

# Should Advisers Be Regulated by Robots?

By: Bettina Eckerle

<http://eckerlelawyers.com/blog-news/>

These days, it seems like everyone has an opinion about who should oversee [registered investment advisers](#). As we have discussed on this blog, a controversial bill pending in Congress would shift regulatory authority to a non-government agency such as the Financial Industry Regulatory Authority (FINRA).

In a recent column in the [Wall Street Journal](#), Jason Zweig suggested that robots replace regulators. His larger point is that the government should place greater reliance on computers and other technology to screen registered advisers.

“Investment advisers are being examined infrequently, inconsistently and incompletely—largely because regulators are outnumbered and reliant on outmoded technology,” Zweig writes. “In a business world that routinely runs on ‘big data,’ it’s time to put computers on the case.”

To support his argument, he points to the current examination rate of registered advisers by the Securities and Exchange Commission. For instance, in fiscal 2011, the SEC examined just 8% of the 12,600 advisers under its purview. In addition, an estimated 5,000 advisers have never been audited by the SEC.

As Zweig further notes, even more frequent examinations don’t always lead to better oversight. FINRA inspects brokerage firms approximately every two years, but failed to detect the Ponzi schemes orchestrated by Bernard Madoff or Allen Stanford.

The article does acknowledge that the SEC is beginning to embrace technology. New programs include the “aberrational performance initiative,” which uses software to analyze data about hedge funds to look for unusually high or suspiciously smooth relative performance. The technology has already resulted in four fraud cases.

For advisers, greater reliance on technology will clearly lead to additional scrutiny by regulators like the SEC. Maybe the examinations will be less arbitrary that way, driven by data anomalies rather than simply the luck of the draw. Brave New World?

.....

## About Eckerle Law

*Eckerle Law offers a highest-quality and cost-effective alternative to the traditional law firm model for a wide variety of transactional and regulatory matters serving all your business law needs. Our experienced attorneys also provide a full range of [compliance services for investment advisers](#), offering compliance tools that are tailored to fit the ever changing regulatory landscape as well as your business needs.*

*If your company would like to strengthen its business practices, please contact us today so we can leverage our experience to create real-life business and legal solutions to help your business thrive.*