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# AUTOMATING EMPLOYEE SURVEILLANCE & COMPLIANCE

*Utilizing an Integrated  
Employee Compliance  
Management Solution*

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# UTILIZING AN INTEGRATED EMPLOYEE COMPLIANCE MANAGEMENT SOLUTION

*By Chris Aronis, Vice President, Protegent PTA, SunGard*

Compliance has leapt to the forefront of every financial services firm's critical requirements list. Many recent high-profile regulatory actions have centered on employee personal trading, calling into question the ethics of personal trading, as well as firms' ability to control these practices.

To date, the monitoring of employee personal securities trading has been a largely manual process using spreadsheets, emails and paper forms, making it difficult to produce reports demanded by regulators in the event of an audit, as well as to view and analyze trends in employee trading behaviors. As a result, firms often find themselves constantly playing catch-up, dedicating time and resources to the task while still remaining significantly exposed to violations.

In a time of investor uncertainty, it is imperative for financial services firms not only to satisfy requirements of the SEC, NASD, FSA and other global regulatory bodies, but also to project an image of ethical behavior and integrity to preserve investor trust. Failure on either count can lead to disaster in terms of fines, class action suits, and investor withdrawals.

Financial services firms have an opportunity to centralize, streamline, and more tightly manage employee-based compliance processes and related activities. Through automation, firms can mitigate risk while achieving a clean, intuitive, and well-documented monitoring process that satisfies regulatory, ethical, and technical requirements.

## THE COMPLIANCE CHALLENGE

Requirements for personal trading compliance focus on three key areas: transaction pre-clearance, broker confirmations, and documentation. There are a host of rules and mandates that fall under these umbrellas, such as de minimis rules, minimum hold periods, blackout periods, and restricted/watch lists.

Compliance personnel face a series of challenges in just gathering data on employee brokerage accounts and personal transactions, much less monitoring and analyzing the activity. While the global regulatory bodies have expanded the policies governing personal transactions and increased their requirements for recordkeeping, the processes and technologies traditionally employed to address these needs have often lagged behind.

Among the main compliance rules and requirements for employee trading are SEC Rule 17j-1, SEC Rule 204A-1, and mandates by most financial institutions for employees to have duplicate brokerage statements and transaction confirmations sent to the firm.

## SHORTCOMINGS OF COMMON METHODS

Employee personal trading compliance is generally managed in one of three ways currently: manual, form-based processes, pre-clearance spreadsheets, and proprietary systems developed, maintained and supported by IT.

Form-based and spreadsheet methods limit compliance to a reactive process, as they restrict the ability to perform trend analysis and audits or to run reports. IT challenges of developing and maintaining proprietary in-house systems can be costly, time-consuming and difficult to scale with changing requirements. Integrating a variety of in-house and external systems with manual processes also creates a formidable task.

Beyond the technical and procedural issues facing personal trading compliance is the challenge of modifying employee behavior. In short, personal trading compliance is viewed as a hurdle and there is limited incentive for employees to complete the process beyond fear of disciplinary action.

## AUTOMATING EMPLOYEE COMPLIANCE

A centralized, automated employee compliance management solution can maximize the effectiveness and efficiency of the compliance process, while significantly reducing costs and resource requirements. It helps compliance personnel to reduce the manual processes and paperwork traditionally associated with employee compliance, streamline workflows and introduce more consistency and continuity to day-to-day procedures.

### **Ease of use**

Through a familiar, browser-based interface, an automated employee compliance system would provide the employee an effective means for initiating and tracking transaction pre-clearance requests, reviewing compliance notices and actions specific to their accounts, responding to compliance inquiries.

### **The power of rule sets**

User, group or entity level rule sets help to give compliance departments greater control and visibility over employee trading activity. By applying easy to configure regulatory and code of ethics rule sets governing employee behavior, questionable or forbidden practices are prevented.

### **Streamlining every aspect**

The system streamlines virtually every aspect of employee compliance, thereby eliminating paperwork, providing an approval workflow, generating analysis and trends based on rule sets, alerting compliance about problems, and maintaining a detailed history for reporting, audits, and trend analysis.

By centralizing all of these functions into a single application, it provides a single comprehensive point of management for compliance processes, and also limits the number of systems employees must learn and access.

### **Trend analysis**

The ability to store and recall all historical transaction data on-demand for reports and custom queries enables compliance to view not only basic history, violation and exception reports, but also to perform trend analysis to identify and monitor questionable behavior before it becomes an issue.

## CONCLUSION

Regulatory mandates in employee compliance are growing more complex as financial institutions face more scrutiny than ever before. Managing personal trading transactions, certifications, disclosures and incident reporting are all critical requirements to remaining in compliance with these new, strict regulations. The traditional manual methods of managing these extensive workflows is struggling to keep up with the pace of change, forcing compliance departments to look for new ways to minimize the time, resources and expense of these processes while maximizing their efficiency and effectiveness.

An integrated, automated employee compliance solution can help provide a comprehensive, centralized mechanism through which to maintain broad visibility and strict control over employee compliance processes. Such a solution would provide a powerful yet intuitive process for employees to manage their personal transactions and compliance duties, while giving compliance the power to monitor and proactively prevent regulatory and/or corporate code of ethics violations. The end result is a streamlined, efficient workflow that greatly reduces strain on compliance and IT resources, while significantly reducing corporate, employee and investor exposure.

[www.sungard.com/protegent](http://www.sungard.com/protegent)

For more information:

Tel: (801) 955-6100

Fax: (801) 982-9777

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