



WATERFORD CAPITAL

Effective Compliance Programs

The driver of successful compliance oversight

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Introduction

For institutions facing regulatory oversight, it's essential to understand legislative requirements, satisfy regulatory compliance and maintain good standing with regulators, shareholders and clients alike.

In today's environment, there has been an increase in the issuance of new legislation, regulatory guidelines and industry standards. This growing number of requirements can be difficult for institutions to manage.

How can companies successfully navigate these increased requirements? An effective compliance program is the answer!

In this article we outline the importance of a compliance program, its characteristics as well as examine the pillars that make a program effective.

Compliance Programs

Why are they important?

The establishment of a compliance program is critical to the success of a regulated company. These programs:

- Enable regulatory obligations to be satisfied
- Provide for consistency in compliance oversight
- Increase operational efficiency
- Build trust with regulatory bodies

In the absence of a compliance program, regulated companies face the likelihood of incurring regulatory breaches. These breaches increase the risk of financial losses and reputational damage.



The characteristics of an effective Compliance Program

An effective compliance program identifies, prevents and responds to regulatory breaches. To achieve this, it should:

- 1 Align compliance management with strategic objectives
- 2 Promote regulatory awareness across the enterprise
- 3 Incorporate the prevention of financial loss, reputational damage and regulatory sanctions as the objectives of regulatory compliance; and
- 4 Be risk-based

The Pillars of a Compliance Program

There are nine foundational pillars of a compliance program that contribute to its effectiveness as follows:



Governance



**Compliance
Leadership**



**Compliance
Risk Management**



**Policies &
Procedures**



**Regulatory
Interaction**



**Monitoring &
Reporting**



Review & Testing



Training



Technology



Pillar 1

Governance

Governance establishes the structure, responsibility and oversight required for an effective compliance program.

A good governance model:

- ✓ **Defines roles and responsibilities** as well as mandates a company's Board and its senior management own the compliance oversight function.
- ✓ **Ensures the designated compliance officer is granted sufficient decision-making authority** and has a direct line to board of directors or its subcommittees.
- ✓ **Establishes the risk appetite** towards compliance risk.
- ✓ **Emphasises the significance of compliance** across the enterprise.
- ✓ **Approves** the compliance program.
- ✓ **Earns credibility from regulators** who view effective governance as a conduit for successful compliance oversight.
- ✓ **Ensures the compliance program correlates with strategic goals**, adding value beyond a "tick the box approach".

Pillar 2

Compliance Leadership

Regulators place great importance on the appointment of a designated compliance officer and require these individuals to be licensed or provide companies with no-objections to their appointment.

In both cases, designated officers are subject to fit and proper requirements underscoring the importance of their competence and capability to carry the compliance function.

A designated compliance officer is central to the success of a compliance program as he/she designs and has responsibility for the program's implementation by:

Creating a dynamic compliance requirements database.

Performing compliance risk assessments and implementing internal controls

Developing enterprise-wide policies and procedures that facilitate compliance.

Engaging in continuous monitoring and program improvement.

Conducting compliance reviews and risk-based testing.

Providing compliance training to promote awareness of rules, policies & procedures.

Acting as point of contact with the institution's regulator.



Pillar 3

Risk Management

The compliance risk management process supports the identification, prioritization, and reduction of potential compliance risks. Understanding these risks is key to developing a risk-based compliance strategy that allocates resources to the areas of highest risk.

The compliance risk management process is undertaken through:

IDENTIFICATION

ANALYSIS

EVALUATION

TREATMENT

MONITORING & REVIEWING

This process is a collaborative effort that results in effective policies, procedures and internal controls.

Pillar 4

Policies & Procedures

It is essential to formulate policies and procedures that are enterprise wide and specific to business operations. They must define expectations, roles, responsibilities, and operational guidelines for employees and third parties.

Policies and procedures should be easy to understand, easily accessible, and regularly updated to reflect changes to regulations, industry and business practices. More importantly, they should consider the nature, size, and risk profile of your institution to ensure they are relevant and effective.



Pillar 5

Regulatory Interaction

Companies should incorporate regulatory communication in their policy framework. Consistent and proactive engagement with regulators enables compliance leadership and governance leaders to have insight into regulatory expectations and developments. This awareness leads to a continually updated compliance program.

Compliance leadership should respond quickly and transparently with regulatory authorities. Furthermore, the compliance program should not only consider the submission of legislative filings but also require the submission of relevant information to the regulator such as board approved policies. As a result of this transparency, credibility is enhanced with regulators.

Pillar 6

Monitoring & Reporting

To ensure that policies and procedures are being followed or to quickly detect compliance failures and emerging risks it is necessary to carry out ongoing monitoring. Regulatory technology or manual compliance checks can achieve this task. Given the compliance program is risk-based, the level of risk determines the frequency of monitoring.

The compliance program contemplates internal reporting to senior management, board of directors and designated persons as well as external reporting to regulatory bodies. Whistleblower reporting must also be incorporated as an important component of the program.

Internal and external reporting facilitates informed decision making and increases transparency with senior leadership and regulators.



Pillar 7

Review & Testing

Independent review and testing of internal controls is carried out by the internal auditor. The internal auditor role is critical as he/she is responsible for providing the board of directors assurance of the compliance program's controls. In instances where companies do not have internal auditors, regulatory frameworks allow for the function to be outsourced to independent third parties.



A testing program should consider:

- ✓ High risk areas
- ✓ Regulatory priorities
- ✓ Regulatory compliance
- ✓ Untested areas
- ✓ Previously identified deficiencies
- ✓ Significant business activities

Compliance, internal audit and risk teams are encouraged to collaborate using various techniques such as forward and reverse stress testing. Stress testing allows for the examination of outcomes of reasonable adverse scenarios and the identification of gaps that lead to compliance failures.

Collectively, the review and testing pillar allows for feedback by peers to be incorporated into the compliance program increasing its effectiveness.

Pillar 8

Training

Companies should establish a formal training program encompassing different methods of delivery.

Operational staff should receive relevant training that ensures a thorough understanding of responsibilities, regulations and internal controls. Internal audit and risk personnel as well as senior management and the board of directors are expected to undergo advanced training due to the level of risk their roles oversee. Finally, regulatory best practices require compliance personnel to undergo frequent training given their oversight function.

A well-designed training program drives a culture of compliance awareness across organisations.



Pillar 9

Technology

Regulatory technology has become a very close friend to compliance professionals. It provides companies with enhanced oversight of their compliance status by facilitating the analysis of large volumes of data, automated monitoring, notification of new rules and regulations and most importantly enhanced reporting. Companies need to consider their scale and risk profile when making a determination on what technology should be used. Regulatory Technology not only makes the compliance function more robust, but it also facilitates informed and faster decision making and significantly mitigates operational, financial and reputational risks.

The Waterford Wrap-Up

In conclusion, the article has highlighted the importance of compliance programs to the prevention of financial losses and reputational damage to regulated companies. Additionally, four characteristics of an effective program were outlined inclusive of the requirement to be risk based.

Further, we have identified good governance models, competent compliance leadership, collaborative risk management, effective policies & procedures and a transparent relationship with regulatory authorities as some of the foundational pillars of a well functioning compliance program. Combined with a formal training program, scaled technology and independent assurance, the compliance program can be considered effective.

With an effective compliance program, companies should expect strategic compliance oversight, informed decision making, increased risk mitigation and regulatory relationships based on trust and credibility.



About Waterford Capital Inc

Waterford Capital Inc is engaged in the offering of first-class compliance, regulatory and risk solutions that result in sustainability and resiliency. At Waterford Capital we look forward to being your trusted partner.

For more information on Waterford Capital, please email us at info@waterford-capital.com or visit us at www.waterford-capital.com



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