

Strategies offered to help prevent ID theft as SARs reporting increases

The increase in suspicious activity reports filed by the securities and futures industries for suspected identity theft and market manipulation highlights the importance of making sure your firm's policies address those areas adequately. In the first six months of 2007, there were 1,018 SAR-SFs filed for identity theft, compared with 1,141 for the all of 2006, according to the **Financial Crimes Enforcement Network**.

Among actions you should take to help prevent identify theft:

- ✓ Limit access to those systems that contain personally identifiable information on customers, stresses **Amy Lynch**, president of **FrontLine Compliance, LLC**, based in Alexandria, Va. Use strong passwords to protect these systems, she adds. "Many times I have seen firms using 'password' as the password on systems containing customer data. Weak passwords such as this are enticing to amateur theft."

- ✓ Don't give too many employees access to customer-level databases, she continues. Make sure access is granted only on a "need to know basis."

- ✓ Beware of the huge threat posed by laptop computers. Establish strong policies on the use of laptops and what kind of data can or can't leave the office. "Laptops that are frequently taken out of the office for business purposes should not contain

customer data, period," Lynch says.

- ✓ Know who is trading. Check on every trade, every day, says **John Easterling**, the chief compliance officer and vice president at **Frost Brokerage Services, Inc.**, in San Antonio.

- ✓ Have an operations person in charge of looking at incoming checks, Easterling continues. His firm doesn't accept third-party checks, he said.

- ✓ Post wired money every day. Easterling has a spreadsheet that shows who is wiring money where, and how much is being wired.

- ✓ Ask new customers for photo identification.

- ✓ Attach an **Office of Foreign Assets Control** screen to customer applications before handing the application to a principal for approval, Easterling advises. Running the OFAC screen at night, after the application is handed in, is too late, he said.

Market manipulation

Among the things you can do to monitor market manipulation - an area where SAR-SFs numbered 734 in the first six months of 2007 compared with 578 for all of 2006 - are:

- ✓ Establish written policies and procedures to address both employee activity and customer activity, Lynch said. "It is important to look at this issue from both perspectives since many of these frauds involve a firm employee and client working together to benefit from the trades," she said.

- ✓ Utilize automated pre- and post-trade compliance systems, Lynch said. ■

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