



Kingland's Experience to Address New Compliance Regulations

In the late 1990s, the US Securities and Exchange Commission (SEC) enacted the Auditor Independence Initiative, resulting in amendments to the Codification of the Financial Reporting Policies. These amendments were targeted at those firms in the auditing business. As auditing firms around the world began to place tighter controls around their independent audit practices, a need to systematically track and monitor the financial holdings of the firm's employees and compare them with the business activities of the firm emerged. The goal was to prevent conflicts of interest between the responsibilities of their employees and those same employees' personal investments. Systems like this did not exist, so shortly following the approval of the SEC's regulations; one of the leading international accounting firms contacted us with their specific challenge.

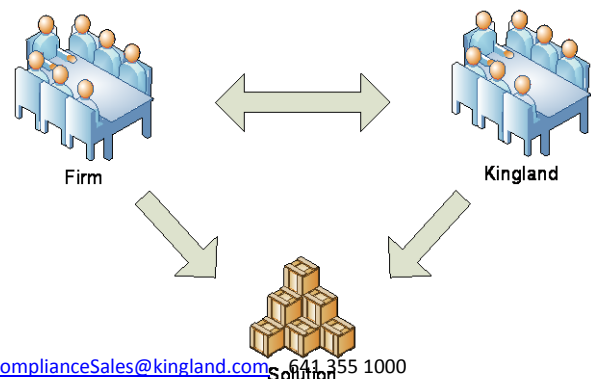
The client

- A company with more than 120,000 employees
- Operations in more than 140 countries, many with different regulatory and business management practices

The problem:

- Individual employees have a variety of financial relationships ranging from holding stocks and bonds to mutual funds, to established loans and other types of accounts.
- New regulations were forcing immediate action. The company needed to restrict employees from having these relationships if they were to complete work for certain institutions. They needed visibility and the ability to control the situation.
- A global monitoring system had to be developed and deployed globally in less than 6 months
- The company's team understood the business environment, but needed quick access to additional resources with expertise implementing compliance systems

With such a diverse group of employees, the firm needed to ensure that the respective rules and regulations for each different regulatory region were addressed and monitored within the solution. Our history of managing financial data and developing software to ensure brokerage compliance served as a good bridge for the client's current problem. Over the next several months, we actively engaged with the client, as an extension of their team, to clearly identify their specific needs and the overall system requirements. We believed then, and continue to believe today, in a constant communication loop, maintaining clear expectations, project plans, and



timelines. Through this active communication, we developed these key requirements.

Key requirements:

- Ability to identify and tag specified types of records, such as securities or companies, that could pose a conflict of interest risk to the business (restricted entities)
- Ability to manage (add, modify, and remove) records in the database and produce an audit trail of these activities
- Ability to add employees and establish specific security and access policies for those employees
- Ability for employees to search the database and report holdings held by themselves, significant others, and their dependents
- Automated communication mechanisms that facilitates reporting throughout various levels within the firm
- Flexible design to configure certain system components and customize the solution as needed – particularly important given the short initial timeframe
- Ability to configure and apply business rules specific to firm policies as well as specific governance rules and regulations, which may change or evolve

Practical industry experience

Why Kingland? Simply put, it was because of our experience and our existing applications. Our experience implementing and managing securities masters and developing and supporting brokerage compliance applications provided us with the expertise to the types of requirements and functionality that were needed. Plus, having operated within the brokerage industry for years, we had practical experience enforcing new regulations as well as monitoring firm-wide employees who were geographically dispersed.

The Solution

These conversations and requirements lead to the application we call Independence. In short, Independence is a global application that effectively manages risk by informing employees of restricted investments and relationships, notifying compliance personnel of potential conflict of interest situations and enabling the management of all conflicts to resolution.

Using JAVA, we were able to develop the Independence application in six months. During the design process, we were in constant communication with the client, providing the client with visibility into the progress, yet maintain project management rigor to stay within budget and meet the schedule needs. It was critical to ensure that Independence's search engine was developed to accommodate users that may not be as sophisticated of searches as a back office Wall Street data administrator. For example, if an analyst on the Street saw "INTLBUSMACH" they would know the security was IBM. However, for a partner in the field, a different type of user, the association may not have been self evident. If Independence's search and display capabilities were designed with the user in mind, reducing the firms' exposure to unnecessary conflict of interest risk.

Additionally, Independence needed to serve the users, enabling them to capture stocks, bonds, options, mutual funds, brokerage firms, mortgages and other investments or relationships that could pose a conflict for the individual employee or the firm. By grouping related financial interests, regulatory rules could be applied in different manners depending on firm policy. Building in flexibility for the user as well as the administrator/manager was important from the beginning, and a delicate balance. In the end, Independence's sophisticated portfolio tracking system provides immediate notification to both

employees and firm compliance personnel when employees, their spouses or dependents have a potential conflict due to an investment or other relationship.

Today, Independence is one of the leading web-enabled enterprise-class applications that facilitates complex conflict of interested tracking for large firms with global operations. **The application was delivered on time and within budget, not only meeting the client's immediate needs, but providing a solid foundation from which to continue to provide reliable risk management and compliance monitoring to the firm.**