

Are your brokerage feeds putting your firm at risk?

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Take a strategic approach to selecting and approving brokerage feeds

As a compliance officer, determining which feeds 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—maximizes efficiencies, increases data accuracy, reduces the potential for error, lowers cost, and makes it easier for employees to comply.

Understanding the different types of feeds

What are direct feeds?

- Direct 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 access via the brokerage's online portal.
- These feeds require employees to enter their personal credentials before their employer can receive data.



Considering how electronic data feeds can affect a compliance program

The type of electronic feeds you select can affect many aspects of your employee-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 data 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 Authorization Letter, which means that after setup, notification is required only to add accounts to or remove them from a feed. This notification process is managed and controlled within the compliance department with little to no need for additional employee involvement.

In contrast, indirect feeds put the burden of authentication on employees. Indirect feeds require employees to share their credentials, online username, and password at the onset of account disclosure. Employees will be asked to reauthenticate their credentials based on the carrying firm's security protocols.

A common example of this occurs when a change is made to an online portal, which may result in an indirect feed failure. At that point, employees who hold accounts at that brokerage must reenter 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 reentering information to authenticate.

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 that 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. Reducing the number of feed management issues gives a compliance team more time to focus on other important tasks.

Does your data inspire confidence?

With the reliable data exchange of our direct feeds, your compliance team gains greater insight and transparency.

Streamlining the data management process enables you to focus on transactions that trigger alerts, resulting in more efficient troubleshooting.

But most importantly, you're never alone. The Schwab Compliance Technologies® Data Operations team is standing by to help resolve your data issues and keep your feeds flowing.

Electronic data feeds (cont.)

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:

- Nonuniform 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.

Security

Direct feeds do not require credential retention, while indirect feeds require that credentials be 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 added troubleshooting complexity.

Cost

In addition, indirect feeds typically require an annual recurring, variable cost. This cost is based on the number of employee accounts.

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By the numbers

For example, if your firm has 50 employee accounts at brokerage firm X, using a direct feed will give you one nightly file of all trading activity. In contrast, if your firm has 50 accounts at brokerage firm Y, which doesn't support direct feeds, you may have to gather nightly trading activity via 50 indirect feeds.



The drawbacks of 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 do 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. A manual, paper-based process incurs cost from added labor and is error-prone.

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, the firm will not be able to run automated policy logic or capture reporting data for review or audit purposes.

Additional risk arises during mail delivery, when 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 a third-party provider manages paper processing, security concerns and potential issues increase significantly because of additional layers of handling, off-site storage, and processing by employees of an outside firm.

Reduced 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 personal trading policy that doesn’t rely on paper statements.

By giving employees the opportunity to work only with brokerages that offer direct feeds, you can greatly increase the security of your employees’ data while improving the overall experience for employees and the compliance department.

A better option

A personal trading program that limits employees’ personal accounts only to brokerage firms that can provide direct data feeds is often the most efficient scenario, resulting in fewer demands on your time and less risk to your organization.



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 anywhere, 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 direct feeds, firms can help improve the consistency of the brokerage data they receive and reduce maintenance associated with personal trade monitoring.

brokerage relationship requires staff resources to manage multiple Blanket Authorization Letters and add or remove employee accounts.

Each brokerage relationship requires staff resources to help manage the relationship and address issues if they arise. Firms can help reduce these costs by implementing a personal trading policy that offers direct feeds and by lowering the number of brokerages offered.

Lower costs

The number of brokerages in a firm's personal trading policy can also affect business. The more brokerage relationships a firm has, the higher the internal cost of monitoring and oversight may be. For example, each

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Brokerage data feed options at a glance

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

	Direct feeds	Indirect feeds
Employee experience	<ul style="list-style-type: none"> Minimal employee involvement required Ability to easily add and remove accounts as needed 	<ul style="list-style-type: none"> Ongoing employee involvement required Potential regular and ongoing authentication process
Compliance resource requirements	<ul style="list-style-type: none"> One consolidated file for all employee accounts Fewer employee requirements and issues Fewer demands on compliance staff time to manage data flows 	<ul style="list-style-type: none"> Multiple files for employee accounts More demands on compliance staff time to provide ongoing support and help resolve employee account issues
Data quality	<ul style="list-style-type: none"> More consistent data Easier-to-manage data exchange Less time spent reconciling data 	<ul style="list-style-type: none"> Higher possibility of missing data or data inconsistency More time spent reconciling data
Security	<ul style="list-style-type: none"> Employee credentials not required, requested, or retained Data transmitted through secure industry standard portals, such as SFTP and encrypted FTP 	<ul style="list-style-type: none"> Employee credentials retained at a third-party facility Data transmitted from a third party through encrypted files
Timeliness	<ul style="list-style-type: none"> A file of batched account data sent each night for the previous day's trading activity Most data received the business day following the trade date (T + 1) 	<ul style="list-style-type: none"> Nightly files sent for each individual account for the previous day's trading activity Most data received the business day following the trade date (T + 1)
Cost	<ul style="list-style-type: none"> Typically free, unlimited feeds 	<ul style="list-style-type: none"> Typically no set-up costs Annual recurring, variable cost (dependent on the number of accounts)

How Compliance Solutions can help

When Schwab created Schwab Designated Brokerage Services™ more than 20 years ago, we became the first brokerage to offer direct feeds. Through our experience, we've learned the importance of choosing the right solutions that will support your designated brokerage policy. While there are many factors to consider, the ability to provide direct feeds can be one of the most important. As you consider your options, we can help.

As a Compliance Solutions client, you're able to offer employees preferred access to a wide range of investment products, managed investing solutions, and advice services.

Using Schwab for these accounts and Schwab Compliance Technologies® for your compliance automation needs allows you to proactively monitor employee trades and help prevent mistakes before they occur. Plus, your employees gain access to deposit and lending from Charles Schwab Bank® and, based on their overall relationship with Schwab, may qualify for preferred pricing on lending products.

We'll work with you to help you determine the approach that best meets the needs of your firm and its employees.

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, cloud-based employee-monitoring software from Schwab Compliance Technologies, 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.

Learn more

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

 **877-456-0777**

 **Talk to your Relationship Manager**

 **schwab.com/compliancesolutions**

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