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CHAPTER 20

INVESTMENT INDUSTRY DOCUMENTATION

by Ravi Nevile, CFA, and Robin Solomon

LEARNING OUTCOMES

After completing this chapter, you should be able to do the following:

a Define a document;

b Describe objectives of documentation;

c Describe document classification systems;

d Describe types of internal documentation;

e Describe types of external documentation;

f Describe document management.

INTRODUCTION

1

Documentation touches every aspect of investing, from internal documents to contracts with external parties. Every time an investment manager places an order and purchases a security, for instance, a large number of documents are developed to record the trade.

Documentation provides evidence of how companies operate, interact internally and externally, and deliver their services. Documentation varies across the investment industry and across companies in the investment industry. But the general rules, structure, and logic of internal and external documentation apply to all types of companies. This chapter explains why documentation is important, provides examples of different types of documents, and describes how documents are managed.

OBJECTIVES AND CLASSIFICATION OF DOCUMENTATION

2

A **document** is a piece of written, printed, or electronic matter that provides information or evidence or that serves as an official record—for instance, of the purchase or sale of a security. Some documents are for internal use only. They are generally administrative and reflect a company's philosophy, approach, and activities. Other documents are for external use. These documents convey information to and from the public domain and often help limit the risks that interaction with the public creates.

2.1 Objectives of Documentation

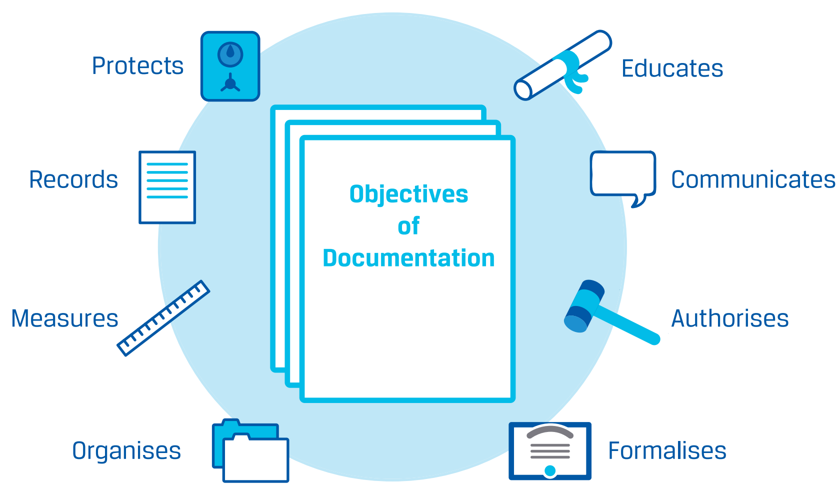
When policies, procedures, and processes are undocumented or poorly documented, there is room for doubt because these policies, procedures, and processes may be subject to interpretation or undue influence. Proper documentation removes ambiguity and is thus critical.

Policies, procedures, and processes are the fabric of companies. They are essential in the investment industry to ensure successful outcomes for clients. Recall from the Regulation chapter that policies are principles of action adopted by a company. They are typically driven from the top down, with rules cascading down through the various business units and functional areas of the company. Procedures identify what the company must do to achieve a desired outcome. **Processes** are the individual steps that the company must take, from start to finish, to achieve that desired outcome. Documentation of policies, procedures, and processes helps to communicate them and to ensure compliance with rules, laws, and regulations.

As illustrated in Exhibit 1, documentation in the context of the investment industry does the following:

- Educates—informs or provides instruction
- Communicates—conveys ideas, concepts, or information
- Authorises—provides the basis, and often the authority, for action
- Formalises—establishes roles, deliverables, and obligations
- Organises—ensures thoroughness and consistency of action, allowing the company to function more efficiently and effectively
- Measures—provides a benchmark for measurement and audit
- Records—preserves learning within the company (also known as institutional memory)
- Protects—provides assurance of a system to safeguard interests and manage risks

Exhibit 1 Objectives of Investment Industry Documentation



From a legal perspective, documents also establish proof: proof of existence, authority, activity, and obligation.

2.2 Document Classification Systems

When using, developing, or reviewing a document, companies and individuals should consider three factors: origin, direction, and level of standardisation.

Origin relates to the source of the document. Documents can be classified by their source as

- original documents,
- derived documents, or
- associated documents.

Example 1 describes an activity—travelling for work—and the classification of documents related to this activity.

EXAMPLE 1. CLASSIFICATION OF DOCUMENTS

An employee travels for work and incurs expenses while doing so.

- The receipt for a taxi or a train ticket is an *original document*.
- The expense claim form the employee has to fill out when she returns to the office is a *derived document*; this document exists because of other documents—in this case, the taxi or train ticket receipt.
- The company's travel policy is an *associated document*. When filling out the expense claim form, the employee may have to refer to the travel policy to determine which expenses will be reimbursed.

Documents "flow" in different directions. Typically, documents associated with policies and procedures "flow down" through a company. Referring back to Example 1, the travel policy document may flow down from the human resources department to all employees via an employee handbook. In contrast, documents associated with reporting usually "flow up". For example, the monthly reports produced by the sales teams flow up to management for review.

A distinction can be made between standardised and ad hoc documents:

- **Standardised documents** are pre-established. They are crafted for a range of specific purposes. Some standard contracts are tailored by negotiation, but their form, content, and purpose are still pre-established.
- **Ad hoc documents**, such as letters, memos, and e-mails, are typically informal. The free-form nature of ad hoc documents means that they carry additional risk for the company, particularly if the records are subpoenaed in a legal dispute. Consequently, companies may implement policies and procedures to impose a process of peer review for ad hoc communication. Peer review should be documented and auditable.

Example 2 illustrates the objective, origin, direction, and level of standardisation of documentation for a policy relating to risk management, a topic covered in a previous chapter in this module—Risk Management.

EXAMPLE 2. RISK MANAGEMENT POLICY

Objective	Authorise, formalise, and communicate in order to explain the company's risk tolerance and risk appetite.
Origin	Derived from regulation, but specific to the company. Associated with the company's mission and strategy and a variety of related internal documents.
Direction	Internal document that flows from the top down.
Level of standardisation	Standardised policy template, formally drafted, approved by the company's board of directors or similar governance body, and adopted by management. Implemented by the risk management and compliance groups.

3 INTERNAL DOCUMENTATION

Internal documents are generally administrative and formalise policies, procedures, and processes. They help reduce risk by preventing errors and unethical behaviour. So, internal documents are the backbone of a company's risk management and are as important as external documents, such as contracts and regulatory submissions.

Internal documents are fundamental to conveying a company's philosophy, approach, and activities. Companies in the investment industry, similar to all companies, are expected to have policies and procedures in place to ensure compliance by employees with applicable laws and regulations. As we noted in the Regulation chapter, it is important to document these policies and procedures so that the company can prove it is in compliance if it is inspected by regulators. It is also important to document that the company follows and enforces its policies and procedures.

3.1 Document Creation

An important aspect of document creation relates to the production style—for instance, the use of a standardised template. Documents that are clearly presented in a style that most people are familiar with help individuals read and understand these documents. They are also easier to use and enable individuals, including board members, to perform their duties more effectively.

A standardised template helps maintain version control. Given the level of legislative and regulatory activity affecting most companies, it is rare for policy and procedure documents to remain static. Any changes reflected in a policy document need to be similarly reflected in all associated procedure and process documents. Simply stating the document title, the version number, and the date on which the version came into effect helps ensure that, in case of a review, a company can show it has made efforts to meet the required standards imposed by the relevant laws and regulations.

Policies, procedures, and processes are living documents and should be subject to a regular review and confirmation process as a function of good governance. This review and confirmation process should not be merely event driven. Even without a notable event, attitudes and practices change over time. So, if policies, procedures, and processes are not regularly reviewed, they can become outdated or even obsolete.

A regular review process is often managed with the use of **registers**, which are documents containing obligations, past actions, and future or outstanding requirements. Registers of the previous and next review dates should be maintained by a control function (generally, the compliance or internal audit function) and scheduled for discussion. A sign-off process is generally also incorporated into the document template.

To ensure clear communication and compliance, it is critical to understand the context of the documentation. Rather than just outlining what to do or not to do in a situation, it is better practice to include a sense of why the policy and required documentation are in place and to whom they apply. Examples 3 and 4 show how providing context may improve compliance with a travel policy and limit the risk of insider trading.

EXAMPLE 3. IMPROVING COMPLIANCE WITH A TRAVEL POLICY

A travel policy that simply states that employees must provide both receipts and boarding cards for air travel is not as effective as one that provides additional context of the reasons for the policy. The company's travel policy not only should clearly state that employees are prohibited from downgrading their class of seat or ticket, but also should mention that the rule prevents employees from booking a higher class of seat, downgrading, and then benefiting from either a cash credit or free flights. The consequences of violating the travel policy should also be explained.

EXAMPLE 4. LIMITING THE RISK OF INSIDER TRADING

A policy statement that merely states that a company's employees will not engage in insider trading is not as effective as one with additional context to make the statement "real" for the employees. It should be explained that the policy has its origin in law and that violation carries penalties for the company and the individual. It should also be explained that the policy applies to everyone who has access to sensitive information that could be considered "inside information", which includes not only decision makers but also anyone with access to sensitive information. For example, the boardroom attendant serving refreshments during board meetings may have access to sensitive information and, therefore, would require training.

The importance of understanding the origins of, reasons for, and implications of documentation, for both the company and the individual, should not be underestimated. People create and implement policies, procedures, and processes, and they need context in which to learn them, understand them, and attribute the proper degree of importance to them. Failure to do so increases operational risk, which can have severe consequences, as noted in the Risk Management chapter.

3.2 Policy Documentation

Laws and regulations require that companies in the investment industry maintain certain policy documents. Policy documents often describe the company's mission, values, and objectives. These documents should be consistent with the company's documents and bylaws, which summarise the legal identity, purpose, and activities of the company.

One role of the board of directors is to ensure that the company works within the law and, in doing so, protects and represents the interests of all stakeholders. This oversight usually results in policy documents that help a company develop and implement procedures and processes.

In general, regulation concentrates on outward-facing documentation, such as product disclosures and other client-focused material. Regulators may issue guidelines for internal documents, but those guidelines are usually not prescriptive—that is, companies generally have flexibility in whether and how to adopt the guidelines or they can develop their own standards.

Many companies look externally to identify standards that should be followed. There are numerous standards that can be readily adopted and applied, including those issued by professional groups. For example, CFA Institute has established the Global Investment Performance Standards (GIPS) for the presentation of investment performance information. In some instances, professional standards are considered "best practices".

It may not be economically feasible, however, for smaller companies to adhere to best practices. An alternative approach for such companies is to apply standards that suit their own specific circumstances. These standards are known as "fit for purpose", and a company using this approach has to critically assess and document its own needs and requirements. The result should strike a balance between practicality and cost on the one hand, and between control and assurance on the other hand.

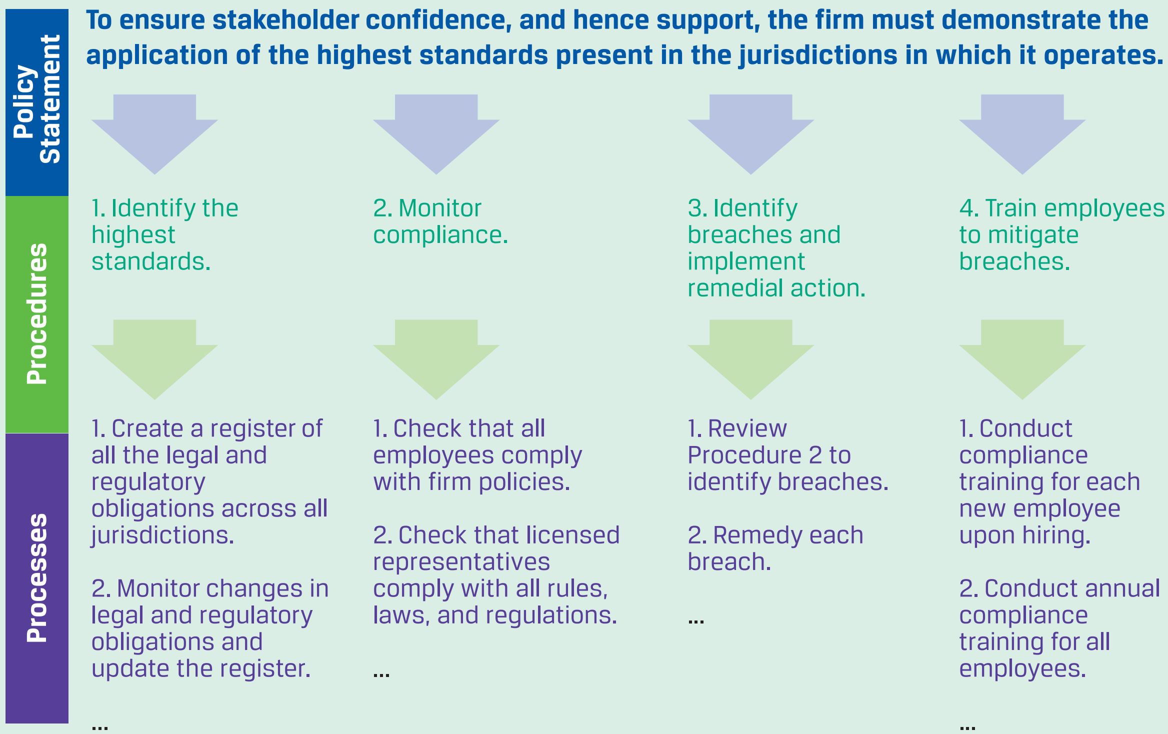
The keys to good policy documentation are simplicity and transparency. Policy statements do not need to be overly detailed, but they should include a statement of intent that explains the purpose and goals of the policy. The statement of intent should cover the circumstances under which the policy is invoked and establish any parameters for its use. The policy document should also clearly designate who needs to comply with the policy and who is responsible for controlling and monitoring activities.

3.3 Procedure and Process Documentation

The role of procedure documentation is often to provide a bridge between the activities that are allowed at the policy level and what needs to happen at the process level. Policies broadly set the rules, procedures help apply policies, and processes divide procedures into manageable actions. To ensure that policies are embedded in a company's culture, various procedures must typically be adopted across different business units and functional areas of the company. In addition, a single procedure could have hundreds of associated processes to be followed.

Example 5 provides an illustration of the relationship between a policy statement and the procedures and some of the processes associated with it for an investment firm operating in different jurisdictions.

EXAMPLE 5. POLICY, PROCEDURE, AND PROCESS DOCUMENTATION



Starting from a simple and concise policy statement about adhering to the highest standards, the firm implements four procedures and processes related to each procedure. For example, the fourth procedure relates to training employees to mitigate breaches and lists a couple of possible processes. The first process listed to train each employee is to ensure that each new employee undergoes compliance training when hired. The second process listed is to ensure that all employees go through compliance training every year.

Procedure and process documents communicate how best to undertake an activity while taking into account internal and external constraints. A company must continually reassess its procedures and processes and keep them current. But finding fault with current practices without understanding the circumstances behind their creation is shortsighted. It is important to understand the history and background of a procedure or process and the limitations in place at the time of its creation. Companies must also make sure that all employees receive adequate training regarding existing procedures and processes, and that they are kept informed when changes are made.

Making changes is never easy, so it is advisable to make processes modular—that is, they should be made up of separate elements that can be reviewed and replaced independently of each other. Modular processes allow companies to avoid replacing everything when a single element changes. In addition, some processes may be repetitive, so a particular process can be documented just once and then referenced a number of times when drafting procedures.

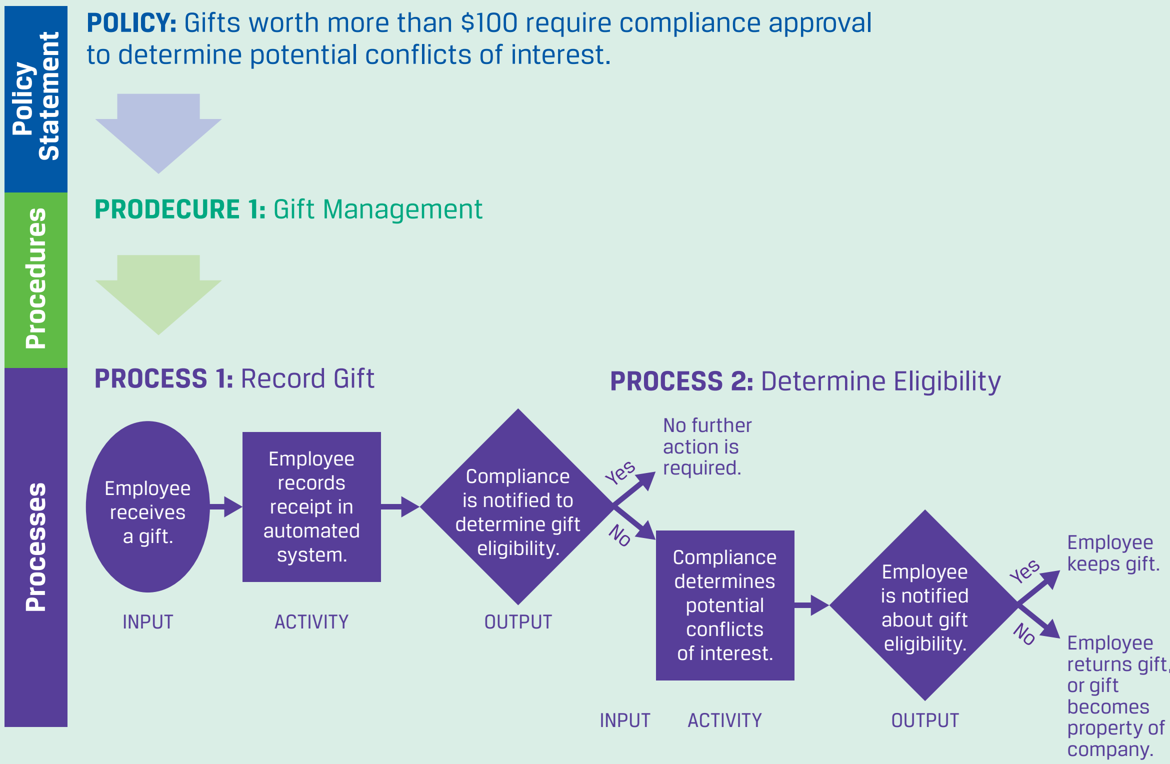
An important consideration when creating or reviewing procedures is risk management—without a strong control environment, processes are at risk of error. As discussed in the Risk Management chapter, failure to follow processes can lead to damage to the company's reputation and the loss of existing and potential business opportunities. Thus, controls should be embedded in the procedure and drafted with risk management and compliance in mind.

As with policies, context is critical in the creation of procedures and processes. Understanding where inputs come from, where outputs go, and what they will be used for provides that context. All procedure documents follow a similar pattern: an input initiates an activity that results in an output. Process flow diagrams, such as the one provided in Example 6, are a good visual aid to provide context because they show the sources of inputs and the uses of outputs in processes. In particular, they help visualise a chain of linked activities and thus represent a simple and efficient tool when a number of contingent activities take place.

EXAMPLE 6. PROCESS FLOW DIAGRAM

Assume that an asset management firm has a gift policy stipulating that gifts worth more than $100 require compliance approval. The policy is intended to prevent conflicts of interest that might arise if receiving gifts influences employees' behaviours. So, the asset management firm has established procedures and processes that employees must follow when offered gifts.

Suppose an employee receives a case of wine as a gift from a brokerage firm she regularly uses. Should she accept the gift? The employee faces an ethical dilemma, similar to those discussed in the Ethics and Investment Professionalism chapter. Before making a decision about accepting or rejecting the gift, the employee should refer to her firm's gift policy, which describes the procedures and processes to follow. The following procedure and process flow diagram should guide the employee.



The first procedure refers to gift management. The first process in that procedure starts when the employee receives the case of wine—that is, the input. Her first activity is to record this gift in the automated system, which triggers a notification to the compliance department—that is, the output. If the gift is eligible, the employee receives an automatic notification that she can accept the gift and no further action is required. Alternatively, the compliance department may need to determine whether there is a potential conflict of interest, which would trigger a second process. If the compliance department concludes that the gift is eligible, the employee can keep the case of wine. But if the compliance department decides that the gift is not eligible, the employee must either return the case of wine to the brokerage firm or give the gift to the company.

EXTERNAL DOCUMENTATION 4

External documentation exists between a company and external parties, including clients, market participants, and service providers. **External documents** aim to articulate business relationships and obligations undertaken by the parties involved and are often legally binding. Examples of external documents in the investment industry are a contract between a buyer and a seller of an asset, an investment management agreement between a firm and a client, and a "know-your-client" (some people call it KYC) document for a new client. Because contracts and other legally binding documents are governed by law and are enforceable, parties are usually motivated to comply with them. If any of the parties fail to fulfil their obligations, the law offers the other party or parties protection or help. The level of protection or help often varies depending on the jurisdiction that applies to the contract.

External documents may also be used to inform the public or other external parties about a company's activities or changes in its business—for example, a press release announcing the appointment of a new chief executive officer, a marketing presentation for a new investment product, or a statement about the launch of a new website.

Parties that can be involved in external documents include the following:

- Governments, legislators, and regulators
- Groups that help organise the market, such as stock exchanges, clearing houses, and depositories
- Market participants active in facilitating investments or transactions, such as banks, brokers, and asset managers
- Professional firms and individuals serving the needs of the industry, including credit rating agencies, auditors, lawyers, consultants, and trustees
- Investors, including retail clients and institutional investors

The relationships between parties dictate how they use documentation to formalise their relationships.

The rest of this chapter focuses on a typical client interaction and the different types of external documents that exist at different stages of the client's investment cycle. Differences among products, laws, and regulations in different jurisdictions, as well as the client's objectives and constraints, affect the nature of the client interaction and hence the documentation involved.

Exhibit 2 illustrates a typical client interaction cycle. Because it is a cycle, there is no true beginning or end. The typical stages include marketing, client on-boarding, funding, ongoing reporting, investment events, and redemption. At each stage of the cycle, different documents are required. Samples of documentation for each stage are described in Sections 4.1–4.6.

Exhibit 2 Typical Client Interaction Cycle

4.1 Marketing

Most companies in the investment industry share the same basic objective of winning clients. So, most companies' documentation at the marketing stage of the cycle shares the same purpose: to promote and position the company's products and services to persuade the client to invest.

Marketing documentation for a company in the investment industry typically includes the following:

- Presentation materials that provide background on the company, its products, and/or its services
- Offering documentation, such as a prospectus or term sheet, which are legal documents that contain detailed information about the terms and conditions of the investment opportunity, highlight various risks, and make other required disclosures
- Fact sheets about the company's products that provide short summaries of the investments and typically detail historical performance

For asset management firms, the marketing documentation also contains information about the managers, including their investment strategy and competitive advantages. Other features include past performance, risk analytics, and characteristics of the product, such as liquidity, distributed income, and fees that will be borne by the client.

Marketing materials are typically regulated to ensure that companies in the investment industry provide fair representations of their products, as discussed in the Regulation chapter. The regulation is usually more onerous as the client's level of investment sophistication decreases. Most developed markets tightly regulate the sale of financial products to retail investors, who are considered the least sophisticated investor type.

4.2 Client On-Boarding

Client on-boarding is the process by which a company accepts a new client and inputs the client's details into its records to enable the company to conduct transactions with and on behalf of the client. Companies in the investment industry usually have a legal obligation to verify the identity of a potential client by means of a know-your-client (KYC) process before commencing a relationship with the potential client. The typical KYC process requires the client to

- complete a questionnaire and provide personal background information, including documentary proof of identity (for instance a passport), addresses, and other personal details.
- be screened against various global databases to ascertain whether he or she is known or wanted by local or international law enforcement agencies.
- submit to anti-money-laundering checks at on-boarding and thereafter to identify any potential suspicious transactions that the company would be obligated to report to a regulator.
- provide proof of the source of funds to verify that the money does not originate from an illegal or criminal source.

Companies must constantly monitor activities and transactions to ensure that they are not suspicious. If something suspicious does arise, companies must report that activity or transaction to the authorities. The heavy penalties imposed by most regulators globally help combat identity theft, criminal activity, and the flow of money from illegal sources into the financial services industry, including the investment industry.

The KYC process also serves to define the client's level of knowledge and sophistication, assign associated and specific risk profiles, and assess any possible restrictions. Depending on the type of client and the purpose of the relationship, different types of information might be required to ensure that the company provides appropriate products and services for the client's needs.

Moreover, the KYC process is important in setting the basis for the relationship, in particular to differentiate between discretionary and non-discretionary relationships. **Discretionary relationships** permit the service provider to act on behalf of the client—for example, as an investment manager with a specific mandate or as a trustee of a trust. In such cases, the service provider must act in the best interest of its clients. In contrast, a **non-discretionary relationship** permits the service provider to undertake only specific tasks that are authorised by the client on a per task basis.

4.3 Funding

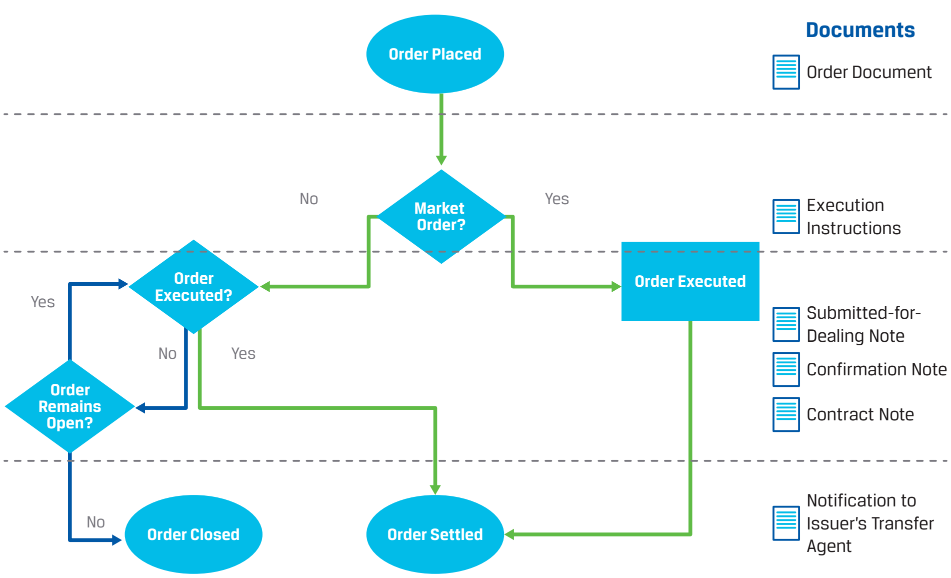
Once the client on-boarding process is complete and the relationship has been initiated and approved by the compliance department, the next stage is the cash transfer and the investment of the money. The client authorises his or her bank to make a payment to the company's client account, and the bank acts on this instruction and provides a confirmation of the cash transfer. After receiving the money, the company initiates the investment transaction and sends a formal confirmation to the client. For example, the documentation associated with the investment transaction could be a share certificate or confirmation of an investment in a mutual fund.

Each step in the funding process relies on external documentation to formalise, legalise, and protect the rights and obligations of each of the parties involved. Service providers may provide transaction, safekeeping, or administrative services to the client or the company, and external documentation would also be used to record activities related to these activities.

4.4 Trading

Documentation is important in trading—to provide a record of which assets were ordered and traded, in what quantity and at what price. You may be surprised just how much documentation must be produced for a single order and trade.

The diagram below shows a simplified version of the trading process, as presented in The Functioning of Financial Markets chapter. It illustrates some of the documents that may be produced during a trade. Depending on the asset, where it is traded, and between which counterparties, the documentation required can vary widely.



When an order is placed, a document is sent to the chosen trading venue, specifying what security to trade, whether to buy or sell, and how much should be bought or sold. Another document is often attached, as discussed in The Functioning of Financial Markets Chapter, giving instructions about order execution, exposure, and time-in-force.

Once the order has been received, a number of documents record the progress of the trade until execution. These include:

- A submitted-for-dealing note
- Confirmation of dealing
- A contract note once the trade is complete

Once the trade has been settled, the settlement agent reports the trade to the issuing company's transfer agent. This generates yet another document. Documents will also be produced by accounting and other departments.

4.5 Reporting

After funding, regular communication will occur between the company and its client. A valuation (if a market price is available) or an appraisal (that is, an estimation if no market price is available) of each asset held is sent to the client on a regular basis. For example, a mutual fund may report the fund's daily net asset value per unit in a national newspaper.

Reporting documentation usually takes the form of a statement, often provided by a third-party custodian or administrator. The statement typically contains information on the asset, including its fair value per unit and the quantity of units held at a particular point in time. It may also contain performance information, measured by the change in value over various periods of time—a quarter, a year, or perhaps a longer period. Certain standards, such as the GIPS standards mentioned in Section 3.2, apply to how the valuation is performed or how the performance is presented. Along with valuation and performance statements, clients may receive a range of other documents, such as investment reports, annual financial statements, and risk management reports.

4.6 Investment Events

Over the life of the investment, numerous events may take place that affect the client or require the client to take action. These events lead to further external documentation.

Some events are expected, such as regular income in the form of interest from a bond investment, dividends from an equity investment, or rental income from a commercial real estate investment. Typically, income is accompanied by a written confirmation of payment to the client or of re-investment. Income must be accounted for in future performance reporting as well as for income tax purposes.

Unexpected events that lead to external documentation include the following:

- Merger and acquisition activity. If a company merges with, spins off from, or acquires another company, its business and operations may change, affecting the client's investment.

- Bankruptcy. If a company files for bankruptcy or undergoes a reorganisation, the client may be affected, depending on the nature of the underlying transaction or investment. There will be written communication about the legal process, the rights of the parties involved, and any liquidation.
- Natural disaster. This type of event may affect a real asset or even a financial asset.

4.7 Redemption

At some stage, a client may want to redeem or sell an investment. Depending on the type of investment, a written request may be required. After verifying the authenticity of the client's instruction, the company arranges for the investment to be sold. The timing of redemption depends on the type of investment and its liquidity. When the investment is sold, the company's authorised signatories allow the bank to release the cash proceeds. A final written confirmation statement is then sent to the client.

Although redemption is the end of a transaction, it does not necessarily mean the end of the client relationship. The client may want to invest or conduct other transactions with the company in the future. The documentation relating to the final transaction will be retained, as discussed in Section 5, should there be any future dispute or disagreement between the parties.

DOCUMENT MANAGEMENT 5

It should by now be clear that documents serve an important role in establishing the rules by which a product or service is supplied, in formalising the rights and entitlements of ownership, and in recording events that take place after the purchase of an asset. Given that millions of typical client interactions occur each day and given the complexity of all the different parties involved in the investment industry, the amount of existing external documentation is enormous and constantly growing. This final section describes some of the aspects of managing documentation, including the role of information technology and how companies access, secure, retain, and dispose of documents.

5.1 Information Technology

Information technology (IT) has greatly enhanced our ability to collect, collate, manage, and distribute documents. It has also greatly advanced the automation of processes, to a large degree eliminating the need for some traditional internal documentation. In the past, rules were physically documented, but today, rules-based systems allow enforcement of processes by building controls into operating systems.

IT has also affected the way external documentation is handled. Thanks to the advent of straight-through processing (STP), also referred to as straight-through exception processing (STeP), the need for manual intervention has been removed. It is often possible to capture inputs—including client interactions—from outside the company by directly accessing a company's IT systems. In some instances, the need for physical documentation has completely disappeared. Examples include the use of internet banking and online share trading, which eliminate the need for deposit/withdrawal slips and trade order tickets.

The use of IT can also reduce risk. For example, payments from an investment account may be subject to fraud. To limit the risk of fraud, payments typically require a dual sign-off process. If implemented correctly, a dual sign-off process makes collusion between two parties easier to identify. Automated processes also help reduce errors. For instance, the manual dual sign-off process involves a physical cheque and two signatories, which is time consuming and prone to errors. A fully automated process that relies on dual independent (blind) input with automated reconciliation and release reduces the risk of errors and time for review.

5.2 Access, Security, Retention, and Disposal of Documents

The importance of document management cannot be over-emphasised. Easy access to documents is essential for an efficient business operation. Document management also enhances security, including confidentiality and protection of client information. Given the huge amount of data available on every client, it is important that companies take responsibility for the proper retention and disposal of client-related documents too.

Access. Documents that staff need to access should be easily retrievable. Companies usually have a centralised repository that is often electronic: a read-only drive, document database, or documentation management system capable of storing internal and external documents relevant to the company's business activities.

Security. As discussed in the Risk Management chapter, protecting confidential information is important and often a legal or regulatory requirement. Although documents should be accessible, they also need to be secure—that is, accessible only to appropriate people. So, only authorised staff should be able to access restricted documents, such as compensation data or confidential client information. In addition, companies must ensure that no outside party can gain access to documents that are for internal use only. Failure to secure documents can harm a company's operations and reputation.

Retention. Documents are official records that offer proof and protection. So, it is important, not only for business reasons but also often for legal or regulatory reasons, that all documents are retained until the risk associated with the action described in the document no longer exists. There are generally laws or policies in place to prescribe document retention. Each legal jurisdiction has its own time frames for retention, and some types of documents may have more specific time frames than others. Although most documents today are held electronically, there are still requirements to hold physical, original documents. These documents include certificates of title, contracts, and trust deeds. Companies typically store historic information, backups, and physical documents at an off-site location, which is often managed by a third party.

Disposal. Documents cannot simply be archived and forgotten. Specific destruction or disposal instructions should be applied to all archived information. Companies have a responsibility to discard or destroy documentation after the retention period. This responsibility is particularly important with respect to sensitive information, such as personal information about individuals. Most developed markets have strict legislation around data protection and companies' obligations to permanently delete confidential information, whether stored in electronic or paper format.

SUMMARY

Whatever your role in the investment industry, you will have to deal with documentation. Properly prepared documentation can save you and others time, assist everybody to perform their role better, and help protect you and your company against unethical behaviour. Key points in this chapter include the following:

- Documents provide information or evidence or serve as an official record.
- There are many reasons to document information, including educating, communicating, authorising, formalising, organising, measuring, recording, and protecting.
- Documents can be classified in terms of origin, direction, and level of standardisation.
- Internal documents are generally administrative and are used to formalise policies, procedures, and processes. Important features of internal documents include context, version control, and regular review.
- Policy broadly sets the rules, procedures help apply policies, and processes divide procedures into manageable actions.
- Laws and regulations require the creation of a number of policy documents. Some policy documents reflect professional standards that are considered "best practices". Others are "fit for purpose", meaning that they meet the company's needs and requirements.
- Procedure and process documents communicate how best to undertake an activity while taking into account internal and external constraints. They are critical for mitigating risk.
- Policies, procedures, and processes can be supplemented by useful tools, such as registers and process flow diagrams, to aid users in understanding and completing a chain of linked activities.
- External documents are often contractual and enforceable by law, providing protection of rights as well as imposing obligations on the parties involved.
- A typical client interaction cycle includes documents related to marketing, onboarding (including know-your-client and anti-money-laundering processes), funding, reporting, investment events, and redemption.
- Document management requires information technology to access, secure, retain, and dispose of documents. It is usually subject to legislative and regulatory constraints.