

OCIE's new trade blotter template likely to challenge advisers to comply

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Perhaps you've mulled the best practice **Margaret Hornbeck** accomplished after we recently revealed OCIE's new 27-item [trade blotter template](#) ([IA Watch](#), April 28, 2014). The CCO at **TrueNorth** (\$406M in AUM) in Wichita, Kan., tested her firm's ability to produce a blotter to those specs.

"I think we can get the information. It takes some time to do it," says Hornbeck. She read OCIE's new template, selected a few accounts as a test and used [PortfolioCenter](#) to export data into a spreadsheet to mold a blotter meeting OCIE's preference. It won't be a press-a-button-and-make-it-happen solution, though, she adds.

Producing a blotter in line with OCIE's vision "would be a struggle for firms like us," says **Diane Chadwick**, director of strategic services at **Harvest Capital Management** (\$423M in AUM) in Concord, N.H. She's "at the mercy of the software" the firm uses, [Advent](#). For example, that system contains the date of a trade but not the time, which is newly listed among the 27 items.

The time of a transaction would be available on trade tickets but then the firm would have to manually add the item to its blotter, a task that would prove too difficult. Add-on software from Advent that would report the time would be cost prohibited, Chadwick states.

It would take some time but **Schneider Capital Management Corp.** (\$1.6B in AUM) in Wayne, Pa., should be able to cobble together most of the OCIE items. "Trade time would be impossible," says **Steven Fellin**, senior VP. Use of Advent's [Report Writer Pro](#) software would go far. "It would take some time" but Fellin's confident he could do it.

The big picture

Another sign that the new template fits with OCIE's big data initiative ([IA Watch](#), March 3, 2014) echoes in the [recent words](#) of SEC Commissioner **Daniel Gallagher**. "OCIE examiners can import a registrant's entire trade blotter for multiple years and immediately generate over 50 types of customized reports identifying potential red flags for account churning, excessive commissions, P&L irregularities, suspect asset allocation, front running, and even insider trading," he said.

"There is no requirement to produce the data in exactly the format that the SEC has requested," says **Krista Zipfel**, president of **Advisor Solutions Group** in Newport Beach, Calif. The Advisers Act doesn't even require that you maintain a trade blotter, notes **Ellen Bruno**, a consultant with **Compliance Advisor Professionals** in Berkley, Mass. Of course, you do have to keep records of trades ([IA Watch](#), April 21, 2014). But the time of a trade isn't a requirement unless you're an adviser under the Investment Company Act, adds Zipfel.

A mistake advisers often make that draws deficiencies is they won't maintain trading records with the required items, says Zipfel. Instead, they assume their custodian will have the necessary elements but it doesn't.

"You want to please the regulators and accommodate them to make their lives easier," acknowledges **Seth Gelman**, CCO with **Brookfield Investment Management** (\$19.8B in AUM) in New York, whose firm was examined last year. But you don't have to keep your records in exactly the format requested by OCIE as long as "you have [data] that's in compliance with the rules, then you're still satisfying your obligations."

You can always negotiate with examiners about one of their requests, reminds Bruno. She points out that a few of the items on OCIE's new list aren't even applicable to U.S. stocks, e.g., ISIN. A major custodian's system doesn't report the time of a trade. One client download the custodian's trade data and then tried to manually add some of OCIE's items. "It was a major pain for the client," she says.

IA Watch asked **Fidelity**, **Schwab** and **TD Ameritrade** if they plan to revise their trade data systems to match OCIE's new blotter. A spokesman for TD Ameritrade responded that advisers are letting them know regulators want more data. However, "examiners are 'testing' the advisor's ability to manage its own books and records." Fidelity and Schwab didn't respond.

Your custodian seems the logical place to start. Next stop should be your accounting system or data warehouse, recommends Gelman. Inquire about what types of trade blotters their systems are capable of constructing. Share OCIE's 27-item trade blotter template with them, adds Zipfel.

Matching big data with big data

Even before the news broke about OCIE's new blotter request, **Daruma Capital Management** (\$2.5B in AUM) in New York began looking for a vendor to create a "data room," says CCO **Veronica Stork**. "It's basically a giant database of all of the data points you have," she adds. "It can pull all of the information together from different sources" and "opens up the ability to do centralized reporting with consistent data for different departments across the firm."

Still, with the system Daruma has in place today (Advent [Axys](#)) Stork thinks she could pull together at least the OCIE trade blotter items that would apply to her firm. "We'd have to do a custom report," she states. Venue would be difficult and some alternative tickers may be a challenge to get but, combined with its order management system, the firm can locate the data. The task is made easier because Daruma trades only equities and options listed on U.S. exchanges.

Regardless of your system's capabilities, test your trade blotter data for inaccuracies, Zipfel recommends. She often finds numerous errors when scrubbing a client's blotter. Common mistakes include reporting a transaction's costs (including commissions) rather than the price of the security, spreading commissions across multiple lots or lumping them into one transaction while a related trade incorrectly lists zero commissions, failing to adjust trades to U.S. currency, not having the ability to segregate trades by subadviser and not listing the broker.

"Data riddled with errors often results in" more intensive questioning from examiners and even deficiencies, Zipfel warns. "Organized and clean data go a long way to make a good first impression" with examiners and to send them on their way sooner, she says.

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