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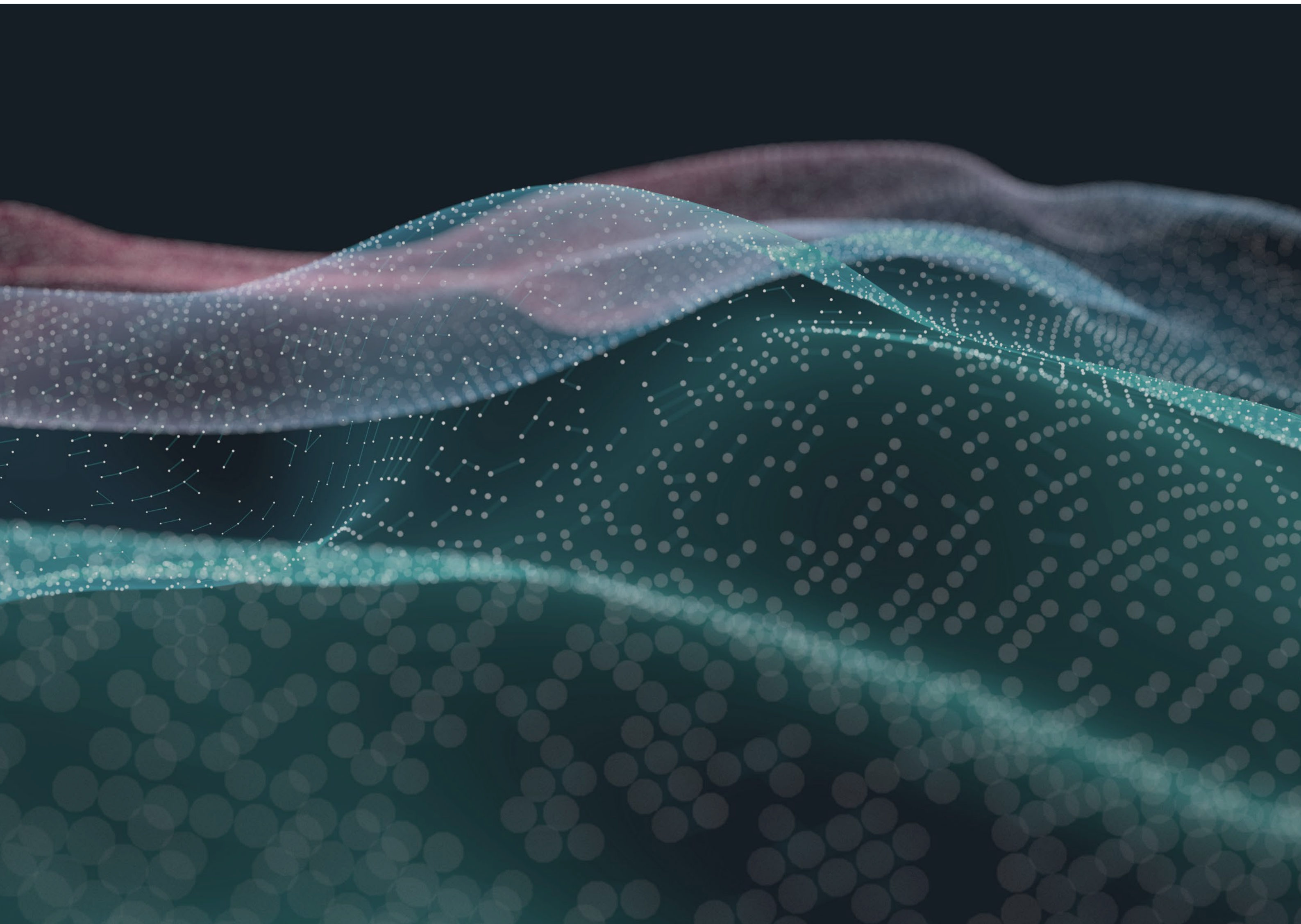
REGAINING CONTROL OF REGULATORY REPORTING WITHIN THE INVESTMENT MANAGEMENT INDUSTRY



REGULATORY EXPECTATIONS

Amidst the wake of a wave of FCA newsletters since October 2019, investment firms were warned over stringent oversight of transaction reporting, following growing concern over data quality issues and failures in control. The FCA has continued to reiterate that the accountability for reporting lies with the investment firm, and firms should not be relying on acceptance rates as a standard for assessing completeness and accuracy.

At the same time, regulators are closely monitoring the effects of outsourcing by investment firms. The Bank of England's Outsourcing and Third-Party Risk Management Consultation Paper (December 2019)[1], further indicates a regulatory focus on compliance reporting after the pandemic. The paper sets out initiatives and proposals for the modernization of regulatory frameworks on outsourcing and third-party risk management to facilitate greater organizational resilience and implement the European Banking Authority's Guidelines on Outsourcing Arrangements[2].

As the honeymoon period of post-MiFID II leniency is expected to come to an end, we anticipate increased scrutiny by regulators around the quality of regulatory reporting, bringing intensified audits and potential fines for investment firms failing in their reporting obligations. This was evident in 2019, when the Bank of England fined Citigroup £44 million[3] for its substandard reporting quality and inadequate documentation, governance, and people resources. UBS and Goldman Sachs received fines of £28 million[4] and £34 million[5] respectively for a failure in controls, and more specifically whether all the transactions reported to the FCA were accurate and complete.

HISTORIC REASONS FOR OUTSOURCING

Historically, some aspects of regulatory reporting have been outsourced to obtain the necessary expertise, at a fraction of what it would cost to do internally. In 2019, 53 percent of financial institutions noted that their main reason for outsourcing compliance was the "need for additional assurance on compliance processes", followed by a "lack of in-house compliance skills" and "cost" at 48 percent and 41 percent respectively . Outsourcing also enables investment firms to decrease the time to market in meeting new regulatory reporting requirements.

Many asset management and wealth firms are now utilizing providers to facilitate their regulatory reporting. Of course, outsourcing doesn't move accountability to the third party, but does create an obligation to effectively oversee and manage outsourcing agreements and their execution. As regulatory scrutiny increases, investment firms should reevaluate the suitability and resilience of their operating models for regulatory reporting.

ARE YOUR OUTSOURCING ARRANGEMENTS FIT FOR PURPOSE?

While such extended enterprises now encompass standard business practice, failure to conduct adequate due diligence, to effectively articulate third-party objectives and create robust governance and control processes, has generated nuanced risks related to service quality, operational continuity, process management and oversight and compliance.[6] Outsourcing introduces new categories of operational risk, and organizations need to question whether the associated cost of control is truly outweighed by the benefits of outsourcing.

HOW CAN FIRMS MITIGATE OUTSOURCING RISKS?

At a minimum, existing arrangements with third parties need to be reevaluated ensuring that:

- Effective due diligence has been conducted in third-party selection
- Associated risks are accounted for on an operational, financial, and reputational level
- Provider agreements are formulated or reengineered to include delivery standards and timelines
- Governance structures are developed to monitor provider delivery
- Controls are in place that are suitable to mitigate against the risk of incomplete and inaccurate reporting
- SLAs are clearly defined, and reviews are conducted against achieved results

It is evident that many firms are getting transaction reporting wrong, with the FCA clearly calling out failures in systems and controls, lack of data quality and completeness and accuracy in the most recent market watch.

Increasingly, firms are looking at bringing reg reporting back in house, for firms considering the option of re-internalizing their reporting we recommend that the following are taken into consideration:

- Evaluate industry leading solutions to optimize the cost and efficiency of reporting
- Ensure the firm has appropriately skilled resources in house
- Implement robust control and governance frameworks
- Ensure that regulatory requirements are clearly interpreted, evidenced, and applied to their business models
- Ensure data quality and data controls are addressed

Regulators will be interested in data quality, data integrity and control and governance. Key to achieving this is focusing on robust traceable rule interpretation, data quality, strong control frameworks and leading technology solutions.

HOW CAN CAPCO HELP YOU?

Capco's expertise within the regulatory space provides asset managers with the wealth of knowledge required for the optimization of their regulatory reporting capability. Capco can support organizations in identifying appropriate and reputable third-party partners, assessing the front to back reporting stack for value provision, establishing compliant and effective outsourcing relationships, and developing appropriate governance and due diligence processes.

To find out more information on how Capco can assist with your firms regulatory reporting, click here.

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Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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