



Building a Culture of Regulatory Compliance (Part 1)

Regulatory compliance is essential to the orderly functioning of the securities market. Registrants registered with the Commission should establish effective policies, operational procedures and controls in relation to their day-to-day business activities in order to ensure compliance with all relevant regulatory and legal requirements. The Commission is of the view that registrants will be more successful in this regard if a culture of regulatory compliance is embedded into the organisation's work environment.

What is culture? This refers to the ideas, customs, and social behaviour of a particular people or society. In an organisational setting, the same meaning is applied. However, the organisation's culture is influenced by its Board of Directors through approved policies and procedures. This is referred to as setting the "tone at the top".

What is regulatory compliance? The International Organization of Securities Commissions (IOSCO) defines regulatory compliance as "a function that, on an on-going basis, identifies, assesses, advises on, monitors and reports on a market intermediary's compliance with securities regulatory requirements, including whether there are appropriate supervisory procedures in place."

The Commission encourages its registrants to foster a strong culture of regulatory compliance. But what does that really mean? A strong culture of compliance goes beyond the development of written policies and procedures. Essentially, it is about doing what is right and in the best interest of clients and markets. Creating a culture based on these values requires each employee to be on board with policies and procedures that reflects the business model that the organisation uses to execute its functions.

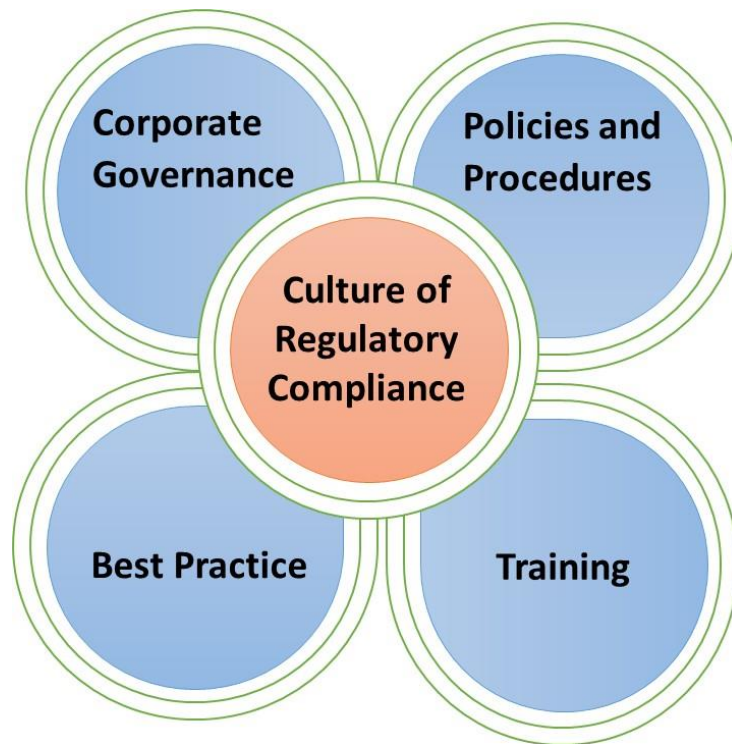
Embedding Regulatory Compliance

Regulatory compliance requires a proactive, consistent and realistic approach to achieve a system of transparent risk management. Registrants must incorporate policies and practices into their daily

business processes seamlessly. A culture of compliance should put strong emphasis on people since most errors are a result of human activity.

A culture of compliance should be clearly documented in a registrant’s mission statement and policies and procedures manual, to ensure that employees understand “how they fit into the picture”. The compliance officer and supporting employees should have detailed knowledge of the industry and necessary regulatory requirements. The main components of regulatory compliance (as seen in the Figure 1 below) consist of corporate governance, policies and procedures, best practice and training.

Figure 1: Components of Regulatory Compliance



The following are brief descriptions of how registrants can embed compliance into their organisations:

- 1) Corporate Governance** – Corporate Governance is the most important aspect of creating a culture of regulatory compliance. This is essentially how the Commission’s registrants are controlled and directed. The “tone at the top” is evidenced by the processes for decision-

making. For instance, are proper policies and procedures followed before making important decisions pertaining to the registrant's business activity?

- 2) Internal Policies and Procedures** – This includes the framework within which registrants carry out their day-to-day business activities. This framework is linked to the strategic plan of the registrant and is implemented, monitored and evaluated on an ongoing basis. The Compliance Programme (CP) forms part of the internal policies and procedures, and it embeds regulatory compliance into an organisation. The CP should be tailored to the registrant's business and address the associated Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) risks of the organisation. The CP must also meet the requirements of relevant regulatory and legislative requirements. It must be reviewed, tested and modified where necessary and be enforced within the registrant's business operations.
- 3) Following Best Practice** – If registrants are truly determined to create a culture of regulatory compliance, they need to go beyond the maintenance of minimum legislative requirements and start implementing recognised best practices within their organisation. These benchmark practices will enhance the culture of regulatory compliance and mitigate risks associated with the organisation.
- 4) Training Programmes** – Major emphasis should be placed on the people or employees within an organisation. The quality of training received by the registrant's employees are directly correlated with the culture of regulatory compliance being adopted. The registrant's employees include the board of directors, management, the compliance officer, and all other staff members within the organisation. While it is mandatory for AML/CFT training to be done annually, registrants should go a step further to ensure that all staff understand the purpose of the training programmes and adopt a behavioural pattern of regulatory compliance within the organisation. The following can be used by registrants to ensure employees are continually trained in compliance:
 - Weekly reminders/updates on regulatory compliance;
 - Use organisations newsletters to raise awareness;
 - Provide tips of the day/week/fortnight surrounding regulatory compliance;
 - Talk about regulatory compliance during staff meetings;
 - Embed regulatory compliance into performance evaluations/appraisals; and
 - Facilitate training on the legislation surrounding compliance.

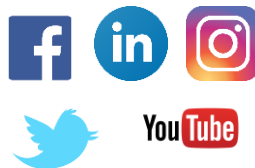
5) Other Areas – The following is a list of actions that registrants can take to embed compliance as a routine part of their business operations:

- The compliance department should not be separated from the rest of the firm. When departments operate in ‘silos’ there can be a break down in the effectiveness of compliance;
- The compliance officer and necessary staff should be present and empowered to provide input when strategic or major business decisions are being made;
- The compliance officer should be part of senior management;
- The compliance department should have some level of independence from other functional units and, in particular, from senior management;
- The compliance programme should be appropriately and adequately funded;
- There should be investment in appropriate technology and other resources to facilitate effective compliance;
- A system of good recordkeeping supports a strong compliance culture; and
- Employees should be generally aware of the regulatory requirements and consult freely with the Trinidad and Tobago Securities and Exchange Commission.

We will continue the focus on compliance in part 2 of this article, which will cover the benefits and challenges associated with regulatory compliance.

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