

Considerations when creating a more effective personal trading policy

How a defined designated brokerage policy could reduce risk and save time

With the multiple challenges compliance officers face today—such as keeping up with rapidly increasing workloads while formulating new employee-monitoring strategies—it is not surprising that more and more, compliance officers are considering the potential benefits of refining their designated brokerage policies to address cost, risk, and employee engagement.

Compliance professionals usually cannot prevent employees from purchasing individual securities or require employees to maintain their securities accounts in a blind trust. That is simply not realistic. However, what they can do is adopt reasonable policies and procedures to allow them to take control of what is within their reach. Defined designated brokerage policies fall into this category, and compliance officers who have established them are finding them to be an effective tactic in helping regain control in an often hectic, demanding environment.

Taking control

A defined designated brokerage policy requires employees to hold their personal accounts with a limited number of specified brokerage firms. By narrowing the number of brokerage firms with which a company's employees work, the time it takes to detect and resolve employee trading issues is reduced to typically trade date +1. Paper statements and confirmations are also significantly reduced or even eliminated in some cases. Overall, the amount of time spent managing multiple brokerage relationships can be greatly reduced.

Another potential benefit of a defined policy is lower risk exposure gained by more efficient data management, which minimizes potential breakdowns in electronic feeds. Automated data sources usually provide compliance professionals with access to an electronic repository to meet books and records requirements. Automated data sources also allow faster access to evidence supervision, data, and reporting in the event of an audit or investigation.

The net result of these benefits is resource and cost savings. Reducing the number of designated brokerages can be a key strategy in removing costly inefficiencies in compliance processes.



By Tracey Straub

Tracey Straub, managing director of Compliance Solutions, has more than 20 years of experience in the financial services industry, working for several large brokerage firms and RIAs. His past experience includes roles in compliance, risk management, branch examinations, and technology, as well as professional development, marketing, and strategy.

Straub has held several securities registrations, including the Series 8, 24, and 53, and holds a bachelor of science in business administration from the University of Nebraska.

Finding the right fit

Choosing which brokerages to include in a personal trading policy is an opportunity to determine the boundaries of a company's trading environment. The following considerations are some important ways that can be used to evaluate brokerage candidates.

Electronic vs. paper

A primary motivator for compliance officers to define a designated brokerage policy is the opportunity to maintain accounts only with brokerage firms that are able to provide a daily electronic data feed of transactions and holdings. Narrowing the scope of candidates to include only brokerages that offer electronic feeds eliminates a major source of manual work and bottlenecks.

Number of brokerages

In terms of efficiency, naturally the fewer brokerages a company works with, the more likely the aforementioned benefits are realized. An exclusive policy with a single brokerage firm offers the potential for the most efficiency relative to an open policy.

Employee engagement

Policy changes often require a period of adjustment for employees. Another important criterion to determine the overall best policy for the company and its employees is which brokerage offers a wide range of products and services to meet employee needs and help them manage their financial goals throughout their lives. Providing employees with access to a full-service brokerage that is focused on client experience and sensitive to the adjustment process can help ease the transition.

Next steps

Both compliance staff and senior management are typically involved in helping to shape a defined brokerage policy. Many companies already have a small number of firms that maintain a majority of employee accounts. A company's business model and product offerings may impact the process even before the evaluation begins.

During the evaluation, companies should consider asking candidate brokerages about the level of support they can provide during the transition process. Some brokerages may be able to provide materials or other informational resources to help compliance departments communicate to employees the financial options and other additional benefits, such as preferred pricing, associated with the transition.

As with any procedural or policy change, a new or revised defined designated brokerage policy will most likely take a few months to fully implement and require patience. Companies need to work closely with existing employees to ensure they understand their options and how to transition. Orienting new hires is usually easier and is an opportunity to instill the benefits of the new policy at the beginning of employment. Although transitioning can present some challenges, in the end, companies find that effective and efficient personal trading policies are well worth the time investment and contribute to a much tighter, controlled environment.

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