaches, and challenges with timeliness and cost.

**Added compliance resources and cost**

Paper statements require considerably more compliance resources than either direct or indirect electronic feeds—from opening mail and reviewing each transaction against the employer’s trading rules to signing, dating, and filing each piece of paper. Some firms may also choose to scan each sheet and enter the data by hand into an electronic compliance system. Whether handled internally or by a third-party provider, a manual paper-based process incurs cost from added labor.

**Increased risk**

Paper statements heighten risk in several ways. If data is entered manually into a compliance system, errors may arise from omitting or mistyping information. Further, if transactions and holdings are not transcribed into the system, then there is no ability to run automated policy logic and no way to capture reporting data for review or audit purposes.

Additional risk arises during mail delivery, where statements may be damaged or lost. Even after successful delivery, statements may still be misplaced or mishandled. Further, employee privacy may be more easily breached through the existence and processing of paper statements.

If paper processing is managed by a third-party provider, then security concerns and potential issues are significantly increased by additional layers of handling, off-site storage, and processing by employees of an outside firm.

**Timeliness**

Paper records lag considerably behind electronic feeds when it comes to timeliness. Confirmations are received through the U.S. Postal Service 3 to 7 days after the trade date, and statements may be received 5 to 20 days after month’s end. These issues provide ample reason to consider adopting a designated brokerage policy that doesn’t rely on paper statements. By giving employees the opportunity to work only with brokerages that offer electronic feeds, you can greatly increase the security of your employees’ data while improving the overall experience for both employees and the compliance department.
Taking the next step: Reducing the overall number of feeds

Generally, direct feeds offer significant benefits to compliance officers and staff. However, it’s important to add that less is more. While some firms may allow their employees to hold accounts at any brokerage, many firms have found they can greatly improve the efficiency of their employee-monitoring processes and the integrity of their data by strategically reducing the number of brokerages they make available to employees.

**Consistent data**
When data from multiple brokers is consolidated through the use of direct feeds, there is still some potential for discrepancy and data inconsistency. By lowering the total number of brokerages providing direct feeds, firms can help improve the consistency of the brokerage data they receive.

**Lower costs**
The number of brokerages in a firm’s designated brokerage policy can also affect cost. The more brokerage relationships a firm has, the higher the internal cost of monitoring and oversight may be. For example, each brokerage relationship requires staff resources to manage multiple blanket 407 letters and add/remove employee accounts. And each requires staff resources to help manage the relationship and address issues if they arise. Firms can help reduce these costs by implementing a designated brokerage policy that offers direct feeds and by lowering the total number of brokerages offered.

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## Brokerage data feed options at a glance

When evaluating electronic feeds, it may be helpful to consider these key points.

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<th><strong>Direct feeds</strong></th>
<th><strong>Indirect feeds</strong></th>
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<tbody>
<tr>
<td><strong>Employee experience</strong></td>
<td>• Minimal employee involvement required</td>
<td>• Ongoing employee involvement required</td>
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<td></td>
<td>• Easily add and remove accounts as needed</td>
<td>• Potential regular and ongoing authentication process</td>
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<td><strong>Compliance resource requirements</strong></td>
<td>• One consolidated file for all employee accounts</td>
<td>• Multiple files for employee accounts</td>
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<td></td>
<td>• Fewer employee requirements and issues</td>
<td>• Compliance staff must provide ongoing support to help resolve employee account issues</td>
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<td></td>
<td>• Fewer demands on compliance staff time to manage data flows</td>
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<tr>
<td><strong>Data quality</strong></td>
<td>• More consistent data</td>
<td>• Higher possibility of missing data and/or data inconsistency</td>
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<td></td>
<td>• Easier to manage data exchange</td>
<td>• More time spent reconciling data</td>
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<td></td>
<td>• Less time spent reconciling data</td>
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<td><strong>Security</strong></td>
<td>• Employee credentials are not required, requested, or retained</td>
<td>• Employee credentials are retained at a third-party data aggregator facility</td>
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<td>• Data is transmitted through secure industry standard portals, such as SFTP and encrypted FTP</td>
<td>• Data is transmitted from a third-party aggregator through encrypted files</td>
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<td>• Any change might constitute a violation of broker account guarantees</td>
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<td><strong>Timeliness</strong></td>
<td>• A file of batched account data is sent each night for the previous day’s activity</td>
<td>• Nightly files are sent for each individual account for the previous day’s trading activity</td>
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<td>• Most data is received the business day following the trade date (T + 1)</td>
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<td><strong>Cost</strong></td>
<td>• One-time set-up cost</td>
<td>• No set-up costs</td>
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<tr>
<td></td>
<td>• Annual recurring, fixed cost (not dependent on the number of accounts)</td>
<td>• Annual recurring, variable cost (dependent on the number of accounts)</td>
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While there are many factors to consider when selecting which brokerages to include in your designated brokerage policy, the ability to provide direct feeds can be one of the most important. Schwab Designated Brokerage Services, part of our Compliance Solutions offering, was the first to offer direct brokerage feeds more than 20 years ago.

Through our experience, we’ve learned the importance of choosing the right solutions that will support your designated brokerage policy. As you consider your options, we can help. We’ll work with you to help you determine the approach and number of brokerages that best meet the needs of your firm and its employees.

Learn more
Interested in learning more about Compliance Solutions? Contact us today.

877-456-0777
schwab.com/compliancesolutions

About Compliance Solutions
Taking ownership of compliance means staying ahead of the regulatory landscape, seeing the big picture, and maintaining control. But it doesn’t mean doing it on your own. Compliance Solutions’ employee-monitoring offer includes Schwab Designated Brokerage Services, Schwab Compliance Technologies™ cloud-based employee-monitoring software, and a wide range of financial products and services for employees. These solutions can help you proactively manage compliance, promote a positive employee experience, build long-term value across your business, and instill trust with clients.