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Investing in Data to Stay Ahead of Securities Risks

At the Rocky Mountain Securities Conference, held on May 5, 2017, in Denver, a panel of securities experts explained the new and innovative ways in which the SEC and private companies are utilizing, managing, and analyzing vast data sets to gain new insight into trading activities. The takeaway for regulated entities: invest in data analytics and quantitative analysts in order to identify compliance risks early, mitigate issues quickly, and minimize securities-related exposure.

The panel discussing this topic consisted of Peter Driscoll, acting director of the Office of Compliance Inspections and Examinations (OCIE) at the SEC; Thomas Piccone, associate regional director in OCIE for the SEC's Denver Regional Office; Susan Wold, vice president at Janus Capital Group; and Robert Plaze, a partner at Proskauer Rose LLP. Peter Driscoll has worked with the SEC for 16 years, serving in various capacities for OCIE and the Enforcement Division. During this time, Driscoll has witnessed firsthand the swift evolution of how the SEC conducts examinations of regulated entities and, by extension, analyzes trading and account data. Whereas regulatory officials were once confined to using off-the-shelf software such as Microsoft Excel and Microsoft Access to perform limited queries on trading data, advances in the field—including custom, in-house software not yet available to the public—has enhanced the SEC's ability to analyze vast swaths of data and to conduct any number of tests on that data during the course of an examination.

In years prior, the SEC's commercially available software greatly limited the amount of data the SEC could analyze in the course of a given examination. As a result, examiners were forced to limit their queries and perform specific tests on the partial data sets their software could handle. Within the last six years, the SEC has established a creative approach among examiners, including the development of in-house software capable of performing numerous, simultaneous tests on greater magnitudes of data. This software has radically improved the scope and efficiency of SEC examinations. SEC examiners can now analyze clearing house data encompassing billions of trades among hundreds of firms without expending additional resources. These analytical tools empower the SEC to identify any number of discrepancies or irregularities much more quickly than was ever previously possible.

While Driscoll mentioned that the SEC is evaluating ways to release some version of its software to the public for general use, the empaneled experts agreed that securities firms would do well to invest in their own analytical staff and tools in the interim so as to identify and mitigate risks before facing SEC examinations. For instance, Susan Wold of Janus Capital Group confirmed that Janus has itself hired an extensive number of quantitative analysts and has invested in its own series of in-house tools in order to monitor data within the firm. Using these tools, Janus stays abreast of its own securities data, analyzing it so that any noncompliance that is identified can be remedied as quickly as possible.

As the burgeoning business of big data continues to grow in all industries, regulated entities trading in securities would do well to prioritize in-house data analytics, whether by purchasing commercially available software, developing it in-house, or hiring staff with necessary expertise. Substantial data sets, once unwieldy even to regulators, are becoming increasingly easy to manage and analyze. As a result, SEC examiners are providing deeper and more thorough examinations of securities firms. The risks of a securities violation are substantial. Firms risk the penalties associated with an SEC enforcement action, as well as reputational fallout, lost business, and potential derivative suits. Without an array of similar in-house tools, securities firms risk missing potential compliance issues until it is too late.

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