



# Trade Surveillance Systems: Navigating the Requirements for a Successful Implementation

April 8, 2015

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## Introduction

- As part of supervision and control obligations, broker dealer, investment, and other financial organizations are expected to proactively monitor activity and potential market abuse and deceptive trading practices.
- Heightened scrutiny in today's regulatory environment means that it is no longer sufficient to rely on legacy systems.
- Meeting the expectations of regulators and heading off potential compliance issues demand the use of robust trade surveillance.
- Implementing and maintaining systems in an effective and efficient manner requires detailed planning and the synthesis of compliance, regulatory, and technology domain knowledge and expertise.
- A successful implementation avoids delays, rework, and budget overruns and helps see that the implementation meets regulatory expectations.

## Webinar Objectives

- Identify trade surveillance market trends and regulatory expectations.
- Review considerations when planning and selecting a trade surveillance solution.
- Recognize common system implementation challenges.
- Define critical success factors for a successful trade surveillance implementation.

## Polling Question One

Which choice below most accurately describes your firm's status on trade surveillance implementation?

- a) We are considering a replacement/upgrade.
- b) We are starting to explore options.
- c) We plan to replace/upgrade more than a year from now.
- d) We have no plans to replace or upgrade.
- e) Unsure/don't know.

# Trade Surveillance Trends and Regulatory Expectations

- Common Limitations
  - Fragmented views
  - Reliance on manual surveillance or sampling
- Data Requirements and Scalability
  - Increase in market data feeds
  - Pre-trade/near-real time vs. T+1 alerting
  - Integration of client account information and trade activity
  - Alignment of data for global compliance
- Global Trade Monitoring
  - Cross-border rule compliance
  - Cross-asset/product class-based reviews

## Trade Surveillance Trends and Regulatory Expectations

- Proactive Pre-Trade and Near-Real-Time Monitoring
  - Regulator examination focus on proactive supervisory programs and controls.
  - Automated post-trade surveillance.
  - Pre-trade employee and customer surveillance.
  - Behavioral analysis and pattern recognition can identify potential violations before the trades are processed.
  - Employee monitoring
- SEC - Center for Risk and Quantitative Analytics
  - <http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171624975>
  - <http://www.wsj.com/articles/meet-the-secs-brainy-new-crime-fighters-1418601581#livefyre-comment>

## Polling Question Two

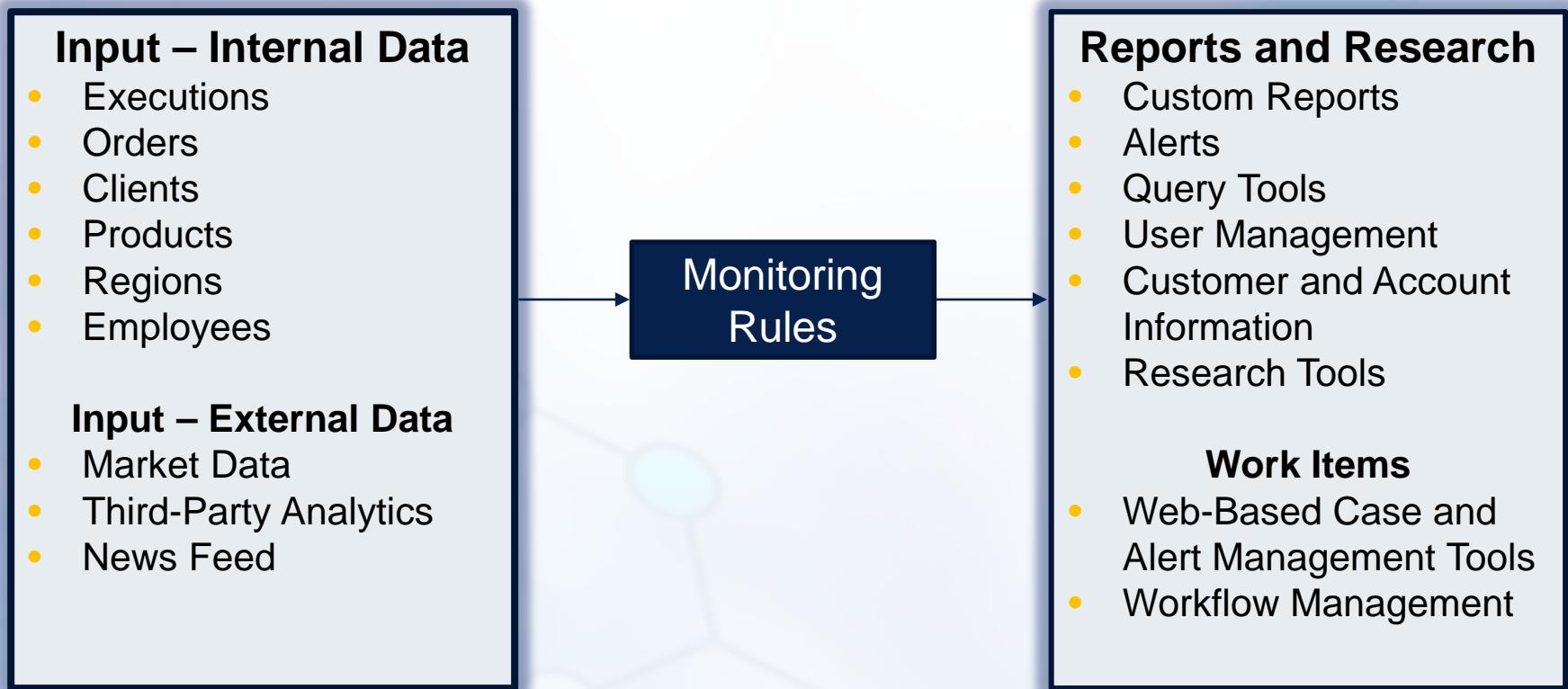
When planning for a system implementation of a trade surveillance solution, which of the following is most important to you and your firm?

- a) Satisfying all regulatory requirements
- b) An outsourced versus in-house solution
- c) The cost of the solution
- d) Time and effort to implement
- e) Unsure/don't know

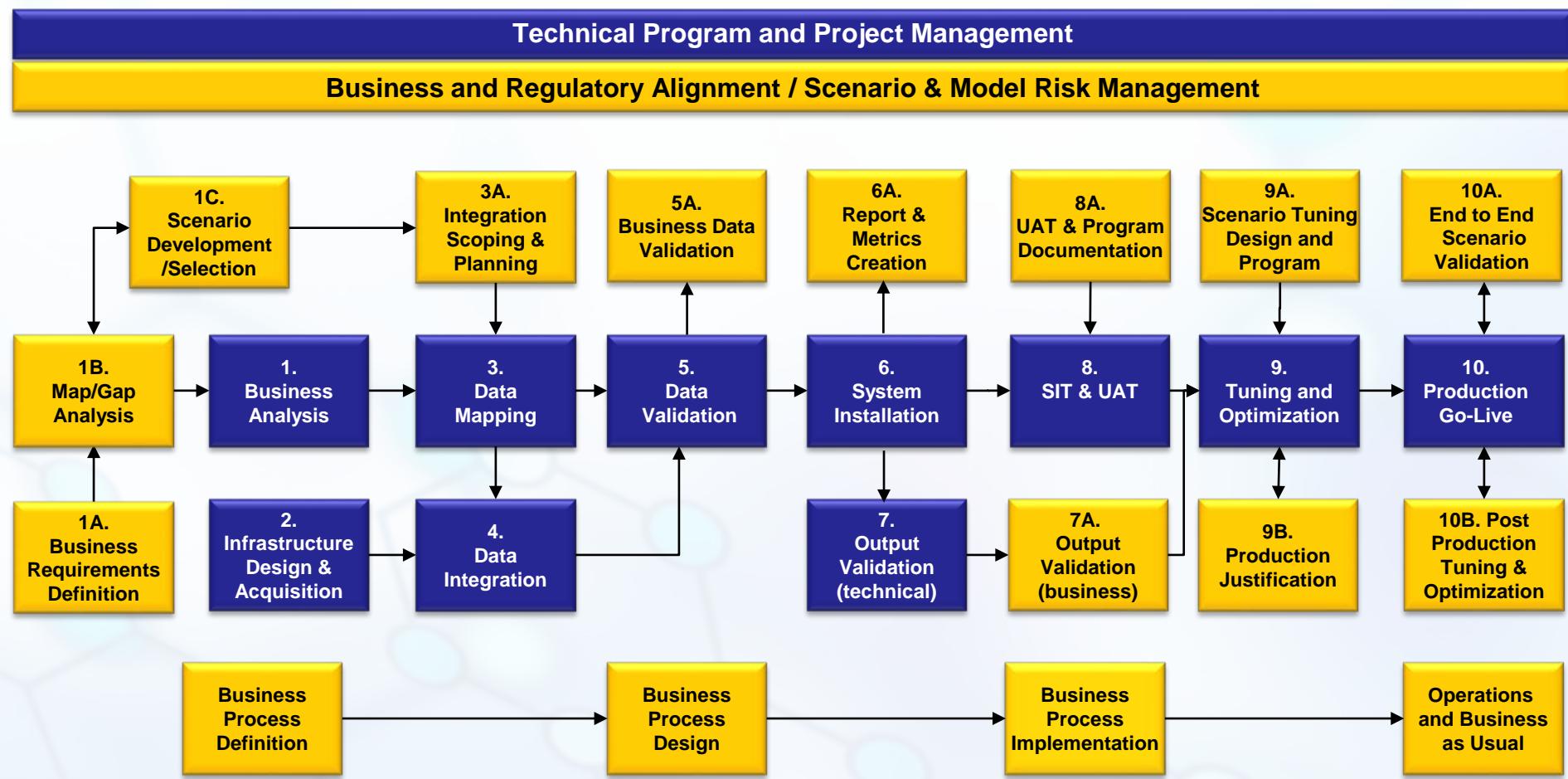
## Planning for a System Implementation

- Factors to Consider in the Planning Stage
  - Building versus buying a vendor solution
  - Satisfaction of regulatory requirements
  - Functionality
  - Efficiency
  - Flexibility
  - Capacity/scalability
  - Maintenance and support
  - Cost and budgets

# Trade Surveillance System Overview



# Trading Surveillance System Implementation: Integrated Approach



## Polling Question Three

What do you feel is your biggest implementation challenge?

- a) Aligning the needs of your stakeholders
- b) Internal resource limitations
- c) Deciding which surveillance scenarios to implement
- d) Sourcing the necessary data
- e) Tuning and validation concerns
- f) Unsure/don't know

## Common Implementation Challenges

- Involvement of Business and Compliance
  - Alignment to compliance goals
  - Compliance practices and processes
- Model Selection
  - Making and supporting selections
  - Seeing that selections promote risk-based compliance
- Data Sourcing
  - Disparate sourcing by business and type of data
- Understanding the Data
  - Extracting, transforming, and loading
  - Understanding master and sub-account relationships

## Common Implementation Challenges

- Capturing Holistic View of Customers' Activity
  - Including products and asset classes
  - Surveillance across multiple platforms
- Data Validation
  - Currency conversion issues across global hubs
  - Missing or incomplete execution times
- User Testing
  - Verifying that user testing is in line with the requirements of each product monitoring group

## Common Implementation Challenges

- Resource constraints
  - Competing business-as-usual activities
  - Time to effectively support the implementation
- Scenario Calibration
  - Reasonability of design
  - Documented configurations and calibrations
- Confirming That Regulatory Objectives Are Satisfied

## Polling Question Four

After discussion of the challenges that many face when implementing or upgrading a trade surveillance system, what do you feel your biggest challenge might be?

- a) Aligning the needs of your stakeholders
- b) Resource limitations
- c) Surveillance scenario selection
- d) Sourcing the necessary data
- e) Tuning and validation
- f) Unsure/don't know

## Critical Success Factors

- Defining the Process
  - Stakeholder involvement
    - Partnership of business, compliance, and technology
  - Effective coordination with vendors and other third parties
  - Sufficient resource allocation
  - Project management
- Knowing the Design
  - Change management processes
  - Ongoing assessment of the impact of new regulations
  - Performance and tracking of coverage assessment

## Critical Success Factors

- Documentation
  - Multiple and ongoing reconciliation of data and scenarios
  - Fully documenting the implementation process
  
- Integrating to Business as Usual
  - Updating policies and procedures
  - Training users on the new system

## Conclusion

- In today's regulatory environment, it is ***critical*** to have a robust and effective trade surveillance system that provides for ***trade monitoring, case management, and statistical tracking*** to reduce regulatory compliance risk.
- Legacy systems might not be sufficient, especially if they were not selected, configured, and documented with today's regulatory expectations in mind.
- A trade surveillance system implementation is a complex endeavor that requires alignment and coordination of compliance, business, and technology stakeholders and comes with many inherent constraints and challenges.
- Challenges can be overcome through proper planning and execution by team members who have had experience with the regulatory requirements, technology constraints, and knowledge of common pitfalls.

## Questions



## Contact Information

**Tapan Shah** is a principal with Crowe Horwath LLP in the Chicago office.  
630.586.5113  
[tapan.shah@crowehorwath.com](mailto:tapan.shah@crowehorwath.com)

**Mike Ionescu** is with Crowe in the New York office.  
212.751.8206  
[michael.ionescu@crowehorwath.com](mailto:michael.ionescu@crowehorwath.com)

**Nicole Guiffra-McQuaid** is with Crowe in the Chicago office.  
630.990.4429  
[nicole.guiffra@crowehorwath.com](mailto:nicole.guiffra@crowehorwath.com)

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