Featured interview

NASD’s Nick Bannister discusses best practice and compliance
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**Contacts**

**London**
Main Number: 0870-042-6400  
Client Support: 0870-042-6410  
Fax: 0870-042-6405  
Email: clientsupport@complinet.com

**New York**
Main Number: 212-758-7000  
Client Support: 646-289-6270  
Fax: 646-289-6290  
Email: clientsupport@complinet.com

**Middle East**
Tel: +971-4-351-5315  
Fax: +971-4-211-5101  
Email: clientsupport@complinet.com
This is our fourth quarterly publication and I am delighted to say that all the feedback we have received from you has been very positive. As a direct result of this response, we are adding more editorial content from our offices in the UK, US and Middle East — I hope you enjoy the increased coverage.

The compliance industry has been one of disconnection and discourse. Firms are eager to talk to each other and engage with the market to gain a clearer perspective on best practices and proven approaches. There seems to be an ever-increasing need for the industry to work closer together — a trusted financial services sector benefits everyone.

Complinet has created a new team which is focused entirely on connecting this community. We will work hard to bring together compliance and legal professionals, along with regulators and the vendor community which provides a wide range of solutions and services.

We genuinely believe that a better connected community can provide a more effective approach to sustained compliance; one that is not an operational burden but that promotes a more proactive attitude and helps compliance professionals to deliver competitive advantages to their respective firms. We feel that an implicit compliance community exists through an informal network that has helped this industry mature and develop. Over the next few months we will help forge a more explicit community and work hard to communicate common interests and provide opportunities for constructive debate. We will also help you access the latest tools and innovations to assist with the continuing challenge of compliance.

Complinet has long been a trusted partner with more than 50,000 professionals accessing our various services daily and with many firms now adopting our Policy Manager and Global Screening solutions.

We are also embarking on a corporate rebranding exercise that is vital as our workflow solutions continue to develop and we get ever-increasing traction into new markets, such as the Middle East. You may have noticed our new logo on the front page of Informer. Take a look at the new web site when it goes live on July 9 — we would be interested in any feedback you may have.

I hope to meet as many of you as possible in the coming months as we roll out our various community events.

Regards,

Chris Pilling
CEO
Another big worry was how the FSA would deal with overlapping and even conflicting guidance from different parts of the industry. Conflicts might arise between guidance developed by wholesale firms versus retail firms, buy-side versus sell-side, small domestic firms versus large cross-border firms, etc. These conflicts had been handled in the framework of MiFID Connect — for example the eventual reconciliation of the buy-side and sell-side positions on best execution. But at least one respondent was sceptical that this sort of cooperation across so many trade bodies could persist over the long term and across a variety of topics.

Another question was whether greater industry influence, especially from sell-side firms, on the regulatory process would lead to a loss of consumer influence. Would guidance in place of clear rules mean less transparency for end investors? The FSA had suggested that such guidance should take account of investor interests, but most trade associations did not have mechanisms for taking account of investor views. “The best do have an understanding of investor interests and how best to mesh those with the industry’s interests, but how this could be demonstrated eludes me, given current structures,” one buy-side respondent said.

Then there is the question of the regulatory status of industry guidance. The FSAs discussion paper 06/5 spoke of three levels: “safe harbour”, “sturdy breakwater”, and “implicit recognition”. But early on in the process the trade bodies made it clear that they were not comfortable for their guidance to be accorded “safe harbour” status. Realistically, most industry guidance will have more nebulous “sturdy breakwater” status. Some respondents felt this represented a move away from the comfort of certainty that they were meeting the FSA’s expectations.

Finally, a number of editorial board members wondered if the FSAs front-line supervisory staff were sufficiently equipped, in terms of knowledge, expertise and judgement, to operate in the new environment.

I would be very interested to hear more views from the Complinet community; either send your opinions directly to me or post them on our message board, in which case your comments can be made anonymously.
Fraud, along with bogus and inflated claims, cost the insurance industry more than £1.5bn a year, according to the Insurance Fraud Bureau. The IFB said it has good backing from the industry but not enough from the police.

The police response is “patchy”, but the City of London’s force is one of the few exceptions, John Beadle, chairman of the IFB, told the recent Association of British Insurers 2007 conference. The problem is partly one of police resources, he said.

Insurers have played their part in providing funds for the IFB and they have been willing to share information, given there is no competitive risk in it, Beadle said. The industry has made great strides in tackling opportunistic fraud in recent years, although cross-industry fraud is a little more complicated, he reported.

The progress of the IFB in using analytics to pre-empt fraud, and in its use of industry-shared data, represents a significant advance, Beadle stated. The IFB has found clear evidence of crossover fraud in insurance and banking and there is further potential for sharing information, he said.

The UK regulatory regime has been a major factor in driving progress to combat insurance fraud, according to Beadle.

**Fighting financial crime**

“The Financial Services Authority expects firms to have appropriate controls to match the risks that financial crime poses to their business”, a spokeswoman for the regulator said. “For example, insurance firms should have appropriate controls to prevent fraudulent policies or claims.”

Financial crime stakeholder research published last March by the FSA claimed that cynical attitudes towards bankers and insurers have conspired to make certain types of fraud more acceptable, including exaggerated insurance claims. Around half of all firms surveyed believed that financial crime had increased over the last two years.

How much more progress the IFB makes in combating insurance fraud depends on government financial support, Beadle said.

To combat fraud generally in the UK, the Government has published its Fraud Review, the new Fraud Act has introduced the offence of fraud, and there is easier extradition to the US.

**Lack of enforcement?**

George Staple QC, consultant at Clifford Chance and a former director of the Serious Fraud Office, asked: “But is there enforcement? Is the Government’s will to enforce in these areas matching the legislation?”

The Government is seriously committed to tackling problems of fraud, the attorney general Lord Goldsmith told the ABI 2007 conference, “but we can’t do it alone. The help of the private and public sector is crucial. I acknowledge help of, among others, regulators, and private industry, including insurance.”

According to John Carroll, white collar crime expert and partner with Clifford Chance, the US is probably ahead of the UK in law enforcement against financial crime. Nations are moving closer to the US practice, he said.

Lord Goldsmith is now establishing a working group chaired by a senior experienced practitioner to draw up a framework for US-style plea bargaining in the UK.

The trend towards US practice will accelerate because business is global, cooperation between law enforcement of multinational jurisdictions is extraordinary, and national security interests have merged with those of law enforcement, according to Carroll.

*alex.davidson@complinet.com*
Once again, technology brings promise and peril to financial services firms. Global financial institutions are working with mobile person-to-person payment service providers to launch "m-payment" systems that allow customers to transfer funds around the world using their mobile telephones. This new technology offers a convenient service to legitimate customers, many of whom want to send remittances to their families in other countries, but experts believe it is also a boon to laundrymen and terrorism financiers. The Financial Crimes Enforcement Network does not dispute this bleak assessment and is working to find a way to offset these risks, a FinCEN representative told Informer.

Still, the funds are flowing now, and criminals and terrorists are exploiting m-payment systems, counterterrorism author Rachel Ehrenfeld told Informer, adding that m-payment technology was most dangerous when combined with pre-paid cards.

M-Laundering

Ehrenfeld explained how m-payments are abused. A laundryman or terrorist buys a pre-paid card and a pre-paid, disposable mobile phone. Next, he uses a free, anonymous m-payment account to register his pre-paid mobile phone number and the funds on the pre-paid card with the m-payment service provider.

Using his mobile phone, he logs on to the m-payment service provider and gives it the number of the mobile phone to which he wishes to transfer the funds from his card. The m-payment service provider then sends a message to the receiver's phone asking where to transfer the money.

The recipient can request the transfer to his pre-paid card and withdraw the funds from any ATM. Both sender and recipient can then throw away their mobile phones and use new ones for yet another transfer.

Global players get involved

M-payments are no longer a service of the future. Companies around the world already offer m-payments, and others are coming online. In February, Citigroup announced that it would partner with Obopay, a mobile person-to-person payment service provider, to allow Citigroup’s customers to “easily and securely send and receive money instantly via any mobile phone”.

Financial institutions such as HSBC, JPMorgan Chase and BancorpSouth, along with mobile phone companies Cingular, Verizon, Sprint and Vodafone, are also “clamouiring for a piece of the action,” according to Ehrenfeld.

AML programmes and SARs are not enough

Companies that offer mobile phone-based payment services, and those that sell or redeem pre-paid cards, are money services businesses. They must therefore register with FinCEN, have AML programmes in place and file suspicious activity reports.

According to Ehrenfeld, however, AML programmes and the filing of SARs will not prevent financial criminals from abusing m-payment technology. This is because the laundrymen and terror financiers discard the phones and pre-paid cards after using them for a short time, leaving no “audit trail”, Ehrenfeld said.

She added that there was only one viable solution to the problem: “The Government needs to implement a sophisticated real-time digital tracking system now, as well as a real-time blocking and digital reporting system.”

Bleak prognosis

A FinCEN spokeswoman told Informer that the bureau was aware of the laundering and terrorism finance risks posed by "emerging payment technologies such as mobile phone-based payment systems."

Still, FinCEN and its counterparts around the world must find a way to prevent the abuse of m-payments and pre-paid cards. Whether or not a real-time tracking system is the answer, it is clear that this high-tech problem will require a high-tech solution. Given recent data-management debacles, it seems unlikely that FinCEN is up to the challenge. Perhaps the industry will come to the rescue in the spirit of self-regulation and in the interest of protecting customers’ privacy, to whatever degree possible.

One thing is clear, however: until this regulatory hole is patched, current anti-money laundering systems will be obsolete in the presence of tech-savvy laundrymen and terrorists.

Complinet’s AML news service offers essential insights

From the abuse of “cover” payments, to online fraud, identity theft and beyond, Complinet’s AML news service ensures that its readers are aware of the latest trends in high-tech financial crime. An informed firm is better able to protect itself not only from unwitting involvement, but also from unwanted regulatory scrutiny.
The US is engaged in a familiar sounding debate about regulation. Should regulators continue to prescribe detailed rules around acceptable practices within the financial services sector or should they implement higher-level principles to influence behaviour?

This apparent dichotomy strikes a Cold War-era chord that carves out two extreme positions. Back then, the debate concerned not the regulation of markets but the markets themselves. Should the Government allow markets to run an unfettered course, or should it command the markets to follow certain prescribed paths? Of course, neither extreme operated in practice. For all the discussions about capitalism and its alternatives, economies around the world operated with a mix of market and government forces.

In much the same way, the current debate about principles and rules is really not about which approach to select, but more about where the emphasis should lie.

**WHY SHOULD THIS MATTER?**

For firms still caught in the wake of Enron, WorldCom, the Global Settlement, mutual fund abuses, and other roiling waves, this presents an opportunity to get out from under an ever-growing and potentially duplicative body of rules. Exchanges that face greater competition for listings from established capitals and emerging markets will have the chance to attract more capital. Politicians who confront unyielding economic forces will be able to take action without taking on too many special interests.

These concerns with competition and competitiveness — at both macro and micro levels — have driven much of the debate. US treasury secretary Henry Paulson has placed US competitiveness at the centre of his agenda, and a couple of significant reports have pushed that agenda. Last autumn the Committee on Capital Markets Regulation — an independent bipartisan group spearheaded by Glenn Hubbard, dean of Columbia Business School, and John Thornton, chairman of the Brookings Institution — issued a series of recommendations which took aim at litigation excesses, corporate governance limitations and regulatory restrictions. Early this year, New York city mayor Michael Bloomberg and US senator Charles Schumer unveiled a McKinsey study that highlighted the falling fortunes of New York’s capital market. Other prominent industry groups, such as the Securities Industry and Financial Markets Association, have weighed in as well.

For the compliance community, this renewed attention to regulatory processes has brought new-found relevance and growing concerns. When examiners come calling, where will they point to demonstrate compliance? When considering new products, where will they turn to ensure suitability requirements are satisfied?

Many commentators have noted that the real challenges lie at the margins. Selling straight to an institutional counterparty may be fairly straightforward. Perpetrating a fraud will be clearly outside the bounds. What about some of those exotic trades?

**LESSONS LEARNED**

The good news for the compliance community is that there are historical precedents from which lessons can be learned. Foreign regulators — most prominently the UK’s Financial Services Authority — have experimented with principles. Closer to home, the commodities industry has embraced a principles-based approach and the accounting industry is moving in the same direction.

Even the US securities industry has operated with principles — Rule 10b-5 may be the most prominent example. Section 10(b) of the Securities and Exchange Act of 1934 and related Rule 10b-5 set out broad anti-fraud principles. These principles factor heavily in all sorts of fraud cases, even when specific rule breaches are found. They also have been subject to extensive litigation.

This last point may be the most telling. The industry needs clarity to operate efficiently. If that clarity cannot be found directly from the regulators, it may emerge from the courts and that may prove to be daunting for the compliance community. It is much harder to track down and synthesise judicial precedents than it is to retrieve regulator notices and revisions.

This debate is far from over. If anything, it is about to experience a new twist with the consolidation of the NASD and New York Stock Exchange regulations. This consolidation has kicked off a massive project to harmonise their sometimes discordant rulebooks, which, in turn, has kicked off an effort to make some prescriptive rules more principles-based. Early signs are that prescriptions — out of operational necessity or institutional desire — will still factor heavily in the new rulebook.

Complinet will continue to track these critical developments. With its global perspective and local expertise, Complinet remains uniquely suited to share regulatory insights and serve industry demands. We look forward to working more closely with you in the months ahead.

alex.viall@complinet.com
Practitioners in the Canadian financial services industry have found themselves in the midst of rapidly changing and confusing times.

New markets are forming as national exchanges work to build conduits for the trading of commodities. Many product categories, such as principal-protected notes, hedge funds, lifecycle investment funds and credit derivatives, have experienced explosive growth. The regulatory changes in the US over the past five years, including the passage of the Sarbanes-Oxley Act of 2002, have meant that wary would-be US issuers are increasingly turning to Canadian and other international exchanges.

Depository institutions are in a rush to meet the October deadline to comply with the provision of the Basel II capital accord. The increasing scale and volatility of the Canadian industry has the regulators and the companies themselves obsessed with risk. The Federal Government and law enforcement officials seem desperate to improve the country’s less-than-stellar reputation on enforcement and prosecution, promoting what they call integrated market enforcement teams, or IMETs, with alarming vigour. Parliament has, furthermore, recently ratcheted up its policies and mandates to fight money laundering and terrorist financing via money services businesses and other vehicles.

**Thirteen become one**

Most crucially, a movement is afoot to consolidate the power of the country’s securities regulation into a single entity. Even long-term players have conceded that the provincial system of mastering the rules and challenges of 13 different playing fields could effectively be awaiting the reading of its last rites.

“It can’t survive,” David Brown, the former chairman of the Ontario Securities Commission, told *Informer*. With the forces of globalisation at work, Brown said the provincial system was something of an antiquity.

He is not alone in his assessment. Jim Flaherty, Canadian finance minister, named the formation of a national securities commission as a prerequisite to forming any sort of “mutual recognition” regime with the US that would allow for the cross-border trading of securities. Lyle Oberg, Alberta’s finance minister, announced in February that he would support a federal initiative to form that single regulator. This federal initiative sprung from a detailed report favouring one single body.

In fact, even the proponents of the status quo, as embodied by the Canadian Securities Administrators, are beginning to change direction. The CSA, a consortium of all 13 provincial and territorial regulators, has taken the approach that the individual regulators should maintain the freedom to implement a shared rulebook the way they see fit. Over the past year, it has proposed uniform policies on client commission practices, the certification of internal controls and the reporting of executive compensation and registration requirements.

**Canadian reform**

The Task Force to Modernise Securities Legislation in Canada, formed in part by the Investment Dealers Association of Canada, issued a report last year which recommended ways of streamlining regulatory and enforcement processes within the context of the existing regime. Nevertheless, the task force took pains to stress that its work addressed a Canadian, rather than a provincial, problem.

Ultimately, compliance officers at broker-dealers and investment advisers may as well start planning for the inevitable. Retiring IDA president Joseph Oliver stated: “I have repeatedly said that a viable alternative to a national commission is a fully integrated provincial model. I have reluctantly come to the conclusion that such a happy event is unlikely to occur before global warming turns Iqaluit into a tropical paradise, which even Al Gore does not think will happen in our lifetime.”

With Iqaluit maintaining its icy landscape for the foreseeable future, this is where Complinet enters the equation. Our suite of Canadian solutions will allow industry professionals to track developments, manage their internal framework, anticipate challenges and control risk.

`christopher.oconnor@complinet.com`
Change is typically a discussion point at compliance conferences, but it was the primary focus at this year’s Securities Industry and Financial Markets Association compliance and legal division’s annual seminar. The seminar was held in March 2007 in Phoenix, Arizona, and was arguably the most important event of the year for compliance and legal professionals, with more than 2,000 people attending.

While speakers and attendees reflected on change that has occurred within the industry, including the role of legal and compliance professionals, more of the discussions skewed toward future transformations. The thing on everyone’s mind was the impending adjustments to the regulatory environment and landscape to improve the effectiveness of regulation and reflect the state of the domestic and global markets.

**THEORY OF REGULATION**

Representatives from the Securities and Exchange Commission, NASD and New York Stock Exchange Regulation confronted the current debate stemming from recent reports concerning the negative impact of regulation on the US capital markets in the global marketplace. Richard Ketchum of NYSE Regulation believes that the conclusions in the reports reflect an oversimplification of regulation, but he acknowledged the concerns must be taken seriously and addressed. Much of the discussion focused on whether the US should switch securities regulation from a predominantly rules-based approach to a more principles-based system.

In her keynote address, Annette Nazareth, SEC commissioner, spoke of the benefits of an approach of prudential regulation. In her opinion, since good rules rise naturally from principles, the focus should be on prudential regulation rather than on the distinction between principles- or rules-based regulations. She believes that future regulation should offer a clear set of standards with a flexible and tailored way of meeting requirements.

**REGULATORY CONSOLIDATION**

Continuing with the theme of change and reform of the regulatory environment, there was much speculation and anticipation among the attendees concerning the merger of NASD and NYSE Regulation. In her keynote address, Mary Schapiro, NASD chairman and chief executive, was positive about the consolidation, considering it an opportunity for a fresh start. The new self-regulatory organisation, still to be named, will combine NASD and NYSE Regulation’s member firm examination, related enforcement functions, arbitration and risk assessment.

According to Schapiro, the consolidation will result in a more sensible, simpler regulatory regime, thus reducing costs for firms while providing more effective protection for investors. Once the new SRO is in place and fully integrated, there will be a single set of rules adapted for firms of all sizes and business models, one set of examiners and one enforcement team. The intention is to eliminate duplicative regulation, overlapping jurisdictions, inconsistent regulatory approaches and rule interpretations.

**COMPLIANCE EVOLUTION**

Alterations to regulation and regulators should place responsibility on compliance and legal professionals. The dedication of compliance and legal staff was recognised by regulators at the conference as safeguarding the long-term health of the industry and the financial future of Americans. The regulators stressed that effective regulatory change must encompass communication and cooperation between the compliance community and the regulators.

nicole.lefort@complinet.com
Professional clients, suitability and appropriateness

Investment firms will be obliged, when engaging in the provision of investment advice or portfolio management, to ensure that the product that they are recommending is suitable, even for professional investors.

Furthermore, if they are providing merely an execution-only service for a professional client, and if the transaction involves a complex product, they will, for the first time, be obliged to assess its appropriateness and only offer products that pass the test.

These Markets in Financial Instruments Directive provisions (while they are qualified in that in specific situations firms are entitled to make certain presumptions about the expertise or financial capability of their professional clients) clearly represent a ratcheting-up of the legal regime of investor protection in general. In particular, these provisions are indicative of the regulatory reaction to the remarkable growth in the range and complexity of investment products on offer.

Accredited natural persons and reasonable suitability

US regulators have proposed to increase the financial threshold that investors must cross to achieve the status of accredited investor, to whom securities issued by hedge funds and other private investment pools can be sold.

An “accredited natural person” must be an accredited investor under the existing standards and is required to own $2.5m or more in investments on the date an investment is made.

The Securities and Exchange Commission has also proposed to establish a new exemption from the registration provisions of the Securities Act, to be referenced in Rule 507 of Regulation D. The new exemption would allow most issuers to sell their securities without registration and engage in limited, tombstone-like advertising so long as they sell only to a new category of investors called “Rule 507 qualified purchasers”. The proposed definition is based on that of “accredited natural person”.

Meanwhile, NASD has recently reminded firms that they are obliged to conduct appropriate due diligence required to undertake the mandatory reasonable suitability analysis — which is necessary to ensure that an investment is suitable for some investors — even when dealing with accredited or institutional investors.

Reproduced from the MiFID Survival Guide, with kind permission of Clifford Chance. Complinet has just updated the online version with Part II of the Guide, for further details please contact your account manager or client support on client.support@complinet.com
Repapering and client agreements: success for the lobby

After the MiFID level one directive was decided, firms in many member states became concerned that detailed rules harmonising the content of client agreements could result in a massive “repapering”. This could prove a ruinously expensive and bureaucratic exercise. To address these concerns, a major lobby was mounted in 2005 on this issue by the UK, France, Germany, Austria, Luxembourg and Poland. The industry made two main points to the commission: the “big bang” effect of all client agreements needing to be updated at the same time, and the more significant cost of having to chase up clients for a two-way agreement when the arrangement was previously one-way. The trade associations asked if there was likely to be a limit on the number of two-way client agreements that they would be required to obtain; they reminded the commission of the events in the UK when the Financial Services and Markets Act 2000 came into force where 70 per cent of client agreements were obtained. Firms chased clients three times more and then it was decided that they were no longer obliged to follow up.

The lobby had the desired effect and, in Working Paper Four on the Conduct of Business, the commission agreed that harmonising the contents of the agreement or its legal form went beyond the requirements of the level one and level two commission powers and that there would be considerable implications for the civil law of member states. They concluded that it would be inappropriate to include such a provision in the implementing directive. They accepted the point that any prescription of the content or form of client agreement could create serious problems and have significant financial implications for firms which would need to redraft their contracts and “repaper” their clients if their existing agreements happened to be inconsistent with a prescribed model.
Transaction Monitoring: Increasing Complexities Demand Intelligent Solutions

Kimberley Allan

The old adage “crime doesn’t pay” is a little wide of the mark. In fact, recent estimates suggest that, every minute of every day, $951,300 to $2.8m of illegal funds enter the global financial system through unlawful money laundering activities. Crime is big business — a business that attempts to enter the legitimate financial system to profit from and conceal the proceeds of illicit and corrupt activities.

In the wake of September 11 and the relative ease with which terrorists could hide and finance themselves within the international banking system, there has been increased global scrutiny on the role financial institutions play in countering and exposing potential criminal and terrorist activities.

While traditionally anti-money laundering attention has focused on illicit funds from drugs, crime and corruption, the spotlight is now also on funds that are being pushed through financial institutions to fund illegal activities, such as terrorism.

Monitoring the monetary system for financial crime is not without complexity. It is not just the banking industry that is global and high-tech — so too is the scope of money laundering techniques, rendering traditional borders irrelevant through electronic fund transfer across any number of jurisdictions.

In recent times, there has been a series of concerted national and international AML initiatives, with new laws and regulations — and additions to existing ones — compelling financial services organisations to develop more aggressive anti-money laundering compliance programmes.

Transaction Monitoring: Finding the Right Tools

Any effective AML programme takes account of the full spectrum of know your customer activities, which involve several separate but related tasks: identity verification; watch list, sanctions and enforcements screening; PEP screening; authorised checks; credit checks; adverse media searching; and transaction monitoring. All of these play a role in defining an ongoing relationship with a customer.

An effective transaction-monitoring system is a recognised cornerstone of any viable AML programme. The Basel Committee on Banking Supervision stated: “Banks should not only establish the identity of their customers but must also monitor account activity to identify those transactions that do not conform to the normal or expected transactions for that customer or type of account.”

Given the sheer volume and complexity of transactions involved, automated transaction-monitoring systems have become an increasingly important component of today’s accepted AML processes. This was reflected in a recent survey by KPMG, which reported that most executives in the banking, brokerage and insurance industries plan to increase their spending on automated transaction-monitoring systems during the next 12 months.

This ongoing investment is in response to the current regulatory environment and the requirement for timely detection and reporting of potentially suspicious activity. The survey also revealed, however, that many organisations struggle to find an effective solution that is in line with regulatory obligations and expectations and their own business requirements. Seventy five per cent of respondents stated that they plan to install new systems or upgrade their current ones.

Another important finding of the survey is that 64 per cent of respondents have already deployed automated transaction-monitoring systems during the past 18 months, indicating that there has been a strong and recent effort to move away from manual checks.

These results indicate that a move towards automated monitoring is a reality and a necessity for all but the smallest institutions in the current regulatory environment, and that many firms are now turning to the new generation software — even if they already have an older AML system in place — to improve their compliance efforts.

Just as financial institutions invest more in automated systems, the regulators are hot on the heels of those displaying regulatory lag in this domain. Recent regulatory enforcement actions have highlighted an increasing focus on deficiencies in institutions’ transaction-monitoring systems, particularly across some of the second tier and smaller organisations. An outcome in many of these cases has been the regulators’ demands that the targeted institutions install complex systems in short periods of time; an expensive proposition when many of these systems cost hundreds of thousands of dollars in installation alone.

Clearly, the more cost-efficient alternative is to have an effective and compliant system in place before the examiner comes calling.

Build v Buy

First-generation transaction monitoring solutions generally involved the option to “build or buy”. Many institutions that originally went down the internal “build” route have since found that it resulted in a far greater total cost of ownership, with considerable expense and internal IT effort required to keep up with the evolving best-practice obligations associated with AML procedures. Now firms are increasingly looking to best of breed, new-generation solutions that are dynamic enough to meet changing requirements and ultimately drive down the total cost of ownership.

For the smaller institution, trying to implement the same-name new-generation solutions as the large tier-one enterprises is generally not a viable option. Many are simply too complex, too time-intensive and too expensive.

The positive news for smaller institutions, however, is that emerging packaged solutions are driving down costs associated with introducing the appropriate level of automation for their business.
The challenge for any financial institution, regardless of size or scope, is to find an integrated end-to-end AML solution that meets the desired balance between their regulatory and business risk requirements. This cannot be a one-size-fits-all approach, but one that is considered and informed.

**Complinet Global Screening: TransGuard™**

Complinet’s range of Global Screening solutions has long been recognised as an essential element in our clients’ compliance-led KYC and AML programs. Over the last five years, Complinet has leveraged its in-house KYC expertise and worked closely with its client community to offer a portfolio of solutions from simple online single-name checking services to complex, batch and technology solutions for large enterprises with full workflow and case management.

The most recent addition to the Global Screening portfolio is our automated transaction monitoring tool, TransGuard. This is a flexible, rules-based packaged solution that ensures that individual business and regulatory drivers are met without the requirement for a protracted, complicated and expensive implementation process.

Richard Russell, group managing director of Global Screening, said: “It was very important for us to be able to offer a ready, new-generation solution, flexible enough to accommodate a rules-based approach, but without the complexities, expense and inflexibility financial institutions are increasingly encountering in their first-generation architecture.

“TransGuard offers our clients another important tool in their KYC and AML programme that is not only fully compliant and highly effective, but is also commercially reasonable regardless of their size. Its scalability means that it’s highly orientated towards smaller operations requiring a solution that can be implemented quickly with a minimum of internal resource and no operational disruption.”

“As with all of our Global Screening offerings, TransGuard is a business-led, best practice solution that is practical, cost effective and aligned with a risk-based approach to regulatory compliance,” Russell said.

Our clients can remain secure in the knowledge that they are following best practice when combating money laundering, fraud and market abuse. The application is business-rather than technology-driven, which means it can evolve as processes, markets, regulations and criminal activities do — without the need to rewrite the underlying application.

Contact businesssolutions@complinet.com for more information about TransGuard. Ask us about flexible pricing options that allow you to move away from the perpetual software licence approach.

**SPOTLIGHT ON TransGuard™**

TransGuard employs a variety of techniques designed by industry experts to identify potentially suspicious activity. Detection activity is rules-based and highly automated, requiring no day-to-day intervention. Once identified, any suspicious activity is raised as a case and presented to the appropriate workgroup or individual.

TransGuard offers a range of benefits including:

- **Pre-packaged functionality** — upwards of 70 pre-built and pre-tested detection rules are provided as standard. These are rules-based and parameter-driven to give you the ability to personalise and control the rules for your organisation.

- **Highly automated execution** — little day-to-day intervention is required for the automatic detection routines, with end-of-day batch processing. This helps ensure that suspicious behaviour and transactions are detected in a timely manner. Additionally, it allows the investigative officers to focus on genuine cases, thereby accelerating the entire monitoring and reporting process.

- **Consolidation of alerts from external sources** — from Complinet’s detection component, manual branch reports or third-party systems.

- **Flexibility** — the system is flexible and intuitive enough to allow the compliance manager to use and adapt the results parameters, without having to rely on external technical counselling. This allows the business to adapt to changes in behaviour of the fraudsters or money launderers, the introduction of new products as well as new regulatory requirements, quickly and effectively.

- **Dynamic and intuitive workflow** — full control rests with the compliance team throughout the management of investigation processes, with minimal training necessary.

- **Strong management information reporting** — a graphical report writer is included as standard with TransGuard, together with a series of pre-built report templates.

The entire process is secure and discreet, ensuring that the system can only be accessed by authorised persons. All investigative activities take place without the knowledge of general bank staff or customers.
Following the success of the inaugural Gulf Cooperation Council Regulators’ Summit in Doha on February 28 and March 1 2007, Complinet is proud to announce the launch of a series of regulation and compliance seminars for the region. These half-day seminars, which will take place over the next year, will give delegates, regulators, law firms, consultants and others from the industry a platform to discuss thorny compliance and regulatory issues.

The seminars will create the perfect opportunity for delegates to compare practices and regulatory approaches. Delegates can also discuss current local, regional and international trends that are affecting the compliance community.

The aim is to create a strong community for compliance officers across the GCC and to foster a spirit of cooperation and shared experiences. The seminars will rotate around the various financial centres of the region, starting with Dubai, Qatar and Bahrain. They will then spread further afield and deliver valuable support for industry officials that are grappling with difficult issues.

With the support of the Dubai Financial Services Authority, the Central Bank of Bahrain and the Qatar Financial Centre Regulatory Authority, the following topics will be covered over the coming months: supervision, conduct of business, authorisation, enforcement, fraud and anti-money laundering, collective investment funds, regulation of Islamic finance and market abuse.

The authorisation and supervision seminars conducted in May were extremely well attended and feedback has been positive, highlighting the need for this kind of information sharing in the region:

“I found the seminar to be well organised and very informative. It gave an insider’s view of the authorisation process and related areas, and was a good opportunity to address an important issue of concern to those of us involved in the regional financial markets. Very useful.” Faisal Siddiqui, manager, compliance, Sharjah Islamic Bank.

“The seminar was very illustrative and shed a light on the approval process in both DFSA and QFCRA, and an independent comment from a member of the legal consultancies business. We would welcome such seminars in the future to better understand the regulatory system within GCC.” Hassan Nasser, certified anti-money laundering specialist and chief compliance officer, financial compliance director, Dubai Multi Commodities Centre.

The May seminars acted as a lead-in to the Second Annual GCC Regulators’ Summit, which will take place in Bahrain on February 19 and 20 2008. The event’s host is Bahrain Financial Services Development, which will also organise dinner on a Formula One race track on February 19 2008.

The initiative to build a strong compliance community does not halt there. Complinet is also pleased to announce the launch of the Middle East Compliance Officers Group. This is the perfect forum to discuss problematic compliance issues, compare practices and examine regulatory approaches. The forum also focuses on current trends locally, regionally and internationally that affect the challenges of the compliance industry at large. A board of compliance professionals has now been elected and will meet every quarter.

On a different note, Complinet’s Training team has now completed three courses designed and tailored to meet the Middle East compliance market’s needs and requirements. These are:

• Ethics and the Spirit of Compliance
• Electronic Communication
• Anti-Money Laundering

These fit in with Complinet’s mission to build a strong compliance culture in the region. Large firms in the Middle East have already signed up to train their staff using Complinet’s training solutions.
The creation of a strategic hub in the UAE is a key element in executing the group’s strategy to grow the business, outperform competitors and deliver our brand promise to customers.

Standard Chartered has become the latest in a long line of multinationals that have chosen to locate a “strategic hub” in Dubai, a spokesman for the bank in London told *Informer*. This is the logical outcome of two Middle Eastern trends: economic boom coupled with financial deregulation, the aim of which is to woo conglomerates with a diversified client base closer to the geographical regions with which they do business.

The bank said that it had officially opened its new building in the gate complex of the Dubai International Financial Centre and would capitalise on a record of strong growth in the region. The branch will deal with both corporate and commercial business. It joins major internationals, such as Barclays Capital, Goldman Sachs and Merrill Lynch, which are already established in the DIFC.

**Oil boom**

The economies of Gulf oil producers are booming as oil prices are close to record highs and, with new multilateral trading facilities courtesy of the Dubai Mercantile Exchange, the Gulf state is attracting big players. Banks have long viewed the Middle East as a temporal staging post between East and West but this has changed as the oil-rich states have invested in local infrastructure projects as well as overseas.

This has created a number of opportunities. A recent salary survey by Napier Scott found that the Middle East as a trading centre had enjoyed the highest percentage increase in salary package rises over the last year, albeit off a lower base. The survey found that although all financial centres surveyed had enjoyed an overall increase in salary, those in the Middle East had risen by an estimated 25 to 30 per cent.

The bank said that the Middle East had seen phenomenal growth in recent years and presented tremendous opportunities in a region central to its client markets.

**Growth and competition**

Mike Rees, Standard Chartered’s wholesale banking chief executive, said: “The creation of a strategic hub in the UAE is a key element in executing the group’s strategy to grow the business, outperform competitors and deliver our brand promise to customers.”

Peter Sands, group chief executive of Standard Chartered, said that, with the modernisation and diversification of Middle East economies, the bank expected the region to play an increasingly pivotal role in world investment and trade flows.

Dubai also offers training in the form of a number of accredited business programmes. Standard Chartered will, furthermore, offer specialist expatriate packages to employees who accept the move. A spokesman for the bank told *Informer*: “This move is an acknowledgement that business in the emirate state is growing rapidly.”

The bank said that the move does not represent an exodus from London, where the average salary rise was between 17 and 22 per cent last year, according to Napier Scott. The teams to be transferred have yet to be finalised, the spokesman added.

**caroline.atkinson@complinet.com**
NASD International will launch an advanced programme in compliance for European markets next month, said Nick Bannister, senior vice president and managing director of international affairs and services. The first course will be rolled out in Madrid in July and then repeated in the Nordic region in October, Bannister told Informer. The courses are the latest stage in NASD International’s efforts to spread best practice in regulation and compliance and they build on the success of the diplomas and master’s programmes which were launched in 2006.

The three-day course at the Bolsas y Mercados Españoles, Spanish Exchanges, will be 30 per cent generic compliance and 70 per cent local compliance and will cover, among other things: functions within a compliance department, how to monitor and how to investigate. There is a big gap in knowledge to satisfy the requirements of the European Union Markets in Financial Instruments Directive which is due to take effect on November 1 2007. The course provides an ideal opportunity to address this, Bannister said.

“There is an emphasis on the practical side and we believe that this will catch on. We have had further discussions in Hong Kong and other parts of Europe,” he stated.

The courses are another milestone for NASD and reflect the success it has had in collaborating with the top 25 investment banks worldwide which have advised NASD on the content of its programme, he stated. “We wanted to satisfy the banks’ need for advanced training for compliance and regulation. We have had tremendous support.”

**Regulated turned regulator**

Bannister was brought on board in late 2002 after a career in equity sales in the City which took him from Lazard to UBS and culminated in chairing the wholesale banking division of ABN AMRO North America, where he was responsible for 4,000 staff.

The then chairman and chief executive of NASD, Bob Glauber, recognised that NASD had to spread its expertise internationally as capital markets worldwide were developing. Today, it uses three main strategies to do this:

- advisory and consultancy with governments, regulators and exchanges;
- using technology within capital markets to enhance the roles of regulators — for instance, insider trading and fraud detection systems; and
- training and educational programmes, both in developed and emerging countries.

In the UK the latter project is best known because of NASD’s partnership with the International Capital Market Association Centre at the University of Reading. There is a ten-month MSc degree in capital markets, regulation and compliance, taught at the ICMA Centre.
“This is the first ever master’s degree in capital markets compliance and we are reaching the end of the first cycle. We are pleased with the way that it has developed,” Bannister said.

One doesn’t have to take Bannister’s word either; the industry is clearly impressed.

“The diploma programme is an important part of our career development strategy and we are very pleased with the results so far,” said James Brown, managing director, head of EMEA investment bank compliance, JP Morgan. He is not alone in his enthusiasm, as many other participants can confirm too.

There is a 120-hour programme for capital markets, regulation and compliance, composed of two week-long courses and a series of short courses focusing on the practical application of rules and regulations and best practices on specific topics. There is also a week-long certificate on capital markets, regulation and compliance aimed at all capital market professionals seeking an introduction to regulation and compliance. The new advanced programme that NASD is launching in Madrid next month borrows from these courses.

**Globetrotting**

In its quest to spread the message, NASD International has been to Serbia, Montenegro and Russia this year. It is also going to Malaysia where it has devised an Islamic finance programme. It has been extremely busy in the Middle East and last year went to Egypt and India.

“We are particularly active in the developing and emerging countries. What is interesting for us is that capital markets are intricately linked and many countries have become aware of the need to have a complete infrastructure to their capital markets in order that they can hopefully attract domestic and international investment,” Bannister explained.

**Power of the web**

NASD International has also successfully pioneered the use of web and podcasts. It recently went live with a one-hour transmission on MiFID to 250 people from a television studio in Westminster, Bannister reported.

“We think that it is an increasingly important part of our armoury in getting a message out, both nationally and internationally,” he said.

NASD will repeat the exercise next month on conflicts of interest and examine best execution and soft dollars, from both a US and a UK perspective. “There is a lot of interest on both sides of the Atlantic in the different treatment by European and US regulators of these issues.

“Complinet has been particularly helpful, especially in the development of our certificate programme in different parts of the world. We look forward to working with you in any way we can in getting our message to the market place,” Bannister said.

For further details about courses and training visit: http://www.nasd.com/RegulatoryServices/NASDInternationalServices/index.htm

alex.robson@complinet.com
Compliance needs software like a transatlantic business traveller needs an aeroplane, but flights come at vastly different prices and some airlines are more stable than others. Compliance professionals, therefore, have plenty to think about.

Luckily, this year’s Complitech, Complinet’s fourth annual compliance technology conference and exhibition, provided the perfect forum for lively debate on just how well the IT industry was doing in providing what the compliance industry needs.

The wide variety of vendors in attendance were clearly keen to hear what their customers, and particularly their potential customers, were thinking and what issues they were currently grappling with.

From the regulatory perspective, Complitech delegates’ main issues were treating customers fairly and the Markets in Financial Instruments Directive.

Solutions on offer ranged from Complinet’s own growing portfolio of technology, such as Policy Manager and Global Screening, to NetEconomy’s anti-money laundering and fraud prevention software and Sopra’s consultancy services.

But not everyone buys into technology, as keynote speaker Peter Ligezinski, chief information officer at Allianz Investmentbank AG, demonstrated. Ligezinski has spent the past ten years or more developing a complete in-house system for Allianz which, unusually, combines a single solution for both front and back office systems at the bank.

Delegates were in awe of his achievements, not simply on a technological level, but due to the fact that he had been given such free reign and such a big budget by his employers.

Budget was certainly an issue raised by more than one delegate. Many compliance departments are continuously expected to do more for less, and everyone was keen to hear from the experts about how, or indeed whether, they could demonstrate a return on their investment in compliance technology.

Ligezinski was in the somewhat unusual position of having previously managed some 14 different IT systems during his career, and his training included both physics and mathematics along with “formal banking”. With such a track record, he was in a strong position to make his case to those holding the purse strings.

Opinions differed on whether it was even appropriate for compliance departments to show a return on their IT investment over simply being better able to remain compliant with an increasing volume of ever-changing regulations.

The conclusion was that once a firm has properly bedded down its IT and processes for compliance, it ought to be able to use some of its data and systems to facilitate other parts of the business, for example, marketing.

While technology was felt to be relatively mature in some areas, in others it was either not yet mature or, frankly, non-existent. Case management software was mentioned more than once as being either unavailable or inadequate for the job, and small firms felt under-represented when it came to front-end systems in particular.

All in all, delegates took a keen interest in all the panel sessions, coffee tables buzzed with lively conversation, and Complinet customers took advantage of a complimentary cappuccino or wonderfully relaxing back massage to soothe away the tensions of the demanding job that is compliance.
I am a part of Complinet’s Regulatory Insight team. We have the task of publishing and maintaining relevant securities and banking laws and regulations for the rulebooks section of Complinet’s site. At the helm sits our resident in-house UK law expert James Bowman.

We provide a comprehensive collection of laws, rules and regulations from the UK, EU, US and the Middle East, including the Financial Services Authority Handbook, the NASD and New York Stock Exchange rulebooks, Securities and Exchange Commission regulations and more. We also publish essential “know-how” guidance to the regulations, which is written by leading market experts.

I work in the US and Middle East content team, and am personally responsible for all updates to the rulebooks for the NYSE and Chicago Board Options Exchange, as well as Blue Sky Securities laws and regulations for several US states. This means I have to check their web sites regularly for changes to securities rules and relevant materials that are specific to the requirements of Complinet and its users.

To ensure the currency and accuracy of these content sets, I constantly monitor approximately 350 web pages and documents for any updates. When any of these pages change, I immediately start to update our data. We aim to have every update on our site within 24 hours to ensure that Complinet’s rulebooks content is always up-to-date and correct. As well as publishing the full text of the rules and laws, we also publish rule filings, legal instruments and circulars for all of the regulators we cover, Users can track these through our innovative Regulatory Calendar product.

We also have agreements with several regulators to host their online rulebooks. We work closely with our clients, such as Nasdaq and the Dubai Financial Services Authority, to ensure we are informed of updates and changes. This gives us an opportunity to provide feedback based on our experience of online publishing directly to our clients, ensuring that the final product meets the requirements of their users.

My main goal is to update the content as quickly and accurately as possible to ensure that our web site and hosted sites are always current. We always aim for our subscribers to be able to view any changes immediately, and in many instances we have updated our copy of rules before the regulators have.

With Complinet’s expansion into new markets, another significant part of my job is to capture and republish new content sets from around the world. When adopting new rules and areas I look at how the governing body has structured its rules and how these would be best presented and integrated into Complinet’s format. As the number of hosted and published rule products grows, I am always on the lookout for ways in which the team can work smarter and faster without sacrificing the quality of the published material. This involves analysing the layout of content and automating as many processes as possible. My role is constantly evolving as we continue to add more and more content — it’s always exciting and there are many new and interesting challenges ahead.

ben.skyrme@complinet.com

I am always on the lookout for ways in which the team can work smarter and faster without sacrificing the quality of the published material.
### UK Complinet Events

- **MiFID Workshop Series 2**  
  26 June–19 July 2007  
  Vintners’ Place, London  
  [www.complinet.com/mifid](http://www.complinet.com/mifid)

- **2nd Annual Compliance Golf Day**  
  17 September 2007  
  Stoke Park Club, Buckinghamshire  
  [www.compliancegolfday.com](http://www.compliancegolfday.com)

- **4th Annual Financial Crime Europe**  
  November 2007  
  [www.financialcrimeeurope.co.uk](http://www.financialcrimeeurope.co.uk)

- **The 4th Annual Compliance Awards**  
  18th January 2008  
  The Dorchester, London  
  [www.complianceawards.co.uk](http://www.complianceawards.co.uk)

- **The 5th Annual Compliance Conference**  
  6–7 February 2008  
  Victoria Park Plaza, London  
  [www.complianceconference.co.uk](http://www.complianceconference.co.uk)

### US Complinet Events

#### Webcasts

- **Lost in Translation**  
  The Dangers of Not Connecting Regulatory Changes to Your Corporate Policies  
  20 June 2007

- **Checkmate!**  
  How to stay 3 Moves Ahead of Risk  
  26 July 2007

- **The Blame Game**  
  What you Don’t Know can Hurt you  
  22 August 2007

- **Early Warning System!**  
  Getting Proactive with the Regulators  
  26 September 2007

### Middle East Complinet Events

#### Seminars

- **Conduct of Business**  
  21 June 2007  
  Qatar

- **Authorisation**  
  5 July 2007  
  Qatar

#### Conference

- **The 2nd Annual GCC Regulators’ Summit**  
  19–20 February 2008  
  Ritz-Carlton, Manama, Bahrain  
  [www.gccregulatorssummit.com](http://www.gccregulatorssummit.com)

Please visit [www.complinet.com/home/events](http://www.complinet.com/home/events) for more information