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COMPLIANCE MECHANISMS AND CHALLENGE

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CORPORATE GOVERNANCE AND INTERNAL CONTROLS

To play by the rules of the financial markets, you need strong internal processes and good business governance. Because the economy is unstable and uncertain right now, it is very important to have systems that impose morals, honesty, and responsibility[1]. These are the parts of a business that make sure people follow the rules, laws, and company policies. On the other hand, corporate governance is how businesses are run and led. You can be sure that these steps will help keep things honest, stop financial scams, and protect clients' interests. Auditors, safety officers, and boards of directors are some of the most important people in a company that buyers trust.

THE BOARD OF DIRECTORS: GUARDIANS OF CORPORATE INTEGRITY

The Board of Directors, which is in charge of corporate governance, keeps an eye on the company's strategic direction and the work of its managers. This is the last part of the system for holding companies accountable. It makes sure that the company meets all the rules and laws. The board picks the top leaders, makes sure that risk management policies are followed, approves financial statements, and rates success.

Best practices for corporate governance strongly suggest that the board should be varied, fair, and independent. The Companies Act of 2013 and SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations of 2015 say that listed companies must have a certain amount of independent directors who can help the board make decisions without bias and who don't have any conflicts of interest. These independent members are very important for keeping things fair, especially during mergers, acquisitions, and deals involving related parties. People usually keep the chairwoman of the board and the chief executive officer (CEO)

[1] Arias Fogliano de Souza Cunha F, Samanez CP. Performance analysis of sustainable investments in the Brazilian stock market: a study about the corporate sustainability index (ISE). Journal of business ethics. 2013 Sep;117:19-36.

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separate so that there isn't too much power in one person. This section keeps managers from being biased and makes sure that all strategic decisions are carefully thought through. Three specialist groups were created by the board to improve control even more: Audit, Nomination and Remuneration, and Risk Management. These groups' main job is to keep an eye on things.

The board keeps an eye on the company to make sure it follows all the rules and laws that apply, like those about taxes, financial reports, stocks, and labour. Their job is to look over reports from internal auditors, talk about problems found by external auditors, and make sure that corrective steps are taken[2]. The Companies Act and the SEBI Act are two laws that hold directors personally responsible for not following the rules. Because of this, they must make following the rules their top priority. It's getting harder and harder for boards to hide information about environmental, social, and governance (ESG) issues because investors and regulators want to know more about them. ESG reporting is now needed in India for the top one thousand listed companies (according to the BRSR - Business Responsibility and Sustainability Report), so the board has to take more and more non-financial and financial measures as part of its governance responsibilities.

COMPLIANCE OFFICERS: THE WATCHDOGS OF REGULATION

It is very important for a company to have a compliance manager who makes sure they follow all the rules and laws. The compliance officer's job is to give advice and keep an eye on things in line with the Businesses Act, SEBI rules, and sector-specific laws, like RBI standards for banks and IRDAI standards for insurance companies.

The compliance officer's job is to make sure the company is ready for regulatory checks and inspections, keep up with changes to the law, and give advice to the board and top management on compliance issues. This group is in charge of the compliance framework, making sure it is followed, keeping records, reporting deals that seem sketchy (especially under PMLA), and teaching staff about compliance issues. SEBI's LODR Regulations say that all listed companies must choose a qualified Company Secretary to be a compliance officer. This is to make sure that securities laws are followed and to work with regulatory agencies. The Insider Trading Regulations, 2015, which were made by SEBI, also say that they have to report any violations of the Code of Conduct for Prevention of Insider Trading.

[2] Gani EN, Dragono V. PROTECTION AND ENFORCEMENT OF LAW AGAINST INSIDER TRADING CRIMES IN THE INDONESIAN CAPITAL MARKET. Journal of Syntax Literate. 2024 May 1;9(5).

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The main job of a compliance officer is to lower the compliance risk, which includes the chance of fines, fees, losing money, and having the company's reputation hurt. Setting up a mindset of compliance across the whole company, making plans to lower risks, and doing compliance risk reviews are all parts of this. If you don't handle compliance risks well, you could face fines from regulators, business interruptions, and a loss of investor trust. Compliance officers now have more duties than they did in the past because of more rules, automation, and globalisation. For instance, compliance officers need to keep an eye out for new legal hurdles in areas like data protection, resolving customer complaints, and fair lending practices. These have all been made possible by the rise of fintech's and digital lenders.

INTERNAL AUDIT: INDEPENDENT ASSURANCE MECHANISM

The internal audit function is a fair and unbiased way to make sure that a company's risk management, internal control, and governance processes are working well. When it comes to operations, finances, and safety, internal audits are just as important as statutory audits, which only look at financial records[3].

Internal auditors don't work directly with daily management; instead, they answer to the Audit Committee of the board. This reporting system keeps the internal audit function from being affected by the day-to-day needs of managers. This protects its independence. The fact that the Firms Act, 2013 says that certain types of businesses must have internal checks based on their income, paid-up capital, and borrowings shows how important it is to the law. Internal audit programs are made with risk assessments and legal objectives in mind. As an example, the internal audit plan will cover things like foreign exchange risks and big deals with third parties if the company has to deal with them. The Audit Committee gets regular reports with the results of audits, ideas for how to fix things, and due dates for those actions.

Modern internal audits focus on high-risk areas where noncompliance or operating failure is likely to happen. This is called a risk-based approach. For example, rules against bribery, cybersecurity, deals involving linked parties, and buying are often given more attention. Thanks to progress in technology, it is now possible to keep an eye on activities in real time using technologies like data analytics and constant auditing. It makes the setting for internal control work better and lets problems be found earlier. For example, AI-powered systems

[3] Diehl M, editor. Analyzing the Economics of Financial Market Infrastructures. IGI Global; 2015 Aug 17.

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might be able to find and warn internal auditors to strange payment trends. This would make it easier to look into and report any problems more quickly.

For banks, NBFCs, and insurance companies, internal reporting is a key part of keeping an eye on things carefully. RBI's Risk-Based Internal Audit (RBIA) method says that internal audits need to do more than just make sure that rules are followed. It's also their job to make sure that the systems for control and risk management work well. Every so often, the rules for business, credit, and market risk are checked as part of this. The IRDAI's Corporate Governance Guidelines also say that insurance companies need to have an internal audit team that works for the company and reports to the board or Audit Committee. Audits look at how agents act, how claims are handled, how customer complaints are handled, and how financial standards are met.

INTERCONNECTEDNESS OF GOVERNANCE, COMPLIANCE, AND INTERNAL CONTROLS

Insider checks, security officers, and company leadership are all connected and work together as a whole to keep things safe[4]. The board of directors of the company sets the tone and makes sure that being honest and following the rules are important parts of their plan. Internal audit checks how well these systems work and tells the board what it finds. Compliance officers turn this goal into rules and make sure they are followed. This trio is strengthened by internal control measures such as approval hierarchies, paperwork standards, and regular reconciliations. Controls back up every step of the operational process, from adding a new client to approving a deal. These controls keep legal violations from happening.

In the world of foreign financial markets, when these things have gone wrong, the effects have often been terrible. The scams at Yes Bank, IL&FS, Enron, and Satyam are just a few that show how bad internal controls and governance can cause investors to lose faith, wealth to be destroyed, and government scrutiny[5]. Last but not least, strong internal rules and good company governance are needed to make sure that financial industry regulations are followed. As leaders who set long-term goals, boards of directors make sure that businesses follow the rules and are honest and open with customers. Compliance officers are trained to make sure

[4] Wu YC, Wu SM. A study on the impact of regulatory compliance awareness on security management performance and information technology capabilities. In2017 13th International Conference on Natural Computation, Fuzzy Systems and Knowledge Discovery (ICNC-FSKD) 2017 Jul 29 (pp. 2866-2871). IEEE.

[5] Crawford G, Clark L. Capital market: A long-term solution to financial freedom. Microentreprise Development Review. 2007 Jul;10.

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that the company follows internal rules and government rules that are always changing. Audits inside a company look at all of its processes without bias to find problems and offer changes. Because financial markets, regulations, and shareholder tracking are all getting more complicated, compliance needs to be handled in a more effective and integrated way. It's no longer just an exercise; this is now a strategic must that builds trust, lowers risk, and helps the business grow in a way that doesn't harm the environment. It is very important that these internal processes are strengthened for India to become a world-class banking hub. Then investors will believe, rules will be clear, and businesses will be responsible.

COMPLIANCE REQUIREMENTS FOR FINANCIAL INTERMEDIARIES

Financial intermediaries make trade, investment, and risk management easier by connecting buyers with the capital market. They are very important to the way financial markets work. These middle-men, like stock brokers, mutual funds, banks, and insurance companies, must follow a number of rules in order to protect clients, keep markets stable, and protect the stability of the financial system. In this part, we'll talk about the rules that govern these important financial middle-men. We will also talk about their role as regulators and how they help the financial markets run smoothly.

STOCK BROKERS: REGULATORY COMPLIANCE IN SECURITIES TRADING

Stock traders are the people who make the deals happen when people on the stock market tell them to buy or sell stocks. Stock sellers are under a lot of pressure from regulations to protect clients, keep markets fair, and stop unfair dealing. This is because regulations are so important for keeping markets liquid[6]. In India, the Securities and Exchange Board of India (SEBI) is mostly in charge of laws that stock sellers must follow. It does this with the help of the Securities Contracts (Regulation) Act, 1956 (SCRA), the SEBI Act, 1992, and the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992. These rules cover everything a broker does, from getting a licence to keeping customers' money safe[7].

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[6] Ho SY, Njindan Iyke B. Determinants of stock market development: a review of the literature. Studies in Economics and Finance. 2017 Mar 6;34(1):143-64.

[7] Köhne T, Brömmelmeyer C. The new insurance distribution regulation in the EU—a critical assessment from a legal and economic perspective. The Geneva Papers on Risk and Insurance-Issues and Practice. 2018 Oct;43:704-39.

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There are rules that brokers must follow when it comes to capital sufficiency. These rules say that brokers must have a minimum net worth and enough cash on hand to cover their business costs and any risks that come with working with clients. The SEBI has rules about short selling, hidden trading, and leverage trading to make sure that sellers are honest when they trade and don't try to change the market.

Key Compliance Obligations

Stock brokers are required to adhere to specific conduct norms, including:

- **Know Your Customer (KYC) norms**: Stock brokers must ensure that they complete thorough KYC processes for their clients, verifying their identity, financial status, and investment objectives.
- **Client funds segregation**: Client funds must be kept separate from the broker's own funds to ensure there is no misappropriation or commingling of assets[8].
- **Periodic reporting**: Brokers must submit periodic reports to SEBI, including quarterly financial statements, client account balances, and compliance certificates.
- **Insider trading regulations**: Stock brokers are expected to monitor and prevent the trading of stocks based on insider information, following the **SEBI (Prohibition of Insider Trading) Regulations, 2015**.
- **Anti-money laundering (AML)** and **Counter-Terrorist Financing (CTF)** regulations: Brokers must have systems in place to detect suspicious transactions and report them to the relevant authorities under the **PMLA, 2002**.

Failure to comply with these regulations can result in penalties, suspension of registration, or even permanent de-registration by SEBI.

MUTUAL FUNDS: COMPLIANCE AND INVESTOR PROTECTION

Mutual funds are able to buy a bigger range of investments because they pool the money of many investors. In their job as middlemen handling client funds, mutual funds are closely watched by regulators to make sure they look out for the best interests of their investors. The Mutual Fund Regulations (1996) that SEBI put out explain how mutual funds can be set up,

[8] Follak KP. Property finance based on sukuk and conventional covered bonds–requirements for establishing a liquid market: a comparative study. Economics (ed.: Banque Saudi Fransi). 2011 Mar 20:1.

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managed, and watched over in India. The Securities and Exchange Board of India (Investment Advisers) Regulations, 2013 also set rules for how these people should act. They are very important for helping buyers find the right mutual funds. SEBI has strict rules about how mutual funds should run, handle their money, and follow the law. The Asset Management Company (AMC), which manages the fund, has to follow these rules. These include making sure that prices are clear, that risks are handled well, and that investors know exactly what the fees are, how the investments have done in the past, and the investment plan.

Key Compliance Requirements

Some of the key compliance requirements for mutual funds include:

- **Disclosure of investment policies and risks**: Mutual funds must provide comprehensive disclosures to investors regarding the scheme's investment objectives, risks, past performance, and management fees. The Key Information Memorandum (KIM) is a mandatory document that all mutual fund schemes must provide to investors.
- **Audit and Reporting**: Mutual funds are required to submit periodic reports, including half-yearly financial statements, audited accounts, and performance reports to SEBI and investors[9].
- **Investor Protection Mechanisms**: Mutual funds must establish procedures for addressing investor complaints and grievances, including the Investor Grievance Redressal Mechanism (IGRM).
- **Risk management**: Mutual funds are required to maintain internal controls to ensure that risks associated with investments are managed prudently. They must adhere to SEBI's guidelines on exposure limits, diversification, and liquidity.
- **KYC and AML**: Like stock brokers, mutual funds must ensure compliance with KYC norms for their investors. They must also ensure adherence to AML regulations, including the monitoring and reporting of suspicious transactions.

Mutual funds are subject to penalties for non-compliance, including fines, suspension of their registration, and actions leading to the loss of investor confidence.

[9] Cen C. The Principle of Transparency in Addressing Insider Trading in Capital Markets: A Theoretical and Practical Analysis. Barelang Journal of Legal Studies. 2024 Sep 29;2(2):166-83.

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BANKS: COMPLIANCE IN BANKING AND FINANCIAL SERVICES

The banking system is very important because banks do many things, such as taking accounts, lending money, processing payments, and keeping an eye on investments. Because banks are so important to the whole financial system, they have to follow some of the tightest rules to protect customers, keep the system stable, and keep the financial system safe.

The RBI is in charge of overseeing Indian banks. It does this through the RBI Act, 1934 and other laws like the Banking Regulation Act, 1949. The RBI's Prudential Norms and Master Circulars have detailed rules for banks on how much capital they need, how to classify their assets, and how much funding they need[10]. This group, called FIU-IND, will find out if a bank isn't following the rules when it comes to AML and CFT. In its suggestions on digital financial and e-Wallets, the RBI puts even more stress on data security, consumer rights, and privacy in financial transactions.

Key Compliance Requirements for Banks

- **Capital Adequacy**: Banks must adhere to the **Basel III norms**, ensuring they maintain sufficient capital reserves to absorb shocks during financial crises. The capital adequacy ratio (CAR) is a critical metric in assessing the financial health of banks.
- **Know Your Customer (KYC) norms**: Banks must conduct stringent KYC procedures when onboarding customers. This includes verifying customer identity and ensuring that no transactions are made on behalf of politically exposed persons (PEPs) or entities involved in money laundering.
- **AML and CFT**: Banks must implement systems to monitor and report suspicious transactions. Non-compliance with AML/CFT guidelines can result in severe penalties, including restrictions on international transactions.
- **Disclosure and Reporting**: Statutory reporting requirements say that banks have to send yearly financial statements, Risk Assessment Reports, and NPA reports to RBI and other regulatory bodies.

[10] Cen C. The Principle of Transparency in Addressing Insider Trading in Capital Markets: A Theoretical and Practical Analysis. Barelang Journal of Legal Studies. 2024 Sep 29;2(2):166-83.

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- **Audit and Inspection**: Banks follow the rules set by regulators by having regular exams by both internal and external accountants. RBI inspects banks on a regular basis to make sure they follow the rules and keep their operations honest.

INSURANCE COMPANIES: COMPLIANCE IN THE INSURANCE SECTOR

Insurance can help pay for many things, like risks to your health, life, or property. They have to follow strict rules because they need to stay in business and because they are a risk to users. IRDAI, or the Insurance Regulatory and Development Authority of India, is in charge of the insurance business in India[11]. There are rules that insurance companies must follow when running their businesses. These rules are in the Insurance Act of 1938 and the Regulation of Insurance Business (IRDAI Regulations). The IRDAI (Investment) Regulations, 2016 say that insurers need to be smart about how they spend the money of their clients.

Key Compliance Requirements for Insurance Companies

- **Solvency Margin**: Insurance companies need to keep a minimum solvency gap to make sure they have enough cash on hand to pay future claims from policyholders. This is a very important part of making sure the insurer's finances are in good shape.
- **KYC and AML**: Insurance companies have to follow KYC and AML rules just like any other middle-man. This includes making sure that clients are who they say they are and sending claims that don't seem right to the authorities.
- **Product Approval and Pricing**: Each insurance plan has to be accepted by IRDAI before it can be sold. Insurance companies need to make sure that their plans' prices and terms are clear and fair to customers[12].
- **Claims Management and Dispute Resolution**: To make sure that claims are settled quickly and fairly, insurance companies need to have good methods for settling claims. Also, they have to follow IRDAI's complaints procedure to settle customer issues.

Insurance firms, mutual funds, banks, and stock traders are some of the financial players that keep the market running. The governing bodies that watch over these businesses want to keep

[11] Babu CS, Das S. Impact of blockchain technology on the stock market. InRevolutionizing Financial Services and Markets Through FinTech and Blockchain 2023 (pp. 44-59). IGI Global.

[12] Vives A, Wadhwa B. Sustainability indices in emerging markets: Impact on responsible practices and financial market development. Journal of Sustainable Finance & Investment. 2012 Oct 1;2(3-4):318-37.

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the markets stable, protect investors, and make sure the financial system runs smoothly. Businesses must follow sector-specific rules for things like know-your-customer (KYC), anti-money-laundering (AML), and capital stability in order to keep the market open, responsible, and honest. Some of the new problems the financial sector is facing are technology, globalisation, and more strict rules from regulators. These compliance standards will change to reflect these changes.

Table 3.1 – Compliance Obligations of Financial Intermediaries

Institution	**Key Compliance Areas**	**Regulatory Body**
Stock Brokers	Client onboarding, KYC, insider trading laws	SEBI
Mutual Funds	NAV disclosure, investment restrictions	SEBI
Banks	AML/KYC, CRR/SLR, NPA classification	RBI
Insurance Companies	Policyholder protection, solvency ratio	IRDAI

KEY CHALLENGES IN ENSURING COMPLIANCE

It's not easy to stay in line when the financial markets are always changing. Global governing bodies are always changing to deal with new issues, but the financial markets still have a long way to go before they can make sure that regulations are followed. We'll look at some of the biggest problems that make it hard to follow the rules in the financial markets[13]. There are risks with technology, issues with following the rules across countries, and the never-ending fight against insider dealing, market abuse, and money laundering.

TECHNOLOGICAL RISKS: NAVIGATING THE DIGITAL TRANSFORMATION

It is very hard for financial companies to keep up with the fast pace of technological change that is making its way into the financial sector. FinTech, bitcoin, digital banking, and AI are becoming more and more important, which has led to new compliance problems. Technology

[13] Mishra AB. The Paytm Puzzle: Navigating Regulatory Compliance in India's Digital Revolution. InCultural Sensitivity, Cross-Border Logistics, and E-Commerce in Global Marketing 2025 (pp. 337-348). IGI Global Scientific Publishing.

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may make things faster and easier, but it also poses risks to the financial markets that the government hasn't been able to fully deal with yet[14].

A lot of private information is kept by financial institutions because financial services are now more digital. Secret trade strategies and private client data are among the things they keep. It's important to be safe online because system failures or data breaches can cost a lot of money and make people look bad. Banks and other financial companies must follow two important privacy laws: the General Data Protection Regulation (GDPR) of the EU and the Personal Data Protection Bill (PDPB) of India. But hackers are always coming up with new ways to break security, which means that the risks of being online move all the time. Even though there are better protections and crypto tools out there, this is still true. It's hard for banks and other financial businesses to keep their computers safe and up to date with the latest security patches because of this. The government also needs to keep up with the times by building strong systems to stop hackers and data breaches. When it comes to new technology, they often fall behind in this area.

ARTIFICIAL INTELLIGENCE AND ALGORITHMIC TRADING

There are more and more AI-based decision-making and automatic trade systems in the financial markets, which makes it harder to follow the rules. These new ideas have made it easier to guess what will happen in the market and sped up the process of doing business. But they also bring new risks, like the chance that the market will be hacked or that customers will lose trust[15]. If AI systems are not properly managed, they could break the market rules without trying to. Two examples are flash crashes and the fake chaos that high-frequency trading causes. AI programs change all the time, so regulators always have to deal with this. To make sure that banking companies that use these tools follow the law, they need to create compliance frameworks. People in charge of this area sometimes have trouble because it's not always clear what rules need to be in place for AI to be used in the financial markets.

[14] Peng Z, Xiong K, Yang Y. Segmentation of the Chinese stock market: A review. Journal of Economic Surveys. 2024 Sep;38(4):1156-98.
[15] Kaaya ID. The International Financial Reporting Standards (IFRS) and value relevance: A review of empirical evidence. Journal of Finance and Accounting. 2015;3(3):37-46.

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CROSS-BORDER COMPLIANCE: NAVIGATING GLOBAL REGULATIONS

It is also hard to follow the rules in the financial markets when you have to deal with cross-border accountability[16]. A financial company has to follow some rules in some places but not in others. It can be hard for financial companies and government agencies to make sure rules are followed when financial markets are globalised. There are a lot of different national and international rules that businesses have to follow. Each has its own set of rules and ways of following them.

It's hard for financial companies to keep up with all the different rules and laws that each country has. Dodd-Frank and MiFID II make it clear that a bank that does business in both the US and the EU must follow certain rules. Some of these rules' requirements may be the same, but they may also be very different. It's hard for institutions to make sure that their methods and procedures follow the rules of different countries because of this. International regulatory groups like the Financial Stability Board (FSB) and the International Organisation of Securities Commissions (IOSCO) have worked hard to make rules more consistent, but it has not been easy[17]. An uneven governing environment can happen when different countries have different rules and want to protect their own economic interests over working together with other countries. It costs a business a lot of time and money to follow the rules in all of these places. There is a chance of regulatory arbitrage, which is when companies try to get ahead by taking advantage of differences in the law. This can waste time and money.

CROSS-BORDER ENFORCEMENT AND COOPERATION

It's also hard to follow the rules across borders when it comes to punishment. It might be hard to enforce laws that are the same everywhere if they apply to more than one country. If cops don't always follow the same rules, and a bank in one country breaks the law in another, it could be hard to hold them responsible. This is why it's important for governments all over the world to work together and share knowledge. The Financial Action Task Force (FATF) is one group that works all over the world to stop terrorists from getting money and moving it. After all the work that has been done, countries still can't be sure that global rules will be fully followed.

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[16] Ntim CG, Opong KK, Danbolt J. Board size, corporate regulations and firm valuation in an emerging market: a simultaneous equation approach. International Review of Applied Economics. 2015 Mar 4;29(2):194-220.

[17] Dimitrov PK. Challenges and Opportunities In The Application Of International Accounting Standards In Bulgaria: Analysis Of Problems Of Compliance and Impacts On The Quality Of Financial Reporting. Cataloging-In-Publication Data. 2024 Oct 12:323.

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This difference between countries could make it harder for banks to follow the rules, which could put them at greater legal danger.

INSIDER TRADING, MARKET MANIPULATION, AND MONEY LAUNDERING: UPHOLDING MARKET INTEGRITY

As part of following the rules set by officials, it is important to keep the financial markets honest. The safety and integrity of our financial systems are at danger because of bad crimes like insider trading, market fraud, and money laundering. The people in charge of the global economy have tried to stop people from doing this by making very strict laws and fines, but it has been hard to follow through with these plans.

When you trade stocks without permission based on information that no one else knows, you are engaging in insider dealing. Investors lose trust when people act in ways that change the market. Both the Securities and Exchange Board of India (SEBI) and the Securities and Exchange Commission (SEC) of the US have made it very hard to buy and sell stocks in secret. Insider information can be shared secretly through a lot of different channels, so it is hard to find insider trade rings in the market. In these rings, people share private information with each other to get benefits that aren't legal. Things are already tough for the government to keep an eye on how illegal content gets around. The growth of websites and social media has made things even tougher. Insider trading can cause big problems in the market. To stop this, authorities should keep an eye on traders who are acting in strange ways using cutting edge tracking tools such as data analytics and AI-powered models[18].

Aside from making sure people follow the rules, there are also ways to mess with the market, like pump-and-dump plans and hacking, which is when fake orders are put in to try to change prices. Trading tools that are getting harder to use have made markets work better, but they have also made it easier to change the market. High-frequency trading (HFT) and automatic trading techniques have made it easier for market players to change prices, especially in markets that are volatile or don't trade very often. New ways need to be found for regulators to keep an eye on these tricky and quick deals. These days, it's much harder to find illegal things like market abuse because people can stay private with blockchain and bitcoin. It is up to banks and other financial institutions to set up checks and balances that can spot strange

[18] Bhide A. The hidden costs of stock market liquidity. Journal of financial economics. 1993 Aug 1;34(1):31-51.

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trade patterns. But it's not always simple to make sure that these rules work and cover everything.

MONEY LAUNDERING: COMBATTING ILLICIT FINANCIAL FLOWS

People who do bad things, like drug dealing, terrorism, and corruption, hide the money they make in banks. This is a big problem all over the world when it comes to moving money. In order to make sure that rules against money laundering (AML) are followed, the financial markets have put in place very strict compliance systems. Criminals are always coming up with new ways to hide their money, even though the law has become stricter. For example, they use digital currencies, foreign accounts, and "shell" companies.

Banks must follow strong Know Your Customer (KYC) rules to stop money laundering. These rules make sure that banks know who their customers are and keep an eye on them. Laws against money laundering aren't totally successful because people are getting better about them and spreading them around the world. However, they have cut down on illegal financial activities. To meet these standards, banks must keep their tracking systems up to date, and government agencies must be more alert to find and stop new ways of moving money.

Technology changes quickly, foreign rules are hard to understand, and there are always risks of insider trading, market manipulation, and money laundering. It's hard to keep up with the rules in the financial markets. In order to keep buyers safe and the market honest, officials need to be able to adapt to new technologies and ways of doing business in the market as they come out. Strong rules and regulations have been put in place, but the issues talked about here show how hard it is to keep the financial markets safe and make sure people follow the rules.

ROLE OF TECHNOLOGY AND REGTECH

Most of the big changes in the banking industry right now are caused by new technologies. RegTech stands for "legal technology." It is a fairly new area that helps banks follow the law by using technology[19]. It's quickly growing more and more important. Today we will look at how technology, Blockchain, and Artificial Intelligence (AI) can help improve the way banks follow legal rules. All of these technologies could change how banks and other financial

[19] Chopin J, Rodriguez LT, Caneppele S. Defining and estimating the illegal gambling market: A scoping review. Journal of Economic Criminology. 2024 May 28:100068.

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companies follow the rules, speed things up, and spot risks as they happen if they are fully used.

This is happening because artificial intelligence (AI) is handling hard jobs, letting people see what's going on in real time, and speeding up the decision-making process. There are three big ways that AI is changing the financial markets in terms of following the rules. These are risk management, scam detection, and anti-money laundering (AML). Computers with artificial intelligence can quickly look through huge amounts of data. This lets them find patterns, oddities, and likely threats in ways that were not possible before. When it comes to regulations, one of the most important things AI can do is find theft. There is a chance that AI could make bank scams much less likely to happen. AI systems use machine learning (ML) to look at real-time transaction data to find frauds like account takeovers, illegal activities, and people making fake IDs. This technology lets businesses respond to possible threats a lot faster than experts could. That lowers the amount of money that is lost and keeps the markets honest.

AI is also a big part of keeping risks under control. If you want to keep things safe in the financial markets, you need to be good at managing risks. Systems with AI look at a lot of market data, economic factors, and past trends to figure out what will happen in the market and spot new risks. If banks and other financial institutions follow these tips, they might be able to stop compliance issues before they get out of hand. AI systems can, for instance, guess what bad things will happen when the market moves quickly. This means that companies can quickly change their plans and methods while still following the rules.

AI IN REGULATORY REPORTING AND COMPLIANCE MONITORING

Reporting to regulators is another place where AI is useful. The government wants businesses that handle money to keep specific records on things like how they follow the rules, what risks they face, and details about transactions[20]. AI could speed up the steps needed to gather data, analyse it, and turn it in. This way, people wouldn't have time to make mistakes and reports would be turned in on time. AI-powered systems may also keep an eye on deals and activities

[20] Njinyah S, Asongu S, Adeleye N. The interaction effect of government non-financial support and firm's regulatory compliance on firm innovativeness in Sub-Saharan Africa. European Journal of Innovation Management. 2023 Dec 18;26(7):45-64.

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to make sure they are in line with rules. If any strange activity is found, they may send out real-time alerts. This makes general compliance tracking even better.

BLOCKCHAIN IN COMPLIANCE

Cryptocurrencies like Bitcoin are based on blockchain technology. This technology is also making financial markets much safer. It can make a distributed, open, and permanent log that can be used to make sure many rules are followed. Blockchain is known for having records of financial deals that are safe, up-to-date, and easy to check. These traits might make things more open, lessen scams, and make it easier to follow the rules. Following the rules means being open and honest, and blockchain technology is a great way to do this. A blockchain keeps a public record of all events that can't be changed by adding them to a log in a way that can't be changed. It is very helpful for following Know Your Customer (KYC) and anti-money laundering (AML) rules. Businesses that handle money may use blockchain technology to make sure that their customers are who they say they are and to keep an eye on how assets are moving so that they follow laws against money laundering. Financial firms may be better able to follow foreign rules since blockchain is not controlled. Also, this makes it easy to keep up with things going on in other places.

The blockchain could also be used to make safety checks happen automatically. You can make "smart contracts," which are contracts whose terms are put in code and run automatically, to make sure that the rules are followed. In this case, a smart contract could make sure that a trade meets all the rules that apply, like those for capital markets or foreign exchange. It would then automatically carry out its terms[21]. The legal process goes faster because there is less actual work to do and less chance of making a mistake.

Blockchain tech should also be used to stop scams and keep financial markets safe. Cryptography is a part of technology that makes sure deals are safe and can't be changed. This is especially helpful in asset management and stock trading. Blockchain technology keeps a lasting record of all transactions. This makes it easier to spot fraud and stop people from manipulating the market. Central banks are looking at digital currencies as a way to speed up and make money moves safer. That's something they can help with. Since blockchain can be tracked, it may also be easier for banks and the government to look into deals that don't seem right. When the cops look at the open ledger and follow the money, they can catch people

[21] Ahmed AB, Bello M. Regulatory failures and the collapse of the capital market in Nigeria: Aligning responsibilities with accountability. JL Pol'y & Globalization. 2015;40:167.

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who are laundering money or committing scams. This amount of access is good for banks because it makes people trust them more and follow the rules more closely.

AUTOMATION IN COMPLIANCE

Automation is another important technology that makes following the rules easier and more accurate. That way, financial companies can save a lot of money, make sure people follow the rules, and cut down on mistakes made by people who enter data, review documents, and write reports. It is very helpful to use automation for safety records, which need to be done right and on time. Banks need to give regulators different types of compliance reports. It might take a long time and a lot of work to make these records by hand. Robotic Process Automation (RPA) is being used for more and more of these jobs. This makes sure that reports are made on time and properly. Robo-process automation (RPA) bots can get data from many places, put it together however you want, and then send the report. This keeps a high level of obedience and makes sure that legal times are met. You'll save time and be less likely to make mistakes this way. Automation not only makes reports better, but it also helps financial institutions handle huge amounts of data. To follow the rules, businesses must carefully record all deals, customer details, and risk evaluations. When chores related to managing data are automated, the data is received more often, can be seen more easily, and is kept safe. And this lets the government see the data or ask questions about it. This makes it less likely that data will be lost.

Automated KYC and AML Processes

An important area where compliance technology is used is in Anti-Money Laundering (AML) and Know Your Customer (KYC) rules. Financial companies need to learn a lot about their customers so that they don't do illegal things like moving money or giving money to terrorists. Two jobs that require a lot of work and have been part of this process for a long time are checking the names of customers and transactions against lists of fines[22]. These jobs being automated is very important for banks because it makes them faster and more accurate. Solutions for Know Your Customer (KYC) that use AI might be able to quickly confirm a client's name and also let compliance staff know if they notice any strange behaviour. Also,

[22] Addy WA, Ajayi-Nifise AO, Bello BG, Tula ST, Odeyemi O, Falaiye T. Transforming financial planning with AI-driven analysis: A review and application insights. World Journal of Advanced Engineering Technology and Sciences. 2024;11(1):240-57.

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businesses can see all transfers right away and look into any odd behaviour before it does a lot of damage to their money or reputation. This is possible with automatic AML checks.

REGTECH: THE FUTURE OF COMPLIANCE

One of the most important things to happen in the history of capital market rules is the growth of RegTech. Regulatory technology companies make it easier and faster for financial institutions to do what they need to do to follow the rules. RegTech solutions use blockchain, AI, and robotics all at the same time to change how banks handle compliance with the law. RegTech technologies offer real-time compliance tracking, which means that financial institutions can always see how compliant they are. They can also help by automating things like risk management, government reports, and finding scams. Companies that deal with money can follow the rules without having to change how they do business because these things are simple to add to systems that are already in place. As rules change and become more difficult, RegTech will become an even more important tool to help businesses follow the rules.

AI, Blockchain, and automation are some of the most important technologies for making sure that the financial markets follow the rules right now. These tools will continue to be very helpful for financial companies in following the rules, even as the rules get harder to understand. These technologies show a lot of promise, but they should only be used after careful consideration of privacy, morals, and the law. Going forward, RegTech will definitely be a part of compliance, and it will have a big effect on the law.

Case Studies of Major Compliance Failures

Going against the rules can be very bad. Over the years, there have been several well-known compliance scams in the banking business[23]. When these kinds of things happen, people often lose a lot of money, lose the trust of investors, and have long-lasting damage to their reputation. A few well-known compliance scams from India and around the world are talked about in this piece. Also, we talk about the holes in the law that let these events happen. We'll talk about the IL&FS mess, the Yes Bank case, the Satyam scam, and two big cases from other countries: Enron and Lehman Brothers.

Table 3.2 – Summary of Major Compliance Failures

Case	Year	Key Issue	Outcome

[23] El Wassal KA. The development of stock markets: In search of a theory. International Journal of Economics and Financial Issues. 2013 May 25;3(3):606-24.

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IL&FS	2018	Misreporting, debt default	Management overhaul, NCLT resolution
Yes Bank	2020	Risky loans, poor governance	RBI intervention, moratorium
Satyam	2009	Corporate fraud, false accounts	Criminal trial, company takeover
Enron (US)	2001	Fraudulent accounting	Bankruptcy, regulatory overhaul

IL&FS CRISIS

The 2018 year was a bad one for Infrastructure Leasing & Financial Services (IL&FS). In recent Indian history, it was one of the worst money scams ever. It was hard for many clients, like banks, mutual funds, and pension funds, to get cash after IL&FS, a once-famous infrastructure finance company, stopped paying back its loans. Lax governmental oversight, financial problems, and bad corporate governance are some of the things that led to the company's demise.

One big reason for the case was that IL&FS's board of directors and management did not do enough due research and risk management. An awful lot of the company's building projects that counted on borrowing a lot of money to get started failed in the end. Investors and the government didn't know that IL&FS was having money problems because the business kept taking on more debt[24]. It was found that the balance sheet and other parts of the company's financial records had been changed to lie about large amounts of debt. By keeping up the image that it was financially stable, IL&FS was able to get more loans and investments from different banks.

People were angry at the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) for taking too long to act when a crisis was about to happen. IL&FS was able to avoid being inspected because it did not have good risk management and compliance checks. The issue not only shook India's money system, but it also showed that the country did not have strong enough rules to stop business scams. There were steps taken to deal with IL&FS's

[24] Ikpang AJ. A critical analysis of the legal mechanisms for combating money laundering in Nigeria. African Journal of Law and Criminology. 2011 Aug 4;1(1):116-30.

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unpaid bills after the government took over the company during the crisis. But the IL&FS incident shows how important it is for officials to act quickly and make sure banks have better ways of following the rules.

YES BANK SCANDAL

There was another well-known case of the Indian government not following the rules with the Yes Bank scandal in 2020. Yes Bank was one of the best private banks in India until it quickly went out of business. This was due to bad management, false financial records, and the government not keeping an eye on the bank. This terrible thing happened because the bank couldn't get enough cash to pay off its many bad loans, mostly to businesses. Yes Bank closed because it gave too much money to companies that already had a lot of debt and were having a hard time making ends meet. Non-performing assets (NPAs) at the bank got out of hand, and investors and government officials didn't always know about its money problems. It was hard for investors to get a good idea of how Yes Bank really stood because the bank's books didn't show all of these bad loans. When people heard about the accident, they were very scared, and there was a huge queue at the bank. The Reserve Bank of India (RBI), which is in charge of Indian banks, did not act quickly enough when there were clear signs of trouble. The full study of Yes Bank's balance sheet was put off, so the bank could keep going with little supervision. When Yes Bank failed, the government led a bailout that included a plan to reform the bank and money from a number of other banks. People are now wondering how well the Reserve Bank of India (RBI) can watch over India's banks and how well these rules work in general, even though the problem at Yes Bank has been fixed. The banking sector needs to be fixed right away after what happened with Yes Bank. This includes making the rules stricter, managing risks better, and making the compliance process run more smoothly.

SATYAM SCANDAL

One of India's best-known business scams was the Satyam case, which happened in 2009. The people in charge of the IT services company Satyam Computer Services had to change some financial numbers[25]. Ramalinga Raju, the founder of the company, admitted to lying about its earnings and sales by more than $1 billion. This made the story public. India's most successful IT company, Satyam, shut down all of a sudden. This shocked investors, the stock market, and the people who are supposed to keep an eye on things. As part of the large-scale financial fraud

[25] Al-Baity HH. The artificial intelligence revolution in digital finance in Saudi Arabia: A comprehensive review and proposed framework. Sustainability. 2023 Sep 15;15(18):13725.

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that led to the scandal, owners and the public were given fake numbers about sales and earnings. Financial records for the company were changed to hide its debts and overstate its assets, giving a fake picture of its financial health. A big global accounting firm called PricewaterhouseCoopers (PwC) looked into the company, but the crime wasn't found for a long time. People in India started to doubt the accuracy and fairness of audits after PwC missed the theft in one of its checks.

The part of regulators such as SEBI and the ICAI was also looked at. While accountants were getting in trouble, regulatory agencies were being criticised for not having the right tools to find such widespread cheating by businesses. There are big issues with the way India runs its businesses, which the Satyam case made clear. These problems include not enough control of audits, bad financial records, and board members not having enough freedom. To make things better for companies and make sure these kinds of problems don't happen again, the Indian government passed stronger rules like the Companies Act, 2013.

GLOBAL CASES: ENRON AND LEHMAN BROTHERS

Enron Scandal

The Enron affair is one of the most well-known fake business cases in the US. There was a big energy company called Enron Corporation involved. Enron filed for bankruptcy in 2001 after it was found that the company had used "off-balance-sheet" businesses to conceal its huge debts and wrongly boost its profits[26]. Arthur Andersen, one of the biggest audit firms in the world, went out of business after the scandal shook up financial markets around the world. Even though the company checked Enron's books, they couldn't find the lie. Executives at Enron lied to investors, experts, and the government by using complicated financial plans. By setting up special purpose companies (SPEs) to hide debt, the company was able to raise the price of its stock. Because the Enron incident had such a big effect on American law, Sarbanes-Oxley (SOX) was passed in 2002. Auditing, financial reporting, and company control were all made to follow stricter rules by this law. The Enron case shows how important it is for businesses to be open, report their finances correctly, have independent audits, and be supervised by the government.

[26] Shin DH, Kim H, Hwang J. Standardization revisited: A critical literature review on standards and innovation. Computer Standards & Interfaces. 2015 Feb 1;38:152-7.

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Lehman Brothers Collapse

The 2008 bankruptcy of Lehman Brothers is an example of a worldwide disaster caused by failing to follow the rules. The subprime mortgage disaster caused the world's banks to fail, and in response, the well-known financial bank Lehman Brothers went out of business. There was a huge amount of danger for the company because it had invested in subprime mortgage-backed stocks that lost all their value when the housing bubble burst. Lehman Brothers used accounting tricks like Repo 105 deals to get rid of all its debt for a short time, making it look like it was financially healthy when it wasn't. Because it hid its real risks and responsibilities, it went out of business very quickly. The global economic uncertainty was caused by the bankruptcy, which caused other financial systems around the world to fail. A lot of people thought that the Federal Reserve and the Securities and Exchange Commission (SEC) should have done something to stop the financial crisis from getting worse, but they were criticised for not doing anything.

Because of what happened with Lehman Brothers, we need stronger governing systems, stricter capital standards, and better oversight of financial institutions. The crisis also led to the creation of Basel III rules and other changes in the way money works around the world. These changes are meant to make financial institutions stronger against future disasters like these.

Things can go badly for banks if they don't follow the rules, as shown above. IL&FS, Yes Bank, and the world falls of Enron and Lehman Brothers are just a few of the well-known disasters that can teach us these lessons[27]: Not following the rules properly, not keeping up with regulations, and not having good corporate governance can cause big problems with money, losing the public's trust, and long-lasting damage to the economy. To keep the financial markets safe and to make sure people follow the rules, it's important to have clear rules, strong reporting systems, and quick government action.

[27] Shin DH, Kim H, Hwang J. Standardization revisited: A critical literature review on standards and innovation. Computer Standards & Interfaces. 2015 Feb 1;38:152-7.