



EXECUTIVE EXCHANGE

# Expert insights on surveillance in the age of AI

**Exploring the data challenges facing commodities surveillance**

ROUNDTABLE 2

*'The uptake of vendor surveillance solutions is uneven across the market, with 60% having at least one solution in place for trade, and 20% having more than one. Difference in datasets, trade market behaviours and infrastructures materially prevent a universal trade surveillance solution from emerging, and the opacity of AI black boxes can make the adoption of a vendor solution harder to justify to internal stakeholders. 25% of firms surveyed have an automated communications surveillance strategy in place.'*

TN POLING, MARCH 2024

**Energy markets face unique data challenges:** vendor solutions created for financial services markets may not be easily transferrable or appropriate for energy markets. Whilst market abuse is not conceptually different across financial and commodities markets, the complexity of cross-border markets, nuances in trading behaviours, and different market infrastructures create unique data completeness and transparency complexities. Physical and derivative markets also operate under different rules, and market abuse scenarios are often market specific. This typically means that energy firms are not able to leverage a single trade surveillance solution, instead relying on a patchwork of different automated trade surveillance tools, both off the shelf and built in-house, connected by manual linkups.

**Maturing perspectives?** commodities markets have been historically less burdened by regulation, which has reduced the pressures on the adoption of automated trade surveillance, and also held back the dialogue with off the shelf vendor solutions. This is changing, with an observed greater appetite for technology investment, and broad recognition that automated solutions are needed to look for trade patterns and systemic risks.

**Preparation for REMIT II:** firms continue to grapple with compliance readiness with the EU regulation, [REMIT II](#), which introduces integrity and transparency requirements on algorithmic trading in wholesale energy markets. Firms are principally focused on data collection, in particular navigating the disconnected nature of EU power and gas markets, which are unused to regulatory data demands. Data collection and consolidation efforts are vendor-led, with collaboration acknowledged as critical.

### The ongoing data challenge

- **Data access:** firms remain reliant on market interfaces for the data to perform trade surveillance. Trading venues do not have an obligation to share data, which limits the datasets that firms can learn from in order to model and detect market abuse. Market data can be prohibitively expensive, which impedes firms from performing real time surveillance, except where expressly required to do so.
- **Position data:** given its sensitivity, trading desks are often reticent to provide position data to internal surveillance teams, providing position limits, not live trade data. Similarly, firms are not comfortable providing position data to third parties. This can limit the development of vendor-led surveillance solutions.
- **Data asymmetry:** for effective data consolidation, firms need to be able to obtain, and provide, data to regulators in a standard way. Even if regulatory obligations align, the idiosyncrasies of different market venues mean data ingestion is non-standard across the different markets a firm operates.
- **Data consolidation:** it is not enough to look at individual trades or algorithms; surveillance needs to look at the collective impact and patterns on markets, including the market reaction. What can look, in isolation, as innocent trading can begin to look manipulative when considered as part of a wider pattern. Surveillance needs to look at the collective impact of behaviours and trading, but this requires data aggregation, as well as sophisticated models.

### Three reflections



#### STAYING AGILE WITH RISK-BASED SURVEILLANCE INVESTMENT

Notwithstanding the data challenges, firms recognise that vendor solutions are not necessary nor cost-effective for all surveillance activities or markets. In-house judgements are needed to prioritise automation, investment and vendor adoption.



#### DEALING WITH THE SPEED OF TECHNOLOGY CHANGE

The speed of change of AI and agentic AI means that vendor surveillance solutions can quickly become obsolete. Firms need to think about future proofing their investments to meet requirements in five years, as well as today.



#### KEEPING UP WITH BUSINESS EXPANSION:

Forays into new markets bring new data and surveillance challenges, with access to exchange data often problematic, and new surveillance models and systems often being needed to accommodate the new market's infrastructure. Surveillance teams need to be part of early discussions in order to effectively counter such problems.

### The business case for communications surveillance

- Communications surveillance is considered to be an important part of protecting energy trading businesses, and part of a strong control environment, as well as a way to provide assurance that a firm is not engaging in market manipulation, even if it is not mandated by regulation.
- A number of firms are also exploring the use of communications surveillance to identify broader signs of misconduct, with some firms considering embedding surveillance within the broader conduct and control framework, integrating surveillance data and analytics with front office and conduct teams.
- Market views on the realities of holistic surveillance are mixed, recognising the UK regulatory view that signs of misconduct can

be used to identify individuals at higher risk of market abuse, whilst also appreciating that firms must comply with legal protections, particularly in Europe, that often limit or prohibit employee surveillance.

- For firms that have communications surveillance in place, some are considering the interim use of AI as an overlay to traditional lexicon-based solutions whilst market solutions mature. Others are considering using AI transcription services, recognising the significant technological improvements made in this space. A number of firms are looking at combining vendor communications surveillance solutions with in-house capabilities. Where vendors are considered, firms are evaluating several aspects: the solution's archive and search capabilities, its flexibility and growth strategy, the test case for reducing false positives, and enhancing the detection of market abuse.