

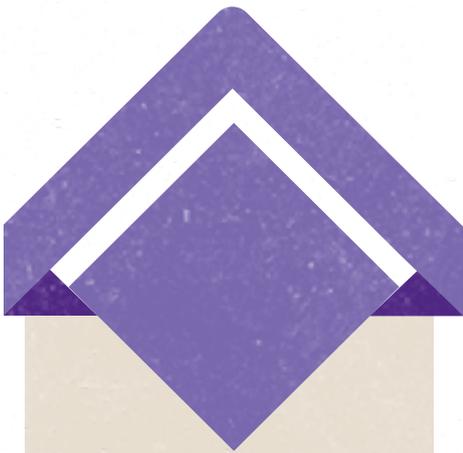


Grant Thornton

An instinct for growth™

# Regulatory Architecture

A proactive and sustainable approach to regulatory management



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# Foreword

The Financial Services industry is facing a period of unparalleled regulatory change. The operational and strategic impacts are marked. Grant Thornton asserts that the implementation of a *Regulatory Architecture* layer, that provides a centralised entry point for legislative initiatives, is the most efficient and sustainable manner in which to manage multiple waves of regulatory activity in a coordinated, cost-efficient manner.

Several years beyond the onset of the banking crisis, uncertainty remains. Regulatory pressures are having a great impact on banks' revenues. Many industry commentators predict that the average Return on Equity for investment banks may fall to 6-9% by 2017. Indeed, Grant Thornton research suggests that there are more than 60 legislative initiatives currently underway in Europe for banks alone.

The sheer scale of the regulatory challenge is unprecedented. This is further exacerbated by the hugely variable and often antithetic nature of the legislation that regional and global financial supervisors are currently imposing. Moreover, regulators are ever more unpredictable; the timescales for compliance frequently change, impacting institutions' financial performance and strategic objectives.

The burden is not limited to the cost of regulatory compliance. Senior management is increasingly diverted from business creation to dealing with multi-jurisdictional legislative demands. The fragmented nature of most regulatory change programmes makes it difficult to calculate the true cost of compliance.

Many Financial Institutions have chosen to adopt a reactive approach due to the uncertainty surrounding most legislative reforms. Nevertheless, this attitude, while understandable, prevents effective strategic planning. Dealing with legal initiatives individually will inevitably result in duplication of effort and increased implementation costs.

In our recent paper, *Banking Regulation: Unravelling the regulatory spaghetti*, we suggested that the multi-faceted nature of the regulatory dilemmas firms face requires a fully integrated operational function to proactively manage the plethora of multi-jurisdictional regulatory initiatives. Grant Thornton's *Regulatory Architecture* solution addresses these issues; sitting at the heart of the first line of defence, between change and the business, it provides an operational framework capable of addressing the aforementioned challenges.



# Investment banking regulatory change statistics

There are more than **1200** key regulatory requirements **AROUND THE WORLD**



**Three quarters** of those surveyed felt their organisation would have to change its business model in order to thrive over the next **3-5 YEARS**

Almost **two-thirds** reporting this change would need to be substantial or fundamental

THE AVERAGE RETURN ON EQUITY for the world's 13 largest investment banks **MAY FALL TO 6-9% BY 2017**

Only **4%** of FS organisations are coping 'very well' with the amount of regulatory change they are faced with

Whereas **40%** are not coping 'well'

**54%** of Financial Services executives consider it 'very important' that their organisations develop relationships with regulatory agencies to influence policy

**100%** of senior people consider it critical

More than half of organisations have **REGULAR DUPLICATION** of activity across departments

ESTIMATED **\$199 BILLION** of fines incurred by the world's 15 most heavily penalised banks between 2004 and 2013, **\$138 billion** worth or 69% – came in 2012 and 2013



Compliance officers spend on average **JUST OVER ONE DAY PER WEEK**

tracking and analysing regulatory developments and amending policies and procedures

# Introduction

Seven years have passed since the onset of the global financial crisis, yet the effects are still being felt across the banking industry. A single, recurring theme abides: regulation.

Financial Institutions face a triple challenge: not only do they have to deal with hundreds of multi-jurisdictional regulatory initiatives, they also need to build relationships with supervisors while responding to the demands of their stakeholders. As the process moves from policymaking to implementation, it becomes clearer that the ambivalence of most norms prevents effective strategic planning.

While many banks have inaugurated cost-cutting initiatives, few have attempted the structural realignment necessary to operate profitably in the new environment.

The most prominent challenges comprise:

1. Addressing depressed Returns on Equity to improve profit levels
2. Simplifying complex governance frameworks and process infrastructures to reduce costs
3. Interpreting and effectively implementing multi-jurisdictional regulatory initiatives

In order to survive in this new regulatory-driven landscape, Financial Institutions will need to go further than targeting mandatory levels of regulatory compliance. Strategic alignment of the regulatory agenda to overall business objectives will be key to establishing sustainable, profitable growth.

## Three steps to managing the torrent of regulation

# 1

### Single dashboard view

Establish a single and comprehensive view of current and future regulation, that becomes the single golden source, firm-wide.

# 2

### Regulatory governance

Define and embed an internal governance structure that promotes transparency, responsibility and accountability. Founded upon regulatory awareness and informed decision-making processes.

# 3

### Regulatory portfolio management

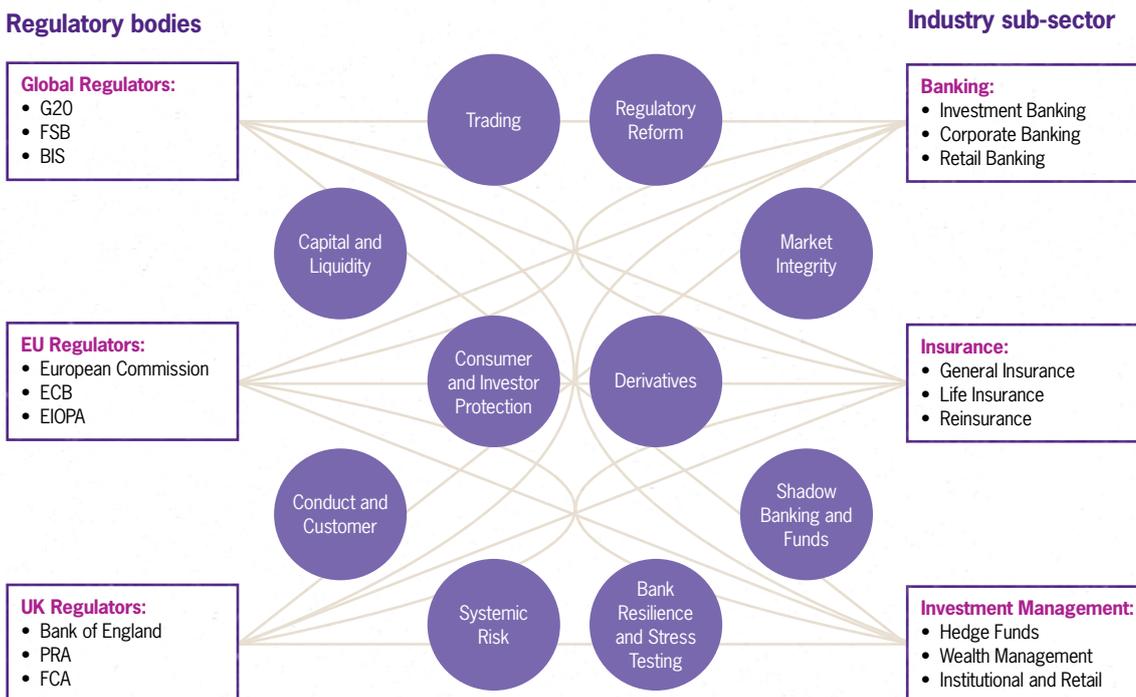
Employ sophisticated portfolio management techniques to identify, assimilate and disseminate regulatory initiatives appropriately within the business. Ensure business and regulatory initiatives are aligned to operational change agendas.

# Problem statement

The volume of regulation, globally, regionally and locally, shows no sign of abating. The slight shift in the regulatory reform agenda, from policymaking to implementation, has provided Financial Institutions with no respite. Regulatory pressures will continue to increase for banking institutions; volume, complexity and reporting obligations will intensify.

At the time of writing, as many as 60 legislative initiatives are currently underway in Europe to regulate banks alone. It is not inconceivable that, at any one time, multi-functional global banks may be faced with well in excess of 100 separate regulatory initiatives.

Despite a commitment to move to a more harmonised regime, since the financial crisis, the majority of rules have been customised by national regulators. Responsibility for this challenge currently rests with overstretched compliance, risk, treasury and finance departments.



## Principal regulatory challenges:

1

### **Volume of Regulation:**

Managing unprecedented volumes of multi-jurisdictional and interlinked regulation is not a challenge firms have historically been structured to deal with.

While new legislation continues to be drafted, implementation and monitoring requirements of existing regulation continue to increase.

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2

### **Material Impact:**

The disjointed regulatory landscape is having a negative impact on banks' Return on Equities.

Some predict that the average Return on Equity for the world's largest investment banks may fall to 6%-7% by 2017 due to legal pressures.

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3

### **Accountability:**

Ownership of regulatory responsibility is disparate. Compliance teams are principally responsible. Yet, business ownership is often divulged, with horizon scanning and impact analysis divided between change, risk and compliance teams.

The Senior Managers Regime will streamline accountability and enhance the need for trusted delegation.

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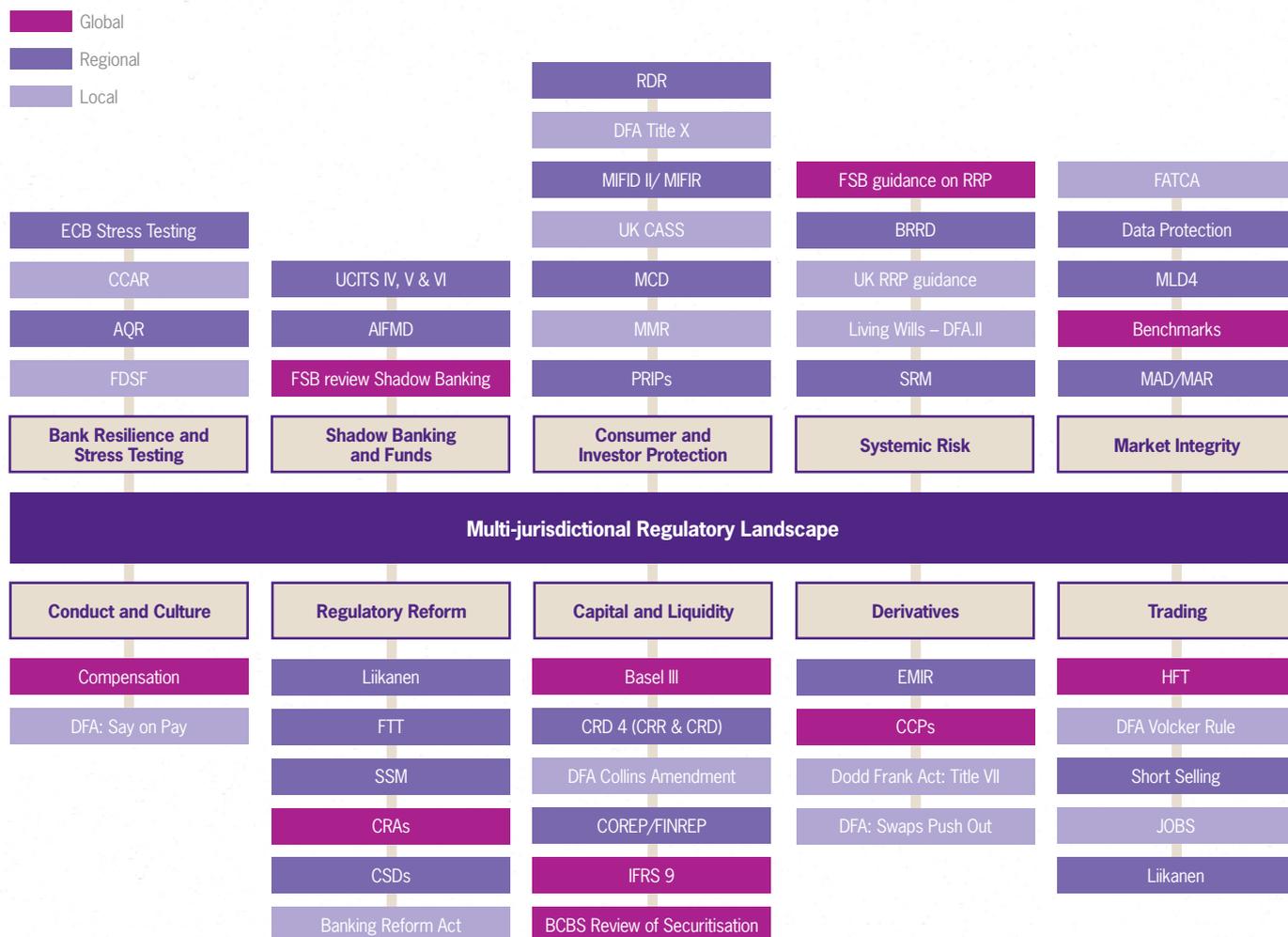
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### **Decentralised or Federated Business Models:**

Decentralised business models hinder regulatory coordination, collaboration and optimised implementation. Competing objectives and suboptimal communication streams result in duplicated effort and, often, strategic disparity.

A lack of intra-organisational and cross-functional transparency often results in project duplication and operational re-work.

# Multi-jurisdictional malaise





“Global banks are subject to in excess of 1,200 key regulatory requirements.”

Despite commitment from the G20, in 2009, to launch a coordinated regulatory reform, what started as a global action plan soon became a puzzle of conflicting national agendas. The multi-jurisdictional nature of regulatory regimes is increasing pressure on firms with a global presence.

#### **Multiplication of supervisors**

Banks are not only affected by the proliferation of rules, but also by the increasing number of supervisors: The European System of Financial Supervision (ESFS), the European Banking Authority (EBA) and the European Securities Market Authority (ESMA) are some of the new regulatory authorities launched in Europe alone.

It is important for firms to build relationships with these bodies, as engagement with the regulator when reforms are at an early stage can lead to effective lobbying; not only to influence the proposed reforms, but also to ensure realistic enactment dates are imposed and implementation exceptions noted.

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#### **Duplication and contradiction**

Some broad categories of norms can be drawn from the initial global initiative; nevertheless, few benefit from standardised application, the majority have been customised by national regulators. Local variations, as well as differences in scope and timing, distort competition; frequently resulting in duplication and contradiction. Proposals are often drafted independently; the lack of dialogue between proposing bodies and socio-economic idiosyncrasies are normally the causes of the discordant responses.

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#### **Regulatory arbitrage**

The stringent nature of most of the rules banks need to comply with has prompted a shift of activities to sectors and regions with less severe regulatory scrutiny. Global banks can benefit from milder regulatory environments in certain regions; however, in order to turn rules into a competitive advantage, a comprehensive regulatory understanding is necessary.



# Managing the regulatory spaghetti

As the regulatory reform agenda unfolds, both in breadth and depth, the imperative to change will become unavoidable.

Indeed, the regulatory regime is now a fundamental component of the Financial Services industry. Consequently, Financial Institutions must adapt and embed management of regulatory initiatives as a core operational function.

As banks have integrated technology, business change, compliance and other core operational functions into their business models, they must now do the same with regulatory compliance – placing it at the heart of the business’ operating model.

Furthermore, the volume, impact, complexity and dynamic nature of the web of regulation dictates that such a function should no longer be an addition to the existing responsibilities of compliance, risk and internal audit teams. Indeed, establishing a business architecture and governance model that informs and guides impacted parties will be at the heart of achieving effective regulatory compliance.

A reactive and siloed approach to managing regulation is no longer sufficient or appropriate for multi-jurisdictional organisations. Moreover, such an approach has significant cost implications.

Equally, the spiralling cost of the ‘belt and braces’ approach, embodied by initiatives such as the Trade Control Function (TCF), is neither commercially sustainable nor operationally effective.

As organisations evolve to counter new regulatory norms, governance, accountability and structured management of regulatory change across business functions must be to the fore.

## Why implement a Regulatory Architecture?

### Regulatory pressures will continue

Regulatory pressures will continue to intensify. As volume, complexity and reporting obligations increase, a proactive approach to management and mitigation will be essential.

### Federated approaches are no longer sustainable

Federated organisational, project and reporting structures have a track record of failure. Collaborative and firm-wide approaches to regulatory change and management must underpin a more proactive approach.

### Mandatory requirements will abide

Despite the demand for more proactive approaches, mandatory requirements will abide. Compliance teams will be increasingly occupied with mandatory monitoring and reporting activities, leaving little time for proactive management of future regulatory issues.



“Compliance, Risk and other associated regulatory change teams are not equipped to manage the variety and complexity of the modern regulatory regime.”

# 1 Strategic evolution - operating model

- Redefine strategic and operational attitudes to reacting to regulatory requirements
- Leverage regulatory initiatives to inform strategic change and operational efficiency
- Integrate management of the regulatory agenda as a core element of the business model

# 2 Strategic evolution - operational efficiency

- Embed firm-wide approaches to regulatory communications, analysis and implementation
- Implement a standardised approach to holistic impact analysis, reducing project duplication
- Reduce re-work through transparent portfolio management of regulatory and operational change

# 3 Strategic evolution - organisational governance

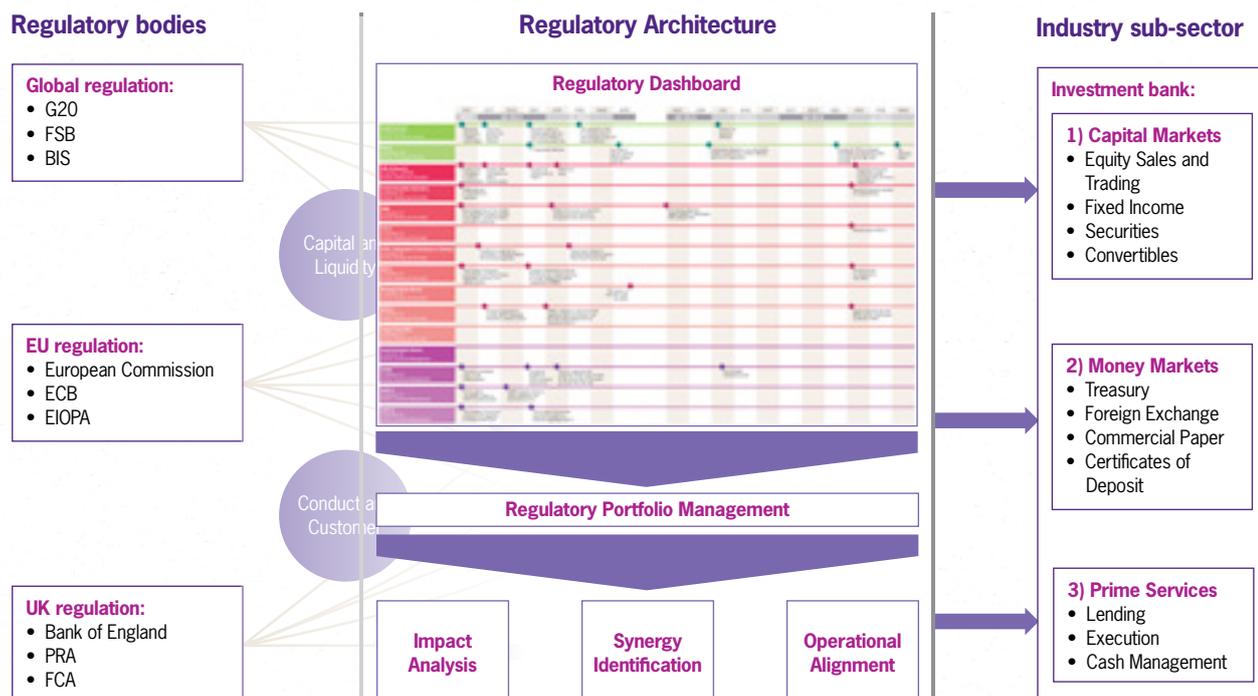
- Establish a governance and reporting structure that instils trust and supports decision-making
- Ensure senior decision-makers are able to both assess and prioritise strategic and tactical decisions and align requirements to business objectives
- Instil traceability between business objectives, regulatory requirements, operational synergies and deliver benefit realisation tracking

The implementation of a *Regulatory Architecture* layer, as a central owner for all regulatory responsibilities will better equip firms to manage multiple waves of regulatory activity in a coordinated, holistic and cost-efficient manner.

The *Regulatory Architecture* provides a single, centralised entry point for regulatory and legislative initiatives. Managing these initiatives as part of a regulatory portfolio, aligning operational change with regulatory change and providing a framework for assimilation and dissemination of regulatory initiatives to relevant stakeholders, provides a foundation upon which a more proactive approach can be formed.

A *Regulatory Dashboard* will serve as a ‘golden source’ for intra-organisational regulatory data, enhancing awareness, transparency and embedding a culture of regulatory understanding.

Moreover, a single, firm-wide regulatory perspective enables decision-makers and impacted parties, across all three lines of defence, to align operational objectives with regulatory requirements, thus realising considerable operational and cost efficiencies.



# Regulatory Architecture

The multi-faceted nature of the challenge firms face from cross-jurisdictional regulatory agendas requires a fully coordinated and integrated function.

A focused *Regulatory Architecture* function will draw together the core components required to proactively manage the myriad challenges posed by global, regional and local supervisors.

As a core operational function, sitting between change and the business, at the heart of the First Line of Defence, the *Regulatory Architecture* will draw together five fundamental pillars to deliver a fully coordinated and integrated function that proactively addresses and manages regulatory initiatives; enhancing compliance and delivering operational and strategic efficiencies.

## 1 Governance and accountability -

Establish a governance framework that embeds accountability and responsibility for regulatory requirements at appropriate levels of the organisation. Providing a reliable foundation for informed decision-making.

## 2 Single view dashboard -

Institute a single source of centralised regulatory information, the *Regulatory Dashboard*. Leveraging expert regulatory knowledge and experience to standardise interpretation and align to institutional variances.

## 3 Regulatory portfolio management -

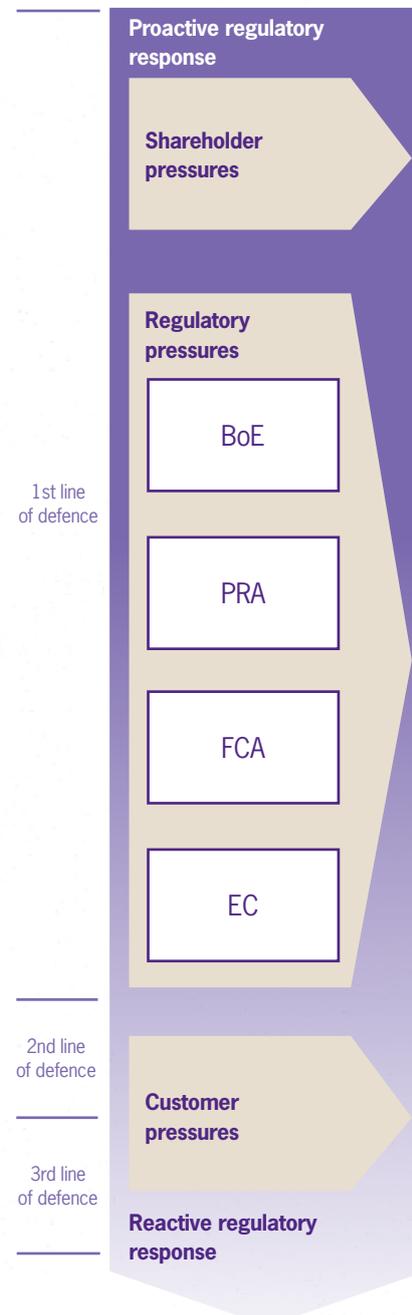
Implement centralised management of firm-wide regulatory requirements, embedding effective cross-functional prioritisation, demand management, resource allocation and risk management principles to ensure a coordinated approach to regulatory change and compliance.

## 4 Impact analysis -

Apply consistent and targeted operational and commercial impact analysis procedures, to ensure cross-functional and cross-product impacts are identified and assessed centrally, thus reducing duplicated effort and subsequent execution-stretch.

## 5 Operational alignment -

Leverage transparency achieved through Portfolio Management, Communications and Impact Analysis functions to align regulatory developments to operational objectives and planned or in-flight change programmes.



# Business Strategy

## 1 Board and Executive Committees

Business Objectives

Operational Objectives

Front Office

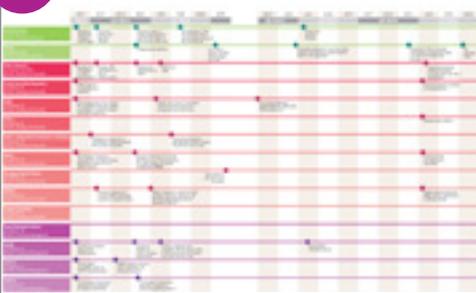
Middle Office

Back Office

### Business Change

### Regulatory Architecture

#### 2 Regulatory Dashboard



#### 3 Regulatory Portfolio Management and Communications



#### Regulatory Portfolio Management and Communications

### Business as Usual

### Oversight Functions

### Assurance Functions

# 1. Governance and accountability

Regulatory change is as prominent an issue as any in the Financial Services industry at present. The influence the regulatory agenda is asserting on business strategies is profound. Consequently, top-down governance is imperative. Moreover, expert regulatory representation at C-level is now essential.

Expert regulatory knowledge is seldom leveraged sufficiently at senior levels to inform strategic planning and decision-making. Given new accountability rules, Boards and Executive Committees must be confident they have sufficient knowledge and understanding of the regulatory impacts from which rationale for decision-making is derived.

The *Chief Regulatory Architect* should be adept at managing senior stakeholders, up to C-Suite level, in order to ensure regulatory considerations are catered for.

Not only will improved governance and accountability deliver myriad operational benefits to organisations, it is to become an operational prerequisite under the proposed Senior Managers Regime.

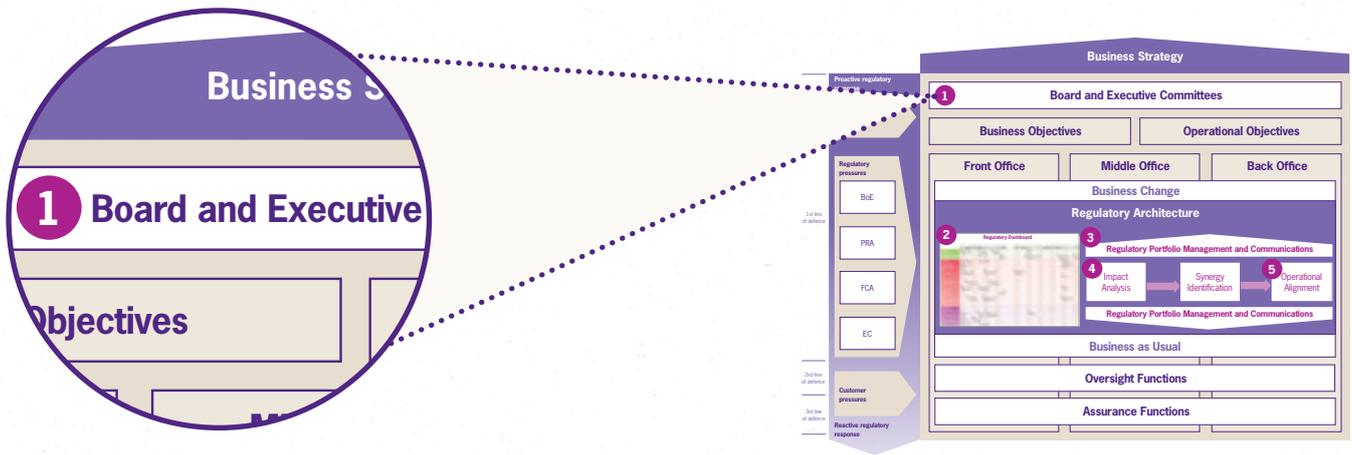
## Senior Managers Regime: Increased personal accountability

In the UK, the Parliamentary Commission on Banking Standards proposed a revision of the Approved Persons Regime (APER). The current system will be replaced with a Senior Managers Regime that will only cover senior decision-takers.

In order to avoid any dilution of responsibility, all applications for Senior Management Functions will be supplemented by a 'statement of responsibilities' specifying all the aspects of the firm the individual is responsible for.

A criminal offence for 'reckless misconduct in the management of a bank' has been introduced. Those found guilty could be sentenced to up to seven years and/or receive an unlimited fine.

"Banks are being challenged by the regulator to implement improved corporate governance practices. Not only do they need to implement them, they also need to demonstrate their effectiveness. The internal re-engineering of corporate and risk governance requires as much focus as building revenues."



# 1

## Strategic alignment

Firms must reassert authority over their business strategies. Ensuring strategic objectives are informed, and not driven, by the regulatory agenda.

### Key steps:

- Review business strategy to ensure regulatory alignment
- Establish process by which regulatory developments inform future strategic decisions
- Embed regulatory expertise in strategic definition phases

# 2

## Regulatory liaison

Firms must proactively engage with regulatory bodies, both to develop clearer understanding of intent and to play an active role in future regulatory developments.

### Key steps:

- Appoint a central regulatory liaison
- Establish a regular communication medium with regulatory bodies
- Influence legislative decision-making

# 3

## Informed decision-making

Establishing a framework by which regulatory matters countenance C-level decision-making is critical.

### Key steps:

- Embed expert regulatory presence at Board and Executive Committee level
- Fortify management information to support risk governance and business decision-making

## Management Information and Data

Management Information (MI) and data are no longer management ‘nice to haves’, they are a regulatory pre-requisite. Under the Senior Managers Regime, those accountable will be increasingly reliant on data quality and accuracy.

Targeted MI and reliable data are at the core of the *Regulatory Architecture*. This solution will ensure accurate data, tailored to stakeholder demands, is readily available to countenance decision-making and inform strategic and regulatory change.

## Summary: Governance and accountability

### Skills required:

- Stakeholder management
- Programme management
- Regulatory awareness
- Operational awareness
- Regulatory liaison

### Benefits:

- Increased accountability
- Informed decision-making
- Delegated responsibility
- Targeted MI reporting
- Strategic alignment

## 2. Single view dashboard

The development of a firm-wide single view dashboard is fundamental to implementing a more proactive approach to regulatory management. Moreover, increased awareness and understanding will foster both long-term planning and a culture of regulatory responsiveness.

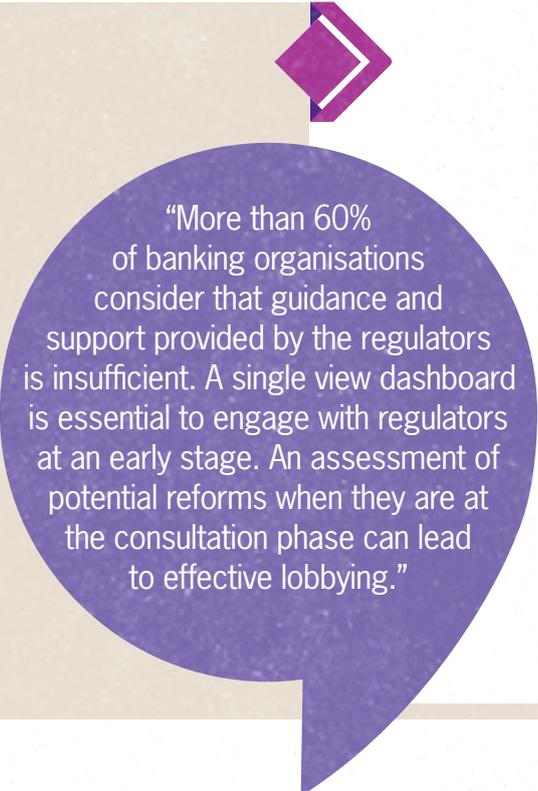
A central source of regulatory knowledge will both inform change teams and supply regulatory monitoring and reporting functions, such as compliance and risk, with valuable insight and information. Promoting a firm-wide understanding of the dynamic regulatory landscape is fundamental to enterprise-wide compliance.

Moreover, increased transparency and awareness of regulatory agendas will facilitate a more agile approach to the management of impending requirements.

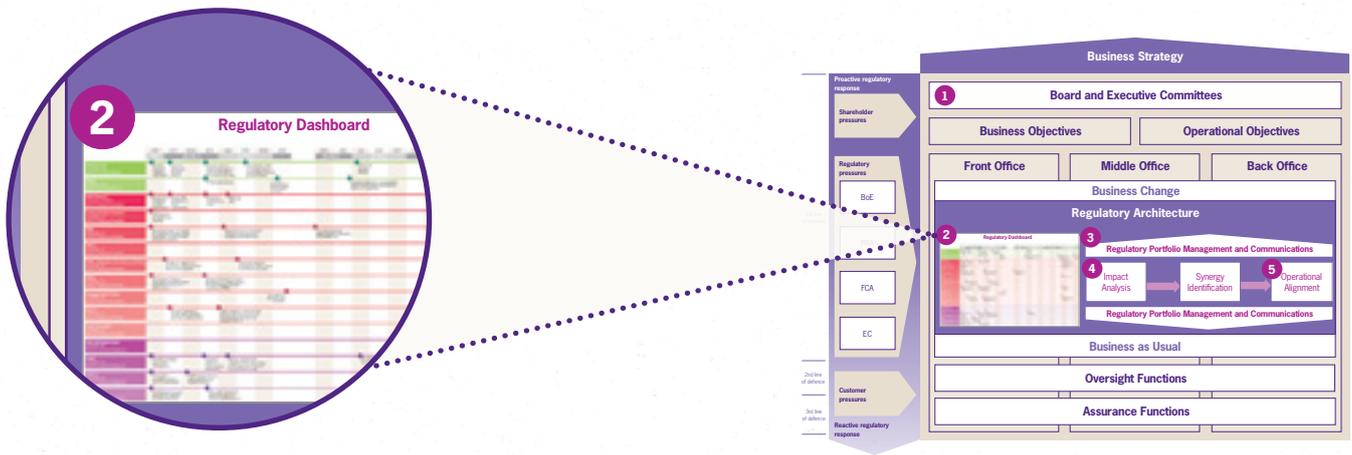
Establishing a set of tools and processes to facilitate a single, firm-wide view of the regulatory agenda is at the heart of proactively and sustainably managing regulatory change.

### Core components of Grant Thornton's single view dashboard include:

- **Horizon scanning** - proactive regulatory monitoring allows firms to develop a deep understanding as legislation evolves through the development cycle, from consultation to implementation.
- **Understanding intent** - understanding the intent of rule-makers helps organisations to interpret rules and manage their practical application.
- **Engage the regulator** - engaging with the regulator during the consultation phase is a proven method to help play a role in the development of regulation and mitigate against particularly onerous proposals.
- **Golden source of information** - a central hub for regulatory information and knowledge ensures regulatory change is transparent and coordinated. Functional alignment and consistent rules and requirements mapping methodologies promote collaborative change.

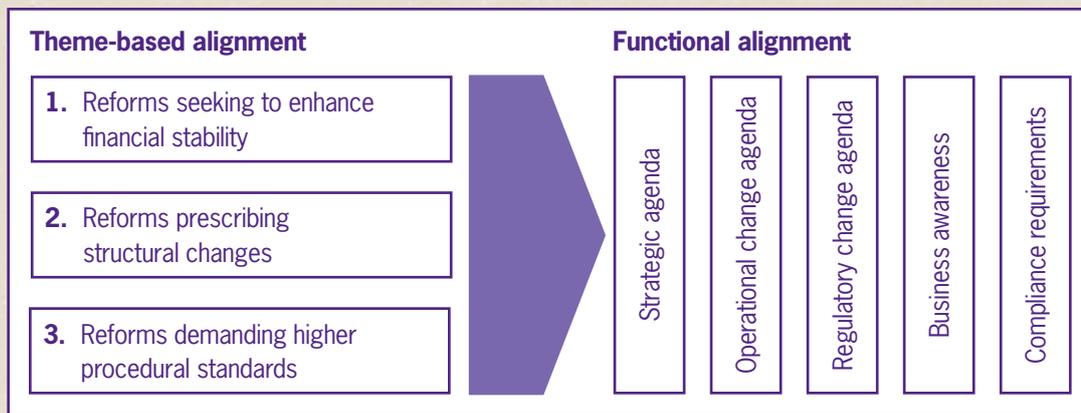


“More than 60% of banking organisations consider that guidance and support provided by the regulators is insufficient. A single view dashboard is essential to engage with regulators at an early stage. An assessment of potential reforms when they are at the consultation phase can lead to effective lobbying.”



## Theme-based alignment

Grant Thornton advocates centralised theme-based alignment of regulatory issues. Establishing commonality between regulatory initiatives will enable firms to better align regulatory and operational agendas and identify cross-functional synergies.



## Regulatory Dashboard

The *Regulatory Dashboard* is the primary enabler for proactive regulatory compliance, informing change and business as usual teams of future and current requirements. It harnesses expert knowledge of local, regional and global requirements, ensuring a bespoke, firm-specific view providing the foundation for all regulatory-related activities.

### Summary: Single view dashboard

#### Skills required:

- Regulatory awareness
- Business analysis
- Technical analysis
- Stakeholder management

#### Benefits:

- Firm-wide regulatory view
- Informed decision-making
- Risk-aware culture
- Coordinated change agenda

# 3. Regulatory portfolio management

Top-down management of regulatory initiatives, as part of an integrated portfolio, both at project and programme levels, will facilitate a more strategic approach to regulatory change and compliance.

Comprehensive management of a firm-wide regulatory portfolio will be at the heart of all regulatory activities; acting as the focal point for governance, communications, impact analysis, operational alignment and change initiatives.

Central to effective portfolio management is a clearly defined governance structure and communications framework. Furthermore, implementing standardised, firm-wide processes

and procedures to support monitoring, interpretation and impact analysis will support identification of synergies and leverage opportunities to increase implementation efficiencies.

An actively managed cross-functional regulatory change portfolio will provide a central point in which impact and operational alignment are amalgamated.

Grant Thornton's *Regulatory Portfolio Management* solution delivers multiple benefits, founded upon core principles of portfolio management, including:

1

## Prioritisation

A clearly defined prioritisation framework will mitigate against evolving regulatory risks, changing timescales and new regulatory requirements.

### Benefits:

- Enhanced programme foresight
- Coordinated implementation planning
- Informed demand management

2

## Demand management

Informed and assumption-weighted planning helps pre-empt resource demand and reduce uncertainty.

### Benefits:

- Effective resource allocation
- Budgetary optimisation
- Reduced resource-stretch

3

## Risk identification

An integrated programme and project portfolio enables identification and mitigation of constituent risks.

### Benefits:

- Enhanced risk mitigation
- Informed decision-making
- Increased transparency

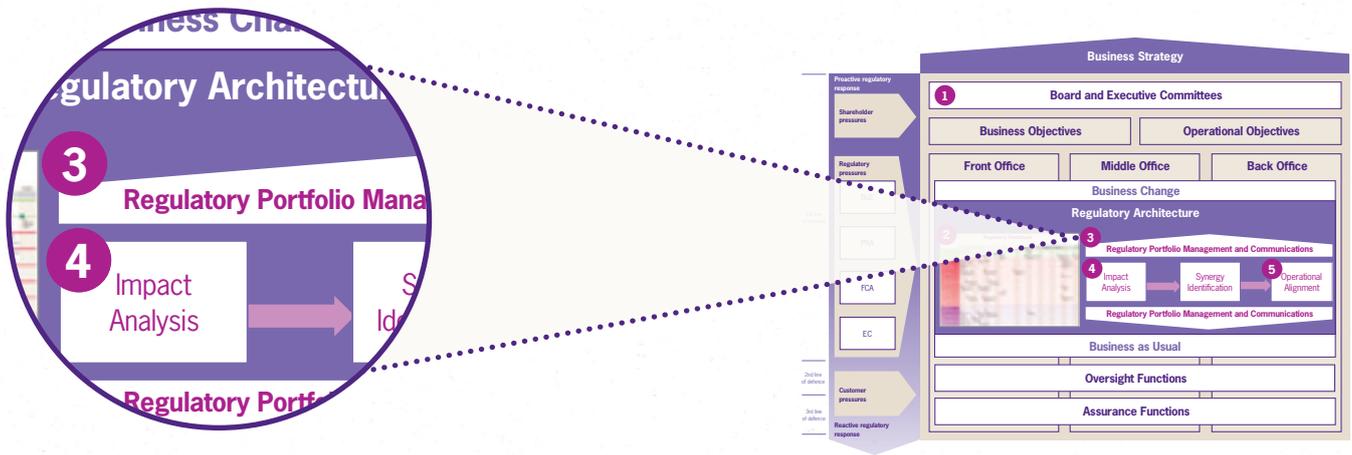
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## Communication and transparency

Implementing a clearly defined, firm-wide regulatory communication network provides the foundation upon which to build a compliant and risk-aware business.

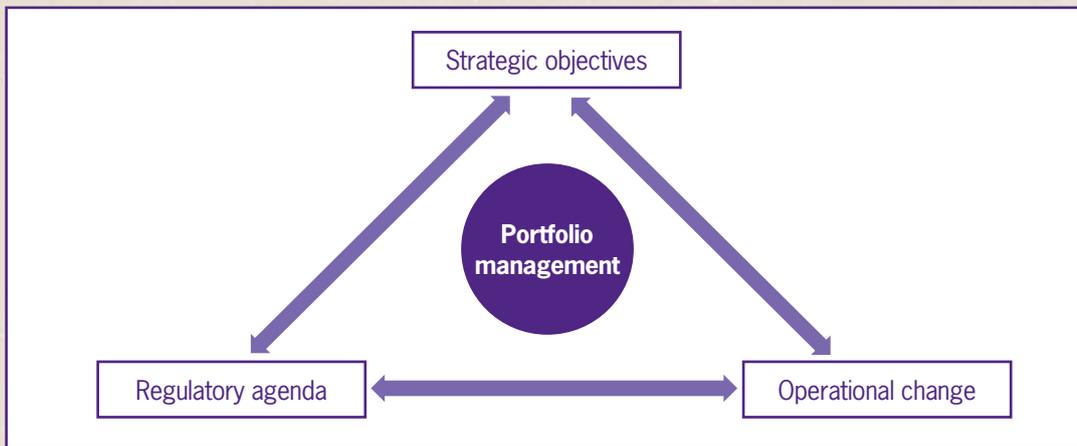
### Benefits:

- Embed a risk-aware culture
- Reduced duplication
- Enhanced regulatory collaboration



### Integrate business, change and regulatory objectives

Coordinated portfolio management should be applied to items within both the regulatory and change agendas to optimise delivery of strategic objectives.



“Although nearly 80% of financial leaders consider that a proactive approach to regulation can be a source of competitive advantage, more than 50% of organisations acknowledge that they are ineffective at coordinating individual regulatory projects. Integrated portfolio management will establish the right balance between the regulatory agenda, the business’ strategic objectives and operational change programmes.”

### Regulatory Portfolio Management

Experience has taught us that complex, cross-divisional programmes benefit greatly from rigorous project management as part of an interdependent programme portfolio. Grant Thornton’s bespoke *Regulatory Portfolio Management* solution is founded upon the amalgamation of cross-divisional and cross-functional regulatory requirements. The subsequent identification and alignment of programme synergies delivers operational, process and cost efficiencies.

#### Summary: Regulatory portfolio management

##### Skills Required:

- Business knowledge
- Implementation planning
- Portfolio management
- Change management
- Demand management

##### Benefits:

- Assumption-weighted demand management
- Budgetary optimisation
- Reduced resource stretch
- Synergy identification

# 4. Impact analysis

Interpretation of legislation and subsequent impact analysis are discrete roles requiring skilled individuals with a wealth of regulatory, business and analysis knowledge.

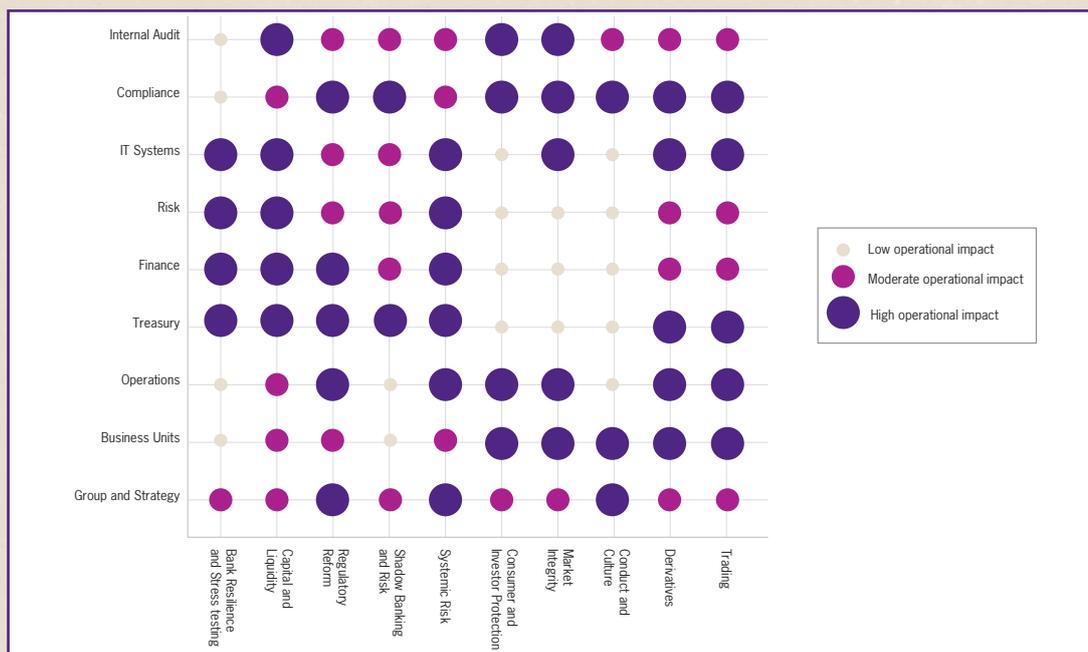
A deep understanding of regulatory intent is critical to comprehending the regulatory agenda. It is a fundamental requirement that regulatory architects are able to assess the prospective impact of proposed legislation at both client and product levels.

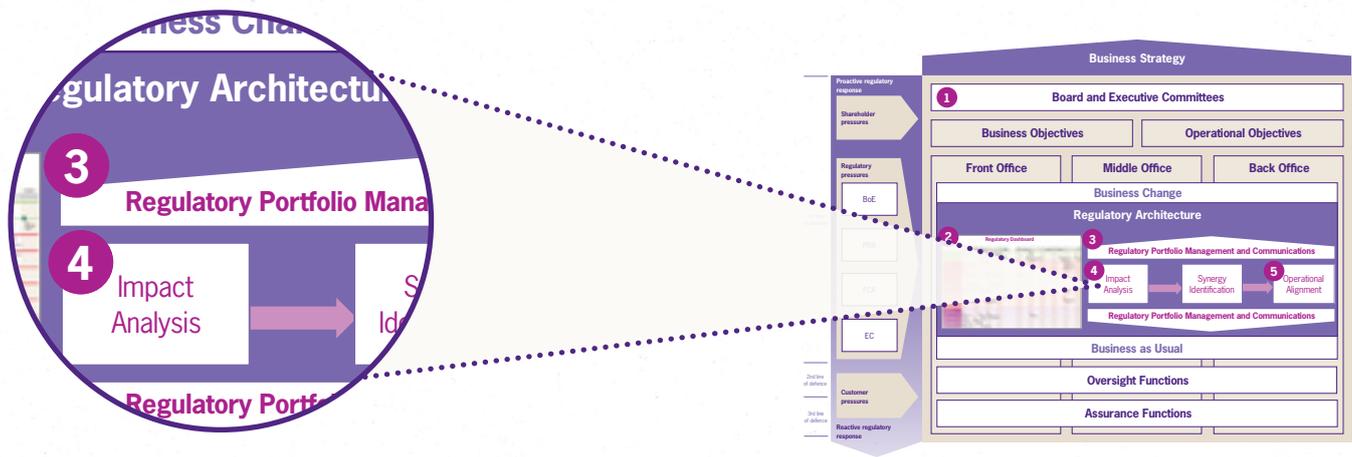
Grant Thornton believes that a standardised and structured approach to regulatory analysis is fundamental to establishing an informed approach to regulatory management.

Regulatory analysis is often performed from a legal standpoint. While legal interpretation is an important element, Grant Thornton contests that it is the firm-specific impact that has a greater bearing on banks and, consequently, dictates any change requirements.

## Functionally aligned operational impact assessment

The complimentary components of Grant Thornton's *Regulatory Architecture* allow *Regulatory Analysis* teams to perform fully informed, functionally aligned analysis of operational impacts. As the regulatory agenda extends its cross-functional influence, the necessity to fully understand the scope and extent of operational impact become imperative.





Grant Thornton's regulatory impact analysis allows firms to analyse complex regulations and their constituent parts, combining a number of key principles and approaches, including:

**Key components:**

- **Firm-specific interpretation** - regulatory knowledge and firm-specific subject matter expertise must be embedded within a central analysis team. Centralised and shared regulatory knowledge will ensure legislation is not assessed as a standalone item, but as part of a co-dependent portfolio.
- **Certainty assessments** - early engagement in the legislative lifecycle allows analysis teams to perform a 'Certainty Assessment' to ascertain likelihood of implementation. Certainty assessments will drive scenario planning, particularly in the event of high-impact regulations. Such assessments will inform strategic decision-making.
- **Discretionary vs. non-discretionary** - assessment and consolidation of discretionary and non-discretionary requirements will ensure Compliance teams focus efforts on high-value areas and change is appropriately prioritised.
- **Synergy identification** - component assessments of regulatory impact, at both a commercial and operational level, will identify high-risk functional areas. Risk and impact heatmaps will provide a cross-functional perspective.
- **Decision-making and planning** - Impact assessment will feed prioritisation, demand management and funding. Moreover, the distribution of cross-functional factsheets will inform strategic decision-making, from Board-level down.

“Organisations need firm-specific impact analysis in order to establish a proactive and informed approach to regulatory management. These analyses will facilitate synergy identification and feed prioritisation”.

**Summary: Impact analysis**

- |   |  |
|---|--|
| <p><b>Skills required:</b></p> <ul style="list-style-type: none"> <li>• Regulatory awareness</li> <li>• Business analysis</li> <li>• Technical analysis</li> <li>• Impact analysis</li> </ul> | <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• Standardised analysis approach</li> <li>• Synergy identification</li> <li>• Certainty assessments</li> <li>• Firm-specific impact assessment</li> </ul> |
|---|--|

# 5. Operational alignment

As part of the drive to place regulatory development at the epicentre of operations, progressive organisations will seek to optimise the alignment between the regulatory change agenda and operational change.

Given the volume of current and impending regulatory requirements, it is imperative that operational alignment is achieved, both to optimise funds and resources and to ensure minimal operational impact and waste.

Addressing each regulation as a stand-alone project is unsustainable. Identifying synergies between each necessary regulatory initiative and on-going or planned operational initiatives is a fundamental step to greater efficiency and operational optimisation.

Effective operational alignment will result in a symbiotic relationship between regulatory change teams, compliance, risk, treasury and finance. Moreover, the addition of structured, firm-specific impact analyses will enable firms to better manage risk, funding, liquidity and capital requirements.

1

## Leverage operational change

Firms must seek to leverage all the elements delivered by a fully functioning *Regulatory Architecture*, such as impact analysis, portfolio management and regulatory horizon scanning, and align dependencies and synergies to the operational change agenda.

Effective coordination will avert duplicated initiatives and prevent multiple instances of cross-functional disruption.

2

## Budgetary and resource alignment

Aligning regulatory and operational change will deliver tangible financial benefits.

Intelligent allocation of change resource across co-ordinated programmes mitigates against potential resource-stretch.

Moreover, identifying tactical alignments will best utilise already stressed change budgets.

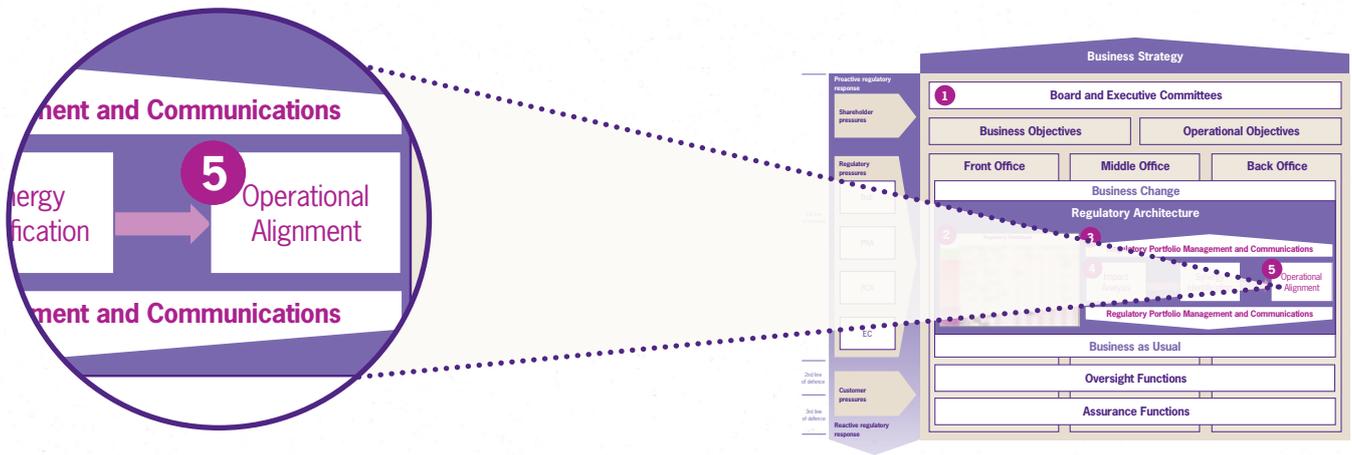
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## Focus on business strategy

All delivery elements, regulatory and operational, must be aligned to the business' frontline strategy. Strategic coordination will ensure change delivers against supervisory requirements.

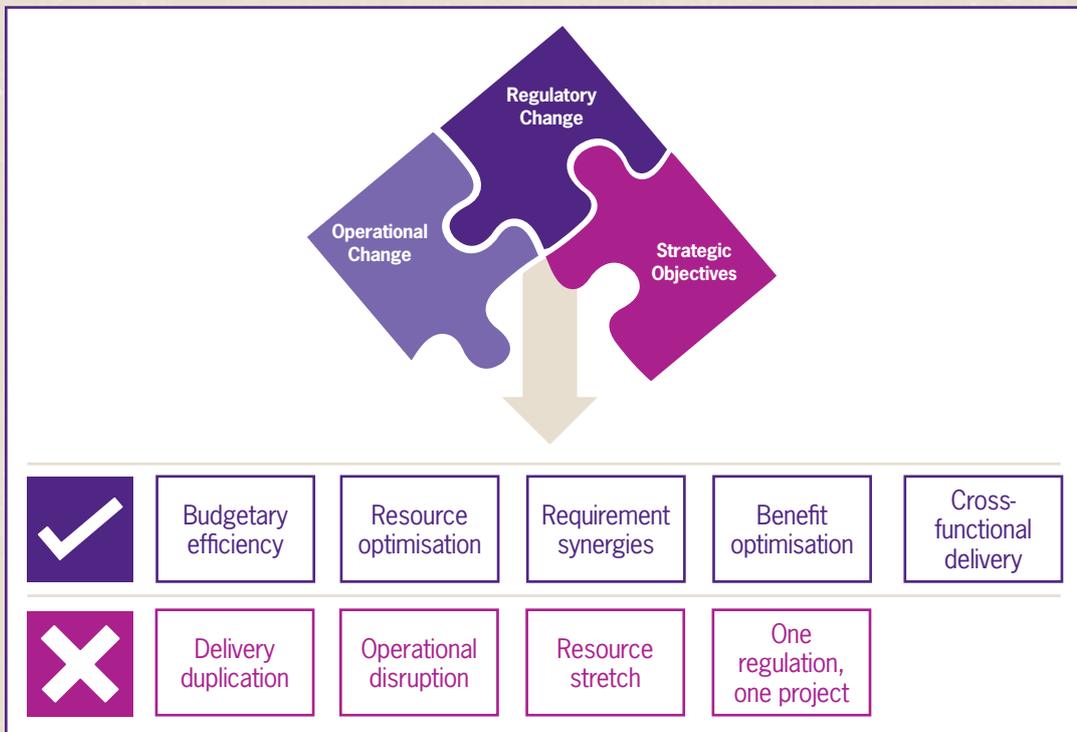
Firms must seek competitive advantage through ensuring operational and regulatory change deliver against strategic objectives.

Key Performance Indicators (KPIs) and Benefit Realisation Tracking must be at the heart of all operational delivery.



## Operational alignment

Alignment of operational and regulatory change delivers multiple benefits and mitigates against operational and budgetary inefficiencies.



## Change Rationalisation

The combination of Grant Thornton's *Regulatory Portfolio Management*, *Impact Analysis* and *Operational Alignment* solutions achieves significant change efficiencies. The identification of operational and functional synergies addresses the current 'one regulation, one project' approach and enables substantial rationalisation of existing and future change portfolios. Combining multiple project scopes, where synergies are identified, into fewer, yet larger programmes, ensures consistency of approach, functional alignment and reduced business as usual impact.

### Summary: Operational alignment

#### Skills required:

- Business knowledge
- Project implementation
- Functional alignment and analysis
- Tactical change

#### Benefits:

- Operational and regulatory change alignment
- Benefit tracking and realisation
- Consistent rules mapping
- Strategic focus

# Practical considerations

# Regulatory Maturity Model

“We believe evolution is more effective than revolution”

Instigating major operational change is, in itself, a significant challenge for organisations. Balancing discretionary and non-discretionary change is a perennial problem for Financial Institutions, particularly in an environment dominated by depressed margins and a torrent of mandated requirements.

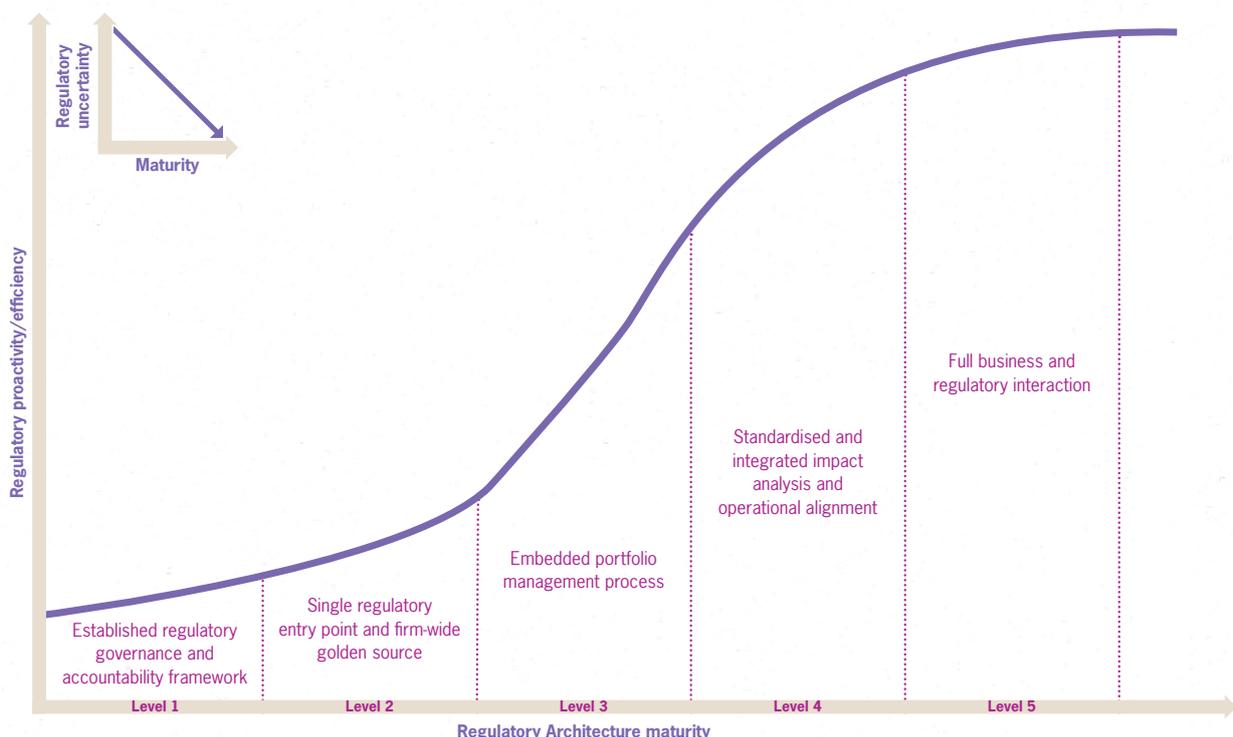
Nevertheless, forward-thinking organisations will recognise that operational and regulatory excellence cannot remain an aspiration any longer – it is a prerequisite.

Initiating and embedding a sustainable framework from which the regulatory change agenda can be proactively managed has become critical, particularly for firms operating across multiple jurisdictions.

It is Grant Thornton’s contention that a phased approach to large-scale operational change is the most effective method. Our *Regulatory Maturity Model* assists firms to implement regulatory change sequentially, while delivering operational benefits at each stage of the process. We believe ‘evolution is more effective than revolution’.

Our model is predicated on establishing a sound foundation, based upon effective regulatory governance, organisational awareness and accountability. The following stages deliver exponential benefits, culminating in a fully interactive operational model, in which regulatory change is embedded at the heart of an organisation’s strategy.

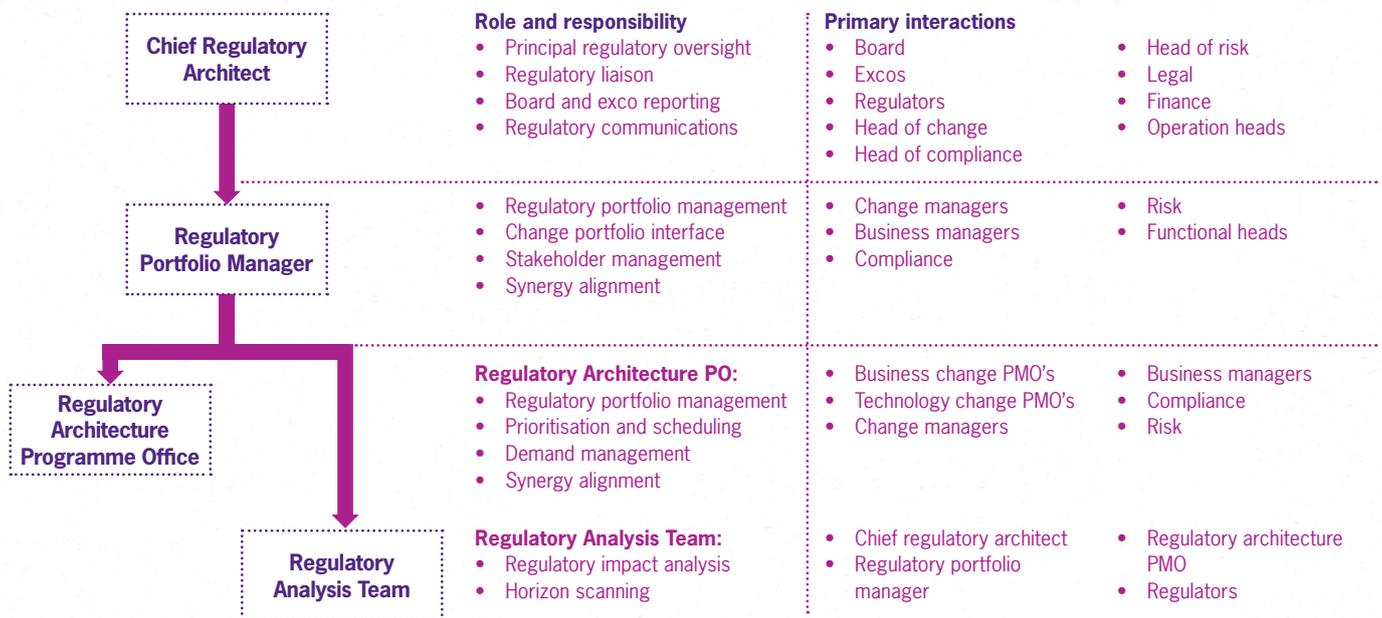
As our model matures, our framework’s complimentary components and processes will establish a culture of regulatory awareness and compliance, subsequently reducing regulatory uncertainty and mitigating against ‘regulatory unknowns’.



# Regulatory Architecture – structure and interaction

Grant Thornton’s *Regulatory Architecture* function is a scalable solution, with a simple organisational structure underpinned by clearly defined roles and responsibilities to promote accountability and transparency across operational functions and jurisdictions.

Establishing a role of Chief Regulatory Architect, supported by an expert and skilled team with a cross-section of complimentary abilities, will enable firms to establish a central point of firm-wide regulatory coordination. Such a structure is designed to empower informed decision-making and provides the foundation for regulatory accountability and appropriate delegation.



## Regulatory liaison

The role of regulatory liaison is, without doubt, undervalued. Grant Thornton asserts that 4 key steps will exponentially improve a firm's regulatory relations:

- 1 Establish frequent and appropriate interaction with regulatory and legislative bodies
- 2 Engage with regulators to clarify rule changes or interpretation
- 3 Address subject matter experts within regulatory bodies and demonstrate deep understanding and knowledge
- 4 Where appropriate, initiate lobbying efforts, clearly communicating concerns and demonstrating awareness

Communication and collaboration sit at the heart of Grant Thornton's *Regulatory Architecture* proposition. Embedding cross-functional communication and interaction procedures is a principal facilitator to achieve a compliant and regulatory-aware culture.

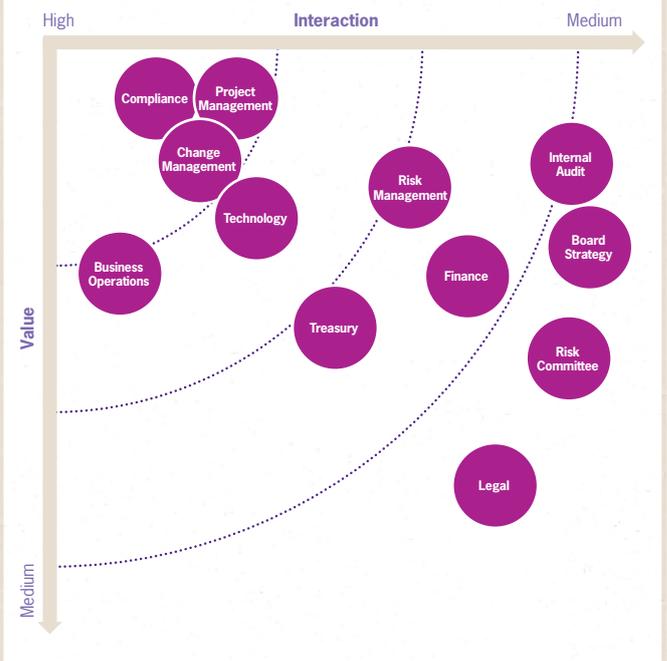
The *Regulatory Architecture* function is designed to facilitate interaction between all key regulatory stakeholders, from Compliance through Finance and Risk.

Establishing an active and effective relationship with compliance, risk, finance, treasury, project and change management teams is fundamental to the success of the function.

Moreover, effective allocation of roles and responsibilities remains critical. Co-dependent relationships will allow each operating function to focus efforts on individual responsibilities, while understanding that collaborative interaction is underpinning cross-functional change.

## Regulatory Architecture interaction diagram

The *Regulatory Architecture* function, headed by the *Chief Regulatory Architect*, sits at the heart of a collaborative network of co-dependent functions. Effective relationship and stakeholder management, as well as transparency and accountability, are prerequisites for the successful implementation of the *Regulatory Architecture*.



# Compliance, Risk and Regulatory Architecture

Current models place regulatory responsibility primarily with compliance teams and internal audit; with change teams aiding the design and implementation phases.

Without a focal point, many initiatives are undertaken in isolation, often funded by change budgets from individual business functions. The lack of central coordination increases the likelihood of duplicated effort and often neglects broader impacts outside the functional remit of the funding operational unit.

Moreover, traditional compliance teams are consumed with day-to-day activities. Transaction monitoring and reporting responsibilities have increased exponentially in the aftermath of the financial crisis, with preventionism strengthening its hold on the industry. Despite their best efforts, the volume of regulatory change, coupled with both the inauguration of implementation programmes and increasing supervisory expectations, has left compliance teams little time to proactively address regulatory change. Managing an increasingly complex and fluid regulatory portfolio, while aligning synergies to operational improvement programmes, engaging with regulatory change teams and providing strategic guidance to senior decision-makers is an increasingly impractical challenge for existing compliance, risk and treasury teams.

## Impact analysis –

**A deep understanding of regulatory intent is critical to comprehending the overall regulatory agenda.**

It is a fundamental requirement that regulatory architects are able to assess the prospective impact of proposed legislation at both client and product levels. Moreover, the typically reactive approach, implementing new rules individually and prioritising according to the nearest deadline, is now unsustainable. The ability to leverage regulatory and legal knowledge to manage legislation at consultation phase will off-set the potentially costly business impact. The establishment of a business architecture and governance model that both informs and guides impacted parties will be at the heart of achieving regulatory compliance.

## Capacity overload –

**The reluctance to invest proportionately in regulatory change hinders many organisations' ability to manage it effectively. Moreover, compliance teams are frequently over-stretched, the lack of qualified resources too often fosters a 'one regulation, one programme' approach to change.**

A recent survey revealed that the biggest challenge for heads of compliance is tracking new legal requirements and implementing them across the firm. Consequently, the risk of missing an integral development has never been greater. Furthermore, compliance functions are not built to cope with the plethora of new multi-jurisdictional regulations. The effective management of the torrent of regulatory developments would detract them from their day-to-day responsibilities.

# Strategic dilemmas

While the importance of regulatory compliance is indisputable, businesses must continue to allow their strategy to drive their agenda.

## 1) Operating model

**Operating models form the conduit between business strategy and delivery. Many organisations' business models require review to affirm that they are aligned to the overarching strategy and fit for purpose in the new financial and regulatory landscape.**

Regulatory and legislative agendas must inform strategic decision-making. It is a necessity that operating models provide the framework, both from a functional and interactional perspective. The operating model should ensure that regulatory requirements are translated into functional components, with impact assessed across the three pillars – people, process and technology.

## 2) IT – Data reporting

**The demand for more granular levels of information and onerous reporting requirements has increased, both in number and complexity.**

Historically, banks have built on fragmented application landscapes with a mix of in-house and third party systems. The equally fragmented data that is produced often results in banks not being able to effectively meet their regulatory commitments. Creating a flexible and unified golden source of enterprise-wide data will require significant resources. It is unclear whether there is market appetite for a strategic fit rather than continuing to rely on a number of iterative tactical solutions.

## 3) Communication

**The fragmented nature of most regulatory change programmes often results in suboptimal communication streams.**

Organisations need to design and embed clear and effective communication procedures to increase regulatory awareness and implement a compliant and risk-aware culture; increasing transparency around regulatory requirements and initiatives.

## 4) Cultural change

**The need for a cultural and behavioural change in the banking industry has long been discussed.**

Cultural change cannot be achieved simply through new procedures. The tone needs to be set from the top. Senior executives are frequently insulated from the real culture within the organisation. Understanding the inextricable link between culture and performance is paramount. Therefore, the implementation of any new regulatory strategy needs to be accompanied by a thorough cultural understanding.

## 5) Accountability

**Banking institutions are placing greater emphasis on initiatives to strengthen risk management. Reinforcing accountability is a prerequisite for an effective risk culture.**

A clear definition of roles, responsibilities, as well as business objectives and acceptable risks will be essential. Additionally, the foundation of an environment where employees feel secure challenging others without fearing retaliation is necessary. Enhanced Management Information, escalation points and attestations are further components required for an optimal organisational structure.



# How Grant Thornton can help

Through a combination of our knowledge of the banking sector and a detailed understanding of the regulatory environment, we are able to assist Financial Institutions in delivering practical solutions to meet the demands of your business and those of the regulators.

We provide guidance and assurance that these changes not only allow firms to capture and analyse regulatory developments, but are also delivered holistically, in line with the firm's overarching business ambitions.

**Regulatory Analysis and Interpretation** - Financial Institutions are facing increasing scrutiny, both internally and from the Regulators. We help our clients interpret the rules published by local, regional and global Regulators. We have highly experienced, industry-leading experts across the sector and are able to provide a detailed analysis, including the impact of regulation on business models, strategies and processes.

**Programme management** - We work with our clients to help them define and establish governance and organisational structures that align with the objectives of both their operational and business strategy. Grant Thornton applies a wealth of change management experience, in conjunction with industry best practice, to help clients achieve organisational change. Our experts assist organisations to manage and deliver transformation initiatives, programmes and projects, from inception to delivery, guaranteeing business benefits.

**Stakeholder management** - Top-down support of regulatory and change programmes relies on the conveyance of a consistent and compelling message to engage and empower business leaders to elicit the subsequent support of their teams. We rely on analysis-driven identification of stakeholders to ensure the correct people are identified. Our programme engagement is based on their impact and role.

**Regulatory liaison** - Having collaborated with national regulators on many previous engagements, we understand the regulatory challenges. We therefore know the relevant rules and requirements better than most and, by understanding what sits behind them, are able to take a proportionate and pragmatic view of how to apply them.

**Industry knowledge** - We have deep and relevant experience across the entirety of the Financial Services sector. We already work for many of the world's largest Financial Institutions, providing a wide range of consulting and advisory services. We understand this market and the challenges facing Financial Institutions today. We will bring this experience to deliver the outcomes and assurance you require.

**Internal Audit** - Our Internal Audit team is formed of industry specialists who have been involved in a wide variety of audits across Financial Services clients ranging from individual branches and start-up companies to large global investment banks and insurers. The combination of business specialists, change specialists and technology risk professionals allows for a holistic view on how to meet the regulatory challenges.

**Compliance** - Given the importance of the compliance function to ensure a firm's adherence to regulatory requirements, we have a specialist team that focuses on compliance organisational structures, specific regulation, how regulatory adherence is embedded within standard processes, in addition to analysing a firm's readiness to react to regulatory changes.

**Risk** - Our specialist team of risk professionals covers the full risk spectrum, ranging from financial and liquidity risk, credit risk, market risk to operational risk. The majority of risk work has a regulatory aspect to it and therefore our specialists are well versed in specific areas of risk regulation, such as CRD IV or EMIR.

## Grant Thornton Financial Services Group

Financial services businesses operate in an increasingly complex and heavily regulated environment. Grant Thornton's multi-disciplinary Financial Services Group uses its deep knowledge of the sector to provide robust, independent and professional advice on today's most important issues.

Grant Thornton's Financial Services Group (FSG) is a market-focused financial advisory and consulting practice, concentrated on delivering unbeatable client service. Be it a major issue, a complex problem, an unforeseen crisis or just a straightforward technicality, we are there to guide you through it.

### FS Regulatory

Grant Thornton's Regulatory Advisory team has extensive experience providing innovative, but practical solutions to firms across the Financial Services sector. Our understanding of the market and the challenges facing firms enables us to deliver the assurance and outcomes that both our clients and their regulators require.

We are credible and respected by the regulators. As an established supplier to both the FCA and PRA, we have been engaged to deliver a number of expert assignments. From the regulators' perspective, our opinion counts.

The FS Regulatory team combines in-depth sector knowledge, technical specialists, industry experience, ex-regulators and compliance managers and pragmatic business people.

Whether it be effecting regulatory change, assessing and creating robust control and governance arrangements or providing bespoke solutions in specific technical areas, our aim is to help firms to work within the regulations to enhance value and drive sustainable growth.

### FS Business Consulting

Grant Thornton's Financial Services Business Consulting (FSBC) practice provides market-leading consulting and advisory services. FSBC prides itself on the ability to present clear and innovative solutions to its clients' most complex problems and assist them to achieve their strategic and operational aspirations.

Our core competencies are aligned to established industry challenges to ensure that the services we offer match the real challenges our clients face. Our experienced business consultants combine industry knowledge and sector experience to deliver tangible, value-add results. We configure our teams from a diverse pool of industry experts, tailored to address each individual challenge.

Collaboration underpins our approach; working 'with, rather than to' our clients is intrinsic to our ability to deliver value and results. We appreciate the need for flexible, cost-effective solutions and work to ensure all our deliverables offer long-term benefits.

### FS Business Risk Services

Grant Thornton's Financial Services Business Risk Services (FSBRS) team provides market-leading risk, control and governance services to the Financial Services industry. We place an emphasis on providing our clients with teams of technical and industry experts, that possess both a depth of knowledge and an intricate understanding of the full range of risks businesses may face.

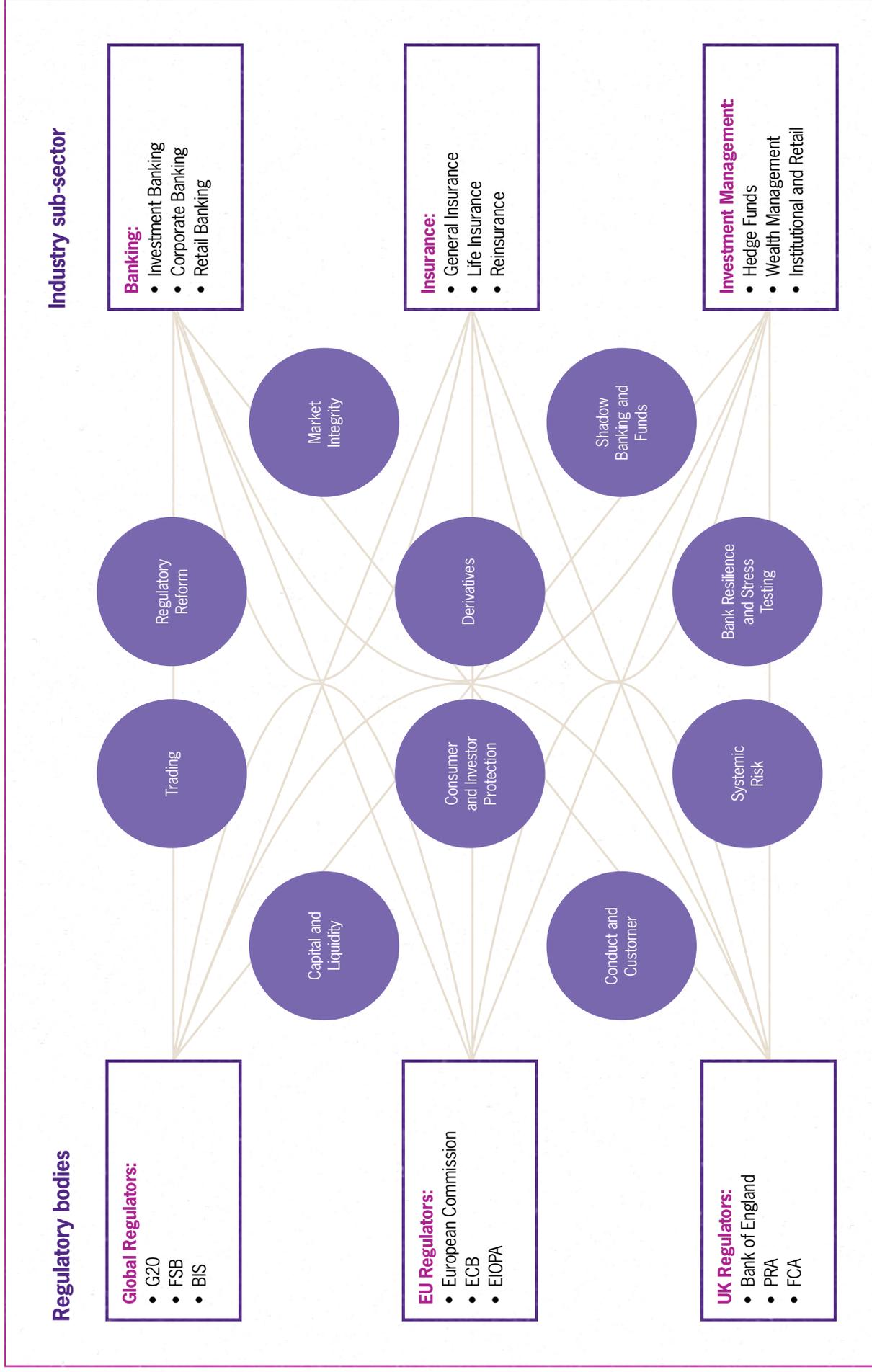
FSBRS' core competencies allow us to provide our clients with a full suite of advisory services, spanning Internal Audit, through Information Technology and Finance and Risk Management, to various specialist reviews.

The FSBRS team combines a wealth of industry experience, with specialist technical skills drawn from a range of accomplished experts, including former heads of internal audit, risk and compliance.

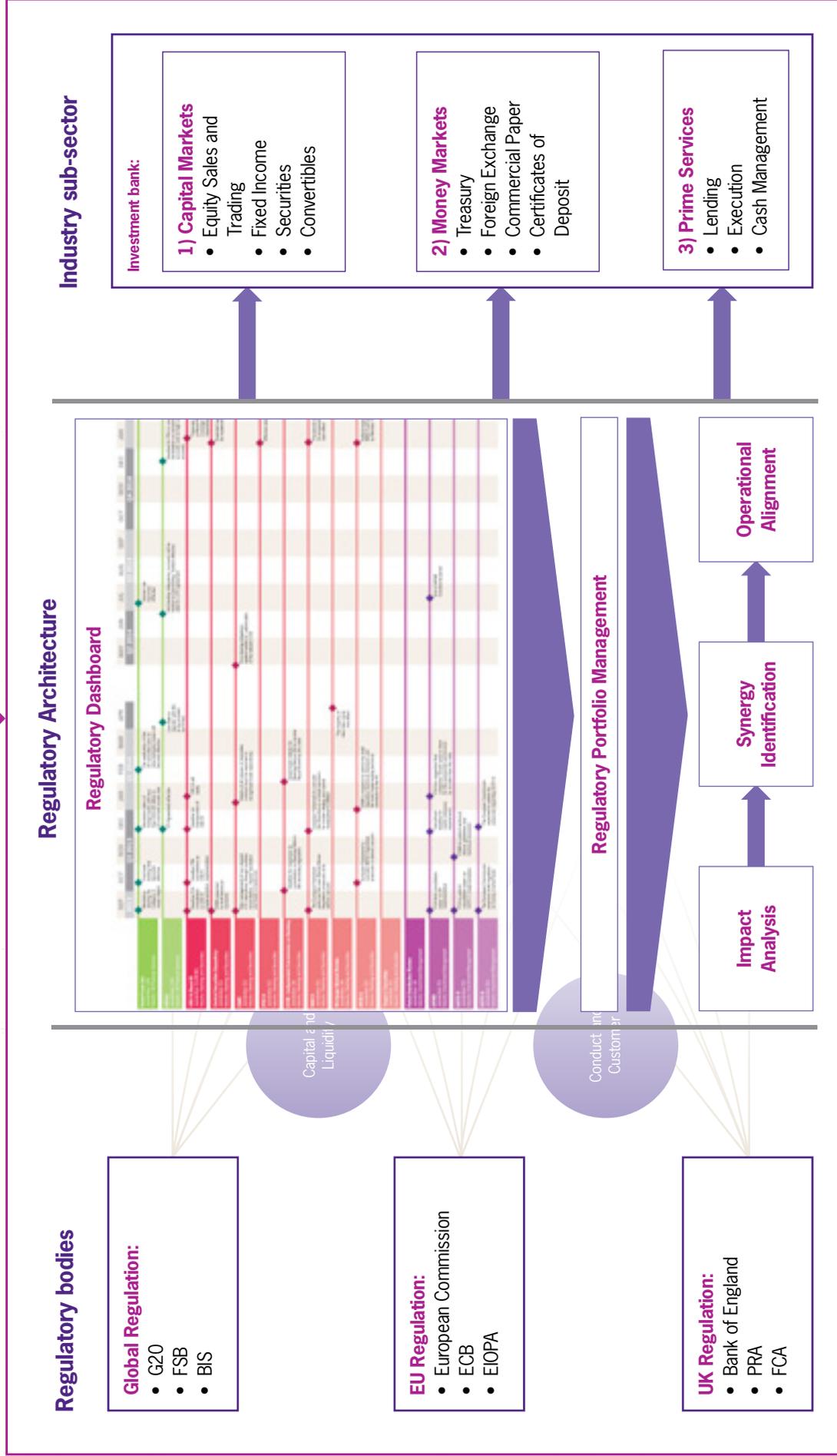




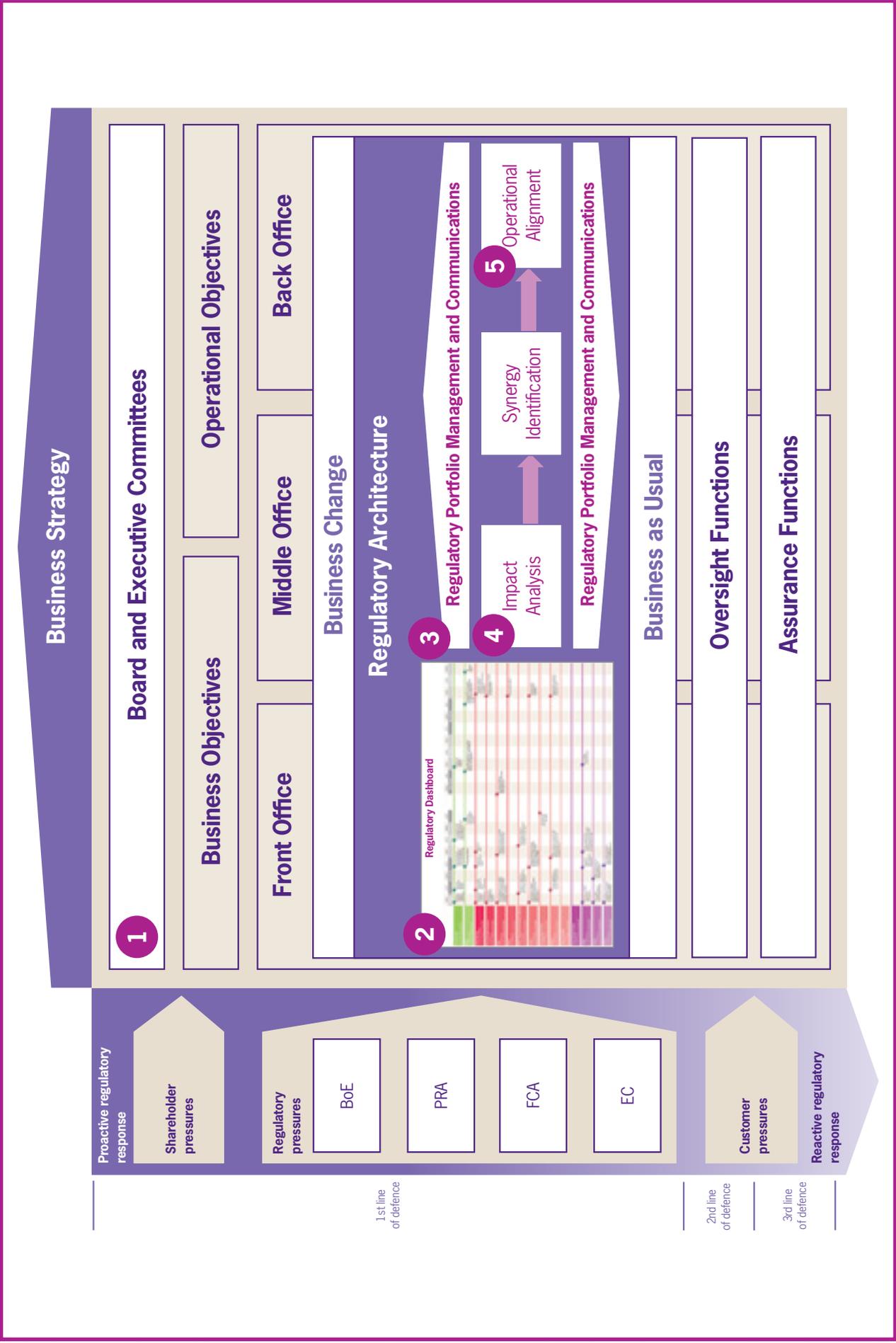
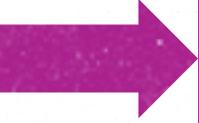
# Multi-jurisdictional malaise

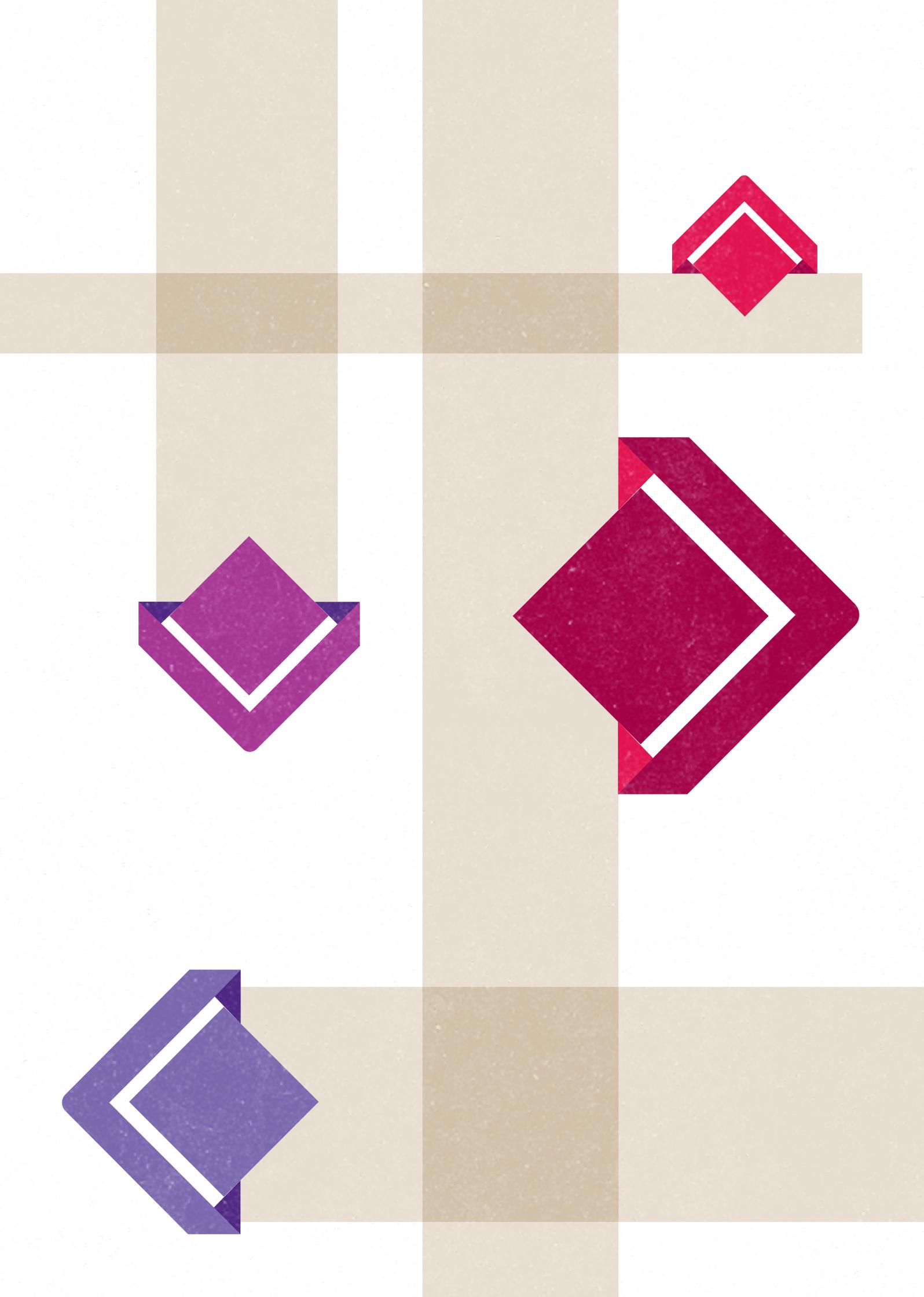


# Coordinated regulatory management



# Regulatory Architecture







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