

# The importance of continuous ongoing compliance monitoring

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## Introduction

An investment firm invests pooled capital in financial securities, most often through mutual funds (closed-end or open-end funds). Most US. investment firms are registered with the Securities and Exchange Commission (SEC), under the [Investment Company Act of 1940](#).

Since investment firms mainly manage, sell and market funds to the public, a second line of defence, known as **compliance monitoring**, is required to provide an independent review of risk.

## Why compliance monitoring?

Asset management firms often deal with high-risk investment programmes. Compliance monitoring helps investment managers manage risk efficiently. Compliance monitoring helps ensure the investments are aligned with regulatory, contractual, client and risk-related investment restrictions.

## Compliance monitoring enables smooth and efficient operations of an investment firm:

- **Ensures compliance with policies and procedures:** Compliance monitoring enables documentation of processes to prove the correct strategies/procedures are being followed. This helps mitigate allegations of non-compliance.

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**Enhances performance:** Monitoring is an essential step to enhance performance – in terms of compliance or other areas of operation. Compliance monitoring helps identify gaps in a fully developed scorecard by conducting rigorous checks against it. This enables to establish an effective compliance programme.

- **Meets Regulatory Compliance requirements:** A firm demonstrating that it has a comprehensive and strong compliance monitoring programme is essential for obtaining and retaining regulated status.
- **Ensures more thorough documentation:** Since risk and audit team always must tackle to maintain things very effectively, Compliance monitoring helps maintain detailed audit trails, reducing risk of error in collating records manually. This also eliminates a substantial amount of paperwork.

#### **Impact of non-compliance:**

**Non-compliance could result in loss of customers, financial penalties and reputational damage.**

- **Legality impact:** Non-compliance could result in legal or regulatory action against a company or its employees, leading to fines, penalties, imprisonment, product seizures or debarment.
- **Financial impact:** Non-compliance could lead to a negative effect on a company's bottom line, share price, future earnings, and investor confidence.
- **Business impact:** Unfavourable events, such as bans or plant shutdowns could seriously disrupt a company's operations.
- **Reputational damage:** Bad press or social-media discussions could lead to loss of customer faith or reduced employee confidence.

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**Breach of security:**Non-compliance that results in a security breach could lead to loss of critical business data and this data being sold to criminal elements.

- **Loss of brand reputation:**Non-compliance could lead to loss of confidence to invest in the company. Restoring reputation could take a long time.

### **Examples of non-compliance with investment compliance - financial fraud:**

- Enron scandal in 2001 - Enron executives used fraudulent accounting practices to hide debt in its subsidiaries by inflating the company's revenue.
- WorldCom scandal in 2002 - fraudulent accounting
- Lehman Brothers bankruptcy in 2008 - subprime mortgage crisis
- Volkswagen scandal in 2015 - installed an emissions-compliance "defeat device" in its vehicles, mostly in the US.
- Equifax Data breach in 2017 - a major breach of personal data of around 147m individuals
- Financial scam (US-64) - US-64 faced a decline in funds and redemptions exceeding sales
- Harshad Mehta scandal in 1992 - market manipulation
- Satyam scam in 2008 - faking accounts and inflating the share price
- Punjab National Bank scam

### **Responsibilities of ongoing compliance:**

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**Identify** - The [compliance team](#) identifies organisational risk and advises on precautions to be taken, helping to prioritise risk and manage it effectively. Having a mechanism and framework in place helps determine the extent to which a company's current risk-mitigation measures actually reduce risk.

- **Prevent**- Risk prevention is possible only if a company has a procedure in place to assess risk. The compliance team would start with risk assessment and ensure the company adheres to internal and external rules. The aim is to meet key regulatory objectives to protect investors and ensure fair, efficient and transparent markets.
- **Monitor and detect**- The compliance team helps a company deploy internal control systems to detect and monitor risk.
- **Resolve**- The compliance team adopts a request for proposal (RFP) process that provides visibility on a company's compliance-monitoring capabilities.

The major challenges for industry professionals include dealing with changes in regulations, restructuring business models and improving governance. A compliance team would design an advisory framework to handle these challenges.

### **How Acuity Knowledge Partners can help**

We tailor-make dynamic functions with a robust, responsive and proficient control framework and process delivery. Our experienced [tool](#)-agnostic team provides support in investment compliance, [trade surveillance](#) and corporate, [forensic](#) and crime compliance. We are experienced in providing unique solutions with the help of our [state-of-the-art technology](#).

Our pool of subject-matter experts helps with process delivery, training, projects and automation to mitigate costs. Our established compliance capabilities help clients identify problems and opportunities to navigate through a challenging business environment.

### **Sources:**

- <https://www.google.com/search?q=Potential+impact+of+non-compliance>
  - <https://www.google.com/search?q=importance+of+conducting+ongoing+compliance&sca>
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## About Acuity Knowledge Partners

*Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 650+ financial institutions and consulting companies through a team of over 6,000+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.*

*We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.*