



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

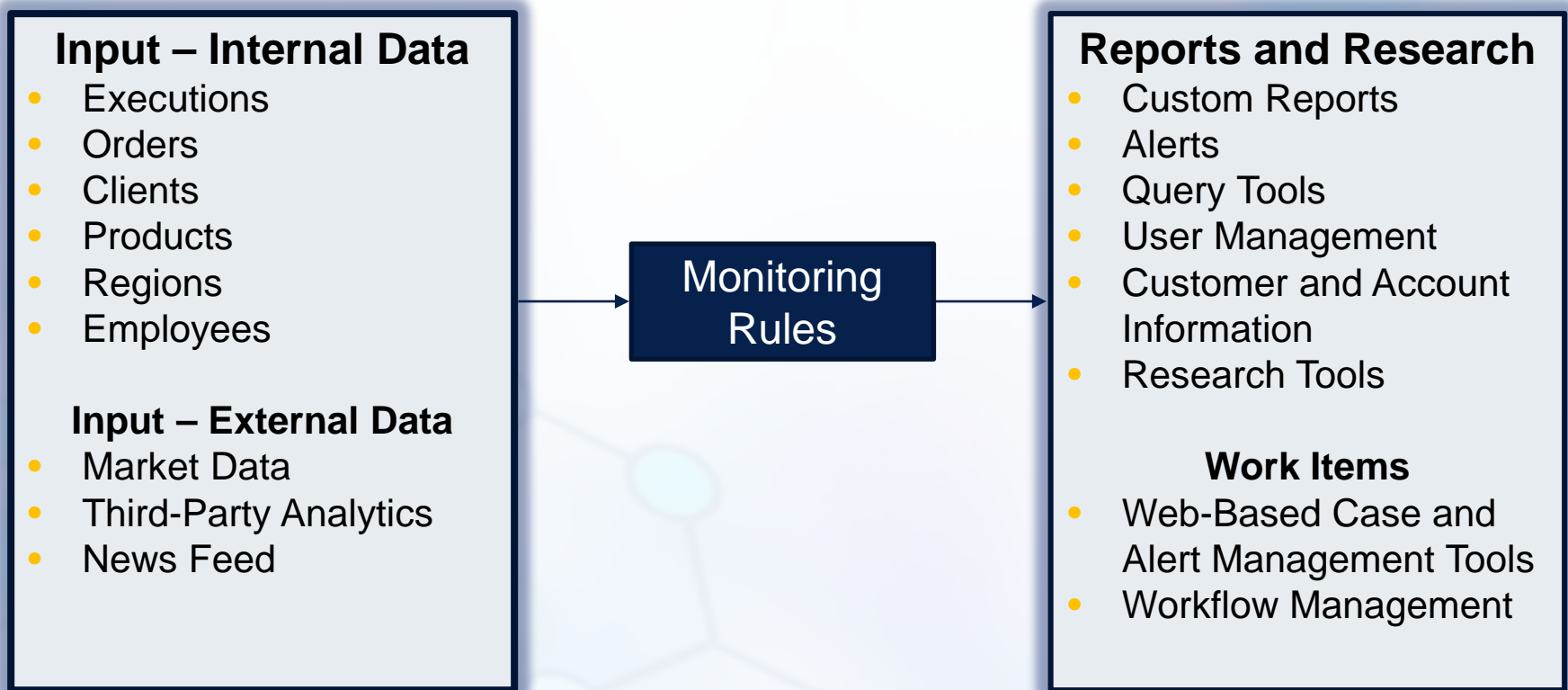
When planning for a system implementation of a trade surveillance solution, which of the following is most important to you and your firm?

- 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

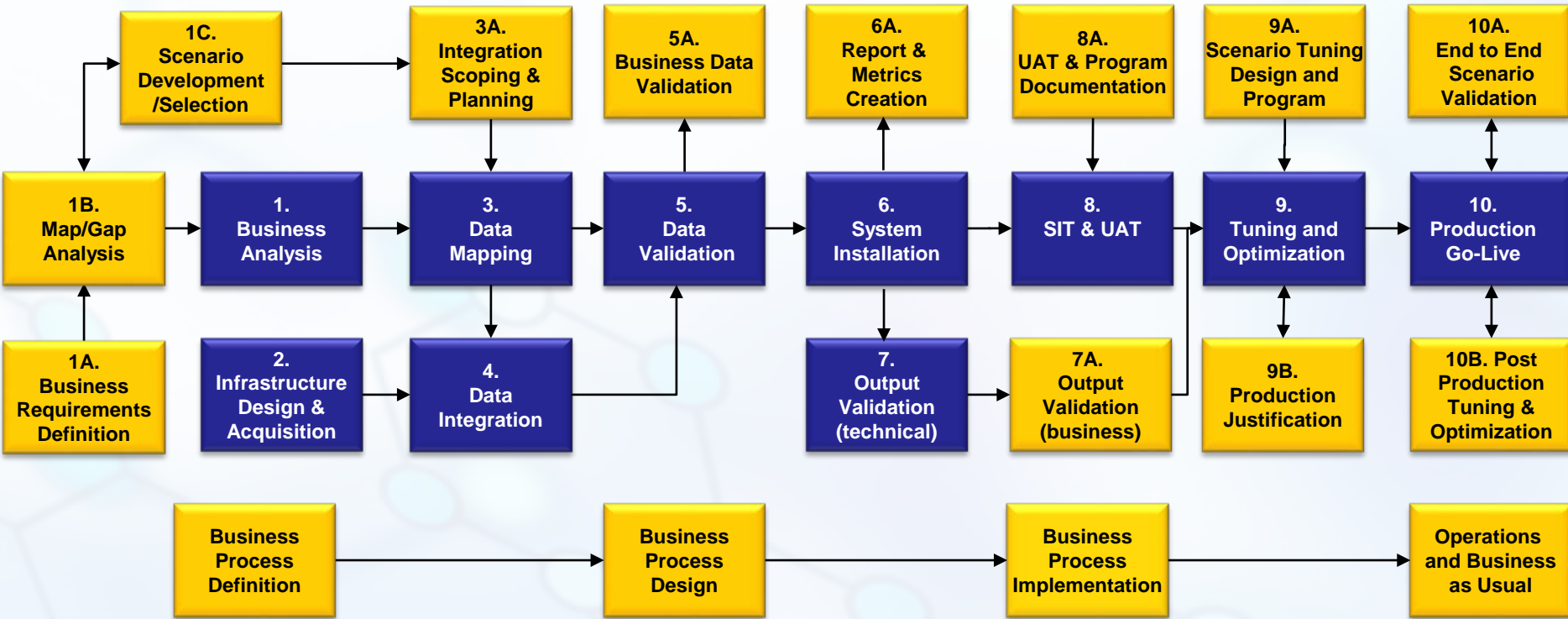
Trade Surveillance System Overview



Trading Surveillance System Implementation: Integrated Approach



Business and Regulatory Alignment / Scenario & Model Risk Management



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



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