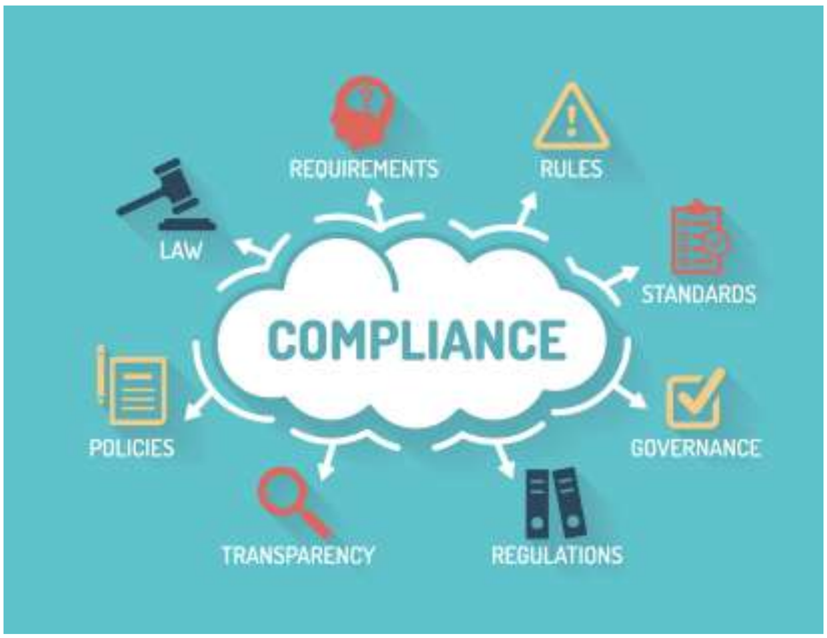
Building a Culture of Compliance

The International Organisation of Securities Commissions (IOSCO) defines 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 compliance function of the Trinidad and Tobago Securities and Exchange Commission (TTSEC) is essential to the operations of the securities market by establishing effective policies, operational procedures and controls in relation to day-to-day business activities. Building a culture of compliance into an organisation's work environment fosters greater efficiency and long -term success.

By-Law 64 of the Securities (General) By-Laws, 2015, requires that entities establish, maintain and apply a system of controls and supervision to ensure that they comply with the Securities Act 2012, its By-Laws, and laws dealing with Anti-Money Laundering/ Combatting the Financing of Terrorism (AML/CFT) to manage risks associated with their respective business and conforming to prudent business practices. It states further, that these systems of controls should be documented in the form of written policies and procedures.

The culture of compliance is influenced by the organisation's Board of Directors through a framework of approved policies and procedures or otherwise loosely defined as "*setting the tone at the top".* Registrants should therefore foster a strong culture of compliance.

How to Build Compliance into Your Organisation

Compliance requires a proactive, consistent and realistic approach to achieving a system of transparent risk management. A culture of compliance should put strong emphasis on people, since most errors are as a result of human activity. Through the TTSEC's onsite inspection programme, it has been noted that although compliance policies and procedures exist, inadequate attention is paid to fully adopting and implementing them.

Commitment to a culture of compliance should be clearly articulated in an organisation's mission statement, policies and procedures, bringing employees into a clear understanding of their personal role. Those responsible for compliance should have detailed knowledge of the industry and regulatory requirements and should also receive ongoing training.

Some practical ways of embedding compliance:

Corporate Governance is the most important aspect of creating a culture of compliance, by establishing proper control and direction.

Internal Policies and Procedures create the framework in which registrants carry out their daily business activities and are linked to the strategic plan. These are implemented, monitored, evaluated and reviewed on an ongoing basis.

Following Best Practice – A recent survey done by the TTSEC revealed that most practices adopted by registrants are those supported by legislation (e.g. AML/CFT). However, other areas of importance which are normally governed by best practice include:

- Portfolio Management Procedures;
- Working Capital Procedures;
- Trading and Brokerage Procedures;
- Capital and Insurance requirements Procedures; and
- Procedures for preparing, reviewing and disclosing performance returns to clients.

Firms therefore need to go beyond legislative requirements and also implement best practices that are relevant to the nature of their operations. These will enhance the operations within the organisation and mitigate the associated inherent risks.

Training places emphasis on the development of the organisation's human resources capital. Appropriate training should be available to all levels from board of directors to all other members of staff.

POSSIBLE CHALLENGES

There can be some challenges for maintaining a culture of compliance, some of which include:

Regulatory Risk - Changes in laws and regulations can materially impact an organisation's operations and the entire securities market. The TTSEC seeks to maintain stability by ensuring that registrants are supported by robust regulatory and legal requirements while maintaining a competitive market.

Financial Cost - The cost of compliance in the U.S. securities industry reached more than USD25 billion in 2005, up from USD13 billion in 2002[1]. Costs include:

- Developing systems to meet reporting requirements;
- Personnel cost (compliance officer, data management staff);
- Revising and improving policies and procedures;
- Annual training for all staff; and
- Internal and external reviews.

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

Benefits of Compliance

Notwithstanding the foregoing, it can be argued that the benefits of compliance still outweigh the challenges including:

Risk Mitigation which reduces an organisation's exposure to various risks and/or the likelihood of its occurrence. This can lead to enhanced reputation and greater levels of security and stability for customers and entities alike. The TTSEC's Risk Based Supervisory (RBS) approach to its compliance reviews shifts the primary responsibility for risk management and internal control to the entities and changes the regulator's role from one of verifying compliance with rules to one of evaluating whether the firm's risk management and internal controls are adequate, being followed and updated as needed.

Legal and Reputational Status can sometimes be quantified and recognised as an asset to an organisation through goodwill. Having a good reputation reduces the cost of compliance, where an organisation does not incur penalties and fees due to breaches of legal requirements.

Ethical and Social Practices are normally guided by principles and standards that determine acceptable conduct in an organisation. Commitment to ethical values promotes:

- Greater profitability;
- Lower levels of corporate pressure to senior management and employees;
- Maintenance of a positive reputation; it wins the trust and respect of employees, customers, and society, and in the long run improves corporate legitimacy;
- Enhances leadership; and
- Reduces the cost of regulation.

Integrity of Financial Markets ultimately impacts a country's development. General compliance reduces criminal activity, corruption, illegal trade and laundering of the proceeds of crime. Illicit flows within a country undermines good governance, financial sector stability, and economic development and increases economic distortion and instability.

Building a culture of compliance therefore is essential and helps keep your organisation safe and successful. Ultimately, when an organisation understands its compliance requirements, favourable conditions are created for profitability and avoiding costs in penalties for breach of compliance regulations. To be effective and consistent, and given your organisation's size, there must be an appropriately staffed compliance department / function, with the tools/technology necessary to remain updated, monitor compliance and ensure that all persons in the organisation are adequately trained.

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You may also visit our Investor Education website at **www.investucatett.com** or connect with us via any of our social media handles:

Published Article – Business Express Newspaper
July 14^{th}, 2021