Why Now Is the Right Time for Broker-Dealers to Upgrade Their Surveillance Technology

E-BOOK

Is It Time for Trade Surveillance Technology to Finally Enter the 21st Century?

The need for surveillance systems to oversee transactions and commissions across advisors and accounts, to effectively detect and investigate abuse and fraud, is becoming more pressing. Yet many broker-dealers continue to rely on old technology that makes it difficult to aggregate relevant data, configure alerts, and increase efficiency and accuracy.

Currently, there are approximately 3,500 broker-dealer firms registered with the Securities and Exchange Commission (SEC), with each one responsible for monitoring their own registered representatives for licensing, business activity, and trading compliance with securities regulations and FINRA rules. Choose any month from **FINRA's Monthly Disciplinary Actions**, and

you'll find consistent language around "failure to establish and maintain a reasonable supervisory system."

Poor advisor supervision and surveillance has significant consequences for broker-dealers, from severe fines and penalties to reputation risk. Compliance officers need to consider breaking from their peers by focusing not only on meeting regulatory requirements, but also creating a surveillance culture that drives a more holistic approach to compliance. But, as broker-dealers repurpose their existing systems to meet these goals, they are struggling under the strain of higher alert volumes and evolving regulations.

Compliance: Then and Now

In the past, compliance was a relatively manual or fragmented process of downloading statements and pulling together silos of data, even for firms using compliance systems.

Today's environment demands improved workflows for acquiring and analyzing data to feed the entire surveillance, supervision and compliance process using business intelligence and configurable alerts to reduce workload.

Broker-Dealers need to be able to track recruits, manage advisors, push compliance reporting requirements to advisors for completion, and oversee the completion of advisor submissions. They also need to accurately flag accounts, implement holds on accounts or records as needed, blotter transactions, and match blottered transactions with commissions received. And, the workflow needs to be fast and configurable to eliminate risks.

With trading surveillance systems generating thousands of alerts per day, many of which end up being false positives, firms are looking to increase the quality of their alerts, and speed up how they process them.[1] Cloud systems are also becoming more critical, as remote work continues and firms need more efficient data access, analysis and workflows.

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1 *"The Future of Trader Surveillance," Chartis Research and EY, 2017.*

Here are
FIVE MUST-HAVE
supervision and surveillance
capabilities for today's
broker-dealers.

1 Data and Business Intelligence

Compliance officers need to be able to aggregate and normalize data in one place, mine data for anomalous records or patterns, and generate reports for the firm's management team, business units and regulators as needed.

Feeding relevant data quickly into the supervision and surveillance process is not an easy task for most firms. The process of collecting and normalizing millions of records into a consistent format across data sources needs to be configurable and efficient. Some system vendors either do not provide this capability or charge significant fees to deliver it. Broker-Dealers are best served by providers who offer data aggregation as part of their core solution.

Five Reasons Why Broker-Dealers and RIAs Must Tackle the Data Silo Challenge Now

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2

Configurable Alerts and BI

Once the data is normalized, it should be accessible through flexible and configurable (rather than hard-coded) alerts, dashboards and business intelligence. Analytics provided through a stable and secure cloud-based engine should enable your team to examine millions of data points across all data sources, and run a multitude of filters to further mine your data.
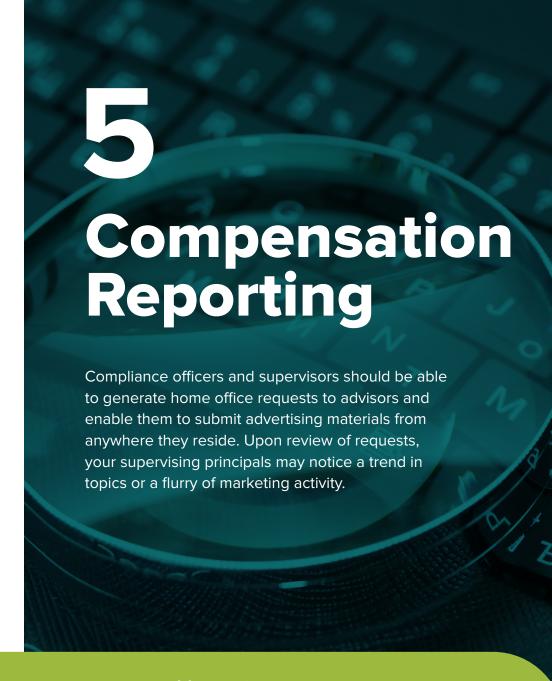
3

Home Office Workflows

Compliance officers and supervisors should be able to generate home office requests to advisors and enable them to submit advertising materials from anywhere they work. Upon review of requests, your supervising principals may notice a trend in topics or a flurry of marketing activity.

Madison Avenue Securities Digitally Transforms Advisor Onboarding, Compensation, Compliance and New Account Opening

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4

Compliance Dashboards

Dashboards help your team to confirm various operational parameters. Compliance dashboards combined with cloud-based analytics enable you to mine your data to detect problem areas, such as advisors and/or branch offices with the most expired IDs, licenses or missing addresses.

5

Compensation Reporting

Compliance officers and supervisors should be able to generate home office requests to advisors and enable them to submit advertising materials from anywhere they reside. Upon review of requests, your supervising principals may notice a trend in topics or a flurry of marketing activity.

Northland Securities Gains Efficiency, Transparency and Scalability of Complex Commissions Across Business Lines

↗ **Read Case Study**

Next Step:

Test Your Current Surveillance Technology

Now might be a good time to do some initial due diligence on your current technology platform for managing surveillance, advisor licensing and commissions.

Here are a few key questions to ask.

Does your current solution provide...

Drill-downs and what-if analysis?

Broker-Dealers' data interrogation capabilities are often not flexible enough to analyze the underlying metadata and associated information around trades and communications.

Data acquisition and normalization?

There is a strong correlation between good data and good outcomes. If you are required to invest heavily in resources to gather, analyze and report on data, then it may be time to look at other options.

Automation and workflows?

Advanced workflow and automation processes will lead to more accurate and efficient alerts management to reduce employees' workloads, and eliminate false positives more quickly.

Intervest International Increases Operations, Compliance and Advisor Efficiencies

↗ **Read Case Study**

Does your current solution provide...

Integrated compensation reporting?

A dashboard that shows matched blottered transactions with commission payouts can help you detect important trends. Your system should also allow you to drill down on commission transaction, holding and position information.

Simplicity and cost-effectiveness?

High fees and slow responses to alert customization requests are unacceptable in today's world. You deserve a system that provides simplicity, not more complexity, and more out-of-the-box, configurable capabilities for a lower price.

Cloud accessibility?

If your current solution is not offered in the cloud or is not cloud-native, then accessing data and managing workflows will continue to be difficult in the current remote-work environment.

How to Build & Maintain an Effective Compliance Program

↗ **Explore**

Bringing Surveillance into the 21st Century

Compliance officers are charged with the responsibility to establish and maintain a system to supervise the activities of their firm's reps and measure the potential or real impact of poor surveillance. They need to prove to clients, stakeholders and regulators that they are effectively and comprehensively managing a variety of risks and threats at all times.

However, many compliance programs are hampered by the confines of legacy surveillance technology in terms of data or workflow fragmentation, hard-coded parameters, and limited accessibility. Now is the time for broker-dealers to modernize their surveillance technology infrastructure with fast and cost-effective data acquisition and normalization, flexible and configurable alerts, and powerful analytics and business intelligence. ▪

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About Sycamore

The Sycamore Company is dedicated to providing a best-practice solutions philosophy to the financial services industry. We are committed to the current web technology environment using cloud computing to offer broker-dealers and RIAs on-demand, modern and integrated software applications that revolutionize back-office processes every firm must manage such as compensation, advisor licensing and supervision, compliance, surveillance, and client information as well as analyze important trends and behaviors across the firm.

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