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Broker and Trading Compliance: Make Your Investment Pay Off
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Executive Overview

Financial services organizations throughout the world are under growing pressure as they face new types of fraud and financial crime as well as increased regulatory requirements. Many are finding that their financial crime and compliance (FCCM) environments—often consisting of a siloed set of point solutions—simply cannot measure up. This includes their capabilities for broker and trader compliance—areas garnering increased scrutiny in recent years.

Today’s financial services institutions require a new approach: one that provides enterprise-wide visibility via a unified platform; delivers comprehensive surveillance, detection, analytical, and reporting capabilities; and most importantly, lays the groundwork for incident prevention. Early adopters of this model are reaping immediate benefits—including greater insight and agility, streamlined compliance, and a powerful and flexible platform that enables organizations to optimize their existing technology and equips them to meet immediate and future requirements.

Introduction

Broker and trade execution processes in the financial services industry have grown increasingly complex—opening the door to more sophisticated financial crimes. At the same time, compliance mandates from regulators around the globe—including the U.S. Securities and Exchange Commission (SEC), U.S. Financial Industry Regulatory Authority, U.K. Financial Services Authority, U.S. Commodity Futures Trading Commission, and self-regulating industry associations to name a few—have broadened significantly in recent years. Provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act and similar international initiatives focused on increasing derivative transparency are adding a new layer of requirements, complexity, and, in some cases, uncertainty to compliance initiatives.

Historically, to identify fraud and other financial crimes in the broker/trader realm, financial services organizations have relied on inflexible, disparate rules-based risk and compliance point solutions that detect specific anomalies within large data sets. This approach does not yield the enterprise view organizations require to effectively identify all threats; moreover, this approach only enables organizations to identify and investigate fraud and illicit activity after it happens, as opposed to preventing it. Further, many legacy systems do not provide the flexibility organizations need to quickly and effectively meet changing regulatory requirements.
Instead, these systems require customizations that are expensive and time-consuming to build and maintain, and they still do not address the requirement for enterprise-wide visibility.

To stay competitive and compliant and protect their reputations and brands from collateral damage related to financial abuse, financial services organizations seek new broker and trader compliance solutions that provide a holistic view of the business. Specifically, they are looking for a new breed of solutions that will enable them to:

- Ensure compliance with regulations, policies, and procedures across all key trading platforms with a holistic view of compliance for the enterprise;

- Achieve quicker time to compliance with a comprehensive and transparent audit trail that meets regulatory needs;

- Reduce reliance on IT team members for data and internal and regulatory reporting; and

- Secure surveillance in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and similar global over-the-counter derivative transparency initiatives.

A New Era of Crime and Compliance

Rarely a year goes by when the financial community and the public at large are not abuzz with at least one high-profile case of financial fraud in the capital markets, either perpetuated internally or externally. The impact of such cases is immediate for the firms involved, involving financial loss, reputation damage, as well as possible criminal charges and civil litigation. Reverberations also are often felt throughout the financial community in the form of more prescriptive regulatory oversight and erosion of public confidence.

Emerging from the financial crisis, the industry – and its regulators – are focused squarely on restoring public confidence, and financial crime prevention is an important part of this mission. At the same time, however, financial crime is becoming more complex and harder to detect in an age of electronic and multi-channel transactions.

Financial institutions are quickly realizing that their point-solution approach is ill-suited for today’s more rigorous environment and are seeking new models and solutions that enable them to meet more stringent regulatory expectations and achieve an operating environment that protects their reputation and customers.
Specifically, they require:

- **A proactive view of all trading activities** that enables financial institutions to distinguish intentional from unintentional trading behaviors and detect trader, broker, and customer behaviors. Organizations seek greater insight into trading activities, including trade-by-trade detail at the exact time an event occurs and its resulting impact. To optimize visibility, they also require broker and trading compliance solutions that span various asset classes, market segments, jurisdictions, time zones, and market structures by using industry-proven scenarios to identify key account activity behaviors. Multiple detection cycles (for example, intra-day, daily, and extended) are also key to surveillance and the ability to readily respond to regulator inquiries.

- **A better understanding of customers and employees** and their activities gained via alerts that notify compliance analysts and supervisors of unusual activity and/or behaviors of interest for review and position the organization for rapid remediation.

- **An agile environment** that enables financial services organizations to adapt rapidly to incorporate new regulatory requirements and detect and deter new schemes and methods of financial crime.

- **Compliance process efficiency.** Financial services organizations seek the ability to efficiently identify hundreds of behaviors of interest so compliance personnel can shift from time-consuming and manual data gathering methods to focus on the most urgent and threatening issues. They also want to provide compliance analysts with market and reference data that supports rapid alert routing and dispositions, efficient management of subsequent investigations, and a well-defined, yet simple event escalation process.

- **Lower compliance costs as regulatory burden increases.** Financial institutions are seeking ways to effectively manage their growing compliance burdens in terms of scope and costs. In this environment, a unified, yet robust and flexible surveillance and compliance platform that overcomes the shortfalls of a silo-driven approach and reduces total cost of ownership is especially appealing.

### A Model Approach

Focused on helping financial institutions to measure and meet risk-adjusted performance objectives, cultivate a risk management culture committed to transparency, and reduce the cost of compliance and regulation, Oracle Financial Services developed a solution that enables enterprises to fully manage regulatory requirements and combat financial crime from a single, unified platform designed specifically for the industry.

The Oracle Financial Services Financial Crime and Compliance Management suite (Figure 1) is built on a common and purpose-built data model for FCCM. The data model maps a firm’s source systems – such as its order/execution management system(s), market data, human resources data, customer
relationship management (CRM) systems, account data, security master, and more – just one time for a single source of truth across the enterprise. Organizations can use this “map-once, use-many” data model across all behavior detection and analytics, accelerating time to value and ensuring data consistency.

Shared across all modules in the suite – which includes Oracle Financial Services Trading Compliance and Oracle Financial Services Broker Compliance, Oracle Financial Services Anti Money Laundering, Oracle Financial Services Know Your Customer, and Oracle Financial Services Fraud – the data model provides information to support behavior detections in alert and case management, in addition to reporting, analysis, and electronic filings across the enterprise.

**Oracle Financial Services Financial Crime and Compliance Suite**

![Figure 1](image)

Additional key Oracle FCCM suite differentiators include the following:

- Hundreds of scenarios recently expanded to include additional coverage for customer risk and suitability, broker/registered representative and/or investment advisor actions, and control room
- Comprehensive coverage for all major traded products, such as equities, fixed income, options, derivatives, and more – all with multi-currency and multi-jurisdiction capabilities
• A holistic, 360-degree monitoring platform that provides views on compliance across all business verticals

Focus on Brokers and Traders

Oracle Financial Services Broker Compliance and Oracle Financial Services Trading Compliance are integral components of Oracle’s FCCM platform.

Oracle Financial Services’ broker compliance solution monitors activities across the enterprise by applying event detection and behavior recognition techniques – ranging from simple rules to complex patterns – to provide financial institutions with critical insight into suspicious behavior. Equipped with a robust and comprehensive library of trading behavior scenarios (Figure 2), including Customer Risk and Suitability, Registered Investment Advisor, Mutual Funds, Asset and Portfolio Management, Employee Trading, and Control Room, the solution enables financial institutions to monitor customer suitability, trading abuses, and broker selling practices to identify problematic activities related to customer interactions. It also alerts analysts and investigators with a context of business data and historical information with which they can streamline analysis and resolution.

<table>
<thead>
<tr>
<th>Oracle Financial Services Broker Compliance Sample Scenarios</th>
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<tbody>
<tr>
<td>• Customers with concentrated positions in a single security</td>
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<tr>
<td>• Customers with a concentrated position in low-priced securities</td>
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<tr>
<td>• Representative with high ratio of unsolicited orders in the same security</td>
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<tr>
<td>• Customers involved in large trades compared to net worth</td>
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<tr>
<td>• Execution fees outside pricing policy</td>
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<tr>
<td>• Customers with excessive risk holdings</td>
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<tr>
<td>• Customers engaged in uncovered long sales</td>
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<tr>
<td>• Excessive commission compared to expected amount</td>
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<tr>
<td>• Customers who trade actively</td>
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<tr>
<td>• Multiple correction and cancellation trades</td>
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<tr>
<td>• Switches</td>
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<tr>
<td>• Shadowing</td>
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<tr>
<td>• Front running</td>
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<tr>
<td>• Trading on inside information</td>
</tr>
<tr>
<td>• Surpassing thresholds in restricted lists</td>
</tr>
<tr>
<td>• Portfolio pumping</td>
</tr>
</tbody>
</table>

Figure 2

On the trading side of the business, Oracle Financial Services Trading Compliance delivers trade-by-trade visibility into interactions involving traders, counterparties, and employees to identify potentially manipulative or illicit trading practices, poor execution quality, insider trading activity, and situations in which customers are placed at a disadvantage for personal gain. It uses sophisticated pattern recognition techniques to monitor trading and market-making activities with respect to regulatory compliance, potential cases of market abuse, and requirement for “best execution.” Oracle Financial Services Trading Compliance covers every trading currency, asset class, and global jurisdiction – in every time zone and involving various market structures. Additionally, it monitors mutual funds
trading, employee trading, and investment advisor compliance. The product includes extensive scenario capabilities (Figure 3), spanning market abuse, best execution, cross-product category trading, control room, equity and fixed income trading, and derivatives trading.

Figure 3

Oracle Financial Services Trading Compliance Sample Scenarios

- Parking to conceal equity and fixed income position
- Front running large orders
- Marking the close and open
- Trading ahead of material event
- Spoofing
- Execution during trading halt
- Wash trades
- Excessive markups/markdowns
- Significant corrections
- Correction and cancellation trend
- End-of-month shortened/extended settlements
- Off market fair pricing
- Seasoning report
- Abusive squeezes
- Shadowing
- Price disimprovement and improvement
- Order execution untimeliness
- Surpassing thresholds in restricted lists
- Front running
- Cross trading listed derivatives

Real-World Success

Oracle Financial Services Broker Compliance and Oracle Financial Services Trading Compliance are helping financial services organizations around the globe reduce financial and reputational risk, streamline compliance, and future-proof their compliance spend across regulatory mandates. We share several success stories below.

Major International Bank Streamlines Broker Compliance Initiatives and Automates Energy and Commodity Trading Compliance

When this major international bank began searching for a vendor that could tackle broker compliance, it already had been using Oracle Financial Services Trading Compliance for five years. Oracle Financial Services successfully worked with the bank to implement a compliance monitoring infrastructure, transitioning it from a siloed approach for broker surveillance to a unified platform that uses a single data model, ensuring reporting consistency across the organization.
In addition, the bank’s implementation involved working in tandem with Oracle Financial Services to develop a new application – Oracle Financial Services Energy and Commodity Trading Compliance – to address its energy and commodities trading compliance requirements. This extensive three-phase project, including the construction of a new application, came in under budget.

**Challenges**

- Simplify activities around broker compliance including Comprehensive Instrument Coverage, Customer Risk and Suitability, and Privileged Information, and Insider Trading
- Replace a top-tier solution provider that had been in place at this organization for several years because it could not offer a one-solution platform
- Track the activities of thousands of employees with access to millions of accounts
- Improve efficiency and insight by replacing resource-intensive periodic sampling, spreadsheet-driven reviews, and paper-based documentation for energy and commodities trading
- Create a transparent compliance management culture and incorporate pervasive intelligence into decision making at all levels and functions

**Solution**

- Implemented Oracle Financial Services Broker Compliance on Oracle’s industry-leading unified FCCM platform that leverages the bank’s use of multiple Oracle applications, including Oracle Financial Services Trading Compliance
- Gained an out-of-the-box, industry best-practice suite of broker compliance and suitability solutions for monitoring customer annual reviews, uncovered options, concentrated positions, structured product suitability, short-term trading practices, broker reviews, address changes/hold mail, plans of solicitation, and more
- Gained a powerful, service-oriented-architecture (SOA)-solution for energy and commodity compliance that runs off of the Oracle Financial Crime and Compliance Management platform shared data model, extending the company’s existing technology investment

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**North American Financial Services Firm Establishes Broker Compliance Solution from the Ground Up**

A North American financial services firm selected Oracle Financial Services’ broker compliance solution over a leading competing solution for Oracle Financial Services’ ability to build a comprehensive proof-of-concept (POC) using the customer’s data and demonstrate end-to-end capabilities in only three days.

The firm expanded the project implementation from one phase to three, and Oracle Financial Services completed the first phase of the project under budget. To help drive down costs, the company conducted 90% of its implementation off-site to keep travel and full-time employee costs down. The financial services firm pre-sourced many of the data elements required for the project – using Oracle
Financial Services’ detailed documentation, which provides the details firms need for self-service data sourcing – in advance of building the POC, ultimately driving additional cost savings.

**Challenges**

- Secure automated surveillance and compliance systems to eliminate manual tracking activities and spreadsheets
- Replace a homegrown system and reporting capabilities that did not measure up to regulatory requirements
- Create a transparent compliance management culture and incorporate pervasive intelligence into decision making at all levels and functions

**Solution**

- Aligned the IT and business teams internally prior to embarking on this project, ensuring that all parties could fully address requirements
- Replaced a customized, in-house developed compliance management solution with Oracle Financial Services Broker Compliance to gain an out-of-the-box, industry best-practice solution that can track and monitor the highest risk activities, reduce false positives, automate supervision and surveillance, and streamline oversight and controls

### Large United States-based Bank Breaks Down Silos to Improve Surveillance

Oracle Financial Services successfully worked with this top-tier North American financial institution to bridge the gaps between Oracle Financial Services and third-party applications. By leveraging Oracle Financial Services’ unified FCCM platform, the bank can keep in place existing systems that work well, extending its technology investment. Oracle Financial Services’ unified data model ensures everyone within the organization pulls from the same data and speaks the same reporting language. This holistic enterprise solution was a game changer for the customer, enabling it to improve surveillance and compliance, better align costs, and get the most from its legacy systems while expanding its capabilities.

**Challenges**

- Deploy an overarching consolidated platform for fixed income to complement the company’s existing equities compliance surveillance system with the goal of creating a powerful surveillance environment
- Eliminate a siloed approach to monitoring and tracking, which limited visibility into events across the enterprise
- Implement a system that could effectively pull in data from third-party vendor systems
- Eliminate a system for fixed income that used Excel spreadsheets and hand-written notes to drive compliance
Solution

- Replaced manual compliance management processes with Oracle Financial Services Broker Compliance to gain an out-of-the-box, industry best-practice solution
- Became an Oracle Financial Services production partner to build pre-trade approval and deal management functionality
- Brought together disparate systems from Oracle Financial Services and other third-party applications onto a unified platform, leveraging a single data model that ensures consistent data and supports enterprise-wide visibility

British Multinational Banking and Financial Services Company Creates Global Compliance Platform

Oracle Financial Services worked closely with this organization to develop a customized solution that addressed very specific regulatory and jurisdictional requirements in Singapore related to automated surveillance for behavior detection, particularly in the bank’s private banking business. As part of the original initiative, the team developed 13 scenarios to meet all requirements. After the implementation began, the organization added six additional scenarios. The organization asked Oracle Financial Services to complete at least 70% to 75% of the required scenarios within a very short timeframe. Even with the 46% scope increase, Oracle Financial Services not only met this requirement, but it delivered 100% of the required scenarios within the initial time frame and came in 2% under budget.

Challenges

- Overhaul the bank’s trade and broker surveillance program – as mandated by regulatory requirements – in record time
- Deploy a solution that addresses specific requirements of the Asian market, while also serving as a global solution for the financial institution’s other jurisdictions
- Compile years of manual documentation into one global system that could easily accommodate future regulatory requirements and updates

Solution

- Implemented Oracle Financial Services Broker Compliance and Oracle Financial Services Trading Compliance, working directly with the Oracle Financial Services Analytical Applications team to release an updated product version to include new scenarios that address the Asian markets and increase customer suitability surveillance effectiveness
- Scoped out a global platform initially and implemented it in four markets with the option to extend to additional markets at a low cost should the need arise
- Customized the scenarios to speak to the company’s data source system, as the organization could not previously execute on orders and thus did not meet regulatory requirements and business-user expectations
The Oracle Difference

Oracle Financial Services Broker Compliance and Oracle Financial Services Trading Compliance, as part of the Oracle Financial Services Financial Crime and Compliance suite, deliver four key benefits:

• **Improved efficiency of surveillance and investigations** thanks to the accuracy of tested, prepackaged scenarios, as well as out-of-the-box coverage for all instruments and suspicious behaviors. The solutions also deliver a rich data footprint that reduces manual analysis.

• **Increased compliance and analyst productivity** with prebuilt scenarios, consistent data, audit capabilities, and robust, yet user-friendly dashboards that deliver drill-down capabilities.

• **Cost control** through the ability to reuse data for on-boarding new regulations. The solution also eliminates the need for a continuous vendor presence to “re-implement” solutions as needs change.

• **Rapid time to market** thanks to industry-specific, purpose-built data models and out-of-the-box scenarios and reports.

Conclusion

By focusing on achieving an integrated view across accounts, customers, and business lines, financial institutions can facilitate earlier detection of fraud schemes and financial crime and enhance loss prevention and mitigation efforts. This end-to-end approach holds the key to a firm’s ability to meet more stringent regulatory requirements and achieve an operating environment that protects a firm’s reputation and customers.