



# Compliance Platforms: **is it better to build or buy?**

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*A step-by-step guide to identifying compliance issues,  
how to think about them, and how to address them*



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# INTRODUCTION

## What is a compliance platform?



You're an enterprise or financial services firm operating in the complex regulatory environment of the global economy. The difference between staying compliant and not staying compliant with the numerous agencies and SROs you answer to might be the difference between staying in business and not.

Maybe you've had some close calls recently. A broker caught in the nick of time making a questionable trade. The CFO planning a big night out on the town for a client in violation of a little known rule. A grueling audit made more grueling by lack of easy access to critical records or documentation. Or perhaps you're simply losing track of all the attestations your employees are required to have in place.

You know the system you currently use isn't working, but you don't know how to change it. You may not even know how to begin thinking about how to change it. That's where this guide comes in. We'll take you step-by-step through a comprehensive tech, regulatory, and resource savvy thought process that will help you come to a solution based on your organization's specific needs.

We'll tell you the important things to think about and the critical questions you need to ask. Questions that will lead to answers germane to the compliance issues your enterprise or financial institution is facing. Questions that will organically reveal not only what's going on in your organization, but your best option for addressing it. But first, some basics.

### What is a compliance platform?

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Once upon a time, staying compliant meant having a personnel-heavy compliance department tasked with staying on top of anything questionable an employee or the organization as a whole might be up to. You can still do that, but you no longer have to. As with so many other things, in the digital age staying compliant can mean a software solution. In other words, a compliance platform.

With a compliance platform, specialized software does much of the heavy lifting all those dedicated people in compliance do now, with many of the manual tasks that keep them buzzing madly around the office fully automated. Volumes of financial-regulation are translated into code and deployed in applications that give you a 360-degree view of pertinent employee and institutional activity. There are two options for bringing a compliance platform online: building it yourself or buying one from a vendor that specializes in such things.

Each option has its advantages and disadvantages. But in the end any well-conceived and well-constructed platform will automate the detection and resolution of potential conflicts of interest and market abuse, in the process reducing the manual compliance burden on your employees, streamlining your organization's daily workflows, and lessening overall regulatory risk. And with an intuitive interface, employees at every level will gladly embrace this addition to their suite of workplace apps for its efficiency and ease of use.



# WHAT SHOULD I BE LOOKING FOR?

*Is it challenging to investigate questionable activity? Is it a challenge to even identify questionable activity?*

Compliance issues don't necessarily jump out and announce themselves as such. But there are certain situations which present themselves that, if not unmistakably indicative of such problems, are certainly worthy of close attention. The following are some known problem areas. Situations in which conflict of interest and market abuse are known to rear their ugly heads. Or just situations regulators are likely to frown upon for one reason or another. The questions will help pinpoint if any of these areas are potential problems for you.

# Does This Sound Familiar?



## GIFTS & ENTERTAINMENT

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*Do we have employees that need spending approvals when treating clients and prospects? Do our employees have spending limitations?*

- ✓ Most companies, at some point, want to do something nice for clients or prospects. Dinner and drinks. Tickets to a show or a sporting event. Use of the company jet. But any of these seemingly innocent courtesies has the potential to run your firm afoul of regulators.



## ILLEGAL INSIDER TRADING

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*Is there anyone in our organization who could potentially use insider knowledge to better their personal stock market standing, or that of others?*

- ✓ Illegal insider trading can lead to regulators closing companies down. A securities law violation that falls under the broader category of market abuse, illegal insider trading is buying or selling a security with material, non-public information about that security. Violations also include “tipping” such insider information to others.



## EMPLOYEE TRADING

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*Are their employees in our firm with enough trading latitude to potentially get the firm into serious financial trouble?*

- ✓ Even if an employee isn't using his or her position for personal gain, improper individual employee trading can still cause trouble. It's no secret traders can go rogue, making trades on behalf of the firm or clients that can dig the company into financial holes it may not be able to get out of.



## POLITICAL ACTIVITY

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*Do we have employees who contribute to political parties, causes, or campaigns? Are we keeping proper track of such potentially problematic activity?*

- ✓ To restrict the potential for bribery, the government sets legal limits on how much money individual employees can contribute to organizations before their employer is banned from working with them. Such bans can last years, and hence significantly hamper a firm's ability to do business.



## ATTESTATIONS & CERTIFICATIONS

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*Do we need to hunt people down for information? Are we trying to streamline processes? Do we need to approve everything manually?*

- ✓ The distribution and collection of compliance documents is immensely important to maintaining clarity in any compliance program, particularly for financial institutions. Keeping track of the flow of these can be a challenge, particularly if your firm still relies heavily on manual compliance control.



## RECORD KEEPING & DOCUMENTATION

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*If the SEC shows up unannounced, can we quickly and accurately produce all the records and documentation required to successfully make it through an audit? Can we prove the company did everything possible to prevent a situation from happening?*

- ✓ SEC Rule 17a-4 specifies how records created by broker-dealers must be kept from a tech perspective, as well as how long. But more than just proper storing practices, what's equally important is that these records can be easily produced when the SEC or other regulatory body a firm answers to comes calling. But any of these seemingly innocent courtesies has the potential to run your firm afoul of regulators.



## NAME & REPUTATION

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*Do we have the proper controls and processes in place to spot the kinds of missteps and mistakes that can bring an organization down?*

- ✓ Ultimately, the most precious resource any business has is its good name. No business is likely to stay in business for long without its reputation intact. But even the best employees can make mistakes, and even the best-run organizations can be caught off guard.



## COMPANY RULES & CODE OF CONDUCT

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*Do we need to better manage acknowledgement of our own rules and policies across the organization?*

- ✓ Compliance begins in the day-to-day operations of the workplace, with the most basic employee actions and interactions setting the tone. Proper adherence to the company code of conduct at the ground level, and the strict monitoring of it, is the ideal starting point for compliance at the highest level.



## FORMS & PROCESSES

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*Are we struggling to implement new forms and processes as regulations and laws change and evolve?*

- ✓ Even if actual paper is no longer involved, in the digital age paperwork remains. As new laws and regulations come onto the books they need to be acknowledged and dealt with. A compliance platform can allow you to not just keep up but to be proactive—maintaining a high-level, company-wide view of everything you have in motion.



## REPORTING

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*Are we struggling to pull together the critical but sometimes too-widely-dispersed data our organization needs for formal and informal reporting purposes?*

- ✓ Whether it's a quarterly report, a write-up for a monthly board meeting, or a weekly c-suite update, most enterprises and financial institutions have the need for some kind of reporting capability. In the modern age that means data—properly identified, sorted, and at your digital beck and call. A smartly built compliance platform can take you a long way down this important road.

# Anything else I should be thinking about?

The following are important questions and considerations to keep in mind that may not fit into neat categories but are critical to your build-or-buy evaluation process.

01

## Managing Decision Makers

*Who needs to be involved in the build-or-buy process?*

This decision can't be made in a silo, but perhaps some discernment in terms of who needs to be involved in the early stages of discussion is called for. Think about who needs to be in on this from the beginning, and who can be looped in as you go further down the path of evaluation.

02

## Managing Interested Parties

*Whether you build or buy, what are the teams that will be involved and what are their requirements?*

*This is important to know so you can vet options accordingly. Typical internal teams that will need to be involved include—but aren't limited to—procurement, the board of directors, IT, the current compliance team, and end users, i.e., employees.*

03

## Managing Money

*What's your budget for this project? This year? The next? What about the year after that?*

An obvious consideration but a critical one, and one not to be underestimated. The amount of money that can be brought to bear, now and into the future, will ultimately determine how much your compliance platform can or can't do, and therefore how much of a help it will or won't be to your organization.

04

## Current And Future Needs

*What control do you need in terms of flexibility, scalability, or configurability—now and down the road?*

Company cultures run from the relatively slow moving to the highly dynamic, but no company sits entirely still. Your firm will always be in some state of motion, as will technology and regulation. Your compliance platform will therefore need to stay in motion, as well.



05

## Service And Support

*What service and support do you need during implementation? Throughout the life of the product?*

No application should ever be built or bought without proper thought given to the people who will use it. Product training will be required for current employees as well as new hires, and tweaks and patches are part and parcel of a software product's life cycle.

06

## Managing Potential Roadblocks

*Who or what could bring this project to a screeching halt?*

Maybe most importantly out of all these considerations, don't take this process lightly, or underestimate the challenges you could run into. Outline a thorough plan, and consider the people or organizational structures that could derail this project:

Is there a significant amount of red tape at your firm, noticeable perhaps from past large projects? Is there one person's opinion that matters most? If so, how do you gain that person's buy-in and support?

You have a lot to think about, but at this point you should be starting to have a better grasp of the compliance challenges your company is facing. Now we can move onto the particulars of what build and buy options can each deliver.

# If I **build**, what do I get?

## 01 A customized solution

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It's natural to imagine the best solution to a problem is a homegrown one. After all, who knows the particular needs of a business better than the people running it? Developing in-house means building a compliance platform that meets your specific needs. You can incorporate terminology, processes, and data specific to your organization.

This approach has historically been the default one for many large companies. And if your requirements are especially unique, it may be your only choice. It's worth considering, however, that every organization operating in the financial services sphere also runs in largely the same regulatory circles, with common elements and issues to be faced.

A critical question, then, is how similar or different you feel the compliance issues your organization is facing are versus those of your peers. If you feel your enterprise or financial institution operates as more of an outlier, and has very unique needs in how it interacts with regulators, then building your own compliance platform may be your best, or only, option.

## 02 A dedicated development team

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Developing in-house means you always have a team of software development experts on hand to make changes as requirements change. And you have this team not just through product launch, but through the entire software development life cycle; this includes the addition of new features and functionality, which will inevitably be called for as technology, markets, and regulations change.

The team will be made up of developers, business analysts, user-interface experts, and quality assurance personnel. They'll have a keen understanding of current technologies, legacy systems, integrations, and web design, as well as have the creative vision to turn ideas and requirements into an intuitive, performing, secure application.

## 03 Expertise in a variety of pertinent areas

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Your team will also have expertise in integration—be it with HR systems, firm-trading systems, open-order systems, expense systems, or broker-dealer systems. And it's not always about technical challenges. Seemingly simple interfaces can take an inordinate amount of time to set up due to bureaucratic and administrative obstacles.

Proper integration, then, means the nuts and bolts of making software applications mesh properly, but also having the kind of team in place that can forge productive working relationships with both inside and outside customers.

And your stable of IT project managers will not only keep the trains running on time, but help craft the clear, comprehensive requirements needed before any development work begins. It's often at the requirements stage—overly expedited, underestimated in its importance, or skipped entirely—where a big software project can go off track, before it's even really gotten started.



# If I **buy**, what do I get?

## 01 A crowd-powered common platform

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The phrase common-platform may not have most elegant ring to it, but the concept itself is actually quite elegant. What it means is, you're getting a highly specialized compliance solution built with the input of not just one company but dozens, as well as that of hundreds of compliance officers—the software being the end result of years of development, optimization, and enhancement.

You get features a lone organization might not have identified, no matter how long its requirements phase ran. This is because a software vendor's product-development model ensures enhancements are worked-up over time from a wide variety of sources—including customer suggestions, new regulatory requirements, and market needs.

A common-platform compliance solution is a collaborative exercise in harnessing the power of the crowd. Buying such a peer-vetted and organically evolved product means becoming part of that crowd, part of an expert-user community.

## 02 Predicable cost, economies of scale, & a fast-turnaround

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As a rule of thumb, in-house solutions cost up to 70% of the initial outlay each year to maintain and upgrade, without new features or functionality. A vendor charges a transparent annual licensing fee, allowing you and your organization easier planning and budgeting.

This charge is not only predictable, but also offers economies of scale, as the entire customer community shares ongoing costs for product development. And while a large internal software project can take months, if not years, to develop and implement, a common-platform compliance solution can often be installed, configured, and up and running in weeks.

## 03 A recognized platform, adaptability, & freedom

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Part of reducing regulatory risk is ensuring regulators have an increased level of confidence in your organization's compliance controls before, during, and after audits. A vendor solution other organizations are using is more likely to be recognized and understood by an audit team, providing that increased level of confidence in your organization.

And a common-platform is often more adaptable to an organization's needs than an in-house one, since it has to satisfy such a large cross section of requirements from such a wide range of users. Such a product can often more easily tolerate changes of requirement and scope, allowing changes via the user interface rather than the more costly route of further development.

Finally, as the software expert, it's the vendor that shoulders all responsibility for requirements gathering, implementation, development, and product support. This leaves you free to concentrate on higher value compliance responsibilities, as well as your core business activities.



# WHAT WILL EACH OPTION COST?

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We've already touched a little on the subject of cost, but it's worth examining in further detail. Again, what can, can't—or simply won't—be budgeted for by the powers that be will in the end determine what you'll be able to do with your compliance platform, whether you build or buy.

# The cost to build

If you're leaning towards building, work with your IT lead to determine approximately how much each of the above elements will cost. He or she should be able to get your organization to a rough estimate of the budget needed to not only build a compliance platform, but also to maintain and upgrade it year after year. Also consider that as your company grows, these components will need to change and grow, too.

The total cost of ownership, or TCO for building a compliance platform can be broken down into four components:



**Software:** Includes software licensing for operating systems, databases, applications, development environments, and the associated maintenance agreements for regular upgrades.



**Hardware:** Servers, storage, desktop computers, racks, power, routers, and other network equipment.



**People:** Salaries and professional-services fees, organizational overheads, training, and other associated costs with the people who develop, run, and support the solutions.



**Redundancy:** Those costs associated with ensuring there's adequate redundancy in all of the above components, should any become unavailable for short or extended periods of time.

# The cost to buy

If you're leaning towards buying, remember that you need to understand the package you're signing up for in its entirety. You may need to pay for new versions of the platform as enhancements are rolled out, unless it comes with your subscription. Read the fine print. Ask lots of questions, like if there's separate pricing associated with features and functionality that aren't part of the "basic" package.

As we've already stressed: the better you understand your needs the better you can evaluate any compliance product that's out there. Following are key points and questions to consider when evaluating a compliance platform vendor:

**01 Software licensing:** What are the specific terms? This includes considerations such as the number of seats versus a flat fee, and subscription licensing versus perpetual licensing.

**02 Implementation:** How quickly can our install and integration be accomplished? How much disruption will there be to our core business activities?

**03 Integration:** How adept is the vendor at integrating the compliance system with our existing systems? This includes HR systems, firm-trading systems, open-order systems, expense systems, and broker-dealer systems.

**04 Customization and configuration:** Again, what are our specific needs and challenges and how will the product meet them? (See the previous section.)

**05 Storage and security:** Exactly how does the vendor back up its records? How easily are records and documentation produced in the event of an audit?

**06 Translation/localization:** Does our firm operate globally, with all the legal, linguistic, and cultural considerations that go along with it? How experienced is the vendor in meeting the very specific software and user interface challenges this presents?

**07 End user training:** How robust is the software vendor's regimen for training current employees and the inevitable new hires?

**08 Ongoing maintenance and support:** How does the vendor handle not just day-to-day performance issues, but the times when bigger issues present themselves and immediate action is needed?



## Vendor Evaluation

Finally, if you decide to buy it's not being overly dramatic to say the life of your business depends on the performance and quality of your platform vendor. How can you further evaluate them?

- ✓ **Ask for a demo.** Don't be shy.
- ✓ **Get official references.** Talk to current clients.
- ✓ **Talk to your industry peers.** Get their input and recommendations.
- ✓ **Ask specifically where the vendor's software is headed.** Is the vendor innovating and changing with the times?
- ✓ **When was the last upgrade, new feature, or enhancement?** Getting a sense of the product roadmap is highly beneficial.
- ✓ **Does the vendor meet all the security and technical requirements needed to do the job?** Having vendors fill out a questionnaire is normal. If this seems like a problem, it should throw up a red flag.

# Do you want ownership or freedom?

**When you build** a compliance platform, you get ownership. You get a solution literally like no other. At the end of the process, you'll have at your disposal a wealth of technological, regulatory, and management knowledge relating specifically to compliance. And you'll have team members at your beck and call that know the platform like the back of their hands.

But with ownership comes accountability. It's up to you and your team to ensure the platform is doing everything it should be. That you haven't missed any big-ticket items. That it keeps your enterprise or financial firm on the good side of regulators. You'll also have to ensure your in-house platform remains a company priority. And with such intensive staff specialization, it's worth considering whether building offers a full return on your investment.



**When you buy** a compliance platform, you get freedom. You get the power of the crowd and the power of competition. That is, a software vendor's survival relies on maintaining the expertise of its team and the constant updating of its product. The client-vendor relationship applies perfect pressure to ensure the common-platform product stays moving in the right direction, in the process taking a significant load off your shoulders.

But buying also means potentially getting a platform that's not quite the answer to every problem you're facing. It is a common platform, after all, and while such a solution can get incredibly specific, you may still run into some outlier issues it can't address. It's also worth noting that, as when you're buying anything, it's well worth your time to read the fine print and understand exactly the terms of your contract regarding what the vendor will and will not do for you, now and down the road.

# Conclusion

**Read through this guide several times.** Make a list of the items discussed that jump out at you first and foremost. Maybe run your ideas informally by someone in the company whose opinion you value, or an industry peer you have a good relationship with. Fully understanding the challenges your organization is facing will be your best guide to determining whether to build a compliance platform or to buy one.

[Want to make sure you're not forgetting anything as you begin the build-or-buy process? Download our concise yet comprehensive checklist here.](#)



## Interested in learning more?

Are you ready to speak with a Star representative about your compliance platform needs? If so, email us at [info@starcompliance.com](mailto:info@starcompliance.com).



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