

## Tips to bridge gaps between compliance and information technology

Poor communication between the compliance and information technology functions of a firm can lead to rule violations, and a security risk to a firm and its customers. Here are some problems that might sound familiar and some suggestions for solving them.

**Problem:** When somebody leaves the firm, the human resources department fails to notify compliance or IT that the person's no longer there. As a result, the person still has access to things like the clearing system, or to internal systems that enable the person to put trades through, open new accounts, review account statement documents, or review clients' Social Security Numbers. They may even continue to have firm access to FINRA's CRD system, or OATS, or online newsletters the firm subscribed to, said **Leigh Vazquez**, a managing director who works out of the Boca Raton, Fla. office of **ACA Compliance Group**.

**Solution:** Work with HR to create a checklist or protocol to follow that tells HR to inform compliance and IT when somebody leaves. Also, compliance should maintain a master list of who has access to what systems, and notify IT of all the systems a departing employee had access to and have IT end that person's access.

**Problem:** Registered reps aren't changing their passwords on a regular basis as they should, or

aren't using different passwords on different systems as they should, and IT doesn't know about any of this. IT is generally unaware of compliance rules that have information technology implications.

**Solution:** Compliance should meet regularly with IT to inform IT of rules that involve information technology issues, such as Reg S-P, so that IT can enforce activities such as the need for scheduled password changes. These meetings are especially important and you might to do them weekly if compliance is changing programs or getting new technology, Vazquez said.

Such meetings might be through a project management team, suggested Vazquez and **Amy Lynch**, president of **FrontLine Compliance, LLC**, a regulatory compliance services firm based in Alexandria, Va.

### New technology purchases

When new technology is being purchased, compliance needs to be involved at the outset to help determine the system that will be purchased, Lynch said. She recounted an instance in which a client purchased new technology to handle trades involving deferred variable annuities but found out it wouldn't work unless they also had a compliance program built that encompassed that technology.

"Too often, compliance is brought into play after the decision's been made, and basically they're handed the product [and told], 'Here you go. It can do A, B, C for you. Isn't that great?' when compliance may have a different thing in mind," and need a different system than one purchased for them by senior staff, Lynch said.

**Problem:** Systems don't get tested to see if they do what they should do, Vazquez said, emphasizing that she's not talking about disaster recovery testing.

**Answer:** "There are actually two test stocks that **FINRA** allows you to test ... So you could actually set up a dummy customer account, for instance, and

*(Compliance and technology, continued on page 2)*

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**Compliance and techonlogy** *(cont. from pg. 1)*

trade in those two stocks to make sure that your order tickets are correct,” and that the dummy trades are correctly reflected in your books and records, your purchase and sales blotters, and exception reports. “So if the exception report, for instance, says this report shows anything that’s more than 10,000 shares, then they should be testing that and put 10,001 in a fake stock, and making sure that those exception reports are accurate. They should be testing that,” Vazquez said. She also emphasized that FINRA wants things that are outsourced to be tested, too.

Consider setting up a special committee to oversee testing, and involve IT in that committee, Vazquez recommended. ■

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