

Securities Regulators' Increasing Use Of Real-Time Monitoring Systems - Is Skynet Next?

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While the Department of Health and Human Services may have become jaded in the past few months about computer programs, the Securities Exchange Commission (SEC) has not been scared off from computers. It is instead dramatically expanding its use of computer-based tools to assist in their enforcement activities.

First it was the Accounting Quality Model ("AQM"), [announced at the end of 2012](#). AQM (or "Robocop" to some) rummages through the SEC EDGAR XBRL filings of more than 8000 registrants to spot red flags that might indicate questionable accrual, reserving and other accounting practices. This information will be particularly useful for the newly-formed Financial Reporting and Audit Task force which is focusing on disclosure issues.

Then, earlier this month, the Chair of the SEC Mary Jo White [announced the launch of the National Exam Analytics Tool](#), or "NEAT." This new tool allows the SEC examiners to access and analyze, in her words, "massive amounts of trading data . . . in a fraction of the time" it took in the past. As an example, she described NEAT being used to analyze 17 million transactions in a mere 36 hours. Chair White indicated that the SEC examiners will be using NEAT's analytic abilities to identify signs of a multitude of sins, including insider trading, front running, and window dressing.

Not to be outdone, FINRA last month announced a proposal to develop the Comprehensive Automated Risk Data System, or CARDS. Requesting comments on the proposal (which comment period expires next month) [in Notice to Members 13-42](#), FINRA described CARDS as a "broad ranging initiative supporting a comprehensive approach to supervising firms." It certainly would be broad; the system envisioned by FINRA would include an automatic data collection process of account information from each clearing or self-clearing firm. The information would include customer names, investment objectives, account activity and holdings, and the data would then be analyzed to spot potential sales practice violations and business conduct issues.

But not all of the computer-based tools announced by the securities regulators are for surveillance purposes. In the last few months, the SEC has also launched the Market Information Data Analytics System, or MIDAS. This technology collects a billion trading records a day, allowing the SEC staff to conduct various analyses of behavior in the markets. Those analyses (or at least some of them) are [posted on the SEC website](#).

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So, if you think it's only the NSA that is watching us, you are very wrong.

