

REGULATORY RISK AND COMPLIANCE PRACTICE GROUP

Compliance Support



NAVIGATING FINANCIAL REGULATION

At Addleshaw Goddard, our business is about strong client relationships built on successful delivery across national and international markets. A real meeting of minds.

We are a premium business law firm with one of the largest Financial Regulation teams in the UK. We are organised into internal practice groups and Addleshaw Goddard's key point of difference is the integration of experienced financial regulation lawyers with senior compliance professionals specialising in operational governance, risk and compliance; combining sound technical and industry legal and consultancy experience.

Our approach combines a deep understanding of our clients' businesses, markets and sectors with high calibre expertise, straight talking advice and a collaborative team culture. By delivering what clients want wherever they need it, from high value strategic advice, to the everyday, we pride ourselves on a service which is high quality, focused, relevant and consistently excellent.

We feel that we are perfectly placed to assist you and have set out below some further details in relation to our financial regulation offering and how we would propose to tailor that to your specific business needs. In particular:

- we have nationally recognised experience of both the consumer credit market and in depth understanding of the FCA.
- we have a strong reputation for assisting clients in the management of compliance authorisation and implantation projects
- our dedicated team of experienced paralegals ensures cost efficiency; and
 - our in depth technical legal knowledge in combination with our practical regulated compliance application ensure you receive all-around advice.

We would welcome the opportunity to answer any questions you may have on any aspect of this proposal or expand on any areas required. If you would like to discuss, please contact Sarah Herbert or Nikesh Shah.

OUR PROPOSITIONS AND CAPABILITIES

We have defined 6 core propositions aligned to the key challenges faced by our clients. Within each proposition we have defined our current capabilities, creating a set of Regulatory and Compliance Services which can be provided stand alone, or in combination with a wider instruction and tailored to the client's needs.

Core Propositions							
	Authorisation	Assurance	Governance	SM & CR	Regulatory Due Diligence	Remediation	Regulatory Advice
Core Capabilities	▶ New Authorisations	▶ Regulatory Health Check ▶ Risk Based	4 Health Check Effectiveness Review	▶ Governance Systems and Controls	▶ Pre Transaction Due Diligence – sell side	4 Regulatory Validation 4 Redress Advice	▶ Policy Advice ▶ Focussed Advice Matters
	▶ Pre- & Post Application support	▶ Monitoring Planning	4 SMR Readiness	▶ Risk Eversion	▶ Pre Transaction Due Diligence – buy side	4 Remediation of Crystallised Risk	▶ Product Design Support
	▶ Variation of permission applications	▶ Compliance Effectiveness Reviews	4 Systems and controls and MI review	▶ Remuneration Structures	▶ Back Book Sampling		
	▶ AR & IAR Applications	▶ Co-Source ▶ Compliance Monitoring ▶ Outcome & outcome Testing	4 Senior Managers Assurance 4 Culture Evidence Review	▶ Bespoke Training	▶ Quality of Advice Reviews		

UNDERSTANDING YOUR REQUIREMENTS

As part of the wider transition of the changing scope and nature of financial regulation over the last 18 months and the upcoming changes later on this year, firms continue to face challenges. FCA applications and notifications are required to contain certain necessary documentation of policies and procedures, governance and risk frameworks and for all firms.

We understand that the level of regulatory scrutiny firms face under the FCA has increased and is likely to continue to do so. We also understand the challenge of resourcing to meet this challenge, not only with BAU requirements such as compliance monitoring, but also the interpretation and implementation of regulatory change, and we have developed our propositions and capabilities with these challenges in mind.

This document contains a sample of our capabilities that, based upon our understanding of your business, we believe can be used to support the internal team and provide comfort to the board and approved persons to ensure proportionate coverage of the key risks.

From our experience of working with clients in a similar position we believe that there are a several areas where additional focussed support would be beneficial:

Brexit

As the deadline for the UK to depart the EU comes closer, we can review and assess your business to provide a seamless transition to the new regulatory architecture.

Regulatory Health Checks

We believe there to be some areas where a regulatory health check should be undertaken to check the implementation and working of key items in your 2018 Compliance Monitoring Programme and prepare you for 2019.

Compliance Monitoring

AG can help support the documentation and/or delivery of a proportionate compliance monitoring plan based on internal or a co-sourced resource model (see below).

SMCR Preparation

In preparation for the SMCR regime fully coming into force in mid-late 2019 we can review your governance framework and approved persons' responsibilities and help you implement the relevant changes.

Legal and Compliance Capacity Support

Whilst the internal compliance teams continue to develop we have a range of offerings that can be effectively used to supplement that resource – in both capacity and additional capacity when necessary.

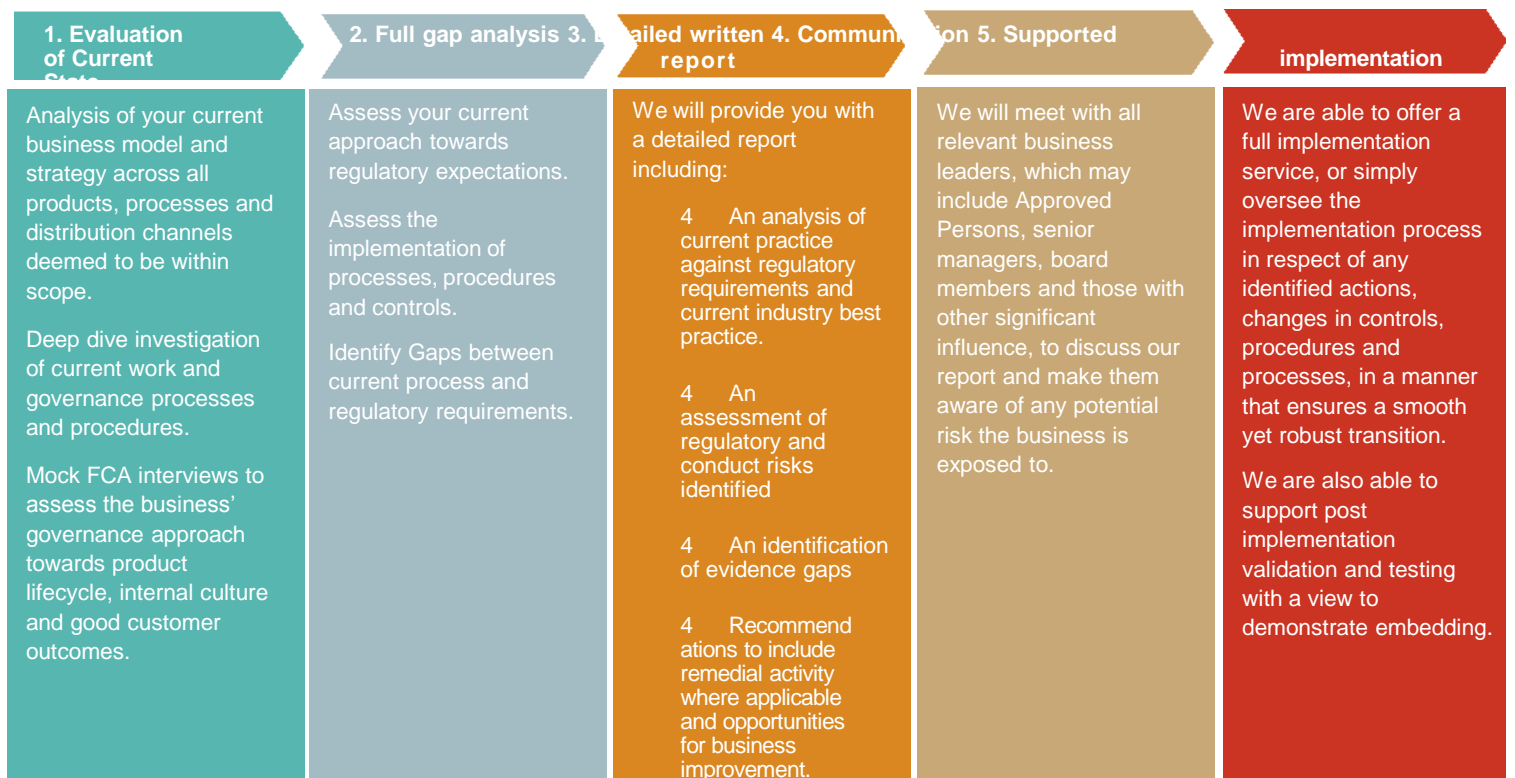
REGULATORY HEALTH CHECKS

Compliance Effectiveness Reviews and Regulatory Health Checks are invaluable tools for senior management, providing documented assurance that the business is operating compliantly and the risk control environment is working effectively.

Benefit from assurance and peace of mind for your board and senior management that all material regulatory risks which are likely to result in regulatory sanctions have been identified and assessed, providing external independent review on how the firm compares to industry good practice, providing opportunities to make the firm's compliance more effective and evidence that compliance risk is being monitored.

Our Financial Regulation team has integrated Compliance Professionals that specialise in supporting firms with the FCA conduct challenge. We have the industry insight and expertise to identify the regulatory risks and offer practical solutions, providing the assurance you need.

OUR APPROACH



Possible Health Checks

Risk & Compliance Framework – A review of your annual risk and compliance framework including: an assessment of capacity and capability and the firms approach to compliance assurance, conduct risk management & customer outcome testing

Conduct Compliance – a review of your monitoring and training processes to ensure positive TCF outcomes and adherence to your internal policies

Outcomes and Control Testing – a review of your systems and controls to ensure good customer outcomes

Arrears Management and Forbearance – a review of the arrears, debt management and collections process with a specific focus upon how the firm demonstrates the delivery of fair outcomes for customers.

Governance and Culture – an external appraisal of your governance framework, ensuring its implementation is operating effectively to include compliance structure, approved persons processes, reporting and notification systems and controls, implementation of policies and procedures

Complaints Management – a review of current practice against the requirements of DISP and our understanding of regulatory expectation, including the firms approach to route cause analysis. We are also able to support your process changes required to meet the new complaint rules, including the change in approach to next business

Outsourcing review – a review of your oversight and controls for the activities undertaken on your behalf by third parties.

COMPLIANCE MONITORING

Financial services firms need to ensure on an ongoing basis that they are, and remain, compliant with the increasing volume and complexity of regulatory conduct obligations and that they can evidence that they are. Senior managers are ever more aware of the risks they face with the implementation of the Senior Managers Regime, in ensuring that the business area for which they are responsible have compliant systems and controls.

Firms need to demonstrate a clear and objective understanding of their legal and regulatory risks and how they are managed. To achieve this, they need strategic support based on technical expertise, combined with a clear understanding of regulatory enforcement risk, that's where we can help.

We are able to:

Provide additional support in drafting your compliance plan with an analysis of the FCA's risk outlook of a chosen topic and ensure effectiveness and offer an onsite review of your monitoring practices with an additional report (once resources and plan stabilised).

Support the delivery of your compliance monitoring activity through a co-source model (our typical approach is denoted below).

OUR APPROACH

Phases	Phase zero Set-up of outsourced arrangements	Phase one Scope validation	Phase two Field work	Phase three Communication	Phase four Reporting
Deliverables	Project Initiation Documents (PID)	Agreed scope and audit plan	Test scripts and draft findings	Meeting notes	Reporting
Activities	<p>Prior to the commencement of review activity we would undertake a review of the current compliance monitoring policy and procedures and risk based monitoring plan based upon our expertise and understanding of regulatory expectations. This activity will ensure that monitoring undertaken will remain efficient and effective and aligned to best practice.</p> <p>The output from the review, including the required actions, would be agreed with the Head of Compliance.</p>	<p>Before the commencement of the review work, the scope and key areas of focus are agreed with the Head of Compliance. This is to facilitate constructive challenge and to ensure clarity in respect of the area to be tested, control objectives, expected customer outcomes and any wider considerations.</p> <p>The key output from Phase one will be the Terms of Reference (ToR) to be issued ahead of Phase two.</p>	<p>During the fieldwork stage of our review, we obtain documentation to support any conclusions drawn during the risk evaluation exercise on controls procedures through the use of sample testing. Sample testing will include a mixture of corroborative enquiry, discussions with staff and agreement to source documentation. Specifically we would look to:</p> <ul style="list-style-type: none"> ➤ Interview key stakeholders; ➤ Review MI and Board packs, particularly the information presented to the Board and Executive Management for strategic and operational decision making; ➤ Conduct a detailed review of key policies and procedures to evaluate the design and operating effectiveness of the relevant policies and processes; and ➤ Consider whether the outcome achieved by the implementation of those policies and processes within the scope of the test are in line with the objectives, risk appetite and values of the organisation. 	<p>The issues raised are discussed with management, prior to the report being issued, through close out meetings. This would be co-facilitated by the AG engagement lead and a Senior Member of the Compliance Team.</p>	<p>A draft report will be produced to facilitate the close out meetings. Once the communication phase has been concluded, a report final will be filed for each audit we completed for presentation to the Audit Committee.</p>

SENIOR MANAGERS AND CERTIFICATION REGIME PREPARATION

The Prudential Regulation Authority (**PRA**) and the Financial Conduct Authority (**FCA**) introduced the new senior managers and certification regime (**SMR**) to improve individual responsibility and accountability. Initially, SMR was to have applied only to deposit-takers, large investment firms and to foreign bank branches, however, HM Treasury announced that the SMR will be extended to all firms authorised under FSMA. This is expected to take effect mid-late 2019.

Senior Managers Regime

The SMR has replaced the APR as it applies to persons who currently exercise significant influence functions (**SIF**). Between the PRA and the FCA's Rules, there are 17 senior management functions (**SMF**) among which 30 prescribed responsibilities must be allocated. PRA SMFs include Chief Executive; Chief Finance function; Chief Risk function; Head of Internal Audit, Group Entity Senior Manager and Head of Key Business Area, as well as certain key non-executive roles.

Certification Regime

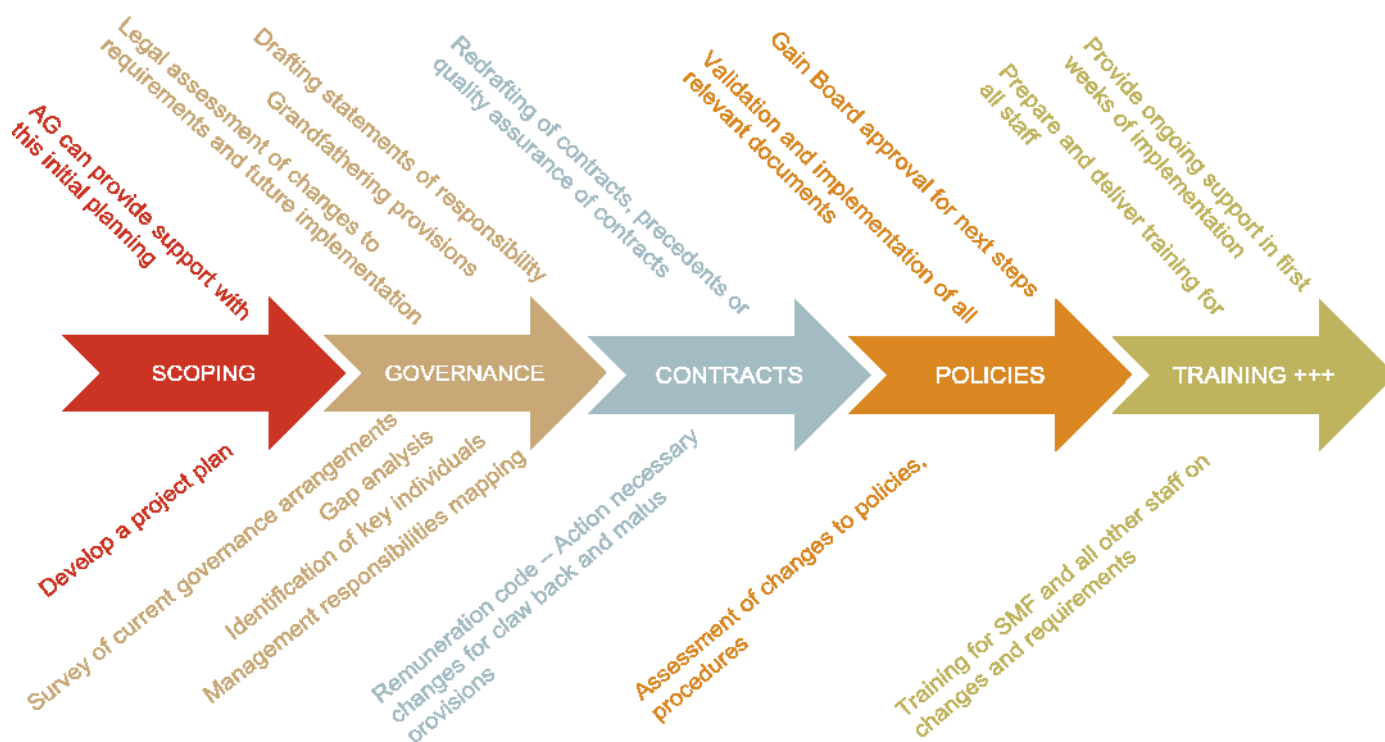
A new Certification Regime was introduced for staff who perform a function which either regulator believes could pose "significant harm" to the firm or any of its customers. This group includes "material risk takers" (subject to the Remuneration Code), former SIF holders who are not SMFs, customer-facing roles subject to a qualification requirement and anyone who supervises a certified person who is not a SMF.

Code of Conduct

The Statements of Principle and Code of Practice for Approved Persons (APER) will be replaced by a Code of Conduct. Five of the conduct rules will be applied by the FCA to ALL employees, "conduct rules staff" (other than prescribed ancillary staff such as secretaries, IT and security staff etc). Further, the application of the conduct rules will not be limited to "accountable functions", as is currently the case for Approved Persons, but will apply to conduct in the performance of functions relating to the carrying on of activities (whether or not regulated activities) by the individual's employer. The regulators will be able to take disciplinary action for a failure to comply with the new rules. Breaches of the conduct rules are notifiable to the appropriate regulator and details would be appear in references.

OUR APPROACH

As an integrated financial services team, we have the advantage of being able to work closely across all of our relevant specialisms (including corporate (and corporate governance), financial services regulation (both contentious and non-contentious), employment and incentives) to deliver advice in a co-ordinated and seamless way that is in line with your requirements.



Based on our experience of managing regulatory change projects, we would work with you closely in developing the detailed project plan (including identifying key stages at which relevant stakeholder groups need to become more actively involved in the project). We would also assist you in prioritising specific work streams.

Addleshaw Goddard's Financial Regulation, Employment Law and Litigation specialists can advise you on managing and mitigating the impact of the new regime, and the additional liability it creates over and above the changing Senior Managers' and Certification Regime.

As well as advising on the new regime, we have a wealth of experience in conducting regulatory reviews of business functions so as to provide senior management the comfort of knowing that there are compliant systems and controls in place.

LEGAL DUE DILIGENCE SUPPORT

Assisting in pre-transactional due diligence – supporting you in the acquisition of new portfolios by reviewing the transaction for inherent risks. We will produce a detailed report, setting out recommended control improvements, timelines, and an analysis of residual regulatory and legal risk with RAG ratings

Supporting you in back book sampling – and producing a detailed report, setting out recommended control improvements, timelines, and an analysis of residual regulatory and legal risk with RAG ratings

Reviewing your quality of advice – and ensuring good practice and good customer outcomes have been achieved

Reviewing your business conduct and compliance manuals – including internal policies and procedures and compliance monitoring activity

Reviewing your compliance infrastructure and oversight – including board and committees set up, risk and governance framework, lines of defence model, training and competency and record keeping policies and procedures

Reviewing your business servicing and outsourcing arrangements – including collections practices and complaints process adherence and procedures for the monitoring and compliance of outsourced service providers

Outsourcing review – a review of your oversight and controls for the activities undertaken on your behalf by third parties.

LEGAL AND COMPLIANCE CAPACITY SUPPORT

For newly authorised firms the regulatory journey has only just begun and the ability to maintain an effective compliance function is already proving a challenge for many firms.

Firms with authorisation need to ensure on an ongoing basis that they are, and remain, compliant with FCA regulatory conduct obligations set out in the FCA Handbook, and that they can evidence that they are.

Firms face a steep learning curve and must quickly adapt to an environment of judgement-based regulation, where the focus is on consumer outcomes, monitoring of their own culture and conduct and considering the impact of behavioural economics on their products and services.

For established firms with well-established BAU compliance capability, the burden of regulatory change can not only be an unwelcome distraction, but will often step outside of existing in-house competencies. This group of firms are also the most likely to be the focus of supervisory action where a remedial response is required.

Whilst newly authorised firms and established market players are likely to present differing needs, the core challenge remains the same:

How do we respond to the regulatory agenda in an appropriate and proportional way that does not adversely distract from our core objectives as a business?

OUR APPROACH

In support of your in house compliance team, we offer compliance support on a co-sourced or outsourced basis to provide specialist resource to work alongside and enhance the knowledge of internal staff.

We can support you by providing a specifically researched and tailored report detailing all of your regulatory updates in one place and in an easily accessible format. This report can minimise the risk of failing to identify and communicate regulatory change to the business.

The report would include updates and news from the following sources:

- the FCA website
- the FLA emails
- the ASA adjudications
- laws, consultations and directives

The regulatory report would highlight to you the key updates and developments that impact your business, providing you with an informative summary of each topic and key matters to be aware of.

We offer a range of seminars relating to regulatory compliance and legal updates. The sessions are also a perfect opportunity for those in legal, compliance and business functions to gain a better awareness or just to refresh and update their regulatory knowledge and practice.

We can provide 1-1 training session for your compliance staff and approved persons (and future Senior Manager Function holders SMFs) at our Milton Gate office. The exact subjects will be agreed with you in advance and we will prepare bespoke material.

Suggested Scope

- Responsibilities of SMFs under the new SMR & CR to maximise the likelihood of obtaining regulatory approval
- Specific legislative training eg CCA 1974 or CRA 2015
- Due Diligence
- Financial Promotion

YOUR TEAM

Our focus in advising you on this project will be on the need to deliver both value for money and to support your internal team leading the project, not just with legal advice, but also without industry knowledge and understanding.



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Sarah is a regulatory risk and compliance specialist with a record of complex implementation covering a wide range of products from consumer lending to pensions and general insurance. She has led teams in large firms (RSA, Barclays) as well as small/start-up organisations (CCUK/PaydayUK, Tesco Underwriting). She specialises in translating regulation into practical frameworks and controls that can be implemented and embedded by clients.



Nikesh Shah
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Regulatory and risk compliance specialist with over 20 years' experience in financial services. Specialises in developing and implementing tailored solutions to manage regulatory risks in practical and commercial way across consumer credit, general insurance, retail banking and payment services.



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Previously worked in the FCA's Consumer Credit Supervision Division. Has experience of regulatory conduct and operational risk management, governance and the successful delivery of regulatory change, specialising in assurance. Adrian helped implement the FCA's supervisory strategy for the banking roll out of SM&CR.



Kira Ward
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Previously worked in the regulatory advisory practice in Deloitte, specialising in providing technical advice to clients on financial regulation, policy writing and interpreting and implementing regulatory changes. A wealth of experience in complaint handling, previously working at the Financial Ombudsman service as a senior adjudicator, resolving complex complaints between consumers and large regulated firms.



Liam Smith
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Provides support on regulatory risk monitoring and compliance issues with a particular emphasis on retail banking, consumer credit and payment services. Additionally supports regulated businesses and private equity houses on the FCA's change in control regime.



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Experience in regulated lending, with a focus on consumer credit and data analysis for FCA authorisation. Recently assisted a bank with a large-scale, ongoing compliance review exercise, spanning all areas of the business.

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Aberdeen, Doha, Dubai, Edinburgh, Glasgow, Hong Kong, Leeds, London, Manchester, Muscat, Singapore and Tokyo*

*a formal alliance with Hashidate Law Office

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