

middle

Tone from the ~~top~~ drives a compliance culture.....

The common view is that compliance culture is driven from the top. No doubt the board and the executive send the message and shape the culture of any company, however, the key driver of a company's culture is the individuals that set the staff member's performance expectations, bonuses and determine their future within an organization; their direct manager.



Research of our colleague, Assistant Professor Jade Yu, has shown that sub-cultures around individual managers are a core driver in assessing compliance culture/conduct risk. Failure to effectively manage such outlier sub-cultures can easily spread from one business team to another or impact how individuals interact with corporate expectations. (regulatory compliance, practice standards, insider risk or ultimately their performance.) Regulatory compliance data is a key source to assess conduct risk. Unfortunately for regulated firms, **typically only regulators such as IIROC or thr OSC have the structured compliance datasets to assess individual, manager or organizational conduct risk.** VigilantCS is focused on solving this imbalance.

Regulators are clearly focused on knowing your advisor (KYA) and leveraging compliance data. Client-Focused Reforms, SEDAR+, FSRA focus on KYA and OSFI's focus on conduct risk underlines the need to focus on staff compliance, not simply tone from the top. It is also important to note that regulators don't simply want a tick-the-box approach to compliance. This is evident from recent messages from regulators which underlines that although organizations can point to a conflict of interest policy to evidence Client Focused Reforms compliance, many firms have limited ability to KYA through capturing conflicts and assessing patterns of non-compliance to evidence an advisor is acting in the best interest of their client.

Our Roadmap is Building a Dynamic Multi-regulatory Conduct Risk Platform

There is a need to build a staff digital compliance file which provides a dynamic method to understand your advisor, staff member, manager and your overall compliance culture based on the data you provide your regulator and you are required to keep up to date. In short, the VCS Conduct Risk Platform provides the executive and management with a method to dynamically assess the effectiveness of the compliance program to ensure tone from the top is being effectively received and adopted. To achieve this objective VigilantCS has built a conduct risk platform including the following components:

VCS Conduct Risk Platform



1. VCSOpen (In production): Builds a digital and automated KYA and staff compliance file which supports operationalization and inventorying of required controls to support compliance supervision.

2. VCSPro (In production): Individual compliance data from VCSOpen and third-party sources are ingested into our customizable behavioural algorithm to generate a conduct risk score with applicable management reporting allowing managers to understand their direct reports and take a risk-based approach to audits (as per IIROC, MFDA and OSFI expectations).

3. VCS (RCM) (Q2, 2023): VCS, through our strategic partner CUBE, leverages AI to establish a comprehensive inventory of regulatory requirements, automated updates, and proactive changes to enable organizations to know what they need to do to ensure compliance to the different regulatory expectations (IIROC, MFDA, AML, privacy, OSFI or provincial credit union) and assess their effectiveness with respect to the specific obligations (OSFI, E-13) while supporting reconciliation against your GRC systems where applicable.

No time like the present to digitize your KYA process.

Congratulations on the vote to merge IIROC and the MFDA!! This change can/should open up significant opportunities for organizations to scale your operations and generate more options for your business and clients. On the flip side, expect ongoing changes for the next 3-5 years as the new regulator's rules are consolidated. This is the ideal time to automate regulatory change updates (VCS (RCM)) digitize your KYA file (VCSOpen) and more easily understand staff conduct risk (VCSPro) to ensure you are acting in the best interest of your clients.

This paper is for information purposes only and not meant to provide legal or regulatory advice.

VigilantCS

Converting a regulatory requirement into a strategic advantage.

If you have any questions or want to learn more contact:

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