

# **The compliance function in wholesale banks**

**November 2017**

**We recently reviewed the compliance function in wholesale banks. This note summarises what we were told and some of our own observations. We also included more detailed information from our questionnaire.**

In January this year, we sent a questionnaire to 22 wholesale banks asking for information about their compliance function. This exercise was designed to give us greater insight into the changes in the function over the past few years and where further changes remain.

**The questionnaire contained 27 questions about the compliance function covering the following topics:**

- **Role and structure**
- **Strategy and planning**
- **Compliance monitoring**
- **Technology**
- **Support and challenge**
- **Personnel**

The 22 firms in our sample included large global banks operating across several business lines, medium-sized firms who focus more on specific areas or geographies and firms with less significant UK footprints. We are grateful for the contributions made by each of the respondents to our questionnaire.

The key themes and issues arising from the responses are set out in our report along with some of our own observations.

We are not asking individual firms to take any specific action in response to this publication. But firms and heads of compliance may find the contents helpful in developing their departments. We have included a series of questions at the end of the summary section that boards and senior management might pose to themselves.

## Key themes from questionnaire responses

**Compliance functions need to evolve in response to a changing environment, including the advancement of technology-driven businesses and operations and the expanded range of first Line of Defence controls. More strategic thinking is needed.**

The financial services industry is still in a period of rapid and fundamental change. The compliance function retains a key independent role but in many cases the role, strategy and design of compliance now warrant higher attention and support at board and executive level.

Responses to our questionnaire indicate that the compliance function is moving toward a pure, independent second line of defence risk function with a higher profile within firms. Compliance representatives have been added to boards and governance committees, and reporting lines of the function elevated.

Structurally, firms are seeking to clarify the shifting boundaries of the first and second lines of defence to help define the responsibilities of the compliance function, with regard, for instance, to financial crime. Such organisational change is likely to continue in the coming years.

Compliance mandates, a key reference point for the function, vary between firms with some focusing solely on regulatory compliance while others set out broader goals such as supporting behavioural change and development. Mandates however are in general static, with few compliance heads intending to revisit them in the next three years.

Wholesale banking is increasingly digitalised and automated. Advances in technology require compliance functions to engage in system development at an early stage not only to advise and assess risk but also to leverage any opportunity to enhance the delivery of their own 'compliance' objectives (e.g. through the design of new controls).

Investment in surveillance systems and additional personnel has been identified as an enabler of better quality compliance challenge. Several firms saw an opportunity for advanced data analytics and visualisation to help compliance discharge its mandate, but noted the risks of data quality and data security and, more broadly, cybercrime.

**15 firms put  
cybercrime in the  
top three risks  
faced by their  
Compliance  
function**

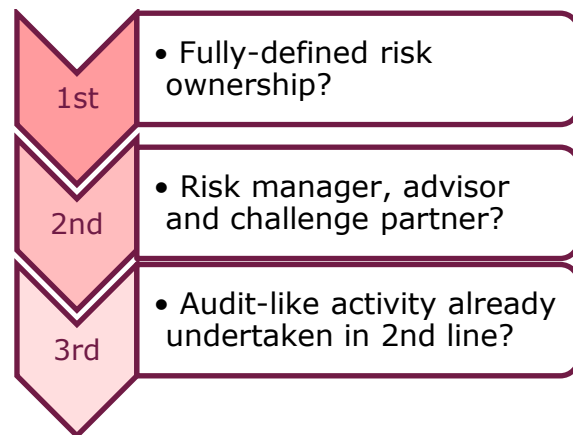
Large-scale regulatory change continues. Compliance functions have grown in size and are relying more on technology to deliver against their mandates. Business and product knowledge is required to understand and effectively challenge front-office activities, as are communication and influencing skills.

Over recent years this has led to increased headcounts and higher demand for able compliance staff, leading to skill shortages and pressure on salaries and turnover with staff moving firms and roles quickly, perhaps without gaining the necessary expertise. To meet current and future challenges, the appropriate staffing of compliance functions, both in skills and experience as well as numbers, was consistently mentioned in the survey.

## Supervisory observations

While their mandates remain relatively static, compliance functions are still considering how best to define their responsibilities as a second Line of Defence (LoD) function.

In defining their responsibilities, compliance functions may benefit from considering how they interact with other second LoD functions such as Legal and Risk, and the third LoD, Internal Audit. Within the function itself, Compliance needs to ensure it is adequately balancing its role as advisor to the front line with its role of providing challenge.



Given the varied scope of compliance mandates and strategies, there is room to reflect on whether the function could seek to deliver broader objectives, and in particular whether it would benefit from a more refined, longer-term strategy beyond the parameters of the annual compliance plan.

Advances in technology offer increased efficiency and effectiveness, with benefits from early engagement by compliance, who can advise on regulatory requirements and shape front-office developments in ways that assist the discharge of their mandate. However while technology offers the potential for improved effectiveness, departments should be mindful of the accompanying pitfalls of an increasingly technology-based function, for example, resilience, data security and the need for appropriately skilled personnel.

Compliance functions need to be staffed appropriately, and firms are looking to meet their needs through upskilling existing compliance staff, bringing in skills and experience directly from other functions and building out the compliance career offering, rather than simply reaching to the external recruitment market.

Within compliance departments there is now more 'checking the checker' activity unrelated to Internal Audit, where teams within compliance examine the effectiveness of the compliance function itself. Any conflicts of interest that arise need to be managed appropriately.

## Questions to consider

Given the themes and issues arising from this study, in support of their existing obligations firm boards and senior management may like to consider the following questions:

1. Do boards and senior management committees have sufficient visibility and oversight of the longer term goals and strategies of compliance functions, and their delivery?
2. Has the compliance function been given adequate support and resources to conduct sufficient strategic thinking and effective planning in light of the changes to the operating environment?
3. Do compliance functions strike the right balance between management and ownership of risk and assessing the efficacy of the risk management efforts of the first LoD while also balancing their perceived role as adviser and key provider of challenge?
4. Has adequate consideration been given to the changing mix of risk ownership and responsibility in the LoD model, and how a compliance function best fits into it?
5. Has adequate consideration been given to the possibility of convergence or overlap between the activities and responsibilities of the compliance function and internal audit?
6. Is the compliance function adequately aware and taking sufficient ownership of the conduct risks that can arise within it?
7. Are compliance functions resourced appropriately, having regard to any changes in the mandate and operating model of compliance and the activities of the firm?
8. Is there a medium term (3-5 year) strategy in place to address the growing skills gap for more specialised or senior compliance roles?
9. Is the compliance function adequately engaged in the development of technology solutions across the firm?
10. Is the compliance function considering whether the development of technology solutions offers it opportunities to enhance the delivery of its mandate?

This is not an exhaustive list, and when considering the evolving role of the compliance function, boards and senior managers may wish to consider more firm-specific questions based on the themes and survey responses attached.

# Summarised survey responses

This section contains summaries of the responses to each question posed by our compliance function questionnaire.

## **Role and Structure**

### **1. Compliance function mandates and how compliance fits into the Three Lines of Defence model**

- 1.1. Without exception, every firm in our sample operates a structure modelled on the three lines of defence (LoD) and the compliance function is defined consistently as a second LoD function. There were minor exceptions; for example where, alongside other reporting lines, senior compliance staff reported to a local business unit head.
- 1.2. Firms reported a diverse range of compliance function mandates. Typical core elements of the mandate included independent oversight of business unit activity, the design and maintenance of compliance frameworks, provision of advice to the first LoD, (sometimes in partnership) and providing training on regulatory risk, and occasionally conduct risk.
- 1.3. Some firms employed a narrowly defined 'regulatory compliance' mandate, with little elaboration. This is arguably the minimum requirement of a compliance department, and contrasted with firms whose mandates sought to achieve broader, more holistic objectives.
- 1.4. The following areas were generally excluded or under-emphasised in mandates:
  - (1) the provision of challenge
  - (2) risk ownership
  - (3) role of compliance in creating and supporting culture
  - (4) sharing of second LoD responsibility with others (eg Risk, Financial Control, Legal)
  - (5) interaction with the third LoD
- 1.5. Some mandates included broader objectives, such as:
  - (1) developing and maintaining the Risk Management Framework
  - (2) ensuring the effectiveness of the risk and control environment
  - (3) assisting in the development of a strong compliance culture
  - (4) supporting the embedding of appropriate behaviours

- (5) communicating the spirit as well as the letter of the law
  - (6) helping to achieve the right conduct outcomes
  - (7) compliance's role in the delivery of the firm's overall strategy
- 1.6. Often, mandates were described with reference to existing compliance responsibilities or delivery mechanisms such as frameworks. Mandates setting out what the compliance function seeks to achieve were a minority.

## **2. The nature of key changes in the mandate and organisational structure of compliance functions in the past three years**

- 2.1. The majority of firms reported several kinds of recent significant change, generally more in organisational structure than mandate. We have summarised the organisational changes reported under the categories below.

### Governance and oversight

- (1) Creating new board level representation for compliance
- (2) Significantly strengthening senior levels within compliance
- (3) Creating conduct and regulatory affairs functions
- (4) Allocating accountability for specific compliance activities

### Corporate organisational structure

- (1) Changing the reporting line of compliance from the Head of Legal to the Chief Executive Office or Chief Risk Officer, or from the Chief Operating Officer to the Chief Risk Officer
- (2) Moving from regional alignment to global divisional and functional alignment
- (3) Merging compliance with Operational Risk

### Departmental-level organisational structure

- (1) Realigning or vertically integrating disparate compliance units
- (2) Centralising disparate teams into single units, for example with financial crime and monitoring and testing teams
- (3) Creating Chief Administration or Chief Operating Officer roles within Compliance to support planning, embedding, efficiency and other activities
- (4) Moving financial crime in or out of compliance

- (5) Outsourcing or offshoring services
- (6) Creating dedicated surveillance teams
- (7) Separating monitoring from surveillance activity
- (8) Centralising monitoring and testing activity while maintaining business and infrastructure aligned advisory teams

**3. The nature of any key changes expected in the mandate and organisational structure of compliance functions in the next three years**

3.1. As with the previous question, the mandate of the function was generally not discussed and no firm indicated an intention to review or make changes to the mandate of their compliance function in the next three years. Responses were again focused on organisational structure, and included:

Governance and oversight

- (1) Reviewing the three LoD framework, including clarifying the roles of the first and second LoD and making compliance fully independent
- (2) Defining the scope of compliance responsibility, including whether the function should be the second LoD for areas such as Finance and Human Resources
- (3) Implementing and embedding risk management and assurance frameworks and target operating models

Corporate organisational structure

- (1) Re-structuring or merging with group or global functions
- (2) Reassigning specific responsibility away from compliance, for example to the first LoD or other second LoD areas (e.g. Sarbanes-Oxley review, conduct, assurance and financial crime)
- (3) Defining and implementing structural changes due to ring-fencing
- (4) Moving financial crime out of the compliance function
- (5) Reorganising financial crime to create closer integration with divisional compliance and operational risk teams
- (6) Firms also noted that organisational change may be triggered by increasing digitalisation within the first and second LoD

Departmental-level organisational structure



- (1) Compliance functions will need to respond to business model changes caused by the UK leaving the European Union
- (2) The creation of service or holding companies and increased outsourcing may create structural change
- (3) Digitalisation and increasingly data intensive operations will require increased resource with skills in these areas and may trigger the creation of distinct teams within compliance

#### **4. The three key challenges to the effective discharge of the compliance function's mandate**

- 4.1. Nearly every firm mentioned regulatory change, ranking it as the first or second most significant challenge and citing the volume, pace and complexity of new regulation. The second most commonly cited challenge was the adequate staffing of the compliance function itself. This challenge emanates from a wide range of factors including new regulations, new technologies and the adaptation of traditional control models to complex new products or business models.
- 4.2. A number of firms recognised the need to invest in the design and scope of their governance frameworks to capture a wider range of risks. While financial crime was cited as a focal point for organisational attention and higher staffing, it was the least frequently mentioned source of future challenge.
- 4.3. Due to a shortfall in staff numbers, the scale of the challenge from rapid, complex change coupled with target operating model or business model change in a fast-moving political environment, there was a strong sense of heightened risk exposure between existing and required staff skills
- 4.4. Elsewhere in the survey, an observation made that the lack of interpersonal/influencing skills and, credibility can limit the effectiveness of the challenge the compliance function seeks to deliver. Firms have reported they are seeking employees with these skills, suggesting their growing importance to compliance.

#### **5. The steps taken over the last three years that better enables the compliance function to discharge its function**

- 5.1. There has been a large amount of effort and change in and around the compliance function over the past three years. Several inter-related factors underpin the view that the compliance function is better able to discharge its function. These are:
  - (1) Re-organised compliance departments, with their independence reinforced through direct reporting lines to the board

- (2) Structural integration and enhanced interaction with the board and other governance committees, including transaction committees
- (3) Closer alignment of organisational structures and work plans to the business activities firms undertake
- (4) Staff increases, together with investment in skills and knowledge through training
- (5) The application of technology solutions to streamline processes and create efficiencies

## **6. The organisation of the compliance function**

- 6.1. Compliance was commonly positioned as an independent unit with the Head of Compliance reporting to the CEO. A number of firms reported one layer away from the CEO, for example to the CRO, COO or Head of Legal, with the latter becoming less common.
- 6.2. Organisationally, some compliance functions were integrated with Operational Risk. One trend of note was the separation of financial crime from compliance into its own function, with separate reporting lines into senior management.
- 6.3. Within compliance itself, most but not all firms separated advisory teams from monitoring, surveillance, testing and other central functions. One firm had chosen to separate its testing team, which independently evaluates the effectiveness of compliance systems and controls across the first and second LOD, from the compliance teams carrying out those systems and controls.
- 6.4. We also observed offshoring of data heavy aspects of compliance operations, particularly monitoring and surveillance teams.

## **7. Target and actual FTE and experience**

- 7.1. Not all firms were able to provide the information requested by this question. Some firms provided detailed, comprehensive answers but we were surprised to see that a minority were unable to provide particular elements such as target headcount, either for management reasons or because they did not retain the data. Additionally, our dialogue with firms on this question suggested that few organisations had a readily available, comprehensive view of their staffing. Information was often piecemeal and needed to be assembled manually.
- 7.2. The data we did receive indicated the consistent growth of compliance functions, with the majority of target headcounts increasing across 2015-2017 (the period of our survey). Increases were higher in 2015-16 than 2016-17, and for some firms significant at above 50% over 2015-17. Firms have however been struggling to fill these expanding departments; most operated under headcount for 2015 and 2016, with some notably so.

- 7.3. Growth was spread across the function, with increases in monitoring, surveillance and testing in common. We noted that new roles were often at the mid-level / vice president band, which is likely to have created movement at this level within peer firms. Correspondingly, headcount below this level also increased. The growth of non-UK centres was also observable, inside and outside Europe.

## **8. Outsourcing arrangements**

- 8.1. Our questionnaire revealed very limited external outsourcing of core compliance functions. Outsourcing is generally limited to data intensive trade surveillance and/or independent whistleblowing infrastructure. There is extensive use of wholly owned, centralised group functions or operations services located in separate, lower-cost centres.

### **Strategy and planning**

## **9. Compliance strategy in the next three years**

- 9.1. Our observation is that less than half the sample articulated a more classic 'strategic' statement. Most firms restated their action plans, in whole or in part, reflecting their own re-structuring or re-alignment activity. The absence of strategic goals raises questions about what the planned activity is in service of, other than regulatory adherence.
- 9.2. The Annual Compliance Plan is a standard tool referred to regularly. We note that this annual plan attracts significant scrutiny from Boards, Executive Committees, Senior Managers and Internal Audit. We did not see reference to any longer-term planning initiatives for and by compliance functions. It may be that the high degree of attention on the annual planning cycle inhibits longer term planning and strategising by compliance functions.
- 9.3. Strategic goals set out by firms included:
- (1) Continuing to meet regulatory obligations
  - (2) Helping the firm do business in the right way
  - (3) Ensuring that compliance risk is identified, managed and mitigated effectively and proactively
  - (4) Supporting the delivery of good customer outcomes
- 9.4. Methods by which these goals are to be achieved included:
- (1) Enhancing monitoring and testing
  - (2) Increasing recruitment and training

- (3) Automation, system enhancements and leveraging technology generally
- (4) Global collaboration
- (5) Developing the compliance culture and career offering

## **10. Tracking and monitoring of the Annual Compliance Plan**

- 10.1. About half the firms reported formal approval and the subsequent review of plans at Board, ExCo and Head of Compliance levels.
- 10.2. However, Compliance departments that report periodically to the Executive Committee were in the minority. More often, firms reported to regional Operating or Risk Committees and also to legal entity Boards or Board Committees such as the Audit Committee. We also noted that, on occasion, progress against the Annual Compliance Plan did not appear to be overseen by a forum outside of compliance itself.

## **11. 'Change the bank' compliance function projects in 2017**

- 11.1. Change projects focused on technical infrastructure related to surveillance (audio communications, electronic communications, transactions), the implementation of monitoring systems related to Anti-Money Laundering and Financial Crime and/or new regulations (4MLD, Criminal Finances Bill, MiFID II, MAR, etc.).
- 11.2. A small number of firms are continuing with group-level restructuring or the re-alignment of compliance resource to business units, and several functions are remediating or re-organising following third party reviews or major issues.
- 11.3. Conduct risk management was also an area of focus, along with whistleblowing and more typical issues like personal account dealing and the management of conflicts of interest.
- 11.4. 'Big data' was mentioned as a potential approach to making compliance more efficient and effective but this was at an early stage.
- 11.5. A small number of firms noted the ability of the compliance function to steer and advise major cross-bank initiatives from inception to conclusion.

### **Compliance monitoring**

## **12. Changes in resource levels and focus between surveillance, testing and monitoring**

- 12.1. The dominant change over the past few years has been a dramatic increase in monitoring and surveillance activity, whether manual or substantially automated. The corresponding resource changes are the investment in systems and an increase in headcount in these areas. We did not observe

headcount being reallocated to these areas from within compliance or the wider organisation.

- 12.2. Other changes in focus within compliance functions were the recent growth in conduct-related monitoring and related Key Performance Indicators and also of "checking the checker" activity: areas within Compliance that are focused on assessing the effectiveness of compliance itself.

**13. How these changes have enabled the compliance function to better discharge its mandate, including the ability to oversee and challenge the first LOD**

- 13.1. Firms reported that this additional financial and human resource has enabled broader, deeper and timelier monitoring and surveillance activity. This, together with the recruitment of experienced or specialist staff has improved the engagement and challenge of front-office units.
- 13.2. Compliance functions are also moving into new areas, such as the monitoring and surveillance of private side procedures and increased use of voice surveillance. Another notable trend was the increase in focused, in-depth reviews.

**14. How these changes have increased, or altered, the use of technology by the compliance function**

- 14.1. The use of technology has been most often deployed to increase, enhance or streamline surveillance and/or monitoring capabilities. Firms noted the ability to build robust, targeted surveillance reports that allow them to focus quickly on specific risks or business groups. Firms are also using technology for advanced analytics, data mining and the filtering and linking of different types of communications to transactions (for example, linking voice or email chatter to specific trading activity).
- 14.2. While surveillance and monitoring were the main themes, firms also reported investment in workflow improvements, risk assessment and automated escalation, management information and e-learning. A small number of firms are still considering how best to deploy increasingly sophisticated technology.

**Technology**

**15. The impact of new front-office technology on the role of your compliance function, and on how it seeks to discharge its mandate**

- 15.1. Front-office technology investment has not yet led to a fundamental change in the shape or purpose of the compliance function in any participating firm, but has changed how these functions discharge their mandate.
- 15.2. The key impact has been the need to create new surveillance and control processes, including the extensive capture of newly generated data. This has

necessitated the hiring, transferring in and/or training of expert staff and a concerted effort to identify new risks arising from the systems concerned, along with any corresponding control and governance needs.

- 15.3. New front-office systems also required early involvement from compliance in their design and specification to ensure new regulatory requirements were considered in a precise and holistic manner. This early involvement also enabled compliance departments to assess and capitalise on any assistance these new systems could provide to the discharge of their role.
- 15.4. The increasing use of technology has changed the profile of risks facing firms, with one firm noting that the fragmentation of different technologies has resulted in some risks manifesting in several places in several ways. New compliance roles have also been created to address new risks, for example in relation to algorithmic trading.
- 15.5. Opportunities for compliance departments have also been created: one firm noted its increased ability to shift to preventative controls while another noted the growth of its cross-asset oversight capability.

## **16. How compliance functions will need to adapt to new technologies adopted by the front office in the next three years**

- 16.1. Most firms indicated a need to adapt to future investment in front-office technology by significantly upskilling their compliance staff through hiring and/or training.
- 16.2. New technical investments by the front office are also likely to trigger reviews of the adequacy of existing surveillance and monitoring capabilities, and, in some cases, trigger corresponding investment by the compliance function.
- 16.3. The importance of quickly and appropriately capturing new data was reflected by firms, along with the general need for the compliance function to have a deeper technical skill set, such as in areas like advanced mathematics.
- 16.4. To enable the incorporation of compliance requirements into incoming systems and technology, firms also commented on the need to be agile, flexible and fully engaged with front-office areas.

## **17. Investments in technology currently anticipated or planned by Compliance functions in the next three years**

- 17.1. The two most frequently mentioned targets for investment by compliance departments were trade surveillance/monitoring and 'big data', ranging across the assembly of a data lake to data analytics and visualisation. This investment theme extended into the monitoring of financial crime and electronic communications (integrating trade data, voice and messaging).

- 17.2. The third area of significant investment attention was client due diligence, anti-money laundering and related alert systems. The fourth area focused on improving staff workflows, consolidation and better use of data, partially automated risk identification and integrated reporting.
- 17.3. A few firms were also investing variously in providing limited access to firm systems through mobile phones, cybercrime mitigation, 'robotic' automation of existing manual processes, tax monitoring and new hire due diligence. We also note that one third of respondents were equivocal in explaining their investment plans.

**18. The top three technology or technology-related risks facing compliance functions**

- 18.1. The primary risks mentioned related to cybercrime, in particular preserving the control, safety and secrecy of bank data. Firms believed this risk increased with the use of online storage and cloud solutions. This was followed closely by the challenge of staying abreast with rapid market developments and retaining adequate controls over complex and fast-moving new businesses, products or processes. Data quality was also a concern, for example ensuring the completeness, accuracy and integrity of data whether stored or received through a live feed.
- 18.2. In answering this question firms again pointed to the risk of their compliance departments being under-skilled and under-resourced with respect to fast-developing technology and front-office systems. Concerns were also expressed about upcoming regulatory change and the system requirements these changes place upon firms, alongside integrating new systems, often from third party vendors, into existing mainstream infrastructure. Finally, a small number of firms were planning for the decommissioning of legacy systems.

**Support and challenge**

**19. The number of revenue generating front-office roles in wholesale banking businesses**

- 19.1. Responses to this question ranged between 2 and 3,115, illustrating the range of our firm sample.

**20. The number of non-revenue generating roles within the first LOD substantially involved in managing compliance risk within wholesale banking businesses**

- 20.1. Roles falling into this category included business managers, product managers, risk and control officers, front-office supervision staff, management assurance staff, staff conducting monitoring and surveillance and staff performing customer due diligence. Roles in Operations, Finance, IT and Secretariat functions were also included.

- 20.2. Responses to this question varied in the scope and capture of the roles described and the number of personnel given, which could be due to differing interpretations of the phrase 'managing compliance risk'. This variety could also demonstrate that first LoD supervision and oversight functions within sample firms are at different stages of development, or that the management of compliance risk is, by design, shared across the first and second line to differing degrees.
- 20.3. Amongst the larger firms in our sample, the ratios of revenue generating staff to non-revenue generating staff within the first line varied between 1% and 34%. We note that some firms stated they have no staff primarily responsible for managing compliance risk in the first line.

**21. Changes in the number of roles within the first LoD substantially involved in managing compliance risk**

**(a) The type and extent of any compliance roles, responsibilities and/or personnel that have moved between the first LoD and compliance in the last three years**

- 21.1. Our questionnaire revealed a small degree of movement in personnel and headcount between the first LoD and compliance. Several responses stated that responsibility and headcount for customer due diligence had moved to the first line, and others variously reported the movement to the first line of other financial crime activities, surveillance activity and management of complaints. Some surveillance activity had also moved from the first LoD to compliance, as had certain operational functions.
- 21.2. Several firms stated they had increased the number of front-office or first LoD personnel who are managing compliance risk, or otherwise involved in supervising business activity. Most firms in our sample had such teams or functions. Where first LoD headcount had increased it had been added, rather than transferred from elsewhere in the organisation.

**(b) The impact on the compliance function of movements in compliance roles, responsibilities and/or personnel**

- 21.3. Firms reported that transferring activities to the first LoD had released capacity for compliance functions and allowed them to focus on pure second line activity, such as the provision of advice, challenge and oversight. The challenges associated with transferring activity and then embedding new processes were also noted, as was the benefit of moving staff between the first and second lines.

**22. Difficulties that may arise in effectively challenging the first LoD**

- 22.1. Compliance functions often felt they experienced pushback or a lack of engagement with front office or other units because of their weaker understanding of certain business models or products, or the precise



applicability of complex, new or emerging rules. This was a particular concern in complex products or computer assisted trading. The first LoD not always being receptive to challenge and not understanding regulation, and therefore the regulatory risks they are running, was also commented on.

- 22.2. Membership and participation in key decision-making committees was considered essential to effectiveness. Co-location, on the trading floor for example, was primarily thought beneficial for gaining business familiarity, provided that it did not compromise the ability to challenge. In addition to the balance required for compliance staff to be both a partner and a challenger, firms also stated that it can be difficult to strike the right balance between conflicting business priorities and regulatory requirements, the letter and the spirit of the law and regulations in different jurisdictions.
- 22.3. Firms felt the understanding of the role and purpose of the compliance function was sometimes not clear internally or had become blurred by the addition of control functions to the first LoD, changes to reporting lines or process and approval workflows. This was exacerbated by business areas, on occasion, not properly engaging with Compliance and viewing the function as a business inhibitor, an attitude which firms thought needed to be overcome by training, improved understanding and senior management support.
- 22.4. Further challenges mentioned include: information not being provided to compliance in a timely manner, which eroded their ability to contribute, improper use of and defensiveness around escalation follow-up and the negative impact that new hires with a poor attitude to cooperation with compliance can have.

## **Personnel**

### **23. The skill sets currently sought by compliance functions**

- 23.1. The skill sets most sought were business specific product knowledge particular to a given vacancy, monitoring, surveillance and testing experience, strong communication and inter-personal skills, people management and challenge capabilities and deep regulatory knowledge, sometimes for specific areas.
- 23.2. Other areas that were mentioned several times include financial crime, information security, project and change management, a heightened sense of ethics and conduct risk, process controls, software engineering and data science. Data protection, languages, derivatives expertise and control room and conflicts of interest specialisms were also mentioned, but less frequently.

### **24. Skill sets or experience levels within the compliance recruitment market in high demand or that are hard to find**

- 24.1. Perhaps unsurprisingly, the skills and experience in high demand relate closely to those currently sought by firms. Product specific experience was

often cited, particularly for Markets Advisory or Coverage roles where familiarity with the product and related market dynamics is considered important.

- 24.2. In addition, demand has been created in areas where compliance departments are looking to increase, predominantly in monitoring (eg flows of trading data or account movements) or surveillance (eg staff behaviours, use of communications and media). Anti-money laundering and financial crime roles more broadly are in demand due to the need to upskill or build out teams.

## **25. Recruitment trends that relate to the compliance function**

- 25.1. Based on the questionnaire responses, demand for compliance staff remains high and is in excess of suitably experienced talent pools. This is especially acute for smaller firms who may not be able to compete with the wider career opportunities offered by larger firms. This demand has created rising salaries and rising salary expectations, however some firms thought salary trends were causing compliance staff to change jobs before gaining meaningful experience.
- 25.2. There are a number of other trends evident in recruitment activity, with the most notable shift in hiring those with technical familiarity with electronic trading platforms, key products and the analytical and communication skills to assess, contribute to and challenge control arrangements around products, processes, systems and related infrastructure. Firms are increasing monitoring and surveillance activity, which has created demand for this type of experience, and more broadly see rising demand for technology and data-related skills.

## **26. Internal Audit reports concerning the operation of the compliance function issued in the last two years**

- 26.1. There was a wide range of results for audit activity that focused either directly on or substantially involved the compliance function. The average number of such audits per firm over the past three years ranged from 103 to nil with the average being 22. Of those audits, the Satisfactory or Effective rating averaged c.60%, with the balancing categories being Unsatisfactory or Needs Improvement.
- 26.2. In general, the audits reported to us focused more on front-to-back controls or first LoD processes or initiatives that relate to compliance matters than on compliance functions themselves. There was also a large focus on Financial Crime in the audit topics we observed, notwithstanding that several firms in our sample had organised themselves so that responsibility for Financial Crime monitoring fell outside compliance.

## **27. Insights, opinions or commentary from firms on the compliance function**

27.1. Only a small number of firms responded to this question. Those that did expressed the following views:

- (1) As regulation becomes more important in shaping business strategy, front-office management are becoming increasingly involved in analysing and implementing regulation
- (2) Compliance departments now have an increased profile and higher expectations placed upon them
- (3) Close collaboration with businesses, while remaining entirely independent of them, helps enable prevention and detection
- (4) Technology will be key in improving the efficiency and effectiveness of compliance departments