Surveillance Newsletter

CAPCO
a wipro company

2026: Edition 6

Foreword

Welcome to Capco's sixth Surveillance Newsletter. This regular bulletin provides surveillance and compliance specialists with a one-stop shop for hot topics, recent fines and enforcement actions, and other regulatory and industry developments in the UK and US. It also highlights a selection of insightful industry publications and upcoming events.

We were delighted to recently publish the industry's largest communications surveillance survey in partnership with NICE Actimize. We also had the opportunity to discuss at NICE's Engage conferences in London and New York key trends we're seeing across the market. You can find further details on the report on page eight of this newsletter.

Included in this edition:

- AI in surveillance spotlight, with practical lessons on trade alert triage and communications surveillance enhancement
- Key regulatory developments, including the SEC's FY2026 examination priorities and FCA expectations on algorithmic trading controls
- Recent vendor and thought leadership updates, plus selected upcoming industry events.

Please feel free to reach out to our key contacts to discuss how Capco can support your surveillance needs.

Contacts

Financial Crime / Capital Markets

Jamilia Parry, Global Head, Financial Crime, Risk, Regulation and Finance
jamilia.parry@capco.com

Martin Douglas, Partner, Head of Non-Financial Risk
martin.douglas@capco.com

Surveillance

Jonathan Lappage, UK Surveillance Lead
jonathan.lappage@capco.com

Charit Arora, UK Senior Surveillance SME
charit.arora@capco.com

Benjamin Kramer, EU Surveillance SME
benjamin.kramer@capco.com

Spotlight:

Applying AI in surveillance - high-impact use cases in trade and comms monitoring

AI is becoming a central theme in surveillance discussions. However, the key question is not whether it should be adopted, but where it can deliver measurable value without creating additional control gaps. In our experience with developing AI tools for surveillance, the greatest benefits arise when AI is used as an analyst co-pilot: streamlining research workflows, improving alert prioritisation and surfacing contextual information that traditional surveillance tools often fail to capture.

Across those three areas, the two highest-value applications we have seen in practice are trade surveillance alert triage supported by automated market context and communications surveillance enhancement focussed on detecting nuance, interpreting intent and improving review speed at scale.

Trade surveillance: AI-powered alert triage with market context

The challenge

Most trade surveillance programmes face a common structural challenge: a high and continuous flow of alerts, which in large institutions can amount to more than one million each year, alongside very limited time for initial review. For insider trading alerts in particular, review times can range from 10 to 30 minutes depending on the complexity of the case and the nature of the news involved. This creates a prioritisation problem. Before an analyst has investigated the alert, it is often difficult to determine whether the price move is linked to legitimate market activity or indicative of potential misconduct.

A simple example illustrates the issue. Two alerts might look similar on the surface because both involve a significant price move around a trade:

- In one case, the stock moves with a broad market rally or sector-wide uplift. That move is typically explainable and the insider dealing risk is often lower.
- In another case, the stock jumps on an unexpected merger announcement. That is a different risk profile entirely: the information is highly material, timing-sensitive and can demand a deeper and longer investigation.

From a regulatory standpoint, it is better to identify and prioritize the second category early. High-risk alerts can take longer to work properly, may require more evidence gathering and may create reporting obligations. Delaying those investigations increases both operational pressure and regulatory risk.

What AI does well here

AI performs strongly when the task is to find and structure context quickly:

- AI rapidly consolidates and interprets relevant public information, drawing together news and disclosures linked to the company and event window, extracting key facts and classifying the type of news in a consistent way even when alert volumes are high.
- It can apply analyst-defined rules to create a risk rating, based on how likely the alert is to reflect suspicious trading versus an explainable move.

The key to making this defensible is that the risk logic is explicit. The model is not making a judgment in a vacuum. It is organizing context and then applying pre-determined rules supplied by surveillance professionals.

Why this changes the workflow

This approach shifts surveillance from reactive queue processing to effective alert prioritization:

- **Alert rankings**: Alerts can be ranked using a clear and consistent risk score. Trade surveillance alerts can be assigned a score (e.g. from 1 to 5, with 5 indicating the highest potential risk). For instance, an alert linked to trading ahead of an unexpected merger announcement might be rated 5, whereas an alert linked to a scheduled earnings release that broadly matched expectations might be rated 2.
- **Risk-based approach**: Analysts can tackle the highest-risk alerts first, because they have meaningful context before they start the investigation. Regulatory risk is therefore also reduced, because high-risk cases can be investigated earlier. When escalation is warranted, teams are positioned to move faster on regulatory reporting, including the potential submission of suspicious transaction and order reports (STORs) where applicable.
- **Time savings**: Research time is reduced substantially. Saving around three minutes on the initial 'why did the stock move?' assessment for each alert can translate into a significant capacity gain when applied across thousands of alerts each month.

To support consistent scoring, we developed a reference guide that links common news categories to likely risk outcomes. Over time, this becomes a living training artefact: we expand it based on the model's outputs and analyst review, reinforcing what good versus poor triage looks like. This 'feedback loop' keeps the system aligned to surveillance intent and improves consistency across the analyst population.

Comms surveillance: translation, context and enhanced surveillance at scale

The challenge

Traditional comms surveillance often relies on lexicons and rigid pattern triggers. This can be useful, but it struggles with real-world behaviour: ambiguity, coded language, euphemisms, avoidance tactics and meaning that sits in context rather than in keywords.

What AI does well here

AI is particularly effective when the goal is to interpret meaning rather than match phrases:

- It handles translation and multilingual nuance far more effectively than static lexicon approaches.
- It can identify attempts to avoid detection, such as incomplete phrasing, insinuation or deliberately indirect language, in a way that keyword systems often miss.
- It can review large volumes of communications quickly, enabling analysis that would otherwise be impractical.

Enhanced surveillance: why this is high value

A strong comms use case is enhanced surveillance, meaning a more targeted review of communications for individuals who have triggered multiple breaches or are already under investigation for any reason. In these situations, AI can review a much larger set of communications and surface potential policy breaches that may not have triggered the standard surveillance system at all, without requiring additional manual effort. This is not a generic search for problematic language. It is a policy-grounded review designed to help analysts focus more quickly on the most relevant communications.

The approach involves providing the model with the relevant policies and explicitly training it on what constitutes a violation, including references back to the policy language. This allows outputs to be anchored to documented standards rather than subjective interpretation. Practically, this means analysts can move faster from a broad population of messages to a shortlist of the most relevant communications, with clear rationale and pointers to the policy basis for concern.

This also supports deeper investigations in trade surveillance escalations, where reviewing communications between involved parties can be critical. AI can surface the most relevant conversational context around a trade in minutes, allowing analysts to focus their time on evidence, chronology and decision-making.

Conclusion

AI creates the most value in surveillance when it strengthens investigative quality rather than simply increasing throughput. It enables teams to gather context faster, apply triage more consistently and identify higher-risk alerts earlier, allowing analysts to focus their attention where it matters most. The result is deeper investigations, better use of capacity and a greater likelihood that potentially problematic behaviour is identified and escalated in time. The strongest model is not AI replacing human judgment, but AI supporting human-led surveillance in a way that improves coverage, prioritisation and defensibility.

Key US and UK Fines (H2 2025)

#	Fine size / sanction	Date	Regulator	Impacted party	Fine rationale	Relevant considerations for firms	Link
Confirmed fines							
1	£1.1m fine	1 Aug	FCA	**Sigma Broking Limited** UK-based brokerage firm authorised and regulated by the FCA	• Failed to submit complete and accurate transaction reports to the FCA between 2018 and 2023, impacting surveillance and market abuse detection effectiveness	• Maintain robust systems and controls to ensure transaction reporting completeness and accuracy • Firms should validate configuration and reconciliation procedures for reporting systems regularly • Proactively identify and remediate reporting failures and voluntarily notify the regulator promptly to potentially reduce penalties	FCA press release
2	$1.5m civil monetary penalty	4 Sep	CFTC	**Large US bank**	• Submitted inaccurate large trader reports due to a programming logic error and data corruption issues in 2015–2023, violating CFTC reporting and books/records rules • Failed to maintain reliable supervisory systems to detect and prevent these reporting failures	• Firms must ensure accuracy and completeness of mandatory regulatory reporting (e.g. large trader reports) • Strong supervisory controls and monitoring are needed to identify reporting system errors • Self-reporting and cooperation can lead to mitigation credit but do not eliminate the obligation to maintain robust controls	CFTC press release
3	$5m civil monetary penalty	4 Sep	CFTC	**Large European bank**	• Failed to implement and maintain an effective trade surveillance/ supervisory program across FX, precious metals, rates, credit and derivatives, resulting in trade activity that was not effectively monitored • Surveillance program generated excessive false/unproductive alerts and had data storage gaps; moreover, the firm did not detect and correct these deficiencies in a timely manner	• Firms must implement robust and well-configured surveillance systems across all major asset classes under CFTC jurisdiction • Surveillance systems should be validated and monitored consistently for performance and data completeness • Data retention and alert calibration should be part of documented supervisory procedures	CFTC press release
4	$0.5m civil monetary penalty	4 Sep	CFTC	**Large Japanese bank**	• Employees used unapproved communications channels (e.g. messaging apps, personal text messages) for business-related communications that were not captured, archived or preserved, violating CFTC recordkeeping and supervisory requirements • Firm lacked adequate systems to detect or prevent these violations despite existing internal policies	• Internal policies must be supplemented with effective surveillance and supervisory controls to detect off-channel use • Regular compliance testing and employee training are crucial to ensure communication controls are effective in practice	CFTC press release
5	$0.5m civil monetary penalty	4 Sep	CFTC	**Large European bank**	• Employees used unapproved communication methods for business-related communications that should have been captured and preserved under CFTC recordkeeping rules • Failure to diligently supervise business activities	• Compliance programs should include automated off-channel monitoring and periodic audits of electronic communications controls • Firms operating across jurisdictions must ensure consistent application of record preservation rules globally • Internal audit frameworks must be robust to detect systemic policy circumvention	CFTC press release
6	$0.5m civil monetary penalty	4 Sep	CFTC	**Large US bank**	• Employees used unapproved communication methods for business-related communications that should have been captured and preserved under CFTC recordkeeping rules • Failure to diligently supervise business activities	• Compliance programs should include automated off-channel monitoring and periodic audits of electronic communications controls • Comprehensive preservation of both pre- and post-trade communications needs to be done properly	CFTC press release

Key regulatory developments

SEC Division of Examinations FY2026 examination priorities:

The SEC's Examination Priorities are a useful early warning for surveillance leaders showing where examiners are most likely to pressure test over the coming year. These include:

- **Trading practices and execution oversight:** Continued attention on broker-dealer equity and fixed-income trading practices, including how firms oversee routing decisions, execution outcomes and related disclosures
- **Market structure edge cases:** Specific callouts that can create surveillance coverage gaps, including extended hours trading and practices in less transparent markets such as municipal securities
- **Emerging technology and AI supervision:** Reviews of automated tools, algorithms, AI and alternative data, especially regarding whether firms' claims about these tools are accurate and whether controls, testing and supervision are credible.

Why does it matter?

Exam priorities typically translate into requests for evidence. Firms should specifically consider:

- **Coverage gaps**: Does surveillance extend to extended hours and less liquid markets where behaviour and liquidity dynamics differ?
- **Execution oversight evidence**: Can you show periodic review and challenge of routing and execution outcomes, with documented remediation where issues are found?
- **AI governance:** If AI or automation is used in surveillance, is it treated like a model risk discipline with validation, monitoring and auditability?
- **Vendor resilience:** Are data, capture and retention dependencies governed with QA, SLAs and fallback procedures that prevent silent surveillance blind spots?

Further reading

SEC 2026 Examination Priorities

FCA multi-firm review of algorithmic trading controls: high level observations

The FCA published last year high-level observations from a multi-firm review of principal trading firms, assessing compliance with MiFID RTS 6 and highlighting both good practice and recurring weaknesses. Key observations include:

- **Governance remains uneven**: Stronger firms maintained clear inventories of algorithms, ownership, approvals, venues and key risk parameters
- **Technical understanding matters**: The FCA expects compliance to have enough understanding of how algorithms operate to provide effective oversight and challenge

Key regulatory developments

- **Testing and deployment are key controls**: Conformance testing is a baseline, while simulation testing is important to assess behaviour under stressed conditions. The FCA also highlighted risks where firms rely on third-party algorithms without sufficient understanding of how they were developed and tested

- **Control ownership must be clear**: Although firms generally had pre-trade controls in place, weaknesses remained around ownership, documentation and compliance oversight

- **Surveillance should be tailored and actively calibrated**: Stronger firms aligned alerting to trading style, asset class, and venue, with calibration treated as an ongoing governance issue rather than a one-off exercise.

Why does it matter?

The message for surveillance and control functions is clear. Algorithmic trading remains a supervisory priority and firms are expected to demonstrate mature governance, robust development and testing discipline, effective risk controls and surveillance that is genuinely tailored to the firm's trading footprint.

Firms should specifically consider whether:

- Compliance has sufficient understanding of how algorithms operate to provide effective challenge and oversight

- Algorithm inventories, ownership records and approval processes are complete, current and clearly documented

- Testing frameworks, including simulation testing, are robust enough to evidence how algorithms behave in normal and stressed market conditions

- Third-party algorithms are subject to adequate due diligence and oversight, with sufficient understanding of how they were developed and tested

- Pre-trade controls, post-trade controls and surveillance calibration have clear ownership, documented governance and regular review.

Further reading

Multi-firm review of algorithmic trading controls: high-level observations

Vendor updates

Global Relay

Global Relay has continued to enhance its communications surveillance capabilities, including implementing multilingual voice transcription across 50+ languages, LLM-based contextual risk detection, explainable alert rationales and tighter integration of archive, capture and surveillance workflows within a unified compliance platform. The firm is positioning generative AI to improve contextual analysis and reduce false positives, rather than to replace human investigators.

Global Relay AI Surveillance Solution

Behavox

Behavox has announced a strategic partnership with B-Next to enhance its Polaris trade surveillance platform and broader Unified Controls offering. As part of the collaboration, B-Next will leverage Behavox technology across trade surveillance, best execution, conflicts management and personal account dealing solutions, while Behavox strengthens its Polaris offering with additional capital markets subject matter expertise. The partnership reinforces Behavox's broader strategy of integrating communications surveillance, trade surveillance, archive and policy management capabilities within a unified AI-enabled controls framework.

Behavox trade surveillance partnership with B-Next

Verint

Verint has recently expanded its 'AI Insights' line-up within Verint Financial Compliance with the introduction of 'Suitability Assessment Insight', complementing Conduct Risk and Summary, Notes & Actions Insights, to help firms meet MiFID II suitability assessment requirements. Together, these capabilities – along with the recent launch of 'Communications Analytics' and AI Insights in Verint Cloud – help financial organizations leverage secure, explainable AI to uncover compliance risks, improve efficiency, and accelerate meaningful business outcomes across regulated communications.

AI-powered financial compliance platform

Recent reports & articles

- Communications Surveillance Benchmarking Report 2025 (Capco and NICE Actimize): The industry's largest communications surveillance report sharing insights from 43 global institutions, supported by comprehensive regulatory analysis and market research. The report highlights the operating models, technology strategies and challenges shaping today's surveillance functions (30 min read).
- Regulatory Horizon Edition 13 (Capco): Explores the regulatory trends reshaping financial services across the UK, Europe, North America and APAC. Drawing on insights from Capco's global specialists, this edition provides practical analysis across Non-Financial Risk, Operational Resilience & Cyber, Financial Crime, Trade & Transaction Reporting, and Financial Risk (30 min - 2 hour read).

About Capco

Capco, a Wipro company, is a global technology and management consultancy shaping change in the financial services and energy industries. For almost 30 years, we have been trusted to help our clients adapt, transform and create long-term value across capital markets, banking, payments, insurance, wealth and asset management, and the energy and utilities sectors. Our deep industry expertise, partnership mindset and award-winning Be Yourself At Work culture are amplified by our strengths in advisory, technology, data and AI innovation. We support our clients to establish clear priorities, connect vision to value, and deliver measurable impact when the stakes are highest.

Expert-led, AI-infused, impact-focused – we do not just respond to change, we help shape it. To learn more, visit **www.capco.com** or follow us on LinkedIn, Instagram, Facebook, and YouTube.

Worldwide Offices

APAC
Bengaluru – Electronic City
Bengaluru – Sarjapur Road
Bangkok
Chennai
Gurugram
Hong Kong
Hyderabad
Kuala Lumpur
Mumbai
Pune
Singapore

Middle East
Dubai

Europe
Berlin
Bratislava
Brussels
Edinburgh
Frankfurt
Geneva
Glasgow
London
Milan
Munich
Paris
Vienna
Warsaw
Zurich

North America
Charlotte
Chicago
Dallas
Houston
Montreal
New York
Orlando
Toronto

South America
Rio de Janeiro
São Paulo

capco.com

JN_6067

CAPCO
a **wipro** company