

Investment Compliance and Best Practices

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In today's rapidly changing, [competitive landscape](#), ensuring compliance with laws and regulatory changes can be a complex task for any organization, especially as failure to do so could lead to risk of reputational damage and substantial fines. Hence, organizations have started to realize that operational importance of businesses; such as enhanced quality data, transparency and a value-added client experience can be achieved, by anticipating risks and meeting regulatory requirements.

Regulatory agencies have set clear guidelines for financial establishments to ensure a culture of compliance, necessitating greater transparency. This has resulted in organizations working toward recognizing and implementing best practices, mainly in terms of adhering and fulfilling regulations. Meanwhile, compliance specialists need to recognize the changes taking place in the front and back offices, and understand the possible impact of regulatory change on the systems that support these functions. This makes compliance an intrinsic part of an organization's business strategy.

Seeking to implement Best Practices in Investment Compliance:

In response to the increasingly complex regulations and client demands in terms of transparency and risk tolerance, we continue to work with our clients to implement best practices by helping and guiding them put more tangible and reliable systems in place for the following functions:

- Interpretation of guidelines
- Regular review and testing of compliance rules library
- Implementation of automated systems

Interpretation of guidelines:

If guidelines are interpreted differently, it could lead to false violations. Generally, client documents consists of an investment management agreement (IMA) which includes a set of guidelines, a statement of additional information (SAI) and a prospectus. We believe it is prudent to convert client documents into a standard Guideline Coding Guide (GCG). Such a guide helps reduce inconsistencies when compliance professionals are coding rules. It also helps them use the existing rules already available in the compliance rules library and avoid duplication.

Best practices for creating a standard GCG:

- The most senior professionals in a [compliance team](#) should create the GCG template, ideally in a table format. This should be in simple, easy-to-understand language and include all the relevant asset classes and tier classifications.
- The GCG should also be prepared in such a way that the compliance professional could easily convert most, if not all, restrictions from the guideline documents into the template format.
- Team members need to have a uniform understanding of the interpretation of key phrases. This would mean using the existing rules and avoiding duplication.
- In the event a new set of guideline is proposed for an account, it must first be converted into the GCG template and only subsequently coded into the relevant trading systems. This would ensure consistency across accounts.
- The GCG needs to be updated frequently to make sure all recent regulatory changes are incorporated.
- Internal compliance team meetings should be scheduled to communicate regulatory changes, and awareness sessions organized to discuss changes incorporated in the GCG template.

Regular review and testing of compliance rules library:

Frequent review of the compliance rules library is vital for keeping the system running smoothly from both a technical and an operational standpoint. It would also reduce risk of non-compliance and enhance the effectiveness of the [compliance system](#). At [Acuity Knowledge Partners](#), we have always encouraged our clients to conduct regular reviews and tests of their rules libraries.

Best practices for rule review and testing:

- Follow a standard rule-naming convention. Defining [compliance](#) rules clearly will ensure consistency and minimize duplication.
- Identify and remove inactive/obsolete rules.
- Identify and remove closed accounts from the compliance system.
- Reduce the number of false positives and data exceptions by identifying the root of the problem.
- Identify duplicate rules with the same coding logic but a different rule-naming approach. These could be integrated into one rule and duplication eliminated.
- Create test cases for more complex and challenging rules, and document these for future use.

Implementation of automated systems:

Automation improves productivity by reducing inefficiencies and enhancing performance. The advent of new technologies in trading, such as machine learning and [artificial intelligence](#), has empowered organizations to take automation to the next level.

An effective compliance model – with controls in place to ensure compliance with all applicable laws and regulations – is needed to protect an organization. Automation reduces the time required to perform repetitive tasks, such as gathering the required data for a particular process. [Automated technologies](#) enable compliance professionals to streamline processes that were once processed manually, albeit with the help of the IT department. Such streamlining of processes allows compliance professionals to concentrate on more complex tasks of guideline interpretation and coding, and strategic compliance issues.

Once an organization has decided to implement an automation solution, it needs to start the process slowly and carefully, choosing a system that allows it to be in full control and that is transparent at all times. Effective compliance automation essentially enables compliance professionals to simplify and standardize processes, resulting in faster and higher-quality results.

The shift to automation has already begun and appears to be moving in the right direction. Fundamentally, automation adds value to the investment process. Although the human element will, very likely, always be involved in directing an automation system, we at Acuity Knowledge Partners help organizations leverage such technology to extract the [maximum value to stay competitive and compliant](#).

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.