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Individual Accountability for Regulatory Compliance

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Individual Accountability for Regulatory Compliance

Recent changes to regulatory frameworks for financial services firms in a number of jurisdictions have focused on establishing individual accountability and mitigating the risk of control failures. Legislative landscapes (for example, in the UK, Australia and Hong Kong) have shifted towards increased liability of senior managers as a means to reduce regulatory breaches and other misconduct, improve ethical culture in the organization and enhance compliance. While the spotlight is on individual accountability as a means to counter the ambiguity around who exactly can be held responsible for breaches, the process for implementing these new requirements entails a review of a firm's broader governance structures and processes. While the new obligations set out prescriptive standards that improve consistency in application across the sector and curb company discretion, the question of how such rules and procedures are to be effectively implemented is entity-specific. Thus corporate governance policies, reporting structures, management information, and more broadly work processes and procedures, will require review and adjustment to ensure compliance with new accountability regimes.



What regulations apply?

The challenges of compliance with evolving requirements and standards are multifaceted. Financial services firms must first understand what regulations apply to them and the scope of such rules. The size of the firm or type of entity may influence the latter. Firms must keep abreast of changing legal obligations not only within their home jurisdiction but also any extra-territorial implications. These considerations become complex under various scenarios; for example, where entities have global operations, or where there are different entities within a group, or even where different accountability regimes may apply to a single entity.

Who is bound by the rules?

It should be clear as to whom the rules apply, i.e. which individuals, functions, roles and activities are impacted. The increased emphasis on internal control systems means greater scrutiny for roles relating to compliance, risk management and internal audit. However, non-finance roles may also be impacted, and thus the cross-disciplinary nature of compliance must be determined.

Implementing rules in a firm



How can the rules be implemented within a particular firm?

Once it is clear what rules apply and to whom, consideration should be given as to how the rules can be implemented within an organization. A firm's internal policies, procedures and practices should be shaped towards compliance. Technology updates and investments that facilitate compliance may be considered, and overhauls of risk management strategies and corporate governance processes may be needed. Improved practices and procedures should include internal checks and monitoring to identify instances of non-compliance or misconduct, and effective record-keeping and information management to demonstrate that the company is monitoring risks.

The specific allocation of roles and responsibilities within a firm should be identified, culminating in clear reporting lines and a mapping of responsibilities. Regulatory developments in some jurisdictions also favour increased transparency and improved cooperation with regulators, for example the duty to establish responsibility statements and accountability maps, and to notify any changes thereto. Appropriate mechanisms to buttress provisions relating to individual legal liability include disciplinary actions or reduced remuneration, for failures or for improper conduct. Rewards and punishments are used to induce behaviour change and improve corporate culture.

To request more information on MPG advisory services on regulatory compliance, corporate governance, or business sustainability, please address your request to:

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