

MANAGING COMPLIANCE FOR DATA-CENTRIC REGULATION

Post the financial crisis a variety of data-centric regulation has emerged. Historically the focus has been solely on meeting the compliance objectives, however, in today's increasingly regulated business environment, the need to ensure ongoing compliance is paramount.

Three large data-related regulations are now at the point where the compliance model for day-to-day business activities needs to be robustly defined and implemented:

Regulation	Adoption Deadline	Enforcement
BCBS 239 (Basel Committee on Banking Supervision's standard number 239)	1st January 2018	Prudential regulators by jurisdiction and central banks
MiFiD II (Second Markets in Financial Instruments Directive)	3rd January 2018	Local financial and conduct regulators enforcing European Union legislation with guidance from the European Securities and Markets Authority
GDPR (Global Data Protection Regulation)	25th May 2018	Local supervisory authorities enforcing European Union legislation with guidance from the European Data Protection Board

Table 1 - Data-Centric Regulation

The Challenges

Financial institutions face significant challenges to embed the correct level of first, second and third-line regulatory oversight, specifically for data-centric regulations, such as BCBS 239, MiFiD II and GDPR. Most organisations are coming to the end of programmes aimed at meeting their compliance objectives, but how to maintain a robust level of compliance has not necessarily been defined. Furthermore, the mechanisms for reporting and maintaining operating models to ensure the institution operates within a window of compliance, rather than moving in and out of a compliant state, need to be implemented. This is particularly relevant for those institutions whose management are subject to the obligations of the Senior Managers Regime (SMR).

In November 2017, the Financial Conduct Authority (FCA) published a review of the compliance functions at 22 wholesale banks. The intended audience was senior managers with a role in financial and prudential compliance. The review focused on current and future challenges within the three lines of defence (3LOD): line 1 – functions that own and manage risk; line 2 – functions that oversee or specialise in risk management compliance; and line 3 – functions that provide independent assurance, above all internal audit. This paper sets out our view on how financial institutions can optimise the compliance or oversight function within the 3LOD, and where we see potential for improvements or cost savings.

CONSIDERATIONS FOR EMBEDDING COMPLIANCE

The FCA’s report highlighted six areas of consideration and asked specific questions to each of the 22 institutions surveyed. The key is to consider how the compliance function operates cooperatively with the other functions performing similar and potentially overlapping activities.

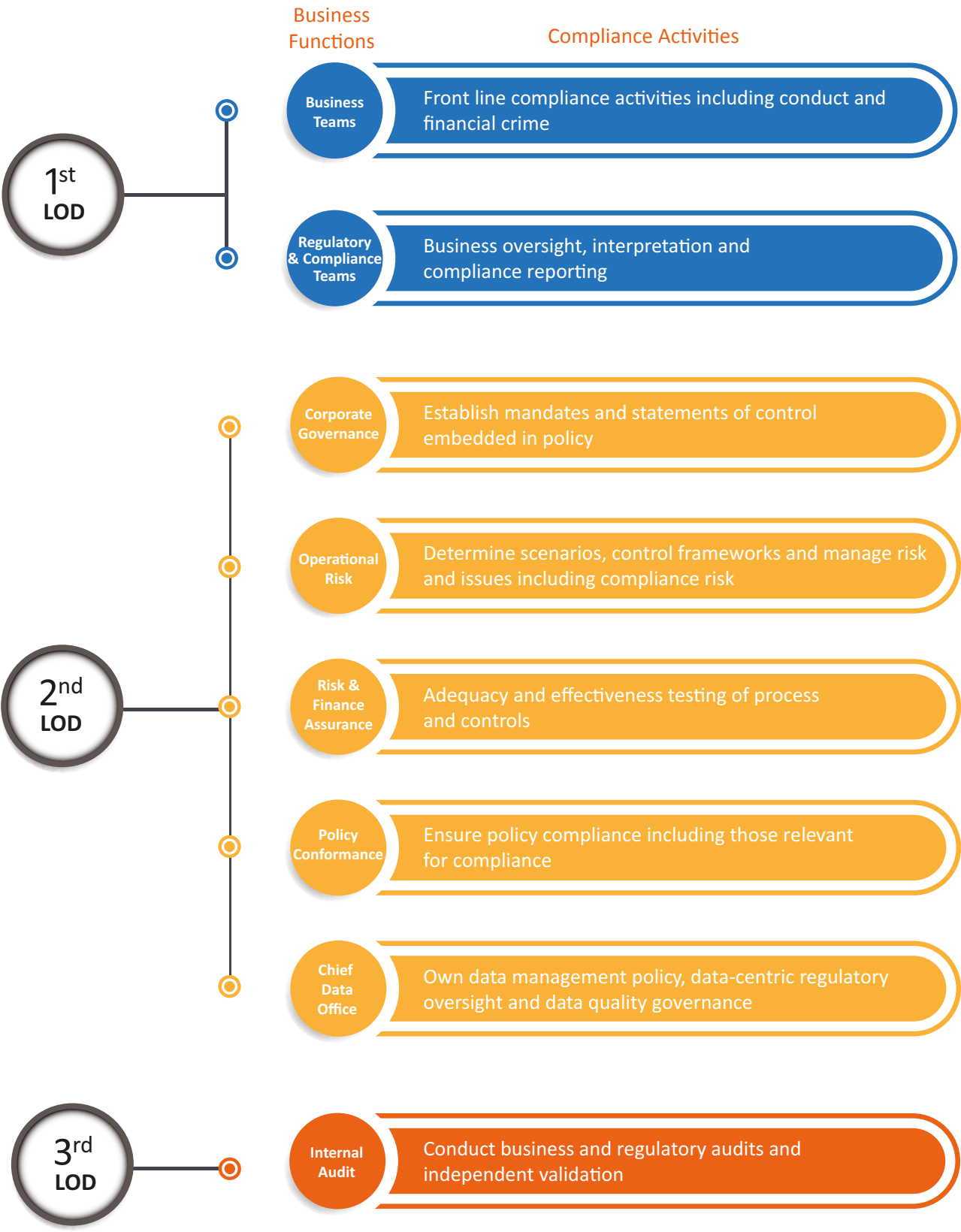
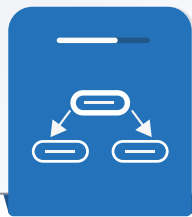


Figure 1 - Compliance Activities

The six areas of consideration highlighted by the FCA:



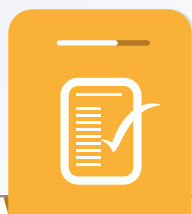
Role & Structure

The traditional compliance function is beginning to operate more as an independent validation or second line of defence risk function. There are boundary issues of where the remit of the first and second line begin and end, particularly with respect to conduct-related risks. In addition, the increased use of automation and digitalisation within the banking sector means that compliance requirements can be fed into the system at the point of controls and design.



Strategy & Planning

The compliance function is becoming increasingly engaged with strategic planning for both the business and infrastructure perspectives. As stakeholders, they provide regulatory or compliance requirements and input these into the testing process. This is particularly noticeable with respect to regulatory or internal management reporting.



Compliance Monitoring & Reporting

Further to the challenges above, we note there are additional issues when it comes to reporting compliance in a robust fashion. One example is the collation and evidencing of elements within an organisation which could impact compliance and operational issues such as policy conformance, weaknesses in the control environment or limitations in reporting or the reporting processes. With senior managers accountable through SMR, there is a need to implement a reporting model with distinct responsibilities and accountabilities.



Technology

Technology is playing an increasingly important part in the compliance function with data quality at the forefront. Many banks have implemented automated data-quality profiling and lineage solutions. Many organisations have also embedded a Chief Data Officer (CDO) who is principally charged with reporting on the data-specific regulation. With respect to investment, the FCA review cited surveillance systems and additional personnel as an enabler. Some institutions have embraced data analytics as a key enabler to achieve the compliance mandate.



Support & Challenge

Given the similar activities performed by the 3LOD, specifically with respect to the management and monitoring of compliance, there is without doubt room for inefficiencies. Optimisation of activities was noted as a potential area of improvement to ensure that any repetition is eliminated and the burden on businesses reduced.



Personnel

With overlapping data-centric regulations comes an increased need for robust interpretation, and as a result, a higher demand for compliance-trained staff. Institutions are beginning to focus on building up the skills from within, placing an increasing emphasis on staff training and development in this area.

HOW CAN BRICKENDON HELP YOU?

Brickendon offer a variety of services to support the 3LOD, and often engage with our clients to assist with compliance frameworks, target operating models and programme reviews. The objective of these engagements is to drive down costs, identify weaknesses in processes or controls and to ensure our clients have robust regulatory reporting mechanisms.

Brickendon can:

1. Implement compliance frameworks for you, or in conjunction with you, which will provide a comprehensive view of coverage from a regulatory perspective
2. Evaluate your technology, personnel and operating models to ensure senior management committees have sufficient visibility of the activities within the compliance function
3. Review regulatory or compliance programmes to identify opportunities for efficiencies or control improvements

ABOUT US

Brickendon is an award-winning global transformational management and technology consultancy specialising in innovative solutions that save our clients time and money. Our aim is to deliver transformational change across our three key offerings of Advise, Change and Do, through our five practice areas: Data, Quality & Test, Risk & Regulation, Strategy and Digital. This helps ensure our clients see positive results in weeks, not months or years.

Employing domain experts with over 10 years' respective experience in specialist sectors, Brickendon is built on providing lasting, cutting-edge solutions designed to improve profitability, efficiency, competitiveness and innovation across the financial services sector. We are passionate about what we do and thrive on transforming companies to increase their competitive edge.

Started in London in 2010, the driving force behind Brickendon's global strategy is transforming the traditional consultancy model. We now have multiple offices across Europe and the US, including London and New York.

CONTACT US



Richard Cryer
Executive Director

"Given the complexity of the overlapping data-centric regulations and the challenge of maintaining compliance in business-as-usual, financial institutions need to ensure they have a clear articulation of the activities within the 3LOD and the responsibility and accountability for compliance"

Richard Cryer, Executive Director

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