VISTA360

Perspective – Expert Networks
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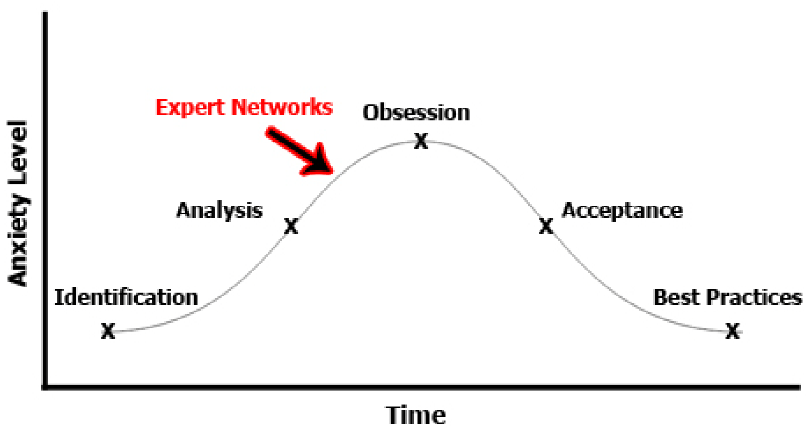
EXPERT NETWORKS AND INSIDE INFORMATION
Guidance for Compliance Professionals

The insider trading probe made public last month following the high profile raids of three hedge funds is set to eclipse last year's Galleon case. While the investigation is focusing on insider trading generally, the industry is homing in on the investigators' interest in expert networks. If your firm engages expert networks or is otherwise at risk of coming into contact with inside information, we recommend you take steps now to address these risks.

Step 1: Identify Your Risks
As we previously highlighted, we have found high profile compliance events such as this one generally follow a bell-shaped curve path, from the identification of the event, through analysis and obsession, and finally to acceptance and best practices. We believe this compliance event resides somewhere between analysis and obsession, meaning advisers and funds should review their business practices now to identify risks of receiving inside information. Don't limit this exercise to expert network matters alone. Does your portfolio management staff come in contact with inside information from sources beyond expert networks? Are they at risk of inadvertent receipt of inside information?



Step 2: Enhance Your Compliance Program
Once you identify the possible sources of inside information, enhance your compliance program to address these risks. We recommend you review your Policy Manual to ensure your insider trading policy is updated to specifically address expert networks, as well as other insider trading risks identified. Be sure to include information to help your employees identify red flags, and clearly articulate what employees should do if they sense they are at risk of receiving inside information. If your firm actively engages experts, you may consider requiring documentation of your analysts' meetings with these individuals.

Step 3: Educate and Train Your Employees
You should also commit time to educate your portfolio management staff on the risks associated with working with industry experts. Be specific when communicating your expectations, and keep in mind the various situations that may arise when engaging experts or other analysts. Employees should err on the side of caution and immediately notify compliance any time they

believe they may be in receipt of inside information. Also, provide potential warning signals of inside information, such as information that seems too good to be true or material information that cannot be substantiated through other public sources. Be sure to provide this training routinely, more than once per year if you identify a real risk.

Step 4: Test for Receipt of Inside Information
Expand your testing program to include specific tests of securities discussed with external experts or consultants. For example, review your analysts' documentation of their conversations with experts or other outside consultants, and review for trading activity concurrent with news released on the security.

Step 5: Conduct Due Diligence on Expert Network Firms
Finally, a thorough due diligence review will help you determine what level of oversight or education the network provider is conducting over their experts. Does your agreement address the expert network provider's responsibility with respect to inside information? Do they record or log conversations? What type of due diligence do they perform over their experts? Your goal is to gain comfort that the expert network provider has a reasonably effective compliance program.

We routinely help advisers build and review insider trading programs. Please call us to discuss how we may assist you in building or reviewing your expert network/insider trading compliance program.