

## Need AML technology? Getting it through clearing firms can be cheaper

Arrangements between AML compliance system producers and clearing firms might make your life easier if you've been trying to support your AML program alone.

Clearing firms such as **Pershing** and **Fidelity** are using economies of scales to offer introducing broker-dealers access to AML technology the BD firms could not otherwise afford. Speaking in general terms and not about particular firms or products, **Steve Ganis** an attorney at **Mintz Levin** in Boston, says, "Clearing brokers have long shared alerts generated by their own monitoring systems with their introducing brokers as a tool, but not a substitute, for the introducer's own AML and SAR compliance."

He also notes:

- ✓ Regulators have penalized introducing brokers for ignoring alerts from their clearing broker without having documented why the alerts may be ignored or putting alternatives in place; and

- ✓ Before an introducing broker decides not to review alerts from its clearing broker, it should be able to support its decision with thoroughly documented analysis. The broker should point to practices that will result in suspicious activity detection that is at least as effective and robust as following up on the alerts from the clearing firm.

Among the arrangements is one between the

compliance software producer **Actimize** and the clearing firm **Pershing LLC**, which offers the service as part of its core benefits to introducing firms, says **Jeff Horowitz**, Pershing's managing director and chief AML officer.

So far, about three-fourths of the 850 introducing firms that clear through Pershing's U.S. entity are hooked up to the AML program, with the rest expected to come on line this year, Horowitz adds.

Officials from Pershing and Actimize refused to put dollar amounts on how much individual broker-dealers save through this arrangement, although they emphasize that it is substantial.

Regulators haven't explicitly demanded that all firms have automated AML programs.

But they have emphasized the need for systems that are comprehensive enough to detect potential red flags and suspicious trading patterns, including suspicious activity that doesn't involve money movement. FINRA has also encouraged automation.

"As regulators have been shifting their expectations, we've installed a tool that allows us to react to those shifts of expectations and meet them with adequate tools through the Actimize platform, and, obviously, distributing that to all of our introducing firms and...doing all the heavy-lifting on our end so that they're not maintaining servers, and they're not doing all of the necessary upgrades.

"We're doing that and absorbing the cost for that internally here," says **Doug Walker**, Pershing's vice president of anti-money laundering surveillance.

Horowitz says that Pershing's system has changed with regulator demands. "As AML has changed over the years, we've migrated from the traditional money laundering and focus on money movement to a broader array of suspicious activity, including market manipulation and fraud and tax evasion that our regulators expect us to file SARs on," he explains.

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**AML technology** *(cont. from pg. 1)*

Most small firms wouldn't have the database professionals and other technical workers on board to support such a system, says **Jim Heinzman**, Actimize's managing director of securities solutions.

Tasks involved in having such a system include finding the data that must be entered, entering the data, putting it in a format that can be used, and maintaining the servers and hardware, he says. ■

*(Exam priorities, continued on page 3)*

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