

Coalition Greenwich

A division of **CRISIL**

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Global Buy-Side Compliance and Surveillance

Innovation as the Competitive Differentiator



Bloomberg

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Introduction

Demands have increased significantly for buy-side compliance and risk professionals in recent years, particularly when it comes to records management, conduct oversight and market abuse surveillance—which have only grown more challenging due to the explosion in new communication channels, trading venues and regulatory enforcement actions.

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For the past two years, we have been reading news stories and analysis focused on Tier 1 sell-side banks and the headline-grabbing fines levied against them. However, as again indicated by the most recent enforcement action by the U.S. Securities and Exchange Commission (SEC), which totaled nearly \$400 million and included some of the industry’s largest asset managers, the buy side is not immune to heightened regulatory scrutiny of their communication compliance and other market abuse monitoring—and further enforcement actions are expected.¹ Compared to the largest sell-side fines, these actions are potentially more significant as a percentage of a fund’s operating budget and even more damaging to the brand of an established asset manager, hedge fund or private equity firm.

In light of these profound changes affecting the capital markets industry and increasing compliance burdens placed on the buy side, Coalition Greenwich, in collaboration with Bloomberg L.P., has launched this inaugural Global Buy-Side Compliance and Surveillance Study to track the trends and priorities occurring specifically within the buy-side compliance and risk community. In particular, compliance professionals provide insights and guidance on how they intend to address their compliance and surveillance obligations through technology adoption and innovation.

¹ The U.S. Securities and Exchange Commission; [Twenty-Six Firms to Pay More Than \\$390 Million Combined to Settle SEC’s Charges for Widespread Recordkeeping Failures](#), August 14, 2024.

Key Takeaways

- **Keeping up with regulations is a top priority.** The expansion of regulatory requirements aimed at communications surveillance, recordkeeping, insider trading, and other compliance practices has impacted investment firms in 2024. As the likelihood of more infractions and fines grows, buy-side professionals strongly believe keeping up with changing regulations is paramount and look to strengthen risk controls more broadly by incorporating modern technology and practices to improve analysis.
- **Strong compliance as a differentiator is an important firmwide goal and is seen as a competitive advantage.** The regulatory push of the past several years has elevated compliance functions and influenced technological investment beyond the front office. Likewise, the management oversight of business teams is also very important. Respondents clearly recognize the benefits and impact of good compliance to investors, the firm brand and fund-raising efforts, especially as the competitive environment gets tougher and margins further compress.
- **Compliance spending at buy-side firms is expected to increase in the next 12 months and is driven by regulatory compliance as well as innovation.** Looking ahead, respondents believe that over the next year, there will be additional increases in budget of 1% to 24% compared to the previous period. Buy-side professionals in business roles anticipate the largest increases in spend (relative to other study participants) will be dedicated to thwart regulatory fines and infractions with a focus on more tangible business-related activities.
- **The normalization and integration of existing data and systems are key areas for future investment.** Growth of data in the last few years due to the expansion of data sources is forcing compliance professionals to rethink their strategies. An effort to consolidate existing surveillance systems and vendors and integrate capabilities is an important component to eliminating some of the different data formats and processes.
- **Artificial intelligence (AI) is set to become a top priority at buy-side firms.** While there is still some basic blocking and tackling to do, the utilization of more AI/natural language processing (NLP) policies to enhance performance and reduce false positives sits prominently on the roadmap for many participants.
- **The integration of communication, voice and trade events is a critical missing element of surveillance workflows but remains an aspirational goal.** Firms lack the ability to aggregate, normalize and contextualize this information within a single vendor and workflow. Combining structured and unstructured data is a future state the industry is trying to achieve, which is ultimately driving investment into AI and other innovation.

Compliance Program Overview

In this section, compliance professionals express their views on the most important goals across several areas, including regulatory and risk goals, organizational and operational goals, and business and management goals. Key challenges impacting their work are also highlighted.

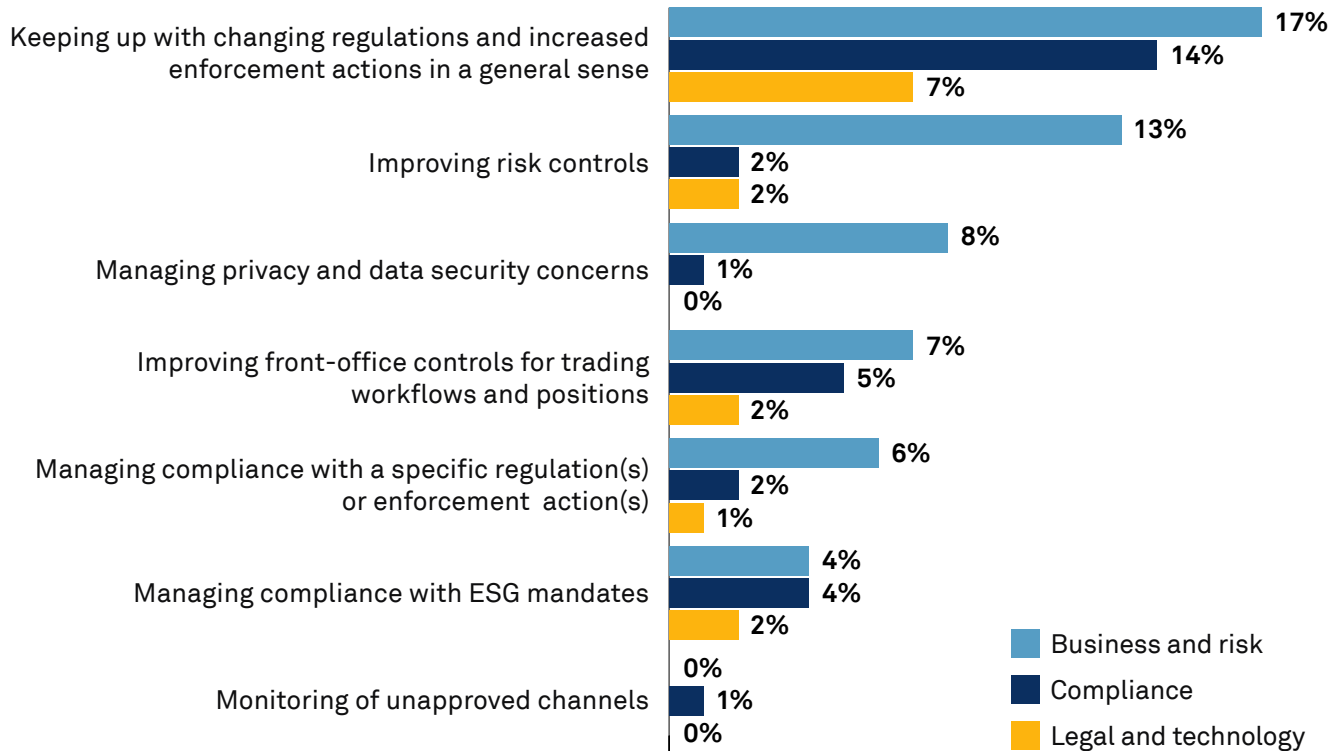
Regulatory and Risk Goals

The SEC's recent enforcement activity is just the latest round of fines being felt at buy-side firms. It follows an earlier cluster of fines in February of this year, where the SEC levied more than \$81 million in fines against 16 prominent investment advisors for violations of off-channel communications. Additionally, in May, a group of industry namesakes disclosed they have been cooperating with the SEC over texting violations as part of a regulatory overhaul of private equity firms.

These fines relate to more established data and surveillance regulations and are highly U.S.-focused. However, when coupled with the volume of new regulations specifically targeting investment managers and regulated advisor workflows across many global jurisdictions, these developments suggest a clear trend of the increased scrutiny by regulators aimed at buy-side firms.²

As a consequence, compliance professionals are taking notice and becoming more proactive by enhancing their processes. Respondents were asked which regulatory and risk goals were very important to their firm’s compliance program. Broadly speaking, most believe keeping up with changing regulations is paramount—particularly participants in business, risk and compliance roles. With the likelihood of further SEC actions coming down the pipeline, there is a strong desire to improve risk controls, further bolstering firm policies and adherence to regulatory guidelines.

Regulatory Risks and Goals



Note: Based on 84 responses.
 Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

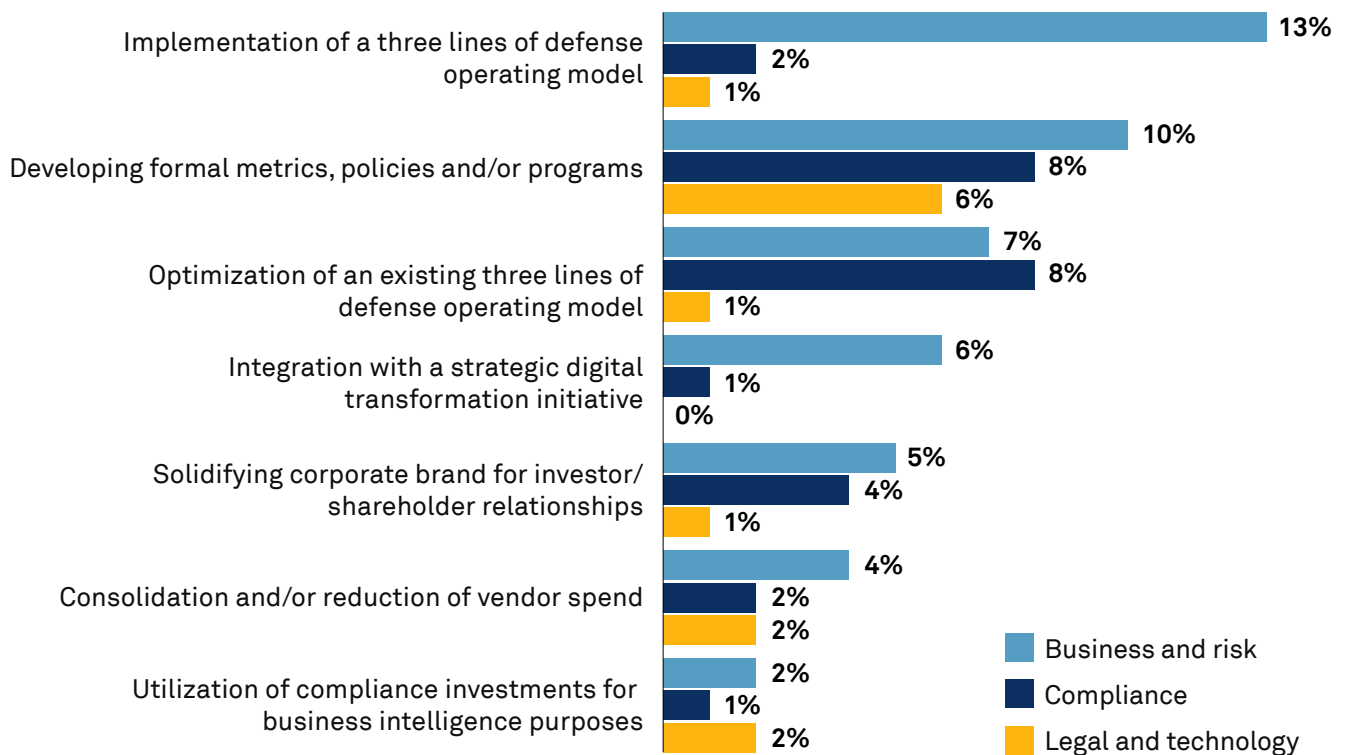
² The U.S. Securities and Exchange Commission; “Sixteen Firms to Pay More Than \$81 Million Combined to Settle Charges for Widespread Recordingkeeping Failures;” February 9, 2024.

Organizational and Operational Goals

Business teams at investment firms are prioritizing the implementation of a “three lines of defense” operating model.

As the regulatory environment heats up, increased scrutiny is pushing buy-side respondents to improve their organizational risk controls, as witnessed by the sell side. Progressive business, risk and compliance professionals who have already adopted these procedures are optimizing the model and look to develop formal metrics, policies and/or programs to enhance this effort.

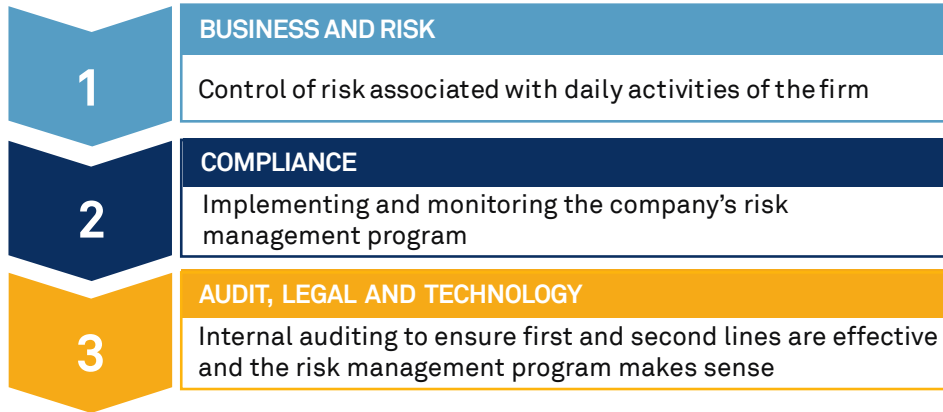
Organizational and Operational Goals



Note: Based on 84 responses.

Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Three Lines of Defense Operating Model



Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Business Management Goals

Strong compliance as a competitive advantage is a clear priority and top-of-mind across the industry. The regulatory push over the past several years has been elevating compliance functions and influencing technological investment beyond the front office. Likewise, the management oversight of business teams is also very important. Respondents understand the benefit and impact of good compliance to investors, firm brand and fundraising efforts as the competitive environment gets tougher and margins further compress.

Business and Management Goals for Compliance



Note: Based on 84 responses.

Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Key Challenges

Lack of budget, a nearly universal industry gripe, is expectedly mentioned as the top challenge among compliance and surveillance teams. Despite acknowledged pressures from regulators, several other challenges rise to the surface, including:

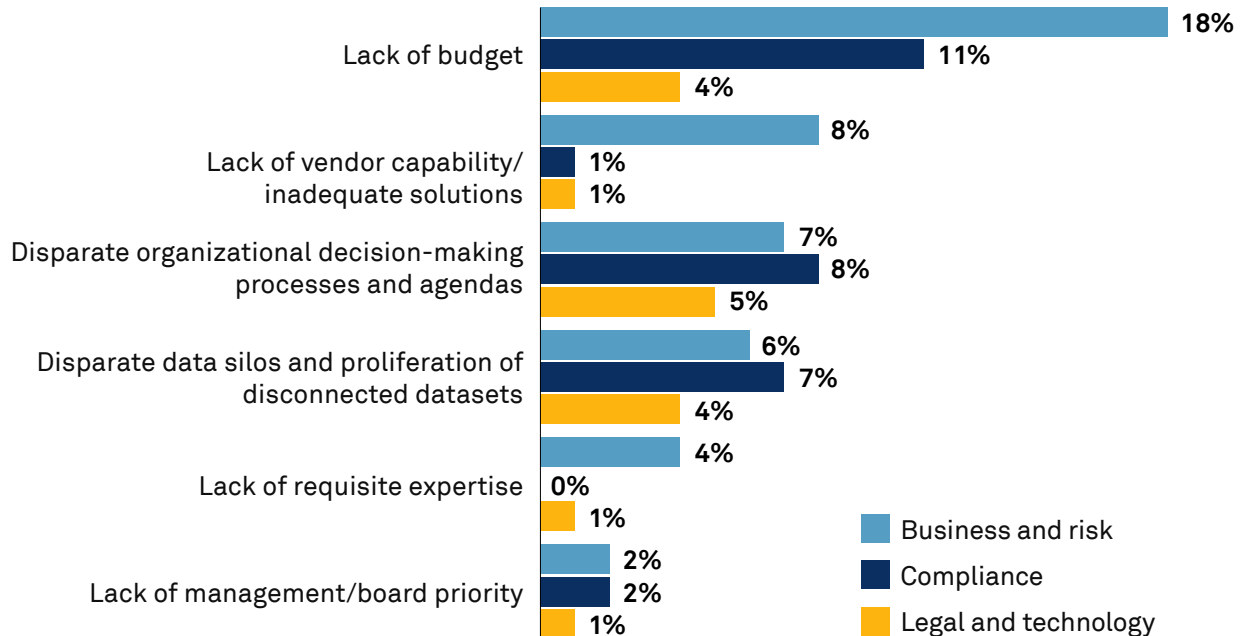
- the importance of brand and organizational priority, and
- initial investments to update system and vendor capabilities.

The persistence of this sentiment indicates compliance teams have yet to receive adequate funding to support the regulatory complexities and demands placed on them.

This dynamic likely applies to the second most quoted challenge as well—the lack of vendor capability. Vendors are in the process of upgrading their capabilities in response to client and regulatory requirements. However, as the respondents indicate, their capabilities and innovations generally fall short of expectations to address regulatory demands.

Another oft-referenced challenge, bad data, also stands out in our 2024 study results. Nearly all respondents feel similarly about data challenges tied to disparate data silos and the proliferation of disconnected datasets. All of these frictions will likely be the subject of future studies, given the evolving nature of each.

Key Challenges



Note: Based on 84 responses.
Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

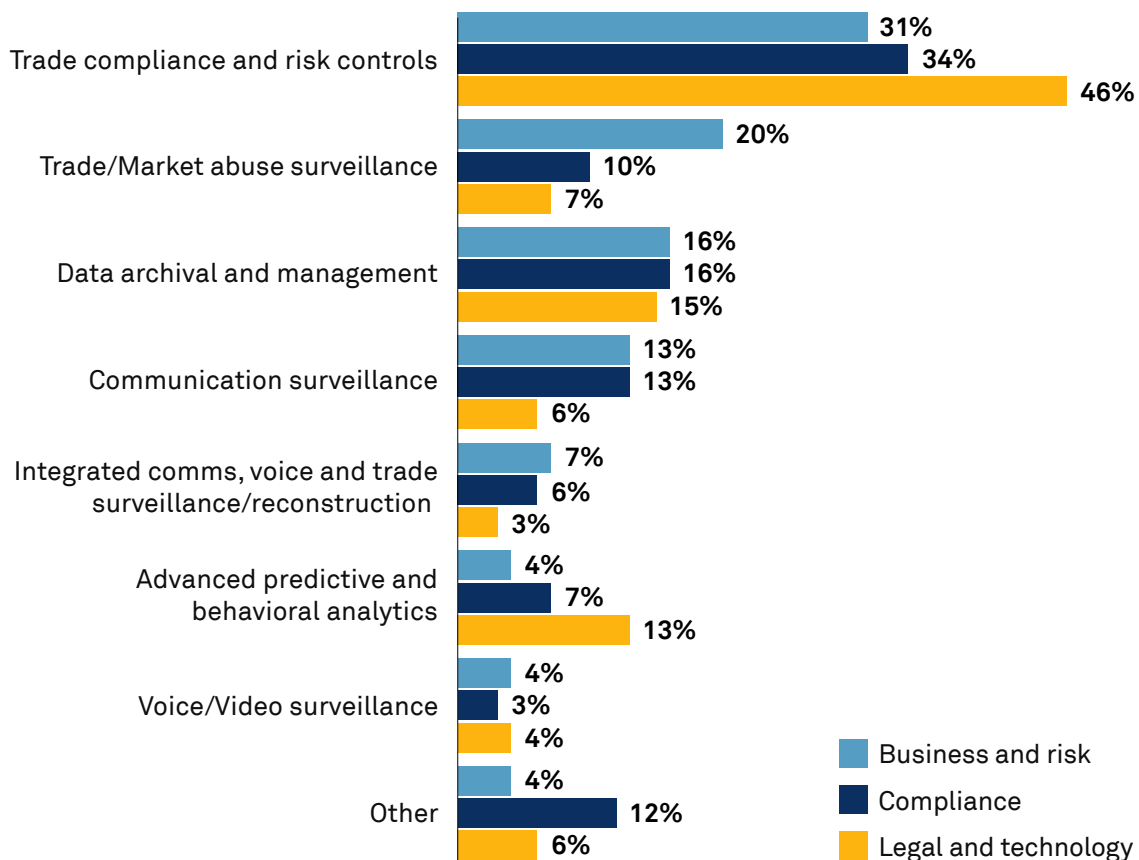
Compliance Spending, Technology Requirements, Investments, and Trends

Respondents were asked how they would allocate future budget toward various areas, such as data archival and management, communication, voice and trade surveillance, as well as other analytics and risk controls.

Trade compliance is a standout area for the allocation of future budget with members across business, compliance, and legal/technology teams all ranking it as their top priority. This area has historically been underserved, and the respondents' response likely reflects that observation. Trade surveillance was the next highest area of future budget spend for members of the business/front office. However, compliance teams would prioritize archival management followed closely by communications surveillance as their next two priorities for future investment.

The more aspirational goals of integrated surveillance and predictive analytics rank lower on the budget scale, primarily as they remain to be viewed as “future state” ambitions versus immediate-term priorities. Finally, voice/video surveillance appears far lower on the priority scale, likely reflecting the lack of specific buy-side regulatory requirements around voice recording and surveillance, particularly in the United States. When viewed on a regional basis, voice/video surveillance is markedly higher in priority within European and Asian markets.

Future Budget



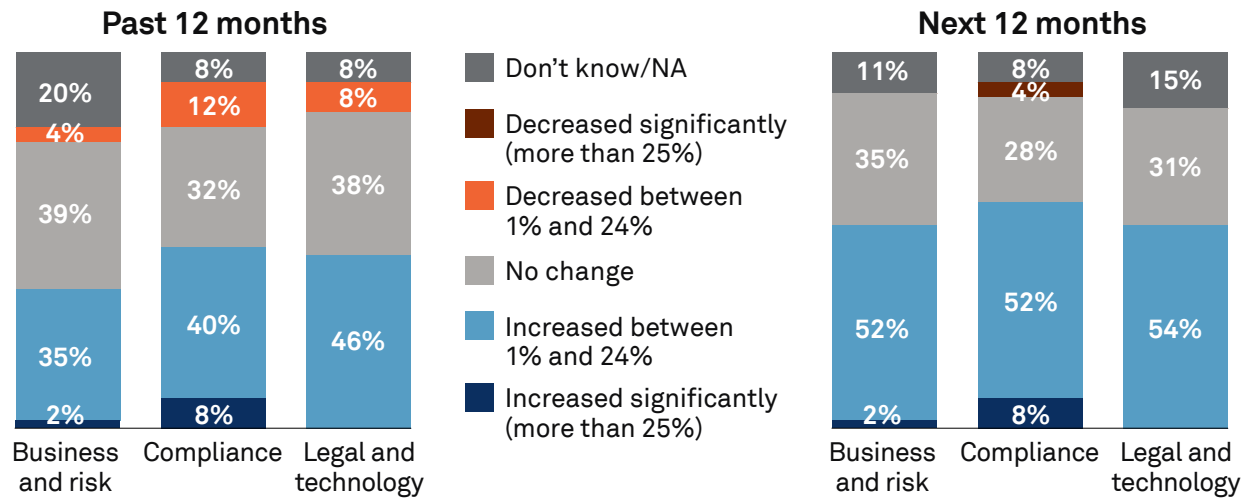
Note: Based on 84 respondents.

Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Compliance Spending Trends

Compliance spending on the buy side is set to increase. Over the past 12 months, buy-side participants felt there was either no change or moderate changes of 1% to 24% in compliance spend. Looking ahead, these respondents believe that over the next 12 months, there will be additional increases of 1% to 24% compared to the previous period. Again, regulations are having an impact. Relative to other study participants, buy-side professionals in business roles anticipate they will realize the largest increases in spend to thwart regulatory fines and infractions.

Compliance Spending



Note: Based on 84 responses.

Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

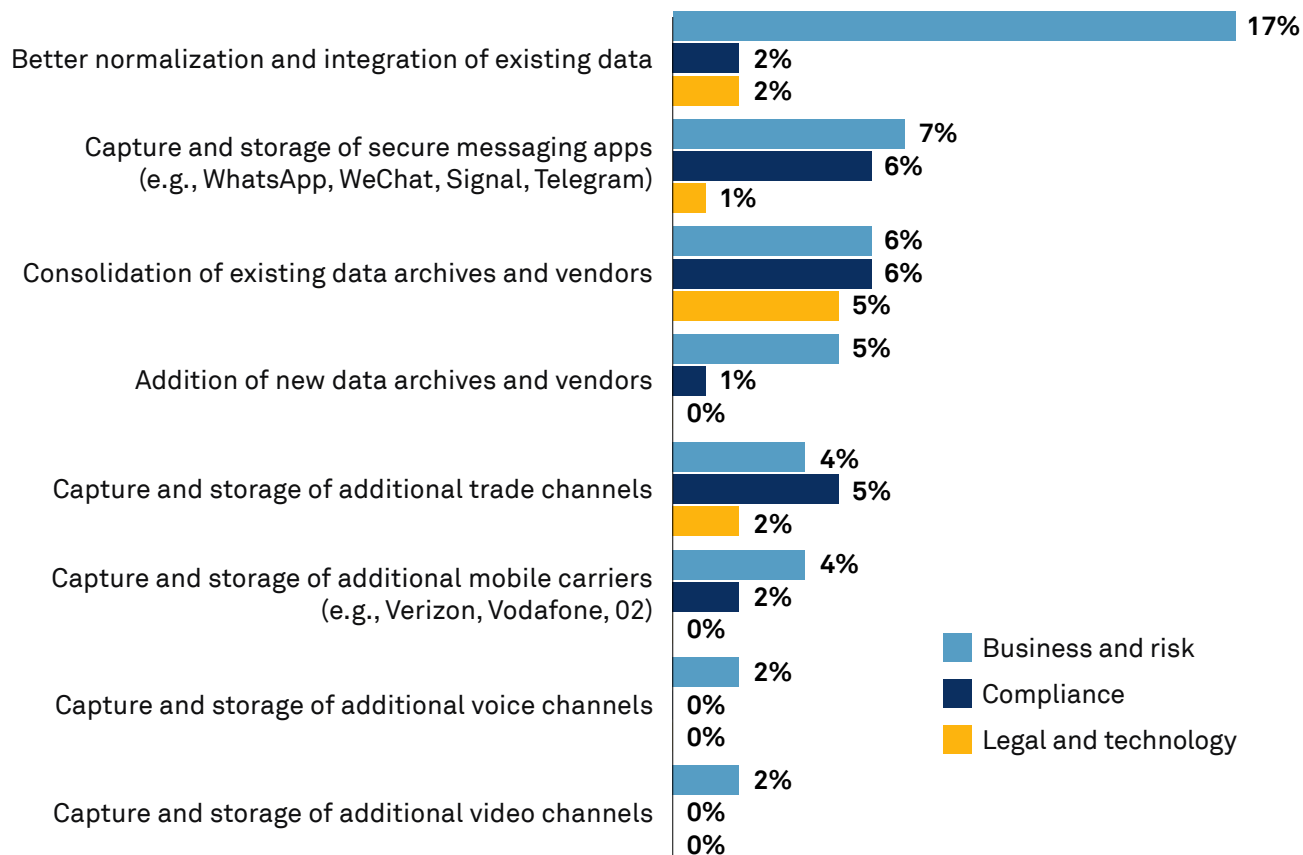
Data Archival and Management

When asked about where and how to allocate future budget to optimize, capture and archive workflows, our study reveals some interesting responses. Business and compliance teams clearly view the capture of secure messaging applications, i.e., the headline-grabbing WhatsApp challenge of the past two years, as a top priority. All respondents feel that capturing trade channels is an additional priority, but generally deprioritize the capture of new voice and video channels. Respondents consistently view consolidation of existing data archives as a focus area as well.

Findings reveal that while better normalization and integration of existing data is the top standout goal of business-focused respondents at buy-side firms, it is a lower priority for compliance teams. We believe this result is explained by business users' focus on the important outcome of an optimized data archive and management solution that can combine—rather than just store—disparate data sets to set the stage for business-focused data mining and quick and productive queries when needed. Meanwhile, compliance, audit and technology teams may be focusing on more urgent requirements of capturing the correct data in the first place and ensuring it is stored in a more optimized set of archives.

Considering the growth of data in the last few years due to the expansion of data sources with new and varied communications channels, it is apparent that participants require more tools and technology to better consume, aggregate and analyze their information.

Use of Data Archival and Management



Note: Based on 84 responses.

Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

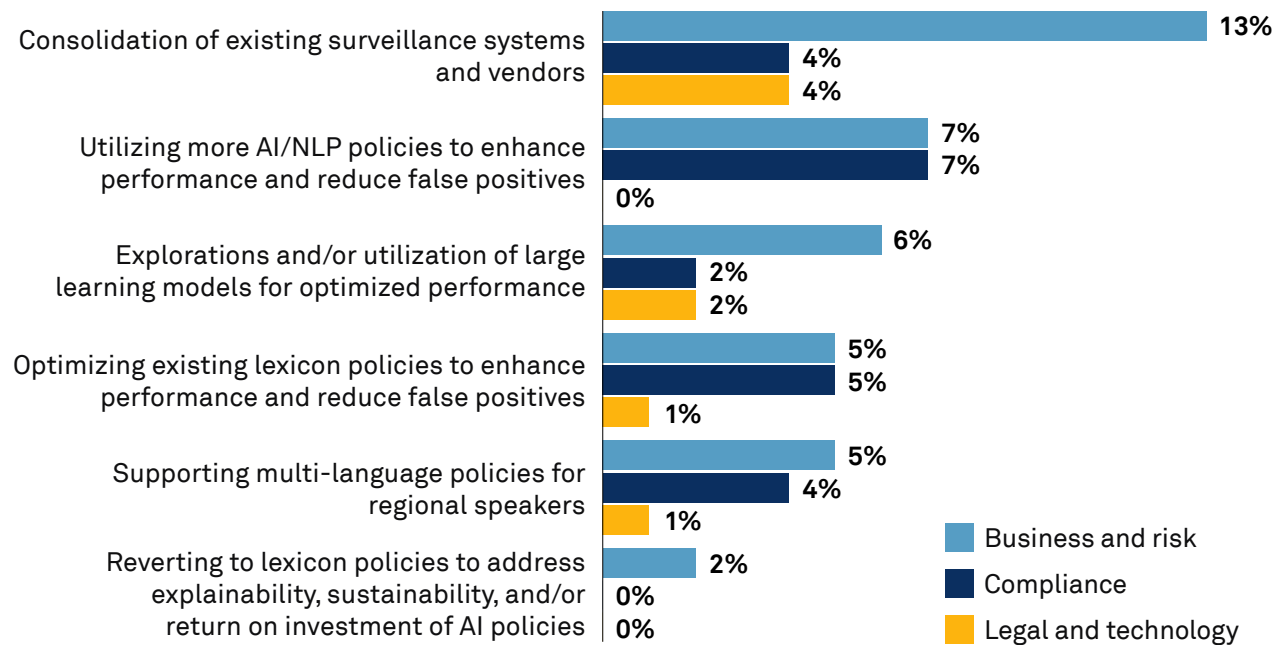
Communications Surveillance

Unsurprisingly, AI is set to become a top priority for communications surveillance teams at buy-side firms and sits prominently on the roadmap for most participants in our study. The utilization of more AI/NLP-based policies is becoming a critical requirement and is regarded as one of the few advancements that can help firms to enhance performance and reduce false positives to keep pace with regulatory requirements.

Interestingly, another key priority of both business and compliance teams is the continued optimization of existing lexicon policies. We believe this trend speaks to the reality that even though respondents are expressly looking to use advanced techniques, they are also taking a pragmatic approach to improving their processes and see continued use of at least some lexicon surveillance as a part of their program.

Two findings that highlight diverging priorities between business and compliance teams are related to system consolidation and large language model (LLM) adoption. The consolidation of existing surveillance systems and vendors is a key area of focus for buy-side business teams. Prioritizing this area benefits firms through the streamlining of processes and data while reducing cost—important goals, given respondents’ concerns over lack of budget and vendor capability. Business-focused participants place a higher priority on LLM adoption, which may reflect their general comfort level with LLM technology as part of their business efforts. This finding could highlight more willingness by teams to explore LLM technologies for compliance and surveillance purposes.

Use of Communications Surveillance



Note: Based on 84 responses.

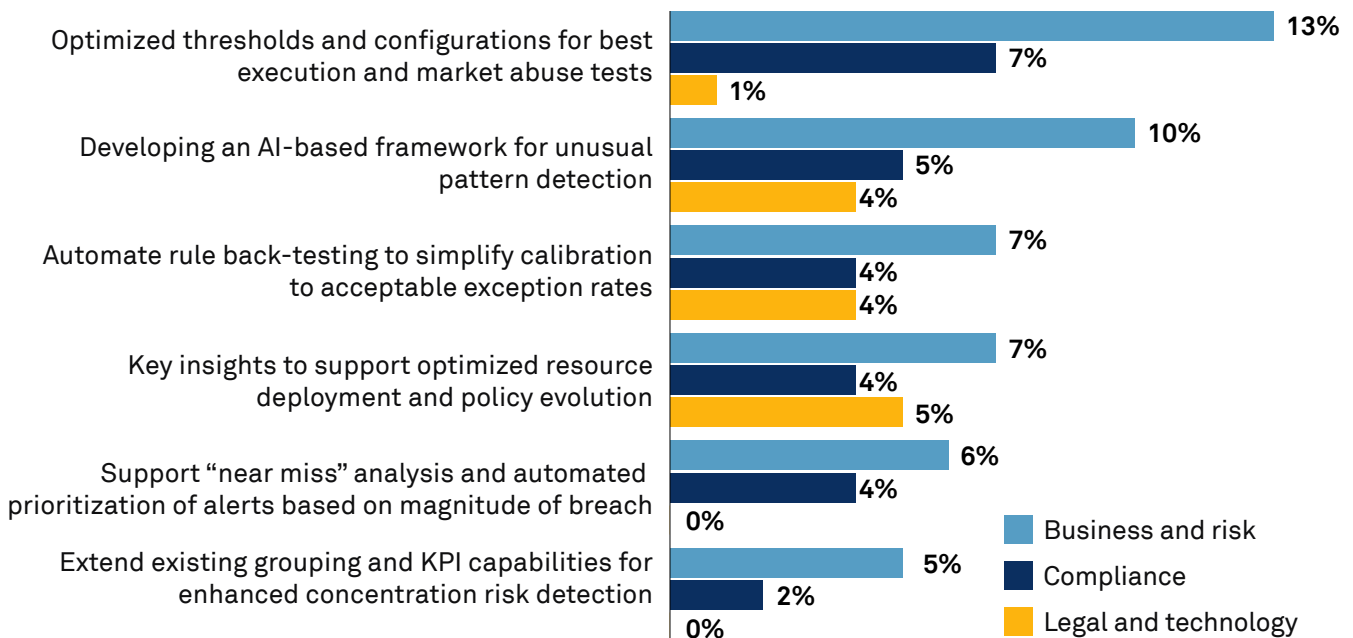
Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Trade Surveillance

Future trade surveillance spend is being driven across all technical capability areas. In particular, the provision of data-driven guidance for optimal thresholds and configurations for best execution and market abuse tests is elevated as an area attracting future investment. The development of an AI-based framework for unusual pattern detection stands out again in the data. Support for automated prioritization and insights is also gaining traction to meet the challenges posed for managing workflow and getting efficiency from human capital.

While the use of AI is growing in importance for the detection of false positives, we are still in the early stage of adoption for trade surveillance policies and patterns. As a result, we expect AI applications will mature faster within communications/voice surveillance versus other areas.

Use of Trade Surveillance



Note: Based on 84 responses.

Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Voice/Video Surveillance

Employing voice surveillance as a capability has been primarily driven by regulatory requirements already in place in much of Europe. Although voice-record retention and surveillance is not currently required in the U.S. for buy-side firms, there are increased expectations that these requirements will be set to increase in the future, putting even greater focus on voice surveillance requirements globally.

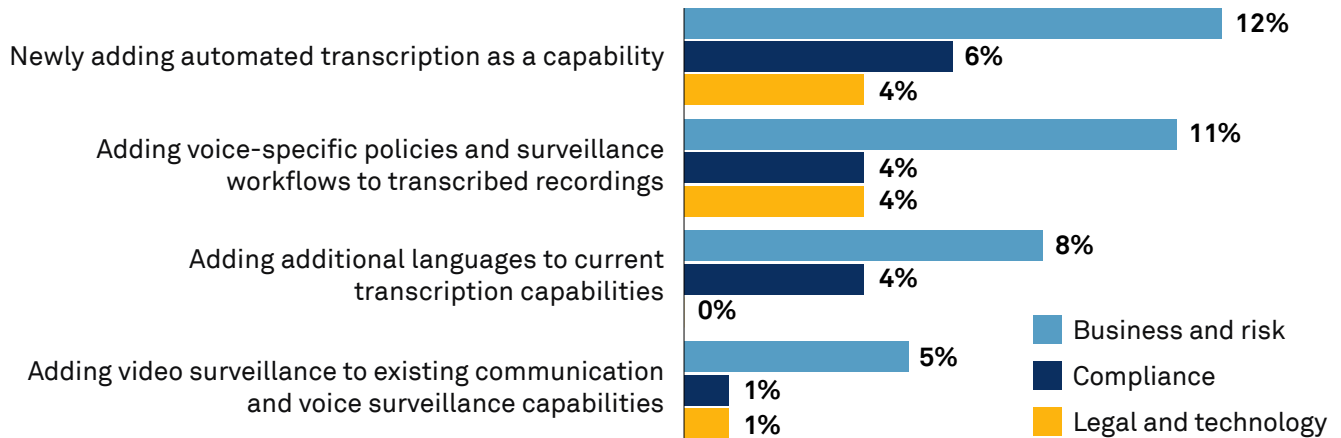
The progression of capabilities necessary to support a voice surveillance competency within a firm is still in a relatively nascent stage. Adding automated transcription, an initial building block for developing a voice surveillance capability, is found to be the top area of investment. Meanwhile, layering surveillance with these transcriptions, using voice-specific policies and surveillance workflows for transcribed recordings, is the second most-referenced area of investment and a logical next step that underscores the development of voice surveillance workflows.

Finally, the expansion in the number of languages supported, which is the third most required area of investment according to participants, again follows the progression of how a firm would develop a voice surveillance capability.

Another clear takeaway from our study reveals the relatively low focus on video surveillance to existing communications programs. This area appears to be more of a “further down the road” priority, reflecting today’s low regulatory attention on video media.

Benchmarking and tracking sentiment over time will help to gauge any indications of a maturing competency around voice surveillance. For example, industry professionals may feel less focus is warranted when it comes to adding transcription, while more attention should be given to expanding language support or adding even more advanced areas around sentiment analysis and emotion detection. Likewise, changes to the importance of video surveillance capabilities can be observed.

Status of Video/Voice Surveillance



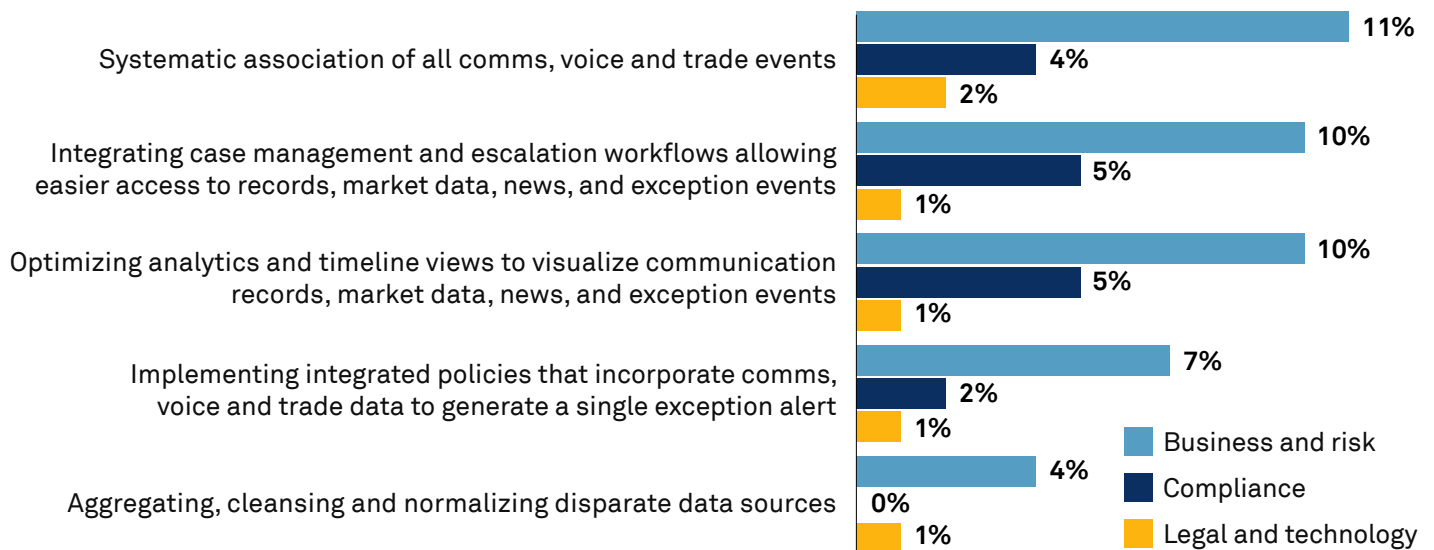
Note: Based on 84 responses.

Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Integrated Surveillance and Reconstruction

The integration of all communications, voice and trade events is a crucial missing element of surveillance and reconstruction processes and has been a long-standing, industry-wide ambition. Firms generally lack the ability to aggregate, normalize and contextualize this information within a single vendor solution and workflow. Additionally, structuring unstructured communication data using NLP technology before integrating it with structured trading, market, pricing, and counterparty information remains a significant technical challenge and is a future state the industry is trying to achieve. Ultimately, these goals are helping to drive investment into AI and other innovations.

Use of Integrated Surveillance and Reconstruction



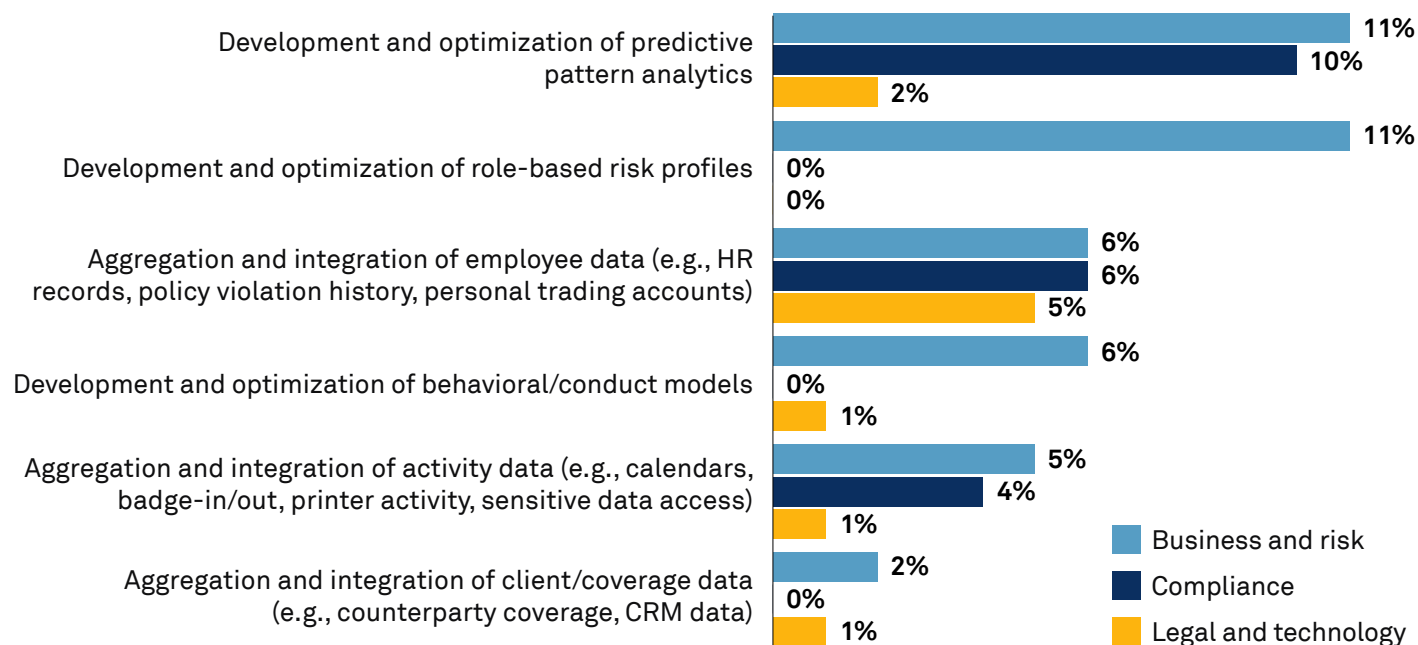
Note: Based on 84 responses.
Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Advanced Predictive and Behavioral Analytics

Moving from a “reactive” approach to surveillance to a more “predictive” approach that considers behavioral patterns and risk profiles over time is an aspirational goal for many compliance and surveillance professionals. For example, understanding the practices of traders operating in riskier markets and how they may have different risk and behavioral profiles is important to the compliance process. Likewise, the ability to flag underperforming portfolio managers and traders who may be more likely to participate in market abuse opportunities can lead to early detection of nefarious activities.

Understanding and identifying these behaviors and biases is difficult but important work. While some of this type of modeling has been pioneered on the sell side, complexity and restrictions abound. The development of risk and behavioral profiles to optimize performance and mitigate risk has become more accepted at buy-side firms, which may be the future proving ground for these innovations.

Use of Advanced Predictive and Behavioral Analytics



Note: Based on 84 responses.

Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Trade Compliance and Risk Controls

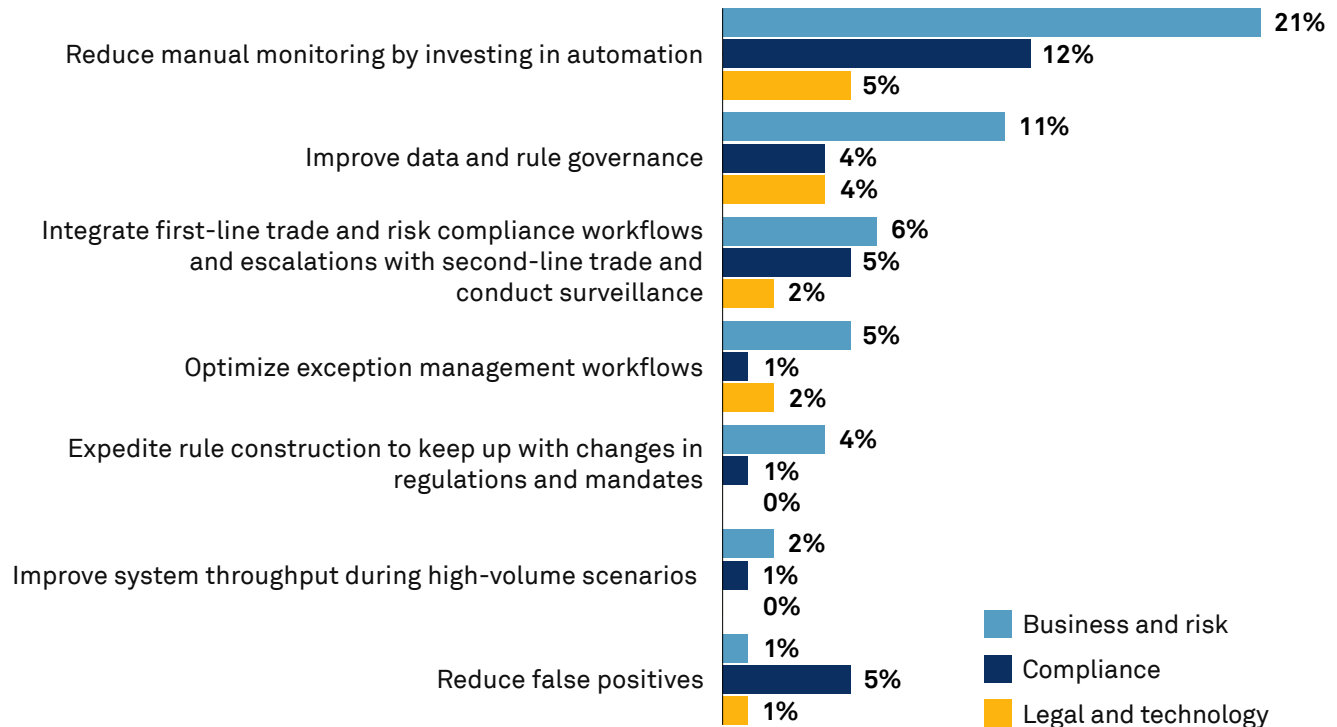
In this section of our study, we focused our questions on front-office control room activities related to trade compliance checks and risk controls within their portfolio construction as well as within their order and execution management systems (OMS, EMS), venue trading platforms, and post-trade activities.

Unlike market abuse or conduct surveillance functions, within this area, there tends to be less focus on false positives, since trade controls are more deterministic. For example, it is easier to tell if a trader violated a position, size, margin, or an asset class policy than an insider trading policy. Given the disparate nature of systems and multiple control points that traders and trade compliance managers must check before and after a position is formed or a trade is executed, this area lends itself well to automation.

Respondent views reflect these priorities, emphasizing the push toward more automation underscores the movement to reduce manual monitoring and risk. As front-office professionals continue to do more with less, technology is the key to minimizing time-consuming manual tasks. This trend aligns with the growing interest in advanced technology and improved data and rule governance to better recognize patterns and proactively scan data for anomalies.

Additionally, there is interest from business teams in integrating their front-office control and compliance workflows with second-line trade and conduct surveillance functions. Such integrations can help management and compliance teams better spot conduct risk and suspicious trading. They would also have a business benefit by allowing trading teams to more effectively explain their actions that inadvertently trigger a false positive, improving efficiency and reducing manual workflows while still managing risk across multiple dimensions.

Trade Compliance and Risk Controls



Note: Based on 84 responses.
 Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

Conclusion

The expansion of regulatory requirements aimed at communications surveillance, trade surveillance, record-keeping, and other practices has impacted compliance and risk priorities at buy-side investment firms in 2024. Compliance professionals are keenly aware that legacy workflows are becoming outdated and increasing the risk of violations and infractions at their organizations. For instance, the integration of all communications, voice and trade events is a critical missing element of surveillance and reconstruction processes. Firms lack the ability to aggregate, normalize and contextualize this information within a single vendor solution and workflow.

Although recent regulatory trends are shaping how respondents plan to allocate future budget, most agree spend is lagging new requirements. On a brighter note, achieving the goal of strong compliance as a differentiator is set to be supported by investment in better technology to mitigate challenges. As spending increases, a focus on AI/NLP policies to enhance performance and reduce false positives and manual monitoring sits prominently on the

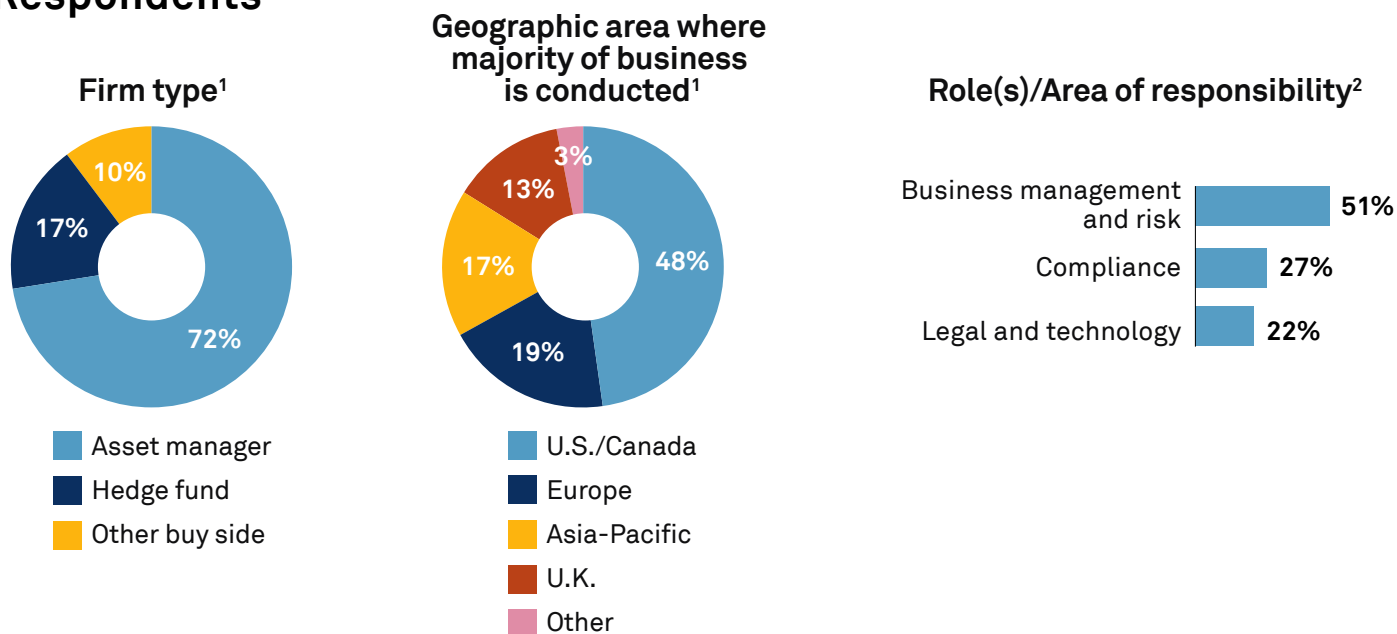
roadmap for several participants who want to do more with less. Likewise, combining structured and unstructured data is a future state the industry is trying to achieve, which is ultimately driving investment into advanced technology and other innovation.

The high priority being placed on compliance as a guardian of a firm’s brand and as a driver of business differentiation is an encouraging finding of this study. When coupled with the degree of alignment of initiatives between business and compliance teams, these findings could be early indications of the long-hoped-for shift in attitudes toward the role of compliance functions and staff—changing perceptions to business enablement versus simply business protection.

METHODOLOGY

Between October 2023 and January 2024, Coalition Greenwich gathered insights from senior front-, middle- and back-office professionals spread across a total of 84 business, risk, compliance, legal, and technology roles. Respondents hailed from asset management firms, hedge funds and other buy-side institutions in the U.S., U.K., Europe, and Asia. Questions explored how risk and compliance professionals’ needs are being met in light of changing market dynamics by uncovering trends in technological innovation and investment at buy-side institutions.

Respondents



Note: ¹Based on 69 respondents. ²Based on 95 responses. May not total 100% due to rounding.
Source: Coalition Greenwich 2024 Global Buy-Side Compliance and Surveillance Study

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