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COST OF COMPLIANCE SURVEY 2011

STACEY ENGLISH & SUSANNAH HAMMOND, REGULATORY AFFAIRS

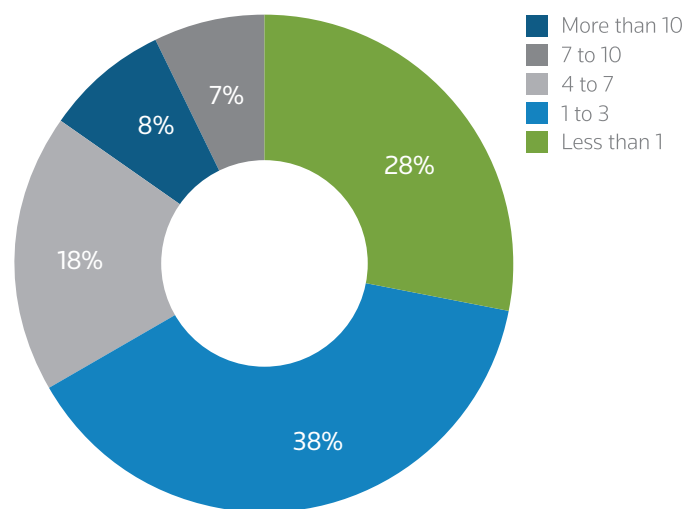


Thomson Reuters Governance Risk & Compliance surveyed 337 compliance practitioners from financial services around the world between November 2010 and January 2011 to find out their views on the costs of compliance for the year ahead. The results reflect the ongoing focus on compliance and regulation in the aftermath of the global financial crisis. A similar survey was undertaken at the end of 2008 and comparable results are included where applicable.

Activities of compliance team

The survey results show that more than one third of all compliance teams spend more than one whole day every week tracking and analysing regulatory developments. A further 15% spend more than 1 man day a week creating and amending compliance reports for the board, which will include details of regulatory activity and change. Compliance functions devote extensive skilled resources to assessing the impact of regulatory changes. Tracking potential and actual change is an essential step in ensuring that the firm is aware and adequately prepared to meet regulatory requirements. However, the financial crisis has also altered the way in which regulation is initiated, with the G20 now setting many policy objectives which are implemented through a wide range of bodies including the Financial Stability Board and the Basel Committee on Banking Supervision before reaching national rulebooks. Compliance officers not only need to track regulatory change but also to stay up-to-date with where that change is coming from and how best to influence it on behalf of their firm, which creates further demands on resources.

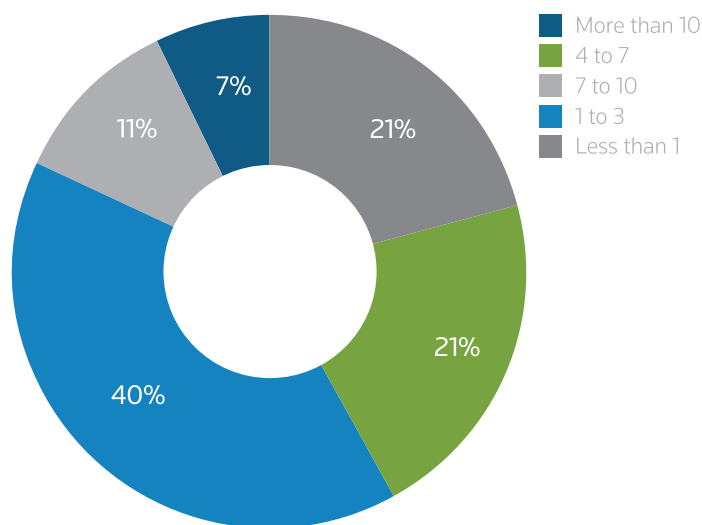
In an average week, how much time does your compliance team spend creating and amending reports for the board? (in hours)



To coincide with changes resulting from the implementation of new rules, the compliance function is responsible for ensuring that the necessary updates are made to all relevant internal policies and procedures. The results of the survey show that almost 40% of all compliance functions spend at least half a day every week on the burdensome task of updating and amending policies and procedures to reflect the latest regulatory requirements. This activity generates a stream of other work including the associated communication and training, inclusion into all relevant monitoring plans, and the need to maintain an audit trail of changes. The amendments

driven by rule changes will only be one part of the ongoing updates to policies and procedures, with other amendments being driven by new business activities or lines as well as the actions arising out of monitoring work.

In an average week, how much time does your compliance team spend amending policies and procedures to reflect the latest regulatory rules? (in hours)



Liaison with other risk and control functions

Important as the compliance function is to all regulated financial services firms, it is only one element of the overall approach to risk management. Compliance functions should seek to operate in tandem with internal audit, risk and legal functions to help to ensure that there is a consistent, integrated and holistic approach to risk identification, management and mitigation. The survey asked respondents how much time the compliance team spent consulting with the legal, internal audit and risk functions on compliance issues. Whilst the results for legal and risk were broadly similar it would appear that there was distinctly less communication between compliance and internal audit functions.

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)

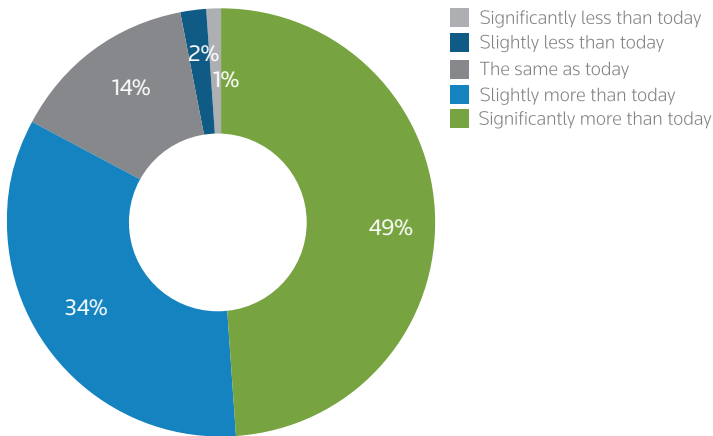
Time spent	Legal	Internal audit	Risk
Less than 1 hour per week	31%	51%	32%
1 to 3	32%	29%	31%
4 to 7	17%	12%	22%
7 to 10	12%	4%	6%
More than 10	9%	3%	9%

Compliance officers may wish to reconsider the extent of their function's communication and involvement with internal audit. The need for firms to be aware of emerging risks as well as to utilise available resources as efficiently and intelligently as possible should encourage risk functions towards close and continuous liaison. Regulators expect key regulatory risks to form part of internal audit's monitoring plans so it is important that there is a consistent and joined up approach within the firm. For those firms where the compliance to internal audit relationship is limited, 2011 would be the ideal time for a re-assessment.

Regulators

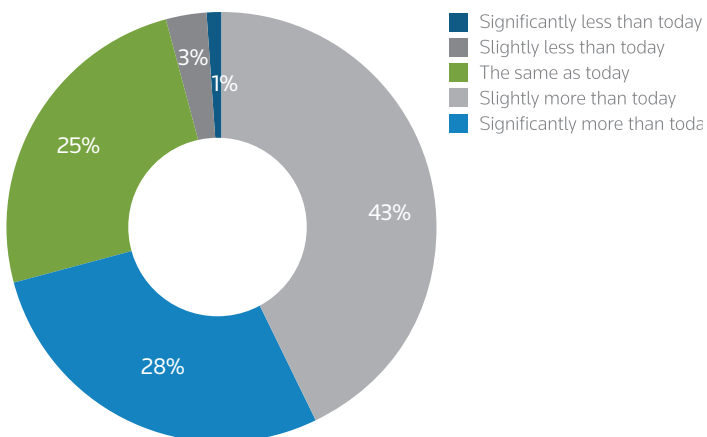
Compliance officers around the world are under no illusions that 2011 will bring even more regulatory information from both regulators and exchanges. Almost half of all respondents thought that the amount of regulatory information would be significantly more over the next year with 83% believing that the flow of regulatory information would at least increase in 2011. This has risen from 72% of respondents expecting that there would be an increase in 2009, demonstrating the heightened volume and speed of change and new requirements that firms need to stay on top of across all sectors and jurisdictions.

Over the next 12 months, I expect the amount of regulatory information published by regulators and exchanges to be...



It is perhaps not surprising that given the strong sense that the volume of regulatory information will increase in the next year that compliance officers and their firms expect to spend more time liaising and communicating with regulators and exchanges. 71% of respondents foresee an increase, with more than a quarter expecting the amount of time spent on interacting with regulators and exchanges to increase significantly in 2011. This has increased from 66% expecting an increase in 2009, highlighting the growing intensity of supervision and interaction.

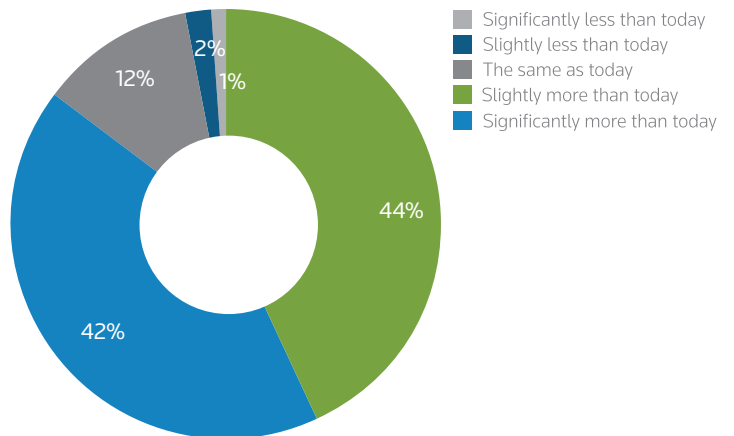
Over the next 12 months, I expect the time spent liaising and communicating with regulators and exchanges to be...



Regulatory Focus and compliance budgets

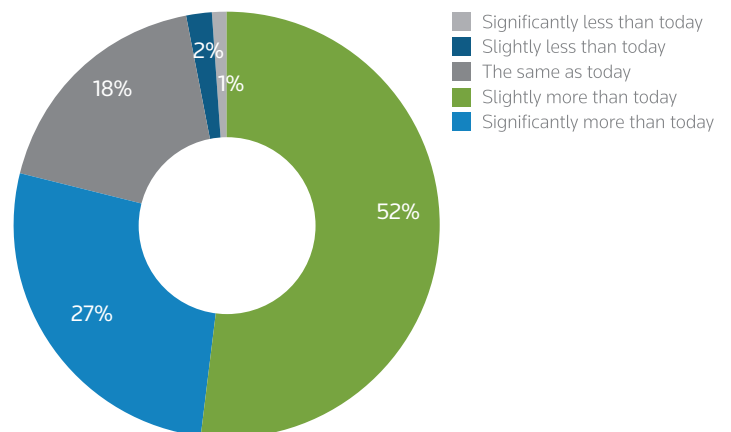
The aftermath of the financial crisis has brought about a global, almost myopic, focus on all aspects of financial services regulation. Even a couple of years after the height of the crisis the depth and breadth of regulatory change – a key driver of regulatory risk - is still in full swing. Much of the regulatory change is due to come into effect in 2012 leaving 2011 as the year of consultations and the need to fine tune the planned changes. This is borne out by 86% of respondents believing that the focus on managing regulatory risk will at least increase in 2011 with 42% expecting the focus to increase significantly.

Over the next 12 months, I expect the regulatory focus on managing regulatory risk to be...



The increased focus on all aspects of regulation combined with the increasing demands on compliance officers has led 79% of respondents to expect that the cost of senior compliance staff will increase in the next year. Previously, 50% of respondents had anticipated an increase in 2009, demonstrating the rising costs of valuable compliance expertise. The demand for good compliance skills is set to increase. Firms need strong compliance functions to make the best of the sweep of regulatory changes as well as the changes to the regulators themselves. In addition the increase in the number of financial services regulatory bodies around the world will create increased demand for compliance skills leaving regulators and firms to compete for the compliance skills in a limited marketplace.

Over the next 12 months, I expect the cost of senior compliance staff to be...



The expected increase in cost of senior compliance staff is reinforced by 73% of respondents expecting the total compliance team budget to increase in 2011. This is in clear contrast to the situation two years ago at the height of the financial crisis when only 43% of respondents expected an increase. It is also recognition of the intensified regulatory activity and rising operational, reputational and financial costs of failing to comply.

Conclusion

The respondents to the Thomson Reuters - Governance, Risk & Compliance cost of compliance survey believe strongly that 2011 will be a year of increased regulatory focus with more time, effort and money invested in not only the compliance function itself but also in handling the regulatory information from, and communicating with, regulators and exchanges. The successful management of risk is a key competency for all financial services firms in all jurisdictions and compliance officers must be at the forefront of assisting boards to deliver robust, consistent and demonstrable risk management.

Stacey English is head of the Regulatory Affairs team at Thomson Reuters - Governance, Risk & Compliance. She originally joined Complinet from Barclays Bank where she was head of governance, reporting and intelligence. Stacey is a qualified accountant having gained the highest results worldwide. She has first class degrees in BSc (Hons) Applied Accounting and BA (Hons) Business Administration, holds the Financial Planning Certificate and has over 15 years' experience in the UK financial services industry.

Stacey began her compliance career at the regulator, spending six years with the Financial Services Authority (and formerly the Personal Investment Authority) where she was responsible for undertaking supervisory visits and reviews into mis-selling. She also spent two years as an internal auditor where she assessed the adequacy and effectiveness of the regulator's own processes, controls and conduct. Stacey moved into the insurance industry, where she was responsible for risk and board reporting, and designing and embedding risk management processes and systems, as a senior manager in Aviva's group risk team and latterly with Lloyd's of London. She has also provided risk management consultancy services to Lloyd's syndicates.

Susannah Hammond joined the Regulatory Affairs team from GE Capital Bank where she was head of compliance. Susannah has nearly 20 years' wide-ranging experience in international and UK financial services.

A qualified chartered accountant, Susannah began her compliance career at SG Warburg where she became head of European compliance. She was the global head of compliance and a founding employee of Caspian Securities, a start-up international full service investment bank focused on the emerging markets. Susannah left Caspian to join PricewaterhouseCoopers as a consultant.

More recently, Susannah was head of international regulatory risk for the Halifax Group and became head of retail regulatory risk for HBOS plc upon Halifax's merger with Bank of Scotland.