

Hot topics and trends in compliance in 2018

Compliance issues are ever more onerous in both their sheer number, and their complexity. Hubbis assembled a panel of experts from global and independent wealth management firms in Singapore to discuss the current state of play.

These were the topics discussed:

- *A reflection on the challenges of the past year*
- *What are the main compliance challenges for the year ahead?*
- *Risk Heat Map 2018 - what goes up, what goes down and why?*
- *Where should compliance teams focus their efforts and available resources?*
- *What impact is the evolving cryptocurrency market having?*
- *Further digitisation of the compliance function*

THE ADVENT AND IMPLEMENTATION of the Automatic Exchange of Information (AEOI) mean that tax compliance is now very high on the agenda for private banks and other wealth managers.

Financial markets and instruments regulatory compliance is also very prominent on the radar, with MiFID II, the latest incarnation of the EU's ambitious regulatory reforms, having arrived on January 3. The revamped edition of the Markets in Financial Instruments Directive (now known as MiFID II), has been drafted at length (more than 1.4 million paragraphs) to offer greater protection for investors and inject more transparency into all financial asset classes.

Data privacy is also high on the agendas of compliance departments, while other concerns that were previously high on the compliance 'to-do' lists, such as AML [Anti Money Laundering] have been downgraded in importance as the new spate of other new regulations and directives have come into focus.

PANEL SPEAKERS

- **Stefan Kuhn**, Head of Compliance, Private Banking, South-east Asia, Credit Suisse Private Banking
- **Alison Fidler**, Head, Compliance, Wealth Markets Products & Sales, Standard Chartered Bank
- **Conrad Lim**, Managing Director and Deputy Chief Executive Officer, LGT Bank
- **Marina Woon**, Head of Compliance & Risk, Schroders Wealth Management
- **Matthew Maddocks**, Chief Risk Officer, RISKflo
- **Ville Oehman**, Fund Manager, Helvetic Investments

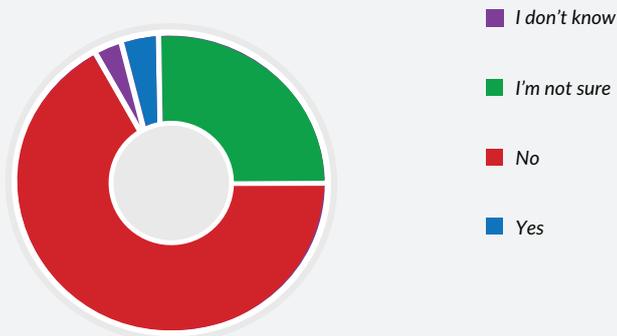


STEFAN KUHN
Credit Suisse Private Banking



ALISON FIDLER
Standard Chartered Bank

DO COMPLIANCE STAFF HAVE SUFFICIENT KNOWLEDGE AND SKILLS TO MEET THE INCREASING PUSH FOR DIGITISATION OF THE FUNCTION?



Source: Hubbis Compliance in Asian Wealth Management Forum 2018

Risk remediation and data privacy vital

Data management is also central to tax compliance and the implementation of AEOI as banks and other wealth managers must be able to comply internally, and externally, with rules on data storage and dissemination.

There are immense challenges to integrating new global regulations into businesses. Smaller firms find the regulations to be immensely cumbersome and their implementation is clearly placing a lot of pressure on such firms. “We need to be more effec-



CONRAD LIM
LGT Bank

tive and efficient in this new compliance landscape,” said one panellist.

It is evidently a tough challenge to balance the needs of gathering data on the client, regulatory compliance and dissemination, while at the same time improving the customer experience, maintaining data privacy and fully respecting client confidentiality.

“Digitisation will be vital to strengthen the compliance team with intelligence and knowledge,” said one panellist. “But as a general comment I would say that it is going to be extremely difficult, it will be survival of the fittest.”

Numerous new challenges for compliance professionals

The RegTech space is replete with innovation. “The speed at which change is happening is remarkable,” said another expert. “As compliance and risk professionals, we must not rely on traditional models and we must be very open to innovation.”

There are fresh challenges for the compliance sector from cryptocurrencies and the blockchain. “It is essential to be in constant dialogue with the regulators to try to achieve clarity on the best practices and industry standards in this space,” explained one expert. “If one structures products for this emerging asset class that are in compliance with the regulatory requirements then everything is fine. This asset class does not need to be a jungle, it just needs to be structured in the right way.”



MARINA WOON
Schroders Wealth Management

IS THE REGULATORY BURDEN ON SMALL FIRMS TOO GREAT?

Yes



No



Source: Hubbis Compliance in Asian Wealth Management Forum 2018

Many countries appear uncertain whether to ban cryptocurrencies completely or try to shepherd them into tidy regulatory enclaves, which are thus far proving impossible to achieve. The regulation of Initial Coin Offerings (ICOs) is also causing regulators across the globe great consternation.

“I can imagine if you jump onto the [cryptocurrency] train at this point you are probably flooded with misinformation,” said one panellist. “Right now you can structure products in this space that are completely in compliance with whatever existing regulation there is, but one needs to be careful and move sharply due to a fast moving environment and many new developments.”

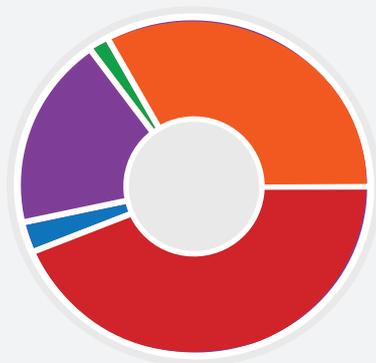
Blockchain, the technology enabling Bitcoin is a public ledger and therefore ticks certain regulatory boxes. But while there is transparency of transactions, theoretically, there is also anonymity. “It is, therefore, an immense challenge for bank and wealth intermediaries to filter and sift through the ‘clients’, to find out who are essentially fraudsters rather than the genuine investors,” explained one expert.

“Is this the moment for the international community to come together to develop and set the regulations which can be applied globally to the cryptocurrency markets?” asked another panellist.



MATTHEW MADDOCKS
RISKflo

WHAT ARE THE MAIN COMPLIANCE CHALLENGES FOR 2018?



- Automatic Exchange of Information (AEOI)
- Common Reporting Standard (CRS)
- Data security and cyber resilience
- MiFID II - the different implementation approaches of the major European banks
- The next big leak from the wealth management arena - Panama, Paradise, ...?

Source: Hubbis Compliance in Asian Wealth Management Forum 2018

“Well, as someone who has been involved in compliance for 22 years I am not holding my breath.”

Balancing local and international compliance

In Singapore and in the wider Asian region, local regulation is being increasingly driven by international regulations. “MiFID II is a huge monster to digest and implement,” observed one panellist. “The first thing you must do is step back and say what is our priority, who are our clients and what do we want to do for them.”

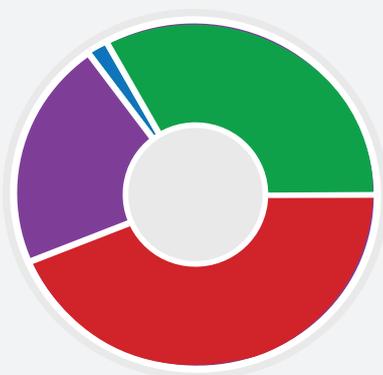
For private banks and wealth management firms to achieve this the global compliance teams need to work ever more closely with local teams, so that they can garner a mutual understanding of how local and global regulations can meld together.

As a panel member observed: “It is vital to keep spreading the word and let people know what decisions are being made in the centre and spread it throughout the organisation, so everybody is working on the same page.”

Many local practices, especially in markets as sophisticated as Singapore are highly advanced. In Singapore, the Data Privacy Protection Act and the

MIFID II IS A HUGE MONSTER TO DIGEST AND IMPLEMENT... THE FIRST THING YOU MUST DO IS STEP BACK AND SAY WHAT IS OUR PRIORITY, WHO ARE OUR CLIENTS AND WHAT DO WE WANT TO DO FOR THEM.

WHAT ARE THE MAJOR LESSONS COMPLIANCE TEAMS SHOULD HAVE LEARNED IN 2017?



- *A tick box approach is a thing of the past*
- *Embracing the digitisation of compliance*
- *Understanding the difference between real and theoretical risks*
- *A tick box approach can still deliver more compliant behaviours*

Source: Hubbis Compliance in Asian Wealth Management Forum 2018

Banking Secrecy Section 47 are considered part of the market DNA. Accordingly, the approach to MiFID II is not so daunting, it is more a question of prioritising. The same applies to General Data Protection Regulation (GDPR), which first arrived in April 2016.

Collaboration required

“For risk and compliance professionals to be successful we must be much more collaborative than we have been in the past,” observed one expert. “Fintech and RegTech can help, as there is a need for more agility and more interaction internally, for example between risk and compliance as well as externally, for example between a bank and a fintech or RegTech.

Technology is also not all positive. Technology such as AI is making data capture more consistent and reliable, while events such as the Panama Papers data leak show just how vulnerable data is to hackers, whatever their intentions. “Wealth firms are gathering more data on clients, but they also have to invest in technology and people to ensure client confidentiality,” said one panellist. “Data security and cyber resilience are both immense challenges to the compliance industry.”

“I was really shocked to learn about the immense vulnerability of CPU processors,” added another compliance expert. “It seemed unimaginable that could happen on such a scale. That is why this topic of cybersecurity should be on the very top of compliance agendas. There will be a wake-up moment.” ■



VILLE OEHRMAN
Helvetic Investments

**FOR RISK AND COMPLIANCE
PROFESSIONALS TO
BE SUCCESSFUL WE
MUST BE MUCH MORE
COLLABORATIVE THAN WE
HAVE BEEN IN THE PAST.**