

AIMA Fund Manager Briefing

The practical challenges of multi-asset trade & communications surveillance

Presenters

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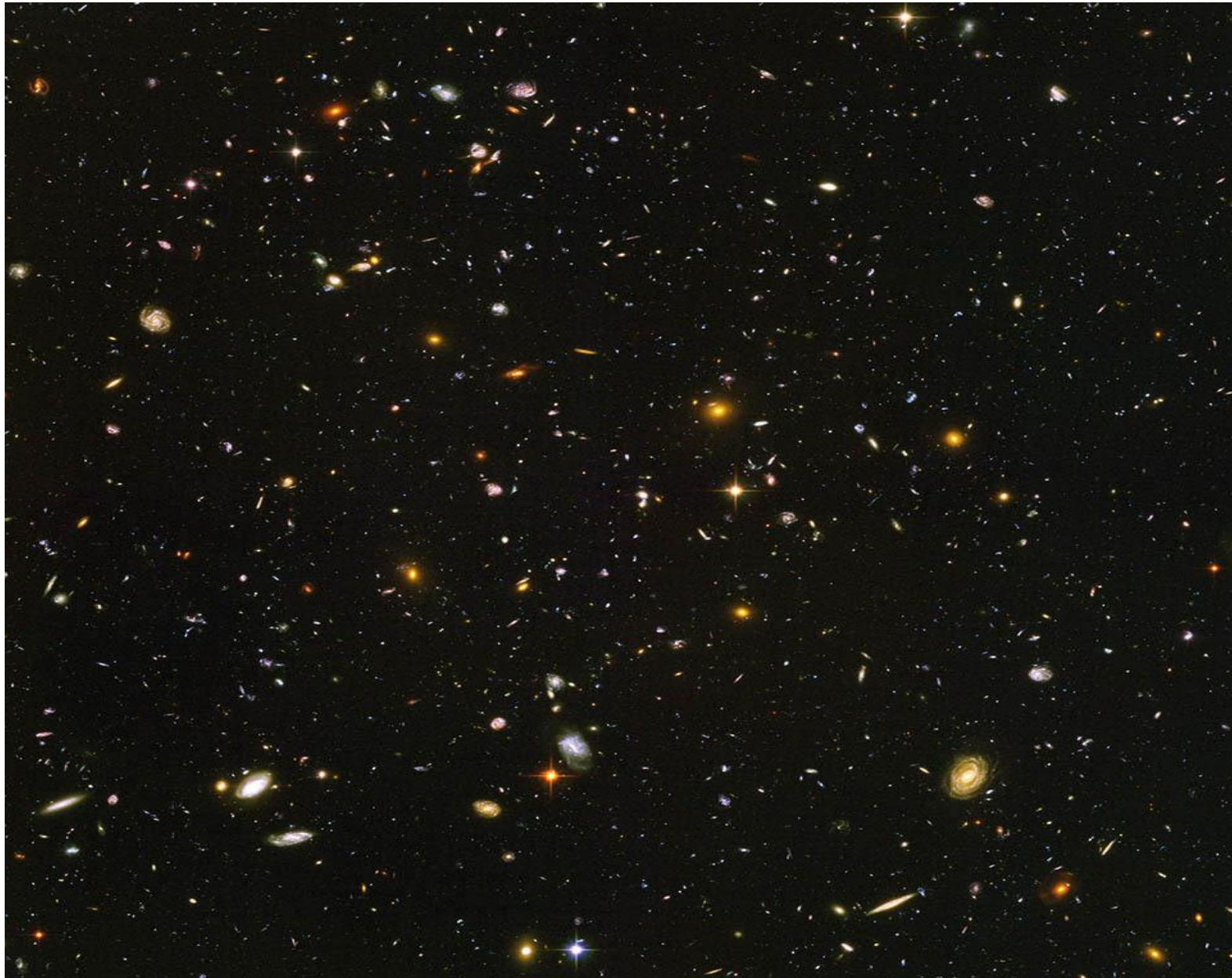
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Contents

The purpose of this fund manager briefing is to give an overview of the key challenges and practical solutions facing the buy-side with regards to their surveillance process.

Starting at 30,000ft and looking at the regulatory environment, all the way down to answering questions around how to build a connected surveillance program for equity, fixed income and multi-asset strategies.

- Regulatory Update: MAR recap, risk assessments, PAD
- Technology themes affecting the surveillance process
- How technology can practically help in trade & comms surveillance
- Summary
- Q&A



How do I know my Surveillance process is good enough?

No surveillance process will ever be perfect, so the task becomes building a sound and demonstrable process that can withstand scrutiny from investors, colleagues and regulators alike.

As scrutiny from investors and regulators increases, compliance teams are left pondering “how do we know our process is good enough?” As regulation and the firm’s trading changes over time, the question becomes “how do we keep our processes good enough?”

Regulatory update

- Demonstrate risk assessments are calibrated to market and asset classes (*more on this*)
- Surveillance process must be demonstrably relevant and appropriate to your firm
- Access to information beyond “need to know” e.g. wall crosses or M&A
- Incorporating the monitoring of telephone recordings into surveillance program
- Focus on monitoring Fixed Income; black box approach not satisfactory
- FCA 2019: Leverage technology to manage regulatory and data burden
- Personal Account dealing falls into 3 categories
 - Request and approval (standard)
 - Proactive monitoring on internal systems (intermediate)
 - Proactive monitoring on external systems (highly advanced)

Simplifying Surveillance

RISK

Bottom up risk
assessment

- Identify units of risk
- Link the policies to processes
- Unique size, scale and scope of your firm

POLICY

Align risk to policy

- What policies do you have and why?
- Which policies have processes and why?
- How are the processes maintained, evolved and refined?

PROCESS

Design & implement
surveillance
framework

- Robust
- Reliable
- Repeatable
- Reportable

SIMPLIFY

Put into a single
system

- Rule generated alerts
- Policy documents
- Written processes
- Full audit trail for documents, rules and any systematic changes
- Comms & trade surveillance in one

Tech themes related to surveillance

- Regulatory bodies: make the black box see through
- Reduce false positives
- Manage data efficiently
- Reduce the impact on the front office
- AI & Machine learning – where does it make a difference? (more to follow)
- Connecting the surveillance process – end to end

AI & Machine Learning

Combining trade & ecomms surveillance

- In post analysis – parameterising supporting data (and auto matching relevance)
- Quicker time to build and review cases - automating repetitive manual tasks
- Replacing manual search with suggestion / recommendation
- Automatically linking related activities between trade, comms and market data
- Better decision making when combined with human oversight

Pre and post alert

- Greater accuracy to minimize false positives
- Feature identification / anomalies / trends

Efficiency

- Learning loop for case training

But before you start

Make sure you do the simple things first

- E.g. reversing out sector movement will have a huge impact on trade false positives
- Focus on getting your coverage right (assets + supporting data)
- Start monitoring volume & process resolution time **today** (for cumulative flow)

Then

Start small and iterate

- Which components would benefit you most

E.g.

- small firm low trading volumes – start with combined approach
- larger firm lots of f/o – start with trading, trends, anomalies
- larger firm, low trading volume – look at efficiency

Connecting the Surveillance Process

1. How connected are your various systems for comms, trade and supporting data?
2. How available is the data to you?
3. How fast can you retrieve data?
4. How do you track investigations across the firm?
5. How suitable are the rules you use to your firm?
6. How complete and suitable are your policies?
7. How good are your outputs?

Connecting the surveillance process

Questions	Under Prepared	Could be better	Most effective
1. How connected are your various systems for comms, trade and supporting data?	Not connected at all. Time wasted putting things together; things are missed)	Trade is added to market data and/or all e-comms in one system	All systems are fully connected, trade rules can automatically find related comms, and market data and internal data is added seamlessly supported by manual search

Connecting the surveillance process

Questions	Under Prepared	Could be better	Most effective
2. How available is the data you need?	I have to ask my IT department for help to get comms and specific data	I have a separate vaulting tool, but can query it if I need (slow & expensive)	I have everything in one place and can pull things I need and make connections based on an improved understanding

Connecting the surveillance process

Questions	Under Prepared	Could be better	Most effective
3. How fast can you retrieve data?	I usually have to wait at least a day	Mostly fine, but occasionally need to listen to a lot of voice calls	I can query all my data “on the fly;” retrieve and export in a single collection at the click of a button

Connecting the surveillance process

Questions	Under Prepared	Could be better	Most effective
4. How do you track investigations across the firm?	Manually, if at all	In a combination of email and excel	All discussion on a case is automatically added back to the case log as supporting information and tagged for instruments, people and themes

Connecting the surveillance process

Questions	Under Prepared	Could be better	Most effective
5. How suitable are the rules you use to your firm?	I use out of the box rules for trade and lexicons for comms	I tuned my rules by eye in the last 12 months	I have a fully back-tested and audited set of rule parameters, tailored by firm, team and asset class

Connecting the surveillance process

Questions	Under Prepared	Could be better	Most effective
6. How complete and suitable are your policies?	I manually maintain our firm's policies in Excel and Word	I periodically review all my policies and bring people in when required	My policy management is fully electronic, versioned and automatically shared with the rest of the business as appropriate. Changes and feedback are tracked and stored alongside final rules for validation

Connecting the surveillance process

Questions	Under Prepared	Could be better	Most effective
7. How good are your outputs?	I rely on multiple systems, manual reports and excel	I have one system for ecomms, one for trade surveillance and some additional manual processes	My reporting is connected across the whole business, I can show aggregate data for management all the way down to individual narratives for specific cases - at the click of a button. Case detail contains everything I need from communications, trade & market and internal data with no extra effort

Summary

1. Demonstrable, robust and repeatable approach to surveillance that stands up to any scrutiny from regulators, investors and internally – remove the black box
2. Connect workflows across the following areas of your surveillance program
 - Alert investigation, case management, reporting, ad-hoc search, IT management, front office interaction
3. Technology should reduce overhead and inefficiencies in spite of regulatory oversight
4. Make use of data more than once; learn from it, re-use it

Make sure you have an answer of Yes to the first two questions on slide 3 - “is this good enough” and “will it remain so.”

Q&A



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