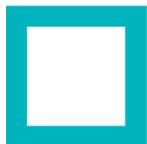


A REGULATOR'S VIEW

EIFR

Complitech : pourquoi et comment outiller la compliance ?



Sommaire

- Huge changes in the past 10 years
- Which tools for the compliance function and how to make it work?
 - What changes does it mean for a regulator?
 - What do we expect from our regulated entities?

Huge changes in the past 10 years (1/3)

- The activities of the regulated entities have evolved significantly since 2008 and continue to change. Examples in the scope of supervision of the AMF
 - High frequency trading / algorithmic trading
 - More and more financial products (including complex ones) are sold through internet platforms. Internet platforms are more and more easy to create from scratch and can provide investment services to French clients from any European country using the passports
 - Traders and clients are using all new ways of communicating with each other
 - Use of artificial intelligence in day to day customer relationship as for investment advice
 - Social networks have huge impact on market prices and volumes
 - Newcomers, new assets, new technologies everywhere (e.g. : blockchain, fintech, crypto-currencies, ICOs)

Huge changes in the past 10 years (2/3)

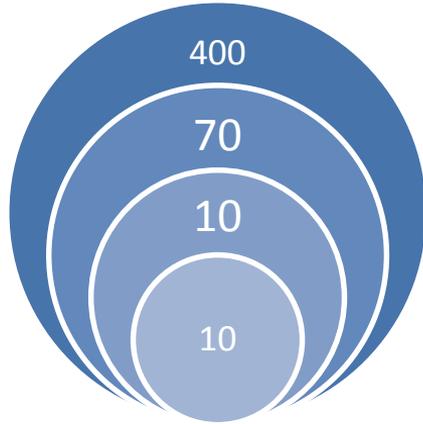
- A huge amount of new regulation implemented post-2008 with new features:
 - texts on specific products or specific part of activities (e.g. short selling regulation, or EMIR for all derivatives users) which complement sectoral regulations but are sometimes siloed
 - more and more systematic use of regulations instead of directives which means that there is no transposition in French law. No more single reference texts in French law
 - Main international firms have been used to it for a long time but it is a real challenge for smaller firms
 - regulations are changing frequently with cross-reference changes (MIFIR also changes articles in EMIR)

Huge changes in the past 10 years (3/3)

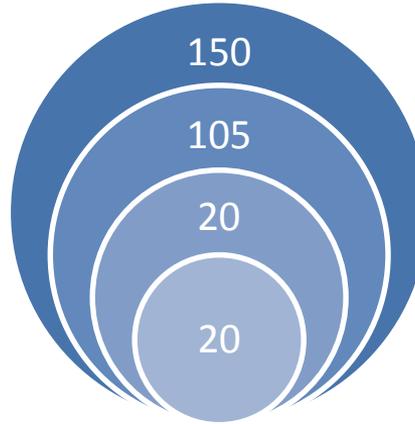
- Following 2008, all new regulations come with a reporting (both on market and on prudential sides)
- Regulators rely more and more on data reported and expectations on data quality are rising sharply (e.g. BCBS 239 for prudential regulation; market regulations now explicitly state what controls and processes must be in place within firms to ensure good quality reportings); reporting rules are more and more detailed.
- Quantity of data received is a challenge for all regulators (see next slide)

2008-2018 – Market regulations reporting

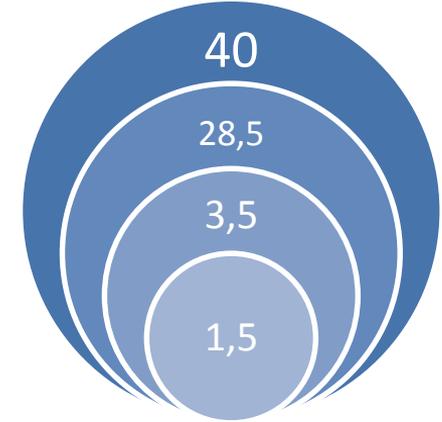
Number of pages of regulation



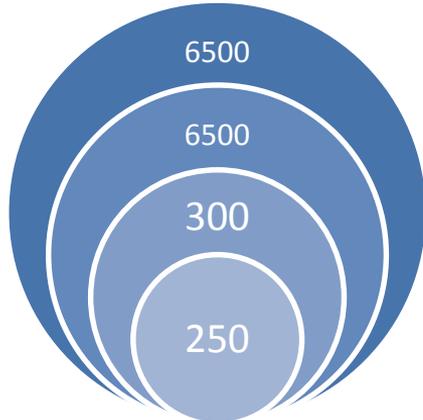
Number of fields to report



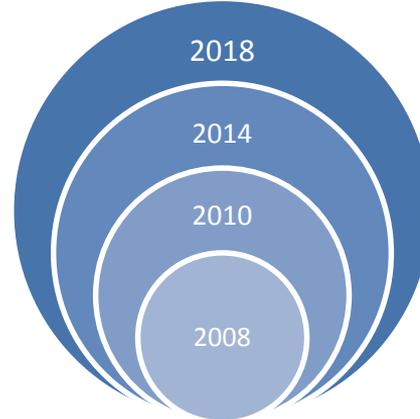
Weekly reports received by AMF (millions)



Firms reporting



Legend



2008: MIF1
2010: some OTC derivatives included
2014: MIF1+EMIR
2018: MIF2+EMIR

Still to come...

CSDR : internalised settlement
SFTR : securities financing transactions
(repos & securities lending)

What changes for the regulator?

(data 1/2)

- From a supervision model using data to a data-driven supervision (& regulation) model
 - Back in 2010 quantitative jobs were few and the AMF would use data mainly for market surveillance and market abuse detection and enforcement
 - Using data for supervision related topics was seen as a « nice to have » on most topics and a « must have » on a few ones
 - Following the increase of data feed to the regulator and the increasing complexity of regulation, we went from « nice to have » to « we just cannot do without »
 - Supervision of regulated entities but also regulation itself are fed and guided by data analysis (several recent examples where data reported was used to change regulations)

What changes for the regulator?

(data 2/2)

- Since our approach to data and regulation changes so do our jobs and recruitment
 - Develop our data strategy is one of the key points of our new strategic plan for the next 4 years (creation of a Chief Data Officer position & a Data-Driven Supervision team)
 - More and more positions of data scientists and many data/IA related internships to help us tackle specific topics and recruit young experts

- We need up-to-date tools which can help us respond to the challenges
 - Significant investment in IT systems with:
 - a new big-data platform for our data analysis
 - a new web-based interface to interact with the regulated entities in a easier and smoother way (which will also lead to the improvement of all our reference data)

What changes for the regulator?

(our approach toward changes 1/2)

- The regulator also has to be able to face and tackle efficiently a fast-moving environment
- In the past years we have strengthened our relationship with regulated entities and their clients in order to be informed quickly of business changes and new products and react appropriately
- The AMF also created a Fintech division 2 years ago (as did the ACPR) to help building our approach towards newcomers, new assets or new technologies for existing functions
- AMF wants to favour the development of new financial activities in a reasoned way so as not to disrupt the functioning of the markets if we do not see the added value for the end customers. It does not mean that everything has to be regulated (e.g. « labels » or visas)

What changes for the regulator?

(our approach toward changes 2/2)

- We are also potential clients for regtech/complytech even if our recent experience shows that our needs are sometimes too specific to be available off-the-shelf
- As a consequence we develop bespoke applications for our needs. Some examples:
 - Monitoring of order books
 - Specific monitoring of data quality with cross-checks from other sources
 - Tools for scraping/indexing/searching rulebooks from different sources

What do we expect from regulated entities? (1/4)

- The regulators rely on the ability of the firms themselves to ensure their compliance with regulation (AMF: 450 people, French regulated entities under AMF supervision: 500000+ people)
 - Compliance and risk functions / 3 lines of defence

- As the « 4th line of defence », we expect firms to adapt their compliance organisation to all the changes we mentioned (e.g. do not expect understanding if you cannot report your high frequency transactions because there are too many volumes to report or if you cannot monitor what kind of advice was given to your client because it was done through an interface using IA)

What do we expect from regulated entities? (2/4)

□ The main issues in our day-to-day supervision:

- adapting the compliance function is easy to say but harder to do. All firms have reinforced their compliance teams but we still face situations where compliance officers lack the knowledge or even the ability to influence business decisions. In other firms, the compliance advisory function is doing a great job but the compliance control function lacks budget or experience.
 - **Potential for regtech/complytech to help compliance fulfill their mission. Many firms understand that they can and need to pool their investments with other firms by relying on specialised providers**
- ability to cover the full range of activity. Very few firms are fully specialised in a specific activity . It is quite common that a relatively minor activity in terms of income or transactions generate a larger part of compliance risks. It may be exacerbated by the tools used and by the fast pace of developing activity (e.g. very efficient tool for monitoring equity activity but unable to monitor bond or derivatives trading)
 - **Tools remain tools; only sufficient knowledge of the tools functionalities and the firms activities will allow firms to make sure that the tools fulfill their needs and still does a few years after implementation**
 - **In particular, using a widely used tool does not guarantee the quality of the controls**

What do we expect from regulated entities? (3/4)

□ The main issues in our day-to-day supervision (more specific to reportings):

- complexity of the IT systems, specifically after multiple internal restructuring : impairs the ability of compliance and risk functions to monitor properly the full scope of activity and to do proper internal reporting or reporting to regulators
- insufficient knowledge or control of the links between IT systems and regulatory requirements including reporting. Difficulty to follow up with all regulatory changes
- reluctance of the compliance function to dig into « technical » or IT topics
- when main regulations are implemented, most firms manage their projects well but fail to switch to a satisfactory « business as usual » mode
 - **IT projects and infrastructures remain complex to implement & manage. Simpler & more agile solutions dedicated to reporting would help**

What do we expect from regulated entities? (4/4)

- Compliance is not just about the compliance function
 - Compliance culture must spread both in business and IT teams
 - The compliance function must be able to understand and speak with all business units and support functions.
 - The compliance implication in all new development/business is of utmost importance (loss of time and energy if not done in the beginning)

- Regtech/complytech are needed to do the job but responsibility remains on the regulated entities
 - Regulators are welcoming all new solutions offering firms help to ensure a good functioning compliance
 - Regulators will still rely on regulated entities to ensure that the tools they are using are the right ones for their specific needs and activities