US trends in market abuse and trade surveillance

As regulatory scrutiny increases, what future challenges do firms face?

Contents

Executive summary

Earlier this year, we published a research report examining global trends in market abuse and trade surveillance. As part of that exercise, one thing became immediately apparent: the US is in a league of its own when it comes to regulatory enforcement.

As you will see in this report, US regulators consistently rank first for both the volume and severity of their enforcement action. During the period under examination, they issued 133 fines totalling $2.67bn compared to 72 fines equalling $251m for all other regulators across the globe.

Naturally, the stark contrast between these statistics raises a key question - why are US regulators taking so much more enforcement action against the perpetrators of market abuse when compared to other jurisdictions? This report explores the nuanced explanations that sit behind the main headline.

With this goal in mind, eflow commissioned independent researchers that specialize in financial regulation to undertake qualitative and quantitative analysis of US enforcement action. They then compared these trends to those from other parts of the world to better understand the driving forces behind these disparities.

Firstly, they analyzed regulatory enforcement across several of the world's leading financial markets to illustrate the similarities and nuances that exist between global regulators. This analysis highlighted several key takeaways:

- As expected, non-US regulators have taken a vastly different approach to regulatory enforcement, not just in terms of financial severity, but in general approaches to non-compliance based on differing cultural and societal factors.

- Even when the largest penalty to take place during the examination period is excluded (JP Morgan Chase and Co, $920m), US regulators still lead the rest of the world by far with regards to average and total fine value.

- The US is the only jurisdiction to consistently issue fines for short selling-related violations, with FINRA and the SEC issuing $42.5m worth of penalties across 20 individual fines compared to less than $10m for all other jurisdictions.

With the analysis completed, several key trends began to emerge. Patterns of historic enforcements provide us with vital information which can be used to predict future regulatory developments, allowing both regulated firms and regulators themselves to better equip themselves for future challenges. The three key trends we discovered were:

- We are in the wake of several generationally significant global shocks, each of which have had (and continue to have) a seismic impact on market dynamics and regulatory strategy. These are likely to dominate the financial landscape for several years to come.

- The rapid acceleration in the use and sophistication of technology creates both risk and opportunities from a regulatory perspective. The emergence of digital assets and AI means that the potential for bad actors to perpetrate market abuse has possibly never been higher, but at the same time Regtech and Suptech offers compliance professionals and regulators more insight than ever before.

- The seemingly relentless globalization of the world is creating new challenges for regulators. Financial markets are now increasingly borderless and information flow is quicker and more efficient than ever before; this creates new opportunities for market abuse that financial firms will have to be prepared for.

US regulators may lead the pack when it comes to enforcement, but they are still subject to the influences of global financial and geopolitical trends. It is the job of compliance professionals to understand these trends, and future proof their firms from the impending challenges which will doubtless soon arise.

The work of compliance professionals has never been more challenging, but neither has it been more vital.

We hope that this report offers some interesting insights that will help to inform your firm's regulatory outlook.

Ben Parker

Chief Executive and Founder, eflow

Contributors

Ben Parker is Chief Executive Officer and Founder of eflow Global, one of the world's leading RegTech providers. Ben is an expert in financial services regulation and has a wide range of experience in tackling market abuse and developing the latest advances in trading surveillance. Having recognised the growing regulatory pressures that compliance professionals are facing, Ben's mission at eflow is to create a new standard for digital infrastructure that can allow businesses to get one step ahead. Ben joined the company in 2004 as COO and most recently led eflow's Series A funding round of £7m.

Ben Parker

eflow CEO & Founder

Dr. Sian Lewin

Industry Expert

For the past five years, Sian was a Co-Founder of RegTech Associates, where she led research and client delivery activities. RegTech Associates was a research company founded in 2017 specializing in deep industry insights about Regtech and Risktech markets. As well as being a practitioner, Sian also has an academic background in regulation. In 2017, she was awarded a PhD from the London School of Economics. Her systematic research explored the challenges faced by banks in dealing with the volume and speed of regulatory change following the 2008 financial crisis.

With an extensive background in technology at a senior level, Jason's experience includes significant roles at Motorola, JP Morgan, and Credit Suisse. He possesses strategic acumen and has honed his skills in stakeholder management and aligning incentives, developed through lengthy tenures at these organizations. By 2017, he had established a research and advisory firm, focusing on the Risk and Regulatory Technology sectors. Additionally, Jason contributes as an investor and board advisor to early-stage start-ups and holds a position on the Financial Conduct Authority (FCA) Innovation Advisory Group.

Jason Boud

Industry Expert

Analyzing enforcement trends

To better understand the US regulatory landscape, it first needs to be contextualized as part of a global picture. To this end, we undertook a quantitative analysis of regulatory enforcements across the globe between Q1 2019 and Q3 2023. A focus was placed on North American regulators with further analysis of other global regulators to provide additional context. The research focused on five enforcement categories:

Disclosure to the market

Failure to provide accurate information to the markets by regulated entities. This includes disclosure requirements on corporate insiders - shareholders who own ~10% or more of the firm's stock, and the firm's officers and directors, who must disclose their trades in the firm's stock after the trades are made.

Insider trading

The trading or amending of existing orders when in possession of Material Non-Public Information (MNPI) classifies as Insider Dealing and is an illegal practice. It includes, but it is not wholly restricted to:

- Trading (whether selling/buying) or placing/cancelling orders when in receipt of non-public information that impacts the price of an asset (such as takeover offers or financial results)
- The dissemination of MNPI to other individuals
- Front running client orders (although pre-hedging is legal and allowed)

Short selling and related violations

Any transaction that breaches regulations regarding short selling. Short selling involves the practice of borrowing a security and selling it at current market value with the expectation that the price is going to fall. If the price does fall, they will buy the shares at a lower price and return them.

Market manipulation

The deliberate attempt to alter the free and fair operation of a market to create false or misleading appearances with respect to the price or liquidity of an asset. This includes:

- Marking the open and marking the close
- Wash trading
- Spoofing
- Layering
- Ramping
- Momentum ignition

Trading

This enforcement category includes any regulatory breaches related to transaction or trading errors. These breaches are generally the result of failures and controls which enable illegitimate transactions. They can be easier to prove than other categories because they do not require judgements on the intentions behind the trade, simply the facts of whether a trade should have been executed or not.

US enforcement compared to the rest of the world

One of the most immediately apparent trends when analyzing enforcement action across the globe is the high volume and severity of fines issued by US regulators.

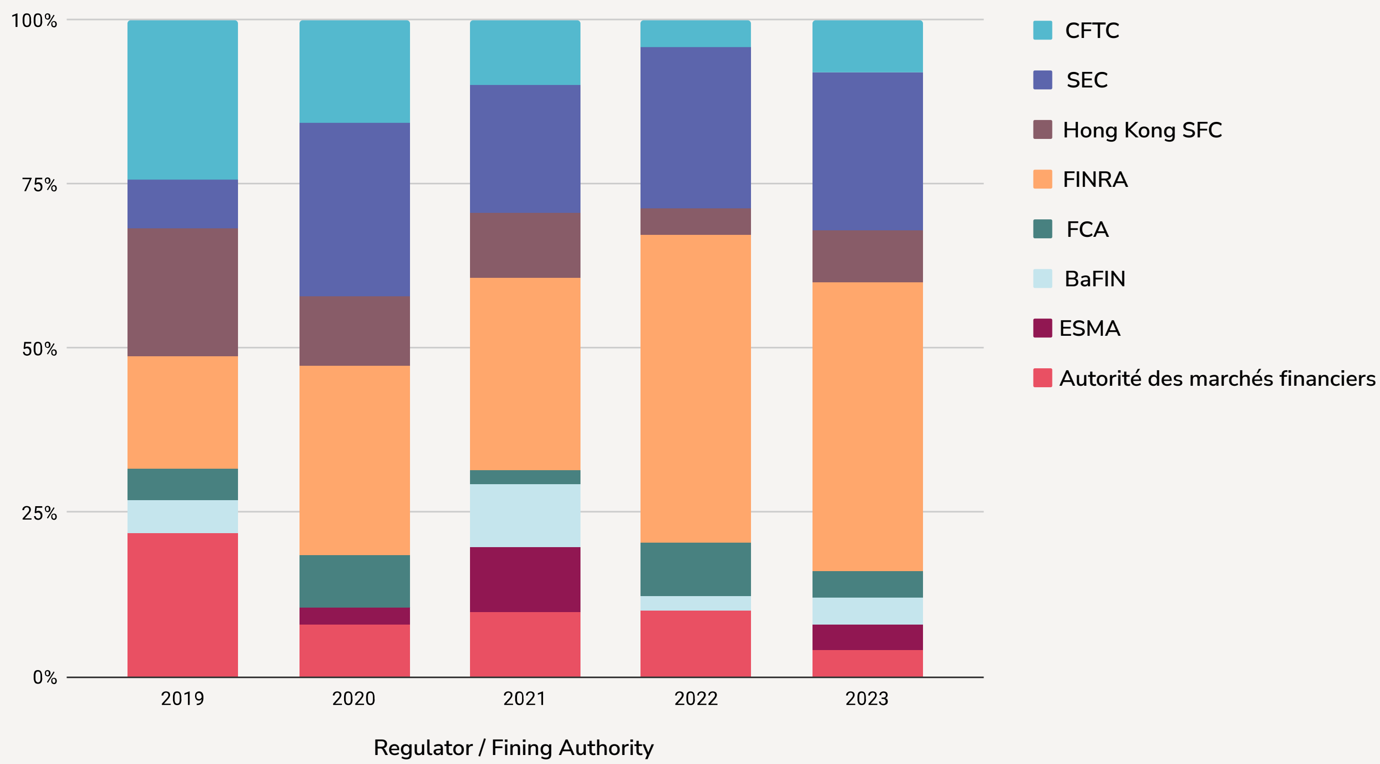
Perhaps unsurprisingly, the US was clearly the most active regulatory jurisdiction during the period in question, with 133 fines totaling $2.67bn issued by regulators. While the overall value of penalties is buoyed by a single JP Morgan Chase and Co penalty worth $920m, even when that individual case is taken out of the equation, the average fine issued in the US was still far higher than other jurisdictions at $13.2m.

These numbers become all the more noteworthy when compared against other global regulators. The AMF in France led European regulators in terms of activity. They issued 23 penalties worth $111m during this period, more than twice as many as the UK (10 fines totaling $87m) and Germany (9 fines totaling $15m). While the UK's Financial Conduct Authority (FCA) issued significantly fewer penalties overall, the fines associated with each case were significantly harsher, averaging $8.7m versus the AMF's $4.8m.

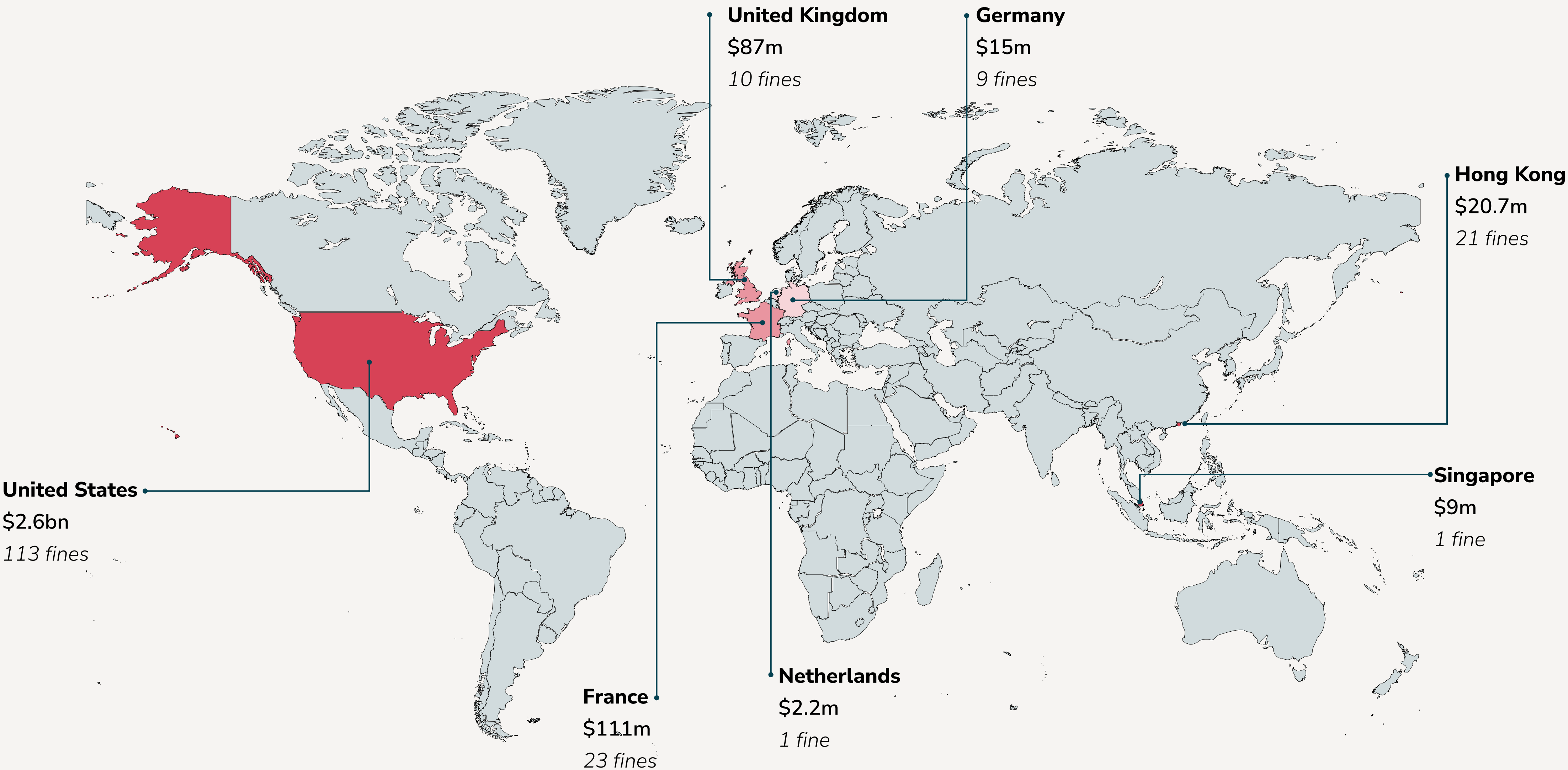
It's the approach of regulators in APAC that perhaps offers the greatest contrast to US enforcement strategies. Hong Kong's SFC issued just one fine of $9M during this period, while Singapore's MAS did issue 21 fines but with a cumulative value of only $20.7m.

This is primarily due to the region's more reserved enforcement approach. Rather than using huge fines as a deterrent as in the case of the US, these regulators tend to operate with discretion, reflecting cultural values that emphasize individual accountability and societal harmony over public reprimand. In this environment, fine values are relatively less important due to the higher cost of reputational damage.

Percentage of fines issued per regulatory authority



Global overview of regulatory enforcement actions Q1 2019 to Q3 2023

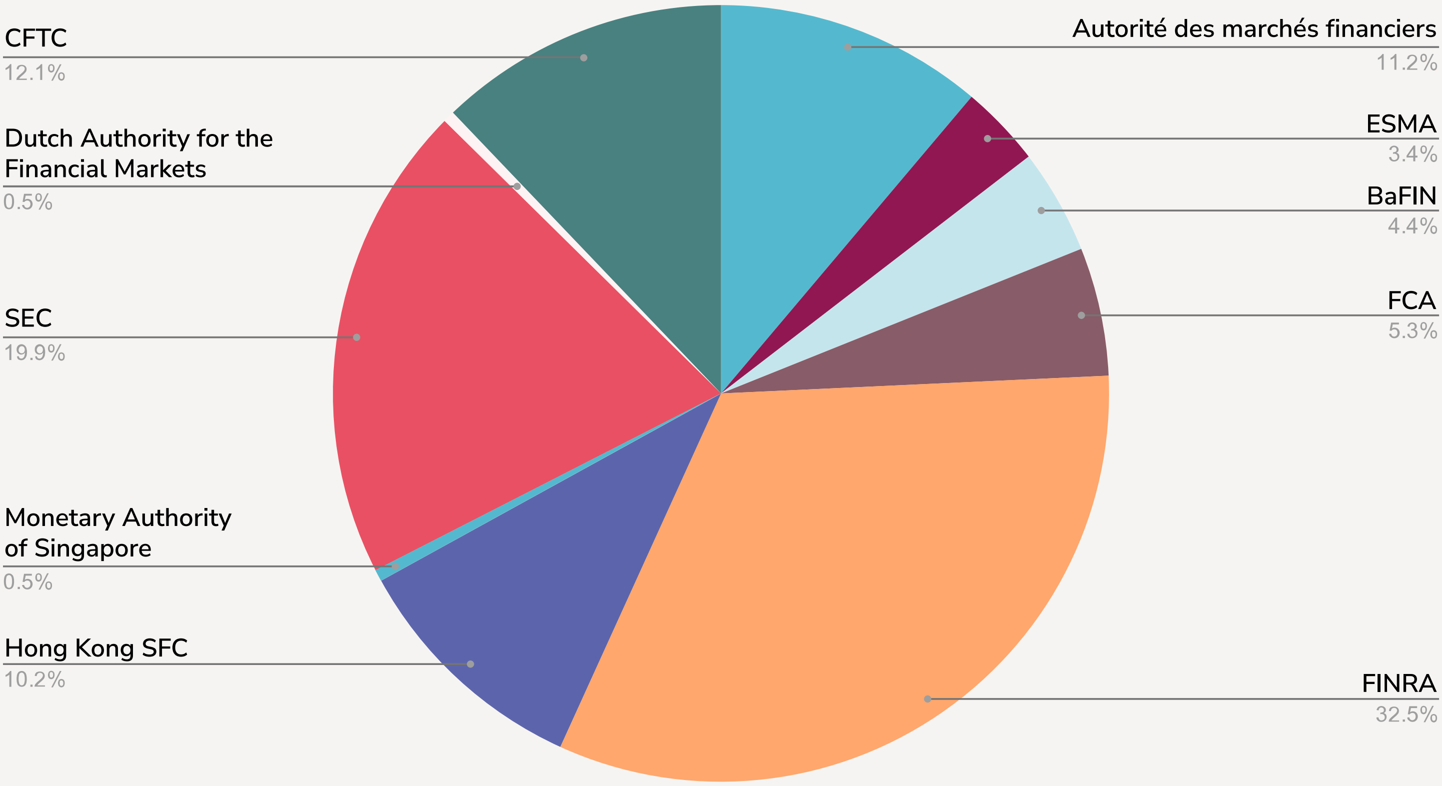


A deep dive into US enforcement action

During the period analyzed for this report, American regulators ranked first for both frequency and value of fines for market manipulation when compared to other global regulators. The CFTC ranked first for severity of fines, with an average fine amount of over $57m during the analyzed period.

With regards to frequency, FINRA ranked first with a total of 67 fines issued, followed by the SEC with 41 enforcement penalties. For comparison, all non-US regulators combined issued 71 fines during the same period.

Percentage of fines issued by each regulatory authority



Key case - Lek Securities

Lek Securities were fined twice in 2019. The first instance was a $900k fine from FINRA for failing to supervise and prevent manipulative trading practices by foreign traders using their platform, including layering and spoofing. The SEC also fined them $1.5m for being complicit in the layering and cross-market manipulation of a Ukraine-based firm, Avalon FA Ltd, between 2014 and 2017.

Short selling

The volume of short selling-related enforcements from US regulators compared to other jurisdictions is another noteworthy point. FINRA was the only regulator to consistently enforce short selling fines in all observed periods, accumulating $21.6m across 15 fines. Over the same period, the SEC issued $20.9m in short selling fines, despite enforcing only five penalties.

Other jurisdictions had comparatively few short selling fines enforced. The SFC were active between 2019 and 2022, but did not record any penalties in the first three quarters of 2023. Their accumulated $7.8m in short selling fines represents 70% of their total core fines. Other regulators were noticeably inactive in this area, with the FCA recording just one fine in 2020, whilst the CFTC, AFM, MAS, BaFin, ESMA and AFM didn't enforce any short selling fines during this period.

Key case - Bank of America

Bank of America faced three fines from FINRA for short selling violations over the observed period:

$150k in 2020 for multiple reporting and supervisory failures between May 2012 and September 2017. They incorrectly reported over 11,625 short sales without the necessary indicators and mismarked 32 sell orders as long sales, due to a persistent system issue.

$850k in 2021 for improperly netting trading activities of affiliated broker-dealer customers for close-out obligations and claiming undue pre-fail credit. The firm collectively calculated fail-to-deliver positions and pre-fail credits, allowing the use of purchases by one affiliate to reduce another's obligations. They also erroneously included foreign and non-broker-dealer affiliates' securities positions in calculating net positions of independent trading units.

$1.5m in 2021 for an inadequate supervisory system which led to failures in detecting, resolving and preventing the consequences of short positions in municipal securities.

Commodities enforcement

In the commodities market, single and cross-market spoofing, as well as insider trading, are the primary market abuse risk typologies. As such, these areas make up the majority of enforcement actions relating to commodities.

The CFTC further intensified its enforcement efforts in 2023, including a record number of enforcements to manipulation and spoofing actors. These cases demonstrate the CFTC's commitment to enforcing regulations against manipulative and deceptive practices in commodity markets, with a focus on holding individuals and entities accountable. The actions span a wide range of commodities and trading platforms.

Spoofing

August 24, 2022 - CFTC orders Chicago trader to pay $100k for spoofing in natural gas and RBOB futures

This order against Chicagoan Eric Schwartz finds that Schwartz spoofed—defined in the Commodity Exchange Act (CEA) as bidding or offering with the intent to cancel the bid or offer before execution—in calendar spreads involving Natural Gas (NG) and Reformulated Blendstock for Oxygenate Blending Gasoline (RBOB) futures contracts on the Chicago Mercantile Exchange on multiple occasions from approximately April 2020 to July 2020.

September 26, 2022 - CFTC orders California trader and prop firm to pay $750k for spoofing in treasury futures

The order against Randy Chen, who was a Tanius employee at the time, finds that he engaged in spoofing on over 1,000 separate occasions from October 1, 2020 to June 30, 2021 in 12 CME futures contracts — primarily Treasury futures contracts. The order against Tanius finds the firm vicariously liable for Chen's spoofing, which Chen engaged in while trading for Tanius.

September 07, 2023 - CFTC charges Texas firm and head trader with spoofing and engaging in a manipulative and deceptive scheme and violating a prior CFTC order

This complaint charges Andrew Serotta and firm Logista Advisors LLC with a range of violations including spoofing and engaging in a manipulative scheme with regards to natural gas and crude oil futures contracts.

Insider trading

December 10, 2021 - [CFTC charges Puerto Rico resident and his firm for misappropriation of non-public information and fictitious trading]

The complaint charges Peter Miller and his firm, Omerta Capital LLC, for receiving tipped confidential block trade order information from a trader at an energy company. On the basis of this information, Miller entered into non-arm's length, fictitious block trades in natural gas futures which are in violation of the Commodity Exchange Act (CEA) and CFTC regulations.

September 27, 2023 - [Federal Court orders Chinese national to pay more than $350k for fraudulent scheme to trade against employer]

The order finds that, from approximately December 2021 to April 2022, Xie, a quantitative trader at a large, multinational corporation, misappropriated material, non-public information from his employer to fraudulently and deceptively enter into trades of feeder cattle futures and options for his personal benefit.

December 14, 2023 - [CFTC orders Freepoint Commodities LLC to pay $91 million for fraudulent scheme to misappropriate material non-public information]

The CFTC ordered Freepoint Commodities LLC - a commodities merchant in Stamford, Connecticut - to pay $91m for a fraudulent scheme to obtain material non-public information in connection with the purchase and sale of fuel oil.

Key takeaways

Aggressive US enforcement

The analysis of the quantitative data set highlights distinct enforcement trends across different regions, reflecting the varied expectations and approaches of regional regulators.

US regulators lead the way in both volume and value of fines issued. The US stands out in market abuse enforcements, even when excluding a significant outlier fine of $920 million. Notably, these enforcements exclude insider trading cases but include recent substantial fines related to unmonitored communication channels.

This aggressive enforcement action is reflective of a changing attitude towards US regulation brought about in no small part by SEC chair Gary Gensler. While the Trump era witnessed a push for deregulation in the financial sector, the Biden-Gensler era has been one marked by increased regulatory scrutiny.

Since Gensler's tenure began in 2021, a remarkable 47 rule proposals impacting market participants have been made. These changes, and the resulting enforcement actions, serve as a clear call for market participants. This new and more forceful approach to regulation beckons firms to rethink their strategies and bolster their compliance infrastructures. As the SEC adapts to modern market dynamics and challenges, the era of laissez-faire seems to be on its way out, replaced by a new age of proactive oversight and diligence.

Supervisory failures commonplace

Particular dynamics and correlations also emerge within and across service lines, enforcement categories and other enforcement details. Enforcements are most commonly observed in brokerage and sales and trading contexts.

Layering/spoofing and wash trades have been a key theme within market manipulation enforcements, while systems and controls and record keeping were most prominent in short selling cases. Supervisory failures were a feature of both.

Insider trading offences were rarely enforced over the period, but many closely related disclosure to the market cases were proven.

What's next?

Reviewing historical enforcement data sets the scene for market abuse and its regulatory trends, but it is not necessarily the best predictor of what the future holds and what actions regulators may take.

In the next section of the report, we draw on qualitative analysis and further quantitative research to identify the recent, current and upcoming factors driving market abuse behaviour and regulatory trends:

- ***Global shocks**: assessing the impact of recent global events on market abuse risks*
- ***Market evolution**: understanding the consequences of rapidly evolving technology and globalization*
- ***Convergence**: identifying the technologies and partnerships touted to fight market abuse going forward*

What does this data tell us about market abuse enforcement today?

It is no secret that regulatory enforcement is prohibitively complex. Opaque wording, jurisdictional variance and other such factors mean that market abuse enforcement is never as simple as "crime X leads to punishment Y". As such, it is vitally important that we more closely analyze the global enforcement data put forward in the first half of this report in an attempt to establish key trends in market abuse perpetration and enforcement.

As we have already discussed in the previous section, the transition from the Trump-Pence to the Biden-Harris administration has seen a shift in regulatory approach. A tendency towards deregulation has been replaced by a more aggressive pro-regulation approach spearheaded by SEC Chair Gary Gensler.

Not only the approach, but the scope of regulatory enforcement too has seen a marked evolution during this time period. Perhaps most notably, a heavy emphasis on eComms surveillance has begun to take hold in the US regulatory landscape. Since 2022, the CFTC and SEC have both implemented eComms fines totalling billions of dollars. During the time period under investigation, fines by the SEC for record keeping failures relating to internal communications equalled over $1.5bn across 30 separate enforcement actions, marking a clearly developing trend.

By establishing such trends, we are able to develop a deeper understanding not just of how regulators are responding to regulatory breaches, but of the enabling and motivating factors behind abusive trading. In doing this, we are able to help both regulators and regulated firms establish a more effective framework of protection and enforcement.

When analyzed, the enforcement data reveals three distinct market abuse trends.

Key Trend 1: Global shocks

In his prepared remarks before the Financial Stability Oversight Council in December 2023, SEC Chair Gary Gensler reflected on recent "uncertain times in the global economy and financial markets". With ongoing wars in Ukraine and Gaza, rising interest rates, regional bank failures, abusive algorithmic trading powered by AI and the reverberating effects of the COVID 19 pandemic, both compliance professionals and financial regulators are experiencing the effects of a wide range of global shocks.

When surveyed, senior compliance professionals expressed similar concern about the impact of these global shocks on their ability to comply with global financial regulations. More than half of all firms surveyed believed that the accelerated use of AI and the instability of the global economy would cause compliance issues in 2024, with significant numbers also expressing worries about the impact of crypto assets and geopolitical unrest.

Which market forces are most likely to cause compliance issues in the next year?

1. The accelerated use of AI - 57%
2. Global economic instability - 56%
3. Digital assets and crypto markets - 40%
4. The geopolitical situation - 30%

These events have shifted the landscape of market abuse and its regulation, heightening economic and price volatility while providing criminals with new avenues and tools with which to conduct abusive trading.

Digital assets - same risks, same regulatory approach?

Regulators across the globe have been focused on the risks arising from increased digital asset adoption. We are seeing a growing number of fines, largely levied against individuals, for instances of market misconduct.

As an example, digital asset enforcements represented more than 20% of all CFTC actions filed during 2022. Whilst these are not all related to market manipulation, European regulatory body ESMA has highlighted some of the key risk typologies to bear in mind:

- Wash trading, in the case of crypto-assets, is facilitated by the pseudonymity attached to blockchains. Many crypto exchanges also inflate their traded volumes on purpose to attract new users and crypto-asset issuers - Cong et al (2019) identified wash trading on most unregulated crypto exchanges representing as much as 77.5% of the total trading volume on average.
- Pump and dump schemes tend to be conducted on less sizable crypto-assets as a smaller group of traders can have an impact on their price.
- Front-running (and extensions of it, namely 'back-running' and 'sandwich-attacks') risk is exacerbated with DEXs because of the publicity of transactions and the computational steps needed to confirm a transaction.

"Globally, regulators are enforcing fines against digital asset firms - for wash trading and insider trading in particular... MiCA will shape the regulatory landscape for digital assets."

ex-Head of Surveillance Technology, Global inter-dealer broker

Key trend 2: market evolution

It is difficult to quantify just how drastically the financial landscape has changed in the past decade or so. Financial markets are more digitized and interconnected than ever; online trading platforms and social media influencers have fundamentally transformed market dynamics and information flow, resulting in a major change to the ways in which market abuse can be perpetrated.

This intricate web demands a re-evaluation of how participants engage with market abuse surveillance and how regulators govern it. Naturally, as financial markets continue to evolve, so too do the regulations governing them. As a result, regulated firms are often left playing catch up as regulations struggle to adapt to shifting market dynamics. When surveyed, 60% of compliance professionals claimed that their firms struggle to keep up with evolving regulations

In the case of market abuse, the increasing number of players in the ecosystem - markets, products, fintechs, crypto, social media platforms and regulatory domains - are a real challenge to effective surveillance efforts. In the following section, we will explore three areas in which market evolution is increasing risk by bringing important elements closer together:

- Cross-market/cross-product activity
- Regulatory overlap
- Social media

“Trading has changed, with more traders covering a wider range of assets and markets. This increases the complexity of their activity, and creates greater potential for market abuse: I think the way that the fixed income products operate and how the data can be captured is a good example of increased complexity. In the past, traders would basically trade singularly in equal measures. What I mean by that is you don’t get a trader who trades just cash anymore. You more often than not get traders who trade all three instruments (swaps, bonds and cash) and they can cross between them depending on which way they’re trying to hedge. And that’s what makes the cross product and cross market manipulation more topical and that’s why it’s an area of focus.”

Head of Surveillance, Global Universal Bank

Social media and off-channel communications

In recent years, global regulators have made it clear that off-channel electronic communications such as private messaging applications are a regulatory challenge that will be taken extremely seriously.

Since 2019, $2.64bn of fines have been levelled against firms for issues relating to off-channel communications, with the average monetary penalty for such violations hovering around $50 million since 2020. As firms begin to remediate their record-keeping to better monitor off-channel communications, the conversation will inevitably shift up a level, with regulators questioning firms' ability to leverage unstructured data to enhance the detection of market manipulation and insider trading. As a result, firms are now exploring opportunities to combine trade and eComms data to give a more accurate picture of manipulative behaviour.

So, while posing obvious technical challenges, there is general consensus that eComms surveillance is a vital part of the trade surveillance process. However, this issue becomes even more complex when we add social media platforms into the mix. Slowly but surely, regulators are extending their remit to include provisions against the use of social media with relation to trading.

Regulators such as the SEC are becoming increasingly vocal about the impacts of social media on investor protection. While these issues extend across all asset types, they're particularly pertinent amongst digital assets and "meme stocks". In addition to this, we are seeing a rise in gamification and social media-like features within trading platforms themselves, heightening the risk of manipulative and high-risk trading activities.

According to the SEC, there are three key areas in which fraudsters use social media to conduct schemes:

Pump and dump schemes

Pump and dump involves pumping up the share price of a company's stock by making false and misleading statements to create a buying frenzy, and then selling shares at the pumped up price.

Scalpling

Scalping involves recommending a stock to drive up the share price and then selling shares of the stock at inflated prices to generate profits.

Touting

Touting involves promoting a stock without properly disclosing compensation received for said promotion.

Key trend 3: market convergence

As the global landscape becomes increasingly interconnected, it opens new avenues for market abuse. This interconnectivity enables perpetrators to exploit regulatory gaps and unmonitored spaces, previously beyond the reach of traditional surveillance and regulations.

The trajectory towards an increasingly connected state is irreversible, signalling a future where global interdependence only deepens. To combat these evolving challenges, new initiatives are emerging which seek to align regulators and modernise institutions more broadly. Three such initiatives are:

- Collaborative regulation: Cross-border alignment between financial regulators that seeks to minimize regulatory gaps
- Technological development by regulators: The increasing use of surveillance and supervision technology by regulatory bodies, with capabilities to identify market abuse
- Investment in Regtech by regulated firms: Regulated firms are now expected to harness third-party trade surveillance solutions to ensure compliance with market abuse regulations

Despite these developments, there is still a long way to go. While these initiatives do go some way towards addressing the increasing sophistication deployed by abusive traders, there remain organizational, technological and data silos which can limit progress.

For regulators, gaps don't only exist in their coverage of market abuse, but also in their understanding of what firms are doing about it. As well as proactive/public steps including events and initiatives, regulators' expectations are increasing in relation to how firms explain their controls.

Artificial Intelligence and Regtech adoption

AI was the most talked about technological development among interviewees. While there was a cautious optimism among respondents, they were also clear on the current barriers to adoption.

The extent to which vendors are willing and able to explain their models is therefore an important factor in firms' procurement decisions. However, for some, AI is clearly still a 'future state'. These contributors expressed a wider technological immaturity, which included an inability to explain AI models, but also pointed to more fundamental technological deficiencies.

> *"Although there is increased talk about AI, there is not yet any expectation that firms will replace traditional trade surveillance systems with AI - largely due to explainability issues - but there is a lot of interest in AI as a co-pilot."*
>
> ***ex-Head of Surveillance Technology, Global inter-dealer broker***

Technological developments by regulators

Regulators are turning to AI and Suptech (supervisory technology) to better monitor and combat market abuse. This strategic shift is fuelled by the recognition that surveillance methods of old are insufficient in the face of evolving market dynamics.

This marks a transformative step-change in the industry and sets a new standard for market oversight. As regulatory expectations evolve to include advanced technologies, the systems and controls put in place by regulated firms will be more closely scrutinized and they will be incentivized to adopt more sophisticated technology to align with compliance requirements.

What challenges are there to the development of regulatory Suptech?

Clearly, the past few years have seen regulators invest heavily in improving their trade surveillance data analytics capabilities in an attempt to better identify market abuse. However, such technology is only as good as the data inputs feeding its analytics and firms' trade data and STOR reports are falling short of expectations. Constant administrative penalties for misreporting point to regulators' growing frustration with the quality of the data they receive from institutions.

Over the coming years, we are likely to see a push from regulators to overcome this data quality bottleneck. If successful, it would open the door for more effective trade surveillance supervision, boosting market integrity while facilitating more efficient and data led regulatory oversight. This will expose institutions to greater regulatory scrutiny, with supervisors shifting focus to firms' capabilities in identifying and preventing market abuse.

"The SEC finally realized they were outgunned, so they hired something like 20 data analysts and put together a system where they could use the data that they had on trading and portfolio management.

So they built a nice system which, when they come to audit with you, they have open on a laptop, covering all of your trading. They will have even more data when the CAT system is set up in the equity markets because they'll have married the trades with the account information.

From an insider trading point of view, it used to take them three months, but now it takes them three hours. So, technology has made a big difference."

ex-Head of Surveillance Technology, Global inter-dealer broker

Investment in Regtech

The development of Suptech by financial regulators is mirrored by the implementation of Regtech by financial institutions. As regulators implement stronger and more robust technological solutions, their expectations for regulated firms will develop in a similar way. In recent years there has been a huge increase in the number of firms implementing third-party trade surveillance systems to manage their market abuse regulatory requirements.

When surveyed, an overwhelming 96% of compliance professionals stated that their firms were planning to invest in regulatory technology in 2024, with around half of these firms claiming that their investment would be “significant”. This is not without its challenges, however.
Firms are constantly trying to sift through the “noise” of their existing surveillance systems - that is the inaccurate or irrelevant alerts (false positives) which can impede effective surveillance. Regtech solutions play a critical role in this pursuit.

By incorporating advanced technologies like artificial intelligence (AI) and machine learning (ML), they can enhance the precision of identifying and risk-scoring transactions. This involves the development of sophisticated algorithms capable of discerning nuanced patterns associated with potential market abuse. Additionally, we are seeing more firms attempting to integrate structured trade data with unstructured communications data. Although strides have been made, achieving optimal efficacy remains a work in progress.

“Everyone is under budget pressures at the moment, but regulatory investment does still sit as priority as far as I understand. We’re especially proactive on the governance side of things - right now we’re working to improve our market abuse risk assessment.”

Global Head of Trade Surveillance, Global Investment Bank

“I think the trade side still lags behind. But a lot of that is down to the fact that we have these long lists of sort of market abuse prescriptive models. Then there is the problem of the numerous false positives. Maybe 2024 is going to be the year of change.”

Head of Surveillance, Global Universal Bank

About eflow

Since 2004, eflow has had a clear mission: to help financial institutions meet their regulatory obligations in the most robust and efficient way possible.

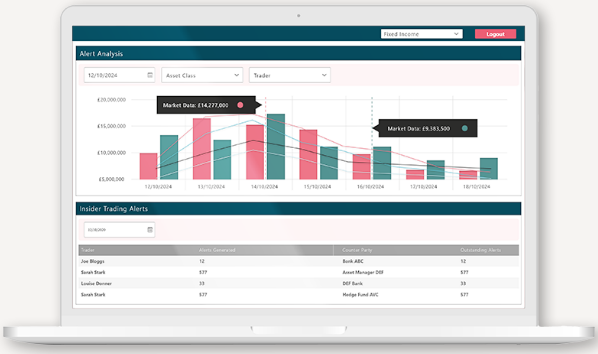
To achieve this, we first had to identify why so many firms either struggled to demonstrate their compliance or spent far too much time, effort and money in doing so. We found that for many institutions, their regulatory processes were broken. An over-reliance on spreadsheets and siloed data. Slow, legacy reporting systems that were no longer fit for purpose. Or, an unscalable point of failure in the form of one person 'who has always looked after compliance'.

Here at eflow, we took a different approach. eflow technology is built on PATH, our robust and standardized digital ecosystem that integrates seamlessly with each of our specialist regtech modules. This unique technological model offers firms the speed, convenience and efficiency of an off-the-shelf software solution, combined with a level of customization that is typically only associated with a bespoke platform.

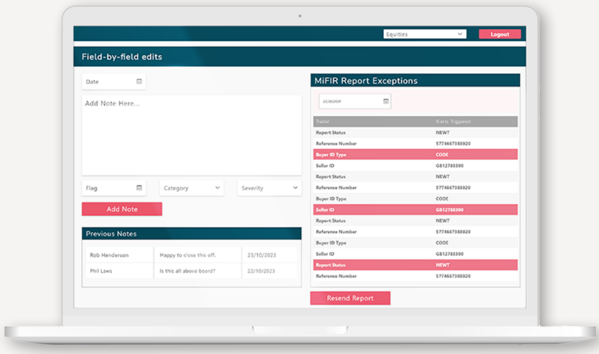
This means that as new regulatory challenges arise, as they inevitably will, you can rest assured that eflow's regulatory tools will already be one step ahead.

Explore our regulatory technology solutions at www.eflowglobal.com.

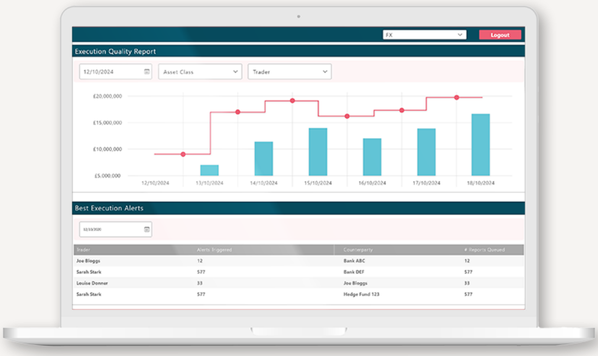
TZTS Trade Surveillance



TZTR Transaction Reporting



TZBE Best Execution



TZEC eComms Surveillance