Last quarter we discussed conflicts and possible misuse of MNPI due to working from home. A recent Bloomberg article describes how employees at firms like Barclays must certify that they work in separate rooms from housemates. Morgan Stanley bankers are using laptops where every key stroke is recorded. Lenders including NatWest Group Plc are requiring daily location updates from traders and recording video calls.

The stakes for firms are high. Insider trading, manipulation, and improper use of own accounts are all elevated risks when employees are working from home.

In this issue of the ***Compliance Risk Concepts'*** ("CRC") ***Control Room Quarterly***, we discuss ***surveillance.***

A core objective of any Control Room's mandate is to detect the misuse or misappropriation of MNPI. This has always been a challenge. As we consider Control Room surveillance, we generally categorize it into the following areas:

1. Employee
2. Firm
3. Customer

From there, we contemplate how to compare trading activity against watch and restricted lists, research reports and/or other types of MNPI or sensitive information.

Firms should consider:

1. What to assess
2. What to document
3. What to escalate
4. How to resolve

Whether surveillance is performed within the Control Room or by a centralized team, these are important questions firms should take into account. In addition, firms should not forget the regulatory obligations imposed by FINRA rules 3110(d) (Transaction Review and Investigations) and 4530 (Reporting Requirements).

Furthermore, firms should be mindful of the regulatory requirements of Section 15(g) of the Securities Exchange Act of 1934, Reg M and SEC Rules14e-3 and 14e-5.

Regardless of the firm's activities (e.g., market making, high-frequency trading, agent / riskless principal trading, research or corporate / investment banking), surveillance analysts must be knowledgeable of firm and market practices.

It has often been said that if one is able to understand the business, then one has the foundation to build a repeatable process. Firms should develop detailed desk procedures that describe surveillance processes and protocol.

A surveillance analyst's job can become monotonous. That is why it is up to Control Room or Central Team managers to find ways to create job aids for the surveillance team, cross-train, rotate, and keep the job interesting and rewarding.

Consider breaking the analyst's day into segments. As Ronald Reagan once said, "trust, but verify" that surveillance is being conducted and back logs are being managed.

Conducting internal Control Room training to educate junior Control Room personnel is time and money well spent, especially in the current environment where teammates are not sitting together to observe and listen to senior members of the team.

The old maxim that (*surveillance*) *is a marathon, not a sprint* certainly holds true.

At CRC, we have worked with clients to conduct internal control room training sessions and help fine-tune surveillance and control room programs to stay current with new regulations and concerns. We have also acted as an on-demand resource when clients face unusual situations. Please let us know if we may be of assistance.

CRC focuses on supporting clients with Control Room, Conflict management. and Compliance situations.

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