Grant Thornton

An instinct for growth™

Asset Management conference 2016

The changing face of Asset Management

27 September 2016

© 2016 Grant Thornton Ireland. All rights reserved

Grant Thornton

An instinct for growth™

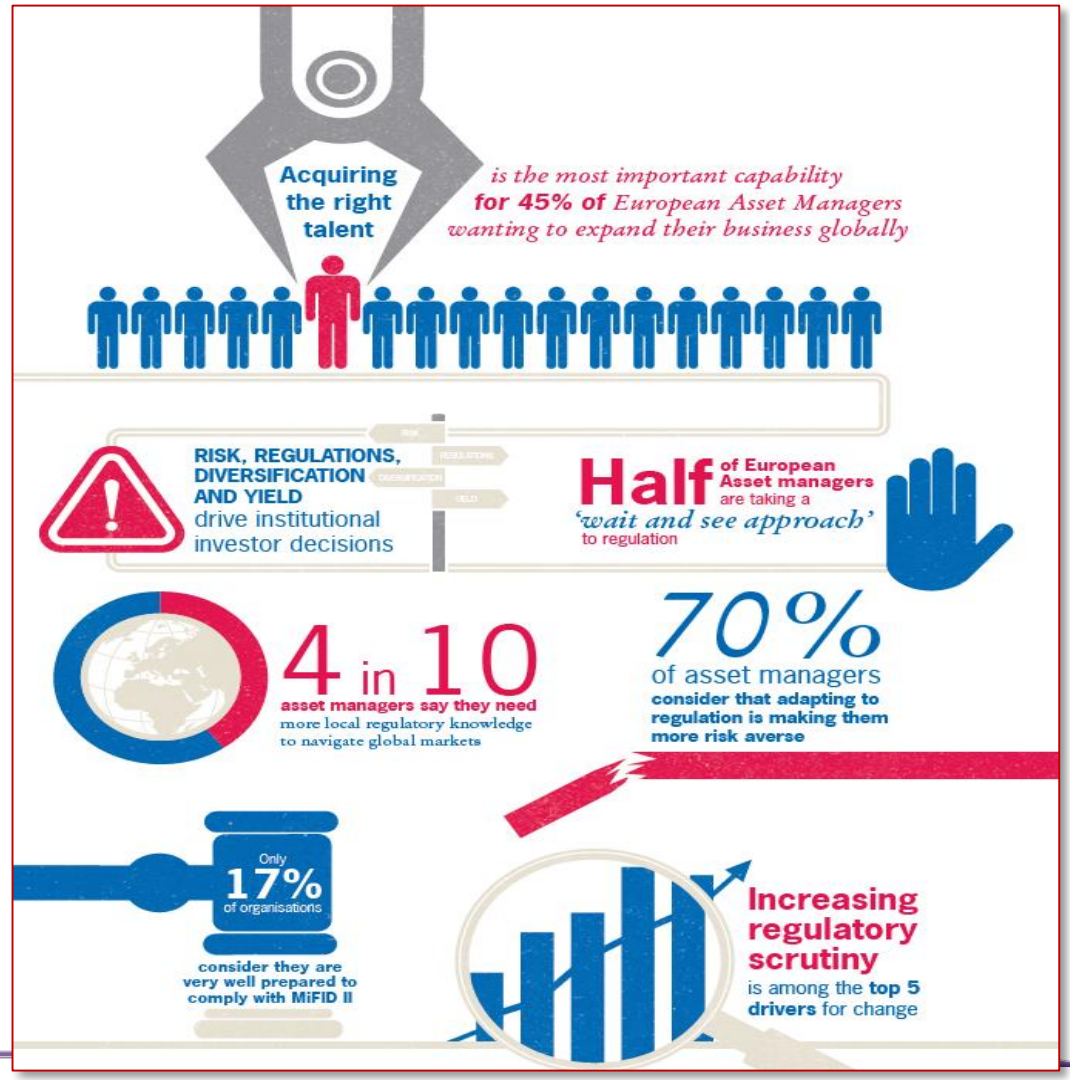
RegTech….FinTech's younger sibling

27 September 2016

Devin Ford
Head of Financial Services Business Consulting

© 2016 Grant Thornton Ireland. All rights reserved

The asset management industry is struggling to cope with the regulatory reform



It Takes a Village to Manage Operational Risk

22 July 2016 | 6222 views | 5

Whose job is it to manage operational risk?

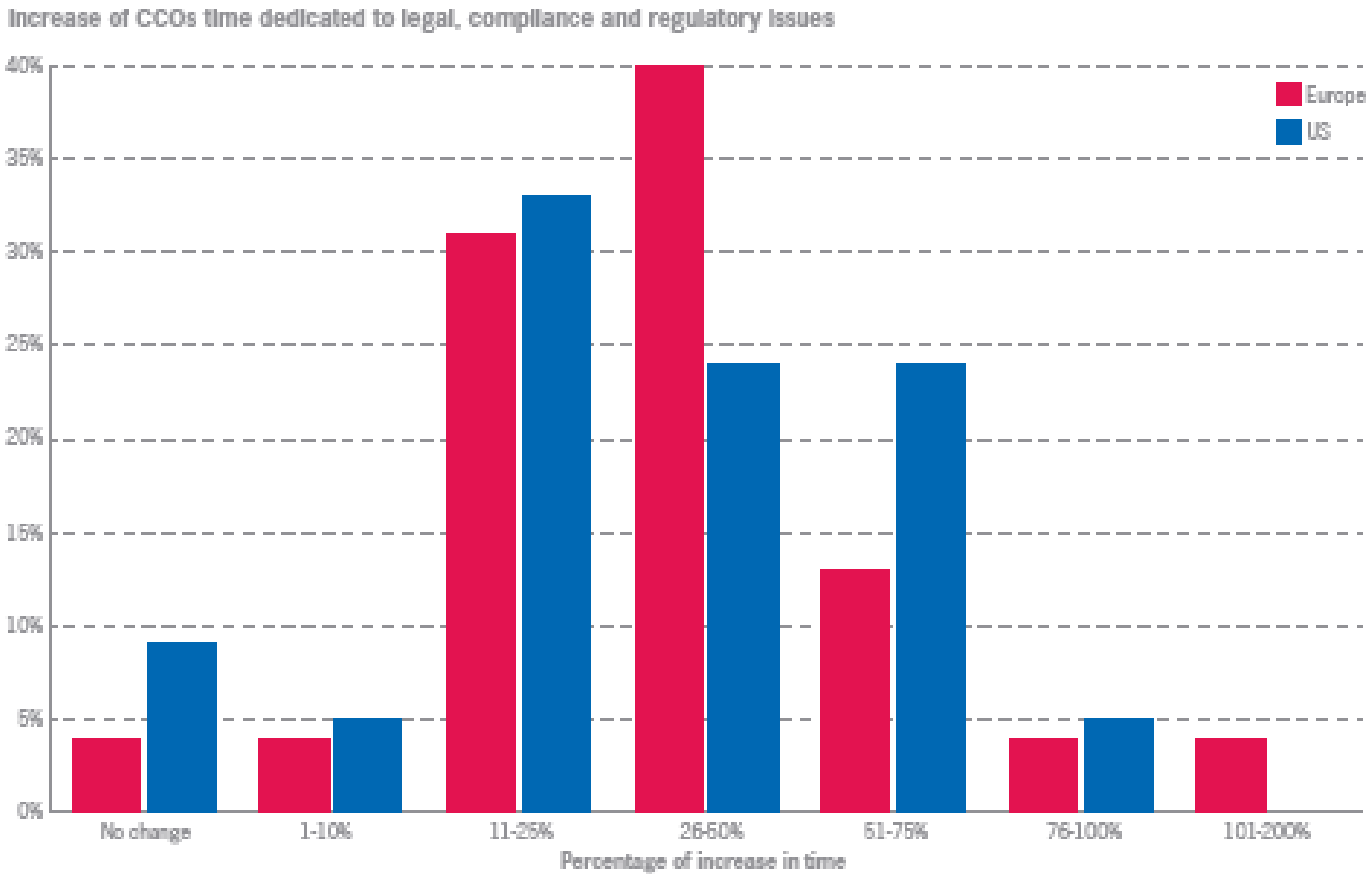
- The Chief Risk Officer? Check
- Operations Management? Check
- Compliance? Check
- Data Management? Check
- Technology Providers, FinTech and RegTech? Check
- Yours and mine? Check!

27% of CEOs and **40%** of employees believe that making executives criminally accountable for the activities undertaken by the firm would serve the industry well.

© 2016 Grant Thornton Ireland. All rights reserved.

#GTfinserv

MiFID II will have a one-off cost of €512-€732 million and an on-going compliance cost of between €312-€586 million.



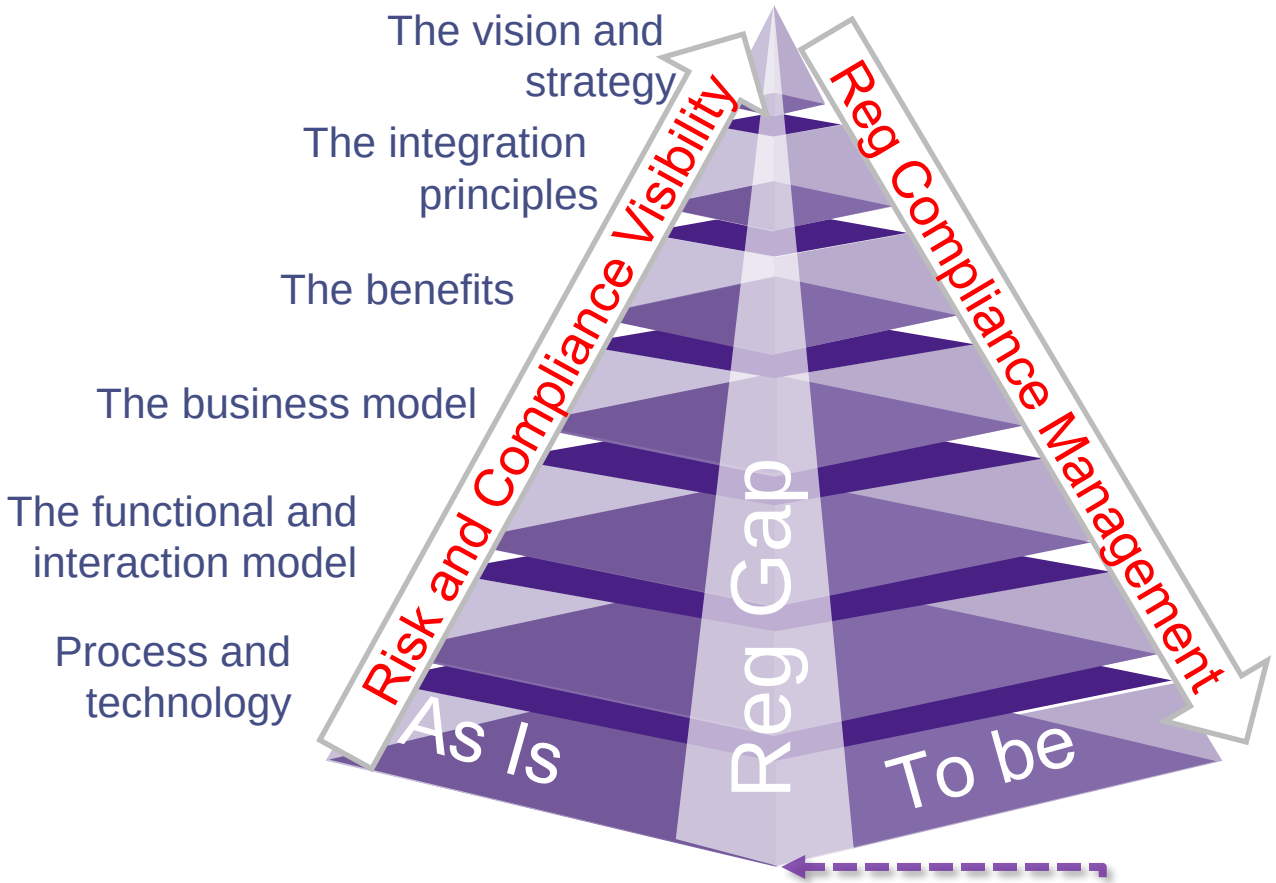
The time that senior management spends dealing with compliance related issues has increased exponentially, diverting their attention from other revenue generating activities.

© 2016 Grant Thornton Ireland. All rights reserved.

#GTfinserv

Grant Thornton | An instinct for growth™

MiFID II an operating model design



Key areas of consideration

- use of OTF's - Technology, operations
- market abuse – surveillance
- trade (post and pre) transparency – Bonds, structured finance etc
- best execution
- product governance
- transaction reporting
- inducements – Inc research and dealing commission
- benchmarking
- algorithmic trading
- commodities and derivatives – many exemptions removed
- appropriateness and suitability

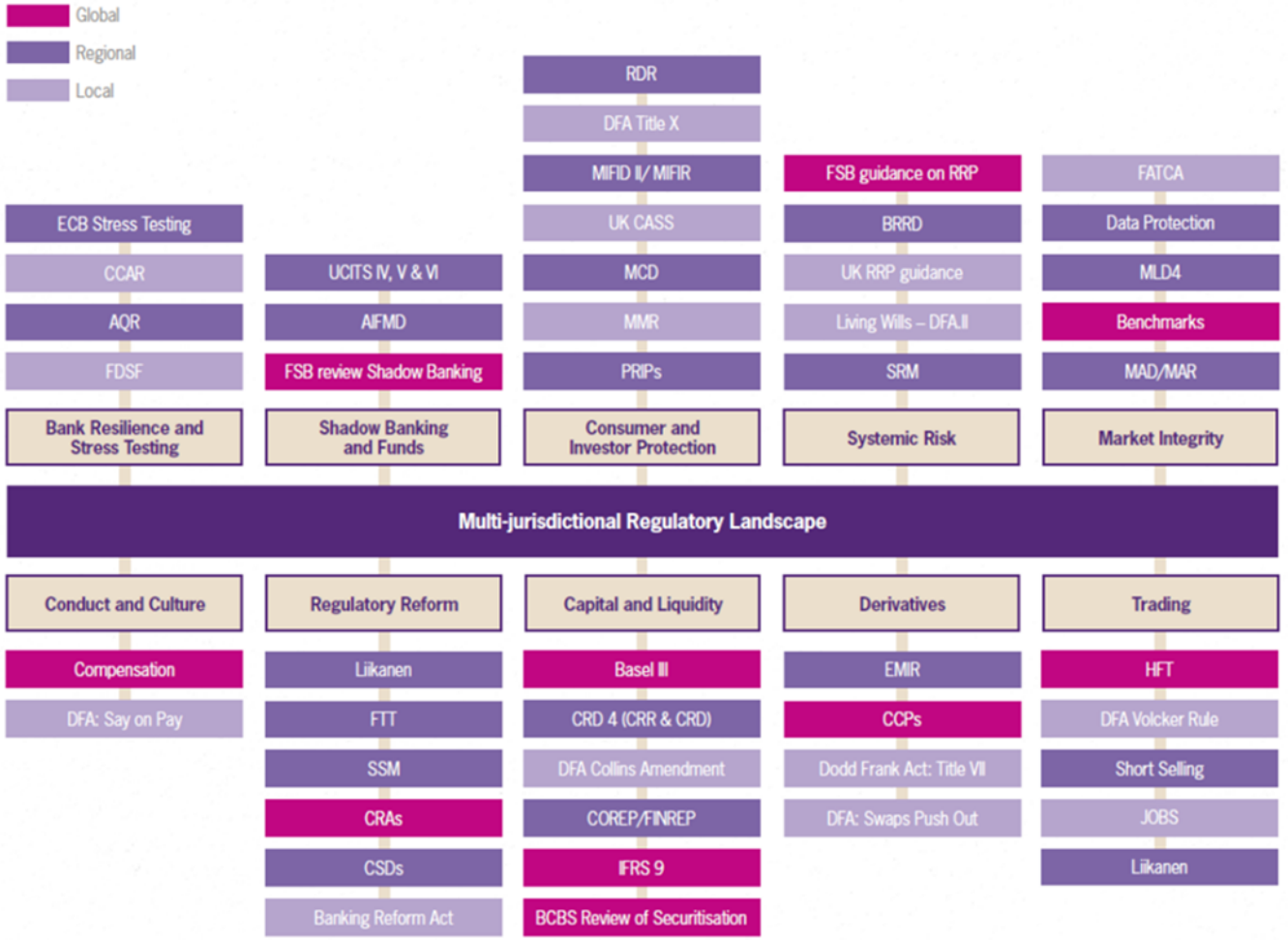
Skilled resources – You probably have limited capacity or don't have access to skilled resources.

© 2016 Grant Thornton Ireland. All rights reserved.

#GTfinserv

Compliance and risk management challenges are many

1. **Volume of Regulation**
2. **Material Impact**
3. **Accountability**
4. **Decentralised or Federated Business Models**



© 2016 Grant Thornton Ireland. All rights reserved.

#GTfinserv

Grant Thornton | An instinct for growth™

Last year we spoke about regulatory change models and how to manage the spaghetti

1. **Governance and accountability**
2. **Single view dashboard**
3. **Regulatory portfolio management**
4. **Impact analysis**
5. **Operational alignment**

© 2016 Grant Thornton Ireland. All rights reserved.

#GTfinserv

Challenges for the compliance function

- compliance teams have historically been responsible for identifying regulatory changes and requirements; however, they tended to **implement rules individually and prioritise according to the nearest deadline**
- in an environment where pragmatic implementation, as opposed to absolute adherence, is not an option, **regulatory compliance needs to evolve beyond a simple check box exercise to a proactive and fully integrated function**. Are compliance departments structured to deal with such change?
- with **salaries increasing around 17% year on year**, experts sustain that the strong demand for compliance professionals has triggered a war for talent

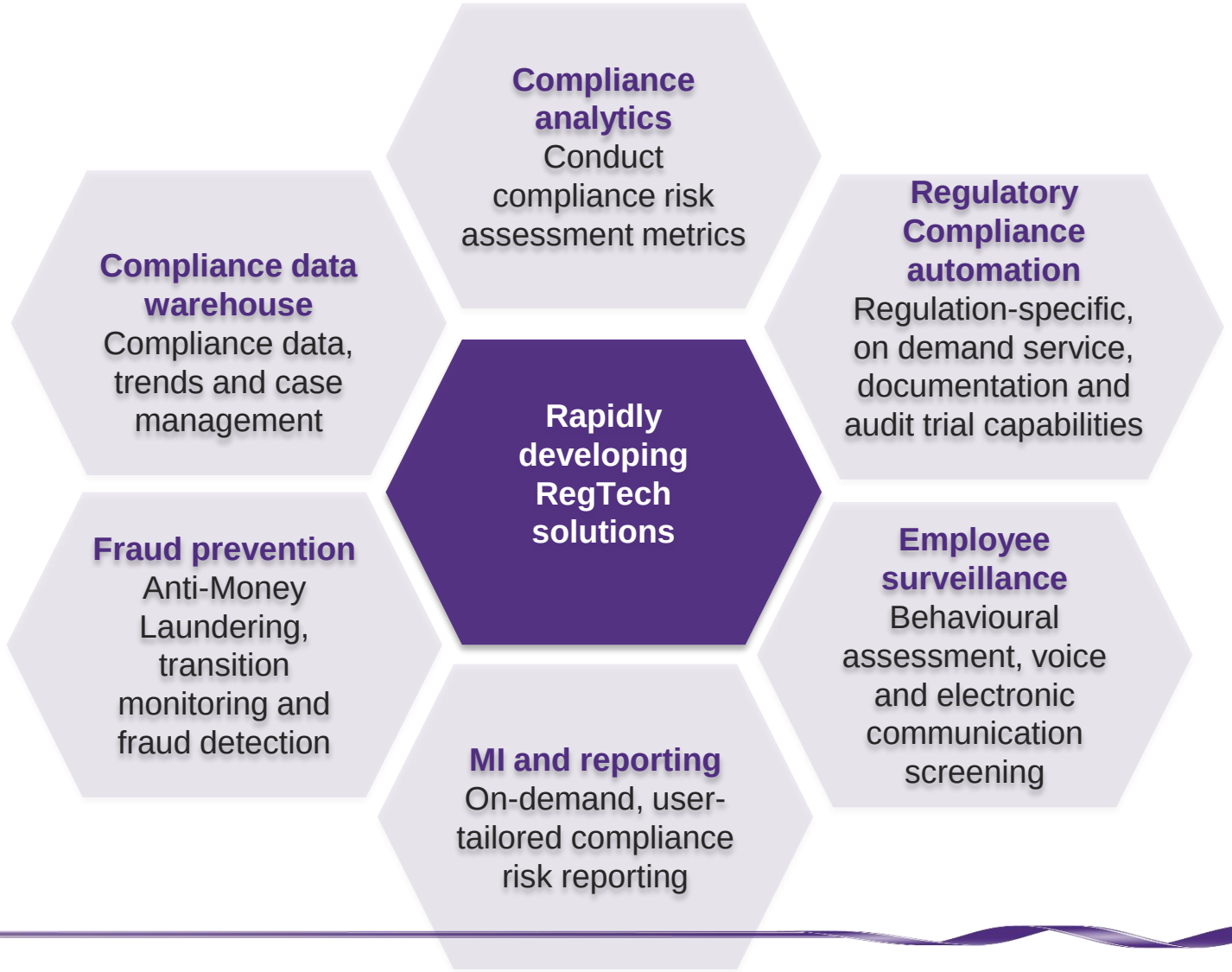
© 2016 Grant Thornton Ireland. All rights reserved.

Challenges for the compliance function

- the avalanche of new monitoring and reporting requirements renders the **coordination of regulatory change programmes nearly impossible**. Organisations wanting to manage regulation proactively need a single source of regulatory information.

© 2016 Grant Thornton Ireland. All rights reserved.

RegTech is an industry solution that **needs** to be a strategic initiative



"Regtech is a term coined to classify a group of companies that, by harnessing the capabilities enabled by new technologies such as cloud computing, big data, and blockchain, are devising solutions to help companies across all sectors of activity ensure that they comply with regulatory requirements"

© 2016 Grant Thornton Ireland. All rights reserved.

#GTfinserv

What should RegTech be?

- **agile** – quickly respond to changing environments
- **swift** – not an IT driven solution, business driven solution
- **centralised -** a single place for all the regulatory requirements by use of cloud-based technologies with shared data structures among multiple regulations
- **balanced** – not over engineered, but precisely scoped
- **cost effective** – min cost of adoption v's in-house development
- **visual analytics** – patterns and visual insights
- **single source of information** – CXO and Ops
- **uniformity** – orchestrate uniform compliance standards to the varied requirements of multiple regulations

© 2016 Grant Thornton Ireland. All rights reserved.

Future RegTech trends

Positive customer experience

RegTech will help to drive positive customer experiences. For eg, a robust fraud detection platform could shorten the transaction life-span and improve consumer experience by reducing the number of false negatives.

Improved governance

RegTech can provide greater confidence in meeting the broad agenda on wider organisational governance, transparency and proactive reporting of risk and compliance.

Increased market stability

The same technologies that foster growth and promote customer experience can also be used to protect the financial health of institutions and prevent disruption of market agility and integrity.

Enhanced regulatory reporting

An expected application of RegTech will be to meet regulatory-driven data analytics and support submissions to authorities. Early adopters will gain a competitive advantage by setting trends and gaining insights.

More financial institutions, both established and otherwise, are expected to explore the rapidly evolving RegTech solutions in the next 6 to 12 months. This is good news, as it then contributes to the growing focus and concentration from the regulators, both in the UK and globally. The focus could be attributed to the following four areas

© 2016 Grant Thornton Ireland. All rights reserved.

Six areas where RegTechs are working

© 2016 Grant Thornton Ireland. All rights reserved.

#GTfinserv

R2 Tool/level 1 – methodology overview

Phase 1: Scoping and discovery

Phase 2: Planning and delivery

1. Regulatory documents

The documents relating to the regulatory

framework, section 166 or notice (as applicable) are uploaded to the Tool in their original form – these are then available as the principal reference

2. Framework items

The reference documents are

broken down into distinct paragraphs with each one being given a distinct index key. These are loaded into the Tool's database and cross-referenced to each other .

3. Requirements

Each of the distinct paragraphs are reviewed and, if applicable, the requirements that

the organisation will need to address are identified and captured in the Tool. These are linked to the originating text.

4. Actions

For each of the given requirements, further analysis is performed to define the specific actions that will need to be performed in

order to satisfy it. These are captured in the Tool and cross linked back to the noted requirement.

5. Activities

6. Workstreams

The detailed activities that underpin each action are defined

and grouped into distinct workstreams. Details of owners, planned start & end dates are also captured.

7. Deliverables

Deliverables linked to the specific activities are captured and tied to its completion date (planned vs. actual). The Tool supports

the automatic generation of Gantt Charts to aid programme managers with planning and execution.

8. RAID Log

For each of the noted deliverables, the Tool supports the

maintenance of a Risks, Assumptions, Issues and Dependencies log. This can be used to form the basis of programme tracking and supporting MI dashboarding.

© 2016 Grant Thornton Ireland. All rights reserved.

Questions & feedback

© 2016 Grant Thornton Ireland. All rights reserved.

Grant Thornton

An instinct for growth™

Asset Management conference 2016

The changing face of Asset Management

27 September 2016

© 2016 Grant Thornton Ireland. All rights reserved

Grant Thornton

An instinct for growth™

Recovery planning

27 September 2016

Dwayne Price
Partner – Advisory Services
Grant Thornton (Ireland)

© 2016 Grant Thornton Ireland. All rights reserved

Contents

Recovery plans – Introduction and evolution

Key issues for investment/MiFiD firms

© 2016 Grant Thornton Ireland. All rights reserved.

Recovery plans – introduction and evolution

Banks and investment firms subject to the BRRD are is expected to have a recovery plan that:

- Is compliant, comprehensive, forward thinking
- 'Lives' day-to-day
- Is part of the risk management system
- Impacts strategic direction in the long term

© 2016 Grant Thornton Ireland. All rights reserved.

Recovery Plans – Introduction and Evolution

Typically, the evolution of such regulatory required documents should be reflective of

meeting minimum requirements	responding to regulatory or other feedback	adding sophistication	embedding into the risk management framework of the institution	impacting strategy

© 2016 Grant Thornton Ireland. All rights reserved.

Key issues for investment/ MiFiD firms

On-going development of recovery plans to meet regulatory expectations

Clarifications and impact on MiFiD activities

BRRD levy

© 2016 Grant Thornton Ireland. All rights reserved.

Clarifications and impact on MiFiD activities

Implementation of BRRD impacts MiFiD activities as financial instruments subject to the regime are impacted. As a result distribution to clients the following is at issue:

- relevant Risk Identification
- relevant MiFID requirements
- solid procedures for the categorisation of clients
- disclosure
- provision of investment advice
- suitability and appropriateness
- conflicts of Interest

© 2016 Grant Thornton Ireland. All rights reserved.

BRRD levy

- National Resolution Authority (NRA)
- Bank and Investment Firm Resolution Fund (the 'BIFR Fund')
- the “delegated regulation”
- the European Union (Bank Recovery and Resolution) Resolution Fund Levy Regulations 2015 (the “Levy Regulations”)
- three methodologies for the calculation of the levies
- risk-based versus flat fee versus BRRD Base:
  - impact on balance sheet size
  - certain activities
  - parental jurisdiction

© 2016 Grant Thornton Ireland. All rights reserved.

Questions & feedback

© 2016 Grant Thornton Ireland. All rights reserved.