Chapter 20: Investment Industry Documentation

Objectives and Classification of Documentation

1. Introduction
    a. Document: a piece of written, printed, or electronic matter that provides information or evidence or that serves as an official record.
2. Objectives of Documentation
    a. The objective of documentation is to education, communicate, authorise, formalise, organise, measure, record, and protect a company's rules, processes, procedures, and activities. This has legal, regulational, and operational benefits.
3. Document Classification Systems
    a. When using, developing, or reviewing documentation, companies and individual should consider three factors:
        i. Origin
            1. Documents can either be classified as either original, derived, or associated.
        ii. Direction
            1. Direction refers to the flow of the document in relation to personnel and hierarchy.
        iii. Level of Standardisation
            1. Standardised Documents: are pre-established.
            2. Ad Hod Documents: are created informally. This does imply additional risk, and companies can therefore create procedures and processes around the creation and dissemination of ad hoc documents.

Internal Documentation

1. Introduction
    a. Internal Documents: are generally administrative and formalise policies, procedures, and processes. Internal documents are an essential element of risk management, as they help to fulfill legal, regulatory, and contractual functions, as well as properly communicating information, and reducing errors and unethical behavior.
2. Document Creation
    a. Standardised documents should be created in a consistent manner, perhaps with a template, and in a way that accounts for legal, regulatory, and contractual obligations. Additionally, designs should be regularly updated, and not just for situations that are event driven.
3. Policy Documentation
    a. Policy documents are used to communicate a company's mission, values, objectives, legal identity, purpose, and activities. Regulation primarily relates to external-facing documents, and mostly provides guidelines for internal documents. There are best practices and industry standards, which smaller companies may not find practical or reasonable to follow. Important features of policy documentation are simplicity and transparency. Policies should include purpose, specifics, parameters, and directions for use and personnel.

4. Procedure and Process Documentation
    a. Procedures are used to bridge policies and processes. Processes set rules, procedures help apply policies, and processes divide procedures into manageable actions. Procedures and process documents describe how to best undertake an activity given internal and external constraints. They should ideally be modular, allowing for easy change, and should account for all relevant elements of risk management.

External Documentation

1. External Documents: aim to articulate business relationships and obligations undertaken by the parties involved and are often legally binding. Types of external documents include contracts, press releases, regulatory reporting, and descriptions of business relationships and activities. Parties involved in external documents can include governments, market participants, institutional market participants and relevant organizations, professional organizations, and investors.
2. The following section, which is a subsection of this one, describes the Client Investment Cycle

Client Investment Cycle

1. Marketing
    a. The beginning of the client investment cycle begins with marketing material aimed at attracting investors. This broad category includes:
        i. Presentation materials that provide background on the company, its products and its services.
        ii. Offering documentation that provides information relating to terms, legal matters, contractual details, and often information about the investment opportunity relating to risk and disclosures.
        iii. Fact sheets that provide summaries of investments and historical performance.
    b. Asset management firms also provide marketing documentation that includes information about the firms' managers, their strategies, competitive advantages, and characteristics of investments such as liquidity, distributed income, and fees.
    c. The less sophisticated the investor, the more information is legally required to be communicated.
2. Client On-Boarding
    a. Client on-boarding refers to the process of accepting a new client and inputting their profile into a company's records, all in order for the business relationship to begin and transactions to be conducted. Firms are held to KYC standards, which require basic information, proof of identity, background check, and submission to anti-money laundering procedures. This also requires mandated reporting of suspicious transactions.
    b. Discretionary Relationships: permit the service provider to act on behalf of the client.
    c. Non-Discretionary Relationships: permit the service provider to undertake only specific tasks that are authorised by the client on a per task basis.
3. Funding
    a. Funding of a client's account is facilitated by a transfer from another account of the clients'. Documentation is created throughout the process in order to formalise, legalise, and protect the rights and obligations of the parties involved.

4. Trading
    a. Documentation is created at each step of the trading process, and it includes information regarding the specific securities, quantity, price, and parties involved. These documents include a submitted-for-dealing note, confirmation of dealing, and a contract note.
5. Reporting
    a. Reporting is used to facilitate communication between a firm and its clients, and this is true for both investment management and equity issuing companies. The information provided in this kind of reporting can relate to valuation, price, quantities owned or outstanding. These reports are generally provided by third parties.
6. Investment Events
    a. There are a number of events that occur throughout the lifecycle of an investment that will result in some form of documentation. This can include expected events such as interest payments, dividend payments. It can also include unexpected events such as corporate actions.
7. Redemption
    a. Upon redemption of an investment, a number of documents must be created that record the client's order and the subsequent exchanges that take place in the process of liquidation.

Document Management

1. Information Technology
    a. Information technology has improved documentation in terms of both efficiency and accuracy. Through IT, more documentation can be created, with more efficiency, greater degrees of automation, and with smaller amounts of error.
2. Access, Security, Retention, and Disposal of Documents
    a. Access: documentation should be available to its relevant parties and the entirety of a firm's documentation should be housed in a central location.
    b. Security: security of information held within documents is essential, both in terms of access from internal parties and external.
    c. Retention: documents should be retained for their entire useful life. This includes accounting for legal stipulations regarding the legal lifespan of an activity and its documents, as retaining documents for this span ensures optimizing actions for risk management.
    d. Disposal: proper disposal of documentation requires that a firm comply with regulation regarding security of confidential and important information.