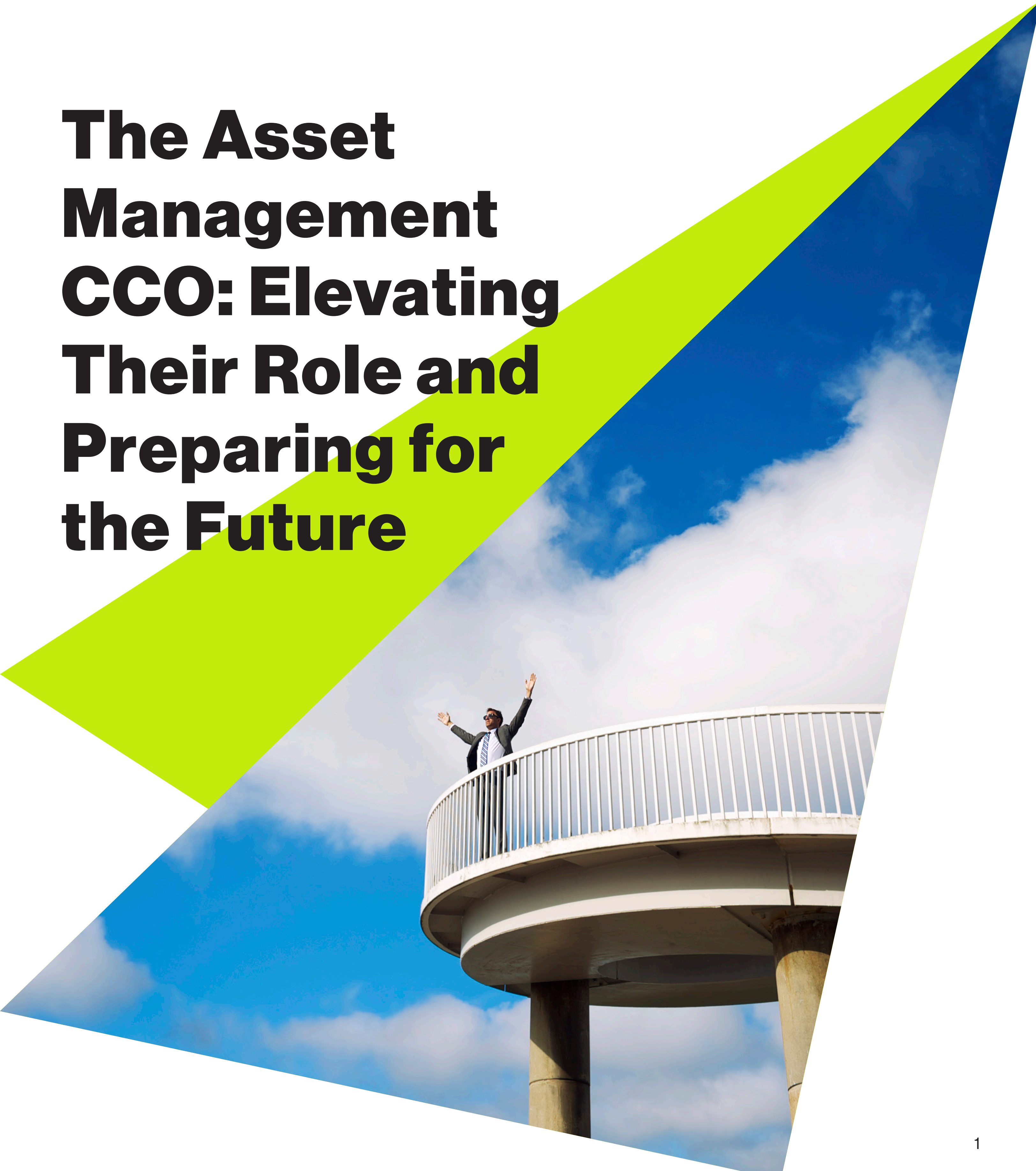
Guidehouse

The Asset Management CCO: Elevating Their Role and Preparing for the Future



Financial Services Advisory and Compliance

The Asset Management CCO: Elevating Their Role and Preparing for the Future

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Manish Nayar
Director, Guidehouse

Hampered by accelerated fee pressures, declining assets under management, regulatory scrutiny, and disruptive technologies, the asset management industry continues to be challenged. Tomorrow's strategic chief compliance officer (CCO) is poised to help deliver long-term value to the organization in this transformative environment. This forward-looking CCO understands and can drive the organization's long-term vision, play a key role in designing a more efficient operating model, and push the collaboration necessary to manage enterprise-level projects across disparate disciplines.

To become this value driver, the forward-looking CCO must elevate from the siloed compliance support function that delivers short-term tactical regulatory remediation to a strategic stakeholder that is a key component of transformational initiatives. While asset managers continue to place big bets on leveraging big data to forge customer relationships and deploying front-to-back automation capabilities, the CCO is charged with balancing innovation and compliance with local and global regulations.

What steps can be taken to elevate the role of the asset management CCO?

Train for the Marathon, Not the Sprint

Key to the transformation of the CCO's role is graduating from a short-term tactical vision to one which is long-term and forward-looking, focused on driving efficiencies and engaging functions across technology, data, and operations.

The mindset of tomorrow's CCO must pivot from an order taker to a growth driver — a needed shift to gain the trust of senior executives and earn a "seat at the table." In helping shape the strategy and vision of solutions, the CCO can increase speed to revenue by proactively anticipating business, legal, and regulatory risks. More importantly, they can identify solution design flaws much earlier in the development process. With a clear understanding of the regulatory landscape, the CCO can ensure that a company's operating model maintains the agility needed to respond to any changes.

The following spotlight represents an area of increasing focus for the cutting-edge CCO.

Spotlight: Getting Tough on Financial Crimes Compliance

With a shifting regulatory landscape and increasing sophistication of financial crimes, the CCO needs to maintain a program that can respond quickly to emerging threats. Financial crimes compliance encompasses the firm's efforts to prevent money laundering, bribery and corruption, tax evasion, and fraud, in addition to compliance with sanctions mandates.

While investment advisers in the U.S. have not historically been required to comply with an anti-money laundering (AML) program rule administered by the U.S. Treasury's Financial Crimes Enforcement Network, the agency has published a Notice of Proposed Rulemaking, which, if passed, would require investment advisers registered with the Securities and Exchange Commission (SEC) to establish AML programs that include reporting suspicious activity. AML continues to be a focus for the SEC, as identified in the 2019 Examination Priorities.

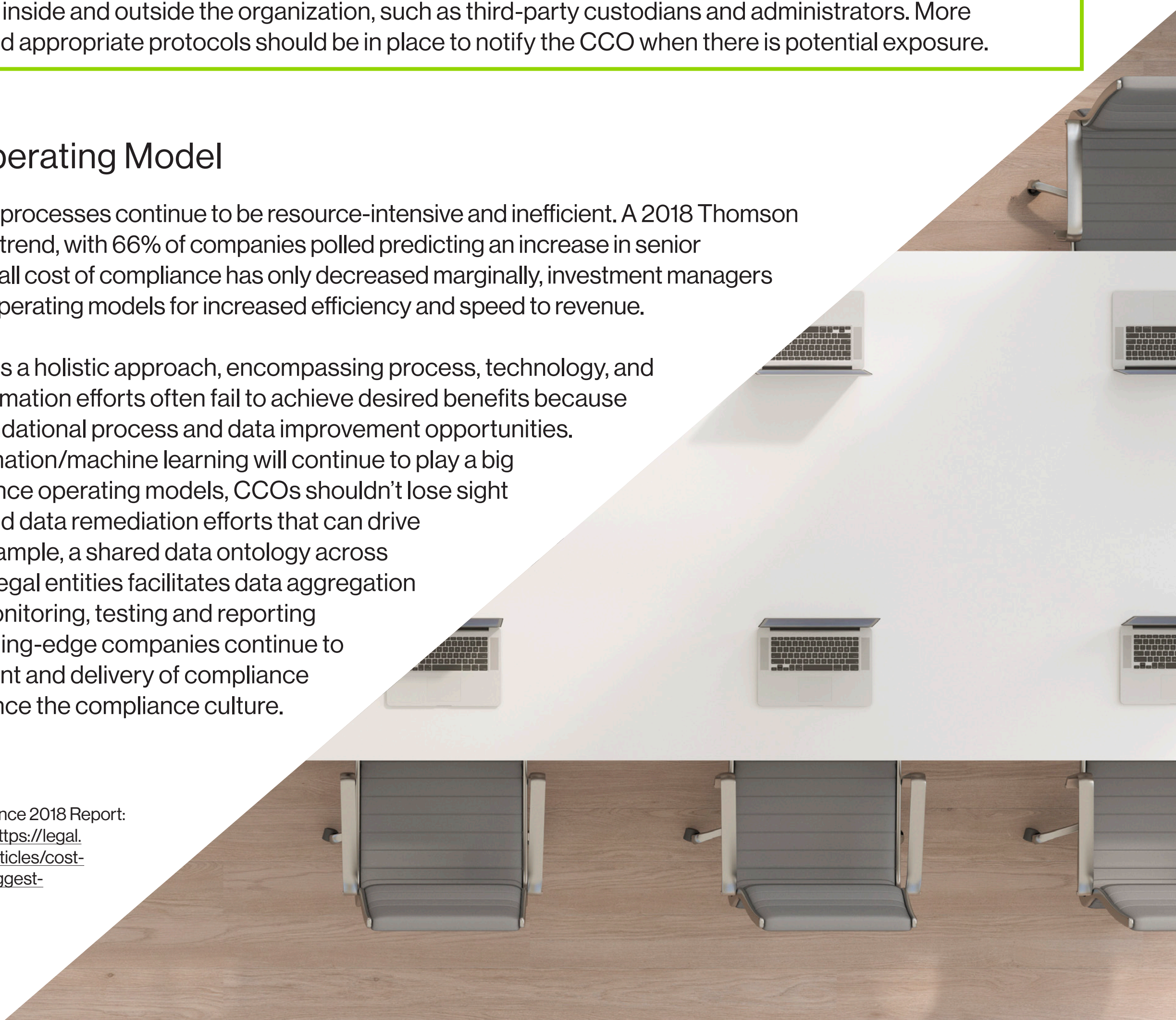
Investment managers must already comply with U.S. economic sanctions. Sanctions are a prominent tool employed by the U.S. to further foreign policy and national security goals. As sanctions are imposed, nullified and then reinstated, or simply removed, asset managers with a global footprint are challenged to remain compliant with the current regime and differences across jurisdictions, while retaining their competitive advantage.

Key to achieving financial crimes compliance is understanding how the asset manager's data is maintained, by whom, and where the data flows both inside and outside the organization, such as third-party custodians and administrators. More importantly, monitoring and appropriate protocols should be in place to notify the CCO when there is potential exposure.

Reimagining the Operating Model

Onboarding and compliance processes continue to be resource-intensive and inefficient. A 2018 Thomson Reuters survey confirms this trend, with 66% of companies polled predicting an increase in senior compliance staff.[1] As the overall cost of compliance has only decreased marginally, investment managers must continue to transform operating models for increased efficiency and speed to revenue.

This transformation demands a holistic approach, encompassing process, technology, and data. In our experience, automation efforts often fail to achieve desired benefits because they neglect to address foundational process and data improvement opportunities. While robotic process automation/machine learning will continue to play a big role in transforming compliance operating models, CCOs shouldn't lose sight of process improvements and data remediation efforts that can drive accelerated benefits. For example, a shared data ontology across business units, regions and legal entities facilitates data aggregation and ensures alignment of monitoring, testing and reporting processes. Additionally, leading-edge companies continue to invest in improving the content and delivery of compliance training programs that enhance the compliance culture.



1. Thomson Reuters, "Cost of Compliance 2018 Report: Your biggest challenges revealed," https://legal.thomsonreuters.com/en/insights/articles/cost-of-compliance-2018-report-your-biggest-challenges-revealed.

The compliance function has historically worn both legal and compliance hats. The future CCO must not only develop a deep understanding of technology and data but become well-versed in operations management. A CCO who understands operations and embraces the power of technology and data will be able to unleash the power of regulatory technology (RegTech) in transforming the compliance operating model.

Further underscoring compliance automation, the study forecasts that 40% of compliance budgets will be spent on RegTech initiatives.[2]

Asset managers are at different stages of maturity with respect to implementing RegTech in compliance — these companies remain focused on streamlining manual and repetitive processes that introduce operational risk. Emerging use cases for RegTech include implementing workflow capabilities, applying cognitive technologies for parsing/interpreting contractual text and leveraging data analytics/ visualization for reviewing results.

Regulatory bodies have recognized an institutional reluctance to adopt these technologies and have taken steps to ease concerns — in 2018, the Financial Conduct Authority issued a Call for Input on Digital Regulatory Reporting to explore how companies can streamline regulatory obligations by leveraging RegTech.

Regulatory Requirements — We're All in This Together

Managing growth in a more stringent regulatory environment demands collaboration between compliance and the broader organization. Key regulations around liquidity reporting, data modernization, and electronic delivery will require input from the front office, as well as the operations and technology teams. No longer pigeonholed rewriting policies and procedures in isolation, the CCO will be positioned to provide oversight and governance of large projects, spanning disparate disciplines within the organization.

To be successful, the CCO needs to understand how data is leveraged and the potential operational risks in managing, maintaining, and protecting this data — the large number of alternative data sets owned by the firm adds to the complexity. Increasingly, CCOs will need to collaborate with the front office to evaluate the sourcing of data sets, their usage, and to ensure there is an established framework for developing, testing, and monitoring of data controls.

To achieve the collaboration needed to meet new objectives, it will be incumbent on the CCO to proactively open the lines of communication with key stakeholders.

2. Thomson Reuters, "Cost of Compliance 2018 Report: Your biggest challenges revealed," https://legal.thomsonreuters.com/en/insights/articles/cost-of-compliance-2018-report-your-biggest-challenges-revealed.

Take 2 of These and Call Me In the Morning

The cutting-edge CCO continues to juggle priorities — with the need for compliance cost-cutting, streamlined compliance processes, and greater collaboration across the organization. Guidehouse believes that a strategic mindset and the ability to collaborate front-to-back will elevate the CCO role and enable the delivery of long-term value to the organization. We recommend CCOs consider the following as they plan for 2019 and beyond:

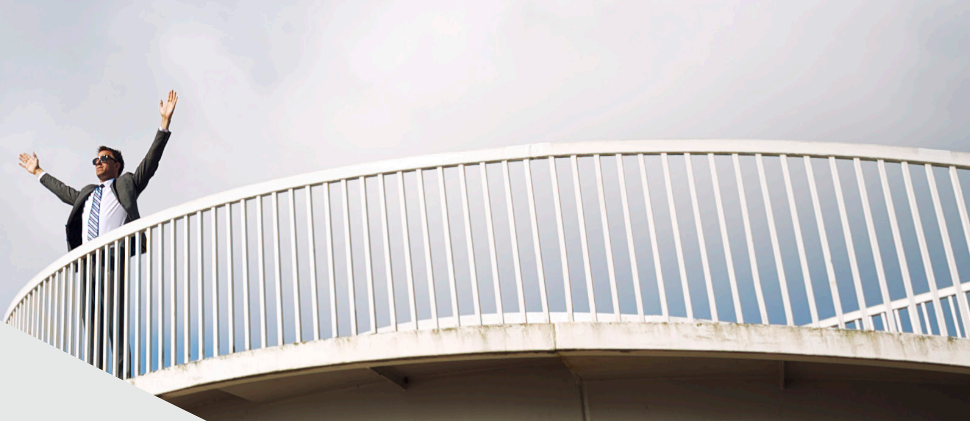
1. **Embrace technology and automation to increase effectiveness and efficiency.** Leadership at Asset Managers expect CCOs to demonstrate improved efficiency, while designing a platform that can scale with business growth and adapt to shifting regulations.

2. **Take a leadership role in informing and educating the organization about data risks.** In the quest for competitive advantage, organizations are deploying large and non traditional data sets without enough attention given to their usage and permissibility under the law.

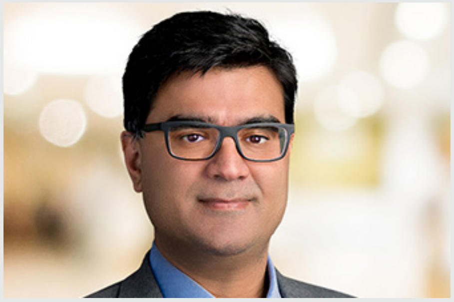
3. **Ensure compliance team skill sets align with demands that will be placed on the organization of the future.** Investment operating models will rely heavily on RegTech, including machine learning and artificial intelligence.

4. **Elevate awareness of the impact caused by the shifting regulatory landscape to senior leadership.** Buy-in from business management to drive cross-functional participation in compliance efforts will be critical.

Tomorrow's asset management CCO is at a pivotal stage in elevating the role. CCOs will always be evaluated on the effectiveness for reducing Matters Requiring Attention concerns and traditional compliance "blocking and tackling" — the forward-looking CCO also has the obligation to integrate the revised compliance program into the broader business strategy. We believe that while asset managers continue to place big bets in technology and automation, the CCO will play a crucial role in deploying this innovation in a safe and efficient manner.



Contacts



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