Why avoiding transcription is bad for business

The CFTC's different record retention requirements for electronic and voice communications is creating a conundrum for financial firms that are subject to these rules. CFTC Rule 1.31 states that electronic communications must be retained for a period of five years while voice communications must be retained for only one year. In many firms this has resulted in little or no monitoring of voice communications which was not the intention of this rule.

There is a school of thought in the financial community that believes if a firm transcribes its voice communications it creates an electronic record that becomes subject to longer retention requirements. They believe this will not only increase storage costs but may also present a legal risk because the transcription is discoverable during litigation.

This concept is a false narrative and many firms are missing out on the many benefits of transcribing their voice communications and leveraging the knowledge of what's being discussed on the trading floor to **reduce risk** and **improve their business practices**.

The flaws of manual sampling

Instead of using the latest technology to analyze all voice communications, many firms are still using a sampling approach. This approach causes many man-made problems.

Audio sampling involves teams of people listening to a sampling of voice communications. Not only is this approach **extremely resource intensive**, but it is also **error-prone and not very effective** in identifying suspicious behavior.

Humans are prone to distraction and listening to hours of calls can be exhausting. With different resources listening to different communications they may miss common patterns of behavior. Each employee will have their own inherent biases causing them to interpret the communications in a different way.

In addition, these resources must be well-trained in the business and securities laws to identify inappropriate behavior. This results in high turnover in these positions as the resources move on to more attractive roles.

To Transcribe or Not to Transcribe

Advances in the technology to transcribe voice to text have dramatically improved the accuracy of the transcription process. Artificial Intelligence can be used to categorize and separate calls related to trading activity: from personal calls or calls that are not business-related.

The fact is that modern voice technology aids better transcription.Machine learning and Natural Language Processing can be applied to understand the context of the conversation and identify potential cases of inappropriate behavior.

Alerts can be raised, and surveillance analysts can review only these high-risk calls to confirm the behavior is suspicious or simply close the alert. This approach will **dramatically increase the coverage and efficiency of the surveillance while reducing the cost**.

The business benefits of audio transcription

In addition to reducing risk by improving the surveillance capabilities there are many other business benefits to transcribing voice communications.

- **Improved searchability / e-discovery**

Supervisors can easily search communications to monitor employee behavior and identify areas for improvement. For example, if a customer files a complaint, the supervisor can easily search the communications to identify the conversation and address it with the employee. They could also search all communications to see if other customers may have experienced the same issue.

- **Less resource needed for Reconstructions**

The ability to reconstruct trades is greatly enhanced when the content of communications, and not just metadata, can be analyzed to determine if the communication is related to a trade.

- **Reduced conduct risk for your firm**

Regulators have already demonstrated their ability to analyze voice communications in cases involving the manipulation of ISDAfix and LIBOR. Companies that think they can reduce their legal risk by not transcribing voice communications are increasing their conduct risk by not understanding what's in their voice communications.

Regulators are generally more lenient on firms that self-report issues before they are identified and reported by someone else.

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