

The Eight-Figure Wake-Up Call

How a Bulge Bracket Firm Fixed Its Processes and Established a Centralized Approach to Data Integrity



Invisible Issues Impacted Data Integrity

Even the biggest and best run companies can make mistakes. They just make them on a grander scale. Financial businesses of all sizes struggle, however, to keep information up to date in complex IT systems that pass data across the multitude of systems and applications designed to meet the specific needs of various departments. This type of IT environment does not function as a seamless ecosystem. Rather, it's a hodgepodge of conflicting architectures, and when any component has to be updated for performance improvements, security patches, or regulatory compliance, data slips through the cracks and data integrity is lost.

That IT quagmire, along with a nuanced regulatory interpretation, was to blame when the capital markets and securities lending division of a bulge bracket financial services firm was fined by the Securities and Exchange Commission (SEC) for alleged regulatory violations.

The firm had invested heavily in meeting regulatory requirements and was confident its securities lending and trade processes were strong enough to keep its data handling practices in compliance. Unfortunately, they were not. And the error wasn't a glitch; it was an ongoing issue impacting a substantial portion of the firm's order flow. An investigation based on a nuanced interpretation revealed additional related systemic issues and the result was an eight-figure fine.

“The HLC team made a process that was approached by the business with understandable trepidation as pleasant and streamlined as possible.”

--Lead Counsel

The HLC Approach

- » Conduct a comprehensive review of the organization's policies, procedures, and practices
- » Develop recommendations for ensuring that the violations would not recur
- » Deliver a final report on the organization's implementation, enforcement, and auditing of the recommendations for the six-month period following implementation



How HLC Solved the Puzzle of Compliance and Complexity

The firm was ordered to retain an independent consultant to examine its processes, identify problems, recommend corrections, and deliver a final report to the SEC on the results. The organization chose independent consultant HLC Consulting, a provider of expert compliance and technology advisory services with nearly forty years of relevant legal, regulatory, and technical experience, as well as audit and C-suite management experience. HLC had a proven ability in laying strong foundations for sustained compliance and tailoring effective regulatory strategies.

HLC immediately recognized that the number and complexity of systems and processes was the root of the bulge bracket firm's problem. With so many moving pieces, maintaining the accuracy and timeliness of data required by regulations was difficult. This was a knotty compliance problem that HLC had seen before.



A Comprehensive Review

HLC recognizes that the best solution not only meets regulatory mandates, but also makes sense for a firm's architecture and capabilities. HLC began its work by conducting a comprehensive review of the firm's policies, procedures, and practices to identify control weaknesses, and then worked methodically with various technology development and operations groups in the client organization to discover what had failed, why the failures occurred, how similar issues had previously been addressed, and with what level of success.

Deficiencies in processes were discovered across twenty securities lending and equities order management systems. With this information, HLC was able to develop recommendations on how to prevent future violations.

In the next phase of the project, HLC worked with groups inside the firm to establish clear control objectives that made sense for the impacted systems and processes. Once those objectives were defined, HLC was able to design controls that would work efficiently and effectively across the firm's systems and processes, and to determine which existing data integrity and surveillance processes could be adapted to fit into standardized recommendations.



Realizing Recommendations

HLC coordinated with the firm's development, operations, and project tracking teams to implement its recommendations. Efforts were focused on ensuring that ownership of processes and oversight were in place, as well as devising reliable processes for measuring, monitoring, and reporting on data integrity control issues in a standardized manner across all systems.

HLC also worked with the firm to create an ongoing review process to proactively correct any issues with current or prospective implementations. Six months after the implementation of HLC's recommendations, HLC deployed auditing best practices to validate the results. These best practices, detailed to the SEC in HLC's final report, ensured the integrity and reliability of HLC's opinion on the firm's implementation of HLC's recommendations, as well as firm's ongoing ability to maintain and audit its implementation of the recommendations.

Standardization minimizes the impact of error, facilitates auditing and testing, and reduces cost. When processes are standardized, redundancies in code development and maintenance are reduced, quality assurance is streamlined, and the need for specialized support is eliminated. Data integrity risk is mitigated.

“Not only did HLC’s solutions meet the SEC criteria, they also integrated well into our current environment and were cost effective to implement. In addition, HLC identified improvements that extended beyond the mandate of the SEC.”

--Project Management Lead



Minimize Weaknesses

By acting on HLC’s recommendations, the firm was able to solve process issues and achieve compliance with SEC regulations. The firm was also able to demonstrate to regulators on an ongoing basis that its processes complied with SEC regulations. The firm’s overall data integrity processes were enhanced while remaining cost-effective and integrating well with existing operations and processes.

Compliance-related trade data latency was substantially reduced for the processes at issue, facilitating improved compliance with regulations. Responsiveness of trading operations to data integrity issues improved, and data integrity was enhanced for data outside of the SEC mandated review.

After reviewing HLC’s final report on the firm’s implementation of HLC’s recommendations, the SEC effectively closed out the matter. The lead SEC enforcement counsel described the HLC’s approach as “thorough”, and said that the reports were “very well laid out”, and that the content presented was “clear” and “easy to understand.” With that positive result, the firm is now able to move forward with confidence.

Solutions May Be Simpler Than You Think
Practical compliance solutions for financial industry systems



**Contact HLC Consulting Today at
646-783-7030**