
Press release

AFME and EY set out future of compliance function within investment banks

New report explores potential compliance challenges and how they could be addressed

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The Association for Financial Markets in Europe (AFME) and EY have today published a new report considering the role of the compliance function within wholesale investment banks and the potential challenges and changes it faces in its structure and approach.

The report, entitled “**The Scope and Evolution of Compliance**” outlines the key considerations for banks’ compliance functions as they seek to adjust and enhance their roles in response to the changing nature of the business and regulatory expectations.

James Kemp, a Managing Director at AFME, said: *“Against a backdrop of significant regulatory change and conduct issues, expectations for compliance functions have never been higher. Where previously advising on regulatory requirements and monitoring adherence to company policies formed the core of a Compliance Officer’s role, teams are also increasingly expected to take a more strategic and proactive role in anticipating and managing risk. The compliance function needs to be able to evolve and adapt in response to these changes and this report sets out the possible active steps that banks can take to do so.”*

Stuart Crotaz, Financial Services Partner at EY, said: *“The message from the market is clear – it has never been a more challenging time to be in compliance. Yet this also brings opportunity as boards and regulators increasingly promote the need for a forward-looking compliance team who can provide a broader view on the management of regulatory risk in an increasingly technological world. The speed of that change and the increasing importance of data and analytics means that compliance needs to keep evolving.”*

Challenges currently facing compliance teams are driven by:

- **Evolution of relationship with the first line of defence;**
Compliance has evolved from a quasi-legal function to one that is more focused on the identification and measurement of risks. Nonetheless, compliance has continued to fulfil many of its traditional roles, such as setting standards through policies, advising the business on regulatory requirements and monitoring for compliance with policies and standards. Getting the balance right between ensuring sufficiently independent monitoring oversight is conducted while still providing day-to-day advice is a challenge, particularly with a finite number of resources.
- **The speed and automation of processes;**
Compliance reporting is largely manual and as a result resource-heavy and time-consuming. However, compliance must keep up to speed with an ever-increasing use of automated trading platforms, algorithmic trading, a variety of different communications media, and the increasingly complex transactions and structures being developed by the business. There is risk inherent in these new processes and compliance officers need to understand these new technologies.
- **The increased accountability demands on senior managers.**
In order for senior managers to fulfil their Senior Managers and Certification Regime (SMCR) responsibilities, compliance officers must provide a sufficiently holistic view of risk. This means they

need the analytical tools to be effective in forming a broader and more strategic view of the compliance profile in their organisations.

To address these challenges, the report discusses possible resources and models for compliance.

Conclusions:

- There is an opportunity for compliance to transition from its traditional role into one that provides enhanced strategic advice to senior management. This includes increased oversight of 1st Line Control Function surveillance and testing as a 2nd Line Control Function, greater use of business data to analyse and provide insights to senior management on changing risks and controls, and a greater influence on the management of the regulatory risk framework as a whole.
- Compliance will become more data and technology dependent as budget challenges and operating effectiveness encourage innovation-driven transformation. But, people and human judgement remain important.
- In order for compliance to transition to a different operating model there should be a shift towards it being a data user, not a data generator. Fundamentally, compliance should take a step back and look to use and leverage all streams of data (transactional, behavioural and social) to identify risks and act as an independent overseer and advisor.

[Click here](#) to download the full report.

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AFME Contact

Rebecca Hansford
Head of Media Relations
rebecca.hansford@afme.eu
+44 (0)20 3828 2693
+44 (0)7825 081 686

About AFME:

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @AFME_EU

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We

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