

QUARTERLY
EXECUTIVE BRIEF

Reflections & Projections

2024 Strategic Insights and
the Future of RegTech in 2025

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Introduction:

The Road to Employee Compliance Excellence



Steve Brown

Managing Director, Head of Business Development | StarCompliance

As 2024 comes to a close, StarCompliance (Star) reflects on a year filled with innovation, collaboration, and progress in the employee compliance industry. This year brought heightened awareness of shadow trading, whistleblower protection and emphasized the importance of adhering to regulatory frameworks around regional individual accountability regimes. The U.S. political season highlighted the critical need for companies to manage their employees' conflicts of interest, particularly in navigating the complexities of political donation regulations, to ensure ethical conduct and compliance.

This year we brought together a diverse array of thought leaders, industry experts from our client network, esteemed members of our partner ecosystem, and former leaders from regulatory bodies like the Financial Industry Regulatory Authority (FINRA) and the U.S. Securities and Exchange Commission (SEC) to not only discuss today's increasingly complex compliance landscape but to also address and prepare for the challenges and opportunities that lie ahead in 2025. With a focus on emerging compliance risks, including the dawn of cryptocurrency regulations, the insights and strategies shared throughout 2024 underscored how organizations are leveraging cutting-edge tools and forward-thinking approaches to refine and future-proof their employee compliance programs.

We look forward to navigating the ever-evolving changes of our regulatory landscape and continuing to work together with the brightest minds in compliance to prepare for the dynamic future of our industry.

AI and Employee Compliance

Artificial Intelligence (AI) continues to transform employee compliance. Throughout this past year, we explored how machine learning (ML) and Generative AI are being used to identify risks, automate approvals, and enhance decision-making in real-time.

The advancements of the compliance industry over the past 25 years have brought us from Compliance 1.0 (Manually lead initiatives) to Compliance 2.0 (The rise of RegTech) to Compliance 3.0 (The age of automated regulatory intelligence). From monitoring employee trading to managing conflicts of interest, AI is redefining how data analytics are helping firms streamline operations while advancing best-in-class standards.

Key Takeaways

1

The Evolution of Compliance: The journey from manual, paper-driven processes to AI-powered automated regulatory intelligence (ARI) has transformed compliance from a reactive, error-prone function into a proactive, strategic advantage.

2

The Power of ARI: Automated regulatory intelligence enables compliance teams to map regulatory changes to business data, generate actionable insights, and anticipate future regulatory developments, empowering firms to stay ahead of risks and adapt proactively.

3

Balancing Innovation and Oversight: While AI offers unparalleled efficiency and capabilities, it must be managed with robust governance and human oversight to ensure ethical application and the nuanced interpretation of regulations.

"The era of Compliance 3.0 is redefining employee compliance as a strategic advantage, enabling organizations to navigate complex regulations with precision. However, achieving this balance requires combining the transformative power of AI with the indispensable judgment of human expertise."

Dr. Yin Yin Lu, Global Head of Product, AI at Cube

MiCA and Crypto: The Future of Digital Asset Compliance

The December 30, 2024 enactment of the European Union's Markets in Crypto-Assets (MiCA) regulation marks a pivotal moment, signaling a new era of comprehensive oversight for the crypto industry.

With other regulatory bodies, such as the SEC in the United States and the Financial Conduct Authority (FCA) in the UK, poised to follow suit in 2025, organizations must proactively adapt. Staying compliant isn't merely about avoiding fines—it's about securing your firm's reputation and ensuring resilience in this dynamic market.

Key Takeaways

- 1 MiCA's Impact:** MiCA will introduce a unified regulatory framework for crypto assets across the EU, setting the stage for other global regulatory bodies to release their guidelines in 2025.
- 2 Unique Challenges:** Market volatility, operational risks, and data privacy concerns pose significant hurdles for organizations operating in the crypto space.
- 3 Proactive Solutions:** Leveraging technology like Star's SaaS-based employee compliance tools, alongside regular employee training and continuous monitoring, can streamline compliance efforts and safeguard firms against emerging risks.

"Organizations must embrace compliance as a strategic priority as crypto and digital asset regulations rapidly evolve. Star's acquisition of Aer Compliance, formerly a strategic partner, highlights our commitment to leading in crypto regulatory tools. By integrating Aer's innovative solutions, Star is first to market with comprehensive tools tailored to this space. Firms leveraging this technology and fostering a strong compliance culture will mitigate risk and position themselves as industry leaders."

Owen Rapaport, Executive Director of Product Management, Digital Assets

Tackling Insider Risks in New Ways

Shadow Trading and Managing MNPI

The Securities and Exchange Commission (SEC) has intensified its focus on insider trading, particularly under the emerging “shadow trading” theory.

This theory expands the traditional scope of insider trading, targeting individuals who use material, nonpublic information (MNPI) from one company to inform trades in the securities of another, related company. These cases mark a significant evolution in regulatory enforcement, underscoring the need for companies and individuals to stay vigilant and adopt heightened employee compliance measures to address this expanding risk.



Key Takeaways

- 1 Broader Definition of Insider Trading:** The shadow trading theory represents a significant shift in how insider trading is defined, increasing the scope of liability for misuse of confidential information.
- 2 Heightened Regulatory Scrutiny:** The SEC's focus on shadow trading demonstrates its commitment to safeguarding investors and enforcing market integrity, signaling more frequent and rigorous investigations ahead.
- 3 Critical Need for Compliance Measures:** Firms must strengthen insider trading controls, including employee training, clear trading guidelines, and advanced monitoring systems, to proactively address these evolving risks.

“The SEC’s focus on shadow trading represents a pivotal moment in insider trading enforcement, compelling firms to rethink their compliance strategies. By addressing these risks head-on with clear policies, ongoing training, and advanced monitoring, firms can not only meet regulatory expectations but also reinforce corporate trust and integrity in the markets they operate in.”

**Steve Brown, Head of New Business,
StarCompliance**



"Regulators today are not just looking for compliance—they're expecting a culture of accountability and proactive risk management. Organizations that embrace transparency and data-driven insights are best positioned to meet these challenges."

Howard A. Fischer, Partner at Moses & Singer

Preparing for Heightened Scrutiny

Insights from a Regulator and a Prosecutor

Navigating today's regulatory landscape requires an acute understanding of how enforcement trends and priorities are evolving.

As regulators intensify scrutiny and enforcement, organizations face increasing pressure to maintain transparent and proactive compliance programs. Star was able to bring together Jon Kroeper, former Executive Vice President at FINRA and Howard A. Fischer, Partner at Moses & Singer and former SEC Enforcement Attorney to share invaluable insights about regulatory priorities shaping compliance programs and ways firms can meet the industry's high standards.

Key Takeaways

- 1 Regulatory Crackdown:** Enforcement is on the rise, with regulators demanding greater transparency and proactive measures from organizations.
- 2 Heightened Scrutiny:** High-profile cases underscore the risks of inadequate compliance, from steep financial penalties to lasting reputational harm.
- 3 Strategic Guidance:** Developing strong, data-driven employee compliance strategies and transparent reporting mechanisms is essential to managing regulatory expectations.

The Human Element of Compliance

Managing Conduct Risk: Ethics, Culture, and Corporate Governance

Navigating conduct risk is a critical component of modern corporate governance, especially for organizations with complex, multinational operations.

One of Star's clients, Honda Logistics North America, Inc. (HLNA) explored how merging ethics, and human resources can create a culture of accountability and innovation. Insights that were gathered included how a collaborative approach to compliance and conduct risk management can shape the future of governance.

Key Takeaways

- 1 Consistency Across Borders:** Standardizing policies across multiple business units helps streamline operations, enhance audits, and foster a unified corporate culture.
- 2 Technology-Driven Solutions:** Leveraging incident management systems improves reporting, investigation efficiency, and cross-departmental collaboration, creating a more trust-driven and transparent workplace.
- 3 Feedback as a Catalyst for Innovation:** Listening to employees and providing client feedback to technology providers can lead to key enhancements, such as multilingual support and configurable reporting features.

"Implementing technology like our incident management system was a game-changer for building trust and ensuring accountability. By standardizing processes and introducing features like linked case tracking and multilingual support, we've not only improved our operations but also empowered our associates to feel heard and respected. Feedback has been essential in driving these advancements, and I'm proud to have contributed to making a difference."

Teri Coleman, Manager of Corporate Governance, Ethics at HLNA, Inc.



2024

Regulatory milestones

- **Consumer Duty:** Demands for fair customer treatment and enhanced transparency. In the UK, the Financial Conduct Authority (FCA) is looking to bring higher and clearer standards of consumer protection in retail financial services through its Consumer Duty Act.
- **EU Whistleblowing Directive:** A landmark milestone that strengthens protections for whistleblowers, crucial for maintaining transparency and accountability in the public and private sectors.
- **Individual Accountability (A&C):** The global regulatory landscape is increasingly focused on individual accountability for senior managers. Jurisdictions like the UK and Ireland have implemented stricter rules to hold leaders responsible for misconduct. In Asia, there is a strong emphasis on ethical leadership and the importance of maintaining trust. As a result, financial firms are taking steps to ensure that their senior leaders uphold high ethical standards and avoid misconduct.
- **AI:** Global regulators made significant strides in shaping the future of AI, with the EU leading the way with comprehensive legislation. While the US focused on specific sectors like finance, the global trend towards regulating AI is clear, aiming to balance innovation with ethical considerations and consumer protection.
- **MiFID II:** The European Securities and Markets Authority (ESMA) has proposed amendments to the MiFID II Delegated Directive to align with recent changes in the EU's regulatory framework. These changes aim to promote the investment research market while ensuring fair treatment of investors. The proposed amendments include provisions for joint payments for execution services and research, as well as requirements for annual assessments of research quality.





Preparing for Tomorrow's Employee Compliance Challenges

Looking Ahead to the New Year

As we head into 2025, the employee compliance landscape will continue to evolve and transform with an ongoing need to meet and exceed the guardrails of ethical corporate practices and behavior. This pulse of change will create waves of innovation and rapid technological advancements with Star outpacing the industry, delivering first to market products and services in partnership with its partners and clients.

Companies must navigate an increasingly complex regulatory and financial environment, where staying ahead of compliance challenges is not just about adhering to regulations, but fostering a culture of accountability and trust. To succeed, organizations will need to embrace innovation, leverage emerging technologies, and adapt to global trends shaping the future of compliance.



WEBINAR

A Regulator & A Prosecutor Walk Into A Bar: Shadow Trading Unveiled

Gain invaluable insights into Shadow Trading from a seasoned regulator and a skilled prosecutor in this must-attend webinar. Explore key topics, including recent SEC cases, policy considerations, and strategies to safeguard your firm.

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Here are some key trends that will define employee compliance in 2025 and beyond

ML/AI Integration

Expanding the Horizons of Predictive Analytics and Fraud Detection

The adoption of ML/AI in employee compliance will continue to grow, with advancements in machine learning and predictive analytics enabling firms to detect trends, identify risks, and prevent misconduct more effectively. ML/AI-powered tools will help compliance teams sift through vast amounts of data to uncover patterns, streamline workflows, and enhance decision-making.

Crypto Regulations

New Global Standards and Jurisdiction-Specific Requirements

The intersection of the continued rise of cryptocurrency and digital assets with the enactment of MiCA, regulators worldwide will start to introduce stricter guidelines to ensure market stability and protect investors. Firms will need to implement monitoring systems and pre-clearance processes to remain compliant with these evolving standards, especially in cross-border transactions.

Whistleblower Protections

Strengthening Reporting Mechanisms and Enforcing Mandates

Following the EU Whistleblowing Directive and crack down by the SEC and the Department of Justice on companies in the US, additional whistleblowing protections will gain momentum globally. Companies will need to ensure their reporting mechanisms are secure, transparent, and accessible, while fostering an environment that encourages employees to speak up without fear of retaliation.



Conclusion

Star is dedicated to equipping the industry with innovative tools, strategic partnerships, and a forward-thinking approach to addressing evolving industry challenges. By staying ahead of regulatory developments and leveraging the latest technologies, we aim to empower organizations to strengthen their employee compliance frameworks, mitigate risks, and seize new opportunities. We hope these insights inspire you to refine your strategies and position your organization for sustained success in 2025 and beyond.

Together, we can navigate the road ahead and shape a future where employee compliance drives both corporate success and public trust.



BLOG

Star's Top Seven Compliance Blogs of 2024

As 2024 winds down, we're spotlighting our seven most popular blogs of the year, covering topics like personal account dealings and strategies for monitoring potential shadow trading. Don't miss out, explore the topics that captured readers' attention today!

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To find out how our comprehensive system can meet your needs and ensure you are always in compliance.

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