Information management and compliance
Executive summary

Financial institutions continue to recognize the importance of enhancing electronic recordkeeping strategies to achieve regulatory compliance and reduce data storage costs. Financial institutions must consider applicable laws, regulations, subject area, and local policies and guidelines when designing a WORM (Write Once Read Many) architecture to handle increasing volumes of structured and unstructured data.

Select examples of common electronic recordkeeping challenges

<table>
<thead>
<tr>
<th>Definition of records</th>
<th>Identifying the categories of records that are required be retained in WORM format</th>
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<tbody>
<tr>
<td>Retention</td>
<td>Maintaining an accurate inventory of source systems and their WORM compliance status, including vendor systems</td>
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<tr>
<td>Search and retrieval</td>
<td>Effective tagging, specifically when tagging is used for correlating information between datasets or record types</td>
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<tr>
<td>Accountability</td>
<td>Accountability for inputting of records into WORM compliant storage</td>
</tr>
<tr>
<td>Supervision</td>
<td>Effective supervision of electronic records management, including workflow and alerts</td>
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Key drivers for investment

1. Regulatory changes
   - On January 12, 2017, the CFTC unanimously approved its proposal to amend the recordkeeping requirements outlined in Regulation 1.31. The proposed amendments would modernize the recordkeeping requirements based on information technology advances. Prior to this proposed amendment, the CFTC and the SEC electronic recordkeeping requirements were substantially similar.
   - Firms dually registered with the CFTC and the SEC may find themselves subject to different requirements and regulatory expectations if the proposed changes are adopted.

2. Recent enforcement actions
   - On December 21, 2016, FINRA fined 12 firms a total of $14.4 million for failure to meet WORM requirements and other books and records requirements.
   - Seven figure fines for similar books and records violations have been issued in prior years, including $3.75 and $7.5 million fines for systemic record retention failures.

3. Big data and the digital transformation
   - As digital strategies continue to transform businesses, a strategic and holistic approach to integrating IT investments with records management is essential.
   - Records management is part of the value chain in the big data trend, with analytics providing previously unseen levels of insight, resulting in significant competitor advantages.

4. Cybersecurity
   - Increased regulatory scrutiny on WORM storage as an element of cybersecurity. Understanding how books and records flow through the firm (particularly that which includes sensitive or client information) and how it is protected from cyber threats pre-WORM storage. This includes flow of firm data through vendors and understanding the volume of sensitive data stored electronically.
Industry challenges and considerations in recordkeeping

In light of recent regulatory scrutiny, firms tend to experience significant challenges in managing and governing an end-to-end recordkeeping program across all types of information and communication channels. These challenges, combined with technological advances, are directing where firms are choosing to focus their investments.

<table>
<thead>
<tr>
<th>Industry practices</th>
<th>Details</th>
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| **1. Definition of records** | • Identifying enterprise-wide business and transaction records and defining “records” from a recordkeeping perspective continues to be a foundational challenge in many programs.  
• The inability to appropriately define “records” can present challenges related to coverage, the right level of customer confidentiality, and cybersecurity, among others.  
  Consideration: review the definition of “record” retention and preservation for all transactions and official business records including communications as per the SEC 17 a-3, SEC 17a-4 and 17 CFR 1.31 (Rule 1.31) regulations. The record definition phase should involve necessary functions (e.g., legal, compliance, HR, finance and operations) in the enterprise to opine and provide approval. |
| **2. Retention** | • Creating and maintaining an accurate inventory of source and recordkeeping systems (new/modified systems) requires defining multiple channels of governance, processes and control frameworks.  
• Particularly in a decentralized environment, it is critical to maintain a comprehensive inventory of systems along with procedures to retrieve records from the “golden source.”  
  Consideration: list all systems holding all types of records across the bank along with the associated system owners and contingency plans. Carefully classify records, systems and establish a “golden-source” of each record type. Verify that all vendor systems are captured in the systems inventory and meet WORM compliance requirements. |
| **3. Search and Retrieval** | • Effective tagging of business and transaction records continues to be a challenge in the industry, specifically when the tagging is used for correlating information between datasets or record types.  
• Identifying the right technology solution for capturing metadata for records and search functionality is a key to effective retrieval.  
• Searching of records in a timely manner can be challenging in absence of an efficient search interface or sufficient tagged data.  
  Consideration: review operational procedures and technologies utilized to capture, record and retain records. Assess system capabilities from a search perspective to develop procedures necessary to retrieve records. The recordkeeping initiative should include dress rehearsals by applying the procedures/playbook using appropriate stakeholders. |
| **4. Accountability** | • Unclear or incomplete delineation of accountability for inputting records into WORM compliant storage leads to compliance failures.  
  Consideration: review existing procedures to promote clear accountability for inputting records into WORM compliant storage. Implement a formal review of the recordkeeping audit log to validate compliance with the accountability model. |
| **5. Supervision** | • Incomplete or out-of-date supervision procedures with regard to recordkeeping compliance challenges effective supervision.  
  Consideration: review existing recordkeeping supervision policy, routines and workflows for completeness. |
Key electronic record retention platform features

The following features have been identified as key components of a record management platform. They can be broadly categorized under three buckets – supervision, eDiscovery, retention and archival.

<table>
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<tr>
<th>Supervision</th>
<th>eDiscovery</th>
<th>Retention and archival</th>
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<tbody>
<tr>
<td>Workflow and alerts</td>
<td>Classification and tagging</td>
<td>Disposition schedules</td>
</tr>
<tr>
<td>Policy checks</td>
<td>Extremely scalable indexing and searching technology</td>
<td>Granular retention policies</td>
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<tr>
<td>Investigation management and outcome based risk reviews</td>
<td>Metadata preservation and context aware archiving</td>
<td>Coverage management</td>
</tr>
<tr>
<td>Monitoring and flagging communications</td>
<td>Range of connectors, high velocity exporting</td>
<td>Data loss prevention (DLP) blocking</td>
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EY leverages its electronic recordkeeping expertise and experience to offer a wide array of service offerings that enable our clients to adapt to a constantly changing regulatory environment, thereby seizing opportunities and managing risks at every stage of the value chain.

<table>
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<th>Focus areas</th>
<th>Assessment</th>
<th>Policies and procedures development</th>
<th>Implementation and testing</th>
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<tbody>
<tr>
<td>Policies and procedures</td>
<td>Assess existing records retention policies and procedures, practices and resourcing</td>
<td>Define, document and recommend leading practices</td>
<td>Assign program responsibilities and roles</td>
</tr>
<tr>
<td>Records</td>
<td>Assess existing documentation, retention schedules and standards, process and security</td>
<td>Develop global information retention to destruction policies</td>
<td>Apply policies, procedures and standard practices</td>
</tr>
<tr>
<td>Information management</td>
<td>Assess technology and data infrastructure and software, data/records inventory</td>
<td>Establish IT procedures for adherence to retention policies</td>
<td>Develop an IT implementation road map of an integrated Information governance strategy that establishes ownership and oversight</td>
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<td>Cybersecurity and privacy</td>
<td>Assess firm’s ability to manage and respond to evolving threats against an organization’s computer systems and its proprietary and customer information</td>
<td>Design and implement a cybersecurity operating model that aligns with both the cybersecurity and growth strategies</td>
<td>Conduct thorough data inventory</td>
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<tr>
<td>Tech solutions</td>
<td>Assess firm’s ability to respond in a defensible manner to requests for information. Perform an effective vendor evaluation to select an appropriate vendor/system that is aligned with the organization’s strategic direction and outlook</td>
<td>Develop the right plans and procedures for the entire eDiscovery process in the context of regulatory requirements and in the light of cost and proportionality factors</td>
<td>Determine legal and regulatory obligations</td>
</tr>
<tr>
<td>Communication and training plan</td>
<td>Identify key stakeholders and message; assess existing communications and training plan</td>
<td>Create program communications and resourcing plans; create training materials</td>
<td>Develop and perform automated testing to review established retention frameworks</td>
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