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Cross-Jurisdictional Regulatory Compliance  
& Entity Data Management

A Best Practice Approach to Addressing This Challenge  
A Regulation Asia & Fenergo Roundtable

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# Achieving Regulatory Compliance: The Road Ahead

Compliance managers talk frankly about immense cross-jurisdictional and data management challenges that refuse to go away.

Since the global financial crisis, international regulatory and compliance frameworks have been a daunting obstacle to financial institutions. Finding ways for compliance managers to redefine their roles and abilities to meet changing standards with a seamless, efficient process is a daily challenge.

Moreover, managing these requirements across multiple jurisdictions heightens the problem. Fenargo recently staged an exclusive and off-the-record roundtable comprised of senior compliance executives from Singapore's banking community. Participants engaged in a frank discussion of the state of the current multi-jurisdictional compliance and client on-boarding environment as well as future solutions in the KYC and shared services.

Meeting the rollout of global regulations has been a complicated and costly experience for all market participants. The undesirable outcome of needing to conform to multiple and sometimes conflicting rules on the buy side and sell side has dramatically increased the cost of operating across numerous services and asset classes. Regulators and compliance officers must navigate laws that are further complicated by the cross-border nature of the financial industry.

**“Harmonisation is not as easy as it sounds.”**

One senior banker simply described issues that need to be considered in a typical transaction. “Is it going to take down the financial system? What are we solving for? At the end of the day do you know your client? Do you have the right documentation? You have to complete all the due diligence relative to the product they are purchasing from you in accordance to the regulations you are operating in.”

He emphasised, “We find ourselves in a situation where we have to validate, accept, originate and underwrite the risk within a jurisdiction. And in a cross-border deal involving multiple jurisdictions it becomes more complicated.”

Regulators have imposed short timeframes for participants to comply with new rules. This not only generates uncertainty in terms of interpretation and implementation, but compels them to take short-term, pragmatic compliance approaches with the goal of fuller implementation once the regulatory situation stabilises.

“Harmonisation is not as easy as it sounds,” said another senior compliance officer. “For example, if a client is conducting business with you in the UK and all of a sudden they want to trade from Australia, you need systems that can recognise and handle a change of jurisdiction.”

“Then, you must decide if you comply to the highest standard common denominator so you don't have to return to the client again in the future no matter where you are doing business and what type of business is conducted. The [levels of] required reporting and data are incredible.”

The roundtable participants described how trying to meet data integrity requirements has become a huge challenge. “We have to attain the highest common denominator standard so that data can be used in the rest of the space. However, transparency seems out of control from the clients' perspective. They think they have already submitted everything so we don't have to repeat the process.”

## Developing KYC Utilities and Shared Services

Progress is being made to develop platforms to help the buy side by sharing KYC information just once rather than repeatedly. Joe Dunphy, Vice President of Product Management for Fenargo tried to alleviate concerns by saying, “We can't eliminate all



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of your pain, but we can minimise it. We take away the low-risk elements so you don't have to spend time on them. This allows you to examine other areas where you are particularly challenged."

Participants are also learning and interpreting what regulations mean to the daily practice and operation of their businesses. Dunphy added, "The industry needs more voices in the form of an industry group as regulators listen better to an organised group."

He believed, "The industry is heading towards centralised KYC in the form of shared utilities and services. Almost every client I know is working towards this model." The variations include fully outsourced services or the processing and managing of data required as part of the on-boarding process.

It is no surprise that some banks operating effective KYC functions do not want to participate in shared utilities because doing so would give up their competitive advantage in compliance.

### Harmonising Data Management

Everyone agreed that the utility model is hugely beneficial and the industry should be moving towards it, but noted that other problems persist. "Once data is provided it still needs to flow smoothly and be managed and structured in the context of the bank and its products, services, business units and entity structures."

The industry's migration towards centralised processing is the other side of the equation. This tends to follow one of two paths: a managed service where banks outsource the work and processing to somebody who handles on-boarding, compliance and KYC; or an internal shared service which accomplishes the same tasks using the bank's internal resources.

"It's the only way to get to a future position that is efficient and where one can deal with changing regulations and increasing complexity," said Dunphy. "This industry's intensive processes now require experts with a shared discipline in regulatory compliance. In fact, the market and industry are evolving towards being a professional group of on-boarding professionals."

**"We have an imploding situation where we can't agree on new standards because we can't untie ourselves from old ones."**



"You need a central view to see the entirety of the counterparty, client and bank relationships. And on the other side you come up against local data protection policies. If you capture information in Singapore, no one outside of Singapore is allowed to see it."

The biggest stumbling block is the inability to drive a model using central on-boarding, regulatory and compliance teams that can make the entire client life cycle management process more efficient and friendly for the users.

According to one manager, safe harbour rulings, data sharing and privacy issues in the EU will become an increasing source of conflicts over the next two years. "Legal challenges and tests will determine who prevails over sharing versus privacy obligations. Once we get over this particular hurdle the market and industry will gravitate towards centres of excellence and a professional on-boarding and compliance talent that can meet these requirements."

One banker thought client consent allowed the extensive sharing and sending of data. However, Dunphy responded, "Consent gets you so far, but not all the way. Some or part of your KYC and AML responsibilities involve incurring obligations by gathering information on people and non-contracting entities for aggregated risk calculation who have not signed consent forms. As you get into the hierarchy of beneficial ownership and influential persons, the situation becomes more complex."

Today's compliance and data-related obstacles aren't so easily overcome by hiring more officers. "In the past, if you threw enough people at compliance with a checklist to on-board quickly one size might fit all. But with more people facing a new process and changing regulations everyone gets swamped and nothing fits the checklist."

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Another executive added, “They (senior management) thought they could do KYC on a cheap basis with a team in India. Instead, we have an imploding situation where we can’t agree on new standards because we can’t untie ourselves from old ones.”

### Where KYC and Entity Data Meet Business Goals

A banker graphically described his dilemma. “Typically, when a client approaches you for market access it means they want to trade right now and there’s a lot of money piling up. So they need efficient on-boarding.”

But suppose the client says that if you want to view his KYC data and directs you to a particular utility. “The challenge is whether the data is consistent and supported with your bank’s systems. Ironically, many clients’ own systems don’t support it either; clients are just as guilty as we are!”

From a market perspective, standards are largely influenced and determined by regulators. A compliance technologist said, “Our vision is to create an ecosystem to lead not just into KYC, but also tax utilities and tax documentation to create a ready-to-transact ability. Cheap labour doesn’t solve it. Technology is the answer to relieving the congestion.”

“Clients might even move banks due to compliance problems.”

A managed service or utility must be able to keep up with regulatory changes. So it should be a federated model that deals with sweeping changes. “Regulators have come out with some good ideas, but also some bad ones. Their reporting demands are so extensive that there is so much data that no one knows what to do with it.”

Furthermore, he describes how the fear of not achieving transparency makes everyone gather data that probably won’t be used. “This has caused a big push for data centralisation. Costs can be reduced for everyone through centrally managed data services.”

A compliance head stated, “The industry has to drive standards; the utilities can’t do it. There has to be a standard to which additional features can be added, so you need a baseline standard to build upon. No one has the same view of a set of rules; even our legal team can’t agree with our compliance people. Therefore, clients might even move banks due to compliance problems.”

“Unless you are providing the same products and services each time you can’t face the same regulations. When transactions are negotiated between two counterparties it is difficult to achieve homogeneous compliance.”

One compliance officer said, “Shared utilities are not an



outsourcing arrangement, but rather a place to gain secure, consistent data. But this is a difficult task. In working group meetings, with four major international banks representing 120 jurisdictions, participants struggled to agree on details such as date and place of birth date.”

“Ultimately, achieving a standard KYC document is not as useful as a utility model managing multiple data sources, matching policies and rules. Over time, data and documentation will align.”

### The Future of Compliance

Everyone is hoping for some kind of transformation to occur in global regulation. One manager said, “It’s a matter of controlling our destiny instead of being dictated to by regulators. At what point is it enough? How many times do we have to repeat a process and then start over again?”

The industry also has to find a way to pro-actively lobby regulators and governments. “At some point, common sense has to prevail. We’re all trying to do the same thing. A utility shouldn’t create a competitive advantage.”

An international bank manager asked, “What is the real game changer or thought leadership that makes governments comfortable with banks originating and taking risk so they are truly compliant?”

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## Compliance Demands More Talent Than Ever

The fight for internal resources and need for talented people in the KYC space has become a chronic issue. A compliance head lamented, "We are losing people because of a shortage of talent and banks are 'going long' on KYC people, paying 30% more in salaries. It is extremely frustrating and time consuming to replace and train people in this area."

Banks need to understand the changing leadership demands of the compliance role. An international manager asked, "Who is going to be in charge of all of this compliance? Are we paid enough to take this risk and have a severance package so we can rest easy?"

She continued, "I don't even have time to be trained in OTC derivatives and I am expected to know about it in an incredibly fast paced environment. Compliance has been pushed into the spotlight."

Another banker observed, "The worst part is some compliance officers don't even know who the client is – it's just a big process to them. Then, there seems to be no end in sight so the hiring cost just keeps spiralling, creating its own hazards."

He added, "The current proliferation of systems is not working and so many untenable changes need to be made to accommodate one rule change. We need something centralised. Data may reside in a utility, but utilities need to be centralised. That would be a utopia compared to today's situation."

The biggest fear is that regulators are forcing banks to push away business. It's coming down to a cost-benefit analysis for trading with a client given regulatory risk.

The collective challenges are so manifestly complex and fast moving that everybody is in the same boat. Hopefully, there will one day be an elegant, seamless process and rule engine to rescue the market.

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Even eight years after the financial crisis, reforms are still under developed. "The compliance process in the overall banking system is still immature. Senior management believes compliance is supposed to be involved and in charge in all regulatory matters. But who can realistically handle this role?"

She describes the pressures. "You have to graduate in finance in order to understand financial reporting. You must have a master's degree in IT to understand cybersecurity, crime and technology developments; and a PhD in risk as that is the next big thing. You must be able to synthesise and understand massive quantities of data."

### "Who is going to be in charge of all of this compliance?"

It appears that the entire future definition and requirements for what constitutes a compliance officer is changing so quickly and profoundly because regulatory compliance is becoming a central function of entire financial institutions. What is emerging is a banker who can manage and achieve the goals of both compliance and business development- a truly challenging career path.

## Contact Information

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The logo for Fenergo, featuring the word "fenergo" in a bold, red, lowercase sans-serif font, followed by a red colon and a red dot.