DUFF & PHELPS

Protect, Restore and Maximize Value

Global Regulatory Outlook 2019

ARE WE THERE YET?

ABOUT DUFF & PHELPS

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, investigations, disputes, cyber security, compliance and regulatory matters, and other governance-related issues. We work with clients across diverse sectors, mitigating risk to assets, operations and people. With Kroll, a division of Duff & Phelps since 2018, our firm has nearly 3,500 professionals in 28 countries around the world. For more information, visit www.duffandphelps.com.

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Preface

In the years since the 2008 financial crisis, regulatory compliance has come to play an ever-larger role in the lives of financial institutions. Regulatory requirements have become more complex—particularly for firms operating in multiple jurisdictions—and enforcement scrutiny has increased. Accountability regimes are requiring firms to closely examine their governance and culture and the extent to which firm leadership is "fit and proper." Regulatory considerations play a larger role in strategic decision making.

After a decade of these changes, there is no doubt that firms have become more diligent and sophisticated in their compliance and in risk management, and that the global financial system is more stable and transparent as a result. And yet, despite the very real progress that has been made, there is also a growing sense of regulatory fatigue—that we are unable to decisively turn the tide in the battle against financial crime, that there is never enough transparency, and that, in the human tendency to fight the last war, we are leaving ourselves vulnerable to new risks that are just emerging.

This year's Global Regulatory Outlook, entitled *Are We There Yet?* aims to reflect that complicated reality. In the articles that follow, our global team of compliance and regulatory consultants—many of whom are former regulators themselves—provides insight into compliance best practices and into managing interactions with regulators and investors. They also step back and examine ways in which the various parts of the global regulatory, compliance, and risk infrastructure fit together, and how that mechanism might be made more efficient and effective. Throughout the report, we have paired our commentary with the results from our annual survey of financial services executives around the world, providing a look into how various regulatory and compliance issues are viewed and addressed by those subject to them. The report closes with an appendix listing recent and upcoming regulatory actions for a range of jurisdictions.

We hope that you will find the 2019 Global Regulatory Outlook to be both a useful guide to the regulatory landscape and a source of thought-provoking ideas. And if you have suggestions for topics to address in next year's edition, please let us know. We look forward to hearing your thoughts in this ongoing global conversation.

JULIAN KOREK

VICE CHAIRMAN
DUFF & PHELPS
LONDON
julian.korek@duffandphelps.com

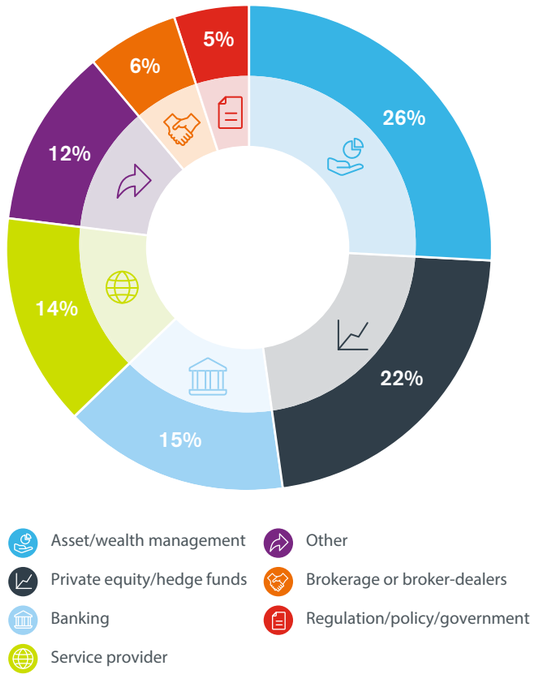
Taking Stock of Where We Are

Our annual survey provides a view into how firms are grappling with the constant of regulatory compliance against a backdrop of continual change.

Each year, as part of its Global Regulatory Outlook, Duff & Phelps conducts an online survey of financial services executives around the world to get their views on issues on the industry agenda. This year's survey questions covered anti-money laundering, whistleblowing, technology, and budgeting, as well as which city is the current global financial hub and which one is most likely to fill that role in the future—a telling indicator of forces remaking the global financial landscape.

SURVEY RESPONDENTS BY SECTOR

Figure 1



The survey was conducted online in March and April 2019; 183 respondents from a range of countries and financial services sectors participated.

MONIQUE MELIS

MANAGING DIRECTOR

GLOBAL SERVICE LINE LEADER FOR COMPLIANCE AND REGULATORY CONSULTING

DUFF & PHELPS

LONDON

monique.melis@duffandphelps.com

AML: A CALL FOR STRONGER COORDINATION

Despite the significant amount of manpower and expense that have been devoted to establishing and complying with anti-money laundering regulations, trillions of dollars continue to move though this illicit economy. While no one questions the importance of these efforts, there is increasing consensus that the current approach needs to be improved. When asked what changes would have the most impact on global AML efforts, survey respondents place less priority on the execution of the elements on the front lines of those efforts, such as better funding, reporting, or enforcement. Instead, they see the issue as one of improving coordination and information-sharing among the wide-ranging constituencies of the global financial system. (For more, see "AML is Everybody's Problem—And Nobody's. And That's a Problem," on page 12.)

At the same time, there is still work to be done at the firm level. While most firms rate themselves as being at least "effective" in the various components of an AML program, 30 percent of respondents rate at least one of their AML components as being either "not at all" or only "somewhat" effective. Furthermore, nearly one-quarter of firms gave themselves low marks in their internal audit of AML risk, an essential element of AML risk management. (For more, see "The Six Hats of the AML Officer," on page 16.)

WHISTLEBLOWING: A SOLID FOUNDATION

There is general recognition that whistleblowing programs are an important check on a firm's compliance, with nearly three-quarters of respondents noting that they have whistleblowing programs in place and 86 percent of them at least somewhat agreeing that such programs should be mandatory.

When asked to evaluate their own whistleblowing programs, respondents are most confident in their escalation mechanisms. (They give similarly high marks to escalation for their AML programs.) If we look across the range of individual components, somewhere between one-quarter and one-third of firms feel their firms are either "very" or "completely" effective. However, for each element, between roughly one-fifth (19 percent) and one-quarter (28 percent) of respondents say their firms are "not at all" or only "somewhat" effective. (For more, see "Whistleblowing: More Than a Shrill Noise," on page 18.)

Our survey also found that there is a correlation between how firms rate the components of their AML programs and how they rate their whistleblowing programs—effectiveness in one program correlates with effectiveness in the other. In our view, this is both noteworthy and unsurprising. Excellence in compliance begins not with regulation but with a mindset that extends over every aspect of the business. Echoing this, survey responses showed that firms with operations in more than one country—which presumably are more sensitized to compliance concerns due to their multi-jurisdictional reach—are significantly more likely to have whistleblowing programs in place than firms with operations in only one country (84 percent vs. 54 percent).

THE GLOBAL FINANCIAL HUB: BREXIT AND GLOBALIZATION

As it did last year, our survey closed by asking respondents to choose the city they believe represents the world's financial center today and the one they believe will play that role in five years. Comparing this year's responses to last year's shows the effects of both short-term and long-term global trends. Last year, Brexit cast a shadow of uncertainty over the United Kingdom's economy; it has now escalated to a full-blown crisis. Reflecting this, New York and London have switched places, as the share of those choosing the City as preeminent dropped from slightly more than half to slightly more than one-third.

Looking ahead, however, globalization's diffusion of influence begins to be apparent: 12 percent of respondents expect Hong Kong to be the world's preeminent financial center five years from now, a stark contrast to the 3 percent who held this opinion just a year ago. It is also worth noting that a handful of other cities were named as the global financial capital of the future, including Shanghai (9 percent), Dublin (4 percent), Frankfurt (4 percent), and Luxembourg (3 percent). While these individual numbers do not rise to the level of statistical significance, collectively they give further evidence of the combined effects of globalization and of Brexit, as the financial industry searches for a new EU financial center.

TECHNOLOGY: SEARCHING FOR A STRATEGY

Interestingly, budget is not currently considered a major issue when it comes to implementing technology in regulatory compliance. Having an adequate budget was named as a concern by only slightly more than one-quarter of respondents. Instead, three of the four top concerns involve data: developing a holistic data strategy, having accurate and up-to-date data, and then having adequate cybersecurity to protect that data. These results reflect a financial services industry that is still in the early stages of incorporating technology into compliance—and a tech industry that is still working to deliver on its promises. (For more, see "Regtech on the Rise," on page 22.)

BUDGETING: MORE AND FASTER

Given the increasing demands on firm compliance functions, there is a general expectation of a steady upward pressure on compliance budgets, and our survey results bear this out. Last year, our survey asked respondents what percentage of their budgets was spent on regulatory compliance in 2017 and what they expected that budget percentage to be in 2023. The results showed that while the largest percentage of firms expected to continue to spend between 1 and 5 percent of their budget on compliance, there would be a notable shift at the margins: Significantly fewer firms would be spending less than 1 percent, and many more would be spending more than 10 percent.

This year's results show that the shift expected to have taken until 2023 to occur has already, to a great extent, taken place as of 2019. The percentage of firms spending less than 1 percent on compliance has dropped to 9 percent, while the percentage spending more than 10 percent has increased to 12 percent. This suggests that financial services executives have generally underestimated the extent of future budget increases. (For more, see "Avoiding Investor Red Flags: The Role of Compliance in Fundraising," on page 34.)

Figure 2

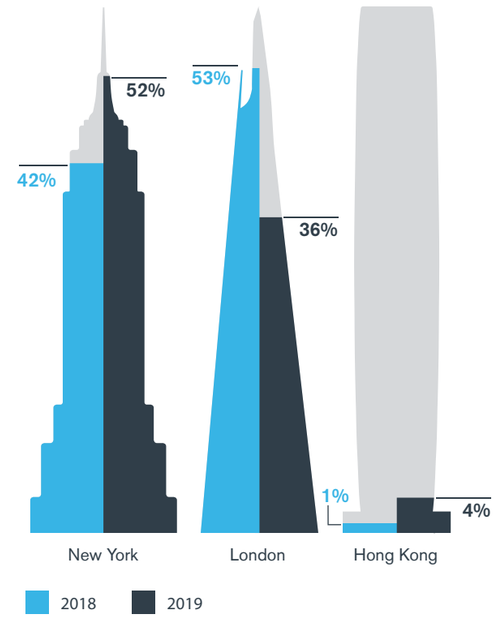
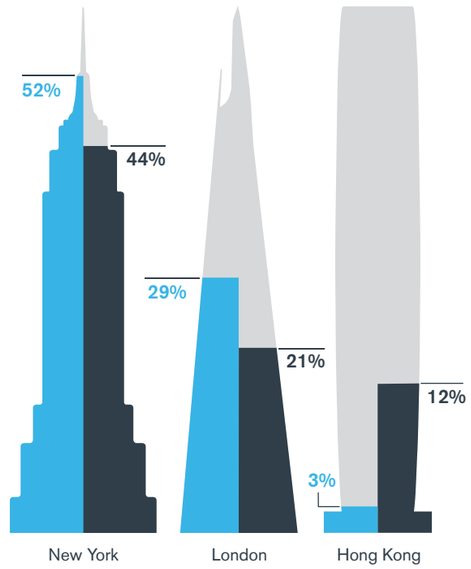


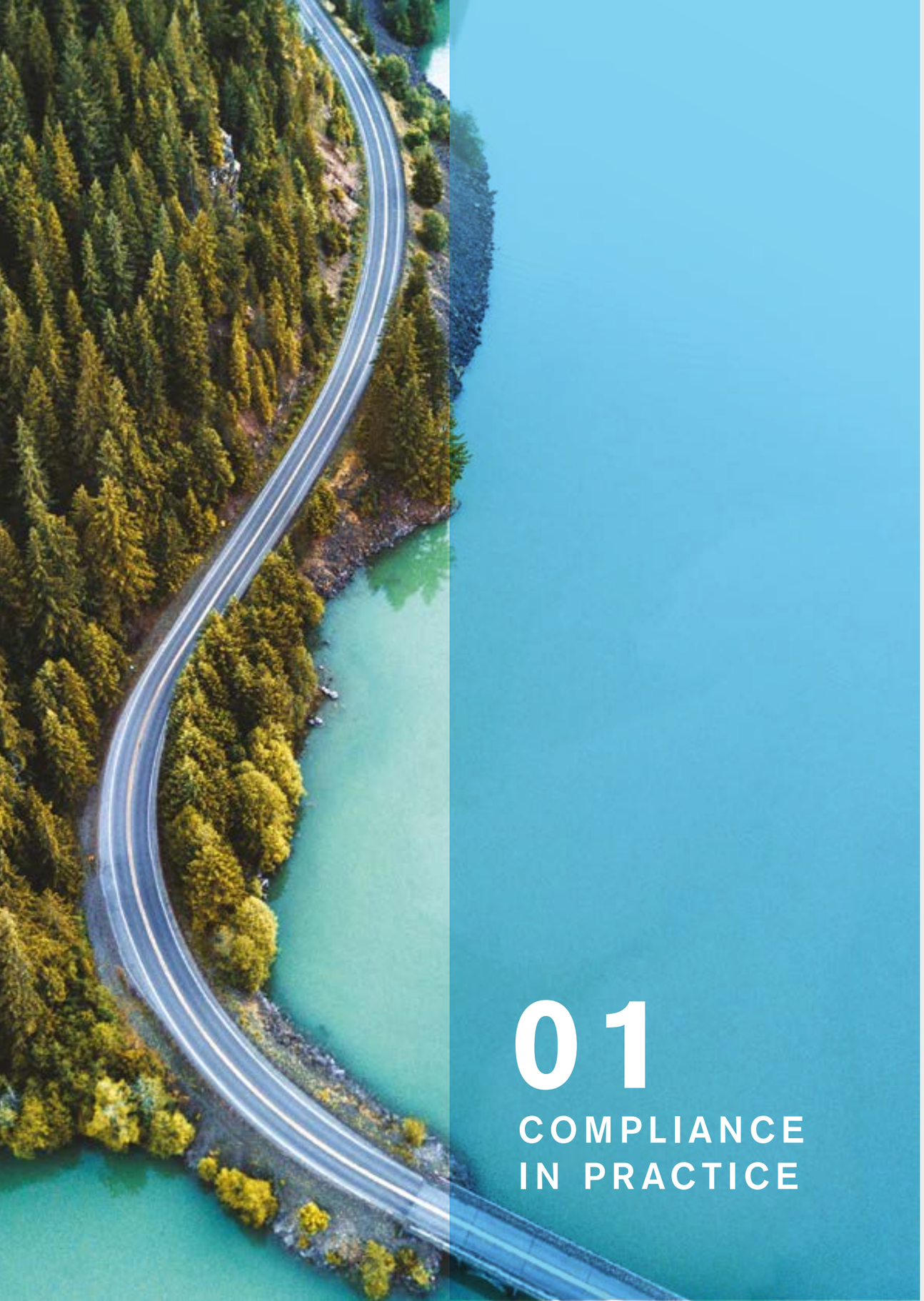
Figure 3



Q WHICH CITY IS THE WORLD'S PREEMINENT FINANCIAL CENTER TODAY? (TOP THREE RESPONSES)

Q WHICH CITY WILL BE THE WORLD'S PREEMINENT FINANCIAL CENTER IN FIVE YEARS? (TOP THREE RESPONSES)

It is perhaps not surprising that answers to this question were greatly influenced by the location of the respondent. In this year's survey, 96 percent of US respondents consider New York to be the world's current financial hub; 76 percent of UK respondents consider London the hub. But even home-country bias has its limitations: When asked to look ahead five years, the proportion of US respondents who still name New York dips to 78 percent—while the proportion of UK respondents who say the same thing about London drops to 44 percent.



01
COMPLIANCE IN PRACTICE

NICK INMAN

MANAGING DIRECTOR
DUFF & PHELPS
HONG KONG
nick.inman@duffandphelps.com

MARK TURNER

MANAGING DIRECTOR
DUFF & PHELPS
LONDON
mark.turner@duffandphelps.com

Walking the Accountability Tightrope

As the wave of accountability regimes comes into force, both firms and individuals need to develop strategies to balance collective decision making with personal responsibility.

Two paths have emerged in the move toward increased accountability in financial services. The first, exemplified by the United States, focuses on enforcement, where the relevant agencies make a priority of targeting individuals when violations occur. This approach, however, assumes that there is already vigorous enforcement in place. The alternative path, which is better suited to jurisdictions where enforcement action against individuals has been more uneven, relies on establishing extensive regulatory frameworks that emphasize personal responsibility from the start. This second approach is typified by the UK's Senior Managers and Certification Regime and also has been adopted in various forms by Australia, Ireland, Hong Kong, and Singapore.

Each approach has its strengths and weaknesses, and the intended end goal of each is the same. But the regulatory approach has a much more immediate impact on firms. The new accountability regulations require firms to closely examine and articulate their governance and day-to-day operations. Just as importantly, we have started to see a significant change in how regulators supervise firms, with more check and challenge on individuals as they discharge their accountabilities.

LAYING THE GROUNDWORK

At the core of accountability regimes is the immediate issue of establishing responsibilities and mapping them within the organization: identifying the relevant senior individuals and staff, creating the necessary job specifications and statements of responsibility, establishing clear reporting lines and escalation policies, and then ensuring that the staff has been trained in compliance with the regime and the board is briefed on compliance progress. The process ideally should be overseen by the chief compliance officer and the head of human resources, with buy-in from the other functions and the appropriate business unit heads.

Such a thorough and documented inventorying of who does what within a firm can be a considerable task, and it is understandable if firms focus on merely fulfilling that task in their compliance efforts. But the reality is that assigning responsibilities—and having them accepted by the appropriate senior managers and staff—is only the starting point; the real challenge comes in the day-to-day managing of firms with a more clearly defined structure in place to check that reality matches the intentions. Accountability regimes thus are likely to set in motion a wave of questions regarding risk, decision making, and other factors that forward-thinking firms would do well to anticipate.

LOOKING BEYOND THE RESPONSIBILITIES

To begin, firms will need to ensure that their statements of responsibilities continue to accurately reflect how decisions are made and business is conducted. This is not to be taken for granted, given the way in which remits within an enterprise can evolve over time and diverge from what is depicted in the organizational chart. Similarly, smaller organizations may find that regulatory requirements call for each manager to be assigned three or four distinct responsibilities—something that can be done on paper but is likely to be difficult to sustain in practice.

Beyond that starting point, firms need to closely examine the dynamics of various decision-making scenarios and their implications for senior managers. Consider, for example, the hypothetical case of a UK firm that is a subsidiary of a US company. The US parent, as part of a data remediation initiative to strengthen its enterprise-risk assessment capabilities, mandates the use of certain IT platforms and data architectures. In the view of the UK senior manager responsible for the money laundering reporting function, however, those platforms and architectures do not fully meet the requirements of the relevant UK regulator. In an earlier time, that senior manager might have decided to voice his or her misgivings but ultimately live with the result. Personal accountability regimes, however, raise the stakes for doing so. Firms should thus expect accountable individuals to be far more vocal in objecting to decisions with which they do not fully agree, and should have governance mechanisms in place for resolving disputes while at the same time respecting group cohesion and synergy.

Firms structured as partnerships have some additional challenges to overcome. At most partnerships, collaboration is considered to be a core cultural principle—indeed, it is at the heart of the partnership model. But informal and collegial decision making may not always align with the expectations of accountability regimes. There are also specific requirements to allocate accountabilities to named individuals that may be at odds with existing partnership arrangements. If a problem arises and the firm and senior individuals find themselves under regulatory scrutiny, they will need to demonstrate how decisions were reached and whether each individual manager took all reasonable steps to prevent the problem from occurring in the context of their individual responsibilities. Many partnerships may not have the necessary governance structures in place to support these requirements. And it will be a challenge for partnerships to implement these changes while maintaining the beneficial aspects of partnership culture.

> Firms need to closely examine their decision-making scenarios and the implications for their senior managers.

IS THE COMPENSATION WORTH THE RISK?

Beyond decision making and culture, firms should also give thought to how accountability regimes affect hiring and compensation. Over the last decade, regulatory compliance has become sufficiently complex that even highly experienced senior managers have to ask themselves whether they have had the training and support to understand and oversee the growing compliance element of their role. At the same time, both firms and senior managers need to assess the risks that these positions entail to ensure that risk is accurately reflected in remuneration. Firms that are not seen as supporting their senior managers, both when things are going well and when issues arise, may find that they have to pay a premium to continue to attract the best candidates—and in extreme cases, may not be able to attract them at any cost. (The question of risk and compensation applies perhaps even more acutely in the nomination of non-executive directors, where there are already numerous factors that might contribute to a potential board member declining a seat.)

> SMCR has led to a fundamental shift in what it means to be under regulatory scrutiny.

While accountability regimes across jurisdictions are similar in their overall strategy and requirements, their effect so far on regulation in the field varies and is shaped by local context. In the United Kingdom, SMCR has led to a fundamental shift in what it means to be under regulatory scrutiny; in many cases, that scrutiny has shifted from examining the actions of the firm in general to focusing on individual managers. In Australia, its Banking Executive Accountability Regime (BEAR) currently only applies to major banks. However, the Royal Commission included a recommendation to extend the coverage of the regime to a broader set of financial institutions, including insurance companies, so the scope may well widen.

In Hong Kong, the Manager in Charge (MIC) regime was announced via circular rather than through amendments to the Securities and Futures Ordinance. Perhaps as a result, regulatory examinations are still generally focused on the key Responsible Officers rather than the wider groups of individual decision makers identified under MIC. (It may also be, however, that while Hong Kong has implemented an accountability regime, it has decided to put its regulatory teeth elsewhere, such as investing in greater data collection and analysis—as evidenced by its significantly enhanced Business Risk Management Questionnaire.)

Despite the differences in implementation, the push toward individual accountability is clear; institutions in jurisdictions where the impact has been limited so far should consider working to stay ahead of this trend so that they will be better positioned to weather future changes.

AML is Everybody's Problem —and Nobody's.

And That's a Problem.

Looking closely at the networks over which the AML battle is waged can provide clues to improving an unwieldy process.

CHRIS IVES

SENIOR DIRECTOR

KROLL, A DIVISION OF DUFF & PHELPS

LONDON

chris.ives@kroll.com

MATTHEW WEITZ

ASSOCIATE MANAGING DIRECTOR

KROLL, A DIVISION OF DUFF & PHELPS

LONDON

matthew.weitz@kroll.com

Measures designed to combat money laundering dominate the global regulatory environment. The Financial Action Task Force comprehensively monitors the AML activities of virtually every nation in the world; jurisdictions continually issue new regulations; and institutions spend billions of dollars on technology and manpower to know their customers, monitor transactions, and file reports for investigation by regulators and law enforcement.

And yet it is a war we are nowhere close to winning—or even fighting to a draw, as evidenced by a steady stream of high-profile news stories. As the most recent Basel AML Index put it, "Clearly, still too little is being done to effectively counter ML/TF risks."

Of course, a great deal is being done to counter money laundering and terrorist financing risks. The key word, however, is *effectively*. Why is it that so much effort by so many entities seems to yield less than the sum of its parts? It's a question that deserves serious consideration.

COMPLEX NETWORKS OF CONFLICTING INCENTIVES

The key to understanding the limits of the current approach to AML is to recognize that while money laundering, terrorist financing, and sanctions evasion are commonly described as a "global problem"—implying that there is an overarching global solution—it's more accurate to say that they are a *collective* problem, with responsibility split across the complex networks of the global financial system, which includes multiple intergovernmental organizations, governments, and regulators in each sovereign state, and the financial institutions themselves. Each node in those networks has its own focus and objectives, which can conflict with one another. This structure is ripe for producing exactly the gaps and vulnerabilities that money launderers seek to exploit. So it is that when asked how the global AML framework could be most improved, respondents tended to focus not on larger budgets or better frontline execution, but on improved coordination between and within jurisdictions (see Figure 4).

Consider the frameworks that emanate from organizations like the FATF or the EU. Each jurisdiction that adopts them does so in the context of its own existing regulations on, say, data privacy, bank secrecy, and structural frameworks. This can lead to significant variation in the depth and sophistication of regulatory and enforcement infrastructure from jurisdiction to jurisdiction. Additionally, different countries will assign different priority levels to AML/CFT based on their own assessments of the inherent risk and of the availability and appetite for allocating resources. A country with weak institutional frameworks might sign whatever international agreements are required to stay off the Gray List but may be unable or unwilling to support those agreements with effective enforcement.

But even in a country with a strong rule of law and a sufficient regulatory and enforcement infrastructure, AML/CFT measures have to be balanced with the need to foster international trade in a global economy. Indeed, a country might consciously decide, as a matter of policy, to create an environment favorable to non-resident banking in an effort to establish itself as a regional hub in the global financial system. Doing so may incur significant inherent risk, but the benefits may be perceived to outweigh those risks.

In whatever way each jurisdiction comes to its AML/CFT regime, the implementation of that regime unfolds through a smaller network within each country of regulatory bodies, financial investigation units, law enforcement agencies, and central banks. Just as with each jurisdiction, how each entity within a jurisdiction fulfills its AML/CFT mandate can vary for a number of reasons. Law enforcement agencies, for example, are likely to devote the most resources to fighting crimes that involve their citizens or take place within their jurisdiction. However, money laundering today frequently involves multiple jurisdictions, making it difficult to establish a link to a predicate offense in a given jurisdiction.

Regulatory agencies, for their part, have a great deal of potentially useful information, gleaned from examinations, filings, and other sources, but that information is often limited by its focus on policies and procedures rather than on-site examination of actual activity. Furthermore, those insights are usually shared with other governmental bodies only when they are specifically requested through formal channels. The process of conducting a true forensic investigation across borders is thus often slow and cumbersome, and further hampered by resource constraints that limit the extensive intelligence gathering required to connect the dots across the many layers of entities, ownership interests, and transactions.

> AML/CFT compliance too often is seen as an exercise in demonstrating adherence to and documentation of procedures, rather than genuine risk reduction through intelligence gathering.

At the level of individual institutions, more inefficiencies unfold. Like countries and their agencies, most financial services institutions are comprised of multiple business units and functions connected by varying degrees of collaboration. Many institutions also need to balance AML/CFT compliance requirements with the imperatives to minimize costs and to generate shareholder returns; in jurisdictions with relatively lax AML/CFT enforcement, an institution that takes a hard line may well find itself at a competitive disadvantage.

The increasingly aggressive position taken by regulatory and enforcement agencies regarding AML/CFT compliance programs has, unintentionally, created another inefficiency: Financial institutions are disincentivized from rigorously screening out "false positives" when reporting suspicious transactions to FIUs, making it difficult for FIUs and law enforcement agencies to discern the signal through the noise.

In the end, AML/CFT compliance too often is seen as an exercise in demonstrating adherence to and documentation of procedures, rather than genuine risk reduction through intelligence gathering. It is easy for sophisticated financial criminals to outmaneuver this mindset. Even the most blatant money laundering operation can have a surface layer of pristine paperwork.

IMPROVING THE SYSTEM ON ITS OWN TERMS

The number of disconnects that occur through these interlocking networks make it tempting to conclude that the system is fundamentally flawed. But this would be a mistake. The mere fact that there is a structure that is recognized by such a wide range of countries and institutions is a substantial achievement. At the same time, it is shortsighted to think that merely doing more of the same will produce markedly better results. Instead, efforts should be made to strengthen the system on its own terms, after considering the tradeoffs involved in various potential initiatives.

More work needs to be done, for example, in reaching global standards for data handling that balance the rights of individuals with the need for transparency. Today's AML/CFT regimes have their roots in an analog era, when there were significant practical limitations on the sharing and analysis of information. But aggregated information—whether shared between agencies within a country or between countries—is the key to effective understanding, analysis, and remediation of AML/CFT risks. Data rather than procedure needs to be at the center of how both regulators and the financial community approach AML/CFT, the promulgation of frameworks and regulations, and the evaluation of regimes. To be sure, there are proportionality issues to be addressed and evolving data privacy regulations to be respected. But this should not preclude a needed fundamental shift in how AML/CFT risks are approached.

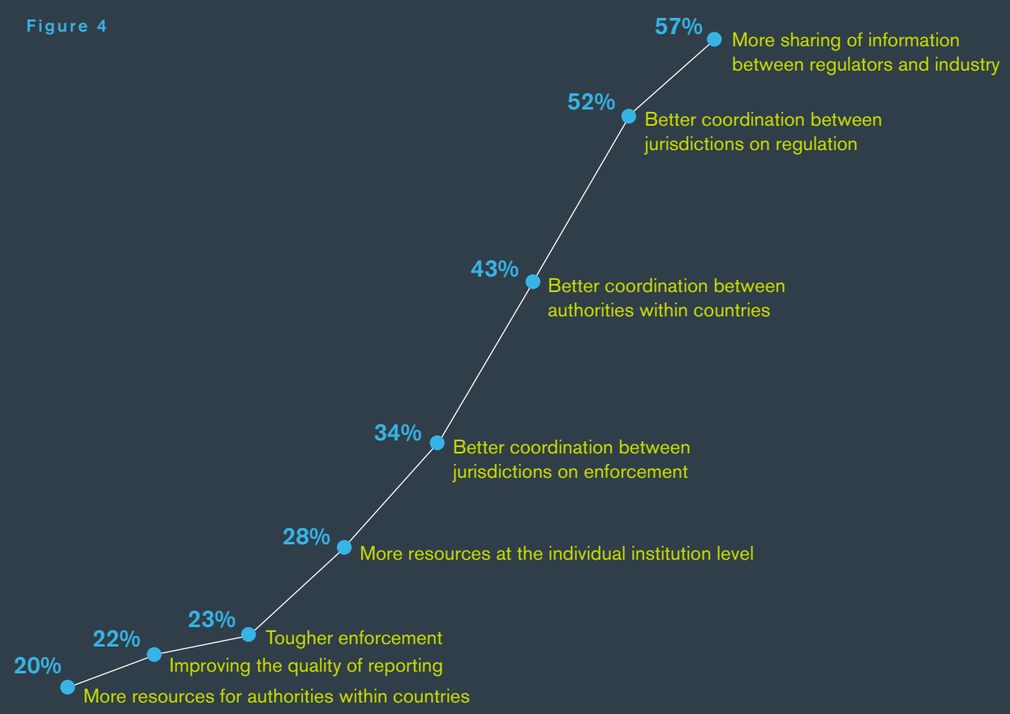
In addition, the emphasis on reporting should be on quality rather than quantity. (That relatively few respondents in our survey chose this as a top concern simply demonstrates that more information sharing and better coordination is a prerequisite for any other improvements to take hold.) Regulations should be written to incentivize firms to report a smaller number of incidents but to do so in greater depth. In the short term, this may mean that some activity that warrants scrutiny goes unexamined. But in the long term, such an approach will elevate the sophistication of the monitoring process at both the institutional and jurisdictional level. As organizations become more experienced (and perhaps better funded), they can expand their reach. Simply producing a higher volume of reports of varying levels of usefulness will do little to improve the competencies of the system.

Finally, law enforcement agencies and other bodies at the jurisdictional level need to think more holistically about their mandate. Money laundering, like so much in the digital age, has no respect for national boundaries. Countries need to rethink the scope of the charge they give to their regulatory and enforcement bodies so that those agencies can pursue those who engage in money laundering to the fullest extent possible.

The battle against money laundering is built on networks—and networks always generate a certain amount of friction and inefficiency. This makes it all the more important to understand the mechanics at work and ensure that they are aligned with the goal at hand. AML/CFT efforts can and will benefit from such a realignment, bringing them into a data-centric, borderless age while still respecting the sovereignty of the entities comprising those networks.

Q WHICH CHANGES WOULD MAKE THE GREATEST IMPACT IN IMPROVING GLOBAL AML EFFORTS?

Figure 4



The Six Hats of the AML Officer

With money laundering now a business risk, the AML leader needs—and must be ready for—a seat at the table.

The increasing complexity and regulatory scrutiny of combating money laundering has put the spotlight not only on a financial institution's AML program, but also on the person chosen to run it. Financial institution boards, CEOs, and AML officers thus need to ensure that the role's job description is aligned with reality. While the core responsibility of the AML officer is to design, implement, and manage an effective AML program, that is only the beginning of his or her responsibilities in the current environment. At most institutions today, the ideal AML officer must be able to fulfill six distinct roles:

1 **Risk manager.** While financial institutions are expected to have effective AML programs, what constitutes "effectiveness" is often left undefined. The onus is therefore on the institution to determine its enterprise AML risk and its risk appetite, and then to respond accordingly. The AML officer must be able to lead this effort across multiple lines of business, geographies, and customer bases, balancing the need to impose order on the risk assessment and management process with the recognition of the different ways that risk presents itself in various contexts.

2 **Business strategist.** The repercussions of an incident make money laundering not just a compliance risk but a business risk. Giving the AML officer a seat at the table for business strategy discussions allows factors that contribute to that risk to be examined from the start rather than addressed after decisions have already been made. Being part of those conversations requires the AML officer to be a strategic and business partner with the board, the CEO, and business unit heads. In today's highly dynamic environment, meeting with the board once a quarter is no longer sufficient.

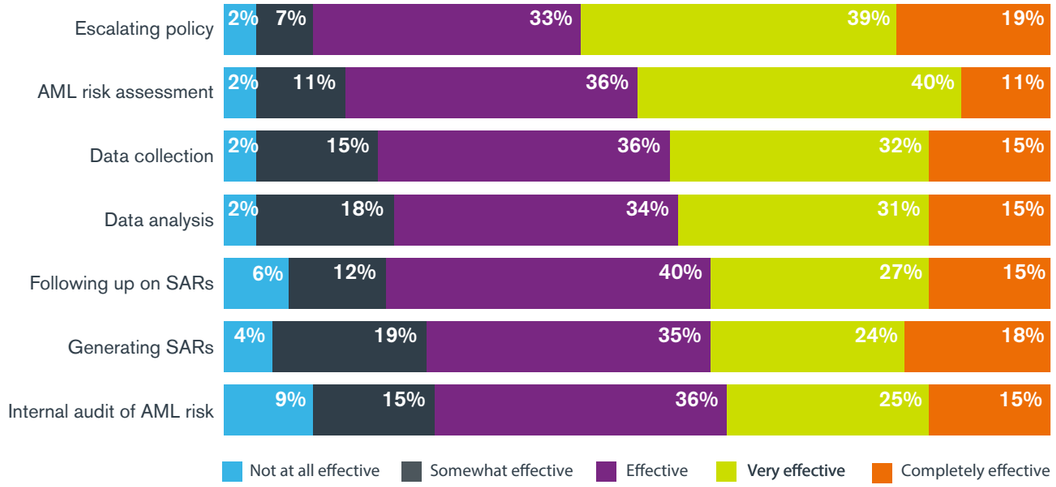
3 **Functional advocate.** AML is on every decision maker's agenda—but so are digital transformation, globalization, disintermediation, and a host of other forces. The AML officer must be able to effectively lobby against similarly compelling initiatives for the fiscal, technological, and human resources to fulfill the function's requirements. Scrupulously submitted suspicious activity reports do little to mitigate risk without the resources to follow them up.

JOHN ARVANITIS

MANAGING DIRECTOR
KROLL, A DIVISION OF DUFF & PHELPS
BOSTON
john.arvanitis@kroll.com

EFFECTIVENESS OF FIRM AML PROGRAMS

Figure 5



Our survey showed that while most firms are satisfied with the effectiveness of their AML programs, there is room for improvement, both among those who rate the components of their programs as less than effective and among those with effective programs who wish to evolve further. In addition, 30 percent of respondents rated at least one of their AML program components as less than effective.

4 **Global thinker.** AML efforts have always been multi-jurisdictional by definition. Today, however, financial networks are truly global and enforcement is becoming more so. The AML officer must have a thorough grasp of the changing positions of the players in this network—his or her institution, its clients or investors, and regulators and enforcement agencies at home and abroad.

5 **Cultural standard-setter.** When an AML breach occurs, it is usually because commitment has flagged somewhere in the organization. Indeed, that commitment cannot be assumed and can easily wane over time, particularly since AML efforts, like all security measures, act as speed bumps in the continuing drive for business to grow and increase in speed and efficiency. The AML officer needs to be able to ensure that the appropriate institutional culture is reinforced in the messaging and actions of firm leadership and in the incentives of employees and management.

6 **Innovator.** The challenge of the AML officer is to prevail in an asymmetrical fight against people who don't play by the rules. Doing so requires constantly expanding the toolkit: striving for continuous improvement; investigating new ways of using technology and data; and staying abreast of the insights of regulators, law enforcement, and peers at other institutions. The AML leader must then develop ways of integrating innovation into the AML program without disrupting its day-to-day operations.

Observers of business trends will recognize that the expanding requirements of the AML role follow a well-established pattern. Over the last two decades, functional leadership has been redefined, not just in financial services but also across industries. The chief financial officer, the chief information officer, the chief human resources officer, and others have seen their responsibilities grow with the increased complexity of their functions and a greater awareness of their functions' contribution to the success of the enterprise. The AML officer's role must now undergo a similar evolution, with the support of the firm's leadership and introspection among those who hold the position.

Whistleblowing: More Than a Shrill Noise

With the right resources, structure, and training, whistleblowing programs can become valuable tools for strengthening a firm's controls, culture, and reputation.

Today, the overwhelming majority of financial organizations acknowledge that whistleblowing programs play a necessary role. Nearly three-quarters (73 percent) of firms represented in our survey have whistleblowing programs in place. A strong majority (86 percent) of this year's survey respondents at least somewhat agree that whistleblowing programs should be mandatory, and even more (92 percent) at least somewhat agree that regulators should have whistleblowing programs. Two-thirds believe that whistleblowers whose actions help uncover violations should be compensated (see Figure 6).

There are good reasons for these attitudes. In financial services, the potential risks posed by ineffective controls or misaligned incentives is high, and a comprehensive whistleblowing program can be an effective early warning system that allows management to get out in front of these or other problems before they become true crises, with the legal and reputational problems that follow. Indeed, recent research confirms that companies that actively use their internal reporting mechanisms face fewer material lawsuits and pay smaller settlements.[1]

However, just because a firm has implemented a whistleblowing program that meets legal and regulatory requirements does not mean that the program will be strategically useful. For a whistleblowing program to be a true asset, it must be operationally effective and supported by the culture of the firm. Our survey shows that for any given component of a whistleblowing program, between roughly one-fifth (19 percent) and one-quarter (28 percent) of respondents feel their firm is less than effective; the whistleblowing programs of 32 percent of the firms surveyed have at least one component that is less than effective (see Figure 7).

Furthermore, it is interesting to note that the percentage of respondents with whistleblowing programs in place (73 percent) lags behind the percentage of those who at least somewhat agree that whistleblowing programs should be mandatory (86 percent). Clearly there remains work to be done.

HANNAH ROSSITER

DIRECTOR
DUFF & PHELPS
PARIS
hannah.rossiter@duffandphelps.com

[1] "Research: Whistleblowers Are a Sign of Healthy Companies," by Stephen Stubben and Kyle Welch, *Harvard Business Review*, November 14, 2018.

LEGAL AND REGULATORY REQUIREMENTS

While legal and regulatory requirements may not be sufficient to create an effective whistleblowing program, they are a necessary starting point.

Many financial services institutions are covered by multiple whistleblowing regimes, depending on the jurisdictions in which they operate and the products they offer, and these regimes may differ significantly from one another. France's Sapin II law, for example, requires whistleblowers to follow certain predefined escalation steps. In the United States, whistleblowers are protected by various regulations depending on the nature of the violation being reported.

Beyond the various legal requirements governing whistleblowing programs and the protections offered to whistleblowers, firms must also consider two other factors. First, the escalation strategy of the whistleblowing program must align with the various governance duties bestowed upon management and board members—duties that may be defined differently from jurisdiction to jurisdiction. Second, whistleblowing programs must handle data from and about the whistleblower in accordance with the applicable data privacy laws, such as the GDPR.

Firms thus must begin by ensuring that their whistleblowing program meets these various requirements. Furthermore, given that whistleblowing regulations and best practices continue to evolve, it is important for firms to stay actively informed of changes and developments.

OPERATIONAL REQUIREMENTS

Most whistleblowing programs offer both phone-based and online channels for reporting incidents. While whistleblowing may not seem to exist within a competitive marketplace, in most cases potential whistleblowers have the option of turning instead to regulatory authorities, trade associations, or the media with their allegations. Because of this, whistleblowing platforms should meet the same best practices for usability and accessibility as consumer products are expected to. In addition, because of the sensitivity of the information involved, both the portals and the associated data handling should be highly secure.

> Organizations implementing whistleblowing programs for the first time are often surprised by the number of alerts that are generated.

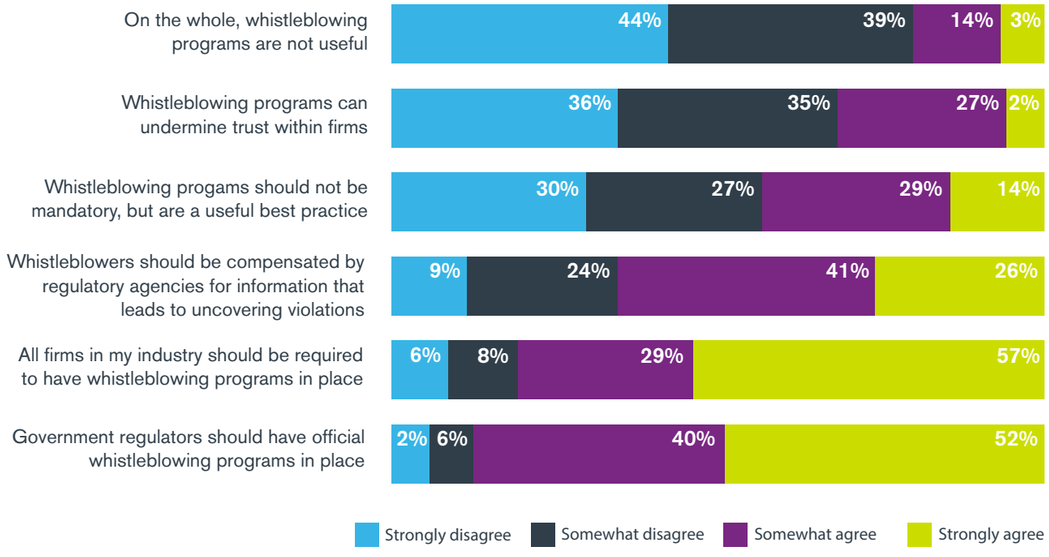
Behind the public face of the whistleblowing program lie the mechanics: the ability to take in and prioritize alerts, validate information, manage cases, and make decisions regarding escalation and the appropriate response. And all of this must be done while maintaining the confidentiality—if not anonymity—of whistleblowers, in order for them to feel comfortable coming forward and then cooperating during the investigative phase.

While every possibility cannot be foreseen, it is critical that each of these elements be governed by pre-established guidelines so the program is effective and fair in the eyes of employees and is able to withstand scrutiny in the face of any subsequent internal or external investigation. Those guidelines will provide a solid foundation from which management and the board, acting with the firm's general counsel and outside lawyers and consultants, can make what may be difficult decisions. Each whistleblowing case needs to be appropriately documented and reviewed to identify trends and systemic weaknesses and to preserve the rationale for cases where no action was deemed to be necessary.

Organizations implementing whistleblowing programs for the first time are often surprised by the number of alerts that are generated. Because one of the quickest ways to undermine confidence in a whistleblowing system is to have a perpetual backlog of cases waiting to be addressed, it is essential for companies to carefully monitor their whistleblowing case flow to be sure that allegations are addressed in a timely manner.

ATTITUDES TOWARD WHISTLEBLOWING

Figure 6



- A greater percentage of asset and wealth management firms than private equity firms and hedge funds have whistleblowing mechanisms in place (75 percent vs. 60 percent).
- Firms with operations in more than one country were more likely than firms with operations in only one country to have whistleblowing mechanisms in place (84 percent vs. 54 percent).

CULTURAL REQUIREMENTS

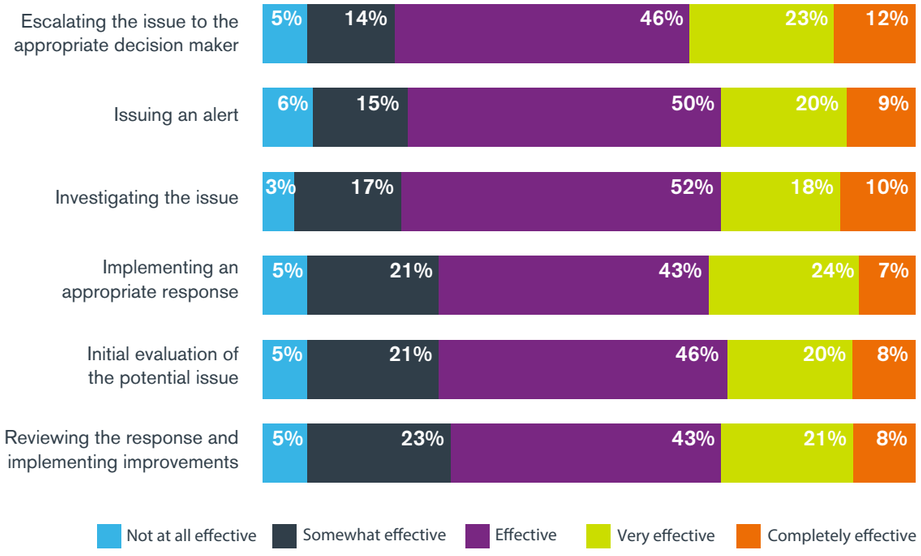
The most extensive whistleblowing program will be ineffective if employees do not sense that it has the support of the firm's senior leadership. Management needs to regularly communicate not just that whistleblowing is supported, but also that it is an important control to ensure a culture of integrity.

It is also important that employees receive regular training in whistleblowing procedures. To be most effective, this training should be part of ongoing education covering ethics, transparency, and compliance. Employees should feel that, while the whistleblowing procedure is an option at their disposal, it is a fairly serious course of action and should be reserved for when there is a reasonable belief that normal reporting channels are inadequate. Having employees who can make that distinction in an informed way under real-world conditions will improve the whistleblowing "signal-to-noise ratio" so that resources can be focused where they are most needed.

Every line item in a firm's expenditure must justify its existence, and whistleblowing programs are no exception. This constraint, in fact, is what prevents many firms from making their whistleblowing programs more than merely effective. But adequate resource allocation should be seen as an investment rather than an expense; our survey found that firms that spend 6 percent or more on regulatory compliance give higher ratings to the components of their whistleblowing programs than firms that spend 5 percent or less. Firms that make that investment can expect to be rewarded with stronger capabilities in managing regulatory compliance, firm culture, and reputation.

EFFECTIVENESS OF FIRM WHISTLEBLOWING COMPONENTS

Figure 7



Regtech on the Rise

Technology is increasingly being integrated into supervision and compliance as regulators and firms respond to digital disruption.

For some time, technology has driven certain core aspects of the financial services industry, such as trading and online banking, but its adoption in regulatory compliance has been more muted. This is rapidly changing, however. Interestingly, regulators are playing a key role in accelerating that shift: As regulators become more proactive in adopting technology in their supervision of the industry, firms are having to evolve their compliance functions accordingly.

FOR REGULATORS, COMPETITION AND MOORE'S LAW

Until recently, regulatory agencies have generally not been seen as technology innovators. But in many ways, they are now responding as firms have been to the fast-moving and dynamic forces unleashed by digital disruption. Consider the progression of EU Anti-Money Laundering Directives. While nearly 12 years elapsed between the adoptions of the third and fourth directives, the fifth directive followed just a year later and the sixth directive is already on the drawing board. The need to account for technologies such as virtual currency platforms and e-money is a contributor to this acceleration. Regulation is thus following its own version of Moore's Law.

The adoption of technology by regulators is also driven by the fact that regulators operate within a market and are subject to its forces. Just as investors increasingly factor in the quality of a financial institution's compliance when deciding where to invest, financial institutions, corporations and investors all consider the strength of a jurisdiction's regulation when deciding where to do business. In the EU, for example, jurisdictions have been effectively competing with one another as UK-based institutions consider locations for their post-Brexit EU headquarters. Regulators thus have an incentive to be seen as technologically progressive.

The use of technology also sends a clear message regarding regulatory priorities. In Hong Kong, the emphasis on creating a more supervised environment for corporations has bled over into Hong Kong's handling of the financial arena; the Securities and Futures Commission has not only greatly expanded the Business Risk Management Questionnaire but has also signaled that it will be using algorithms to analyze the responses and identify inconsistencies and other red flags.

DAVID LIU

MANAGING DIRECTOR
HEAD OF ASIA PACIFIC
KROLL, A DIVISION OF DUFF & PHELPS
HONG KONG

david.liu@kroll.com

CLAIRE SIMM

MANAGING DIRECTOR
DUFF & PHELPS
LONDON

claire.simm@duffandphelps.com

FOR FIRMS, STRATEGY, BUDGETING, AND SUPPORT

Against a backdrop of technology-powered supervision, firms are looking to integrate technology into their compliance, identity management, reporting, and other functions. However, firms will undercut their adoption of regulatory technology if they view technology as a "black box" solution that can simply be inserted into existing regulatory processes. This siloed approach often leads to underperformance—if not outright disenchantment. Better results are more likely when firms begin by examining their overall regulatory workflow.

Mapping the dependencies of various tasks, inputs and outputs, and the relationships between processes and controls and requirements will help firms locate bottlenecks and inefficiencies. Some of those bottlenecks and inefficiencies will be best resolved by technology, while others may require data remediation, new procedures, or new staff competencies. The importance of creating a holistic strategy can be seen in our survey results; creating a data strategy linking technology, workflow, and compliance is the most frequently named substantial challenge to regtech adoption. And because developing a strategy first will help more clearly define the requirements the technology must meet, doing so may well address the second-most frequently mentioned challenge: finding technology that delivers as expected.

> Investors, financial institutions, and corporations all consider the strength of a jurisdiction's regulation when deciding where to do business.

Of course, technology initiatives do not need to lead to full-blown digital transformations. Most firms—and particularly smaller and mid-sized firms—will have to segment their adoption of regulatory technology over time. Two approaches can provide a useful framework for doing so. Technology solutions for regulatory elements that are common across jurisdictions lend themselves to pilot programs in one jurisdiction that can then potentially be scaled across the organization. Once that scaling has taken place, the firm can address the next component on the list. Technology upgrades to KYC requirements, for example, can be followed by AML requirements and then archiving and monitoring. Alternatively, firms can prioritize based on risk, attacking the most problematic areas first. Doing so, however, may require more experience in and resources for technological implementation, depending on where those risks lie.

THREE COMMON MISSTEPS

However firms develop their regtech strategy, they need to ensure that there are sufficient resources and support within the organization for implementation. In our work with clients, we have noticed three areas that can be particularly challenging. The first is budgeting. There is a tendency to establish the budget for new technology first and then assume that the solution can be made to fit that budget, rather than identifying a range of solutions based on specific needs, researching total cost of ownership for each, and then making an informed decision about the most appropriate level of investment. When the budget is determined first, it almost always turns out to be unrealistic, starting the process on a rocky path and forcing a series of no-win tradeoffs as the implementation unfolds.

Second, implementing digital solutions shines a bright light on data integrity; regtech is only as good as the data fed into it. Many firms lack customer and transaction data that is clean, current, and consistent across customers, products, and jurisdictions; data quality was mentioned as a major challenge by one-third of survey respondents.

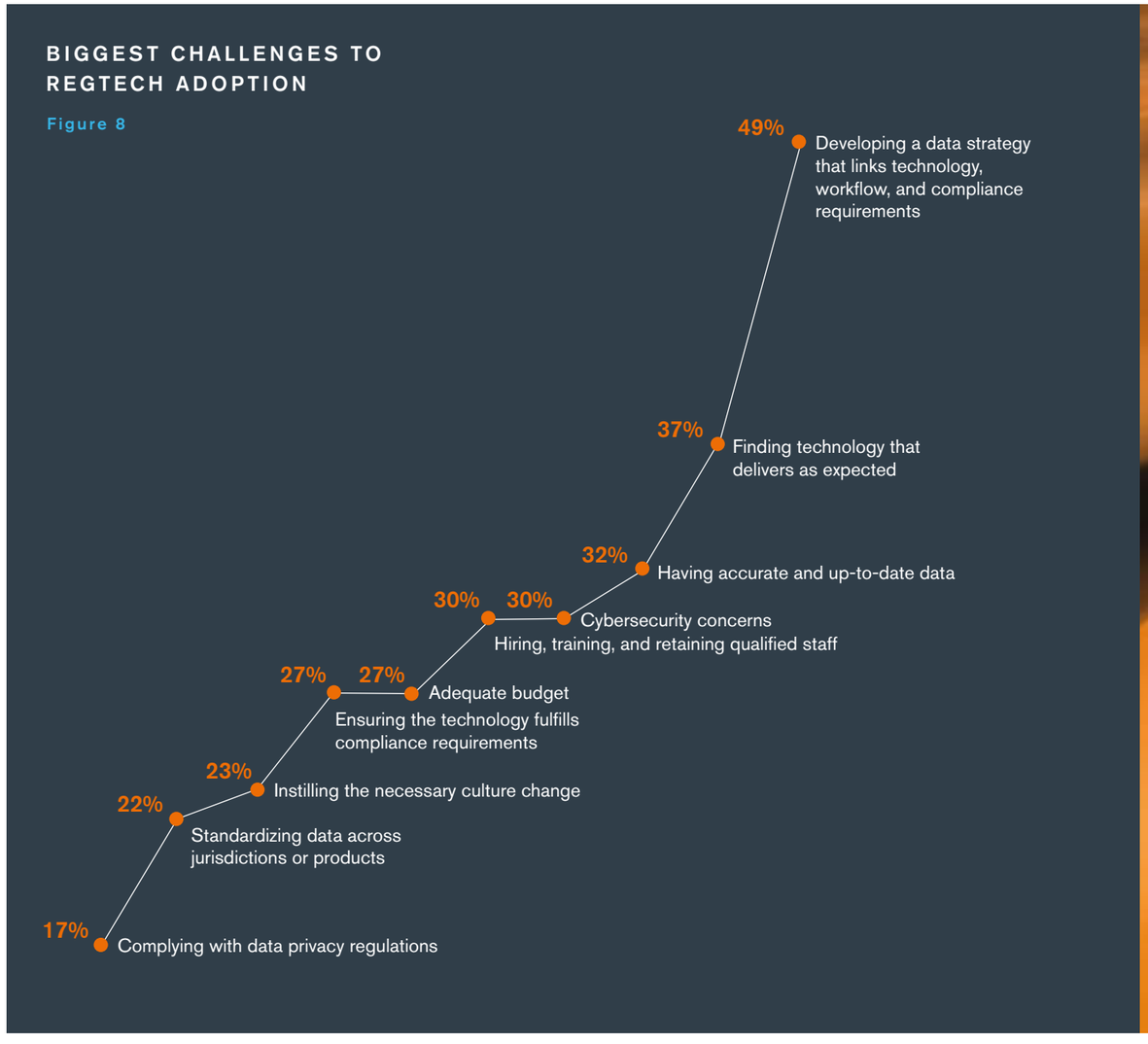
The third challenge we see involves culture, training, and support. Especially if the introduction of new technology is part of a larger rethinking of processes and workflow, it is critical to create buy-in along the way not only from firm management but also from those whose day-to-day work will be affected by the change.

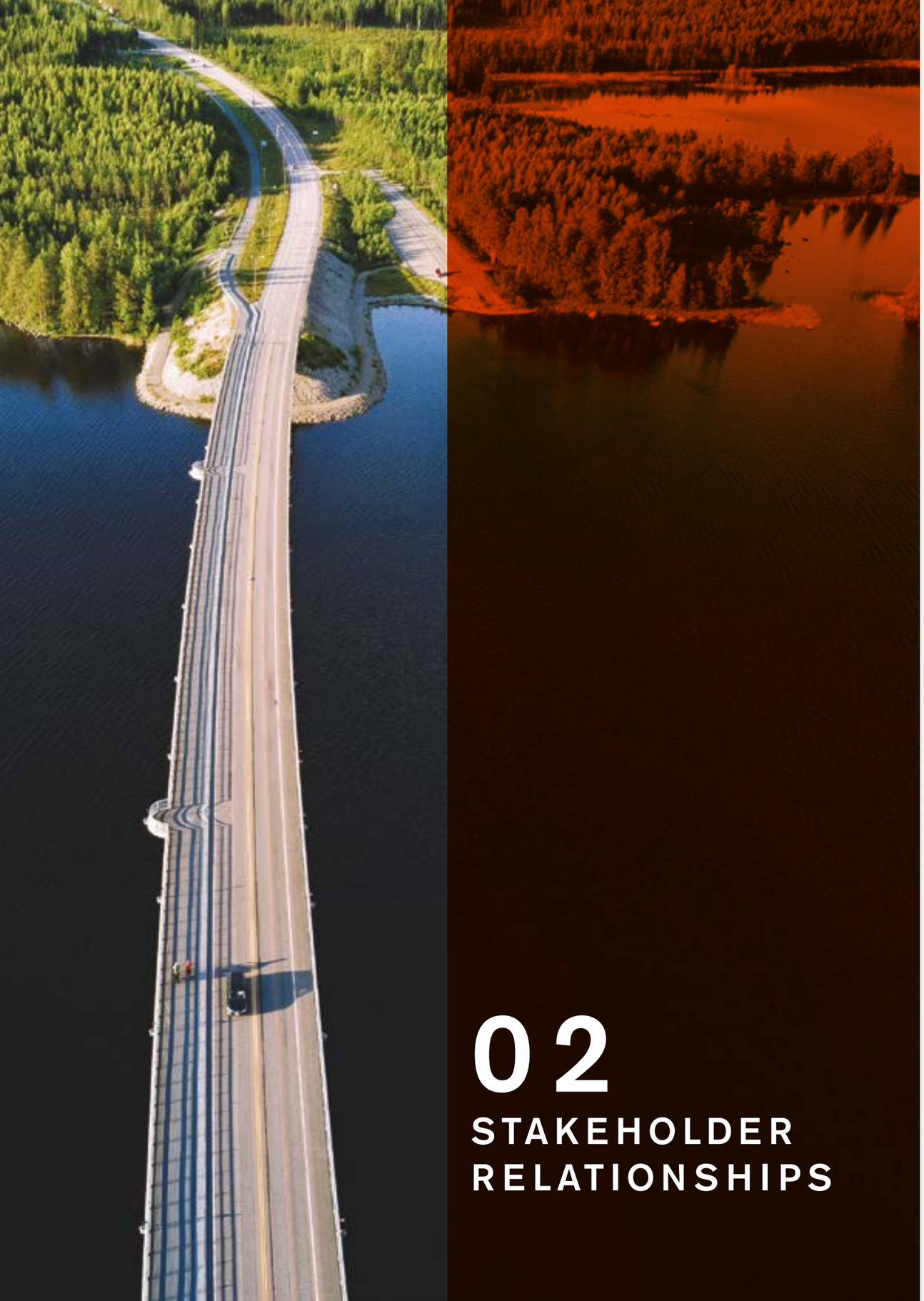
Once the implementation is underway, it may be months before everyone is comfortable with the transition. Remember that, in the beginning, the new processes may well seem cumbersome to those skilled in the old methods. It is thus critical to provide ongoing support to reinforce the cultural shift.

At the end of the day, of course, technology is only a tool, even when it is deployed in the most strategic manner. That tool needs to be wielded by those skilled in its use and in the support of a larger, robust compliance program.

BIGGEST CHALLENGES TO REGTECH ADOPTION

Figure 8





02
STAKEHOLDER RELATIONSHIPS

Through the Regulator's Eyes

Just like compliance officers, regulators work within a range of forces, priorities, and constraints. Understanding those factors is essential for managing regulatory relationships.

Given that regulators operate in conjunction with the enforcement power of the state, there is a natural tendency to see them as monolithic, all-powerful entities. But the fact is that regulators operate in the same highly dynamic environment as compliance officers. Understanding the regulatory perspective is essential for keeping compliance efforts effective, holistic, and strategic.

ANDREW BECKETT

MANAGING DIRECTOR
EMEA LEADER
KROLL, A DIVISION OF
DUFF & PHELPS
LONDON

andrew.beckett@kroll.com

PETER WILSON

MANAGING DIRECTOR
DUFF & PHELPS
NEW YORK

peter.wilson@duffandphelps.com

WITH TRANSPARENCY COMES RESPONSIBILITY

In several jurisdictions, regulators are becoming more transparent and collaborative with industry, sharing priorities, data, and other key insights. This evolution has been particularly notable in the United States, where the Securities and Exchange Commission has been much more active in issuing risk alerts and deficiency letters. With this increase in communications, however, comes an implied increase in expectations—firms should consider themselves as having been put on notice regarding the areas on which regulators will focus their attention. That the SEC has recently emphasized cybersecurity, marketing, and best execution, for example, means that chief compliance officers should proactively ensure that compliance best practices are woven in to those functions.

Regulators are embracing technology as well, not only in fostering fintech innovation, but also in ensuring that their own regulatory capabilities stay abreast of the growing torrent of financial information. This too raises the bar on compliance. With regulators increasingly applying advanced analytics to firm communications, transactions, and other data points, the internal audit function of financial institutions will be under increasing pressure to keep pace. Larger firms with sizable technology budgets are generally well positioned to respond accordingly. Small and mid-sized firms with more limited resources, however, will be forced to prioritize and to invest additional effort up front to establish a regtech strategy. In doing so, it will be critical to start by looking broadly at workflow, data handling, processes, and training—and only then to determine which technological fix makes for the most complete solution.

> An institution operating in a single jurisdiction that tailors its compliance program to that jurisdiction may find itself ill-prepared if it decides to expand operations into an area with more stringent requirements.

THE RIPPLE EFFECTS OF RESOURCE CONSTRAINTS

Just as many firms face resource constraints and must therefore set priorities, so it is with regulators. This is true of all jurisdictions, but particularly so in the many geographies where the regulatory infrastructure is still maturing. Consider that for every piece of legislation that is turned into a regulation, the regulatory agency needs to write, revise, and finalize the regulations; establish a framework for assessing compliance; and create a monitoring and testing process that has teeth but acknowledges that different institutions will be at different points in their development. Faced with those hurdles, a jurisdiction that is still strengthening the effectiveness of its anti-money laundering controls, for example, may have no choice but to postpone establishing appropriate cybersecurity regulations.

This situation affects institutions of all sizes. An institution operating in a single jurisdiction that tailors its compliance program to that jurisdiction may find itself ill-prepared if it decides to expand operations into an area with more stringent requirements—not to mention that it leaves itself vulnerable if it matches its risk mitigation efforts to compliance standards that can be outmaneuvered by more sophisticated bad actors.

But even those institutions with the expertise, resources, and technology to adopt global best practices are affected. The global nature of the financial sector exposes larger institutions to risk when they collaborate with local institutions where regulations are still maturing. There is a broader concern as well: An attack on any point in the financial system has the capacity to undermine public confidence in the larger infrastructure.

In the environment in which today's financial services firms operate, complying with regulations is only a starting point. Considering regulatory developments in their larger context can provide important insights that allow firms to more accurately recalibrate their risk management strategies.

In the Crosshairs: Navigating the Challenges of Regulatory and Enforcement Actions

Developing a coherent and risk-based response strategy in advance of a regulatory examination or investigation can go a long way in mitigating the disruptive impact that these encounters often have on financial services institutions.

Increasingly aggressive and targeted actions by regulators around the globe are an expanding risk that can tax even the most vigilant compliance programs. Strategies for handling these potentially traumatic situations need to be an integral part of a firm's compliance DNA. While specific best practices should be tailored to the specific jurisdiction (or jurisdictions) where the firm operates, the points discussed below offer a useful framework for successfully emerging from the regulatory crosshairs.

ONGOING PRACTICES

The tenor of an examination or investigation will be determined by the groundwork that financial institutions establish with their ongoing compliance and risk management practices.

Establish a compliance mindset. Regulatory compliance that operates as a discrete, siloed, and reactionary function presents the ideal environment for fostering a culture that leads to the violation of applicable rules and regulations. Compliance with legal and regulatory obligations needs to be woven into the fabric of all levels of the enterprise, from product and service development, to performance evaluation, to employee training and accountability programs. Firms operating in multiple jurisdictions should ensure that, while compliance programs may need to be tailored to those jurisdictions' specific risks and norms, the organization's core values and ethical conduct standards remain agnostic to location. The importance of compliance needs to be reinforced by the leadership of the firm, its functions, and its lines of business. In addition, executive compensation and performance assessment tools should be structured and aligned to reward compliant behavior.

KEN C. JOSEPH

MANAGING DIRECTOR
HEAD OF DISPUTES CONSULTING
DUFF & PHELPS
NEW YORK

ken.joseph@duffandphelps.com

Keep compliance resources aligned with needs. Institutions need to ensure that the staff and systems devoted to legal, compliance, audit, risk management, and governance keep pace with the growth and evolution of the business into new products and markets, shifts in risk profiles and appetites, and changing regulatory priorities. Employ appropriate technological innovations and data analysis to both structured and unstructured data sets to identify problems before regulators do.

Safeguard cyber systems and assets. Cybersecurity remains a primary risk for many firms—and thus a priority for regulators. Ensure that the firm's approach to cybersecurity evolves with changing threats and covers not just external intruders but also insiders, who are an often-overlooked source of both accidental damage and malicious incidents. Data privacy policies must keep pace with changing regulations and provide the same level of protection to client information that the firm gives to client assets.

Take a comprehensive view of risk. Traditionally, firms have looked at risk from an internal perspective, focusing on factors such as products, people, and infrastructure. In today's business environment, however, risk needs to be viewed comprehensively and holistically. This requires expanding the scope of efforts to identify, mitigate, and disclose risk, and thinking creatively about the places from where risk can emerge. Material contingencies within a transaction need to be scrutinized so that possible risks can be identified and mitigated. Clients, investors, and other third parties need to be subject to due diligence that extends beyond traditional financial measures to encompass their risk mitigation strategies. A reputational or cybersecurity problem affecting a third party can quickly infect your own organization.

Assess and document. Institutions need to conduct regular assessments of their enterprise-wide risks and controls. Appropriate documentation of findings allows problems to be identified and remediated and evidences a vibrant and effective self-policing function. Make sure that key documents such as certifications and licenses, compliance manuals, codes of ethics, and supervisory procedures are readily available, tailored, accurate, and current.

Have a regulatory crisis team and plan in place. Whether crises hit suddenly or emerge slowly, the mechanism for dealing with them quickly and authoritatively must be established in advance. Identify and have on call legal counsel, subject matter experts, and crisis-management and other consultants who can be deployed promptly to minimize damage and find solutions. Establish an escalation framework that can be easily and uniformly applied by managers and employees. Because crises might be triggered by whistleblowers, ensure that a functional whistleblowing mechanism is in place, with appropriate protections for employees who report issues either internally to the company or externally to regulators or law enforcement.

ONCE THE REGULATORS SURFACE AND SCRUTINY BEGINS

Once regulators begin the formal process of conducting an examination or investigation, response procedures need to be activated quickly. The following discussion identifies key factors that firms need in order to respond effectively under those high-pressure conditions.

Involve outside counsel and expert advisors. Because regulators and law enforcement are much more coordinated in their actions than previously, treat every interaction with regulators—even a scheduled examination—as non-routine and potentially warranting specialized expertise and guidance. For example, for its fiscal year 2018, the US Securities and Exchange Commission reported that examiners made more than 160 enforcement referrals, resulting in the return of more than $35 million to harmed investors.[1] Countless other referrals were undoubtedly made to prosecutors at the federal, state, and local levels.

Know the scope and staff. Like a potential business transaction, an examination or investigation calls for thorough due diligence. In an investigation, there is a high likelihood that you will be compelled by subpoena to produce documents. Do not assume, however, that the subpoena is the only document from which you can glean valuable information about the scope and purpose of the investigation. Make sure, for example, that you obtain the formal order of investigation, which may not be volunteered to the party receiving the subpoena. Know which regulatory staff you will be facing and research the public actions in which they have been involved. (Pay particular heed to those who come from specialized units; their technical expertise signals that the matter may be sufficiently complex and warranting extra scrutiny.) In the case of an investigation, find out if there is a parallel investigation being conducted by other law enforcement or regulatory agencies.

Engage and negotiate. Establishing what information is produced and in what form is an important factor in complying with the regulator's demands. In investigations, negotiate the terms of subpoenas or document requests; even in examinations, do not assume that there is no room for discussion regarding the specific requirements of document production. Engage and discuss with the staff.

[1] *2019 Examination Priorities,* US Securities and Exchange Commission Office of Compliance Inspections and Examinations, p. 3.

Be judicious in asserting privilege. Documents that represent legal advice or attorney work product are generally privileged and protected from production to third parties. But the mere fact that an attorney was involved with the document is not in itself enough to meet that standard. Firms with advisors (either internal or external) who fill both legal and business roles, or who have business advisors with legal backgrounds, need to be careful to assert privilege only where it is warranted. Unsupported claims of privilege are a sure way to alienate the regulators assigned to your case and undermine your credibility—which can carry serious consequences and lengthen the investigation.

Carefully manage documentation. When compiling documents for the examination or investigation, be sure to include all forms of communication, including emails and other electronic messages, handwritten notes, and documents stored in offsite locations. Establish controls to prevent documents from being fabricated or backdated, and ensure that documents created specifically to respond to the regulator's requests are labeled as such. Promptly suspend deletion/overwrite schedules so that all communications are retained in original form and metadata is not destroyed or altered. In order to maintain the confidentiality of the produced information, take the appropriate steps in your jurisdiction to reserve the right to object should a third party request the information from the government, and request that the materials be returned at the conclusion of the matter or, at minimum, that sensitive materials be afforded heightened protections.

Know when cooperation is the best course of action. The increased use of disgorgement penalties and deferred prosecution agreements has raised the stakes in investigations, making cooperation and self-reporting more attractive alternatives than they once were. When the decision has been made to cooperate, know the guidelines that determine full credit and ensure that they are met: Perform a timely, comprehensive, and independent review; address deficiencies; make full remediation to harmed parties and full disclosure to all relevant regulatory agencies; and demonstrate that self-policing controls and capabilities are in place and have been adequately strengthened where needed.

Even under the best of conditions, regulatory examinations and investigations are trying. From a long-term perspective, however, the scrutiny of a regulatory examination can be beneficial, helping firms address problematic issues before they become full-blown crises. When investigations ensue, having effective and well-thought-out strategies can help minimize the downside exposure and expedite the firm's ability to restore stakeholders' confidence and refocus on its core mission. In either scenario, advance preparation is critical.

Avoiding Investor Red Flags: The Role of Compliance in Fundraising

Experienced investors demand sophisticated compliance. Knowing what they look for can help fund managers turn compliance into a competitive advantage.

Institutional investors have always closely scrutinized a fund's investment strategy and financial track record when choosing where to put their money. In recent years, however, the quality of a firm's compliance has become just as important a factor in the investment decision. This has happened for several reasons, three of which are particularly worthy of mention. First, investors know that compliance requirements promote checks and balances, stability, and transparency. Second, firms that are both scrupulous and holistic in their compliance are likely to approach other aspects of operations—such as developing and executing an investment strategy—with a similar mindset. Finally, no investor wants the reputational repercussions of having invested with a firm that then runs into trouble with increasingly proactive regulatory and enforcement agencies.

We are often approached by firms that need to address a compliance shortfall as a condition of securing a new investor. While the specifics of those issues vary, we find that they are almost always due to having treated compliance as siloed obligations rather than as a set of operational best practices. The following checklist will help funds avoid the red flags that prompt investor concern.

CHRIS LOMBARDY

MANAGING DIRECTOR
HEAD OF U.S.
COMPLIANCE CONSULTING
DUFF & PHELPS
NEW YORK

chris.lombardy@duffandphelps.com

> No investor wants the reputational repercussions of having invested with a firm that then runs into trouble with increasingly proactive regulatory and enforcement agencies.

Does our compliance function have a culture of continuous improvement?

Compliance policies that sit on a shelf are of little use when regulatory and enforcement priorities and compliance best practices are constantly evolving. Ensuring that shortcomings identified in regulatory exams are properly remediated is just the start. Compliance teams should keep abreast of regulatory releases and priorities, regularly attend industry gatherings, and exchange information with peers in other firms. Keeping a log of these activities will help with follow-through and send a message to investors.

Is the marketing team a first line of defense or a source of compliance risk?

There is nothing wrong with the natural inclination to revise marketing materials in response to changing market conditions—so long as the changes to materials continue to conform to the content of the offering documents and regulatory guidelines. This control needs to be established across everything that is produced, from brochures and websites to one-off pitch decks. Exercise caution in depictions of performance, particularly when those depictions involve portability of performance or the use of hypothetical returns. If you port performance history from a prior firm, make sure that you have permission from the prior firm and that the porting and permission are clearly stated. When using hypothetical returns, it is imperative to include proper disclosures and support for the returns shown. Finally, train marketing staff thoroughly and regularly so that they become a first line of defense instead of a compliance risk.

Are we mitigating internal risk with checks and balances?

Firms need to ensure that there are sufficient checks and balances and segregation of duties. This requirement is especially important in payment of expenses and investment reconciliation: It is notoriously easy for firms to run afoul of regulators because of insufficient controls or recordkeeping in how expenses are invoiced across multiple funds or clients. Investment allocation is another potential problem area. As a firm launches additional funds or takes on separately managed accounts, does it have the necessary processes in place to distribute trades fairly among investors, as well as documentation showing how those processes were followed?

Are we practicing good due diligence—on ourselves?

AML/KYC regulations, as well as regulations involving sanctions and foreign investors, have placed an emphasis on due diligence of both investors and investments. But fund managers need to apply similar, ongoing scrutiny to the activities of their management and employees. This includes performing periodic background checks and maintaining policies and procedures regarding political contributions, outside business involvement, personal trading, and the giving and receiving of gifts and entertainment.

Can our valuations withstand scrutiny?

For firms that invest in thinly traded or hard-to-value securities or in alternative investments, accurate valuation is a cornerstone. But accuracy isn't enough—valuations must follow documented procedures and also rely on metrics and models that are able to withstand investor scrutiny, given the role that valuation plays in determining management fees and the subscription and redemption of investors.

Are cybersecurity and data privacy integral to our operational risk management?

Cybersecurity is critical to both risk management and regulatory compliance. As firms continue to integrate technology into their workflow, they must ensure that the sophistication of their cybersecurity infrastructure keeps pace, not just in protecting systems, but also in the identification, detection, response to, and recovery from incidents. Firms must also demonstrate that they are keeping abreast of evolving data privacy regulations on how client data is both used and stored.

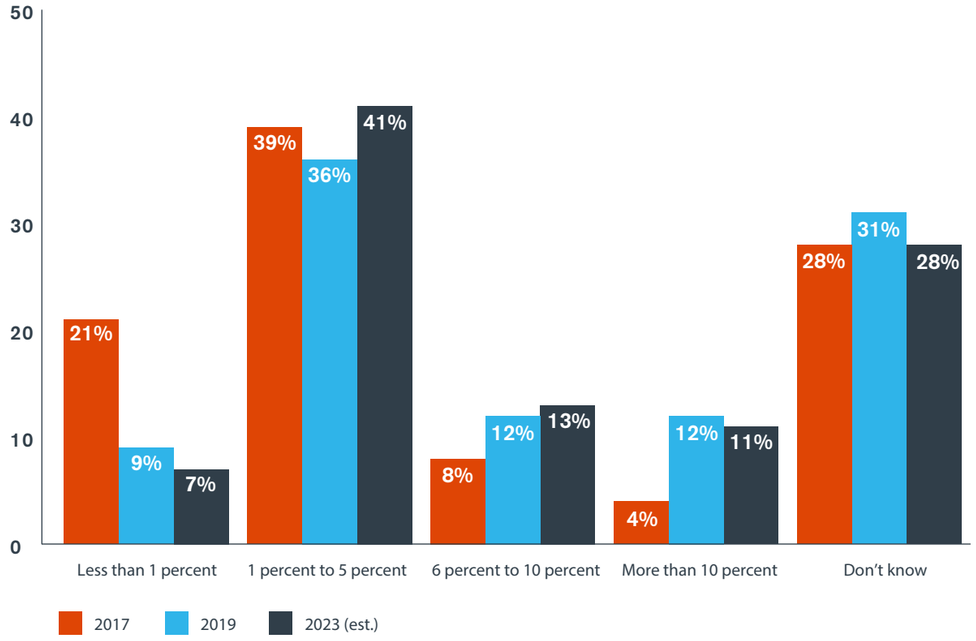
OUTSOURCING AS A BRIDGE FOR COMPLIANCE GAPS

Larger firms are likely to have the infrastructure in place for managing many, if not all, of these issues. Smaller and mid-sized firms, however, may lack the resources or scale to perform all compliance tasks at the level that investors now expect. A firm simply may not have the employee base, for example, to fully segregate duties or to maintain a full complement of cybersecurity capabilities in-house. And these constraints will likely become only more acute given the upward pressure on regulatory compliance budgeting. Our survey findings show that firms are spending more on compliance and that the increase is occurring more quickly than expected (see Figure 9). Because regulatory compliance budgets cannot increase indefinitely, success in this area will depend on careful prioritizing—and in many cases, the development of an outsourcing strategy to boost efficiency and fill gaps. After all, the vast majority of institutional investors won't be concerned if a firm needs outside expertise and resources for compliance, so long as the outsourcing is managed properly and the results are first-rate. This will particularly be the case for private equity firms and hedge funds; 76 percent of respondents in those sectors reported that regulatory compliance accounts for 6 percent or more of their firm's overall budget.

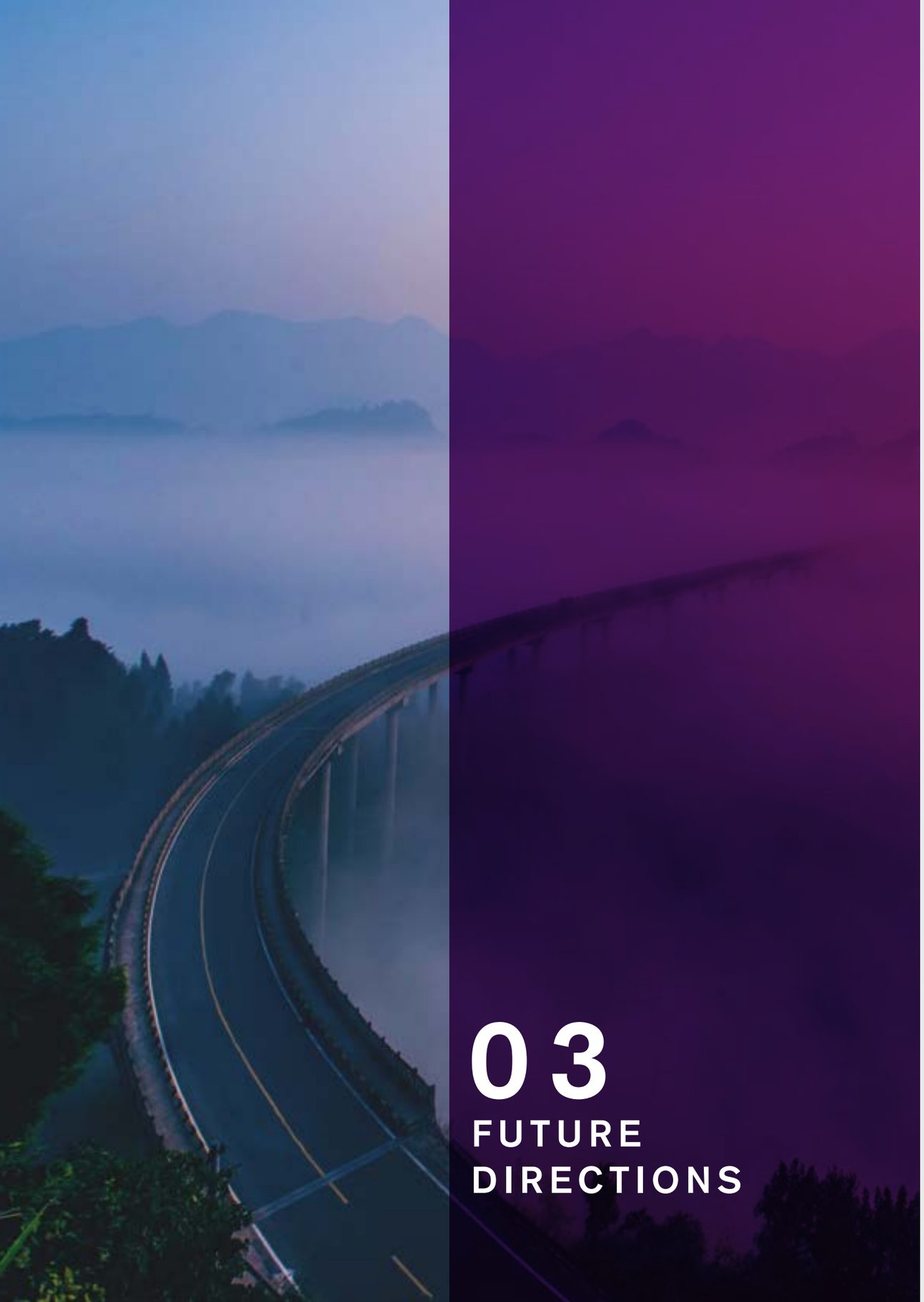
Investors have no shortage of funds from which to choose. In the competition for investor capital, good compliance won't compensate for subpar performance. But strong performance and strong governance together make for an unbeatable combination in the eyes of even the most skeptical investor.

REGULATORY COMPLIANCE BUDGET AS A PERCENTAGE OF OVERALL BUDGET

Figure 9



Last year's survey asked firms what percentage of their budget was allocated to regulatory compliance in 2017 and what they expected that percentage to be in 2023. When we asked about current budgeting in this year's survey, we found that much of the increase expected by 2023 has already occurred.



03
FUTURE DIRECTIONS

Toward a New Regulatory Physics

Regulators have generated waves of new requirements aimed at preventing another financial crisis. But a different tack will be needed for the dramatic changes the industry is likely to face.

Ten years on from the financial crisis, many in the industry are asking whether we are better positioned to prevent the next meltdown from occurring. Certainly, important gains have been made. Checks have been established to help prevent the excesses of the past, with a very real regulatory and enforcement infrastructure to keep those checks in place. There is greater interaction among jurisdictions and between regulators and industry, even if there are still improvements to be made. And there is greater awareness across the industry of the collective responsibility for ensuring a stable financial system.

However, what has worked in the past may not be as effective in the future. I would argue that despite the progress that has taken place, our approach to regulation will need to evolve in order to meet the dramatic changes that are likely to unfold within the industry.

> What has worked in the past may not be as effective in the future.

The regulatory methodology we have relied on both before and after the crisis has been to make the adjustments that prove necessary when the industry drifts off course or after a storm hits. Sometimes, if we've gone very far off course or after a particularly bad storm, those course adjustments can be quite extensive, as they were following the Great Depression of 1929 and after the 2008 crisis. And the fact is that the course corrections that regulators have made to the supertanker that is the world's financial system have done a fairly good job of keeping global markets afloat over the decades, all things considered.

But this reactive strategy has two serious limitations. The first is that, given human nature, it leads to extended cycles of scandal, response, drift, deregulation, and then scandals anew. One of the lessons of the crisis is that these cycles impose real costs on industry, consumers, investors, and governments, inflicting a collective scar each time society passes through one. That would be reason enough to try to improve this state of affairs.

NICK BAYLEY

MANAGING DIRECTOR
DUFF & PHELPS
LONDON

nick.bayley@duffandphelps.com

But the second reason is even more significant. The incremental approach to regulation is based on the assumption that the market is powered by certain inherent and rather static principles, not unlike the way the movement of all objects—including supertankers—is governed by Newton's laws. It follows from this assumption that the fundamental purpose of new regulation is to strengthen the guardrails that keep markets on course and hewing to those principles. Three important examples of those principles are:

1. Markets are naturally stable and efficient—and if they veer off course, we broadly understand how to correct them.

2. There is an enduring social contract among financial institutions, their employees, governments, and society that prevents excess and damage.

3. Corrections to the system may be expensive and imperfect, but they move us asymptotically toward the natural state of how things "should" be.

But if we learned anything from the crisis, it's how easily those ideas are swept aside. The crisis showed (and the subsequent rise of behavioral economics clarifies) that people are irrational and greedy, that economies are riddled with structural weaknesses, and that governments are flawed and can be hesitant to act. As for a social contract, we saw how gain is privatized and losses are socialized. It turns out that the market is not inherently effective, resilient, or fair; those qualities exist only to the extent that they are built into the system.

Beyond those sobering lessons, we must also recognize that the financial world is on the cusp of a transformation that is potentially so fundamental that it is frankly absurd to think that we can manage the system by merely tinkering with it. However much change has taken place with the rise of globalization, the internet, and social networks, all we've really done in financial services so far is to make the financial networks of the twentieth century bigger and much, much faster. The real changes have yet to begin—changes that will be powered by the ever-rising expectations of educated and empowered middle-class consumers around the world and by the geometric scaling of technological innovation. Consider the possibilities, for example, when Amazon or Microsoft decides to fully throw its weight into the financial services arena. When that happens, the current corrective strategy will no longer be merely imperfect—it will be wholly inadequate, in the same way that Newton's laws proved to be when physicists began to uncover the messy and less predictable ways that matter behaves at the subatomic level. For financial markets regulation to be prepared for the coming revolution, it needs to be governed by similarly new thinking.

As a first step toward that new thinking, I would suggest that we replace the three traditional market assumptions discussed above with the following:

1. We don't know from where the next crisis will emerge. The combination of globalization and technology will only accelerate the creation of new products, markets, and forces in ways that we cannot foresee. (Prediction, as the eminent physicist Niels Bohr once observed, is difficult—particularly about the future.)

2. Institutions don't make decisions—people do. The role of technology in driving change should not obscure the fact that, in the end, it is still people who decide how and when to use that technology. Indeed, regulators will never really be able to get their arms around the technologies that have been (and will be) unleashed. Instead, it is better for them to focus on the human elements of motivation, culture, and behavior.

3. Never be complacent. The key here isn't simply constant vigilance (which can result in a deceptive sense of security if you're guarding against the wrong thing) but rather constant curiosity—asking questions, connecting dots, imagining possibilities. This can be a particularly difficult perspective to maintain when times are good. It is also likely to require a broader range of skills and perspectives on the part of regulators, augmenting current collective competencies with disruptive thinkers who ask different questions and who can envision different sets of scenarios.

The old market principles were anchored on certainties, and regulation was based on creating policies to strengthen the guardrails around those certainties. In contrast, the new principles that guide regulation going forward need to be based on uncertainties—in how forces interact, in people's behaviors, in how the future will unfold.

The implications of this shift for both regulators and industry will be profound. Business, financial, and risk models will need to be rebuilt to better capture a more complex environment. Indeed, it will take considerable effort just to address the very question of how to define acceptable risk in the face of an expanded array of variables. Incentives and disincentives at both the regulatory and institutional level will have to be realigned to accommodate the greater uncertainty of the business environment in which managers and employees must make day-to-day decisions.

These changes will not be easy, but they will be necessary. Hopefully, the end result will be financial markets with the agility that will be essential for future stability, and a dampening of the swings of the regulatory compliance pendulum that have absorbed so much of the industry's energy in recent years.

Debanking and the Law of Unintended Consequences

The regulatory risk that comes from serving high-risk jurisdictions threatens to cut those jurisdictions off from the global financial network, creating the conditions for more financial crime.

There is a curious dynamic at the heart of the current regulatory efforts to counter money laundering and terrorist financing. On the one hand, regulators and law enforcement are increasingly vigilant in monitoring institutional checks and balances. On the other hand, regulators are taking a principle-based approach, providing guidelines and then leaving it to individual institutions to assess their risks and design the controls they deem appropriate. Having institutions take ownership of defining and solving the ML/TF problem is understandably thought to be an effective way of preventing the box-checking that seems thorough but can be easily evaded.

Unfortunately, this arrangement, which provides the rationale for the risk-based methods used to combat ML/TF today, has the potential to create a serious conflict between regulators and the firms they supervise. This is because giving institutions the latitude to create their own AML/CFT policies also means that there is a greater possibility of differences in interpretation and judgment—a situation that puts institutions in considerable jeopardy if they fail to correctly apply the risk-based approach to their business. The financial and reputational damage that flows from such failures can be costly.

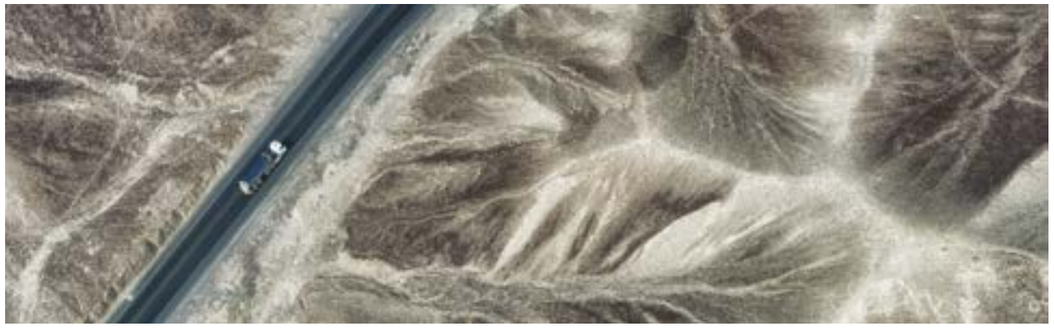
> Giving institutions the latitude to create their own AML/CFT policies creates a greater possibility of differences in interpretation and judgment.

MALIN NILSSON

MANAGING DIRECTOR
DUFF & PHELPS
CHANNEL ISLANDS
malin.nilsson@duffandphelps.com

ED SHORROCK

DIRECTOR
DUFF & PHELPS
CHANNEL ISLANDS
ed.shorrock@duffandphelps.com



RISK MANAGEMENT BECOMES RISK AVOIDANCE

This regulatory risk is both high and somewhat discretionary, resulting in two types of institutional risk-avoidance behaviors. The first is an overabundance of internal policies and procedures, leading to such things as corporate headquarters issuing their foreign subsidiaries hundreds of pages of mostly inapplicable rules and forms. In other cases, however, firms don't have the infrastructure to support the extra level of due diligence needed in high-risk markets or conclude after trying that the risks aren't worth it, and curtail their activity in those markets or exit them entirely.

At the level of the individual institution, this is a perfectly rational decision. Multiplied across the financial system, however, it has the effect of disconnecting high-risk jurisdictions from the global financial community and driving their economies underground—developments precisely counter to the regulatory goal of reducing financial crime and fostering greater transparency. Consider that while high-risk jurisdictions undoubtedly attract bad actors, many of the enterprises working within those jurisdictions are wholly legitimate. Furthermore, those jurisdictions play an important role in the global financial ecology. Emerging economies, for example, provide access to new markets and expanded supply chains. In addition, many of those economies endeavor to establish the regulatory and enforcement infrastructure that will eventually elevate them out of the high-risk category—a process that takes not only resources and political will, but also time. Finally, debanking penalizes offshore jurisdictions, which provide an important source of legitimate asset protection and help foster investment in countries with weak legal protections.

AN OPPORTUNITY FOR INTROSPECTION

As an example of the law of unintended consequences, the debanking phenomenon provides both regulators and institutions an opportunity for introspection. For regulators, as well as intragovernmental organizations like the World Bank and the International Monetary Fund, there is the reminder that regulatory risk is very real—and that choosing to leave the field is a viable option on the risk management spectrum. But when this happens, the overall fabric of the global financial system suffers. The goal of regulation, after all, is not only a transparent financial system that invites user confidence, but also a system that promotes access and economic development.

Financial institutions, for their part, need to examine the decision-making mechanisms they use when evaluating whether to enter or exit markets. Those institutions are motivated by the same pursuit of revenue and opportunity as other business enterprises. Particularly when times are good, an institution's assessment of a market can underweight inherent risk—including risk that can come from an increase in regulatory scrutiny. Similarly, when considering leaving a market, firms should examine if they are reacting to momentary conditions and if a longer-term view would suggest remaining.

Regulation sets the boundaries needed for a functioning financial system. It also adds another layer of incentives and disincentives to those generated by the market. In endeavoring to reduce certain risks, we need to closely monitor those incentives and disincentives and what happens when they combine, so that we do not undercut our ultimate objectives or create new risks along the way.

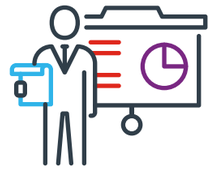
Owning the Risk Agenda

Risk management programs have long been shaped by regulatory priorities—which ironically makes the financial system more vulnerable to instability. Industry thus needs to be more proactive in setting its risk agenda.

In theory, a financial services firm's compliance program should be an extension of the firm's larger efforts in mitigating risk and protecting investors. In reality, however, a firm's risk management function is limited in its resources like any other corporate function, and therefore must pick its battles. More often than not, for obvious reasons, risk management ends up being largely shaped by the compliance requirements set by regulators.

But just as generals fight the last war, regulators tend to focus on preventing problems of the past from reoccurring rather than preemptively mitigating against new and future crises. We can see this in the themes that have dominated the global regulatory compliance landscape over the last decade. Risk management at banks has largely been defined by the global banking regulatory reform that occurred in response to the excessive leverage and "shadow banking" exposed by the 2008 financial crisis. Similarly, firms that trade in over-the-counter derivatives have had to implement the transparent trading, clearing, and reporting required by regulations put in place after the crisis. In addition, institutions along the financial services spectrum have spent considerable effort complying with increasingly complex regulations designed to combat longstanding threats from money laundering, terrorist financing, and tax evasion.

However, while regulators and firms have been focused on these concerns for the last decade, new risks have been emerging. Many of these emerging risks tend to fall into one or more of the following four categories:



1. Operations. Business models and products are becoming more complex and specialized as financial services institutions compete to serve increasingly sophisticated consumers and to provide better returns on investment. But regulations addressing operations tend to lag behind reality, especially as products rapidly evolve in the field.

3. Outsourcing. As value creation becomes more specialized, customer bases become global, and industries converge, outsourcing and partnerships are increasingly critical parts of the business. But reliance on third parties brings a host of concerns ranging from performance risk to reputational risk.

2. Data and technology. Financial services over the next decade will see further automation and use of data analysis in decision making and transactions. However, as technology simplifies, it also complicates, setting in motion effects that can be difficult to predict—even more so as multiple high-speed platforms powered by machine learning and artifical intelligence begin to interact.

4. People. The move toward greater automation does not mean that people will be playing less of a role but rather that the role will increasingly draw on innately human qualities such as creative judgment, persuasion, and connection. Finding people with these attributes in abundance is inherently difficult. More importantly from a risk perspective, judgment, persuasion, and connection must be properly harnessed to proper communication and incentives. This is a hard formula to get right.

SINYEE KOH

DIRECTOR
DUFF & PHELPS
SINGAPORE
sinyee.koh@duffandphelps.com

> A disconnect has widened in places between the risk agendas of regulators and the actual risks that industry faces—a disconnect that is itself a significant risk.

These emerging risks have not yet caused crises or made headlines; they remain discrete challenges at individual firms. As such, they are still making their way onto the regulatory agenda, which by definition is focused on establishing rules that can apply to the entire industry (or at least a defined subset of it) rather than on creating specific solutions to specific problems. But these issues are very much on the minds of firm risk managers and strategic decision makers.

To be sure, regulators and financial institutions alike are starting to identify and plan around these risks. There are rigorous processes for onboarding new technologies. Due diligence of third parties is becoming more extensive, expanding beyond financial and legal matters to encompass a larger sense of the counterparty's business practices and business relationships. There is a greater awareness of the role that recruiting, training, and retention play in human capital.

However, most firms will admit that they are far from being out in front on these issues. And this is likely to remain the case so as long as firm risk management follows regulatory priorities, and those regulatory priorities are primarily focused on preventing past crises from reoccurring.

In other words, a disconnect has widened in places between the risk agendas of regulators and the actual risks that industry faces. This disconnect is itself a significant risk, increasing the probability that a crisis could emerge from the range of issues currently brewing. Industry should not wait for regulators to solve this problem. Instead, industry needs to become more proactive in setting a risk management agenda that starts with regulatory compliance but then goes beyond it to include the systematic and collective examination of risks in their earliest stages. This will require collaboration between firms and the sharing of data and experience—including vulnerabilities and what has and has not worked in countering them.

For all its limitations, the strategy of letting regulators set industry's risk agenda can also become somewhat comfortable. Financial services firms need to break out of that paradigm, both to solve the problems in front of them and to strengthen the foundation for the financial system's long-term stability.

REGULATORY CALENDARS

Channel Islands	**50**
France	**56**
Hong Kong	**58**
Ireland	**60**
Luxembourg	**64**
Singapore	**68**
United Kingdom	**74**
United States	**78**

CHANNEL ISLANDS: JERSEY

MALIN NILSSON
MANAGING DIRECTOR
DUFF & PHELPS
CHANNEL ISLANDS
malin.nilsson@duffandphelps.com

ED SHORROCK
DIRECTOR
DUFF & PHELPS
CHANNEL ISLANDS
ed.shorrock@duffandphelps.com

TOPIC	UPDATE	DATE	REGULATED - SEE KEY
BENEFICIAL OWNERSHIP REPORTING AND REGISTER OF DIRECTORS	Pursuant to a public consultation in Q1 2016, the JFSC will continue to develop new systems and processes during 2019, including: 1. A central register of directors of Jersey companies 2. Systems and processes to exchange information with law enforcement and tax authorities on request 3. Systems and processes to replace the annual return with a confirmation statement As part of engaging the industry to deliver the above, the JFSC will also provide guidance, policy, procedures, and processes.	Jersey corporate or legal entities were required to confirm with the Companies Registry between January 1, 2017, and June 30, 2017, their beneficial ownership information.	
CIVIL FINANCIAL PENALTIES – PRINCIPAL PERSONS	Pursuant to Consultation Paper No. 1 2019, the JFSC may now impose civil financial penalties of up to £400,000 on principal persons if a Registered Person materially breaches a Code of Practice on or after October 26, 2018, with the consent of, or assistance from, a principal person. In this case, principal persons can include directors and controlling shareholders of Registered Persons. This new penalty regime is not retroactive; a penalty can only be imposed if the relevant material breach(es) occurred after October 26, 2018, or occurred before and continued after that date.	Effective from October 26, 2018	
SUBSTANCE REQUIREMENTS FOR JERSEY TAX RESIDENT COMPANIES	Jersey's Taxation (Companies — Economic Substance) (Jersey) Law, 2018 requires companies claiming tax residency in Jersey to show that they have sufficient economic substance by demonstrating that they are being directed and managed in the relevant jurisdiction; that they are conducting Core Income Generating Activities ("CIGA"); and that they have adequate people, premises, and expenditures in that jurisdiction. If the Comptroller determines that this economic substance test has not been met, companies may be liable to financial penalties.	Effective from January 1, 2019	

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TOPIC	UPDATE	DATE	REGULATED - SEE KEY
BASEL III	On April 26, 2017, the JFSC published Consultation Paper No. 3 2017, addressing liquidity management with respect to Basel III. The Consultation Paper proposes to implement the liquidity measures required under Basel III with respect to Jersey Incorporated Banks and also to address changes to the prudential reporting of the liquidity position of Overseas Incorporated Banks. Although it was intended that the changes proposed in this Consultation Paper and in CP No. 8 2015 would be in place by December 2018, an update is now expected in Q1 2019.	Update expected in Q1 2019	
PII GUIDANCE NOTE	Under proposed changes to the Codes of Practice, the JFSC expressly states that when a Registered Person ceases to carry out regulated activities, it is expected to have in place appropriate run-off PII coverage for a period of between three and six years. Although an update on the recently published PII Guidance Note following industry feedback was initially expected in December 2018, the update is now expected during Q1 2019.	Update expected in Q1 2019	
GIFCS	As a member of the Group of International Finance Centre Supervisors (GIFCS), Jersey was subject to peer group assessment in 2017 of its compliance with the GIFCS Standard on the Regulation of Trust and Corporate Service Providers. GIFCS has confirmed that a report on each assessment will be published. Recommendations from the review may have implications for all Jersey license holders.	Report on assessment expected in Q1/Q2 2019	
CHANGES TO CODES OF PRACTICE	The JFSC published Consultation Paper No. 1 2019, which proposed amendments to several Codes of Practice, including: 1. Preventing insurers from paying civil financial penalties on behalf of the persons upon whom the penalties are imposed 2. Mandating an annual independent review of the controls over fund money held by Registered Persons 3. The expectation that fund managers specifically consider the risk of cybersecurity incidents through the creation of a documented policy to identify and respond to such risks	The consultation opened in November 2018 and closed on January 7, 2019; updates are likely to be made law as soon as possible in Q1 2019.	

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JERSEY CONTINUED

TOPIC	UPDATE	DATE	REGULATED - SEE KEY
JFSC SUPERVISORY THEMATIC PROGRAMME	The JFSC has published its Supervisory Thematic Programme for 2019, which includes: **1. Outsourcing arrangements**. Starting in Q4 2018, the Supervision Examination Unit (SEU) examined whether Registered Persons with Outsourcing Arrangements ("OAs") have taken adequate measures to counter associated material risks and have implemented appropriate systems and controls to exercise oversight of existing OAs. In Q1 2019, the SEU will continue to review and assess the extent to which Registered Persons understand the new requirements; it will also finalize its fieldwork and report on any findings.	Began in Q4 2018, and is expected to continue throughout Q1 2019	
	2. The role of the money laundering reporting officer. Due to the importance of the role of the Money Laundering Reporting Officer ("MLRO"), the JFSC intends to consider: a. How the Registered (or relevant) Person exercises appropriate governance, control, oversight, and support of the MLRO, including determining whether the MLRO is sufficiently independent and holds appropriate authority within the business b. How the MLRO discharges its obligations under the AML/CFT legislative and regulatory framework, including internal SAR assessment and external SAR documentation and disclosure	Scheduled to begin in Q4 2019	
	3. Reliance. Jersey received a "partially compliant" rating for Reliance in the May 2016 MONEYVAL report, which summarized Jersey's position against the 40+9 FATF recommendations. In light of this rating, the JFSC will conduct a thematic review to obtain a better understanding of the current use of Reliance across all sectors, particularly focusing on adherence to the requirements of Article 16 and 16A of the Money Laundering (Jersey) Order 2008 and the AML/CFT Handbooks.	Scheduled to begin in Q4 2019	
	4. Compliance monitoring. In response to recent examinations that identified Registered Persons who were unable to evidence full compliance with the requirements of the Code, the JFSC has undertaken a thematic examination of the governance and oversight of the compliance function by the senior management of Registered Persons, and the adequacy and effectiveness of compliance monitoring carried out by the compliance function.	Scheduled to begin in Q4 2019	
IB REGIME ENHANCEMENTS PROJECT	On December 18, 2018, the JFSC posted feedback on planned enhancements to the Investment Business Regime. It is the intention of the JFSC to prepare and publish further guidance in relation to certain areas of the amended IB Code in 2019. Legislative changes will be proposed to the government and a consultation process will also follow in 2019. So that two new iterations of the IB Code are not issued in short order, it is expected that any amendments to the IB Code will come into force concurrent with changes to the Codes of Practice in Q2 2019.	Q2 2019	
MONEYVAL/AML	In preparation for the next MONEYVAL site visit in 2021, the Jersey Financial Crime Strategy Group's priorities for 2019 include focusing on improving the effectiveness of Jersey's operational and resourcing framework, as well as drafting amendments to policy and legislation, to combat financial crime. Additionally, the JFSC will be devoting significant resources in 2019 to the National Risk Assessment, as well as to the enhancement of systems and the legal framework within the Registry.	The next MONEYVAL site visit is currently planned for 2021.	
SUPERVISION DATA COLLECTION/NRA	As part of Phase III of its supervisory risk data collection exercise, the JFSC will be collecting the same data for 2018 as it did for 2017. This is to determine whether there is any significant change from the data previously provided and to help establish the frequency of future data collection exercises. Data for lawyers, accountants, estate agents, casinos, and lenders/money service businesses (but not banks) must be submitted via the MyJFSC portal by March 1, 2019. All other sectors will need to submit their data by April 5, 2019. For the banking sector, the JFSC is also collecting wire transfer data pertinent to 2018.	The exercise began on January 14, 2019. Data will need to be submitted by some sectors by March 1, 2019; others will need to submit by April 5, 2019.	
CYBER SECURITY	As part of its Thematic Supervision Programme, the JFSC may supplement the identified themes by performing additional themed examinations as needed. One additional theme is cybersecurity. Sector-specific supervision managers will lead pilot thematic reviews on cybersecurity during 2019. Further information will be provided by the JFSC in due course.	H2 2019	
EXTENDED SCOPE OF ACTIVITIES	Pending recent government consultation papers, the JFSC is likely to update its scope of activities to extend to two additional areas: consumer lending and pension scheme providers (including pension schemes). In 2019, the Policy Division will work closely with the Government of Jersey to develop regulatory regimes for both areas.	To be developed over the course of 2019	
ESMA RECOMMENDS AN EXTENSION OF AIFMD PASSPORTING TO JERSEY	On July 19, 2016, ESMA made a recommendation to the European Commission, Parliament, and Council that Jersey should be among the "third countries" granted an AIFMD passport. ESMA concluded that no obstacles exist to the extension of the passport to Jersey. In light of the Brexit vote, the European Commission has delayed any decisions on third-country passport extensions until there is further clarity on the UK's exit from the EU.	This will depend on Brexit developments, but is not expected for at least 12 months.	

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CHANNEL ISLANDS: GUERNSEY

MALIN NILSSON
MANAGING DIRECTOR
DUFF & PHELPS
CHANNEL ISLANDS
malin.nilsson@duffandphelps.com

ED SHORROCK
DIRECTOR
DUFF & PHELPS
CHANNEL ISLANDS
ed.shorrock@duffandphelps.com

TOPIC	UPDATE	DATE	REGULATED - SEE KEY
HANDBOOK ON COUNTERING FINANCIAL CRIME AND TERRORIST FINANCING	On March 12, 2019, the Guernsey Financial Services Commission ("GFSC") published the final version of the revised Handbook on Countering Financial Crime and Terrorist Financing ("Revised Handbook"). The Revised Handbook, together with the revised legislation, is intended to bring the Bailiwick of Guernsey's AML/CFT framework into line with international standards issued by the Financial Action Task Force in 2012 and to address recommendations made by MONEYVAL in its 2015 evaluation of Guernsey. Important dates to note are: ▪ March 31, 2019: The revised law comes into force; Money Laundering Compliance Officers ("MLCOs") must be appointed, and risk assessments must be prepared as soon as reasonably practicable thereafter. ▪ April 14, 2019: Notification of MLCO appointment (and of Money Laundering Reporting Officer ["MLRO"] appointment, where it has changed) must be made to the GFSC. ▪ July 31, 2019: By this date (or four months after the publication of the National Risk Assessment, whichever is later), revised Business Risk Assessments ("BRAs") must have been approved by each firm. ▪ December 31, 2020: All high-risk business arrangements must be reviewed in accordance with the Revised Handbook. ▪ December 31, 2021: All remaining business arrangements must be reviewed in accordance with the Revised Handbook.	The revised draft legislation is due to take effect on March 31, 2019, and the GFSC will formally make the rules in the Handbook during the first quarter of 2019 to allow for the addressing of any technical issues in the rules that could hinder or prevent compliance with the revised regulatory framework.	
CODE OF MARKET CONDUCT	Following the closing of the consultation period on July 12, 2018, the GFSC published the Code of Market Conduct in November 2018. The Code is intended to provide guidance on whether particular behaviors amount to market abuse and thus provides the GFSC with a clearer basis for pursuing enforcement actions against market abuse. This guidance has been anticipated for a number of years. Those undertaking on-market transactions should review their current practices in light of the guidance provided by the new Code.	Effective from November 5, 2018	

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TOPIC	UPDATE	DATE	REGULATED - SEE KEY
FIT AND PROPER GUIDANCE	The GFSC has issued guidance on how to meet the "fit and proper" standard set out in the relevant minimum criteria for licensing. The guidance explains the standards that an individual being appointed to or holding a "prescribed position" (including directors, controllers, and managers) needs to demonstrate consistently from the outset. Additionally, the guidance addresses factors for measuring compliance with the standards, including the key factors of competence, probity and solvency, and how the GFSC assesses the "fitness and propriety" of an applicant for a prescribed position.	Effective from October 5, 2018	
SUBSTANCE REQUIREMENTS FOR GUERNSEY TAX RESIDENT COMPANIES	Guernsey's Income Tax (Substance Requirements) (Implementation) Regulations, 2018 and Income Tax (Substance Requirements) (Guernsey) (Amendment) Ordinance, 2018 require tax resident companies claiming tax residency in Guernsey to show that they have sufficient economic substance by demonstrating that they are being directed and managed in the relevant jurisdiction; that they are conducting Core Income Generating Activities ("CIGA"); and that they have adequate people, premises, and expenditures in that jurisdiction. If the Comptroller determines that this economic substance test has not been met, companies may be liable to financial penalties.	Effective from January 1, 2019	
SINGLE FIDUCIARY HANDBOOK AND REVISION OF PENSION RULES	On March 5, 2019, the GFSC issued a discussion paper to seek feedback on potential enhancements to the regulatory framework under the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 (the "Fiduciaries Law") that would maintain compliance with international standards. The discussion paper's primary proposal is to repeal the current framework and to reframe into a new single Fiduciary Handbook any new/current provisions under the GIFCS standard. In addition, the discussion paper proposes that this Fiduciary Handbook incorporate the conduct of business-related elements of the Pension Licensees (Conduct of Business) & Domestic and International Pension Scheme and Gratuity Scheme Rules (No. 2) 2017 (the "Pension Rules").	The closing date for the discussion paper is April 30, 2019.	

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FRANCE

HANNAH ROSSITER

DIRECTOR
DUFF & PHELPS
PARIS

hannah.rossiter@duffandphelps.com

TOPIC	UPDATE	DATE	FUND - SEE KEY
ORDER NO. 2017-1432 OF OCTOBER 4, 2017 ("SAPIN II")	On January 1, 2019, Order No. 2017-1432 of October 4, 2017, entered into force. This order modernizes the legal framework for asset management and debt financing for securitization institutions. The order has three well-defined objectives: 1. Increasing the clarity for international players regarding the legal regime applicable to alternative investment funds ("AIFs") 2. Boosting the competitiveness of the Paris financial market 3. Bringing French law into compliance with the European Long-Term Investment Fund ("ELTIF") Regulation	January 1, 2019	
REGULATION (EU) 2017/2402 ON SECURITIZATION ("STS")	On January 1, 2019, the Securitization Regulation ("STS") entered into force. It defines securitization and establishes, among other issues, the due diligence, risk retention, and transparency requirements for all parties involved in securitizations, whether banks or other financial market participants.	January 1, 2019	
REGULATION (EU) 2017/1131 ON MONEY MARKET FUNDS ("MMFS")	This is the deadline by which an existing fund must submit an MMF authorization request. The Money Market Fund Regulation ("MMFR") applies to all MMFs, whether they are Undertakings for the Collective Investment in Transferable Securities ("UCITS") or alternative investment funds ("AIFs"). New MMFs created after July 21, 2018, must comply from their inception, while MMFs that existed as of that date had until January 21, 2019, to comply.	January 21, 2019	
ANTI-MONEY LAUNDERING REPORTING	French financial service providers and French branches of non-French EEA financial services providers must complete the Anti-Money Laundering form, formerly referred to as "SURFI." Effective 2019, the Banque de France OneGate portal and reporting tool no longer identifies a single AML report to be filed; it now requires the filing of a series of individual reports ("B0," "B1," etc.), as defined in ACPR Instruction 2018-I-05.	February 28, 2019	
REGULATION (EU) 2017/1131 ON MONEY MARKET FUNDS ("MMFS")	This date marks the end of the authorization period for MMFs. Since the AMF has a maximum of two months to grant MMF authorizations, the final date for submission of an authorization request was March 21, 2019.	March 21, 2019	
ANNUAL REPORTING BY FINANCIAL SERVICES PROVIDERS	Financial service providers are required to submit to the AMF and to the provider's governing body an Annual Compliance Report, an annual Risk Measurement and Monitoring Report, and a Report on Remuneration Policy and Practice. RCSI Report is to be submitted to the AMF.	April 30, 2019	
UCITS FUND MANAGER MARKETING REPORT	UCITS fund managers must report to AMF a list of UCITS funds marketed under the passport regime in another EU member state. For each UCITS fund, the list must include the name and registration number, the countries concerned, the date of the marketing passport, and the name of the issuing competent national authority.	April 30, 2019	
ANNUAL AMF CONTRIBUTION	Investment service providers regulated by the AMF or the ACPR, and fund structures with a corporate form (e.g., SICAVs), are required to pay their annual fees to the AMF by April 30, 2019.	April 30, 2019	Possible
ASSET MANAGEMENT COMPANIES' ANNUAL AMF REPORT	Asset management companies must submit an Annual Information Sheet and Compliance Officer's Report to the AMF by May 15, 2019.	May 15, 2019	
ACPR QUESTIONNAIRE ON CUSTOMER PROTECTION AND BUSINESS PRACTICES	Reporting on the ACPR Questionnaire must include: 1. Data on identification and activity 2. Statistical data on business activity 3. Information relating to business practices and dedicated resources 4. Information relating to the internal control process	June 30, 2019	
REGULATION (EU) NO. 909/2014 ON CENTRAL SECURITIES DEPOSITORIES ("CSDR")	Central securities depositories must provide Internalized Settlement Reporting on a quarterly basis to the competent authorities of their place of establishment. This reporting discloses the aggregated volume and value of all securities transactions that the depository settles outside securities settlement systems.	Before July 12, 2019	
FOREIGN ACCOUNT TAX COMPLIANCE ACT ("FATCA")	The Foreign Account Tax Compliance Act ("FATCA") is a US law that requires French financial institutions (including investment funds) to identify and report on US persons to the French tax authorities via the web portal for Tiers Déclarants, TéléTD. The French tax authorities then transmit the data to the IRS. FATCA reporting is required for all new accounts and includes a nil reporting requirement in cases where no new accounts have been opened over the applicable period. The TéléTD service opens for FATCA reports on May 2, 2019, and reporting for the year 2018 must be completed by July 31, 2019.	July 31, 2019	
ASSET MANAGEMENT COMPANY ANNUAL DECLARATION OF RELEVANT CHANGES	Asset management companies are required to provide to the AMF an annual declaration of any changes that occurred over the preceding 12 months with regard to the company's staff, direct or indirect shareholders, subsidiaries or other holdings, Memorandum & Articles, or TRACFIN (MLRO) officers.	Declaration on anniversary date of the firm's authorization and only where a change has taken place over the preceding 12 months	
ASSET MANAGEMENT COMPANY COMPLIANCE, AUDIT AND RISK REPORT	Asset management companies are required to provide to the AMF a Compliance, Audit and Risk Report detailing compliance controls and the corrective action(s) taken where failings in compliance functions have been detected.	At least on an annual basis	
REGULATION (EU) 2016/1011 ON EUROPEAN BENCHMARK ("BMR")	This date marks the end of the BMR transition period. From January 1, 2018, an authorization is required before starting a new activity, (e.g., launching a new fund), or the creation of an index by an administrator whose activity started between July 1, 2016, and December 31, 2017.	January 1, 2020	
REGULATION (EU) 2017/1131 ON MONEY MARKET FUNDS ("MMFS")	Pursuant to Article 37 of the MMF Regulation ("MMFR"), MMFs with AUM in excess of €100M must submit their first quarterly report in April 2020, covering the first quarter of 2020. MMFs with AUM under €100M can continue to report annually. The reporting requirement is not retroactive.	April 2020	

UCITS Fund Manager or UCITS Fund | **Alternative Investment Fund Manager or Alternative Investment Fund IB regulated** | **Investment Firms (ACPR Regulated entities)**

ACPR = Autorité de Contrôle Prudentiel et de Résolution
AMF = Autorité des marchés financiers
RCCI = Responsable de Conformité et Contrôle Interne
RSCI = Responsable de la Conformité pour les Services d'Investissement
CRBF = Comité de la Réglementation Bancaire et Financière

HONG KONG

NICK INMAN
MANAGING DIRECTOR
DUFF & PHELPS
HONG KONG
nick.inman@duffandphelps.com

ALASDAIR PUTT
DIRECTOR
DUFF & PHELPS
HONG KONG
alasdair.putt@duffandphelps.com

TOPIC	UPDATE	DATE	FUND - SEE KEY
AMENDMENTS TO THE (1) GUIDELINE ON ANTI-MONEY LAUNDERING ("AML") AND COUNTER-FINANCING OF TERRORISM ("CFT") AND (2) PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING GUIDELINE	In conjunction with the Financial Action Task Force's ("FATF") on-site evaluation assessment in late 2018, which examined the effectiveness of the AML and CFT regime and of the implementation of FATF standards in Hong Kong, the Securities and Futures Commission ("SFC") proposed a range of amendments to the Guidelines. The proposed amendments are intended to ensure that the SFC keeps Hong Kong compliant with the latest international AML/CFT standards, and to improve the usefulness and relevance of the AML/CTF Guidelines in light of industry developments and feedback from licensed entities in Hong Kong. Specific areas for review include expanding the scope of Politically Exposed Persons ("PEPs"), requiring licensed corporations to implement group-wide AML/CFT systems in all of their overseas branches and subsidiaries, enhancing client due diligence ("CDD") procedures, and increasing record-retention requirements.	▪ Consultation closed August 9, 2018 ▪ Revised AML/CFT guidelines came into effect November 1, 2018	
OTC DERIVATIVES REGIME	To address structural deficiencies in the over-the-counter ("OTC") derivatives market that were highlighted by the 2008 global financial crisis, the Legislative Council enacted the Securities and Futures (Amendment) Ordinance 2014 on March 26, 2014. Three phases have already been implemented: 1. Mandatory reporting of transactions in certain interest-rate swaps and non-deliverable forwards, and related recordkeeping obligations 2. Mandatory clearing of certain transactions of standardized interest-rate swaps and related recordkeeping obligations 3. Expanded mandatory reporting so that the category of OTC derivatives covers all major asset classes On June 19, 2018, the SFC issued a Consultation Paper to seek public comment on proposals to implement margin requirements for non-centrally cleared OTC derivatives.	▪ Consultation closed August 20, 2018 ▪ Consultation conclusions – pending	

Hedge fund manager Private equity Broker

TOPIC	UPDATE	DATE	FUND - SEE KEY
PROPOSED GUIDELINES ON ONLINE DISTRIBUTION AND ADVISORY PLATFORMS AND FURTHER CONSULTATION ON OFFLINE REQUIREMENTS APPLICABLE TO COMPLEX PRODUCTS	On May 5, 2017, the SFC issued a Consultation Paper aiming to provide tailored guidance to the industry on the SFC's expectations for the design and operation of online platforms, and to clarify how the suitability requirements would operate in an online environment. The consultation ended on August 4, 2017. Key comments from the consultation focused on the types of investment products and distinguishing the non-complex from the complex, as well as on the requirement to ensure suitability in the sale of complex products online. In March 2018, the SFC issued the proposed guidelines and is now conducting further consultation on additional measures that would apply the same standards to offline sales of complex products as apply to online sales of such products.	▪ Public input submission deadline – May 28, 2018 ▪ Guidelines becoming effective – pending	
GUIDELINES FOR SECURITIES MARGIN FINANCING ACTIVITIES	In August 2018, the SFC invited market participants to submit comments on a draft set of guidelines for securities margin financing activities. This was based on a recent SFC review that had revealed what the SFC considered to be irresponsible margin lending practices, giving rise to concerns that brokers were being exposed to unreasonable financial and concentration risk. These further margin financing guidelines seek to clarify and standardize the risk management practices that are expected of brokers conducting securities margin financing. The proposed guidelines consist of both qualitative requirements for various risk control areas and quantitative benchmarks for measuring and monitoring these areas.	▪ Public input submission deadline – October 18, 2018 ▪ Guidelines becoming effective – pending	

Hedge fund manager Private equity Broker

IRELAND

KILLIAN BUCKLEY
MANAGING DIRECTOR
HEAD OF MANAGEMENT COMPANY SOLUTIONS
DUFF & PHELPS
DUBLIN
killian.buckley@duffandphelps.com

TOPIC	UPDATE	DATE	FUND - SEE KEY
CONSULTATION ON INTEGRATING SUSTAINABILITY RISKS AND FACTORS IN MIFID II	On July 24, 2018, the European Securities and Markets Authority ("ESMA") and the European Insurance and Occupational Pensions Authority ("EIOPA") received a formal request from the European Commission to provide technical advice to supplement the initial package of proposals and to assist the Commission on potential amendments to, or introduction of, delegated acts under the following directives: ▪ Directive 2009/65/EC (UCITS Directive) ▪ Directive 2009/138/EC (Solvency II Directive), ▪ Directive 2011/61/EU (AIFMD), Directive 2014/65/EU (MiFID II) ▪ Directive 2016/97/EU (IDD) regarding the integration of sustainability risks and sustainability factors On December 19, 2018, ESMA issued a consultation paper. Consultation closed on February 19, 2019.	February 19, 2019	
UCITS REGULATION CP119	On March 29, 2018, the Central Bank of Ireland ("CBI") published a consultation paper which included proposals to amend and consolidate the Central Bank UCITS Regulations (CP119), which is the statutory instrument that forms the basis for the Irish regulatory framework for UCITS. The consultation closed on June 29, 2018. The feedback statement is expected in Q1 2019. The amended regulations are expected to be published in Q2 2019.	Q1/Q2 2019	
MONEY MARKET FUNDS REGULATION	UCITS and AIF MMFs must comply with the new MMF Regulation rules, which introduce new requirements for MMFs—in particular, portfolio composition, valuation of assets, diversification, liquidity management, and credit quality of investment instruments.	January 21, 2019	
	On November 13, 2018, ESMA published a consultation paper regarding draft guidelines for the reporting to competent authorities under article 37 of the MMF Regulation. This MMF Regulation obliges the MMF manager to report information at least quarterly to the competent authority of the MMF. An MMF whose total assets under management do not exceed €100 million must report annually. Consultation closed on February 14, 2019.	February 14, 2019	

TOPIC	UPDATE	DATE	FUND - SEE KEY
MONEY MARKET FUNDS REGULATION (CONTINUED)	On January 11, 2019, the CBI and the Commission de Surveillance du Secteur Financier ("CSSF") issued a joint statement supporting the orderly implementation of the MMF Regulation by converging their respective supervisory approaches to share cancellation and advising the market accordingly. As part of their supervisory strategy for the enforcement of the MMF Regulation, the CBI and the CSSF will require relevant funds to: 1. Provide a copy of the joint statement of the CBI and CSSF to investors and notify such investors that they are invested in a fund that is the subject of this notice 2. Ensure all necessary and appropriate facilities are available for investors or prospective investors to get such information as they may require from the fund with respect to the notice's subject matter 3. Take such steps as (in the opinion of the fund) are appropriate to avoid a disorderly sale of fund assets 4. Confirm to the CBI or CSSF in writing by March 21, 2019, that all use of share cancellation mechanisms has ceased	March 21, 2019	
INVESTMENT LIMITED PARTNERSHIP (AMENDMENT) BILL, 2017	In July 2017, the Minister for Finance and Public Expenditure and Reform announced that the Irish Government had approved the legislative drafting of the Investment Limited Partnership (Amendment) Bill, 2017. The purpose of the bill is to amend the Investment Limited Partnerships Act, which was established in 1994 and governs regulated limited partnership structures ("LPs"). The bill should be published shortly.	H1 2019	
CROSS-BORDER DISTRIBUTION OF INVESTMENT FUNDS	In March 2018, as part of its action plan on the Capital Markets Union, the European Commission adopted a proposal for a new regulation on facilitating cross-border distribution of collective investment funds that would amend the existing EuVECA and EuSEF regulations, and a proposal for a new directive that would amend the existing UCITS and the AIFM directives. These proposals aim to improve the transparency of national requirements, remove burdensome requirements, and harmonize diverging national rules. As a result, the cross-border distribution of investment funds should become simpler, quicker, and cheaper. The legislation is expected to be adopted before May 2019.	April 30, 2019	
SHAREHOLDER RIGHTS DIRECTIVE II	The Shareholder Rights Directive II ("SRD II") is a European Union (EU) directive that sets out to strengthen the position of shareholders and to ensure that decisions are made with a view to the long-term stability of a company. It amends SRD I, which came into effect in 2007 to improve corporate governance in companies whose securities are traded on the EU's regulated markets. SRD II, as an amending directive, will require transposition into each member state's national law and is expected to be implemented during Q2 2019.	Q2 2019	
PROSPECTUS REGULATION	The new Prospectus Regulation (Regulation (EU) 2017/1129) was published in the Official Journal of the European Union on June 30, 2017, and entered into force on July 20, 2017. The Regulation replaces the existing Prospectus Directive (EU Directive 2003/71/EC) and all related Level 2 measures. As an EU regulation, it is directly effective in all EU member states without any requirement for implementation into national law. Certain elements of the regulation are already effective, but the vast majority of the changes will apply as of July 21, 2019.	July 21, 2019	

IRELAND CONTINUED

TOPIC	UPDATE	DATE	FUND - SEE KEY
FIFTH ANTI-MONEY LAUNDERING DIRECTIVE	The Fifth Anti-Money Laundering Directive (MLD5) is an EU response to recent trends in money laundering and terrorist financing that EU lawmakers felt were not adequately addressed by the Fourth Anti-Money Laundering Directive (MLD4). On January 3, 2019, the Irish legislature released the Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Bill 2019. It is expected that, once issued, the bill will move through the Houses of Oireachtas and be enacted before the end of 2019.	End 2019	
OUTSOURCING GUIDELINES FOR FUND ADMINISTRATORS	In November 2018, the CBI published a discussion paper, "Outsourcing — Findings and Issues." The discussion paper states that, while a number of good practices had been observed, the CBI found significant deficiencies in boards' awareness and understanding of the extent of their firms' reliance on outsourced service providers ("OSPs"). Furthermore, the CBI points out that the number of Risk Mitigation Plans ("RMPs") heretofore issued to regulated firms reflects the significant remediation required to address control and resilience weaknesses related to outsourcing arrangements. The discussion paper was open for comment until January 18, 2019.	January 18, 2019	
AIFMD REGULATIONS— DEPOSITARY	In November 2018, the CBI published a notice of intention to provide for entities to act as depositaries to AIFs as set out under AIFM Regulation 22(3)(b). That regulation provides that, in order to be acceptable, the entity must be subject to mandatory professional registration recognized by law, or to legal or regulatory provisions or rules of professional conduct, and it must also be in a position to provide sufficient financial and professional guarantees to enable it to perform the relevant depositary functions effectively. The notice of intention was open for comment until January 15, 2019.	January 15, 2019	
ANTI-TAX AVOIDANCE DIRECTIVE	In January 2016, the European Commission presented its proposal for an anti-tax avoidance directive as part of the Anti-Tax Avoidance Package. On June 20, 2016, the Council adopted it as Directive (EU) 2016/1164, setting forth rules against tax avoidance practices that directly affect the functioning of the internal market. Member States should apply these rules as of January 1, 2019.	January 1, 2019	
GENERAL DATA PROTECTION REGULATION ("GDPR")	On November 19, 2018, the European Data Protection Board ("EDPB") adopted new draft Guidelines 3/2018 on the territorial scope of the GDPR (Article 3). These guidelines will help provide a common interpretation of the GDPR's territorial scope and further clarify the application of the GDPR in various situations, in particular where the data controller or processor is established outside of the EU and where a representative is to be designated. The draft guidelines were published for consultation with a deadline for comments of January 8, 2019.	January 18, 2019	
PACKAGED RETAIL INVESTMENT AND INSURANCE PRODUCTS ("PRIIPS")	The European Supervisory Authority ("ESA") will propose amendments to the PRIIPs Delegated Regulation to address issues regarding the application of the Key Information Document.	Q1 2019	
	The European Commission is expected to review the PRIIPs Delegated Regulation by the end of 2019 (a revised deadline).	December 31, 2019	
DERIVATIVES AND MARKET INFRASTRUCTURE	In November 2018, ESMA published a call for evidence on period auctions for equity instruments. In that document, ESMA explained that, following the first suspensions of trading under the double volume cap ("DVC"), a new type of periodic auction trading system called frequent batch auctions had been rapidly gaining market share. In light of that development, various stakeholders had raised concerns that frequent batch auction trading systems could be used to circumvent the suspension of trading under the DVC. The call for evidence sought to gather more information on the functioning of frequent batch auction trading systems. The deadline for comments was January 11, 2019.	January 11, 2019	
	This was the application date of Article 2 of Commission Delegated Regulation (EU) 2017/2295 with regards to additional disclosure requirements for certain institutions.	January 2, 2019	

Investment fund Fund service provider business regulated

Investment fund Fund service provider business regulated

LUXEMBOURG

KILLIAN BUCKLEY
MANAGING DIRECTOR
HEAD OF MANAGEMENT COMPANY SOLUTIONS
DUFF & PHELPS
DUBLIN
killian.buckley@duffandphelps.com

ANIL SINGH
DIRECTOR
DUFF & PHELPS
LUXEMBOURG
anil.singh@duffandphelps.com

TOPIC	UPDATE	DATE	FUND - SEE KEY
INVESTMENT FUND MANAGERS	On August 24, 2018, the Commission de Surveillance du Secteur Financier ("CSSF") published the new Circular 18/698 on the authorization and organization of investment fund managers incorporated under Luxembourg law. The new circular provides further details on certain authorization conditions, governance and internal controls, AML/TF, and delegated activities. This new circular repeals CSSF Circular 12/546 regarding the authorization and organization of Luxembourg management companies.	Immediate	
FUND DEPOSITARIES	On August 24, 2018, the CSSF published Circular 18/697 on the organizational arrangements applicable to fund depositaries that are not subject to Part I of the Law of December 17, 2010, relating to undertakings for collective investment.	January 1, 2019	
ESMA CONSULTATION ON SUSTAINABILITY RISKS AND FACTORS INTO UCITS DIRECTIVE AND AIFMD	On December 19, 2018, ESMA, in collaboration with the EIOPA, issued a consultation paper on draft technical advice with respect to the integration of sustainability risks and factors in the internal processes and procedures of UCITS management companies and AIFMs. The consultation paper proposes high-level principles-based changes to both the UCITS and AIFMD regimes so as to meet the Commission's objective of integrating sustainability risks into investment decision processes. Consultation closed on February 19, 2019.	February 19, 2019	
MONEY MARKET FUNDS REGULATION	The new MMF Regulation ("MMFR") introduces new compliance requirements for existing UCITS and AIF MMFs, particularly concerning portfolio composition, valuation of assets, diversification, liquidity management, and credit quality of investment instruments.	January 21, 2019	
	On November 13, 2018, ESMA published a consultation paper on draft guidelines on reporting to NCAs under the MMFR. The MMFR obliges the MMF manager to report the information specified in the MMFR to the MMF's NCA at least quarterly for each MMF managed. An MMF whose total assets under management do not exceed €100 million must report annually. Consultation closed on February 14, 2019.	February 14, 2019	

Investment fund | Fund service provider business regulated | Investment fund managers

TOPIC	UPDATE	DATE	FUND - SEE KEY
MONEY MARKET FUNDS REGULATION (CONTINUED)	On January 11, 2019, the CBI and the CSSF issued a joint statement on the treatment of share cancellation of reverse distribution mechanism ("RDM") under the MMFR. The statement follows earlier clarification provided that the practice of canceling shares under RDM was to be prohibited under the MMFR. The CBI and the CSSF will, as part of their supervisory strategy for the enforcement of the MMFR, require relevant funds to: 1. Provide a copy of the joint statement of the CBI and the CSSF to investors and notify such investors that they are invested in a fund that is a subject of this notice 2. Ensure all necessary and appropriate facilities are available for investors or prospective investors to get such information as they may require from the fund with respect to the subject matter of this notice 3. Take such steps as, in the opinion of the fund, are appropriate to avoid a disorderly sale of fund assets, and 4. Confirm to the CBI or CSSF in writing by no later than March 21, 2019, that all use of share cancellation mechanisms has ceased	March 21, 2019	
CROSS-BORDER DISTRIBUTION OF INVESTMENT FUNDS: AMENDMENT OF UCITS AND AIFMD DIRECTIVE	This European Commission proposal, also known as the omnibus cross-border distribution proposal, would amend both the UCITS Directive and the AIFMD in the manner described below. The proposal forms part of the Commission's Capital Markets Union ("CMU") project. AIFMD amendments: ▪ Insert a definition of "pre-marketing" ▪ Add new provisions regarding the discontinuation of marketing (or de-registration) ▪ Require member states to make available certain facilities relating to payments, repurchasing, or redeeming units and the provision of information to retail investors in locations where marketing to retail investors is permitted UCITS Directive amendments: ▪ Align national notification procedures ▪ Add new provisions regarding the discontinuation of marketing (or de-registration) ▪ Prohibit member states from requiring UCITS to have local facilities, such as local paying agents	May 1, 2019	
CROSS-BORDER DISTRIBUTION OF INVESTMENT FUNDS: REGULATION	This proposed EC regulation sets out broad principles with which fund-marketing communications from AIFMs and UCITS management companies must comply (the related provisions in the existing UCITS Directive will be deleted). This regulation also proposes to amend the existing EuVECA Regulation and EuSEF Regulation. Competent authorities will have to publish online all applicable national laws, regulations, and administrative provisions governing marketing rules for AIFs and UCITS. ESMA will maintain a centralized database. Competent authorities will also have to publish and maintain central databases on their websites that set forth their fees and/or charges.	May 1, 2019	

Investment fund | Fund service provider business regulated | Investment fund managers

LUXEMBOURG CONTINUED

TOPIC	UPDATE	DATE	FUND - SEE KEY
SHAREHOLDER RIGHTS DIRECTIVE ("SRD II")	This EC directive amends the earlier Shareholder Rights Directive (Directive 2007/36/EC) and establishes requirements concerning ▪ The exercise of certain shareholder rights attached to voting shares at general meetings, and ▪ The remuneration of directors of companies that have their registered office in a member state It also sets forth rules concerning the shares that are admitted to trading on a regulated market situated or operating within a member state. The amendments, which are designed to encourage long-term shareholder engagement and to enhance transparency between companies and investors, will apply to companies whose shares are listed on EU regulated markets.	June 10, 2019	
PROSPECTUS REGULATION	This EC regulation will repeal and replace the existing Prospectus Directive (Directive 2003/71/EC). The regulation seeks to simplify the current prospectus regime and forms a key part of the Commission's CMU project. It sets forth requirements for the drawing up, approval, and distribution of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market that is situated or operating within a member state.	July 21, 2019	
REGISTER OF BENEFICIAL OWNER ("RBO LAW")	On January 15, 2019, the Luxembourg Law of January 13, 2019, that created a register of beneficial owners ("RBO Law") was published in the Official Gazette. The RBO Law implements Article 30 of the MLD4, as amended by the MLD5, which requires the establishment of registers of beneficial owners. The RBO Law entered into force on March 1, 2019. Luxembourg entities, such as commercial companies or investment funds, have until August 31, 2019, to comply.	August 31, 2019	
	On February 15, 2019, the CSSF published the Grand Ducal regulation on the RBO Law. The Grand Ducal regulation provides further details on the method of registering with the Luxembourg Business Registers, access to the RBO, and administrative fees.	August 31, 2019	
FIFTH ANTI-MONEY LAUNDERING DIRECTIVE ("MLD5")	This EC directive amends MLD4 to further strengthen anti-money laundering legislation. It proposes measures that will prevent terrorist groups from gaining access to international financial institutions and will enhance the accessibility of beneficial ownership registers. It also extends the scope of MLD4 to include virtual currency exchange platforms and custodian wallet providers.	End 2019	

Investment fund | Fund service provider business regulated | Investment fund managers

SINGAPORE

SINYEE KOH
DIRECTOR
DUFF & PHELPS
SINGAPORE
sinyee.koh@duffandphelps.com

TOPIC	UPDATE	DATE	FUND - SEE KEY
EXEMPTION FRAMEWORK FOR CROSS-BORDER BUSINESS ARRANGEMENTS OF CAPITAL MARKET INTERMEDIARIES	The Monetary Authority of Singapore ("MAS") consulted in December 2018 on proposals to streamline the exemption framework for business arrangements between financial institutions in Singapore and their foreign related corporations ("FRCs") by replacing the current case-by-case approval with ex-post notification to MAS of such arrangements. Under this approach, financial institutions ("FIs") would be expected to periodically submit relevant attestation and information which would enable MAS to monitor and address the potential risks from these cross-border business arrangements. The boundary conditions MAS has proposed include: 1. Notification and reporting requirements 2. Respective regulatory status requirements of the Singapore Entities and their FRCs 3. Internal controls 4. Annual reporting requirements	Tentative	
CREATION OF SANDBOX EXPRESS	The MAS consulted in November 2018 on proposals to create pre-defined sandboxes, known as Sandbox Express, to enable firms which intend to conduct certain regulated activities—where the risks are generally low and well understood—to embark on their experiments more quickly within pre-defined sandboxes. MAS proposed three predefined sandboxes for: ▪ Insurance brokering ▪ Recognized market operators ("RMOs") ▪ Remittances The MAS also sought feedback on other possible MAS-regulated activities that could be suitable for Sandbox Express.	Tentative	
NOTICE ON CYBER HYGIENE	The MAS proposed in September 2018 to issue a Notice on Cyber Hygiene that prescribes a set of essential cybersecurity practices that financial institutions must put in place to manage cyber threats. There is no clear time frame as to when the notice will be issued, but the MAS proposed a 12-month transition period from the date the notice is issued for financial institutions to implement and comply with its required frameworks, processes, and controls.	Tentative	
REVISIONS TO MISCONDUCT REPORTING REQUIREMENTS	The MAS consulted in July 2018 on (1) extending the existing misconduct reporting requirements to registered fund management companies ("RFMCs") and (2) revising the misconduct reporting requirements to provide greater clarity on the intended types of misconduct that should be reported to MAS. The MAS proposals also require FIs to update the MAS on the outcome of police investigations and to notify the MAS when any FI representative(s) is under investigation. This will enable full and accurate disclosures of a representative's compliance history and past misconduct record should he or she apply to join a new principal company. The MAS also proposed to standardize industry practices by mandating that FIs perform and respond to reference check requests regarding representatives, as well as setting out the mandatory information a reference must contain. Pursuant to these proposals, the MAS will amend its Circular on Due Diligence Checks and Documentations in Respect of the Appointment of Appointed, Provisional and Temporary Representatives to include representatives of RFMCs and fund management companies under the Venture Capital Fund Manager Regime, as well as brokerage staff for insurance brokers. The MAS is also considering extending the reference check requirement to a broader segment of the financial industry beyond representatives. This will be addressed by the MAS in a separate consultation paper in due course.	Tentative	
RECOGNIZED MARKET OPERATORS ("RMO") REGIME	The MAS consulted in May 2018 on proposals to introduce two additional tiers in the regulatory regime for RMOs to allow the MAS to better calibrate the regulatory requirements and supervisory intensity based on an RMO's systemic importance and target clientele. The three tiers within this proposed RMO regime will provide market operators with greater flexibility to choose a regulatory tier that better matches their risk profile and business model. The MAS plans to introduce RMO Tier 1, which is targeted at RMOs with limited access to Singapore-based retail investors, and RMO Tier 3, which is targeted at RMOs that have a significantly smaller scale of business compared to more established operators under the current Approved Exchanges and RMO regime. The RMOs that already qualify under the existing RMO regime will be classified as RMO Tier 2.	Tentative	

Broker Private equity Hedge fund/Investment manager Recognized market operator/Approved exchange

SINGAPORE CONTINUED

TOPIC	UPDATE	DATE	FUND - SEE KEY
INDIVIDUAL ACCOUNTABILITY AND CONDUCT GUIDELINES	The MAS intends to intensify its regulatory and supervisory emphasis on FIs' culture and conduct and to reinforce FIs' responsibilities in three key areas: 1. Promoting the individual accountability of senior managers 2. Strengthening the oversight of employees in material risk functions 3. Embedding standards of proper conduct for all employees The proposals set out five accountability and conduct outcomes expected of FIs. The proposed outcomes are: 1. Senior managers who have responsibility for the management and conduct of functions that are core to the FI's operations are clearly identified. 2. Senior managers are fit and proper for their roles and held responsible for the actions of their staff and the conduct of the business under their purview. 3. The FI's governance framework is supportive of and conducive to senior managers' performance of their roles and responsibilities. The FI's overall management structure and reporting relationships are clear and transparent. 4. Employees in material risk functions are fit and proper for their roles, and subject to effective risk governance as well as the appropriate standards of conduct and incentive structure. 5. The FI has a framework that promotes and sustains the desired outcome among all employees. The issuance of the guidelines that will enact these proposals was targeted for Q4 2018 but has been delayed.	2019	
PROPOSED REVISIONS TO GUIDELINES ON BUSINESS CONTINUITY MANAGEMENT	As part of its efforts to help FIs strengthen their resilience to disruptions, the MAS consulted in March 2019 on proposed revisions to the current Business Continuity Management ("BCM") Guidelines, issued in 2003. The proposals include revising the definition of business function to focus on a service that an FI ultimately provides to its customers, rather than the current emphasis on the business processes performed by individual organizational units. The proposals also place more responsibilities on the FI's board and senior management for the FI's business continuity and revise the scope of each FI's business continuity plan ("BCP") to include a comprehensive risk assessment, understanding of internal and external business dependencies, crisis communication plans, and proper documentation and maintenance of the BCP. Each FI will be expected to test and audit its BCM to ensure that its response and recovery arrangements are effective and based on a sound understanding of existing systems and processes. There is no stipulated time frame as to when the revised guidelines will be published, but FIs are expected to adopt them within a year of their publication.	2020	
IMPLEMENTATION OF TRADING OBLIGATIONS FOR OTC DERIVATIVES CONTRACTS ON ORGANIZED MARKETS	In March 2019, the MAS issued the Securities and Futures (Trading of Derivatives Contracts) Regulations ("SF(TDC)R") following its response to feedback received to its proposed regulations to require trading of over-the-counter ("OTC") derivatives on organized markets and implementation details on products and persons subject to the trading obligations. The SF(TDC)R impose trading obligations on those banks already subject to the MAS's clearing obligations. They also prescribe the approved foreign trading venues for market participants to fulfill their trading obligations. The trading nexus for determining the applicable trading obligations with respect to derivatives contracts is now based on the office where the trade is being executed rather than the location of the individual trader executing the trade.	The amended SF(TDC)R may be effective in 2019.	Possible
PROPOSED PAYMENT SERVICES REGULATORY FRAMEWORK	The Payment Services Bill passed by Parliament in January 2019 introduces licensing and regulation of payment service providers in various industry sectors including remittance, e-wallet, and digital money. This new framework modernizes the existing regulatory regime to incorporate recent developments in fintech that have led to the convergence of payment and remittance services. The regulation of licensees will be calibrated according to their activities based on the risks or regulatory concerns they pose, namely: ▪ Money laundering and terrorism financing ▪ User protection ▪ Interoperability ▪ Technology risk	2019	Possible Possible Possible
BEST EXECUTION RULES	The MAS consulted in 2017 on draft regulations that would formalize its expectations regarding best execution of customer orders. The proposals would require holders of capital markets services licenses, banks, merchant banks, and finance companies to have policies and procedures ensuring that customers' orders are placed and/or executed on the best available terms. These policies and procedures can be calibrated according to various factors, including the type of customers being serviced, the types of capital markets products being offered, and the characteristics of their execution venues.	Tentative	
DISAPPLICATION OF NOTIFICATION REQUIREMENTS FOR REPRESENTATIVES SERVING ONLY NON-RETAIL CUSTOMERS	The MAS consulted in 2017 to streamline the Representative Notification Framework and apply the notification requirements only to representatives who serve retail customers. Under the proposed streamlining, FIs will not be required to submit notifications for their representatives who serve only non-retail customers insofar as those customers are generally considered better able to protect their own interests.	2019	

Broker | Private equity | Hedge fund/Investment manager | Recognized market operator/Approved exchange

Broker | Private equity | Hedge fund/Investment manager | Recognized market operator/Approved exchange

SINGAPORE CONTINUED

TOPIC	UPDATE	DATE	FUND - SEE KEY
REPORTING OF OTC DERIVATIVES CONTRACTS	The proposed amendments to the Securities and Futures (Reporting of Derivative Contracts) Regulations 2013 came into effect in October 2018, together with the associated reporting commencement timeline. These amendments implement reporting of commodity and equity derivative contracts, as well as other revisions to complete the implementation of the OTC derivatives trade reporting regime in Singapore.	From October 1, 2019, for the reporting of interest rate derivatives contracts and credit derivatives contracts traded in Singapore; and from October 1, 2020, for reporting of equity derivatives contracts and foreign exchange contracts booked and/or traded in Singapore. This will be by all finance companies, subsidiaries of banks incorporated in Singapore, insurers, and holders of CMS licenses, with annual aggregate gross notional amount of specified derivatives contracts of more than S$5 billion, and all significant derivatives holders.	
PROPOSED REVISIONS TO TECHNOLOGY RISK MANAGEMENT GUIDELINES	The MAS consulted in March 2019 on proposed revisions to the current Technology Risk Management Guidelines issued in 2013. The proposed revisions are part of the MAS's efforts to help financial institutions put in place adequate and robust risk management systems, as well as operating processes to manage the risks arising from the rapid transformation of the financial sector technology landscape. The guidelines will be updated with greater focus on technology risk governance and oversight, software development and management, emerging technologies, and cyber resilience.	Tentative	Possible Possible Possible Possible
OUTSOURCING REQUIREMENTS	The MAS proposed in 2014 to issue a Notice on Outsourcing that defines a set of minimum standards for the management of outsourcing. Though the MAS subsequently updated the Guidelines on Outsourcing in 2016 and in October 2018, the Notice on Outsourcing remains under review by the MAS. Although there is no clear time frame as to when the notice will be issued, in February 2019 the MAS issued a consultation on a proposed notice on outsourcing for banks and merchant banks. This suggests that a specific proposed notice on outsourcing for capital markets intermediaries could follow.	Tentative	Possible Possible Possible Possible

Broker **Private equity** **Hedge fund/Investment manager** **Recognized market operator/Approved exchange**

UNITED KINGDOM

IAN MANSON
MANAGING DIRECTOR
DUFF & PHELPS
LONDON
ian.manson@duffandphelps.com

JANE STOAKES
DIRECTOR
DUFF & PHELPS
LONDON
jane.stoakes@duffandphelps.com

TOPIC	UPDATE	DATE	FUND - SEE KEY
SENIOR MANAGEMENT & CERTIFICATION REGIME ("SM&CR")	On July 4, 2018, the Financial Conduct Authority ("FCA") published its Policy Statement (PS18/14) and Guide for Solo-Regulated Firms on the extension of the Senior Managers and Certification Regime ("SM&CR"). This builds on the consultation paper CP/17/25 (July 26, 2017), making proposals about how SM&CR will be rolled out to the rest of the industry, following implementation for banks in March 2016. The FCA has confirmed that the SM&CR regime will apply to all FCA-regulated firms as of December 9, 2019. The conduct rules will apply to all Senior Managers and certified staff from this date, and firms will have 12 months to progress from commencement to complete fitness and propriety checks and the certification process. The new SM&CR regime replaces the current Approved Persons Regime and has a three-tier approach so that SM&CR is applied in a proportionate way: ▪ **Core regime:** A standard set of requirements will be applied to all FCA firms except for Limited Scope Firms. The requirements consist of a Senior Managers Regime, a Certification Regime, and Conduct Rules. ▪ **Enhanced regime:** Significant or complex firms will be subject to additional requirements in addition to the core regime described above, including responsibilities maps, document handover procedures, and confirmation that a Senior Manager has overall authority for each area of the business. ▪ **Limited scope regime:** A small proportion of firms, such as internally managed AIFs and sole traders, will be subject to a reduced set of requirements. Opting up: Firms will be able to opt up, from limited scope to core regime, or from core to enhanced regime, but will not be able to pick and choose which specific requirements they will apply within the selected regime. If firms choose to opt up, they will need to apply all the requirements of that regime. Failure to do so will be a breach of the FCA rules. The Senior Managers Regime will require firms: 1. To seek regulators' pre-approval for individuals wishing to carry out Senior Management Functions ("SMFs") 2. To have each SMF submit a Statement of Responsibility to the FCA 3. To impose a duty of responsibility on all Senior Managers The Certification Regime will apply to individuals who are not Senior Managers but who could cause significant harm to clients or the firm. Firms will need to certify on an annual basis that these individuals remain suitable to perform their roles. The Conduct Rules will be based on the current Approved Persons Statements of Principle and Code of Practice for Approved Persons and will be divided into two tiers, one for Senior Managers and the rest for all individuals. The FCA has also issued a consultation paper (CP/18/19) introducing the Directory, which will provide a single central location for information on both Directory Persons and Senior Managers at all FSMA firms regulated by the FCA.	December 9, 2019	

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TOPIC	UPDATE	DATE	FUND - SEE KEY
CHANGES TO THE PRUDENTIAL RULES/CRD IV	Discussions regarding changes to the Prudential Rules are still taking place and the final rules are expected to be published in 2019. Firms will have 18 months from the date of publication to implement the framework, which means firms must implement the new regime in 2020. The proposed changes apply to all MiFID firms, in contrast to CRD IV, which only applies to MiFID firms that hold client money, operate an MTF, deal on their own account, conduct underwriting, or have opted into MiFID. The new regime introduces a framework that includes the following components: **New three-class categorization of firms—** **Class 1** "Bank-like" firms that are: 1. Dealing on their own account 2. Underwriting 3. Placing financial instruments on a firm commitment basis, and 4. Handling assets under management ("AUM") whose total value exceeds €30 billion Full CRD rules apply to Class 1 firms. **Class 2** "Non-systematic" firms that: 1. Deal on their own account 2. Hold client money or assets, or 3. Exceed certain size limits: a. AUM greater than €1.2bn b. Handling client orders greater than €100m per day, or €1bn for derivatives c. Balance sheet greater than €100m d. Gross revenues greater than €30m Class 2 firms are affected the most by the new framework. **Class 3** Small firms with "non-interconnected" services that provide limited services not meeting the Class 2 thresholds. **Capital requirements—** **Class 2 firms** The new framework introduces a new capital calculation that captures the risk an investment firm can pose to: 1. Customers ("RtC") 2. Market access or liquidity ("RtM"), or 3. The firm itself ("RtF") These factors are named "K-factors." Class 2 firms will have to hold capital which amounts to the highest of: ▪ Permanent Minimum Capital ("PMC") ▪ Fixed Overhead Requirement ("FOR"), or ▪ The K-factor requirement (calculated using a risk-weighted formula) PMC will be either €75k, €150k, or €750k, depending on the firm's regulated activities. **Class 3 firms** Class 3 firms will only have to apply the higher of the PMC and the FOR. They do not have to apply the K-factor formula. **Liquidity requirements** – The new framework requires Class 2 and Class 3 firms to hold a minimum amount of liquid assets equal to one-third of their FOR. Firms must hold high-quality liquid assets ("HQLA") to meet their liquidity requirements.	2019/2020	If AIFM with MiFID top-up or MiFID CPMI firm

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UNITED KINGDOM CONTINUED

TOPIC	UPDATE	DATE	FUND - SEE KEY
CHANGES TO THE PRUDENTIAL RULES/CRD IV (CONTINUED)	**Concentration risk requirements ("CON")** – All investment firms should be able to identify, manage, and monitor CON. There are also specific CON requirements applicable to Class 2 firms. **Consolidated supervision** – Class 2 and 3 firms must apply the capital, liquidity, and CON rules on an individual basis. Where the consolidated group consists only of investment firms, the parent entity should undertake a group capital test. The parent will also be responsible for all the prudential requirements at the consolidated level and for having systems to monitor and control the courses of capital and funding. **Reporting and disclosure** – Class 2 and Class 3 firms must report annually to FCA on their own funds, capital requirements, balance sheet, and revenue breakdown by investment service. There are additional reporting requirements for Class 2 firms. **Governance and remuneration** – All firms must have a robust governance framework, which should include clear organizational structure, consistent lines of responsibility, and processes to identify, monitor, manage, and report risk. Class 2 and Class 3 firms must develop a tailored prudential framework.		
CYBER SECURITY	FCA also urges firms to carry out robust and comprehensive risk assessments that focus on the impact of a Distributed Denial of Service ("DDoS") attack on the firm's systems.	Ongoing	
GENERAL DATA PROTECTION REGULATION ("GDPR")	The General Data Protection Regulation ("GDPR") is the new EU legal framework, which replaces the current UK Data Protection Act 1998 and is concerned with protecting the privacy of individuals in the EU. It applies to anyone who is collecting, storing, and processing the personal data of EU residents—i.e., data controllers and data processors, who will be required to demonstrate that they process personal data in compliance with the GDPR. The GDPR aspects having the most significant impact are its extraterritorial effect, new rules on accountability, and enforcement actions.	May 25, 2018	
EU BENCHMARK REGULATION ("BMR")	The EU Benchmark Regulation ("BMR") entered into force on June 30, 2016, but most of the provisions became applicable on January 1, 2018. The regulation is a key part of the EU's response to the LIBOR scandal and the allegations of manipulation of benchmarks, ensuring that benchmarks are robust and reliable. It also aims to minimize the risk of conflicts of interest in benchmark-setting processes. Those affected by the BMR fall into three categories: 1. Benchmark Administrators 2. Supervised Contributors 3. Benchmark Users	January 1, 2018	If Benchmark User If Benchmark User
MIFID II/MIFIR	MiFIR (directly effective regulation) concentrates on regulating the operation of venues and structures, and sets out processes, systems, and governance measures for market participants as well as the supervision of these measures.	January 3, 2018	Not AIFM
MIFID II/MIFIR: USE OF DEALING COMMISSIONS	Buy-side firms are required to pay for the research they consume, either from their own resources or by using a Research Payment Account ("RPA").	January 3, 2018	If producing research Not AIFM

TOPIC	UPDATE	DATE	FUND - SEE KEY
FATCA/CRS	Firms are required to to notify account holders who are UK tax residents that their account information will be made available to HMRC.	August 31, 2017	
SECURITIES FINANCE TRANSACTION REGULATION ("SFTR")	In-scope market participant entities must report all Securities Financing Transactions ("SFTs") to a registered Trade Repository ("TR") on a T+1 basis. The Regulatory Technical Standards (RTS) set out the reportable fields across four categories: margin data, transaction data, re-use data and counterparty data. The tables can be found within the report at pages 261-281, which provide a description of each field to be included under the above-mentioned categories - https://www.esma.europa.eu/document/final-report-technical-standards-under-sftr-and-certain-amendments-emir. The European Commission has confirmed the reporting requirements go-live timelines: ▪ Q2 2020 – Credit Institutions and Investment Firms ▪ Q3 2020 – Central Counterparties (CCPs) and Central Securities Depositories (CSDs) ▪ Q4 2020 – Pension Funds and UCITS ▪ Q1 2021 – Non-Financial Counterparties	July 13, 2017	
EMIR INTRAGROUP TRANSACTION EXEMPTIONS	EMIR provides exemptions for the clearing and margin obligations of certain intragroup transactions. There are three different types of exemption that firms may apply for: 1. UK – UK group entities 2. UK – EU group entities 3. UK – third-country group entities	July 4, 2017	
FOURTH ANTI-MONEY LAUNDERING DIRECTIVE ("MLD4")	This directive includes some fundamental changes to the anti-money laundering procedures, including changes to CDD, a central register for beneficial owners, and a focus on risk assessments.	June 26, 2017	
COMMON REPORTING STANDARD ("CRS")	Participating Financial Institutions are required to report information regarding their non-resident customers to their local tax authority.	May 31, 2017 (UK Financial Institutions)	
EMIR VARIATION MARGIN REQUIREMENTS	Firms that are party to uncleared OTC derivatives are required to exchange variation margin from March 1, 2017.	March 1, 2017	
FINANCIAL CRIME RETURN	All firms subject to the Money Laundering Regulations are required to complete this return, via GABRIEL, if revenue exceeds £5m.	December 31, 2016	
EXTENSION TO AIFMD PASSPORT	ESMA published its second advice on the application of the passport to 12 non-EU countries: Australia, Bermuda, Canada, Cayman Islands, Guernsey, Hong Kong, Isle of Man, Japan, Jersey, Switzerland, Singapore, and the United States. Positive conclusions were reached in relation to extensions of the passport to Canada, Guernsey, Hong Kong, Japan, Jersey, Singapore, and Switzerland.	Ongoing	Not AIFM

Investment Manager Broker Adviser Arranger AIFM/CPMI

UNITED STATES OF AMERICA

CHRIS LOMBARDY
MANAGING DIRECTOR
HEAD OF U.S.
COMPLIANCE CONSULTING
DUFF & PHELPS
NEW YORK
chris.lombardy@duffandphelps.com

PETER WILSON
MANAGING DIRECTOR
DUFF & PHELPS
NEW YORK
peter.wilson@duffandphelps.com

TOPIC	UPDATE	DATE	FUND - SEE KEY
FINCEN CUSTOMER DUE DILIGENCE ("CDD") RULE	The CDD Rule, which amends the US Bank Secrecy Act, aims to improve financial transparency and prevent criminals and terrorists from misusing companies to disguise their illicit activities and launder their ill-gotten gains. The CDD Rule clarifies and strengthens the customer due diligence requirements for US banks, mutual funds, brokers or dealers in securities, futures commission merchants, and introducing brokers in commodities. The CDD Rule requires these covered financial institutions to identify and verify the identity of the natural persons (known as beneficial owners) of legal-entity customers who own, control, and profit from companies, when those companies open accounts. The CDD Rule has four core requirements. It requires covered financial institutions to establish and maintain written policies and procedures that are reasonably designed to: 1. Identify and verify the identity of customers 2. Identify and verify the identity of the beneficial owners of companies that open accounts 3. Understand the nature and purpose of customer relationships to develop customer risk profiles 4. Conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information With respect to the requirement to obtain beneficial ownership information, financial institutions will have to identify and verify the identity of an individual who controls the legal entity and of any individual who owns 25 percent or more of the legal entity.	May 11, 2018	

TOPIC	UPDATE	DATE	FUND - SEE KEY
FINRA UPDATES SUPPLEMENTAL FOCUS INFORMATION	FINRA is updating the Supplemental Statement of Income ("SSOI") to conform with amendments adopted by the SEC that simplify and update certain of the FOCUS reporting requirements for broker-dealers. Pursuant to FINRA Rule 4524, the SSOI must be filed by all FINRA members as a supplement to the FOCUS Report within 20 business days after the end of each calendar quarter. FINRA is making available the updated SSOI instructions and form, as well as a resource that details the SSOI form updates.	The updated SSOI applies, beginning with all SSOI filings that report on the period January 1, 2019, through March 31, 2019, and are due by April 26, 2019.	
CFTC APPROVES A PROPOSED RULE TO PROVIDE EXCEPTIONS TO ANNUAL PRIVACY NOTICE REQUIREMENT	On November 30, 2018, the CFTC approved a proposed rule to revise an existing CFTC regulation that requires certain futures commission merchants, retail foreign exchange dealers, commodity trading advisors, commodity pool operators, introducing brokers, major swap participants, and swap dealers to provide annual privacy notices to customers. Under the proposed rule as approved, these annual privacy notices are no longer required when certain conditions are satisfied.	Anticipated Q2/Q3 2019