My Compliance Centre

Helping clients, prospective clients and partners remain informed about compliance automation developments and how compliance management systems are bringing new benefits to firms regulated for financial services.

Welcome and happy spring!

I am delighted to share our quarterly newsletter. Writing this, I simply could never have imagined that I would be reflecting on a global challenge worse than the pandemic. Our team's thoughts are constantly with everyone affected by the unfolding war and humanitarian tragedy in Ukraine.

Closer to home, we continue to enjoy life as a young and innovative RegTech and FinTech firm. So much is happening in our sector. Motivated by the dynamism we are seeing; I have taken the opportunity to reflect on the 'Up and Up of RegTech'.

*We also have our regular features:*

- Welcome to our Community, where we welcome some new high-profile clients.
- Quote of the Quarter, where we examine the suggestion that compliance needs to be "dragged into the 21st century" (I thought that was a bit strong!).
- And our Regulator Watch tracks regulators' activity levels and emerging regulatory themes. Regulators' activity really surprised me this quarter – find out why and what is really concerning me.
- Our System Status and Update confirms some of the numerous feature upgrades coming to My Compliance Centre.
- We are strongly aware of the challenges faced by both Senior Managers of regulated firms and the sector. We reflect on how we can assist Senior Managers in managing their responsibilities and Reasonable Steps in practical terms.
- We are also proud to publish the first in a series of articles about the Unintended Consequences of Regulation, inspired by Barclays' recent fine.

As always, thanks for reading our newsletter and to our fantastic clients for the ongoing partnership we enjoy with you.

**Ben Mason, Chief Executive Officer**

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## Regulator Watch

We like to keep an eye on our primary regulators and what they are up to. Using our automated regulatory data feed, we've analysed which regulators are most active and the standout notification of this quarter.

Ben Mason, CEO

28 March 2022

We like to keep an eye on our primary regulators and what they are up to and of course My Compliance Centre's automated data feed and Regulatory Change management module make this easy to do.

And, in summary, it is rare to say this, but they have not been as busy as usual in Q1 2022.

There have been 215 regulatory updates within scope for our service (and we do filter out some of the less relevant stuff). That is nearly a 40% decrease on this time last year – if measured purely on volume of output.

The main trend I noticed from the FCA over recent months is its increasingly defensive position in regard to its consumer protection objective and how hard it is working in to protect consumers in numerous ways: at the gateway (i.e. when a new firm tries to get FCA authorisation), acting against misleading marketing and other supervisory work.

When Nikhil Rathi was appointed FCA CEO, I remember reading that there could be a swing towards market supervision from consumer protection, reflecting Mr. Rathi's background. This could not have been more wrong. Whether it is Mr. Rathi's appointment, or more simply the FCA being on the receiving end of investigations into its handling of incidents such as Woodford Investment Management and London and Capital Finance, it feels like there has been a serious strengthening of the FCA's approach towards consumer protection, which I suspect many firms already thought might not be possible.

When we look at the FCA's activity overall, then a sleepy 4 consultations of relatively minor consequence and one Policy Statement – on fees – means this really has been a quiet quarter. I won't be provocative and speculate on the reasons for that.

In terms of materiality, overall, it also feels like the last quarter has been less high profile than normal. There has also not been very much in the way of 'super fines', although two at the end of last year, which were too late for our December newsletter, certainly register on the dial: HSBC's £64m (after 30% discount) for AML failings and Blue Crest's £40m for conflicts failings.

When I look at the different output of the PRA's enforcement team compared to the FCA's, I do sometimes wonder if the FCA enforcement team work late into the night while the PRA's go home early! Or are banks, insurers, credit unions and building societies simply much better behaved on the back of the ongoing intensive supervision they receive?

As a fully paid-up member of the entrepreneur's club, and with full empathy for financial services entrepreneurs and the challenges they have getting licensed, the one fine that does deeply trouble me is the FCA's fine of Barclays over its handling of Premier FX (see FCA Final Notices on 28th Feb). The unintended consequences of regulation are something I have been talking about for some time and this has inspired me to write this article about the potential wider damage that could be done by this fine if Barclays decides to tighten its risk appetite.

The EBA's opinion on 'de-risking' on the 5th of January is really interesting, starkly highlighting how this issue is having a wide-ranging and long-term impact. (And the subsequent response of the EBA's Banking Stakeholder Group is similarly helpful.)

The other trend that simply won't go away is "crypto" – digital assets. While smaller jurisdictions and financial centres typically saw a commercial opportunity and hopped on the bandwagon early, creating regulatory frameworks embracing digital assets, larger jurisdictions and the primary financial centres still feel like rabbits in the headlights, playing catch-up with a highly innovative and agile sector.

It is nearly 4 years since the parliamentary select committee (which was also highly critical of all parties for not responding to the crypto challenge quickly enough) recommended amending the Regulated Activities Order to incorporate digital assets. It simply has not happened, and the FCA is using AML regulations as a pseudo crypto-management regulatory tool. I believe it would be preferable to have a proper regulatory framework for digital assets or at least incorporate it within the existing framework. Baffling…

## Featured Article: The 'Up and Up' of RegTech


In our featured article this quarter, Ben Mason, CEO of My Compliance Centre, explores the onward development of the RegTech market in 2022 and the impact of this growth on Senior Compliance Officers.

Ben Mason

30 March 2022

One of the areas close to our hearts, and of importance to our primary target group – senior compliance officers – is the onward development of the RegTech market. It has come a long way relatively quickly and it is very interesting to track its increasing sophistication. Forecasts indicate an ongoing 20-30% compound market growth over the next few years.

The desire to automate management of regulatory responsibilities and compliance processes is very strong. Technologists are teaming up with compliance people and VCs are funding very early-stage start-ups as well as later funding rounds. RegTech Associates products register now has a staggering 1421 products on it. My maths suggests that there is some consolidation to be done, shall we say, but it is wonderful that so much innovation is happening in support of the world of compliance and regulation.

One of the interesting aspects of the RegTech market is how it is sub classified. I always found the term "RegTech" to be very broad and imprecise. What does a CASS reconciliation system have to do with a fraud prevention product? Or payments transaction monitoring to do with management of regulatory change?

Categorisation of RegTech is therefore very helpful – but it is not easy.

By way of comparison, as someone who follows the financial services industry very broadly, I've always felt that defining the industry sectors within financial services was simple and universally recognised. Quite simply, they are banking, capital markets, retail investment, asset management, non-bank lending, payments and insurance. There is plenty of space for a pedant to argue about where one sector meets another, but broadly, that is what it is.

With RegTech it is much less precise. One of the best pieces of strategic work I have seen in a while is by the Judge Business School within its Global RegTech Industry Benchmark Report (section 7, P45).

Instead of attempting to sub-categorise RegTech as an industry, they have identified the other parties who have already had a go. There are ten of them and the wide range of definitions highlights the challenge: does anybody quite know what RegTech is and where it stops and starts? (It is a very interesting comparison – and personally, I don't really think any of them quite capture it!)

There is a practical aspect to this. For Heads of Compliance wanting to move their compliance functions forward through suitable automation, it is difficult to track which RegTech sectors are genuinely available to them and what level of benefit can be expected. For us as a generalist compliance management platform, we need to determine which other sectors offer the best returns for API type integration.

However, the fact that as an industry we are considering and evolving sector categorisation strongly indicates significant progress and maturity. And the fact that most credible financial services companies have some sort of RegTech strategy indicates that there is value to be derived.

How does the industry move forward? I think the significant challenge for RegTech vendors is proving value to potential customers. A Head of Compliance needs to see real value if they are to put their credibility on the line by proposing investment to their board.

It also feels that too much service provision is aimed at the top end of the market: banks, insurers and larger capital markets firms. Firms in the mid-market have significant regulatory costs and an ongoing management compliance challenge, and I am positive there is space for more easily implemented solutions within the mid-market. (Recognising that many small firms have their RegTech provision supplied by their compliance service provider.)

It is an exciting and dynamic time to be a RegTech company and as an industry the roller coaster ride over the next few years will be something to behold as the industry continues to grow and mature.

## Compliance Quote of the Quarter

## 'The trick is to drag compliance into the 21st century'!

RegTech Landscape – Fintech Circle's quote alludes to us dragging compliance into the 21st century. This has struck a chord with us and Tom Willoughby, Business Development Director at My Compliance Centre, share his views.

Tom Willoughby

30 March 2022

We love to keep our eyes and ears open for what others are saying about our industry. Here is our quote of the quarter:

**"The trick is to drag compliance into the 21st century without compromising on regulatory requirements by leveraging regulatory focused data and organising information so that people understand it. The human factor cannot be ignored. Technology alone is not the panacea".**

RegTech Landscape – Fintech circle

This quote is still relevant today – even more so. Let's start with the '21st century' line.

Most obviously, compliance itself as a discipline is really a 21st century activity and to all intents and purposes has been invented and defined in this century. (I know, I know – some people were regulators with IMRO or other regulators or compliance officers before then, but really, Compliance as we know it now has grown up dramatically in the last 20 years. Compliance did exist in the last century, but not in the evolved and sophisticated way in which it is now practiced.) What has changed is the strategic focus given to compliance by boards of regulated firms and the skills of the compliance workforce in the modern era, honed to meet the requirements of current regulation and the complexities that surround it.

So, the fact that it is a 21st century discipline is much of the problem for me. Compliance has not had the same time to mature as other professions – think of the centuries of maturation time that the audit and legal professions have had, by way of comparison. And for much of compliance's life, it has been on the back foot – defensive in the face of the regulatory onslaught and seen as an unwelcome cost centre by boards that have not wanted to invest in it like they do in other commercial functions.

So, I believe is that it is precisely because it is a 21st century discipline that it needs to still mature.

However, the sentiment FinTech Circle are making is not lost on me. If their point is that regulated firms need to automate their compliance functions, in the way they automate other commercial functions, then, of course, I do agree. The vast majority of compliance functions are still run, predominantly, on spreadsheets and e-mails, leading to massive inefficiency, an overuse of highly skilled staff's expensive time on administration, and with the poor audit trails, awkward reporting processes and significant data inaccuracies that are a natural result of that method of working.

The truth is that the highly skilled compliance workforce of today needs better tools to deploy their skills, and, from that angle, encouraging compliance functions to come "into the 21st century" is a sentiment we can fully support.

## Welcome New Clients

We are delighted to welcome new clients to our community.

Tom Willoughby, Business development Director

30 March 2022

We are delighted to continue to welcome new clients as users of the My Compliance Centre system.

We are delighted to partner **Kreston Reeves Financial Planning** during a period of change and growth in which they are strengthening their GRC framework and controls. Kreston Reeves FP will be implementing My Compliance Centre's SM&CR module to support their governance.

**Mazars Financial Planning** is the Financial Planning arm of Mazars LLP, the global audit, tax and advisory firm. As such, Mazars Financial Planning maintain the highest standards of Governance and Compliance. Mazars Financial Planning join us during a period of high growth and we are proud to be partnering with them as they build their future. Mazars are subscribing to all My Compliance Centre modules and are particularly excited about using the FileChecker module to construct their bespoke file review framework.

**Turkish Bank UK** are a 120-year-old international financial institution of the finest pedigree. More recently, Turkish Bank have built an impressive range of digital services as well as having delivered an outstanding infrastructure project in the UK when they became the first small bank to join all Fast Payments, BACS and the Image Clearing System (ICS), giving them a fantastic pedigree. For nearly 50 years Turkish Bank UK have been serving the UK's Turkish community making them one of the longest established overseas banks. We welcome Turkish Bank to our community and look forward to partnering with them as they continue to evolve their GRC framework.

## Platform Update

Our System Status and Update confirms some of the numerous feature upgrades coming to My Compliance Centre.

Jenny Kenlin, Head of Customer Engagement
30 MARCH 2021

Central to everything we do at My Compliance Centre is, of course, the functionality of our system. This is something we work on day in, day out, in partnership with our fantastic clients who provide so much feedback, thoughts and fresh ideas.

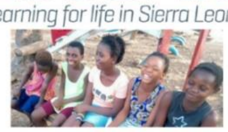
Our system now has 12 modules, with a number of new modules on the way. Here is a quick summary of what you should have seen recently and might see soon:

- Custom workflow and a number of enhanced functions have been added to the Breaches and Financial Promotions Registers. Similar enhancements will come to the Gifts and Conflicts register.
- The governance module now provides a calendar (ICS) file for colleagues that are invited to meetings for any given boards or committees, enhancing usability.
- The PA Dealing module has been significantly enhanced, with further improvements on their way
- Of interest to multi-national groups, we are introducing multi-language support for colleagues in other jurisdictions who do not speak English. The Attestations module is first.
- We are redesigning the front-end interface for a number of modules to add better graphical information and drill down functionality. We will start with the Regulatory Change Management module in early April.
- Our data warehouse and reporting module is a major piece of work but is well underway and should be released in version 1 by the summer, offering the ability for system users to write their own reports and to +store those templates.
- And there are many, many other functional and usability enhancements being introduced across all modules including some major, and commercially sensitive significant system developments.

Our sincere thanks to all those clients who provide such great feedback to enable all of these enhancements to become a reality.

## News from Maronka

EducAid
Learning for life in Sierra Leone



Maronka is the primary school that My Compliance Centre sponsors in Sierra Leona. What the children go through to get an education is inspiring.

Read more at https://mycompliancecentre.com/march-2022-newsletter/

More articles available on our website here https://mycompliancecentre.com/march-2022-newsletter/

- Senior Managers and Reasonable Steps in SMCR article click here: https://mycompliancecentre.com/resources/smcr-and-reasonable-steps/
- We are also proud to publish the first in a series of articles about the Unintended Consequences of Regulation, inspired by Barclays' recent fine. Read the article here: https://mycompliancecentre.com/march-2022-newsletter/unintended-consequences/

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