



# COST OF COMPLIANCE 2015

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## EXECUTIVE SUMMARY

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Thomson Reuters has undertaken its annual survey into the cost of compliance and the challenges firms expect to face in the year ahead. Nearly 600 compliance professionals from financial services firms across the world took part in the survey. The report builds on annual surveys of similar respondents conducted over the last six years, and where relevant highlights year-on-year trends and developments.

The survey has become a voice for practitioners. Great insight into the practical reality and challenges of compliance functions around the world can be gained from the open concerns and views that participants have shared, and for this Thomson Reuters extends its thanks, and an assurance that these views remain confidential.

The report findings are intended to help regulated financial services firms with planning, resourcing and direction. Given the sharpening regulatory focus on global systemically important financial institutions (G-SIFIs), Thomson Reuters specifically asked G-SIFIs to identify themselves to enable comparison between themselves and other, smaller, firms.

The findings once again highlight the pressures facing compliance functions, and for 2015 serve as a red flag indicator that resources, outside of G-SIFIs are in danger of being stretched too thinly.

The main findings are:

- Ever-increasing change: compliance officers are clearly experiencing **regulatory fatigue** and overload in the face of snowballing regulations. Seventy percent of firms are expecting regulators to publish even more regulatory information in the next year, with 28 percent expecting significantly more.

- More than a third of firms spend at least a whole day every week tracking and analyzing regulatory change. **Global regulatory change** is creating the biggest challenge due to inconsistency, overlap and short time frames. **Understanding regulators' expectations** and requirements and being able to interpret and apply them is as great a challenge as keeping abreast of the changes.
- Three-quarters of firms are expecting the focus on **managing regulatory risk** to rise in 2015. This is predominantly due to the greater regulatory focus on **conduct risk**.
- **Personal liability:** 59 percent of respondents (53 percent in 2014) expect the personal liability of compliance officers to increase in 2015, with 15 percent expecting a significant increase. Twenty-one percent of G-SIFIs expect a significant increase in personal liability.
- **Resource challenges:** from recruitment challenges in finding and retaining suitably skilled staff to increasing pressure on budgets. Two-thirds of firms are expecting skilled staff to cost more in 2015.
- Regulatory matters are consuming disproportionate amounts of **board time**, from correcting non-compliance and preventing further sanctions to implementing structural changes to meet new rules.
- Interaction and **alignment between control functions** continues to show a lack of coordination. Nearly half of compliance functions are spending less than an hour each week with internal audit.
- **G-SIFIs**, in comparison with the full population of respondents, have the greatest expectations about budget and resources available for tracking and analyzing regulatory change, updating policies and liaising with regulators.

# INTRODUCTION

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## BACKGROUND

Thomson Reuters undertook the survey between November 2014 and January 2015. Nearly 600 practitioners, including a significant number of heads of compliance from financial services firms around the world, provided their insight into the costs of compliance and the greatest compliance challenges firms expect to face during the year ahead. Responses were received from individuals in Africa, the Americas, Asia, Australasia, Europe and the Middle East. Respondents represented firms from across all sectors of financial services, including banks, brokers, insurers and asset managers.

## THE RESULTS

*"I am conscious of the risk of fatigue. But as Ravi Menon argued more than a year ago: 'It is imperative that we press on with the reform agenda and do not succumb to reform fatigue.'"*

**Mark Carney, governor of the Bank of England and chair of the Financial Stability Board, in a speech, "The future of financial reform" at the Monetary Authority of Singapore Lecture, November 2014.**

After several difficult but broadly speaking positive years for compliance functions, the 2015 findings show the first warning signs of potentially serious resource constraints. Compliance functions continue to face diverse and demanding pressures, with shifting supervisory expectations, no let-up in the volume of regulatory change and the start of many of the big implementation programs for major complex legislation.

At the heart of the survey results is the sheer volume of change that continues to be expected: a repeat finding. As a small snapshot, firms need to be able to cope with many domestic rules which have global reach and the resulting under- and overlaps. There are expanded regulatory remits (in New Zealand), new regulatory approaches (as the Financial System Inquiry report plays out in Australia) as well as big set pieces of legislation beginning to be implemented (Dodd-Frank in the United States, MiFID2/R in the European Union and the Office of the Superintendent of Financial Institutions (OSFI) E-13 in Canada).

One increasingly clear and present danger is that of regulatory fatigue. Boardroom agendas in financial services firms have been overwhelmed by regulatory matters, whether it is a briefing on changing regulatory expectations, the latest round of enforcement action or the additional skilled resources and investment needed to implement the latest round of regulatory change. It is perhaps stating the obvious but the pendulum needs to

begin to swing back at least in part toward the business itself to allow for business improvement and development, rather than having all change capacity and capability taken up by regulatory issues.

That is not to say that boards should lose their focus on regulation and the need for a compliant "tone from the top", but it needs to be brought back into balance with managing the business rather than the rulebook.

As the survey results make clear, compliance officers are fully aware that they will need to be front and centre to give their firms the best chance of a trouble-free 2015. Looking back at 2014, it was another year of record fines, but critically it was also a year when the sweep and scope of non-monetary enforcement action came to the fore as regulators used ever-more creative approaches in their drive to instill "good" behavior in firms and individuals.

Respondents reported that they see no let-up in 2015 and that the challenges are set to increase further with the expected embedding of the more qualitative aspects of culture and conduct risk, together with a focus on personal liability.

Pulling the results together as a whole there is a growing sense that the compliance functions of non-G-SIFI firms are already feeling the strain of being stretched too thinly. That is not to say that G-SIFIs have everything effortlessly under control but rather that they are devoting relatively more time across the board to essential compliance tasks. A case in point is that there has been a decrease in the number of firms spending more than 10 hours per week on compliance activities, with many firms appearing to level out at 7-10 hours per week.

Given the expectations, and indeed the reality of the sheer volume of regulatory change, this is a clear indicator that resources are being hard-pushed to keep up with the amount of attention that needs to be focused on the regulatory world order. The point is highlighted further by the responses from G-SIFIs which show that, across the piece, they are able and willing to devote more time per week to compliance activities. All firms face regulatory burdens but it is the G-SIFIs which can be seen to be devoting significantly more time to the myriad compliance challenges, and in particular the implications of regulatory change.

# COMPLIANCE FUNCTION: BUDGET, RESOURCES AND LIABILITY

*"It all starts at the top. A compliance department has the best chance of success if management is fully supportive of compliance efforts and provides the CCO with the resources needed to do an effective and thorough job."*

**Andrew Bowden, director, Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission, in a speech, "Spreading Sunshine in Private Equity", May 2014.**

If any regulated firm is going to thrive and survive into the medium and longer term then consistent investment needs to be made in the risk, compliance and control functions. While a skilled, high-quality compliance function is expensive to build it will be one of the best investments (if not insurance policies) for a firm and its senior managers. Many firms have employed more compliance staff but there is a growing need for more truly skilled compliance officers.

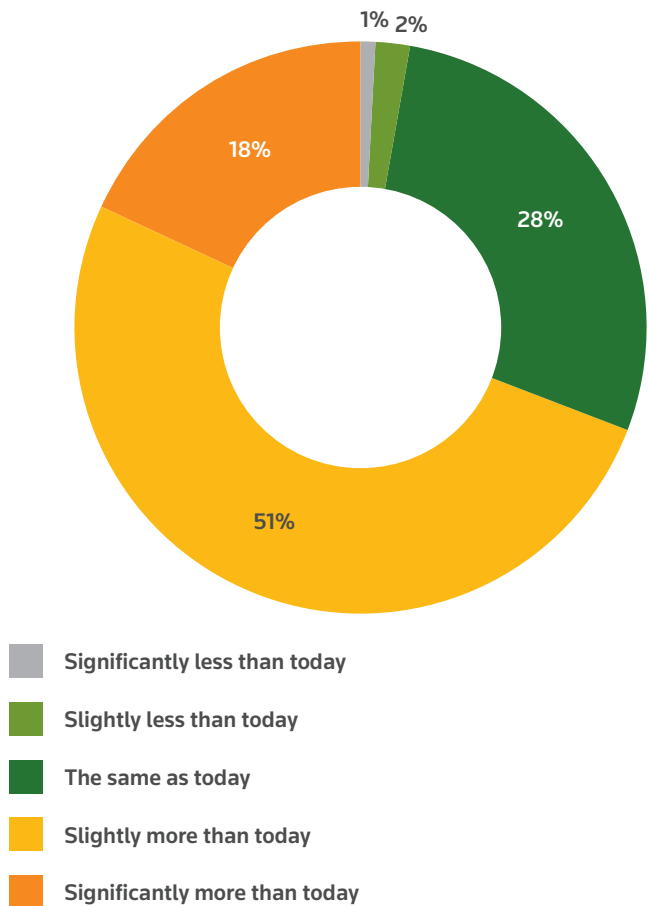
The challenge in being able to devote adequate time to compliance activities is in part driven by the availability of, and the ability to recruit and retain, high-quality compliance officers with deep experience. Anecdotally, there is a genuine lack of good compliance skills in the marketplace, which has driven up the costs of compliance professionals.

The results show a consistency of expectation that the costs of skilled compliance staff will continue to rise, but the growing issue is in the availability of high-quality skills and experience. Firms may well wish to implement their own compliance training programs to begin to build the in-depth strength needed for compliance and risk skills. Overall, two-thirds of firms are expecting skilled staff to cost more, although there are a number of regional and G-SIFI variations:

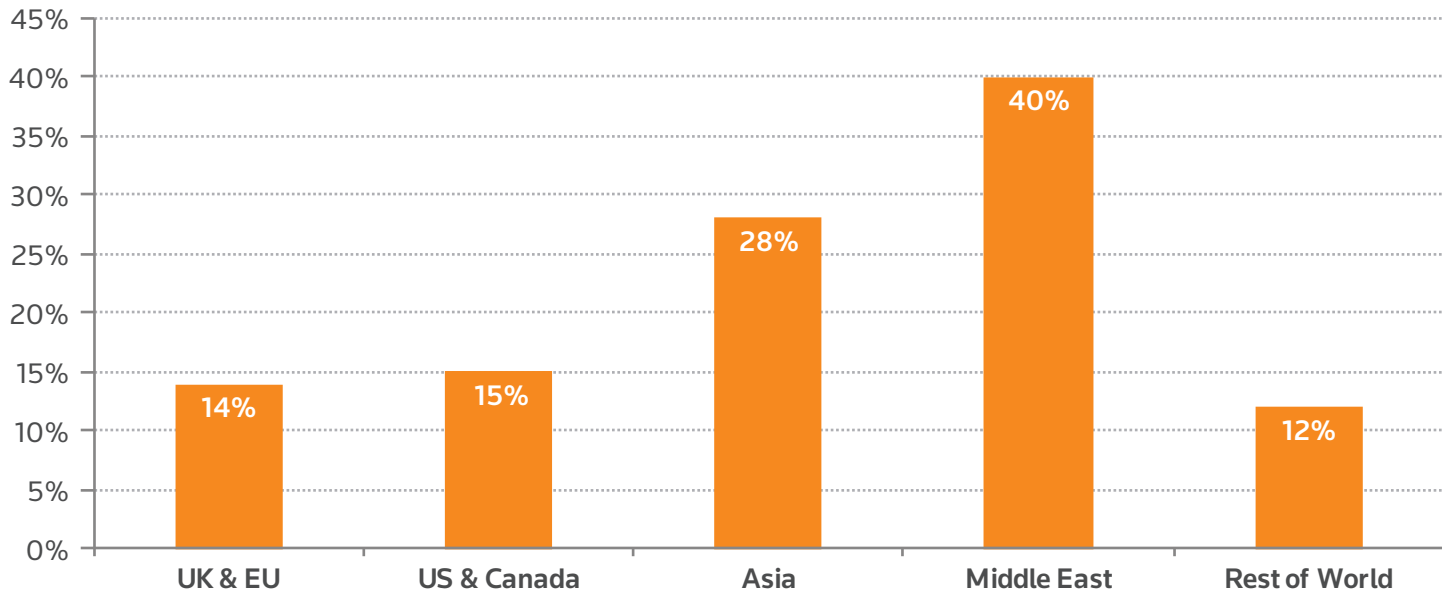
- In the Middle East 80 percent of respondents expect the cost of senior compliance staff to increase, up from 57 percent in 2014. It may be that perceived geo-political risk is at least one factor in recruiting and retaining staff in the region. Another factor is the perception that personal liability is expected to increase (84 percent) in 2015.
- Seventy-five percent of respondents in the UK and Europe expect the cost of senior compliance staff to increase in 2015, up slightly from 72 percent in 2014. There is very little change in Asia (78 percent, up from 77 percent in 2014).
- Regions where the costs are not expected to increase as much are the United States and Canada (60 percent, down from 70 percent in 2014) and the rest of the world (53 percent, down from 57 percent in 2014).

- Seventy-one percent of G-SIFI firms expect the cost of senior compliance professionals to increase in 2015 (69 percent in the full population). Thirty-two percent of G-SIFI firms expect the cost of senior compliance professionals to be significantly more against 18 percent of all respondents.
- The major reason cited for the expected increase in the cost of senior compliance professionals for the full population was the demand for skilled staff and knowledge (82 percent).

## OVER THE NEXT 12 MONTHS, I EXPECT THE COST OF SENIOR COMPLIANCE STAFF TO BE:

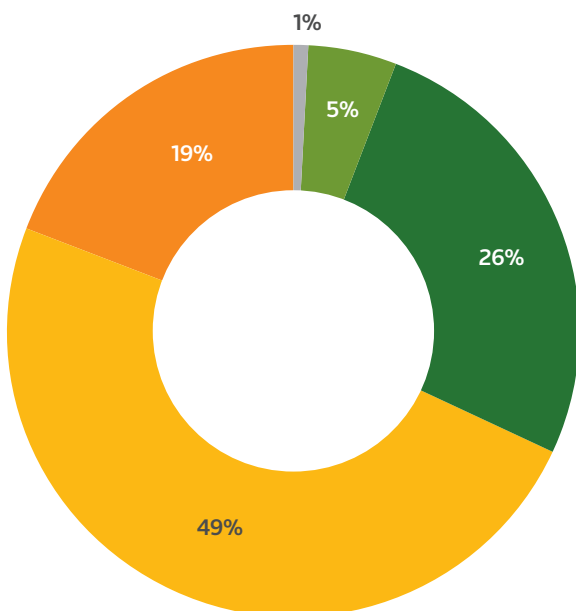


## EXPECTATION THAT SENIOR COMPLIANCE STAFF WILL COST SIGNIFICANTLY MORE IN 2015



The regional variations show divergence, with the Middle East peaking as the region that expects senior compliance staff to cost significantly more in 2015. Two-thirds of respondents expect skilled staff to cost more, which is in line with the two-thirds who expect their available budget to increase.

### OVER THE NEXT 12 MONTHS, I EXPECT THE TOTAL COMPLIANCE TEAM BUDGET TO BE:

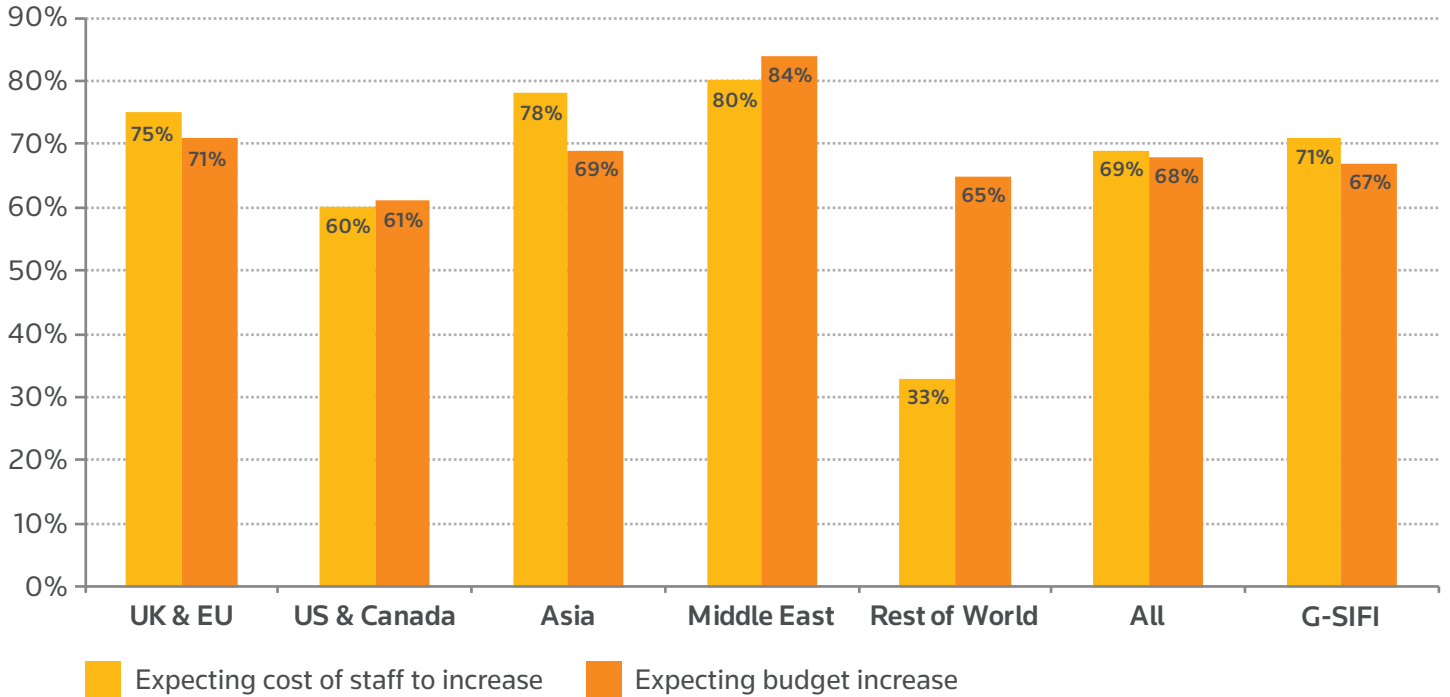


- Significantly less than today
- Slightly less than today
- The same as today
- Slightly more than today
- Significantly more than today

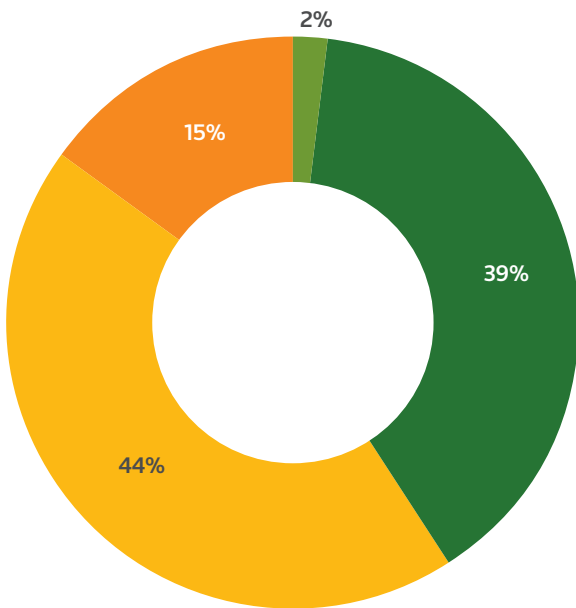
More than two-thirds of firms (68 percent) are expecting an increase in their compliance budget this year with 19 percent expecting significantly more. G-SIFIs are expecting a noticeably greater increase in compliance team budgets with one third (33 percent) expecting significantly higher budget.

During the last five years there has been a broadly consistent expectation by at least two-thirds of respondents that the costs of skilled staff will increase. For 2015 Asia is an outlier in anticipating higher compliance staff costs without a similar increase in the setting of compliance budget. On a more positive note, respondents from the rest of the world appear to be expecting a budget increase for compliance activities which seems to be over and above that needed simply to meet rising staff costs.

## EXPECTED COSTS OF STAFF VERSUS ANTICIPATED BUDGET AVAILABILITY



## OVER THE NEXT 12 MONTHS, I EXPECT THE PERSONAL LIABILITY OF COMPLIANCE PROFESSIONALS TO BE:



- Slightly less than today
- The same as today
- Slightly more than today
- Significantly more than today

Given the unremitting focus on the actions or inactions of senior managers in regulated financial services firms it is unsurprising that 59 percent of respondents (53 percent in 2014) expect the personal liability of compliance officers to increase, with 15 percent expecting a significant increase. The sharpened regulatory focus on G-SIFIs is reflected in the fact that 65 percent of G-SIFIs expect the personal liability of compliance professionals to increase in 2015 with 21 percent expecting a significant increase.

There are some regional variations to the results, although all regions are expecting personal liability to rise. Respondents from the United States are expecting the lowest rise in personal liability (50 percent), compared with the Middle East where the vast majority of respondents (84 percent) are anticipating an increase. The at least partial good news for Middle Eastern compliance functions is that this increase is matched by an anticipated increase in the cost of staff and available budget.

*“A further key change for the FCA is the new focus on the accountability of individuals for their actions and the actions of their firms.”*

David Lawton, director of markets, UK Financial Conduct Authority, in a speech, “CASS Compliance: the bigger picture”, December 2014.

Personal liability of all senior managers is here to stay and one of the many changes to emerge from the new regulatory world is the growing need for senior managers in financial services firms to be able to manage their own regulatory risk. It might seem like an additional and unnecessary burden which adds yet another worry bead for already stretched senior executives but the growing practical reality is that the active acknowledgement and management of personal regulatory risks is the best possible insurance policy for an individual as and when regulatory issues arise.

As has been demonstrated all too clearly, compliance officers have not been, and will not be, spared the focus on individuals. The results on the expected personal liability of compliance professionals will have been influenced by, in 2014, compliance officers at firms as diverse as Swinton Insurance, Bank Leumi, Bank of Tokyo-Mitsubishi, Brown Brothers Harriman and Deutsche Bank having been fined, banned or exited (or a combination).

There are several benefits to compliance officers thinking through how best to manage their own personal regulatory risk. Most obvious, perhaps, is that they themselves stay out of regulatory trouble. Other benefits include being able to advise fellow senior managers on the likely best practices associated with managing personal regulatory risk, and once their own risk is appropriately managed they will be able to devote more attention back to the day job of firm compliance. Firms should also be aware that good compliance officers will not choose to stay at firms with poor cultures and attitudes to compliance. Anecdotally, experienced compliance officers are already voting with their feet and moving to firms with a strong, positive approach to conduct risk, compliance and good customer outcomes.

## REGULATORY CHANGE

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*“Given that the worst of the financial crisis is behind us, we should not expect to have to legislate so much in the future: you should not anticipate anything like the volume of new legislation that the crisis called for. And after those five busy years of trying to ‘moor the boat in a storm’, we should also ask ourselves: have we always struck the right balance between reducing risk and encouraging growth? If the evidence tells us that we haven’t always got it right, if the rules are not proportionate to the risks presented by different types of operator, then we should be ready to look at regulation again.”*

**Jonathan Hill, member of the European Commission responsible for financial stability, financial services and capital markets union, in a speech, “Finance at your service: capital markets union as an instrument of sustainable growth”, February 2015.**

The speed and sheer breadth of regulatory change is an ever-present challenge for firms. New rules, requirements and expectations are layered on top of each other in individual jurisdictions with the added complication of cross-border inconsistencies and divergence. To say that regulators around the world have been prolific in their policy pronouncements following the financial crisis puts it mildly. Firms do not have a choice about tracking, analysing and assessing the impact of regulatory change despite the fact it is exceedingly resource-hungry. The parameters of what needs to be considered have also widened. As is borne out by the heightened focus on managing regulatory risk, the biggest driver of which was cited as conduct risk (67 percent), compliance functions are now routinely assessing culture and conduct risk in line with developing regulatory expectations. As has already been said many times, the challenge and indeed level of skilled resources required to do justice to the qualitative issues regarding culture and conduct risk would be sufficient to fill the time of any compliance function even if nothing else was changing. The results on the expected regulatory information flows make the point crystal clear.

### IT RISK

*“Cyber hacking is a potentially existential threat to our financial markets and can wreak serious havoc on the financial lives of consumers. It is imperative that we move quickly to work together to shore up our lines of defense against these serious risks.”*

**Benjamin Lawsky, Superintendent of Financial Services, in an industry guidance letter to all New York State Department of Financial Services (DFS)-regulated banks, December 2014.**

As compliance functions are well aware, far more than just culture and conduct risk needs to be considered when assessing regulatory change. One particular area that is beginning to affect the compliance arena is technology, IT risk and the issues regarding cyber crime and resilience. For firms, cyber risks are multi-faceted and must not simply be left to the IT function. Compliance functions need to be engaged in the consideration of risks to the business (and



by association the potential effect on their customers) from an attack on the wider financial services infrastructure, as well as the implications of a direct attack on the firms themselves.

Indications of the likely regulatory response to a cyber attack which affects customers can be seen in the related fines handed down by the Central Bank of Ireland and the UK regulators. In November 2014 the Central Bank of Ireland fined Ulster Bank 3.5 million euros and reprimanded it for IT and governance failings which resulted in 600,000 customers losing banking services for 28 days in June and July 2012. The fine and the reprimand were in addition to a customer redress program which has already paid out approximately 59 million euros.

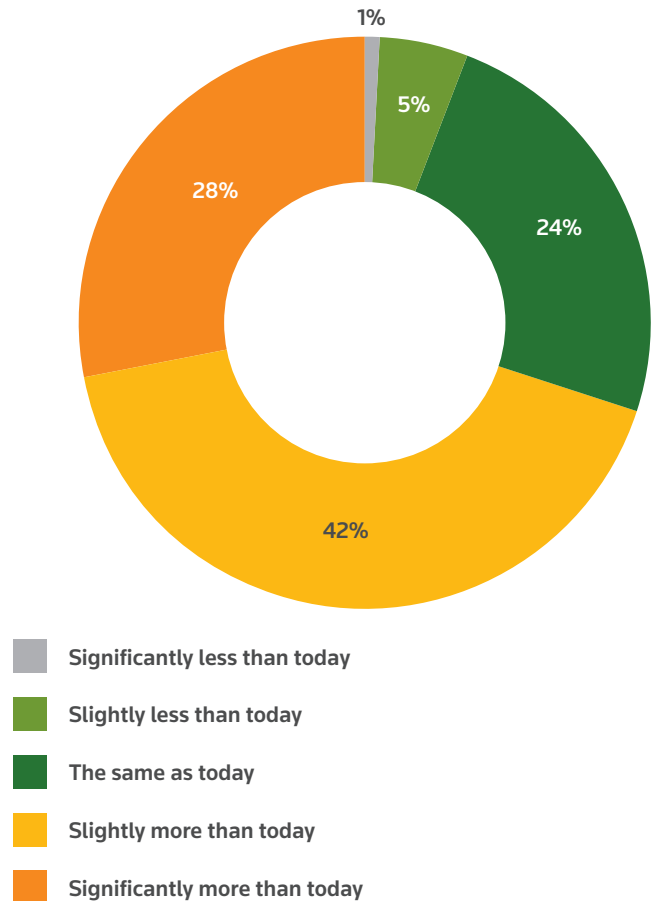
In the UK the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), for the first time, took concurrent enforcement action against three banks in the Royal Bank of Scotland Group. The PRA fined the Royal Bank of Scotland, National Westminster Bank and Ulster Bank £14 million and the FCA levied a fine of £42 million. In a clear warning for the future, the PRA stated that action had been taken because the proper functioning of IT risk management systems and controls should be an integral part of a firm's safety and soundness.

## LOBBYING

Lobbying on regulatory change comes in all shapes and sizes. For many firms lobbying is limited to responding to proposed rule changes and other consultations, while others have a complete suite of activities including high-level meetings with regulators, lobby groups and politicians. Lobbying remains the best way for firms to seek to determine their own regulatory futures and to minimize the chances of bad or unintended consequences of regulatory changes. However, as many of the comments received as part of the survey show, compliance functions may spend the equivalent of "person years" worth of skilled resource on analyzing and responding to proposed rule changes only to have the feedback or alternative suggestions made rejected by the policy maker. Despite this firms need to regard responding to consultations as an investment. Even if rules do not end up being changed there will then be a team in the firm which has acquired deep, detailed knowledge of the new requirements, and this will be invaluable when they need to be implemented, embedded and tested.

Sixty-two percent of compliance officers are expecting to spend more time liaising and communicating with regulators over the next 12 months; just over a quarter of these (26 percent) attribute this to the need to lobby and influence future regulation.

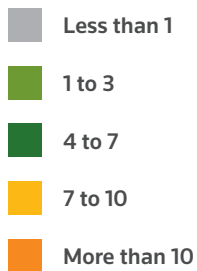
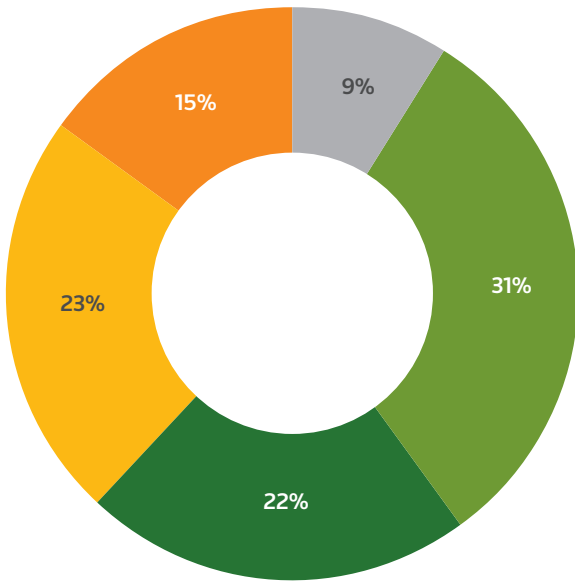
## OVER THE NEXT 12 MONTHS, I EXPECT THE AMOUNT OF REGULATORY INFORMATION PUBLISHED BY REGULATORS AND EXCHANGES TO BE:



The overall population of respondents expects a 70 percent increase in information published by regulators and exchanges (75 percent in 2014). The results are consistent around the world with the UK and Europe having the greatest proportion of respondents expecting an increase (74 percent). The several thousand pages of proposals and policy questions relating to MiFID 2/R are likely to be a factor in this. In contrast, fewer U.S. respondents expect an increase (64 percent) which is likely to reflect at least in part the progress made on Dodd-Frank implementation. In the G-SIFI population of respondents 76 percent are expecting an increase with 34 percent expecting the increase to be significant (28 percent in the full population).

The last few years have seen a gentle decline in the level of the expected increase in regulatory information being published by regulators and exchanges (2011: 83 percent; 2012: 84 percent; 2013: 81 percent; and 2014: 75 percent). While the baseline remains high with expected increases, any decline, even if it is only in the rate of increase in the volume of regulatory information published, is to be welcomed.

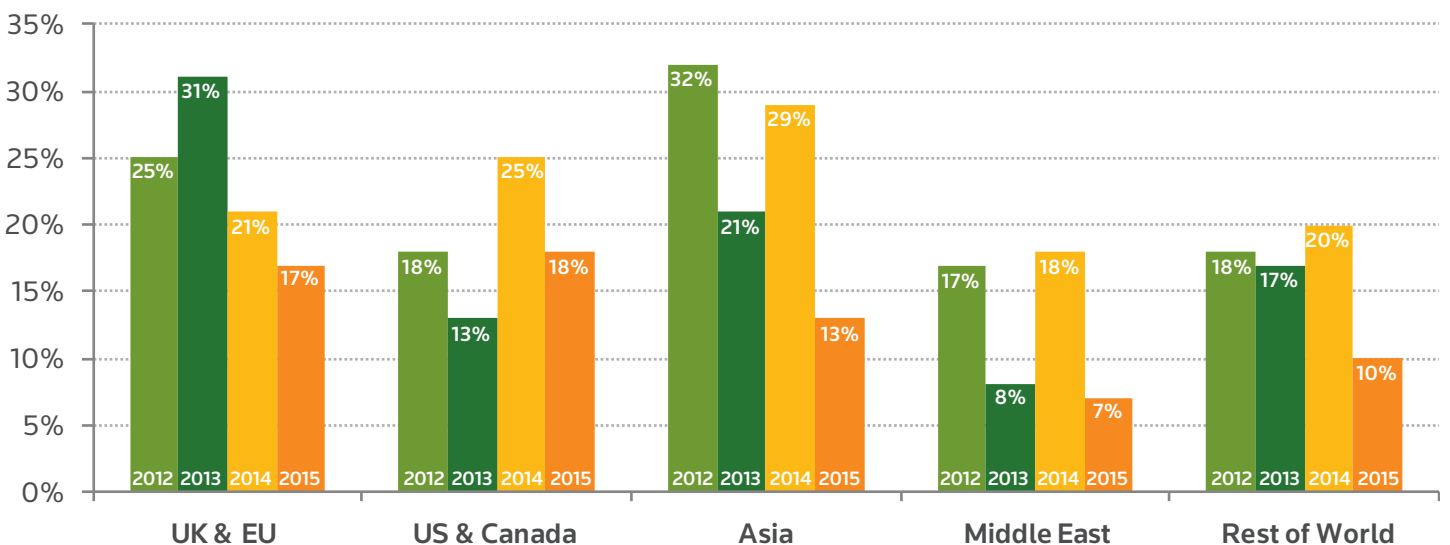
**IN AN AVERAGE WEEK, HOW MUCH TIME DOES YOUR COMPLIANCE TEAM SPEND TRACKING AND ANALYSING REGULATORY DEVELOPMENTS? (IN HOURS):**



The amount of time spent tracking and analyzing regulatory developments can be seen as the corollary to the expectations regarding the amount of information expected to be published by regulators and exchanges.

- More than a third (38 percent) of all firms are already dedicating at least a whole working day every week to tracking and analyzing regulatory developments (38 percent in 2014). This figure rises to 59 percent for the G-SIFI respondents, perhaps indicating that it is more than likely that all firms would like to be spending more time on this task but lack the skilled compliance resources to spare.
- Fifteen percent of firms are spending more than 10 hours per week reviewing the implications of the new information (there has been a gradual increase year-on-year which peaked at 24 percent in 2014). The overall decline in the number of teams spending more than 10 hours a week tracking and analyzing regulatory developments is consistent from a regional perspective. This appears out of line with expectations about the amount of information to be published. While some firms will have invested in and developed tools to aid their ability to stay abreast of regulatory change, the findings could be seen as a potential indicator of the growing stretch in compliance teams.
- The point is reinforced by the G-SIFI result, with 29 percent spending more than 10 hours a week analyzing and tracking regulatory change.
- For those firms which do spend significant time tracking and analyzing regulatory change this can range from two whole days to hundreds of person hours each week. Others, as is clear from respondents' comments, are devoting entire person years to analyzing and responding to regulatory consultations.

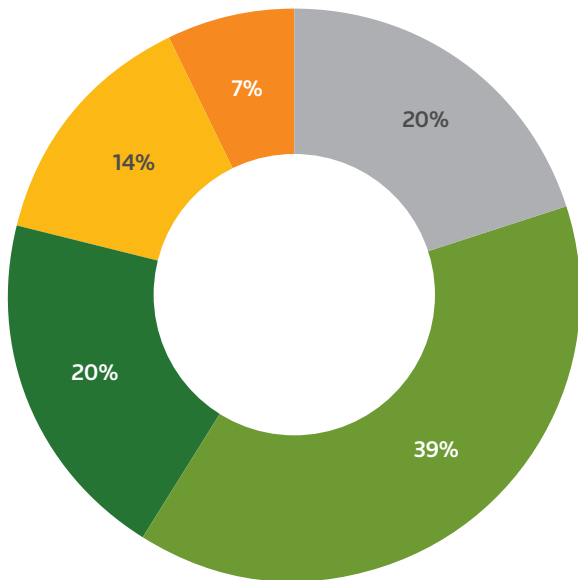
**COMPLIANCE TEAMS SPENDING MORE THAN 10 HOURS PER WEEK TRACKING AND ANALYZING REGULATORY DEVELOPMENTS**





The regional analysis year-on-year is up and down but the one consistency is the reduction in the number of firms spending more than 10 hours tracking and analyzing regulatory change.

**IN AN AVERAGE WEEK, HOW MANY TIMES DOES YOUR COMPLIANCE TEAM SPEND AMENDING POLICIES AND PROCEDURES TO REFLECT THE LATEST REGULATORY RULES (IN HOURS):**



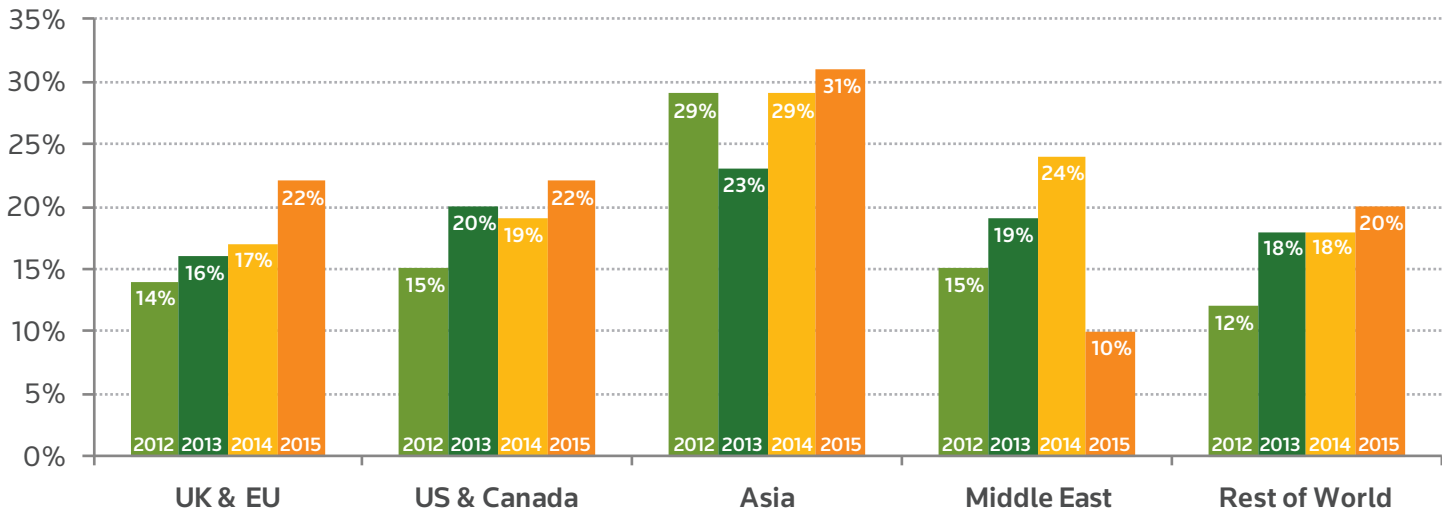
- Less than 1
- 1 to 3
- 4 to 7
- 7 to 10
- More than 10

Ideally for firms and their compliance functions there should be consistency between the expectation of the amount of regulatory information to be published, how much time is spent tracking and analyzing regulatory change and then how much time is spent translating that regulatory change into the relevant policies and procedures. In contrast to the 7 percent of the full population which are spending more than 10 hours on updates, 25 percent of the G-SIFIs are devoting more than 10 hours a week to ensuring policies and procedures are in line with the latest regulatory changes.

**IN AN AVERAGE WEEK, HOW MUCH TIME DOES YOUR COMPLIANCE TEAM SPEND AMENDING POLICIES AND PROCEDURES TO REFLECT THE LATEST REGULATORY RULES (IN HOURS)?**

	2011	2012	2013	2014	2015
<b>Less than 1</b>	21%	18%	21%	21%	<b>20%</b>
<b>1 to 3</b>	40%	42%	39%	40%	<b>39%</b>
<b>4 to 7</b>	21%	23%	22%	19%	<b>20%</b>
<b>7 to 10</b>	11%	8%	8%	9%	<b>14%</b>
<b>More than 10</b>	7%	9%	10%	11%	<b>7%</b>

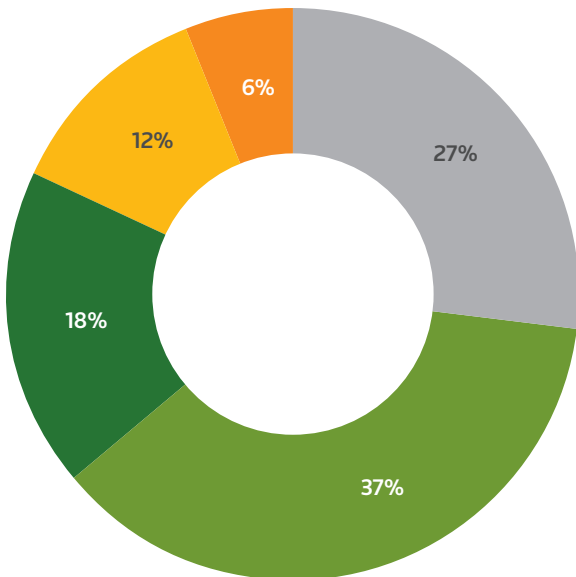
**COMPLIANCE TEAMS SPENDING MORE THAN SEVEN HOURS PER WEEK AMENDING POLICIES AND PROCEDURES TO REFLECT THE LATEST REGULATORY RULES .**



The regional splits year-on-year paint a somewhat more balanced picture with (the Middle East excepted) an increase in firms spending more than seven hours per week updating policies and procedures.

## REPORTING

**IN AN AVERAGE WEEK, HOW MUCH TIME DOES YOUR COMPLIANCE TEAM SPEND CREATING AND AMENDING REPORTS FOR THE BOARD (IN HOURS)?**



- Less than 1
- 1 to 3
- 4 to 7
- 7 to 10
- More than 10

In a picture consistent with the previous year, 27 percent of compliance teams say they spend less than an hour a week amending reports for the board (26 percent in 2014). At the other end of the scale there is a decline with 6 percent of compliance teams spending more than 10 hours on board reporting (11 percent in 2014). Noticeably more G-SIFIs (41 percent) are spending more than a day creating and amending reports for the board (21 percent spending more than 10 hours).

**IN AN AVERAGE WEEK, HOW MUCH TIME DOES YOUR COMPLIANCE TEAM SPEND CREATING AND AMENDING REPORTS FOR THE BOARD?**

	2011	2012	2013	2014	2015
<b>Less than 1</b>	28%	27%	26%	26%	<b>27%</b>
<b>1 to 3</b>	38%	35%	38%	36%	<b>37%</b>
<b>4 to 7</b>	18%	21%	18%	18%	<b>18%</b>
<b>7 to 10</b>	7%	8%	9%	8%	<b>12%</b>
<b>More than 10</b>	8%	9%	9%	11%	<b>6%</b>

Good management information is the lifeblood of any firm and in the current regulatory environment management information could be seen as the need for evidence, evidence and more evidence that a firm and the senior managers running it have done all of the right things in all of the right ways. It is a measure of how seriously the

need for good quality management information is now being considered that the Financial Stability Board has made it a central consideration in the assessment of risk governance.

Taking the point further the FSB has recommended that supervisors should explicitly assess the accuracy and usefulness of the information provided to boards, and should consider whether the reporting is sufficient and appropriate to enable effective discharge of joint and

several regulatory responsibilities. The FSB has left some flexibility in approach. The flexibility does come with a sting regarding the suggested supervisory approach, however, with the FSB recommending: "Supervisors should look for evidence in board papers and minutes, the risk appetite statement documents, metrics, reporting and other activities, that the board understands how management interprets and applies the risk appetite and risk limits."

## ALIGNMENT WITH OTHER RISK AND CONTROL FUNCTIONS

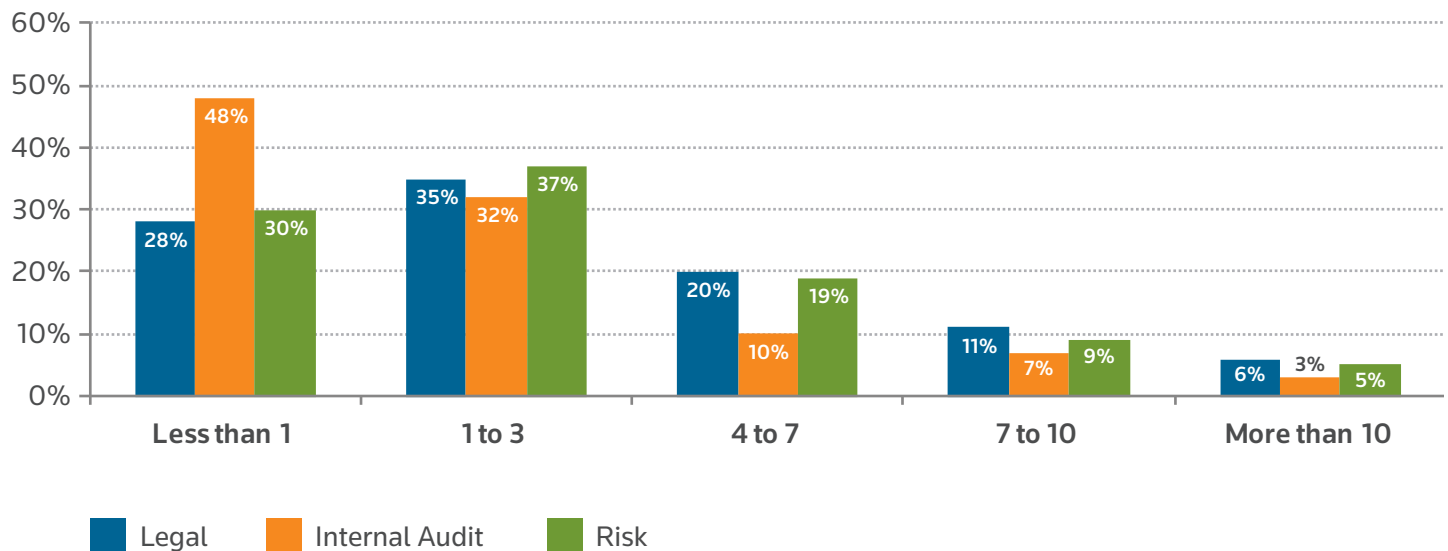
While it is crucial not to breach the independence of the internal audit function, there are benefits to having alignment between risk and control functions, not least to ensure that there is coverage of key risks to the organization and the consistency of associated reporting. The long-term lack of interaction between, in particular, compliance and internal audit functions is shown in the table.

The regional variations do not make for much better reading with 53 percent of UK and European compliance officers spending less than one hour a week with internal audit. This is less pronounced in other regions with 42 percent in the United States and Canada, 40 percent in Asia, 41 percent in the Middle East and 45 percent in the rest of the world.

### IN AN AVERAGE WEEK, HOW MUCH TIME DOES YOUR COMPLIANCE TEAM SPEND CONSULTING WITH THE LEGAL, INTERNAL AUDIT AND RISK FUNCTIONS ON COMPLIANCE ISSUES? (IN HOURS)

	YEAR-ON-YEAR														
	Legal					Internal Audit					Risk				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Less than 1	31%	30%	28%	30%	28%	51%	52%	46%	44%	48%	32%	30%	34%	32%	30%
1 to 3	32%	37%	38%	31%	35%	29%	28%	33%	30%	32%	31%	36%	35%	32%	37%
4 to 7	17%	18%	17%	19%	20%	12%	12%	12%	15%	10%	22%	19%	17%	18%	19%
7 to 10	12%	7%	7%	8%	11%	4%	4%	5%	6%	7%	6%	7%	5%	9%	9%
More than 10	9%	8%	10%	11%	6%	3%	4%	5%	5%	3%	9%	8%	10%	7%	5%

### IN AN AVERAGE WEEK, HOW MUCH TIME DOES YOUR COMPLIANCE TEAM SPEND CONSULTING WITH THE LEGAL, INTERNAL AUDIT AND RISK FUNCTIONS ON COMPLIANCE ISSUES (IN HOURS)?



In another illustration of how additional compliance resources might be usefully deployed, G-SIFIs report spending more time with other control functions. Thirty-eight percent say they are spending more than a day a week with legal; 34 percent are spending more than a day a week with internal audit; and 30 percent are spending more than a day a week with risk. All of these percentages represent a distinct improvement on the responses from the full population.

Alignment between risk, compliance, legal and internal audit functions will help to drive high-quality risk management information. Each separate control function's role in management information has shifted over time. The challenges for 2015 will be to continue to develop and refine qualitative reporting mechanisms and also to align

reporting more closely with that of the risk and internal audit functions. It is clear that boards need to be provided with regular, succinct reports which give a consolidated and comprehensive overarching picture of the state of risk management, including, specifically, culture within their firm. To achieve this, risk, compliance and internal audit will need to come together to create a single combined view on the state of risk management. It will not work if, for example, internal audit is using a red, amber, green reporting system; compliance reports on a one, two, three basis; and risk has a high, medium and low grading structure. Consensus needs to be reached to enable a single aggregate view of risk in the firm to be consistently evidenced and reported to the board and, in turn, discussed with regulators.

## LIAISON WITH REGULATORS

Liaison with regulators has always been part of the compliance officer's remit, and with the move toward culture and conduct risk often combined with a "judgement-based" approach to supervision, firms need more than ever to be building and maintaining strong working relationships with all relevant regulators. In line with previous years, firms are expecting to spend more time liaising with regulators. The amount of time compliance professionals expect to spend liaising with regulators and exchanges is rising at a somewhat slower rate than previous years with an overall gradual decline from 71 percent expecting more contact in 2011 to 62 percent in 2015.

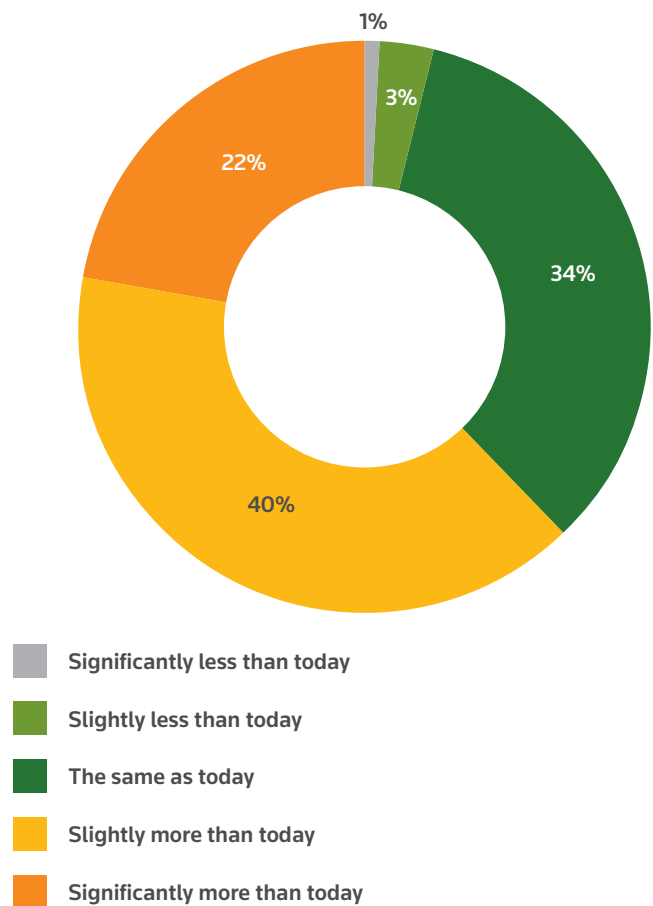
of respondents expected to spend more time liaising with regulators and exchanges compared with 67 percent in 2014. The equivalent figure for the UK and Europe is 68 percent and the rest of world (Africa, Australasia and South America) is also 68 percent. The prior year comparator for both is 61 percent.

### OVER THE NEXT 12 MONTHS, I EXPECT THE TIME SPENT LIAISING AND COMMUNICATING WITH REGULATORS AND EXCHANGES TO BE:

	2011	2012	2013	2014	2015
Significantly less than today	1%	1%	1%	3%	1%
Slightly less than today	3%	2%	3%	4%	3%
The same as today	25%	28%	31%	31%	34%
Slightly more than today	43%	41%	39%	37%	40%
Significantly more than today	28%	28%	26%	25%	22%

The G-SIFI results buck the wider trend with 70 percent expecting to spend more time liaising with regulators and 36 percent expecting to spend significantly more time (22 percent in the full population). The regional variations show some polarization with the United States and Canada, the Middle East and Asia all expecting less of an increase in time spent. In the United States and Canada 51 percent

### OVER THE NEXT 12 MONTHS, I EXPECT THE TIME SPENT LIAISING AND COMMUNICATING WITH REGULATORS AND EXCHANGES TO BE:



Those respondents who expect to spend more time liaising with regulators and exchanges were asked to indicate the reasons why. More onerous regulatory and reporting requirements is the top reason given at 75 percent followed by an increase in the number of information requests from regulators at 71 percent and more intensive supervision at 61 percent.

Taken as a whole and given the reasons behind any expected increase the results paint a potentially worrying picture. There are few firms around the world which can afford not to devote significant skilled resources to regulatory relationships. The need to liaise with regulators has reached a new level of importance, with regulators everywhere focusing more on outcomes and qualitative issues such as risk culture, using more judgement and choosing to interact with a far wider range of people at regulated firms. Compliance officers would be well advised to have a distinct, agreed strategic plan to manage regulatory interactions and to ensure a clear line of sight to all regulatory expectations.

The detailed elements of any regulatory relationship plan will need to be tailored precisely to the firm's business activities. One of the many lessons from the Libor scandal is that firms would be wise to include all activities in the plan, and not just those that are directly regulated. All

senior individuals need to be able to discuss all relevant regulatory issues with the regulator, and to understand the likely impact on the firm and its customers. This is another area where time invested in regulatory relationships and liaising with regulators will bear fruit.

A useful benefit of investment in developing a regulatory relationship plan will be the development of a group-wide database of regulatory interactions enabling compliance to spot trends, ensure a uniformity of information flows and enable pre-emptive briefings on emerging issues. Regulators speak to each other across borders and firms which operate internationally need to ensure that regulatory relationships are managed on that basis.

*"The review of lessons is still, at times, too narrow and too literal. I get the impression that people say, 'this does not concern me because I don't sell UCIS or don't submit to Libor' rather than looking at whether the same drivers of behavior might read across to other areas."*

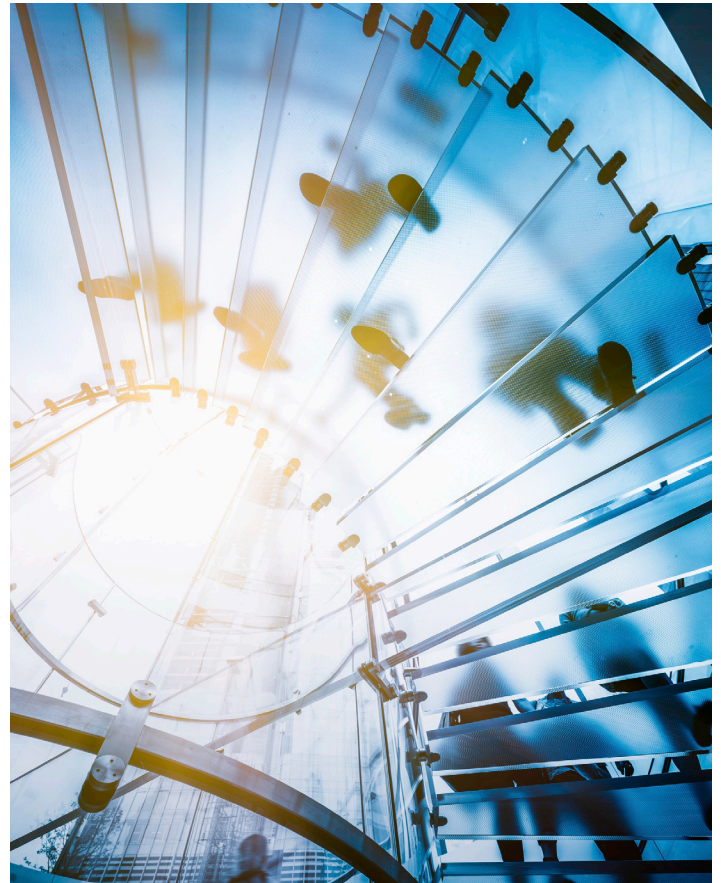
**Tracey McDermott, director of enforcement and financial crime, UK Financial Conduct Authority, in a speech at the FCA's Enforcement Conference, London, December 2014.**

## MANAGING REGULATORY RISK

Managing all aspects of regulatory risk has never been more important. The impression given by the results is of a leveling out of expectation with regard to the increase in regulatory focus. That said, once again the trend is at least in part bucked by the G-SIFI responses with 76 percent expecting the focus on managing regulatory risks to increase in the next 12 months (75 percent in the full population) and 38 percent expecting a significant increase in focus (26 percent in the full population).

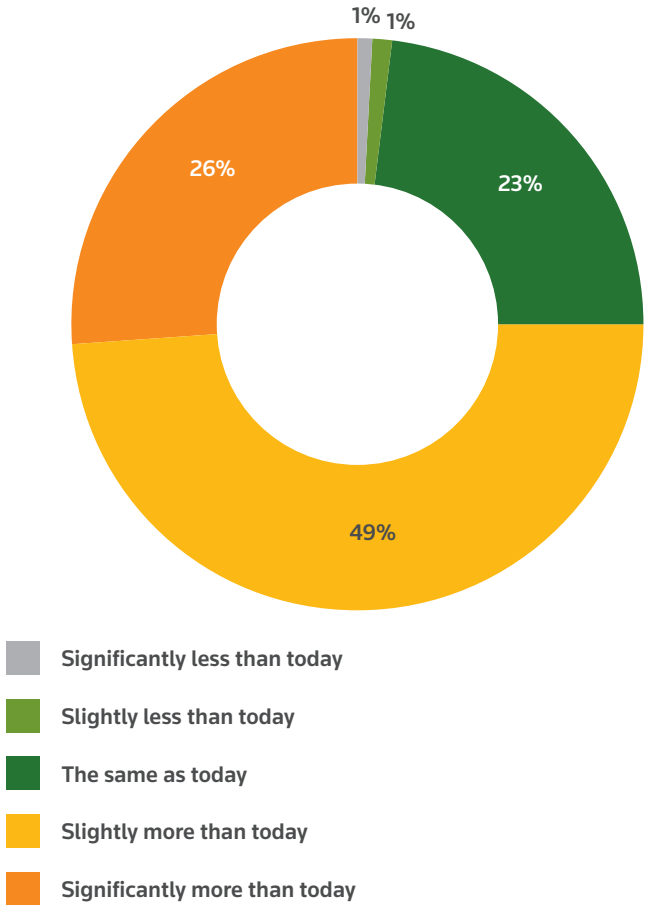
**OVER THE NEXT 12 MONTHS, I EXPECT THE REGULATORY FOCUS ON MANAGING REGULATORY RISK TO BE:**

	2011	2012	2013	2014	2015
<b>Significantly less than today</b>	1%	1%	1%	1%	1%
<b>Slightly less than today</b>	2%	1%	1%	3%	1%
<b>The same as today</b>	12%	16%	18%	22%	23%
<b>Slightly more than today</b>	44%	44%	47%	46%	49%
<b>Significantly more than today</b>	42%	38%	33%	28%	26%



The main reasons given for the expected increase in focus on managing regulatory risks are the expected focus on conduct risk (67 percent), greater interest from senior managers and the board at 58 percent and harsher regulatory penalties/super-sized fines at 50 percent.

**OVER THE NEXT 12 MONTHS, I EXPECT THE FOCUS ON MANAGING REGULATORY RISK TO BE:**

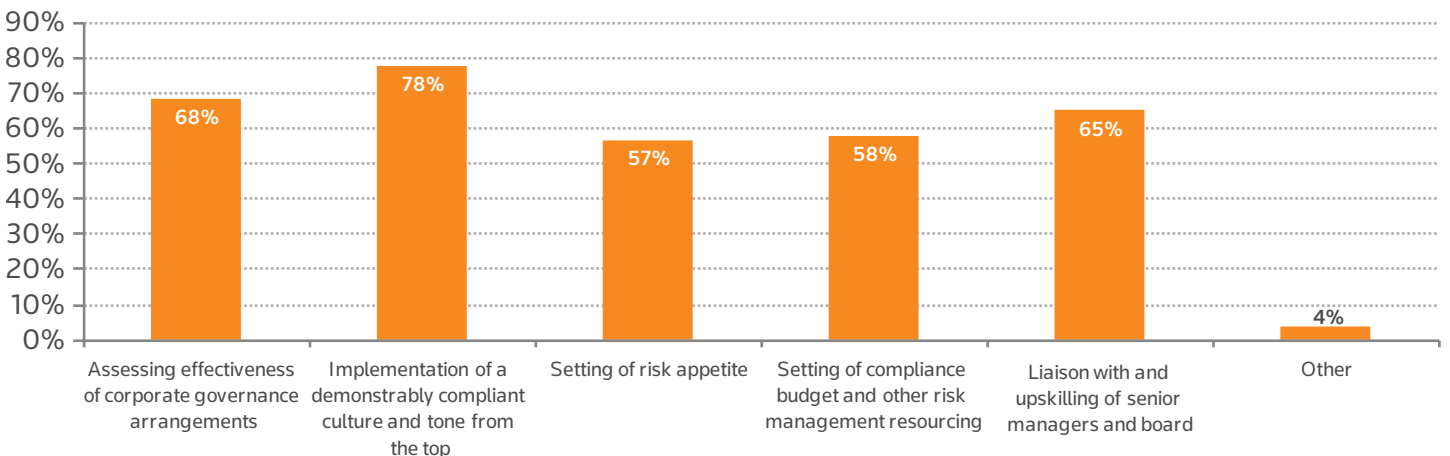


Experienced compliance officers are used to being pulled in numerous different directions at once. Respondents expect to be more involved in a wide range of activities with 78 percent expecting more compliance involvement in the implementation of a demonstrably compliance culture and tone from the top (72 percent in 2014). This point links back to the possible concerns highlighted as a result of the responses given on both reporting and the much-needed alignment between risk, compliance and internal audit. Tone from the top, culture and conduct risk are all notoriously difficult to measure, quantify and report on but firms need to build and maintain strong, consistent protocols through which a positive culture can be demonstrated effectively.

To aid compliance functions with their more extensive involvement in culture, tone from the top and conduct risk, firms could do worse than to consider the five recommended steps which remain relevant no matter where in the conduct risk development process the firm is:

- **Define** Firms need to define what “good” in terms of conduct risk management looks like for their particular business.
- **Assess** Once firms have decided how they wish to consider and manage conduct risk issues a gap analysis needs to be undertaken to highlight any and all areas where current practice is out-of-step with where the firm wishes to be.
- **Reform** All areas from the gap analysis need to be considered and prioritized. Resources and, where needed, sponsorship from the very highest levels of the firm should be devoted, and importantly be seen to be devoted, to bringing the firm’s activities into line with the defined appetite and stance on conduct risk and culture.
- **Measure** All firms need to be able to measure and report on the qualitative as well as any quantitative elements making up the diverse concept of conduct risk.
- **Evidence** All of the above activities need to be clearly evidenced, so that a transparent audit trail is available and all material decisions recorded.

**OVER NEXT 12 MONTHS I EXPECT MORE COMPLIANCE INVOLVEMENT IN:**

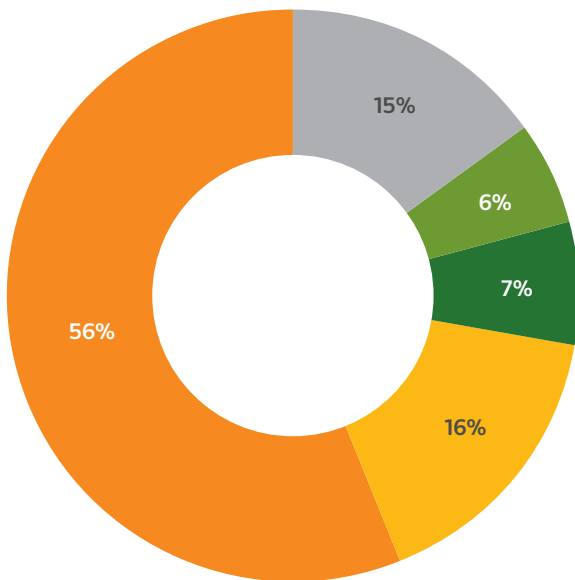




## TYPICAL WEEK OF A COMPLIANCE OFFICER

The typical week of a compliance officer, in terms of splits of time, shows not only consistency year-on-year but also the perennial juggling act of undertaking such a breadth of activities. For illustrative purposes the splits are:

### TYPICAL WEEK OF A COMPLIANCE OFFICER



- Tracking and analysing regulatory developments**
- Board Reporting**
- Amending policies and procedures**
- Liaison with control functions**
- Everything else:**
  - interaction with regulators
  - regulatory inspections and examinations
  - regulatory reporting
  - project management of regulatory implementation projects
  - compliance monitoring
  - compliance training
  - past business reviews

## THE CHALLENGES COMPLIANCE OFFICERS ANTICIPATE IN 2015

The survey asked about the biggest compliance challenges expected in 2015. The breadth of the responses demonstrates the sweep of issues, activities and challenges facing compliance officers. Firms may take some comfort from the fact that their peers are facing similar challenges, or indeed may find there are challenges on the horizon that have not yet hit their risk radar.

### SPECIFIC AREAS OF REGULATION WHICH POSE THE GREATEST CHALLENGE FOR THE COMING YEAR ARE HIGHLIGHTED AS:

- Alternative Investment Fund Managers Directive (AIFMD), Europe
- Basel III, international
- Capital Requirements Directive IV (CRD IV), Europe
- Data Protection Directive, Europe
- Directive on Undertakings for Collective Investment in Transferable Securities (UCITS V), Europe
- Dodd-Frank, United States
- European Market Infrastructure Regulation (EMIR), Europe
- Financial transaction tax (FTT), Europe
- Foreign Account Tax Compliance Act (FATCA), United States
- Foreign Corrupt Practices Act, United States
- Fourth Money Laundering Directive, Europe
- Future of Financial Advice (FoFA), Australia
- Health Insurance Portability and Accountability Act, United States
- Market Abuse Directive (MAD 2), Europe
- Markets in Financial Instruments Directive II and Markets in Financial Instruments Regulation (MiFID 2/R), Europe
- Payment Services Directive II (PSD2), Europe
- Sarbanes-Oxley Act, United States
- Senior Managers Regime, UK
- Solvency II, Europe
- TILA-RESPA Integrated Disclosure rule implementation, CFPB, United States
- Volcker Rule, United States

## COMPLIANCE OFFICERS' VIEW OF THE GREATEST COMPLIANCE CHALLENGES IN 2015



Respondents were also asked what the biggest challenges for their boards would be in the year ahead. While there are significant similarities in the challenges they expect to face, particularly with regard to regulatory requirements, there is a marked difference in terms of those challenges that are more clearly related to the pace, volume and implementation of change. For the board, perhaps unsurprisingly, issues surrounding greater scrutiny and corporate governance are more important.

## THE GREATEST COMPLIANCE CHALLENGES EXPECTED BY BOARDS IN 2015



## CLOSING THOUGHTS

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*“So your job in compliance is not to design new processes and controls, it is to force the board to ask the difficult questions – how do you positively reward those who highlight problems, do you take whistleblowing seriously, do you use the wealth of information from complaints to drive improvements, do you really learn from the mishaps of your peers?”*

Tracey McDermott, director of enforcement and financial crime, UK Financial Conduct Authority, in a speech at Deloitte’s Chief Compliance Officer event, February 2015.

The results of the 2015 Cost of Compliance Survey show a number of potential red flags for the future of regulated financial services firms and their compliance officers. The clear expectation is that compliance functions will need to do more to keep up with ever-growing regulatory change and complexity. Despite a sense that more, often much more, needs to be done in terms of tracking and analyzing regulatory change, reporting to the board and updating policies and procedures, however, many firms have been unable to increase their focus in these areas. The spotlight has been shone on the issue by the inclusion in this year’s survey of a G-SIFI split which has shown that substantial additional resources (and indeed intense regulatory focus) have been devoted to all things compliance. In other words, the G-SIFIs which tend to have more capacity and capability in terms of skilled compliance and risk resources are devoting relatively more time to essential areas of compliance than smaller firms, which may well find themselves resource-constrained.

There is a developing danger that compliance budgets and the availability of skilled resources is not keeping pace with the level and depth of the current compliance challenges facing firms. It is not that compliance budgets are not expected to continue to rise; it is more that, increasingly, they may not be sufficient to give beleaguered compliance functions a fighting chance of dealing with the mounting challenges. High-quality compliance skills are becoming more and more sought-after and the resources assigned to risk and compliance need to reflect the cost of the experienced resources needed to deal with the perfect storm of complex regulatory developments, a less prescriptive, judgement-based style of supervision together with a significant increase in personal liability. Put simply, firms and senior managers are storing up problems for tomorrow if they limit available compliance resources today.

Among the many things that will be priorities for any compliance function in 2015, compliance officers will need to engage extensively with their boards and senior managers to ensure that there is firm-wide understanding of the changing regulatory environment and the implications of the continued focus on culture. An appropriately compliance-aware board will not only be able to speak knowledgeably to the regulator about setting the tone from the top and the measures used to assess conduct risk and culture in the firm, but will also understand the need to allocate sufficient resources to the compliance function.

Risk-aware boards should also seek to drive more interaction between compliance and internal audit functions. It is again an area where G-SIFIs have led the way in reporting substantially more interaction than other firms. It is a finding which had been repeated year after year in the Cost of Compliance Survey reports and remains an issue which needs to be tackled once and for all. Unless or until it is resolved firms will be unable to meet in full the growing international risk governance expectations, or to make best use of limited skilled resources and may well leave themselves more vulnerable to regulatory action both at a firm and individual level.

### FUTURE PROOFING

Given the relentless pace of change and the need to implement layers of often mismatching cross-border regulatory requirements, compliance officers may wish to begin to think through how they can help their firm to “future proof” changes made, and in turn get the very best value out of the investment made into systems and technology. Perhaps the most obvious means of future proofing is the attempt to manage the future regulatory agenda through lobbying. If a firm does not already have a lobbying program in place it may want to consider investing in developing an ability to influence the external regulatory environment. While lobbying is a medium- to long-term investment, the current mismatch and divergence of rules between jurisdictions are proving to be expensive and distracting for firms, with the issues in the derivatives marketplace between the EU and the United States a particular case in point.

Another means of future proofing is to build an inherent level of flexibility into all technological compliance solutions implemented, with the central guiding tenet that firms are always going to need strong, comprehensive and repeatable evidence for all of their activities and counterparties.

Many firms have already tested this theory as part of the work undertaken to become FATCA-compliant when, rather than just reviewing U.S. citizens for complete know-your-customer documentation, the opportunity was taken to review (often on a risk-based approach) the entire client database to cleanse and refresh the information held, as well as fill any gaps.



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