Strategic Imperatives for Trading Compliance Executives in 2015 And Beyond

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Multiple high-profile probes into alleged market abuse cases are dominating headlines worldwide, across different asset classes that include currency markets, interest rates and commodity markets.

Breaches have become a norm with market manipulation, and rogue trading is proliferating. LIBOR-fixing scandals and instances of banks censured for fixing the Singapore Interbank Offered Rates (SIBOR) have made risk and compliance a recurring theme for market participants and regulators.

The call for greater transparency and accountability

As a response to the increasing malpractice transpiring in the markets, regulatory authorities have tightened their scrutiny on financial institutions, calling for greater transparency and governance across the entire trading process. This focused scrutiny includes such regulatory frameworks as Dodd-Frank's new rules for over-the-counter (OTC) swaps, The Securities and Futures (Amendment) Ordinance 2014, as well as amendments to the Securities and Futures Act in Hong Kong.

The spirit behind all these new rules is that regulators want that increased transparency coupled with the processes that will mitigate risks and create a level playing field for market participants. Financial institutions are now being made to be more accountable for their traders' rogue trading and misconduct; with punitive measures in place to ensure their compliance.

These scenarios have created a new urgency for financial institutions to radically transform current surveillance practices, to ensure that they are not lagging behind when compared to the speed of the 21st century trading environment.

Conventional trade surveillance has focused more on post-trade analysis. However, with trading platforms evolving digitally to allow for high frequency trading and real-time trade execution, surveillance must keep improving to be one-step ahead of this transformation.

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Three priorities for heads of risk and trading compliance

Chief compliance and risk officers realise that in order to meet these new challenges, they need to carefully review their current risk compliance frameworks. In formulating an effective compliance strategy, they should keep the following three pointers in mind:

1. Business and regulatory alignment of the risk and compliance strategy

In order for firms to balance business objectives with regulatory compliance goals, a pragmatic and cost effective approach is crucial, especially in the light of the increasing volumes of transactions across geographies, development of new asset classes and the changing local regulations across the globe.

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Therefore, when building their compliance framework, risk and compliance officers should adopt robust models that are able to adapt quickly to meet both global and local changes in regulatory standards.

Implementation of real-time system controls to minimise risk exposures and flexible deployment options on cloud-secured or on premise should also be part of the approach.

2. Direct line to CEO and board for compliance

With compliance and risk mitigation programs become a more urgent agenda item requiring attention of the Board of Directors, it is important that Heads of Compliance are empowered with sufficient resources to ensure corporate compliance and ethical conduct.

These resources should include a direct line to the Board of Directors, unfiltered access to specific information and the authority to carry out their work. It is also imperative for a compliance department to work closely with the risk department to effectively mitigate risk from a compliance perspective for all global initiatives.

3. Crafting a holistic and all-inclusive surveillance framework

The surveillance of communications is a huge capability that should be better leveraged by compliance teams. Combined with trade-activity surveillance, it can "connect the dots" between suspicious trade activities and communication interactions, allowing compliance teams powerful insights to detect and stop market manipulation or fraudulent behavior much faster than ever before.

One of the leading financial institutions in Europe has started utilising new communications surveillance technologies. Using an innovative benchmark monitoring solution, they were able to discover connected conversations in about 30 minutes and complete the necessary evaluation in three days, where before, using other technologies and manual methods utilised at the bank, this same process had taken more than four months and 480 man hours to achieve. This resulted in a 160-times faster investigation process, along with significantly reduced costs.

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Firms need surveillance technology such as this in order to match the sheer scale, speed, lines of communication and trade information present today, to allow comprehensive and accurate insight across multiple data sources. A single surveillance platform can help firms achieve a holistic view of unwanted behavior with a single investment and lower the total-cost-of-ownership.

The growing scale of trade volume, combined with and the new complexity of global regulations, has created an escalating need for surveillance technology across both trade communications data. A holistic and all-inclusive surveillance framework could potentially help financial institutions save billions of dollars in fines and reputational loss. And in the case of rogue trading, trade and communication surveillance does more than provide a timely intervention — it also acts as a strong deterrent compared to a post-trade investigation since a trader knows they are being monitored.

While regulatory requirements are still evolving and may pose additional challenges to market players in the future, the objective is clear: to protect the credibility of financial markets and prevent unlawful market abuse from damaging the confidence of market participants.

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