A Busy Summer at the SEC Puts the Focus on Compliance and Advanced Technology

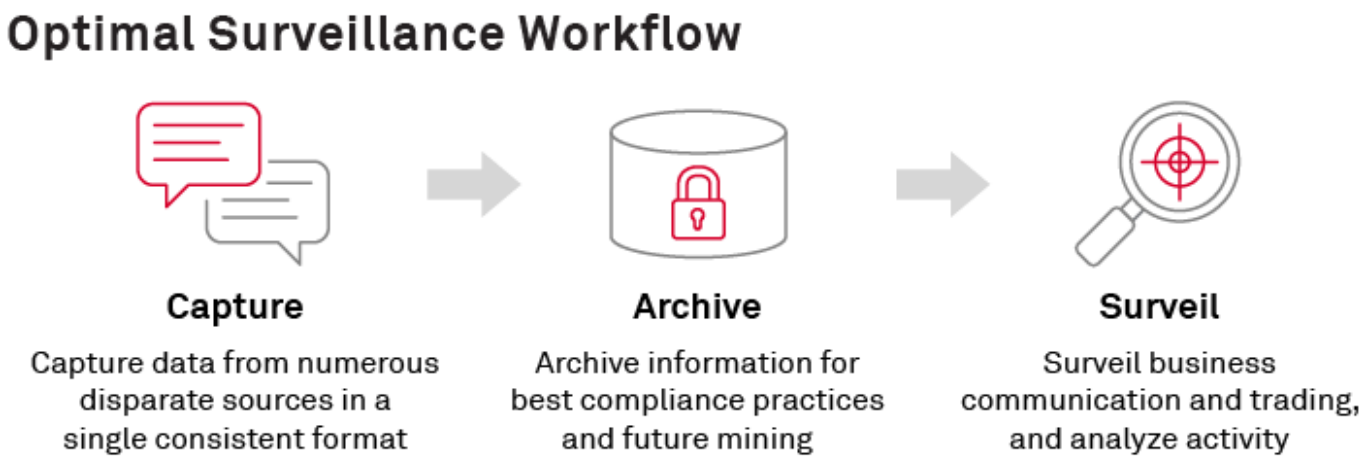
December 3, 2024

While summer has traditionally meant vacation time, winding down and casual work attire, for some in the capital markets industry, the summer of 2024 didn't follow that script. The U.S. Securities and Exchange Commission (SEC) stayed busier than ever, defying the laid-back season with a wave of enforcement actions that continues to be felt well into the fall.

On August 14, 2024, the SEC announced charges against 26 broker-dealers, investment advisors and dually registered broker-dealers, resulting in $393 million in fines for record-keeping violations. The cause? The use of unapproved messaging apps for business communications—echoing similar issues that major banks have faced in recent years.

Enforcement Actions Prompt Firms to Consider Changes

The use of WhatsApp and other "off-channel" communication methods have been the focal point of regulatory probes ever since they emerged as fast and convenient ways to communicate during the pandemic lockdown. While they've have created quite a stir in the industry, the apps themselves aren't the root issue. The real problem lies in the widespread use of off-channel communication without proper recordkeeping measures in place to ensure compliance.



Source: Coalition Greenwich

Compliance teams have been hard at work righting past wrongs, but there is still more to do:

- **For starters, compliance teams need the right tools to keep pace with rapid technological changes.** As the number of communication channels and modalities that regulated

employees use continues to expand, legacy tools for capturing and storing data are becoming obsolete. Compliance professionals require solutions that not only safeguard the firm's reputation and mitigate fines, but also enhance the overall surveillance process.

- **Firms must develop clear policies and procedures for managing digital records.** Compliance teams are responsible for keeping up with regulatory requirements and incorporating any new rules into company policies and procedures. These policies must be regularly updated to reflect changes in record retention and destruction, especially as newer forms of digital data continue to emerge.
- **Disparate platforms for record-keeping and other compliance silos need a unified solution.** Data often comes from multiple sources in many different formats and is used in several departments throughout the firm for a wide range of functions throughout the entire trade life cycle. Modern business requirements include a centralized system that can store and manage hundreds of enterprise data types in a single, standardized format and location.
- **Once data is centralized, advanced technology can be fully leveraged.** Compliance teams can then take the next steps to create more effective and accurate risk-detection solutions, such as smarter communications and trade-surveillance tools. The use of generative AI (gen AI), machine learning (ML) and natural language processing (NLP) will help staff enhance their workflows and eliminate many error-prone manual tasks.
- **Finally, firms should seek out solutions from vendors with deep expertise in compliance technology who offer end-to-end solutions for capturing, archiving and surveilling communications across all new and emerging modalities.** Partnering with a vendor that understands the complexities of regulatory requirements, data management and emerging technologies ensures that the solutions provided are both robust and adaptable. Expertise in this space is crucial to deploying systems that can keep up with evolving regulations, scale with growing data needs and offer the advanced tools—like gen AI and ML— that compliance teams rely on for risk mitigation and operational efficiency. In-house builds are increasingly rare for good reason.

How Does Gen AI/ML Enter the Picture?

Advanced technology will transform the future of compliance by addressing some of these key challenges. Compliance officers at both buy-side and sell-side firms are investing in more effective tools to manage and understand vast datasets, allowing them to identify potential issues before they arise.

Data normalization is a key area where the influence of advanced technology can help humans make better and more timely decisions. With data coming from both internal (e.g., employee data) and external (e.g., client and market data) sources, the process of aggregating and standardizing can be daunting. Integrated surveillance systems that combine audio and electronic communications (aComms, eComms) and trading data require advanced normalization techniques to efficiently analyze exception alerts and reconstruct activities.

The use of gen AI/NLP can reduce false positives that often drain compliance resources. Advanced technology can be put to work to proactively detect patterns and develop workflows to flag more risky activities. Additionally, gen AI models can be integrated into existing archives to unlock invaluable insights that may otherwise remain unused until an audit. The combination of more comprehensive data and automated processing significantly elevates compliance practices.

As more firms continue to invest in advanced technology, areas like predictive analytics and document analysis using NLP are becoming increasingly desirable. Predictive tools help forecast behavioral or risk patterns, while NLP allows for rapid document scanning and querying of legal and compliance documents. Gen AI also supports the push toward real-time surveillance by underpinning systems that continuously monitor and analyze sets of data from numerous sources, enabling firms to stay ahead of emerging risks, automatically elevate certain alerts to the right people and dramatically reduce false positives.

Conclusion

While regulatory compliance remains a critical priority for compliance professionals—especially following the SEC's latest wave of fines—firms are actively investing in ways to improve compliance practices. Key areas of focus include data normalization tools, integration of disparate datasets and leveraging previously overlooked archived data.

As advanced technology like gen AI, ML and NLP are further developed for compliance purposes, we expect to see a reduction in fines, as these innovations will allow compliance teams to automate routine tasks and instead concentrate on high-risk activities. The future of compliance is shifting toward smarter and more proactive risk management, and financial services firms with regulated employees need to ensure they don't get left behind.

---

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.