



Setting standards in financial services

Guide to compliance management

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Industry surveys have found that over 85% of compliance officers in the financial services sector expected the focus on managing regulatory risks to rise.¹ Due to changes in regulation and internal reporting processes, financial service firms are dealing with more complex compliance issues. Time spent preparing compliance reports and recruiting new staff is also increasing.



For regulated firms, the significance of effective compliance management has been emphasized by major regulatory breaches in recent years that have occurred on a global scale relating to wholesale, retail and investment markets. Rogue-trading, insider-dealing, mis-selling and failures in Anti-Money Laundering procedures can have major impacts for firms, their customers, investors and shareholders. As a consequence, firms are seeking to improve their internal systems and controls through additional investment.

In 2011 BSI published a British Standard, BS 8453 Compliance framework for regulated financial services firms, developed by industry experts and compliance practitioners to help establish, manage and maintain an effective compliance function.

BS 8453 takes a risk-based approach to managing compliance through the implementation of an effective compliance framework. The compliance department needs the support of senior management to prevent regulatory breaches and be truly effective. This Smart Guide provides an insight into the framework of BS 8453 and the workings of the standard as devised by the BSI committee.

The content of the Smart Guide is based on BS 8453 but does not provide the full extent of requirements and recommendations of the standard where further guidance and commentary can be found. The extent to which the requirements of the standard are applicable to an individual firm depends on the nature, size and complexity of the firm's business.

What is BS 8453:2011?

This British Standard specifies overarching policies, procedures and methods for operating a compliance framework within a regulated financial services firm. The standard provides a method for implementing and managing the compliance framework within an organization at divisional or department level.

¹Cost of Compliance Survey, Thomson Reuters, 2013

What is a compliance framework?

BS 8453 defines a compliance framework as a "series of activities across a firm that, when implemented together, help to ensure compliance".

What is compliance monitoring?

BS 8453 defines compliance monitoring as an "activity undertaken by a firm to obtain assurance that its systems of control are operating adequately and are managing compliance risks effectively".

The importance of a compliance culture

The firm's governing body, through policies, example and appropriate training must articulate core values which underpin the firm's relationships with its clients, customers, counterparties, authorities, industry and markets. These will define the behaviours expected of its staff thereby establishing a compliance culture which promotes integrity in all aspects of the firm's business.

What does BS 8453 say about fostering a compliance culture?

A compliance culture can be promoted by, among other things, mission statements and codes of conduct. The firm's governing body and senior managers should work with the compliance function and others to drive the culture, identify deficiencies in that culture and provide remedies.

The compliance function must be independent and have authority

The compliance function needs to demonstrate independence: both the independence to act, inspect records, challenge and report whilst maintaining independence from the business it monitors. The compliance function shall have sufficient authority from the governing body to allow it to fulfil its responsibilities effectively.

Confidentiality is key

Information to which the compliance function has access, such as personal data, disciplinary information, legal and regulatory proceedings must be treated with confidentiality.

The compliance function must be adequately resourced

The compliance function's resourcing should be appropriate to the nature, scale and complexity of the firm's business; in terms of its overall budget, IT requirements and training. It should ensure that processes such as compliance reporting are adequately supported.

Introduction to the BS 8453 compliance framework

The objective of the compliance framework is to set out the involvement and responsibility of the governing body for the management of compliance risk. The compliance framework is a key component in managing compliance risks and therefore includes the establishment, independence and resourcing of the compliance function.

From BS 8453:2011, 5.1

While significant responsibilities will be apportioned among the firm's senior managers, the governing body is ultimately accountable, as it is responsible for overseeing senior managers' management of compliance.

Why is the compliance risk assessment important?

A firm should understand and make an assessment of its compliance risk profile, given its products, client base and operational geography. It is crucial that firms identify, measure and manage operational risk and value the assessment of compliance to being as important as those of market risk, insurance risk, credit risk and liquidity risk.

Monitoring procedures

How compliance risks are to be monitored and the frequency of monitoring is based on the compliance risk assessment. In order to demonstrate that it is monitoring its compliance risks, the firm is to record and retain key information in the form of written, electronic or systems generated reports. More details of how records are to be retained, and in what formats, can be found in BS 8453.

Compliance training**From BS 8453:2011, 5.1**

A compliance training plan is one element of the firm's overall training and competence programme, and is designed to satisfy the firm's obligations for training and competence.

Maintain regulatory relations

Senior management should promote the development and maintenance of a co-operative and transparent relationship with the firm's regulators as part of the compliance framework.

From BS 8453:2011, 5.6

Although the governing body is ultimately accountable, the task of maintaining day-to-day regulatory relations is usually delegated to an appropriate member of the compliance function who may either coordinate contact with regulators or act as a single point of contact within the firm.

Policies and procedures are vital to compliance effectiveness

The compliance framework must promote the implementation of appropriate policies and procedures to familiarize staff with the regulatory standards to which they comply. The firm needs to ensure that its policies and procedures are designed to enable it to meet regulatory requirements.

From BS 8453:2011, 5.7.1

Examples of areas in which policies are mandatory for regulated financial services firms are complaints-handling (see BS ISO 10002) and managing conflicts of interest. [It is important to note that] not all regulatory policies and procedures are maintained by the compliance function.

Policies and procedures must be prepared, maintained and reviewed periodically to ensure they remain compliant with regulatory requirements. Responsibility for preparing and maintaining each policy and procedure should be allocated to an appropriate person (or third-party) with relevant experience. Policies and procedures are to be made readily accessible e.g. through the firm's intranet. More guidance on governing policies and procedures and dealing with the impact of regulatory changes can be found in BS 8453.

Compliance reporting

Compliance reports play a vital role but can be burdensome for a firm in terms of the resources required. The objective of compliance reporting is to establish and maintain a reporting framework that provides assurance. Developing a reporting process can help to keep senior managers aware of compliance issues, provide assurance these are being addressed through appropriate controls and that the compliance culture and framework in place is effective.

Key considerations for the reporting process include:

- quality of reporting, including timeliness
- details of compliance issues and risks posed
- internal awareness of regulatory developments – in the UK and internationally
- policies and procedures for escalating issues to the compliance function or governing body
- monitoring and reporting progress of remedial action

Controls and supervision of the compliance function

The compliance function, as appropriate, is to develop, implement and/or monitor relevant policies for identifying, investigating and escalating possible regulatory breaches.

The compliance function is to operate procedures and adequate internal controls for supervising the performance of any compliance tasks that have been delegated and document and evidence these e.g. through supervision.

Additional information on the escalation procedures a firm might consider can be found in BS 8453.

Where can I find BS 8453:2011?

BS 8453 is available from the BSI Shop at shop.bsigroup.com/bs8453

What else do you need to know?

Standards are used across the financial services industry to help institutions and retail businesses manage their internal and external risks and ensure customers are treated fairly. This is done by implementing industry agreed processes and procedures that allow the adoption of the right level of behaviour and professionalism. The following titles are recognized in the financial services industry and available at bsigroup.com/shop:

- Information security management – BS ISO 27001:2005
- Business continuity management – BS ISO 22301:2012
- Complaints handling guidelines – BS ISO 10002:2004
- Data protection – BS 10012:2009
- Financial advice and planning services – BS 8577:2012
- Inclusive service provision – BS 18477:2010

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