



TOP TEN CONCERNS FOR U.S. COMPLIANCE OFFICERS IN 2017

Todd Ehret and Julie DiMauro,
Senior Regulatory Intelligence Experts, Thomson Reuters

March 1, 2017

The intelligence, technology and human expertise
you need to find trusted answers.



the answer company™
THOMSON REUTERS®

SPEAKERS



Todd Ehret
Senior Regulatory Intelligence Expert at Thomson Reuters

Todd has nearly 25 years experience in the financial industry where he held key positions in trading, operations, accounting, audit and compliance for broker-dealers, asset managers and hedge funds. Before joining the Thomson Reuters Regulatory Intelligence team, he served as a Chief Compliance Officer and Chief Operating Officer at a registered investment adviser/hedge fund for nearly a decade.



Julie DiMauro
Regulatory Intelligence Expert at Thomson Reuters

Julie is a regulatory intelligence expert in the Financial & Risk division of Thomson Reuters in New York. Before joining the Thomson Reuters Regulatory Intelligence team, she served as the executive editor of the FCPA blog and managing editor at the legal publisher, Vendome Group.

OVERVIEW

- Although financial services are a global industry with a global regulatory presence, our emphasis today is on U.S. financial services and U.S. regulators.
- The top 10 concerns discussed today are in no particular order and importance varies greatly from firm to firm depending on size and business lines.
- Quick overview of 2016 and Thomson Reuters surveys

Thomson Reuters Regulatory Intelligence
NAVIGATE THE REGULATORY ENVIRONMENT WITH CONFIDENCE

GREATEST COMPLIANCE CHALLENGES

The greatest compliance challenges I expect to face in 2016 is/are



Source: Thomson Reuters Cost of Compliance 2016

1. REGULATORY CHANGE AND UNCERTAINTY

- President Trump's administration and regulatory rollback environment
- Skeletal staff at the SEC and new leadership at FINRA and CFTC
- Potential signs of change from enforcement back to rulemaking
- Department Of Labor Fiduciary Rule uncertainty is evidence of this trend
- European uncertainty due to Brexit, EU delays
- Current rulebooks remain valid and in place

2. PERSONAL LIABILITY

- Many cases in which compliance staff are charged involve failures in overseeing the outside activities of employees under **Rule 206(4)-7** of the Advisers Act.
- Others can include allegations of lapses in reporting material compliance matters to the board, under Investment Company Act **Rule 38a-1(a)**.
- **Cases** have involved CCOs who affirmatively engaged in misconduct that was unrelated to compliance function; CCOs who tried to obstruct or mislead SEC staff; CCO exhibited wholesale failure to carry out responsibilities.
- **Errors & Omissions (E&O) insurance** policies are widely used to help protect against claims by clients arising out of professional services provided by the insured. **Directors & Officer Liability (D&O) coverage** can be added to an E&O policy or purchased separately, to protect the firm as well as the directors, officers, partners and employees of the insured entity for claims arising out of business decisions, not investment decisions.

3. CONFLICTS OF INTEREST

- Department Of Labor Fiduciary Rule
- Regulatory focus on conflict free environment
- SEC emphasis on private equity firms misallocation of fees
- Notable cases in 2016
- Blackstone and KKR
- JPMorgan Securities USD \$227 million fine

4. SALES PRACTICES, SUITABILITY AND RISK DISCLOSURES

- 2017 SEC exam priorities ... protection of retail investors
 - Recidivist brokers, seniors, retirement, robo-advisers
- Complex products UBS and Merrill cases
- Disclosure in fine print that no one reads is no longer adequate
- AIG case involving share classes

5. CULTURE, CONDUCT RISK AND COMPENSATION

- Culture was a concern of FINRA in 2016 but not a priority in 2017
 - Many saw culture initiatives as a step towards compensation practices
 - Crackdown by FINRA and firms (zero tolerance policy at many firms)
- Incentives and compensation as driver(s) of behaviour
 - FSB and G20 have taken the lead...will the U.S. follow through?

6. OUTSOURCING

- Cost of Compliance 2016 survey results – 25% outsource all or some of compliance functionality due to:
 - Need for additional assurance on compliance processes
 - Lack of in-house compliance skills
- Skills to manage activities must remain in-house

6. OUTSOURCING

- Identifying risk exposure to business providers
- Creating due diligence practices to continuously evaluate and monitor business providers' practices
- Training staff to identify red flags of violations
- Why do we care? When a financial services firm uses a third party for products and services, the financial services institution remains responsible for compliance with laws and regulations.

YOU CANNOT OUTSOURCE THE RISK INVOLVED

6. OUTSOURCING: CHECKLIST

- **Ownership structure** (owned or controlled by the government?)
- **Financial Qualifications** (audited financial statements going back 3-5 years)
- **Personnel** (who will provide services to you?)
- **Physical facilities** to be used by vendor
- **References**
- **PEPs:** Are any of the owners, officers or directors politically exposed persons on any watch lists, sanctions lists, etc.?
- **Beneficial owners:** Get identity of ultimate beneficial owner of the entity.
- **Compliance Program:** Do they have an anti-corruption/anti-bribery program in place?

7. INSIDER TRADING OR MISUSE OF MATERIAL NON-PUBLIC INFORMATION

- Need for constant monitoring and walling off material non-public information
- No sign of backing down despite legal difficulties
- Cooperman and Mickelson cases are good examples
- Capital One data mining cases
- Enhanced detection capabilities by regulators
- Electronic “bread crumbs” are everywhere ... easy to follow the trail
- Non registered firms such as law firms and PR firms must also be careful

8. LIQUIDITY RISK AND VALUATION RISK

- New mutual fund rules finalized in October 2016 effective in 2018
 - Swing Pricing and Liquidity Risk Management Programs
- Prominent valuation related cases recently including:
 - Third Avenue Focused Credit Fund
 - Platinum Partners Hedge Fund

9. DATA PROTECTION, TECHNOLOGY MANAGEMENT, CYBER RESILIENCE

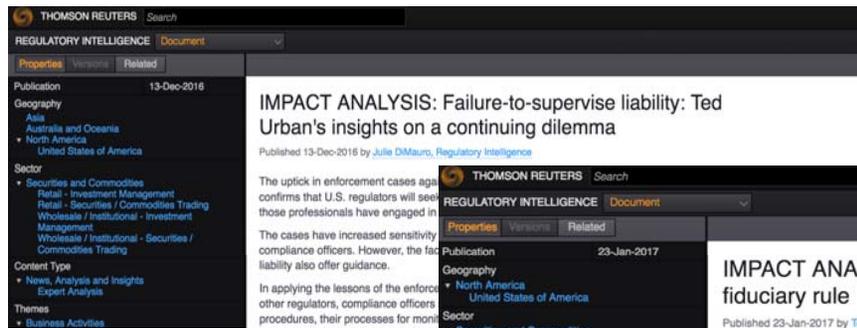
Good customer outcomes is essential

- New York Department of Financial Services first of a kind codified rules
 - CISO requirement
 - Requirement of periodic assessments
 - Requirement of written incident response plan and notification to the regulator
 - Annual Certification by senior executives or boards
 - **Effective date March 1, 2017**
- Testing and employee training is essential

10. AML/KYC TERRORIST FINANCING AND FINANCIAL CRIME

- Likely the one area that is off limits to rolling back or repeal of regulations
- KYC is not sufficient AML policy
- Panama Papers has placed new emphasis on ultimate beneficial owner
- Clearinghouse pushes for redesign of U.S. AML/CFT enforcement framework

QUESTIONS?



THOMSON REUTERS Search

REGULATORY INTELLIGENCE Document

Properties Versions Related

Publication 13-Dec-2016

Geography

- Asia
- Australia and Oceania
- North America
- United States of America

Sector

- Securities and Commodities
- Retail - Investment Management
- Retail - Securities / Commodities Trading
- Wholesale / Institutional - Investment Management
- Wholesale / Institutional - Securities / Commodities Trading

Content Type

- News, Analysis and Insights
- Expert Analysis

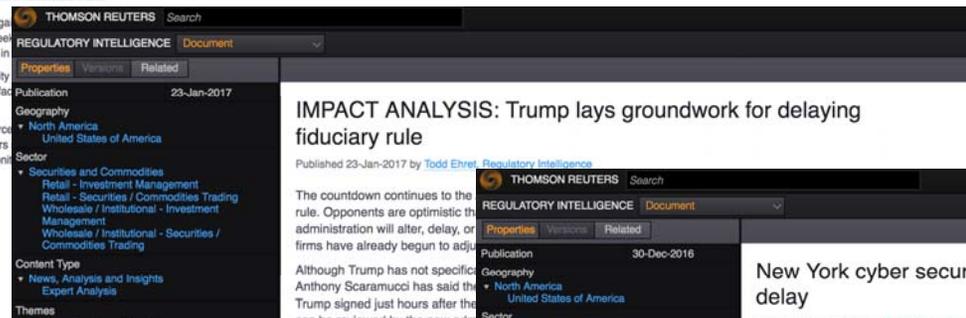
Themes

- Business Activities

IMPACT ANALYSIS: Failure-to-supervise liability: Ted Urban's insights on a continuing dilemma

Published 13-Dec-2016 by Julie DiMauro, Regulatory Intelligence

The uptick in enforcement cases against banks confirms that U.S. regulators will see those professionals have engaged in... The cases have increased sensitivity compliance officers. However, the fact liability also offer guidance. In applying the lessons of the enforcement other regulators, compliance officers procedures, their processes for monitoring...



THOMSON REUTERS Search

REGULATORY INTELLIGENCE Document

Properties Versions Related

Publication 23-Jan-2017

Geography

- North America
- United States of America

Sector

- Securities and Commodities
- Retail - Investment Management
- Retail - Securities / Commodities Trading
- Wholesale / Institutional - Investment Management
- Wholesale / Institutional - Securities / Commodities Trading

Content Type

- News, Analysis and Insights
- Expert Analysis

Themes

IMPACT ANALYSIS: Trump lays groundwork for delaying fiduciary rule

Published 23-Jan-2017 by Todd Ehret, Regulatory Intelligence

The countdown continues to the rule. Opponents are optimistic the administration will alter, delay, or firms have already begun to adjust... Although Trump has not specifically Anthony Scaramucci has said the Trump signed just hours after the rule can be reviewed by the new administration...



THOMSON REUTERS Search

REGULATORY INTELLIGENCE Document

Properties Versions Related

Publication 30-Dec-2016

Geography

- North America
- United States of America

Sector

- Banking
- Retail - Consumer Banking
- Retail - Mortgage Lending
- Wholesale / Institutional
- Insurance
- Retail - Accident & Health
- Retail - Life & Annuities
- Retail - Property & Casualty
- Wholesale / Institutional
- Securities and Commodities
- Corporate Finance
- Retail - Investment Management
- Retail - Securities / Commodities Trading

New York cyber security rule gets a last minute revision and delay

Published 30-Dec-2016 by Todd Ehret, Regulatory Intelligence

Politicians, regulators and businesses have made cyber security a top concern. One key U.S. financial regulator raced to the forefront with first-of-a-kind proposed cyber security regulations but last minute revisions and a delay just days before the rules were set to go live have offered firms some breathing room. Thomson Reuters Regulatory Intelligence recently offered a blueprint of how to comply with the proposed new rules which were published in late September by the New York Department of Financial Services (NYDFS). The rules were open for a 45-day comment period until November 12, 2016 and generated more than 150 comments, many of which were quite critical of the rules.

REQUEST A FREE TRIAL

Thomson Reuters Regulatory Intelligence delivers unsurpassed breadth, depth and quality of regulatory intelligence with global coverage of 750 regulatory bodies and over 2,500 rulebooks. You can easily monitor multiple sources of regulatory information, saving both time and money on manual searches and tracking. Access exclusive news, analysis and practical guidance from our global team of regulatory experts, as well as the latest regulatory developments.

[Click here to learn more and request a FREE TRIAL](#)



THANK YOU!