



BUILDING A CULTURE OF REGULATORY COMPLIANCE (Part 2)

As the regulator for the securities industry, establishing regulatory compliance requires continuous vigilance and resources. Simultaneously, as our regulatory demands grow, companies need to have the resources in place to build compliance practices into their everyday frameworks and workflows. Our article last week focused on incorporating compliance measures into an organisation's corporate governance structure, internal policies and procedures, industry best practices and training. This is to ensure a proactive and consistent approach to achieving a system of transparent risk management. While regulators around the world are seeking to ensure that companies are putting policies and practices in place to effectively respond to and mitigate risk, a realistic approach must also take into account the benefits and challenges associated with regulatory compliance.

Benefits of Regulatory Compliance

- 1) Risk Mitigation** – This is a reduction in an organisation's exposure to various risks and/or the likelihood of their occurrence. Risk mitigation leads to enhanced reputation and greater levels of security and stability for customers and organisations alike. The Trinidad and Tobago Securities and Exchange Commission (TTSEC) uses a Risk Based Supervisory (RBS) approach to regulation. The key element of RBS is that it shifts the primary responsibility for risk management and internal control, to the securities firms and changes the regulator's role from one of verifying rule compliance to evaluating whether the firm's risk management and internal controls are adhered to, adequate and relevant. Registrants with the TTSEC must also use an RBS approach within their own organisations to ensure that resources are utilised efficiently when managing risks.
- 2) Legal and Reputational Protection** – In today's environment, organisations seek every possible opportunity to obtain the competitive edge over rivals. Registrants' legal and reputational status is of significant importance when seeking new business and clients. In some

cases, the legal and reputational status is quantified and recognised as an asset to an organisation through the accumulation of goodwill, which further enhances an organisation's asset base.

- 3) Compliance with all regulatory and legal requirements improves a registrant's legal and reputational status; and reduces the cost of compliance, which can include penalties and fees due to breaches of necessary legal requirements.

According to Section 90(8) of the Securities Act 2012 “A person who fails to take measures directed pursuant to subsection (1) commits an offence and is liable on summary conviction to a fine of five million dollars and to imprisonment for five years.”

- 4) **Ethical and Social Importance** – Compliance with relevant regulatory and legal requirements moves a registrant one step closer to being more socially and ethically responsible. Ethical practices are normally guided by principles and standards that determine acceptable conduct within an organisation. Adhering to ethical practices also offers great value to the organisation:

The benefits include:

- Increasing profitability;
- Reducing levels of corporate pressure on senior management and employees as a result of making ethical choices;
- Developing a positive reputation;
- Enhancing the quality of leadership; and
- Reduction in the cost of regulation.

The TTSEC wishes to impress on registrants that their compliance with relevant regulatory and legal requirements promotes positive public perception, and such businesses win the trust and respect of their employees, customers, and society, and in the long run improves corporate legitimacy.

- 5) **Integrity of Financial Markets** – The integrity of a financial market impacts the development of a country. The TTSEC promotes the integrity of financial markets by ensuring registrants are operating in compliance with governing legislation and guidelines. A culture of effective compliance reduces opportunities for criminal activity, corruption, illegal trade and the

laundering of the proceeds of crime. Such illicit activity undermines good governance, financial sector stability, and economic development on a national scale. This effectively increases economic distortion and instability. The TTSEC recognises that financial markets must be transparent and promote good governance if proper economic development is to take place.

Challenges of Regulatory Compliance

- 1) **Regulatory Risk** - Changes in laws and regulations can materially impact a registrants' business or the entire securities market. These changes can possibly increase the costs of compliance and reduce profitability of the organisation. The TTSEC understands this risk and is committed to maintaining stability by ensuring that registrants are supported by robust regulatory and legal requirements, while maintaining a competitive market.
- 2) **Financial Cost** – The TTSEC also recognises the financial cost associated with compliance. These costs arise as a result of the following:
 - the need to develop systems to meet reporting requirements;
 - Increased personnel costs (compliance officer, data management staff etc.);
 - Costs associated with the revision and improvement of policies and procedures;
 - The cost of annual training for all staff; and
 - The cost associated with internal and external reviews.

According to a Securities Industry Association (SIA) 2006 survey, the cost of compliance in the U.S. securities industry reached more than \$25 billion in 2005, up from \$13 billion in 2002¹. The TTSEC recognises that these costs within Trinidad and Tobago can be significant, but this investment is considered necessary to maintain the integrity of our financial sector.

Overall it is clear that the benefits of regulatory compliance outweigh the challenges and the associated costs. Adopting a culture of regulatory compliance will improve the ethical and social standing of organisations and increase competitive advantage over industry peers. Moreover,

¹ S. Carlson, "The Cost of Compliance in the U.S. Securities Industry: Survey Results," February 2006.
<http://www.sia.com/surveys/pdf/CostofComplianceSurveyReport.pdf>

enabling and ensuring regulatory compliance will help maintain the stability and integrity of the securities industry, and ultimately strengthen and protect our financial sector.

END

For more information, please visit our corporate website, www.ttsec.org.tt.
You may also visit our Investor Education website at www.investucatett.com, or
connect with us via any of our social media handles:



**Published: Business Express Newspaper
February 26, 2020**