

Lance Zinman Quoted on Regulatory Guidance for Quantitative Managers

September 6, 2018

Lance Zinman, Global Co-Chair of Katten's Financial Services practice, was quoted by *The Hedge Fund Law Report* in the second article of a three-part series on regulatory risks, actions and guidance for quantitative managers. Lance noted the significant regulation and enforcement activity on the futures side. As an example, he indicated the Commodity Futures Trading Commission (CFTC) is falling behind the industry despite efforts to be aggressive on manipulative trading and spoofing. "It is inherently in the interests of firms that the algorithms be properly tested and deployed. If the algorithms do not work, then it leads to losses." He added, "The SEC, in particular, has steered clear of prescriptive rules regarding spoofing. That agency has ample authority under Rule 10b-5 under the Securities Exchange Act of 1934, but it must prove more than mere negligence. Rather than using its rulemaking authority, the SEC tends to use its exam and enforcement powers when dealing with allegations of spoofing. Managers should be prepared to demonstrate that they have conducted the proper diligence and surveillance to proactively identify issues before they become problems."

Lance encouraged quantitative managers to think about the same compliance issues as fundamental managers, but be cognizant that compliance in a quant fund requires more coordination on the front end. He stated, "If the SEC or CFTC examines a quantitative manager, the code and logic is there in plain sight. The code is a footprint, showing exactly what the manager did or is doing." ("An Introduction to Quantitative Investing: Regulatory Action, Guidance and Risk (Part Two of Three)," August 23, 2018)

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