



Q&A

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Accelerating the fight against financial crime

The name Nasdaq is often associated with the Nasdaq stock exchange. Yet, Nasdaq's business today far extends beyond the exchange. How would you describe Nasdaq, the company?

Nasdaq today is a highly scaled, global technology provider that serves the world's financial system.

At our core, we deliver leading platforms that improve the liquidity, transparency, and integrity of the world's economy. Those three themes serve as the foundation of our culture, and they drive our focus and our priorities within Nasdaq.

For instance, the technology that we built to underpin Nasdaq's markets, now powers 130 markets worldwide. We also serve the corporate and investment communities with a diverse suite of technology, data and analytics solutions that helps them navigate the complexity of capital markets. And our suite of integrity solutions is used by markets, banks and credit unions to help detect and fight financial crime and market abuse.

You've spoken a lot recently about your focus on Anti-Financial Crime and the strong growth trajectory of that business. What made you expand the Nasdaq platform into this area?

Nasdaq's vision is to become the trusted fabric of the financial system. We see our role across the three foundational pillars I mentioned: maximizing liquidity, increasing transparency, and maintaining the integrity of the global financial system.

Our integrity pillar is focused on detecting nefarious behaviors across markets and trading, as well as rooting out financial crime such as fraud and money laundering.

Financial crime is a pervasive and global challenge that causes a major strain on the financial system. It's also intrinsically linked to wider societal harm such as human trafficking, drug and weapons trade, terrorism financing, and other nefarious behaviors that affect communities. As we sought to expand our platform, we wanted to make sure we were using it to tackle the industry's toughest challenges, and we are doing just that with our Anti-Financial Crime division.

How big of an issue is this problem?

Estimates show financial institutions spend over \$1.28 trillion a year in the fight against financial crime. Yet, spend alone, has proven insufficient. The United Nations estimates that 2-5% of global GDP – approximately \$4.4 trillion – is laundered annually and less than 1 percent of those funds are seized.

It's a problem that requires urgent action, especially because bad actors are innovating every day. We need to outthink them, outwork them, and out-innovate them, which we can only do if we deepen collaboration – both across the industry as well as between industry, regulators and policy-makers.

What are the challenges in combatting financial crime?

They are multifold. With transaction volumes soaring and ever-increasing amounts of data to monitor, banks are struggling to keep up. Surveillance and compliance programs may mark tens of thousands of transactions as potentially suspicious in a single month. Unfortunately, that amount of data can overwhelm the teams of experts within the banks who are investigating potentially criminal activity. The data includes many false signals, what the industry calls "false positives", each of which needs to be investigated and can become a huge drain on the resources within the banks. The best opportunity we have as an industry to combat crime

more effectively is to make the alerts more effective in finding real crime and eliminating the noise of the false positives. That can only be done through innovative technologies, data science, and collaboration across the financial ecosystem.

Data silos between financial institutions and regulators, the growth in international sanctions, and the emergence of digital assets and cryptocurrencies add further layers of complexity to the already strained system.

Criminals, on the other hand, are not hampered by similar challenges. They are adopting the newest technologies and leveraging innovation to stay multiple steps ahead of detection. They are exploiting the cracks between financial institutions and among industry and regulators to hide their activities.

And we are all suffering for it: financial crime undermines the integrity and sustainability of our financial systems and money continues to flow into drug and terrorism networks, weapons trade, and human trafficking.

To reverse this trend, we need to not only keep pace, but outpace, the criminals exploiting the global financial system for their own ends.

How can we out-innovate and outpace the criminals?

The impediments to progress are complex but not insurmountable.

The lynchpin will be breaking down the barriers that prevent effective and responsible data sharing across country lines and between financial institutions and regulators. While banks are required to have their own monitoring systems to detect potential fraud and money-laundering activities, in many countries, including within the EU, their insight is limited to their own transaction data. By analyzing data from multiple institutions and locations, patterns can emerge that wouldn't otherwise be visible.

We have been able to implement solutions across 2200 banks that keep the data confidential between the banks, but still allows data pooling within consortium data-lakes that enable much more robust data analytics and significantly better alerting outcomes – fewer false positives and more actual crime detected.

There are signs of progress. There are at least 15 international information-sharing programs under way worldwide that are yielding promising results. But these pilot programs are a mere drop in the bucket when we consider the scale of the crisis.

The US has the most robust data sharing capabilities codified in the law, and as a result, we have delivered unique capabilities for banks to share information with each other and engage in joint investigations into connected criminal activity that spans multiple institutions.

Doesn't this kind of information sharing bring about privacy concerns?

These concerns are real and important, and worthy of debate among all stakeholders. Governments need to balance individuals' privacy rights with the need to enable controlled data sharing. Technology has an important role to play here—

not only in using artificial intelligence and machine learning to produce deeper insight from diverse data sources, but also in deploying appropriate controls, including data encryption, to stay in compliance with privacy protection regulation.

Improved data sharing also has the potential to increase collaboration between regulators and industry. Informal dialogues among regulators, law enforcement and the private sector have existed in different forms and across jurisdictions for a long time. However, formalized public-private collaborations have the power to deliver more real-time feedback to financial institutions and to effectively support anti-financial crime efforts.

What is Nasdaq doing to address the issue?

The fight against crime is still largely analog in a digital world. At Nasdaq, we are bringing more modern solutions to the problem by leveraging the cloud, big data approaches, AI and machine learning to increase crime fighting effectiveness and success rates.

By gathering and normalizing data across banks and leveraging AI algorithms powered by our unique big data set, we are better able to detect patterns and identify nefarious actors. We surround the detection capabilities with full-service workflow tools to manage the entire activity chain from detection, to case management, to regulatory reporting. Certainly, we can bring our broad suite of technology solutions to the table to address this issue, but we know it will be more fundamental to foster deep collaboration with law enforcement to combat it.

How can governments here in Europe collaborate with companies like Nasdaq?

The potential of strong collaboration between Nasdaq and our partners in Europe is boundless, and we are already collaborating extensively with governments in Europe, especially on market surveillance.

At Nasdaq, we are deeply committed to Europe and the future of its markets, and if we can combine our collective strengths and expertise, and align on our goals, we can create a more connected, innovative, and equitable financial system. With a careful but full embrace of emerging technology, we have the chance to drive progress and innovation, address complex challenges, and bring about more inclusive growth for Europe and for the world.