

application note - financial compliance

“An adviser's goal should be to ensure no surprises -- that all information relevant to a client or a fund investor is provided, and provided in a timely, clear, and understandable way.”¹

Lori A. Richards, Director, Office of Compliance Inspections and Examinations, U.S. Securities & Exchange Commission

Financial institutions face the threats of legal liabilities and corporate ruin if they fail to ensure that their fund advisors, investment advisors, and brokers are complying with corporate guidelines, and SEC and IRS regulations regarding information disclosure.



the digital domain breeds compliance threats

Compliance management has always been a challenge for financial institutions. In the past, compliance was largely an auditing function, but today, technology has given compliance a new dimension. The omnipresent digital domain has enabled new forms of communication that demand innovative compliance monitoring technologies. Three root causes work together to make compliance an ever-increasing challenge:

- **Ever-expanding regulations** — The responsibilities of financial institutions seemingly increase daily with the introduction of new regulations (e.g. Investment Advisors Act) aimed at offsetting the opportunities for fraud and misinformation.
- **Ever-expanding output channels** — The sources and amounts of unstructured digital communications now going out of financial institutions continue to expand exponentially. Technologies such as e-mail, chat, voice-to-text communications, large-scale relational databases, and Websites make it easier for non-compliant communications to leave the institution. Non-compliant communications put the institution and its shareholders at significant risk of liability and reputational ruin.
- **Conventional monitoring technology** — Conventional compliance monitoring applications focus principally on transactional anomalies, and are incapable of recognizing the difference between compliant and non-compliant communications. These technologies are not intelligent enough for the challenges that face Compliance Officers today.

If there were a way for a compliance monitoring application to screen digital communications and recognize when a policy or regulation is being violated, financial institutions could flag *and* reconcile the deviation **before** the communication is completed, ensuring the complicity of digital communications.

Clearly what is needed is a next-generation technology that is intelligent enough to read unstructured text and discern whether a digital communication is complicit. What is needed is a technology that is intelligent enough to convert simple data into **actionable information**: information that can be acted on.

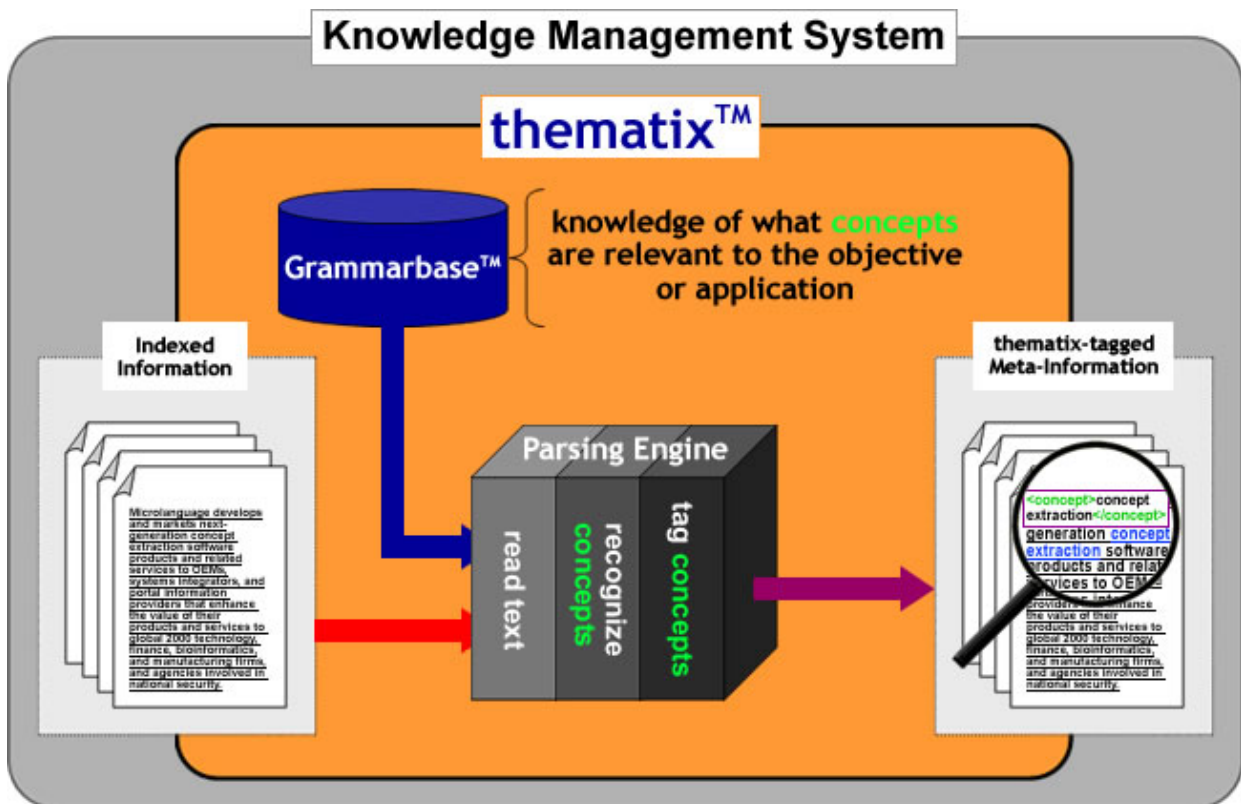
¹ Speech on Valuation, Trading, and Disclosure: Three Compliance Imperatives, given at the 2001 Mutual Fund Compliance Conference, Investment Company Institute, June 14, 2001

thematrix counters the threat

Microlanguage's next-generation, intelligent language processing technology, Thematrix, is aimed at applications that demand highly precise filtering of unstructured digital information. Two components work together to create the Thematrix technology:

- The **parsing engine** breaks incoming information into its constituent parts, such as words and punctuation, so they can each be examined individually.
- The **grammarbase** is a repository of *knowledge* that gives further instructions to the parsing engine.

The *knowledge* of what is not compliant is programmed into a grammarbase that enables Thematrix to recognize and tag any portion of communications that are non-compliant so the host compliance monitoring application can then act on that information. Thematrix not only elevates the performance and effectiveness of the internal compliance monitoring system, but also delivers actionable information.



As a component software technology, Thematrix integrates with third party compliance monitoring applications, giving them much higher search accuracy, while interfacing seamlessly with their document management tools.

the benefits

Thematrix technology enables the Compliance Officer to focus on subject matter, not on sorting through thousands of reports and communications that may or may not contain compliance deviations. Thematrix-enriched compliance monitoring solutions offer several important benefits:

- **Real-time monitoring and discrimination of complicit digital communications**
- **Reduced cost of information sorting**

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- **Reduced operator fatigue**
- **Conserved processing time**
- **Auditable results**

Microlanguage develops and markets next-generation concept extraction software products and related services to OEMs, systems integrators, and portal information providers that enhance the value of their products and services to global 2000 technology, finance, bioinformatics, and manufacturing firms, and agencies involved in national security. For more information on Microlanguage and Thematix, visit us on the web at www.microlanguage.com, or call us at 610.995.1017.

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