

TRADE BLOTTER REVIEW

A trade blotter review involves sorting the blotter in order to detect trading patterns that reveal improper or illegal trading. How you sort a trade blotter depends on the specific impropriety you are looking for and, since there are many, you will sort the trade blotter a number of ways during a review. Although there is no uniform approach to a trade blotter review, listed below are a number of factors to consider when conducting such review. In connection with a trade blotter review, you should document the factors reviewed and note all concerns.

Time Period:

Reviewer:

FAVORITISM

AREA TO REVIEW	COMMENTS
Differences in the price received by clients for the same security on the same day	
Preferential treatment in investment/divestment opportunities at time of purchase or sale	
Certain accounts (e.g., wrap accounts, directed brokerage accounts, etc.) that are regularly placed first or last	
Profitable trades that are consistently allocated to a select group of clients	
Differences among clients in the percentage of profitable trades over a specified time frame	

INSIDER TRADING

AREA TO REVIEW	COMMENTS
Trading in securities on a Restricted Trading or Watch List	
Unusual or suspicious trading as compared to news stories	

COMMISSION RATES

AREA TO REVIEW	COMMENTS
Commissions are in accordance with negotiated rates	
Unexpected or undisclosed discrepancies in commission rates among clients	
Undisclosed soft dollar arrangements	

AGGREGATE TRADES	
AREA TO REVIEW	COMMENTS
Bunching of client transactions is in accordance with trading policies and procedures and disclosures	
Allocation of partial fills is in accordance with trading policies and procedures and disclosures	
Clients receive average prices and commissions	
Clients are unexpectedly excluded from bunched transactions	
CLIENT MANDATES AND OBJECTIVES	
AREA TO REVIEW	COMMENTS
Trading that is not in accordance with client trade restrictions (e.g., no sin stocks, etc.)	
Trading that deviates from the investment process disclosed to clients	
CROSS TRADING	
AREA TO REVIEW	COMMENTS
A certain group of clients are consistently favored in cross transactions	
Undisclosed cross trading	
BROKERAGE ARRANGEMENTS	
AREA TO REVIEW	COMMENTS
Use of unapproved brokers	
Undisclosed brokerage arrangements (e.g., directing client trades to a broker in exchange for client referrals, etc.)	
Client directives regarding the use of a specific broker are not honored	

Listed above are only a few of the factors to consider in conducting a review of your firm’s trade blotter. Further, a review of the trade blotter can assist in the oversight of other compliance areas, such as employee personal trading and best price and execution. In connection with a trade blotter review, firms should document the factors reviewed and note all concerns. If you do detect an unusual pattern, the proper response is to question the trader or portfolio manager and obtain documentation to support his or her response. All issues should be elevated to the principals of the firm and corrective action taken.

To receive a Microsoft Word version of this document, please contact us at info@npcomply.com.