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THOMSON REUTERS GRC SURVEY: THE IMPACT OF REGULATION ON FINANCIAL SERVICES IN ASIA

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“To address the risk arising from this increasing complexity in the financial system, the regulatory framework has also become more complex.”

(Norman T.L. Chan, chief executive, Hong Kong Monetary Authority keynote speech at HKMA/GARP Global Risk Forum Opening Dinner, May 2013)

EXECUTIVE SUMMARY

- New anti-money laundering (AML) regulations and the looming deadline for compliance with the U.S. Foreign Account Tax Compliance Act (FATCA) top the list of issues that concern financial institutions in the Asia-Pacific region.
- Compliance officers in the Asia region are becoming increasingly concerned with meeting the looming FATCA deadline.
- Recent tightening of data protection laws in jurisdictions such as Hong Kong has had an impact on compliance teams at financial institutions in the region.
- Complying with the many new regulations being adopted in Asia in recent years has led to a significant rise in costs
- Many respondents warned of a danger of overregulation in certain sectors, such as banking.
- Most respondents expected the volume of regulatory change to persist in coming years.

INTRODUCTION

Thomson Reuters GRC surveyed more than 400 compliance practitioners, including a significant number of heads of compliance and chief executives, from financial services firms around the Asia-Pacific region to canvass their views on the main regulatory challenges they expected to face in the year ahead.

The survey provided a snapshot of the state of compliance at firms, including the issues that are taking up significant resources, as well as firms’ views on what 2013 holds for boards of directors and compliance teams. Respondents represented firms from across all sectors of financial services, including banks, brokers, insurers and asset managers. Firms were geographically spread out across the Asia-Pacific region and represented a wide range of sizes, from small businesses to global conglomerates.

In the years following the financial crisis there has been a concerted effort by the G20 countries to harmonise financial regulation and avoid regulatory arbitrage. This has led to a significant number of new regulatory initiatives from such standard-setting bodies as the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO) and the Basel Committee on Banking Supervision (Basel Committee).

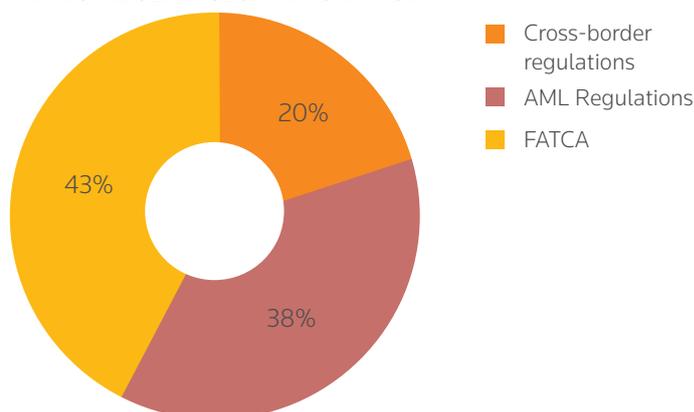
The volume of change has been vast as regulators create, establish and communicate remedies to the issues that were seen as the cause of the crisis in 2008. Firms around the world have had to keep up with these changes and be flexible, at times altering strategy, governance, culture, operational policies and procedures. The results of this survey reflect this background and highlight the interesting and diverse nature of the challenges that financial regulation poses to financial services regulators and firms alike.

ANTI-MONEY LAUNDERING REGULATIONS

“Having a strong global AML/CFT network is of utmost importance to our work, particularly since money laundering, terrorist financing, and the financing of proliferation are transnational activities.”

(FATF president Vladimir Nechaev during the opening ceremony of the 16th Annual Meeting of the Asia-Pacific Group on Money Laundering (APG) hosted by the People’s Bank of China, 16 July 2013)

THREE (3) IMPORTANT REGULATIONS TO IMPACT FINANCIAL SERVICES FIRMS IN ASIA



The survey showed that 38 percent of respondents said compliance with AML regulations would be among the top challenges. Recent high-profile AML sanctions and enforcement actions involving Asian financial institutions in the U.S. (as highlighted in cases 1 and 2 in the “When things go wrong” box) have placed a spotlight on the need for institutions to ensure their AML screening and monitoring tools are up to date.

The emphasis placed on AML and combating the financing of terrorism (CFT) by the G20 and other policymakers will also have contributed to this view. The Financial Action Task Force (FATF) leads the way on these initiatives.

In February 2012 FATF revised and strengthened its global safeguards to provide stronger tools to take action against financial crime. The revised recommendations introduced a risk-based approach which allows governments and financial institutions to allocate more efficiently their resources to combat money laundering and terrorist financing.

Over the last six months, to enhance the recommendations, FATF has issued a number of guidance papers covering subjects such as Politically Exposed Persons (PEPs), Combating the Abuse of Non-Profit Organisations, Risk-Based Approach to Prepaid Cards, Mobile Payments and Internet-Based Payment Services and Financial Inclusion. In addition, FATF has introduced a methodology for assessing compliance with the FATF recommendations and the effectiveness of AML/CFT systems.

It is FATF’s intention that all countries in the global network will be assessed for compliance with the revised recommendations. National authorities will need to be certain that firms are complying with AML/CFT regulations for them to be able to give an assurance to FATF that the recommendations are being applied appropriately.

On a positive note, Brunei Darussalam, the Philippines, and Thailand were removed from FATF’s International Cooperation Review Group’s monitoring during the recent meeting in June. Nepal was the only

Asian country that was identified by FATF to have strategic AML/CFT deficiencies, and it has developed an action plan to improve the situation.

Some of the more recent AML/CFT developments in Asia have included the following:

- **Singapore** – The Monetary Authority of Singapore (MAS) has amended its notices and guidelines on AML/CFT earlier this year, to better align with the standards set by FATF and other relevant global standard setters, such as the Basel Committee. The amendments include extending the requirement for enhanced customer due diligence to domestic PEPs, and a new requirement for board members of financial institutions to undergo AML/CFT training. To support this policy change, the MAS has undertaken a thematic review of compliance with the AML/CFT notice. In general it concluded that most of the licensed trust companies inspected have made changes in their processes and drawn up policies and procedures. However, the MAS did make observations and recommendations about policies, procedures and customer due diligence arrangements.
- **Hong Kong** – Hong Kong introduced its Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (AMLO) in April 2012. It introduced stricter requirements for customer due diligence and recordkeeping, and extended the AML regime to cover money changers and remittance agents. Though it has been in force for over a year, many survey respondents said ongoing compliance with AMLO remained high on their compliance agenda.

The changes to AML/CFT legislation and regulations will undoubtedly continue. FATF has set out a robust work programme for 2013/14 that includes starting a fourth round of mutual evaluations, and developing a global network in collaboration with the FATF-Style Regional Bodies (FSRBs) to continue the assessment of risks and new threats to the integrity of the global financial system.

WHEN THINGS GO WRONG – FINANCIAL CRIME

Case 1 – HSBC Holdings plc agreed to pay a record \$1.92 billion in fines to U.S. authorities for allowing itself to be used to launder a river of drug money flowing out of Mexico and other banking lapses. (December 2012)

Case 2 – Standard Chartered Plc agreed to pay \$327 million to resolve allegations that it violated U.S. sanctions against Iran, Sudan and two other countries. (August 2012)

Case 3 – Market Conduct – Tiger Asia, a New York-based asset management company that specializes in equity investments in China, Japan and Korea, pleaded guilty to criminal offences under U.S. law in relation to dealings in the securities of Bank of China and China Construction Bank Corporation during 2008 and 2009. In December 2012, the U.S. Securities and Exchange Commission (SEC) and the U.S. Attorney's Office for the District of New Jersey announced that proceedings had been initiated against Tiger Asia. In April 2013, The Hong Kong Court of Final Appeal dismissed the appeal of the Tiger Asia parties against legal proceedings brought by the Hong Kong SFC. In July 2013 the Hong Kong SFC instituted proceedings in the Market Misconduct Tribunal (MMT) against Tiger Asia and three of its officers - the first time the SFC has instituted proceedings in the MMT directly. (December 2012 to July 2013)

Also, countries will continue to improve and strengthen AML/CFT legislation and regulations – for example, Singapore is strengthening its framework for international cooperation to combat cross-border tax offences.

U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)

“There is no question that the IRS is turning its attention to Asia. It has personnel on the ground in Hong Kong, Beijing and other cities.....Bank personnel will see their institutions begin to implement systems to identify American account holders and initiate automatic disclosure. It may be ... that jurisdictions such as Singapore, Hong Kong, Korea, perhaps even China and other countries will eventually sign Intergovernmental Agreements with the IRS to streamline FATCA compliance, but one way or another, the statute will take effect next year.”

(Scott Michel, president of law firm Caplin & Drysdale in Washington, D.C., Thomson Reuters Compliance Complete, March 2013.)

FATCA seeks to make it tougher for U.S. taxpayers to avoid taxes by hiding money overseas. The legislation introduces a reporting and withholding tax regime on financial institutions and is expected to impose a substantial burden on global banking and financial institutions. Its effects will impinge on areas such as information technology, operations, front office and sales functions. The final regulations use a risk-based approach to provide clarity and flexibility in areas such as new customer due diligence, pre-existing account remediation and limiting the number of entities impacted.

FATCA also imposes a new filing requirement on all U.S. taxpayers, and in coming years, the U.S. Internal Revenue Service (IRS) will be able to monitor compliance with foreign account reporting rules by matching the data provided by financial institutions with taxpayer reporting or non-reporting of their foreign assets.

In total, 43 percent of respondents said they expected FATCA compliance to be among the biggest challenges facing their institution in 2013. Compliance officers in the Asia-Pacific region are becoming increasingly concerned with meeting the deadline for compliance, the survey showed. FATCA compliance will often require investments in screening, record-keeping and reporting systems. In addition, as at July 2013, Japan was the only Asian country that had signed a Model II IGA agreement. This means that for many firms, compliance requirements will continue to be unclear. In fact, there is a risk that without an agreement between the bank's home jurisdiction and the U.S. government, banks may breach either local or U.S. regulations regardless of the action taken to be compliant.

DATA PROTECTION

"Multinationals and large corporations operating on a global basis will likely be less affected by the impending data protection law since they tend to be already compliant with stringent European data protection standards or are subject to Binding Corporate Rules (BCRs), which permit intra-organisational transfers of personal data ... Small and medium enterprises, however, may face increased costs in ensuring their business practices and operations are compliant with the new data protection requirements, as well as uncertainty in determining the appropriate security arrangements to be implemented."

(Singapore's minister for information, communications and the arts, Dr Yaacob Ibrahim, following the introduction of new data protection legislation in October 2012.)

Over the last few years, data protection legislation has been tightened throughout the Asia-Pacific region. Developments have included:

- In 2012, Hong Kong's Legislative Council amended the Personal Data (Privacy) Order by increasing penalties, introducing new offences that were particularly focused on direct marketing and unauthorised disclosure of personal data, and introducing other changes to strengthen the law.
- In October 2012, Singapore's Parliament passed a new law that would govern the processing, collection and disclosure of personal data by private sector companies in the country.
- In Malaysia, the Personal Data Protection Act, passed in 2010, was implemented in August 2013. The act seeks to regulate the processing of personal data for the purpose of carrying out commercial transactions by data users, and to protect the interests of data subjects. Key to the implementation of the Act is the development of a code of practice that provides more practical guidance on how the Act should be interpreted.
- Other countries, such as Japan, have long-standing data protection legislation already in place.

Some 31 percent of the survey respondents said new data protection rules have had a major impact on their business.

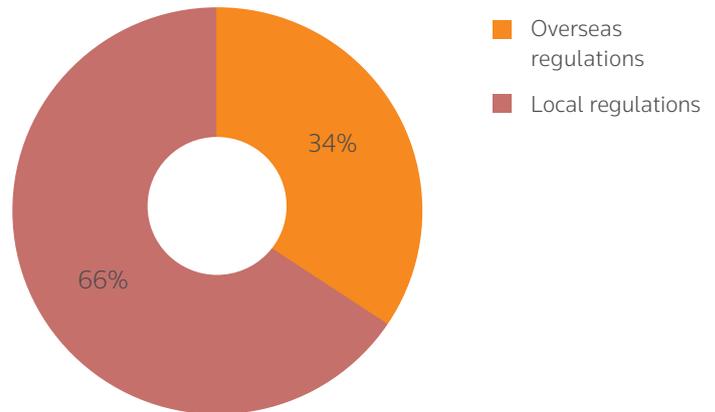
The impact of the new EU data protection legislation on firms in the Asia-Pacific region should also not be underestimated. Among the amended regulations that Asia-Pacific firms will have to consider are clear rules on when EU law applies to data controllers outside the EU. These specify that whenever controllers' activities are related to the offering of goods or services to EU individuals, or to the monitoring of their behaviour, EU rules will apply. There will also be streamlined adequacy decisions that will be made at the European level on the basis of explicit criteria. Firms in the Asia-Pacific region need to consider the extent that these, and the other criteria in the new requirements, affect them.

CROSS-BORDER IMPACT

"We support and encourage the efforts being made by the European Commission (EC) and the European Securities and Markets Authority (ESMA) in bringing to fruition rules to improve derivatives markets. We share a common commitment to a level regulatory playing field across jurisdictions. We are concerned, however, that the recognition process for Asian Central Counterparties could be improved both from the perspective of how that process is conducted procedurally and how the ESMA and the EC substantively assess our regulatory frameworks."

(Extract from letter to Commissioner Michel Barnier, European Commission, from IOSCO Asia-Pacific Regional Committee, June 2013)

COMPLIANCE WITH DOMESTIC STANDARDS STILL A PRIORITY



The survey results showed that some 20 percent of respondents ranked preparations for dealing with cross-border impacts as one of the most important developments to affect their financial institution this year. However, with most major global initiatives already well underway, a majority of survey respondents said they would be busier with domestic regulations going forward. Some 66 percent of respondents said they spent more time complying with domestic regulations instead of overseas regulations.

This might be a reflection of efforts by Asia-Pacific regulators to implement local versions of international regulations, such as in the case of Basel III and the designation of Domestic Systemically Important Financial Institutions (D-SIFIs).

It is interesting to explore some of the priorities that have been referred to above. At its last meeting in March 2013, the FSB Regional Consultative Group for Asia debated future regulatory reforms. This covered three areas: (1) the revised Basel III liquidity requirements, (2) risk governance in financial institutions and the findings of the FSB's recently published thematic peer review on risk governance, and (3) the key attributes of effective resolution regimes for financial institutions and their implementation in the region.

As well as summarising some of the global regulatory initiatives that currently affect financial services firms in the Asia-Pacific region, these three areas also offer an insight into where regulatory demands will be greatest going forward.

In addition, the local adoption of these globally-agreed rules and the implications for capital adequacy levels, systemic risk and over-the-counter (OTC) derivatives trading and clearing have

also been accompanied by the cross-border impact of foreign domestic regulations, such as the Dodd-Frank Act in the U.S. and the European Market Infrastructure Regulation (EMIR). Adapting and adopting international regulations to a local level is not without its potential pitfalls, as one respondent noted. "Regulators sometimes ignore ground realities and try to match international regulations to the local market," he said.

To illustrate the volume and complexity of the regulations involved, the following paragraphs offer a summary of some of the current developments.

- **Capital adequacy** – In December 2010, the Basel Committee on Banking Supervision released Basel III (following previously released versions II and 2.5). Basel III set higher levels for capital requirements and introduced a new global liquidity framework. Jurisdictions were asked to meet their commitment to implement Basel II and Basel 2.5 by the end of 2011, and Basel III through a phased approach starting in 2013 and ending in January 2019.

At the end of March 2013, the Basel Committee reported that:

- China, Hong Kong, Indonesia, Japan, South Korea and Singapore had all fully implemented the requirements of Basel II.
- All except Indonesia had fully implemented Basel 2.5. For Indonesia, the Basel Committee reported that draft rules were not fully implemented but said that: *"Securitisation exposures in Indonesia are currently insignificant and prospects remain highly subdued for any material issuance. However, the regulation concerning prudential requirements on asset securitisation for banks has been in force since 2005. No bank has adopted the internal model approach (IMA) for market risk capital charges although the relevant regulation has been in force since 2007."*
- China, Hong Kong, Japan and Singapore had all fully implemented Basel III. Adoption was in process in Indonesia and South Korea.

WHEN THINGS GO WRONG – CAPITAL REQUIREMENTS

Case 4 – The Hong Kong SFC reprimanded Hampton Securities (Asia) Limited for primarily window dressing its liquid capital position. The SFC found a recurring pattern of fund transfers in and out of Hampton Securities' house account, whereby at the beginning or in the middle of the relevant months, funds were transferred to another company leading to a drop in Hampton Securities' liquid capital to a level below its required amount under the Securities and Futures (Financial Resources) Rules. Conversely, at the end of the month, before Hampton Securities submitted its financial return to the SFC, a similar amount of funds would be returned to Hampton. (July 2013)

In March 2013, the Basel Committee, as part of its Regulatory Consistency Assessment Programme, published a report assessing the regulations that implement the Basel capital framework in Singapore. The assessment found that Singapore's overall capital regime was in line with the requirements of the Basel framework. Singapore's regulations were found to be "compliant" in 12 out of the 14 components assessed. While two other components were assessed as "largely compliant", the deviations were not considered by the assessment team to be material.

The current level of adoption of the Basel requirements in Asia does not mean that work on capital requirements is complete. In January

2013, the Basel Committee issued revised a Liquidity Coverage Ratio (LCR) and a timeline for phasing it in. The LCR will be introduced on 1 January 2015, but the minimum requirement will begin at 60 percent, rising in equal annual steps of 10 percent to reach 100 percent on 1 January 2019.

Similarly, the Basel Committee has issued a number of consultation and guidance papers since January 2013 to refine the approach. These have included a consultation paper on mortgage insurance: its market structure, underwriting cycle and policy implications, as well as final guidance for managing risks associated with the settlement of foreign exchange transactions. It has also issued a consultation on supervisory guidance for external audits of banks, proposals for international leverage ratios and associated disclosure requirements, and a consultation on derivatives-related reforms to the capital adequacy framework. All of these papers require consideration by Asia-Pacific firms and regulators, and appropriate adoption into rules and policies.

WHEN THINGS GO WRONG – RISK-SYSTEMS & CONTROLS

Case 5 – The Hong Kong SFC reprimanded and fined Credit Suisse Securities \$1.6 million for regulatory breaches and control failings relating to position limit failures. This followed an investigation into the holdings of Credit Suisse and Credit Suisse International of open positions in Industrial and Commercial Bank of China Limited stock options (ICBC Options) in breach of the prescribed position limit of 50,000 contracts on three occasions. Credit Suisse also failed to put in place effective internal controls to ensure that all open positions in stock options contracts in which extensions were granted were in compliance with the prescribed position limit. (June 2013)

Case 6 – The Hong Kong SFC reprimanded A One Investment Company Limited (A One) and fined it \$1.2 million for internal control failures relating to the unauthorized sales of client securities and the unauthorized transfers of more than \$7 million in client funds held by A One to third-party accounts. (July 2013)

Case 7 – The Japan Financial Services Agency issued administrative actions against RBS Securities Japan due to inappropriate conduct related to Yen LIBOR and receipt of non-public customer information from the parent bank. A business improvement order was imposed on the company, which had to submit a written report on measures taken to correct the situation. (April 2013)

- **SIFIs and recovery and resolution plans** – At the heart of the FSB's approach to addressing the problems of the financial crisis are the requirements on regulators and firms to have in place robust arrangements for the recovery of a firm, should it encounter difficulties. In October 2011, the FSB issued guidance on the Key Attributes of Effective Resolution Regimes for Financial Institutions. In it, the FSB set out core elements that it considered to be necessary for an effective resolution regime. Their implementation should allow authorities to resolve financial institutions in an orderly manner without taxpayer exposure to loss from solvency support, while maintaining continuity of their vital economic functions. The requirements

include setting resolution strategies, home authorities creating crisis management groups and regularly undertaking resolvability assessments.

- **Risk governance** – Early in 2013, the FSB issued its peer review report on risk governance. It is clear that the pronouncements on what represents good practice for risk governance will become the global benchmark for firms and regulators alike. The FSB acknowledged the significant progress that has been made, but it also highlighted significant gaps in a number of areas, particularly with regard to risk management. At the core of strong risk management is an effective risk appetite framework, and the FSB reported that firms' progress to date had been uneven in its development, comprehensiveness and implementation. Specifically, "very few firms were able to identify clear examples of how they used their risk appetite framework in strategic decision-making processes", the report said.

The FSB report showed an overarching need for firms to increase their focus on all aspects of risk governance, including the need for greater alignment between risk, compliance and internal audit functions. There were also concerns about the overall quality of risk management reporting. The FSB found that "the information provided to the board was voluminous and not easily understood, which hampered the ability of directors to fulfil their responsibilities."

- **Market infrastructure regulations** – Since 2008, the G20 has tasked the FSB and international standard setter IOSCO with improving transparency and market integrity within securities markets.

IOSCO has undertaken significant work in the last few years in agreeing and implementing consistent principles for business and guidance for securities markets. There has been a plethora of consultations and guidance on subjects. For example, in the last six months subjects have included: principles for the regulation of exchange-traded funds (ETFs), a paper on cyber crime, systemic risk and global securities markets, a financial benchmark consultation, principles for CIS valuation and regulatory issues raised by changes in market structure.

In particular, in April 2012, the Committee on Payment and Settlement Systems (CPSS) and IOSCO issued a set of principles for financial market infrastructures. CPSS and IOSCO members committed themselves to adopting the 24 principles and five responsibilities that are seen as key to the safety and soundness of financial market infrastructures. During 2013, CPSS and IOSCO monitored countries' implementation of these principles. In August 2013, they released a report communicating the results. It reported that most countries (including in Asia) had begun the process of implementation, but very few had completed this process. In fact, out of the Asia-Pacific countries reviewed, only Japan had completed the implementation process.

In addition to the CPSS-IOSCO principles, firms in Asia-Pacific have also had to deal with repercussions from EMIR. As well as implementing the principles above, EMIR includes regulations from the European Commission that require OTC derivatives contracts to be centrally cleared and reported to a trade repository. Although aimed at Europe, the knock-on effect of EMIR for firms in the Asia-Pacific region is significant and requires careful consideration so as to not breach regulations in Europe by operations undertaken in Asia.

- **Dodd-Frank** – In the U.S., the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed as a response to the global financial crisis. It made changes in the U.S. financial regulatory environment that affect all federal financial regulatory agencies and almost every part of the nation's financial services industry. The proposals include:

- the consolidation of regulatory agencies, removal of the national thrift charter, and a new oversight council to evaluate systemic risk;
- improved regulation of financial markets, including increased transparency of derivatives (bringing them onto exchanges);
- consumer protection reforms, including a new consumer protection agency and uniform standards for "plain vanilla" products as well as strengthened investor protection; and
- tools for financial crises, including a "resolution regime" complementing the existing Federal Deposit Insurance Corporation authority to allow for orderly winding down of bankrupt companies.

Dodd-Frank has an effect on securities trading and clearing in the U.S., and has also led to increasing international standards and cooperation on proposals including improved accounting and the tightening of regulation for credit rating agencies. This means that firms in Asia need to be apprised of the many new requirements under Dodd-Frank and how they affect their business.

FUTURE OF REGULATION

As can be seen above, much has been done in the Asia-Pacific region to implement regulatory initiatives, but there is more in the pipeline and much to keep firms busy. The regulatory "in-box" for financial services firms may include a wide range of future initiatives.

Firstly, firms should consider the continued development and implementation in areas explored above, such as Basel III liquidity rules, FATF principles, local adoption of initiatives in the securities markets, the introduction and ramifications of Dodd-Frank and the risk governance best practices from the FSB.

Secondly, firms should also consider the regulatory impact in the insurance industry as regional insurance supervisors look to harmonise the global regulatory approach. The International Association of Insurance Supervisors (IAIS) is moving towards a convergence of approaches for insurance, most notably with the introduction of its Insurance Core Principles. Also, the Solvency II regime, currently being adopted in Europe, is having a significant impact throughout the Asia-Pacific region. Although Solvency II is not directly applicable in Asia, it presents Asia-Pacific countries with a challenge on how to best approach insurance regulation, and it also needs to be considered by all European insurance groups with subsidiaries in the Asia-Pacific region.

At a national level, in Indonesia and Malaysia there have been moves to bring insurance regulation up to the same level of sophistication as seen in the banking sector. In Singapore, a consultation has recently been issued on a revision of the risk-based capital framework, strengthening it to be more in line with Solvency II. Thailand is also reviewing its risk-based capital framework.

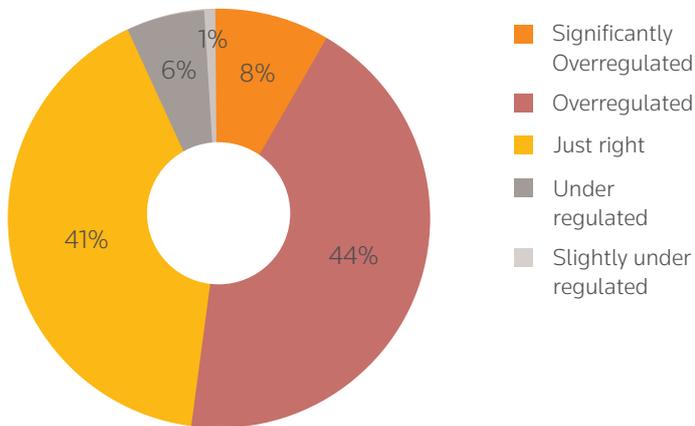
Thirdly, there is the continued challenge of the implementation of the renminbi (RMB) as a trade settlement currency, and how this will shape the development of financial markets in Asia. In March 2013, only 0.6 percent of global payments were settled in RMB, vastly below China's share of global trade (10 percent) or investment flows. As the RMB is used more as a trade settlement currency,

there will be important implications for the interaction between China and financial markets in the wider region. In particular, it will be critical to facilitate the development of a single offshore RMB market. In addition, China plans to launch an international payments system in 2014. This is a single, centralised cross-border RMB payments system that will promote market efficiency and standardised practices for RMB payments. All of this will have an impact on regulations and compliance functions.

Finally, the development of Islamic banking continues to progress. For example, Hong Kong is preparing to introduce an enhanced legal framework as a first step to promote the sustainable development of Islamic finance. In July 2013, Hong Kong's Legislative Council passed a bill to facilitate the issuance of Islamic bonds, paving the way for issuers to broaden their funding sources to include investors from the Arab and Islamic world. Also, in June 2013, Bank Negara Malaysia issued new guidelines on prudential standards on securitisation transactions for Islamic banks.

There will undoubtedly be other regulatory developments as global regulators and countries refine and enhance their approaches to future issues in the financial services industry.

RATE THE REGULATION IN YOUR SECTOR



It is no surprise that many respondents warned of a danger of overregulation in certain sectors, such as banking. More than 52 percent of respondents said their industry sector was overregulated, whereas 41 percent said the level of regulation was "just right". Furthermore, some also pointed out that there was a need for more prescriptive regulation in certain sectors, such as suitability and sales (25 percent), and insurance (13 percent). Some also said that new regulations had caused regulators to become overstretched in both supervision and enforcement, increasing the chances of a regulatory breach not being detected.

"I would say no area suffers from too much regulation, but rather that many areas suffer from a lack of investigation or enforcement action to ensure that the existing regulations are applied by market participants in a uniform manner," said one respondent.

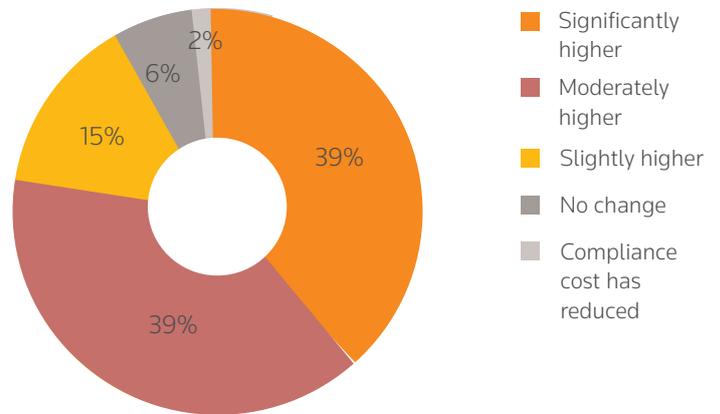
Most respondents expected the volume of regulatory change to persist in coming years, with around 97 percent of respondents saying regulatory pressure would be higher. Some 40 percent expected the regulatory pressure to be "significantly higher" in coming years.

The volume of regulatory change is one that is being experienced around the world by many compliance functions. In the global Thomson Reuters GRC "Cost of Compliance Survey 2013", published in February, 43 percent of more than 800 respondents said that they expected the amount of regulatory material published in the

next 12 months to be significantly higher than it is today. Of those who responded from Asia, 44 percent said that they expected the amount published to be significantly higher than today.

STRAIN ON RESOURCES

THE IMPACT OF REGULATIONS ON A FIRM'S COST OF COMPLIANCE



Complying with the many new regulations being adopted in Asia in recent years – whether of international or domestic origin – has led to a significant rise in costs, survey respondents said. More than 92 percent of respondents said their institution's cost of compliance had risen in the past two years, with nearly 39 percent saying the increase had been significant.

Amid the continuing influx of new regulations and the cross-border impact of some foreign laws, the workload for compliance staff has long been on the rise. However, the persistent financial difficulties facing markets around the world often means that hiring budgets are tight – even in compliance. As a result, more companies in Asia are turning to technology to help alleviate some of the compliance burden. Some 50 percent of the survey respondents said that their compliance function relied on technology for more than half of their daily tasks. Another 37 percent said technology was used for 25-50 percent of the compliance function.

CONCLUSION

"The world has coped relatively well with the numerous shockwaves that have rocked the global economy in the wake of the financial crisis. Now that we are advancing on the road to recovery, policy-makers must lay the ground for a return to normalcy. We would do well to recall the words of Winston Churchill: 'Success is not final, failure is not fatal: it is the courage to continue that counts.'"

(Mr Ravi Menon, managing director of the Monetary Authority of Singapore, at Citibank's 10th Annual Asia-Pacific Investor Conference on 30 January 2013)

The world of financial regulation is challenging. It is full of complex issues that have to be considered carefully from a global and local perspective. Some of the issues are fundamental to the success of a financial services firm:

- Are we holding enough capital?
- Can we deal with downturns in the market?
- Does our approach reduce the risk of our customers' money being laundered?

For those who get the answers wrong, harsh penalties await.

The financial crisis has led to a swathe of new regulators and regulations. Cross-border interactions have grown and a true global view is being sought. In Asia-Pacific, a region with so many differences, contrasts and divergences, the challenges of embracing these regulations are all the more acute.

The volume of regulatory change being experienced around the world is an issue that is not going away soon. Financial services firms, and in particular compliance functions, need to consider how they will respond to these challenges. A first step, perhaps, is to approach local regulators to “lobby overseas regulators to limit the scope of extra-territorial regulation that leads to cross-purpose rules,” as one respondent suggested.

According to the survey, more than 60 percent of respondents thought local Asian regulators could do more to coordinate the regulatory response to the financial crisis with their U.S. and EU counterparts.

Equally, financial services firms need to invest in their compliance functions. Whether it is board members or compliance officers, firms need to recruit, develop and retain appropriately skilled individuals who are capable of dealing with the regulatory challenges. Regulators around the world are placing greater emphasis on holding individuals to account, especially those at the top of an organisation. It would be remiss of firms, and individuals, to expose themselves to these risks by not employing the right individuals with the capability to manage the regulatory risks.

In addition, compliance teams need to be creative in designing and implementing structures that will deal with regulatory change effectively. A response that is being taken by one leading financial institution is to address both global and local

regulatory issues by holding itself to the highest global standard. This approach has its advantages and disadvantages. A unified approach to issues around the world does bring the strength of the whole firm to bear on common problems, with all the synergies and efficiencies that this entails. However, the risk is that local intricacies and sensitivities are overlooked, making implementation more difficult. Either way, compliance functions need to develop their approaches to accommodate the changing world around them.

There is room for optimism. As we have seen, the FATF has assessed, and is content, with the implementation of its recommendations in most Asia-Pacific countries, and the Basel Committee seems equally satisfied with the progress being made on Basel III compliance.

Of course there will continue to be challenges when implementing regulations, whether that is in trying to change the culture of a firm or adopting Solvency II regulations. The survey suggests that these challenges will not get any easier as costs continue to rise and budgets remain limited.

But there is one thing that the financial crisis, and the resulting regulatory revamp, has done. It has helped to propel the compliance function from a sleepy back-office role to a key decision maker within financial institutions.

Reassuringly, this sentiment has taken root in Asia, with more than 86 percent of those polled saying the compliance function was a key stakeholder within the company. The role is increasingly seen as having moved from being a pure “cost centre” to a “profit enabler” that performs the crucial task of making sure financial institutions operate within the boundaries of the law and regulation.



We hope you found this year’s report valuable. Many of our clients tell us these reports are useful for benchmarking, and also for building internal business cases to support greater investment in compliance for the business. Something we know is important to you.

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Thomson Reuters Accelus delivers a range of integrated solutions designed to help address the challenges you face daily and better manage the ever-changing risk and regulatory landscape.

AUTOMATE YOUR COMPLIANCE WORKFLOW TO MANAGE WORKLOAD AND RISK ASSOCIATED WITH THE VOLUME OF REGULATORY CHANGE

Accelus Compliance Manager combines leading software with essential regulatory intelligence to allow you to manage your compliance workflow – automating processes and creating efficiencies and scale that are critical in managing the volume of regulatory change in today’s ever-changing environment and the risks associated with this change. It comes with purpose-built compliance workflows that enable you to: understand, evaluate and map regulatory risk; identify, monitor and track regulatory change; define and communicate controls including policies and training; monitor, test and audit controls; and evidence risk and controls to the board, senior managers and regulators

STAY ON TOP OF REGULATORY CHANGE, SAVE TIME AND REDEPLOY PRECIOUS RESOURCE

Accelus Compliance Complete. The same team of regulatory experts who prepare our reports also produce daily analysis for Compliance Complete. Let them do the hard work for you by monitoring, assessing and providing impact analysis of regulatory change, and delivering time-saving efficiency and scale to your business, without compromising quality. Compliance Complete is a single comprehensive source for regulatory news, analysis, rules, and developments, covering global rulebooks and regulations for the financial services industry. Its regulatory content includes information from more than 330 regulators and exchanges around the world, tracking hundreds of individual regulatory events such as policy statements, speeches, rule filings, and consultation papers.

SUPPORT BETTER BOARD GOVERNANCE

Better information flow to the Board also emerged as a theme is this year’s report. Our board solution, BoardLink, makes life easier for board members and company and corporate secretaries by offering a secure, online location for collaboration and communication of critical information. Effective corporate governance just got simpler to evidence.

TRAIN YOUR STAFF AND REDUCE RISK

Accelus Training Solutions: Training staff is highlighted as one of the greatest compliance challenges for 2013. Our engaging, customizable, interactive, and trackable e-learning courses are designed to bring about the cultural change needed to ensure your employees comply with the relevant laws, regulations and internal policies. We also offer the very latest in gamification which is changing the face of training by successfully engaging employees while delivering actionable data to enhance risk assessment and risk management capabilities.

DELIVER EFFECTIVE AND EFFICIENT ANTI-BRIBERY AND CORRUPTION PROGRAMS

Anti-Bribery and corruption was flagged as another challenge for 2013. Thomson Reuters Accelus for Anti-Corruption is a suite of anti-corruption compliance solutions that provide a modular approach to delivering effective anti-bribery and corruption compliance programs. Our clients rely on our connected solutions for the full compliance lifecycle including regulatory intelligence, policy management, training, internal controls, country risk ranking, screening of business partners, internal audit and importantly, reporting.

COMPLY WITH FATCA

The prospect of complying with FATCA was also highlighted as a key issue for many in the report. Thomson Reuters for FATCA Solution brings together market leading technology already widely used by organizations around the world to address the issues and risks associated with regulatory compliance, tax documentation and tax reporting. The integrated and modular solution enables you to identify, maintain and validate customer records to assist in FATCA compliance.

**WE CAN HELP YOU MEET THE
CHALLENGES AHEAD, VISIT
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The Thomson Reuters Governance, Risk & Compliance (GRC) business delivers a comprehensive set of solutions designed to empower audit, risk and compliance professionals, business leaders, and the Boards they serve to reliably achieve business objectives, address uncertainty, and act with integrity.

Thomson Reuters Accelus connects business transactions, strategy and operations to the ever-changing regulatory environment, enabling firms to manage business risk. A comprehensive platform supported by a range of applications and trusted regulatory and risk intelligence data, Accelus brings together market-leading solutions for governance, risk and compliance management, global regulatory intelligence, financial crime, anti-bribery and corruption, enhanced due diligence, training and e-learning, and board of director and disclosure services.

Thomson Reuters has been named as a category leader in the Chartis RiskTech Quadrant™ For Operational Risk Management Systems, category leader in the Chartis RiskTech Quadrant™ for Enterprise Governance, Risk and Compliance Systems and has been positioned by Gartner, Inc. in its Leaders Quadrant of the "Enterprise Governance, Risk and Compliance Platforms Magic Quadrant." Thomson Reuters was also named as Operational Risk Software Provider of the Year Award in the Operational Risk and Regulation Awards 2013.

For more information, visit accelus.thomsonreuters.com



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