

Best Practices for Expert Network Use

SIFMA recently developed "best practices" to provide guidance to broker-dealers on engaging and interacting with Expert Networks and their associated Consultants who provide expertise and knowledge useful in the formulation of investment ideas and in making investment decisions.

Over the past year, many buy-side firms have developed programs to guide them in working with Expert Networks. The below SIFMA best practices could be applicable and serve as guidance to a buy-side when engaging Expert Networks and their associated Consultants.

- **Policies and Procedures** - Firms utilizing Expert Networks should develop policies and implement procedures concerning the use of Expert Networks and associated Consultants.
- **Training** - Firms should provide training for employees who interact with Expert Networks and Consultants. Training should focus on policies and procedures concerning the use of Expert Networks and Consultants. This training could be presented separately or as part of broader training on insider trading, confidential information, material non-public information, information barriers and conflicts of interest.
- **Supervision** - If the use of Expert Networks is a new practice for a firm, its use might require a re-design of the existing supervisory system. In addition, relevant supervisors should be specifically aware of the firm's relationships with Expert Networks and Consultants and should address any material issues that may arise in the course of using an Expert Network.
- **Monitoring and Oversight** - Policies and procedures should be developed requiring firms to escalate for review and take appropriate action on "red flags" that become known to the firm that may be indicative of concerns of conflicts of interest and disclosure of confidential information or material non-public information.

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- **Written Representation** - Firms utilizing Expert Networks should consider requesting certain representations in writing that may include: (1) requiring the Expert Network to assess Consultants' backgrounds for securities law violations; (2) prohibiting Consultants from disclosing confidential information or material non-public information, violating any terms of employment to which the Consultant is subject regarding communication of information; (3) requiring periodic training of, and/or communication to, Consultants regarding the above restrictions; and (4) requiring periodic certification by Consultants of their adherence to the above restrictions.
- **Disclose Firm Policies to Consultants** - At the beginning of any new arrangement with a Consultant, firms should develop procedures for directly advising Consultants associated with Expert Networks of their policies regarding confidential information and material non-public information.
- **Assess Expert Network and Consultant Risk** - Firms should obtain relevant and non-confidential information from an Expert Network or associated Consultant regarding any employment and/or any other arrangements where the Consultant may have access to material non-public information and confidential information. Firms should develop controls to adequately assess risks associated with interacting with Consultants associated with Expert Networks that possess material non-public information and confidential information.



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