

Financial Institution Risk Management

SEWARD & KISSEL LLP

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Controlling for Risk: Identification, Investigation, and Remediation of Compliance Issues

How Strong Compliance Programs Identify, Investigate, and Remediate Issues Before They Escalate

Compliance issues rarely announce themselves in neat, predictable ways. They emerge through unexpected combinations of data, behavior, systems, and human judgment—often evolving non-linearly and under pressure. No two issues look exactly alike.

What does tend to separate a manageable compliance event from a costly enforcement action, however, is preparation. Firms that invest in clear and repeatable processes for identifying, investigating, and remediating issues—before they arise—are far better positioned to control outcomes when they do.

At its core, effective compliance risk management unfolds across three critical phases: **identification, investigation, and remediation**. Each phase presents its own challenges, and weaknesses at any point can compound downstream. In addition, partnering with legal, risk, and operations stakeholders throughout is essential to success. Below, we explore what strong execution looks like at each stage—and why it matters.

Identifying Risk: Seeing the Right Signals Early

Building infrastructure capable of identifying compliance problems is easier said than done. Even with ample regulatory guidance, sophisticated tools, and experienced personnel, financial institutions must still make deliberate choices about what data to collect, how to analyze it, and when to act.

The most effective programs begin with thoughtful design. That means allowing sufficient time—and creativity—to map how relevant information flows into surveillance systems: clients, accounts, transactions, communications, and beyond. Once that data is properly harnessed, the next challenge is calibration. Surveillance and detection controls must be tuned carefully enough to surface real issues without overwhelming teams with noise.

Finally, identification is only as strong as escalation. Alerts must reach the right people, at the right time, with enough context to enable swift and informed decision making. Delays or bottlenecks at this stage can allow small issues to quietly grow.

Investigating: Separating Noise from True Risk

Once an issue is flagged, the real work begins. Investigation teams must quickly determine whether an alert reflects a false positive or a genuine problem—and if it is a problem, how serious it may be.

Effective investigations go beyond checking boxes. They seek to understand not just what happened, but why. Was the issue an isolated error, or does it reveal a broader weakness in controls, supervision, or system design?

Importantly, investigations should widen the lens. A single issue may be symptomatic of a programmatic gap, and failing to ask that question can result in repeat findings down the road. Regulators and counterparties alike expect firms to demonstrate curiosity, rigor, and independence in how they assess potential compliance failures.

Remediation: Fixing the Issue—and the Root Cause

After the facts are established, firms face the most consequential question: What now?

Remediation can take many forms, depending on the nature of the issue and the expectations of investors, clients, and regulators. In some cases, corrective action may be limited to enhancing internal controls or updating procedures. In others, remediation may involve client notifications, restitution, self reporting, or even significant restructuring of business processes.

The most effective remediation efforts share one common trait: they are forward looking. Addressing the immediate issue is necessary, but insufficient. Firms must also demonstrate that they understand the root cause and have taken meaningful steps to prevent recurrence.

Striving for Credibility, Not Perfection

No compliance program is flawless. Issues will be missed, investigations will be imperfect, and remediation efforts will evolve over time. The goal is not perfection—it is credibility.

When a firm's program is reviewed, whether in a regulatory examination or a commercial context, what matters most is whether its **processes, people, and systems reflect seriousness of purpose**. Firms that can demonstrate disciplined identification, thoughtful investigation, and decisive remediation are far less likely to be viewed as laggards—and far more likely to retain control over outcomes.

In an environment of increasing regulatory scrutiny and rapidly advancing technology, the stakes continue to rise. Knowing where the line is, and staying comfortably on the right side of it, requires sustained attention, investment, and judgment. For firms — and their compliance, legal, risk, and operations departments — willing to do that work, compliance controls become not just a defensive exercise, but a source of resilience and trust.

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If you have any questions concerning any of these matters, please contact your primary Seward & Kissel attorney or a member of the [Financial Institution Risk Management](#) practice at Seward & Kissel.