BLOG

Corporate compliance: Components and best practices

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Corporate compliance reduces the risk associated with regulatory investigations. Before we consider how it does so, let's first understand what corporate compliance means.

It refers to abiding by rules and laws set by regulators that apply to an organisation's operations, including following the said organisation's trading policies and procedures. The main components of a strong corporate compliance programme are as follows:

1) Prevention of misconduct:

- Effective and easy-to-understand policy/code of conduct
- Training and advising employees on the policy and conducting meetings regularly to answer queries they may have
- Efficient and knowledgeable compliance teams and a strong oversight programme

2) Detection of misconduct:

- Good channel for communicating policy breaches
- Monitoring activity and conducting internal audits regularly to assess whether employees are following the policy strictly

3) Corrective measures:

- Detailed investigations to determine the reason/s for violating an organisation's trading policy
- Proactive escalation/disciplinary action

Most investment banks seek to adopt an effective corporate compliance programme, as it mitigates the risk of trading in common stock, ETFs, and such, especially when individual analysts/teams are handling material non-public information (MNPI) and could potentially use that information to unfairly gain personal benefit. The Securities and Exchange Commission (SEC) and other regulators require strict compliance with their rules, as breaches weaken investor trust in the financial market and have negative effects on the global economy.

We provide below a couple of instances where corporate compliance policies were violated.

Based on the information provided by the Stock Exchange of Thailand and after thorough investigations by the SEC, civil sanctions and a fine of THB59.1m were imposed on two senior employees for insider trading of Jasmine Telecom Systems PCL (JTS) shares. The trades were executed just before the company released its third-quarter financial statements.

In India, Lead Independent Director of Infosys Kiran Mazumdar-Shaw had, through her portfolio management services, inadvertently sold 1,600 shares of the company when the trading window was open, without obtaining pre-clearance. In the review conducted by the audit committee, it was determined that this violated the company's insider trading policy, and a penalty of INR950,000 was imposed on Mazumdar-Shaw.

Investment management firms must ensure that their trading policies are simple and easy to understand, so that their employees would adhere to them.

Refer to FINRA Rule 204A-1 on the SEC's official website for a detailed explanation of the Investment Adviser Code of Ethics rule.

Acuity Knowledge Partners provides corporate compliance expertise and an extensive array of other compliance services to investment banks and asset managers to help them follow regulatory guidelines.

Sources:

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