



2019 FINRA Institutional Conference

September 11 | New York, NY

Supervision of Trading Desk Operations

Wednesday, September 11, 2019

9:15 a.m. – 10:15 a.m.

This session focuses on the supervision of trading desk activities. Join FINRA staff and industry practitioners as they view supervisory responsibilities, discuss surveillance controls that can be implemented to mitigate risk associated with trading desk operations, and review effective risk tools.

Moderator: Jeffrey Herrmann
Examination Manager, Sales Practice
FINRA New York District Office

Speakers: William Crooks
Senior Director, Trading and Financial Compliance Examinations (TFCE)
FINRA Market Regulation

Jill Ostergaard
Chief Compliance Officer
Exos Securities LLC

Dean Webber
Executive Director
Morgan Stanley

Supervision of Trading Desk Operations Panelist Bios:

Moderator:

Jeffrey Herrmann has been with FINRA for 13 years. He began his career in 1996, obtaining his series 7 and 63 registrations while conducting Broker Dealer sales to U.S. Retail and European Institutional Clients. Three year later, he joined the Market-Making Desk of Knight Capital Group where he obtained his series 55 registration. At Knight, Mr. Herrmann conducted Institutional Sales and Trading, specializing in semiconductor trading, merger arbitrage and technical analysis of cash and futures markets. Prior to joining FINRA, Mr. Herrmann also worked as an Operational Risk Specialist in the Global Asset Management business of a top-tier Broker-Dealer and traded his own capital as a registered Proprietary Equity Trader. Currently, Mr. Herrmann is an Examination Manager in FINRA's NY District Office. Additionally, he works with FINRA's Regulatory Specialist Program as a member of the Trading and Market Risk and Controls Subject Matter Expert Group and hosts the program's national conference calls on Algorithmic, Direct Market Access, High Frequency and Proprietary Trading Controls.

Speakers:

Bill Crooks is Senior Director in FINRA's Trading and Financial Compliance Examinations ("TFCE") group. TFCE conducts examinations focused on member firm's trading operations. Mr. Crooks has more than twenty years' experience conducting and managing TFCE examinations. Currently, Mr. Crooks oversees two teams of TFCE examiners located in New York and Chicago. Mr. Crooks has also been integral in the continued evolution of the TFCE program, including the incorporation of risk based scoping methodologies, developing guidance and overseeing training. In his various roles at FINRA, Mr. Crooks has led several projects and initiatives involving electronic trading topics, including Market Access, ATs, and Algorithmic Trading Controls. Mr. Crooks began his career at FINRA as a Compliance Examiner in Member Supervision. Prior to joining FINRA, Mr. Crooks was employed as a Trading Clerk by an independent broker/dealer that operated on the American and New York Stock Exchanges.

Jill W. Ostergaard has more than 20 years of experience in strategic, risk management, legal and regulatory compliance matters in global financial markets. Currently, Ms. Ostergaard is a Partner and Chief Compliance Officer for Exos Securities LLC, an institutional broker-dealer with a focus on state-of-the-art technology. There, she is architecting the next generation compliance program from inception. Previously, Ms. Ostergaard was Managing Director and Head of Americas Compliance for Morgan Stanley and Barclays Capital. At Barclays, she also served as Chief Compliance Officer for the Intermediate Holding Company as well as the Swap Dealer. Early in her career she was Assistant General Counsel at Pershing where she developed a compliance program for Pershing Trading Company. Ms. Ostergaard began her career as an attorney with the SEC's Division of Market Regulation (Trading & Markets) and in the office of Commissioner Steven Wallman where she drafted a white paper on decimalization. Ms. Ostergaard is an active industry participant and served on FINRA's National Adjudicatory Council from 2012-2014 and was elected Chair in 2014; she also served 10 years on FINRA's Compliance Advisory Committee. Ms. Ostergaard has been a long-standing member of SIFMA's Compliance and Regulatory Policy Committee and served as Chair from 2006 – 2008. She also assisted in drafting the 2005 and 2013 SIFMA Whitepapers on the Evolving Role of Compliance. Ms. Ostergaard has been a speaker/moderator on several important compliance topics, including: behavioral economics, risk assessment, ethics, market structure, new products and supervision. She graduated cum laude from Hope College and received her J.D. from Loyola University of Chicago.

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Panelists

■ Moderator

- **Jeffrey Herrmann, Examination Manager, Sales Practice, FINRA New York District Office**

■ Panelists

- **William Crooks, Senior Director, Trading and Financial Compliance Examinations (TFCE), FINRA Market Regulation**
- **Jill Ostergaard, Chief Compliance Officer, Exos Securities LLC**
- **Dean Webber, Executive Director, Morgan Stanley**

Topic

- **Supervisory Structures**
- **Qualification of Supervisory Personnel**
- **Supervision of Trading Activities**
- **Monitoring Electronic Communications**

Supervisory Structures

■ Centralized

- Localized supervision
- Manual processes

■ Decentralized

- Specialized delegation units
- Automated exception reports

■ Industry Practices

- Culture of Compliance
- Descriptive procedures

Qualification of Supervisory Personnel

■ Hiring

- Sourcing candidates

■ Training

- New and experience candidates

■ Quality assurance

- Adequacy of reviews
- Timeliness of reviews
- Documenting escalations and dispositions

Supervision of Trading Activities

■ Firm Trading Accounts

- Detecting and preventing:
 - Rogue
 - Manipulative trading

■ Employee Brokerage Accounts

- Approving accounts and monitoring employee transactions
 - Preclearance
 - Post Trade Surveillance
 - Policy Restrictions

Monitoring Electronic Communications

■ Selecting populations for review

- Random sample
- Lexicon

■ Incorporating Communications Surveillance in Broader Surveillance Program

Closing Comments

■ Challenges

- What are the greatest compliance challenges that you are currently facing?
- How are you preparing for those challenges?

■ Audience Questions



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Resources

FINRA Report

- 2019 Annual Risk Monitoring and Examination Priorities Letter

www.finra.org/rules-guidance/communications-firms/2019-annual-risk-monitoring-and-examination-priorities-letter

SEC Reports

- Staff Summary Report On Examinations Of Information Barriers: Broker-Dealer Practices Under Section 15(G) Of The Securities Exchange Act Of 1934

www.sec.gov/about/offices/ocie/informationbarriers.pdf

- Responses to Frequently Asked Questions Concerning Large Trader Reporting

www.sec.gov/divisions/marketreg/large-trader-faqs.htm

FINRA Regulatory Notices

- FINRA Regulatory Notice 19-21, *Exchange-Traded Notes, Margin Requirements for Exchange-Traded Notes* (July 2019)

www.finra.org/sites/default/files/2019-07/Notice_Regulatory_19-21.pdf

- FINRA Regulatory Notice 19-18, *Anti-Money Laundering (AML) Program, FINRA Provides Guidance to Firms Regarding Suspicious Activity Monitoring and Reporting Obligations* (May 2019)

www.finra.org/sites/default/files/2019-05/Regulatory-Notice-19-18.pdf

- FINRA Regulatory Notice 18-25, *ATS Supervision Obligations, FINRA Reminds Alternative Trading Systems of Their Obligations to Supervise Activity on Their Platforms* (August 2018)

www.finra.org/sites/default/files/Regulatory-Notice-18-25.pdf

- FINRA Regulatory Notice 17-43, *Short Interest Reporting, Guidance on Reporting Short Interest Positions Held in Master/Sub-Accounts or Parent/Child Accounts* (December 2017)

www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-17-43.pdf

- FINRA *Regulatory Notice 15-09, Equity Trading Initiatives: Supervision and Control Practices for Algorithmic Trading Strategies, Guidance on Effective Supervision and Control Practices for Firms Engaging in Algorithmic Trading Strategies* (March 2015)

www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-09.pdf