IGNITES

CCOs' 2019 To-Do List: Automate the Back Office, Use Data to Preempt Problems

By Jill Gregorie December 28, 2018

CCOs had to meet several new digital- and data-focused demands in 2018, and in 2019, they will need to be even more tech-savvy, consultants say.

In particular, compliance chiefs will be expected to help automate back-office tasks and monitor staffers' use of messaging services and collaboration software. Also high on the to-do list is applying predictive analytics to spot potential misconduct early and mining intermediary trade data for potential inefficiencies, they say.

"In a way, 2018 was a tremendous springboard for going forward," says Gary Casagrande, VP of global market strategy at Confluence.

That's because many shops began developing a data strategy, "but much more needs to be done," he says.

For one thing, fund companies spent much of 2018 getting up to speed on developing processes to submit machine-readable reports to the SEC on a monthly basis as part of the regulator's reporting modernization rule. Now, "folks are realizing that wasn't the full task," Casagrande says.

The next step is to apply that type of automation to functions beyond just regulatory reports and "across the entirety of back-office work" in an effort to drive costs down.

The need is particularly acute as expense ratios continue to drop. "Asset managers don't want to absorb too much of that cost," Casagrande says.

Compliance will also spend more time looking at transparency data contained in intermediary reports, says Whitfield Athey, CEO of **Delta Data**, a Columbus, Ga.-based distribution consulting and software provider.

In particular, teams will be parsing through Financial Intermediary Controls and Compliance Assessments, or Ficca, reports.

The ICI worked with accounting firms to develop a Ficca framework in 2008. The reports are meant to help fund companies monitor broker-dealers' compliance with their shareholder servicing obligations. In particular, fund firms look to Ficcas to review fee calculations and payments for tasks including distribution and sub-TA work.

Intermediaries were initially slow to complete their Ficca reports, which are calculated on an annual basis and sent to fund complexes upon request, in part because of the time and expense involved, Athey says. A working group of Investment Company Institute members met throughout 2013 to amend the Ficca framework, which led to broader adoption of the reports. In 2018, 15 intermediaries provided Ficca documents to fund sponsors, Athey says.

Fund firms this year started asking more questions about what they could do with that data, Athey says. Next year, the analytics will begin.

“They have the transparency data, and now they’re going to look into it, start digging into it, to check whether prospectus rules are being complied with and [for example] whether they’re properly identifying foreign accounts and large transactions,” Athey says.

Shops will particularly focus on large-trade notifications, which in the past have been “fragmented,” he says.

The more advanced notice that intermediaries can give about a large, upcoming redemption, the better, as it allows fund managers to plan and liquidate whatever holdings they might need in an orderly manner and in the most tax-efficient way possible, Athey says.

Compliance will be tasked with scanning data on large trades, and assessing how to generate reports that show how often intermediaries gave notice on trades over a certain size. Deciphering patterns in such information can help them then analyze what characteristics are common among firms that fail to provide advance notice. Such analysis, for example, may point to a specific intermediary that needs greater training, or a type of trade that tends to go under the radar, Athey says.

CCOs will also need to step up their scrutiny of employee behavior in 2019 — and may be asked to try to spot wrongdoing before it occurs, notes Mike Pagani, who leads sales as chief evangelist at the Web archiving service Smarsh.

Financial firms in 2018 saw the “meteoric rise of collaboration platforms,” including Microsoft Teams and Webex, a system that allows for conferencing and screen sharing, among other functions.

Regulators are closely watching whether compliance is actively monitoring internal communications on these platforms, especially during instances when workers share interactive content or mirror their desktop with someone else, Pagani says.

“What they care about is who was on that particular meeting, when did they drop off, and what did they see or not see,” he says. If the SEC or another regulator discovers a firm engaged improperly, it may try to learn “whether someone was just on audio, or they could see the visual, especially if it shouldn’t have been shared.”

Compliance officers should consider testing out surveillance tools that alert them to the social channels people are using, Pagani says.

“Sometimes we talk to compliance and say, ‘You have a lot of people using Instagram for Business right now,’ and they get caught off guard like, ‘Wow, we didn’t realize that,’” he says.

Also in 2019, compliance may use analytics to identify and stop messages before they go out, Pagani says. For one thing, service providers such as IBM Watson can mine data for indicators of behavior and sentiment that may flag wrongdoing.

For example, financial professionals in the United States tend to refrain from using curse words when they talk to peers in other countries, Pagani says. “So if an individual or group of people who regularly use profanity and off-color words suddenly go PC, something may be coming,” in terms of insider trading or another violation that can result from inter-country communications, he says.

Compliance will also need to pay more attention to overseas regulation in 2019. Last year, many firms set up programs to comply with new requirements under Markets in Financial Instruments Directive II and the General Data Protection Regulation.

Organizations that may not have been thorough in their efforts may get nailed, since regulators are “going to move from guidance to enforcement,” likely in the second half of 2019.

“They’re looking for some poster children,” Pagani says.