

This Month's Resource

Trade Blotter Review and the Last Word on PPP Loans

LAST WORD: FOR THOSE FIRMS ELECTING PPP LOANS

For firms who ultimately elect to keep their PPP Loans, our recommendation is to work with your firm's counsel and/or accountant to create a contemporaneous, written record to support their certifications or their current decisions to keep the PPP loan based on the certifications that were made at the time of the loan application. Consider adding your firm's prepared forecast projecting its liquidity position and effect on the operations of not obtaining a PPP loan. Does this demonstrate that the loan was necessary to support the ongoing operations of the borrower? Alternatively, did the borrower conduct any other financial review in connection with such certification? This could be asked for during an exam! *Contact CRP for assistance with ADV disclosure of your Firm's PPP loan.*

TIPS FOR REVIEW OF TRADE BLOTTER

On every SEC or State Exam – Review of Trade Blotter will be addressed! What does a trade blotter review entail? As seen on our monthly Calendar of tasks – the review of Trade Blotter should be reviewed by Compliance on a daily, weekly or monthly basis, depending on volume. A periodic trade blotter review can detect the following issues, among others:

- ✓ Allocation fairness among clients
- ✓ Confirmation that all trade errors were identified and reported
- ✓ Undisclosed soft-dollar arrangements
- ✓ Strategy and Style drifting
- ✓ Portfolio pumping and/or window dressing
- ✓ Undisclosed principal trading, agency cross or client cross transactions
- ✓ Higher/Lower than normal portfolio turnover

WHAT TO REVIEW? Trade blotter reviews should be cross-referenced with reviews of access persons' personal securities transactions to uncover issues of code of ethics noncompliance, insider trading and front running. Part of a firm's Books and Records include retention of the Trade blotter or purchase and sales journal that was reviewed by Compliance. Maintain a copy of the file in an electronic folder labeled "Trade Blotter Review" and/or use our "tool" to assist in documentation.

WHERE TO FIND THIS? The trade blotter is typically obtained from the Custodian or your billing system. Blotters list transactions (including all trade errors, cancellations, re-bills, and reallocations) in securities and other financial instruments (including privately offered funds) for current and former clients, proprietary and/or trading accounts and access persons. The preferred format is to provide it electronically in Microsoft Excel.

The analysis of a trade blotter can produce a wealth of information. It is not surprising that we find this to be an area where many firms fall short in their forensic testing. Forensic testing of a firm's trade blotter should include searching for patterns that occur over time and that may violate the firm's internal controls or the law:

- Review for ***patterns of short-term trading in client accounts***. Ensure that this is consistent with client mandates, the client's desired level of risk and the firm's trading philosophy as disclosed to clients.
- Review ***bunched transactions to ensure that clients included in the bunch received comparable prices and paid comparable transaction costs***. Further, investigate any instance where certain accounts were consistently excluded from bunched transactions.
- Review ***transactions involving thinly traded securities to look for indications of market manipulation***.
- Review ***portfolio turnover for indications of churning*** (or reverse churning) in client accounts.
- Review for ***window dressing or portfolio pumping*** to improve performance before month or quarter end.

CCO TIP: REFER TO CRP'S "REVIEW OF TRADE BLOTTER" TO ASSIST IN THE DOCUMENTATION OF THE TRADE BLOTTER!