

2016 - Irish Chapter Event No. 1

Upstream with a Cascade

Agenda for Todays meeting

Wednesday, February 10, 2016	
17:30 to 18:00	Registration
18:00 to 18:05	Enda Twomey Welcome and Opening remarks
18:05 to 18:30	John Byrne – Managing Director of Corlytics: “Horizon Scanning – How to Predict Changes in Regulators’ Expectations”
18:30 to 18:55	Richard Pike – Principal STIR – “Insights on Risk Appetite and Reporting”
18:55 to 19:15	Enda Twomey - IOR Objectives & Membership Benefits. Ireland Chapter – 2016 Events Tony Moroney - BRG/IOR Cyber Risk Preparedness Benchmark
19:15	End

Topic 1

John Byrne – Managing Director of Corlytics

“Horizon Scanning – How to Predict Changes in Regulators’ Expectations”

How to predict Changes in the Regulators Expectations



Uncover and Understand Regulatory Risk



August 23, 2015 1:39 pm

Bank litigation costs hit \$260bn — with \$65bn more to come

Plan to jail bankers who behave recklessly eyed by UK lawmakers

April 25, 2013

FCA fines banker £793,000 in connection with banks £4.3bn trading losses in 2012

Feb 9, 2016

26 bankers already sentenced to a combined 74 years in prison

Oct 25, 2015

Bank fined \$470mn for abusive mortgage practices

Feb 5, 2016

Six banks fined \$5.6bn over rigging of foreign exchange markets

May 20, 2015

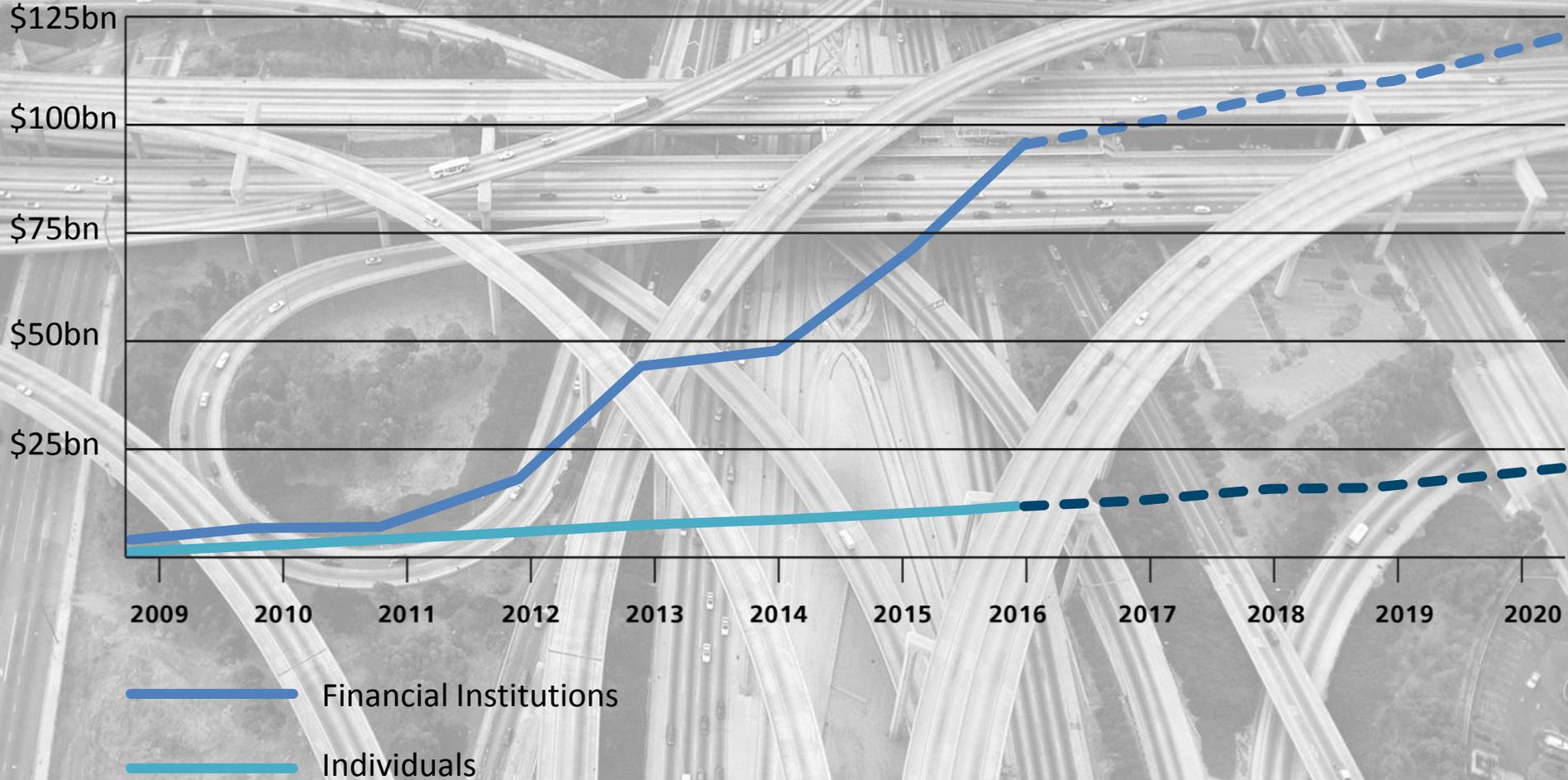
The Regulatory Landscape



The Regulatory Landscape

Financial Consequences

Global Trends In Enforcement by Year



The Regulatory Landscape

Personal Consequences

A black and white photograph of a prison cell. The image shows the interior of a cell, with metal bars on the left and right sides. The walls are made of brick, and the ceiling is dark. The perspective is from inside the cell, looking towards the back wall. The lighting is dramatic, with strong shadows and highlights on the bars and brick.

The Regulatory Landscape

Personal Consequences

FCA - Non Financial Penalties to Individuals: (Q1 2013 – Q2 2015)

Enforcement notices - by job function

Director	28
CEO	13
Partner	6
Head Compliance	16
Head AML	10
Systems & Controls	3
Investment Advisor	7
Corporate Finance Advisor	2
Dealer/Trader	9
Investment Manager	3
Investment Advisor	4
Apportionment & Oversight	4

Non financial Penalties - Individuals

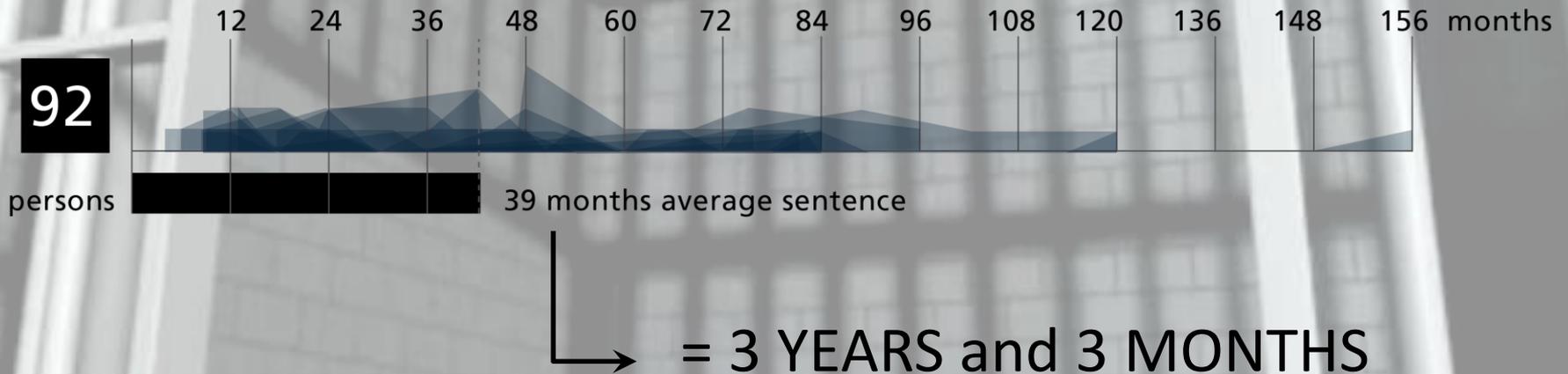
Censure	4
Specific Activities Suspension	15
Market Ban	49
Imprisonment	23
Suspended Sentence	2
Prohibition Order	2
Significant Influence/Control Function Ban	1
Pending	13
No Penalty	11

The Regulatory Landscape

Personal Consequences



Prison Sentences - UK, AISC & HK (Q1 2013 – Q2 2015)



The Regulatory Landscape

Consequences for time & resources



The Regulatory Landscape

Consequences for time & resources

Since 2009 **54,000** regulatory documents have been published from 130 regulatory bodies in the G20 countries alone.



The Regulatory Landscape



Banc Ceannais na hÉireann
Central Bank of Ireland



Council of Regulators



BaFin

SFC

證監會



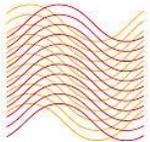
AFM



finma



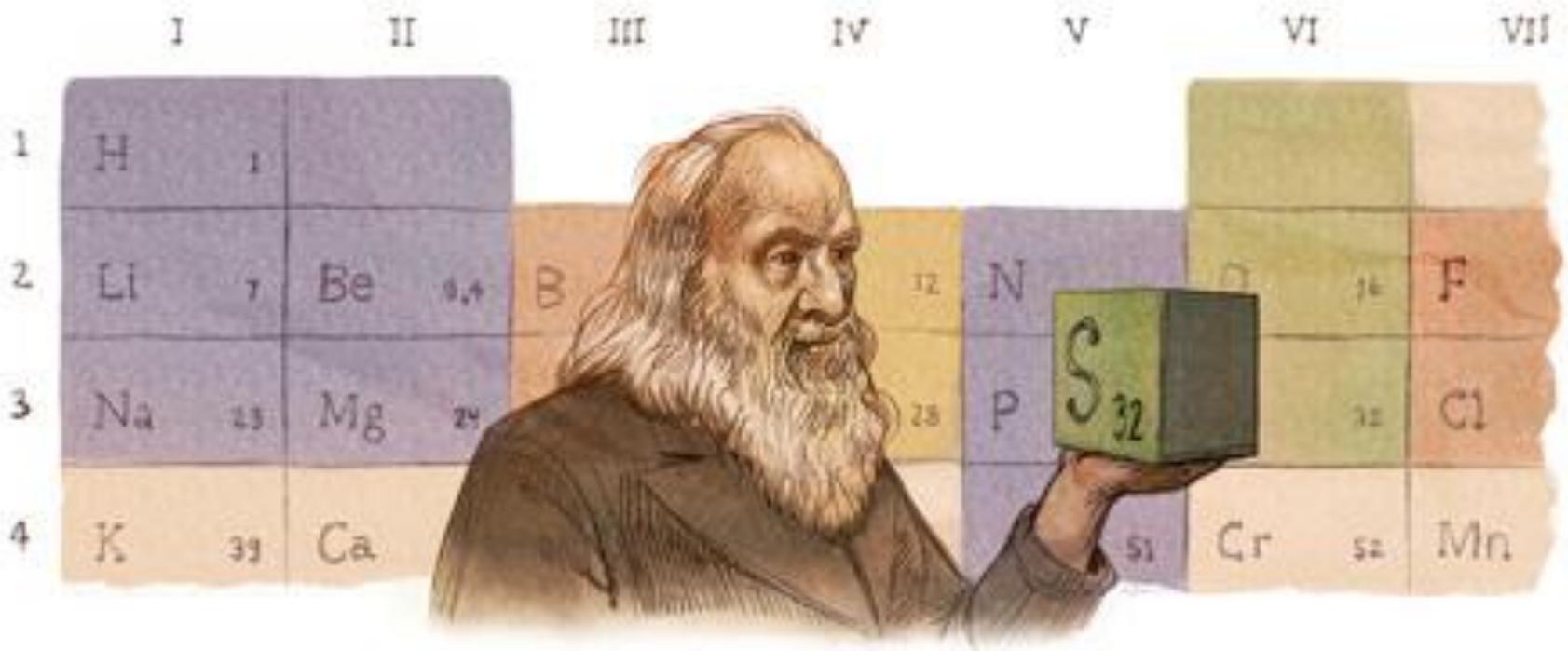
ASIC



The Regulatory Landscape



3. Horizon Scanning – Seeing the less obvious risks



Dmitri Mendeleev

Periodic Table of Elements

Regulatory Handling Misrepresentation Unauthorised
 Communications Suitability Misappropriation
 Asset **Customer** Disclosure Record
 Product Behaviour Short Anti-Competitive
 Misconduct Bribery Supervision Arrears **Unfair**
 Evasion Manipulation Incentive Mis-selling
 Contracts Sanctions Unlicensed Training CRIME AML/BSA
 SYSTEMS Cash Reporting Privacy Individual **Illegal**
 Transaction Interest Risk Rules Trading Fraud Remuneration
 Overcharging disclose Management Capital
 Failure Orders Other Data **Controls** CONDUCT
 Complaint Execution Conflict Selling
 relevant duties Treatment ECONOMIC
Client Errors persons Adequacy Delegation
 Tax Recruitment Activity
 Dissemination OVERSIGHT Improper Keeping
Governance Market OBLIGATIONS

Sub-categories

Regulatory Categories have been organised into six main groups (Principles)

Regulatory Categories

REGION: EUROPE - UK ▶

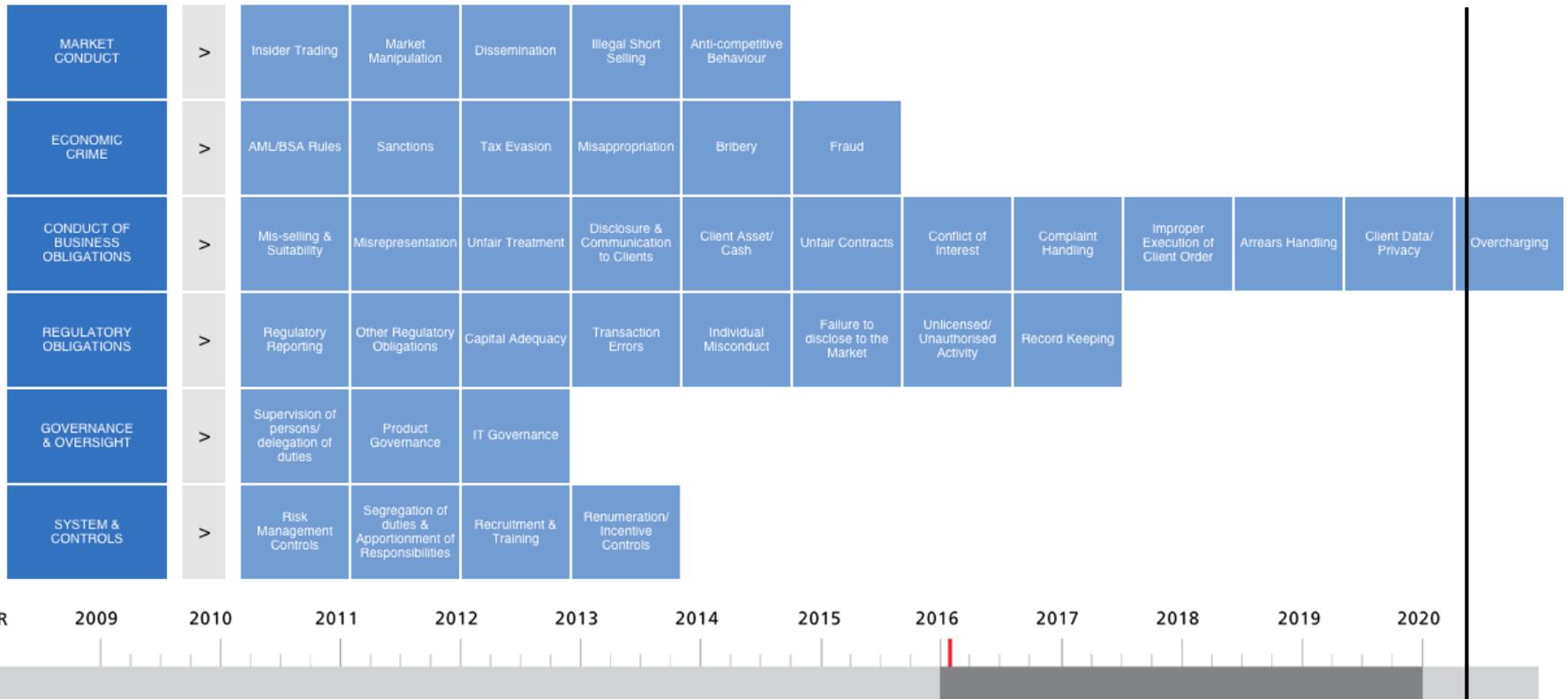
INSTRUMENT: MiFID II ▶

REGULATOR: FCA ▶

SERVICE LINE: All ▶

Enforcement Notifications: Breach and Sub-breach categories

T B C # S !



B

Breach type

C

Scope of change

S

Severity

T

Transaction Volume

#

Frequency

!

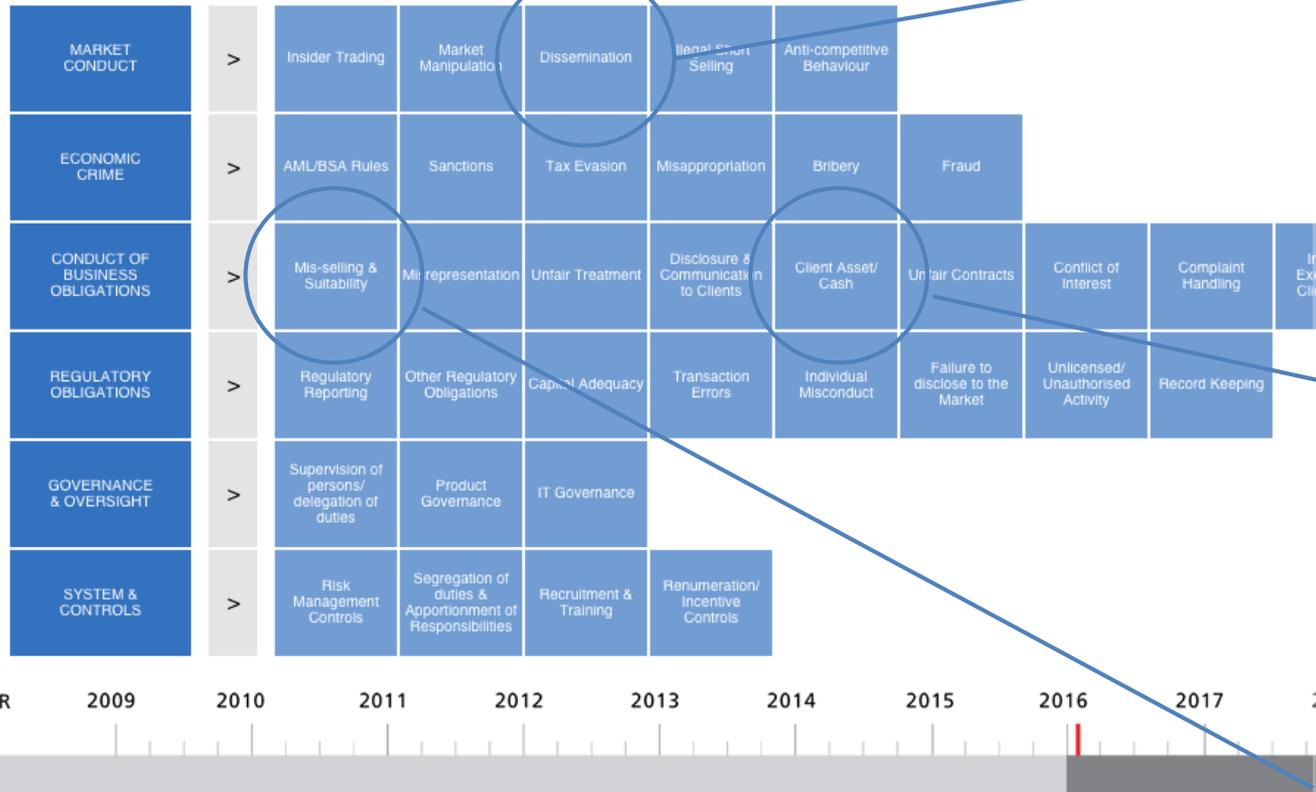
Risk Exposure

REGION: EUROPE - UK ▶

INSTRUMENT: MiFID II ▶

REGULATOR: FCA ▶

Enforcement Notifications: Breach and Sub-breach categories



Dissemination

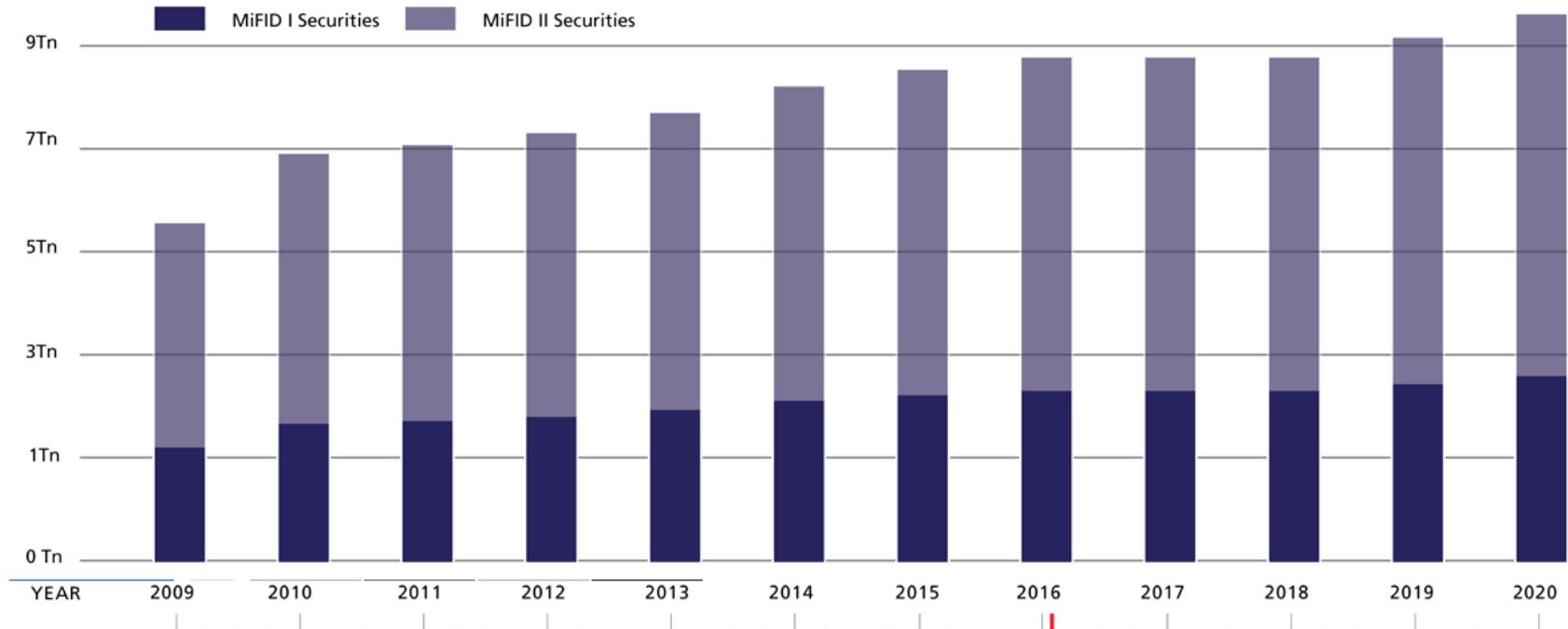
Client Asset/
Cash

Mis-selling & Suitability

Example: MiFID II

Volume of transactions effected by MiFID I & MiFID II

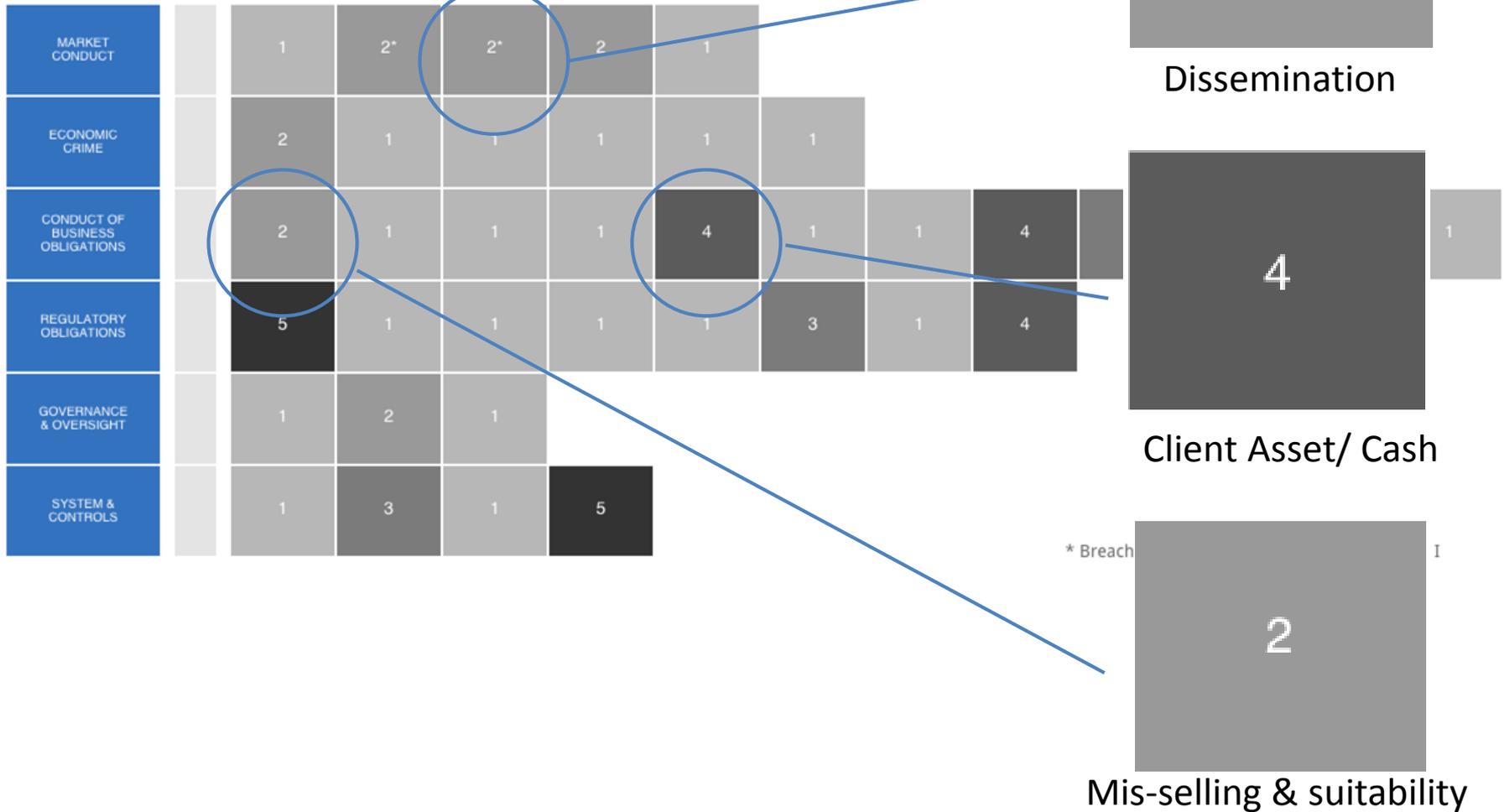
Overall level of changes in Scope: MiFID II:



Horizon Scanning: MiFID II

Scope of change - MiFID I to MiFID II

Overall level of changes in Scope: MiFID II:

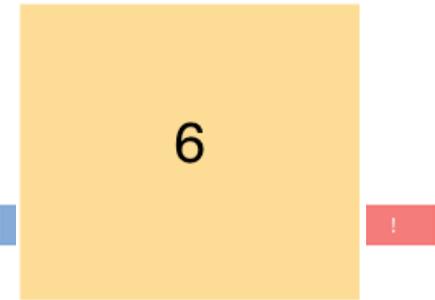


Horizon Scanning: MiFID II

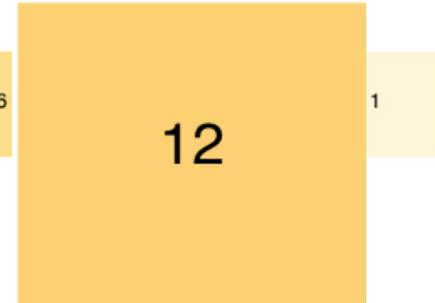
Projected Frequency - MiFID II

Existing Regulation Enforcement Frequency by Category: MiFID II

Category	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
MARKET CONDUCT	12	1	2	6	2	1				
ECONOMIC CRIME	7	2	1	1	1	1	1			
CONDUCT OF BUSINESS OBLIGATIONS	63	8	2	1	5	12	1	1	24	6
REGULATORY OBLIGATIONS	93	65	1	1	1	1	3	1	20	
GOVERNANCE & OVERSIGHT	8	5	2	1						
SYSTEM & CONTROLS	37	7	15	5	10					



Dissemination



Client Asset/ Cash

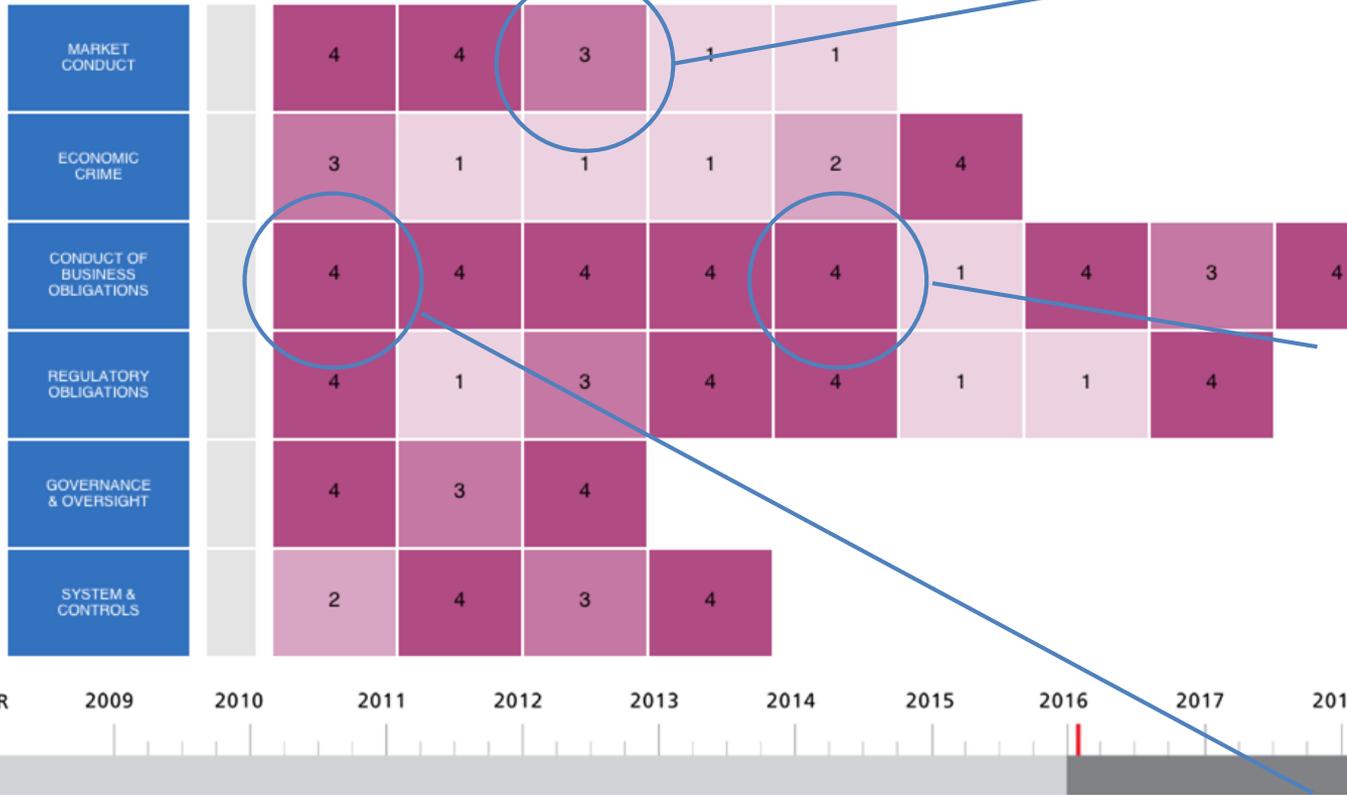


Mis-selling & suitability

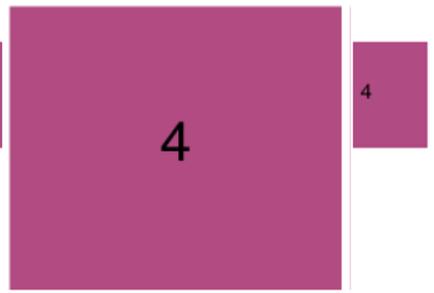
Horizon Scanning: MiFID II

Projected Level of Severity - MiFID II

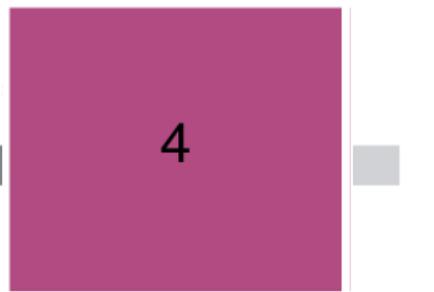
Enforcement Notifications issued by FCA for MiFID II: Level of Severity



Dissemination



Client Asset/ Cash

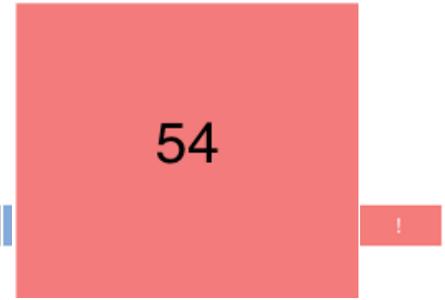
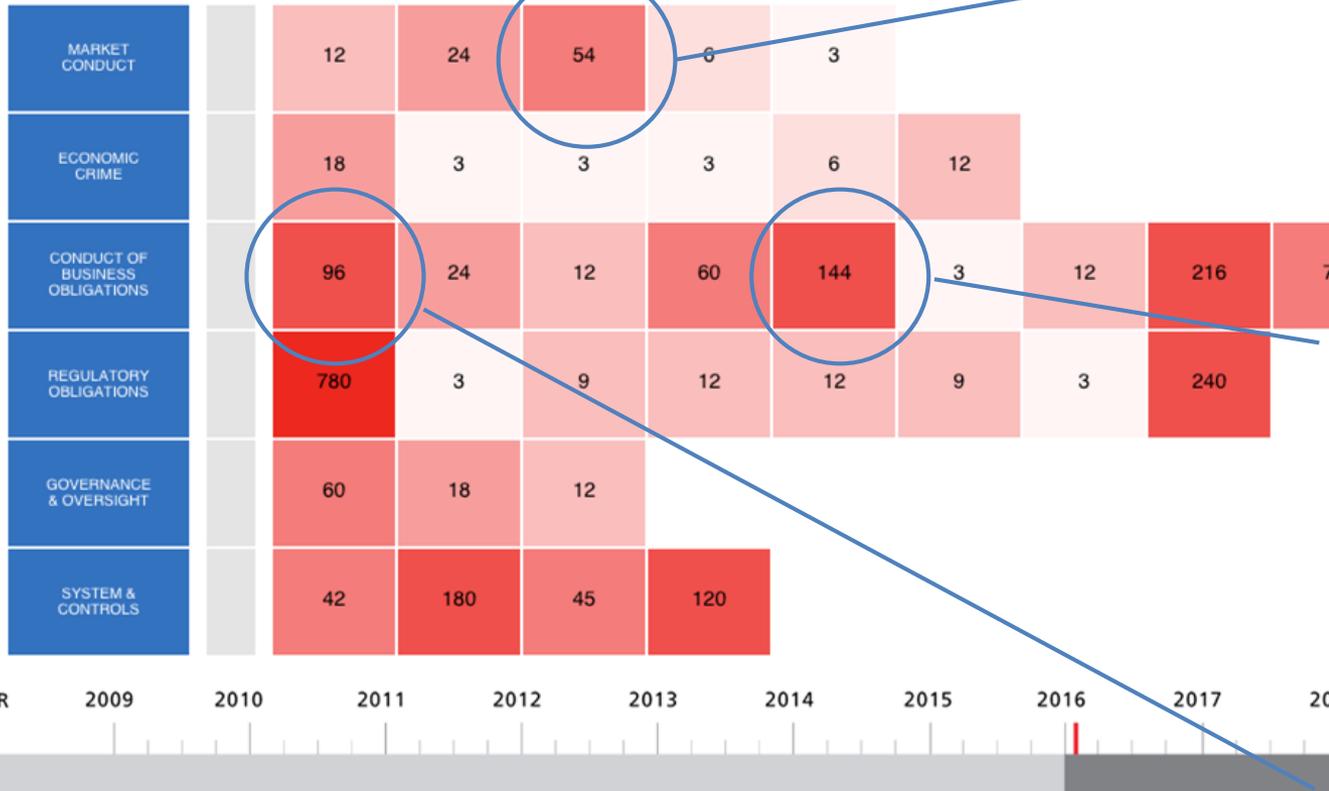


Mis-selling & suitability

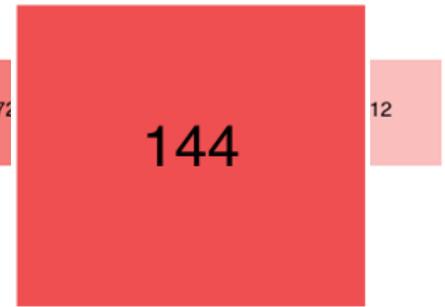
Horizon Scanning: MiFID II

Projected Risk Exposure - MiFID II

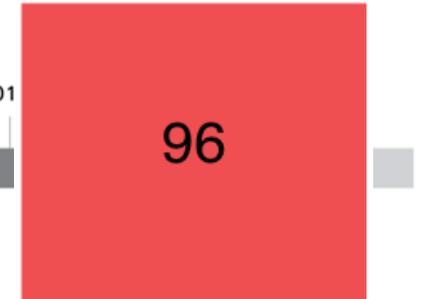
Enforcement Notifications issued by FCA for MiFID II: Level of Risk



Dissemination



Client Asset/ Cash



Mis-selling & suitability

Horizon Scanning: MiFID II

Risk Exposure MiFID I

Projected Risk Exposure MiFID II



Dissemination



Dissemination



+27



Client Asset/ Cash



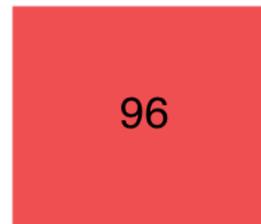
Client Asset/ Cash



+126



Mis-selling & suitability



Mis-selling & suitability



+60

Horizon Scanning



“Capital punishment
would be more
effective as a
preventative
measure if it were
administered
prior to the crime”

W.A.



Uncover and Understand Regulatory Risk

Thank you

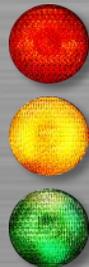
Topic 2

Richard Pike - Principal STIR

“Insights on Risk Appetite and Reporting”



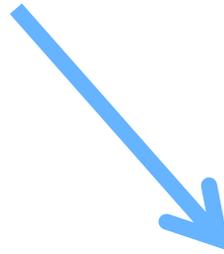
Risk Appetite & Reporting
Richard Pike



RISK

A vertical decorative bar with a red and orange mosaic pattern.

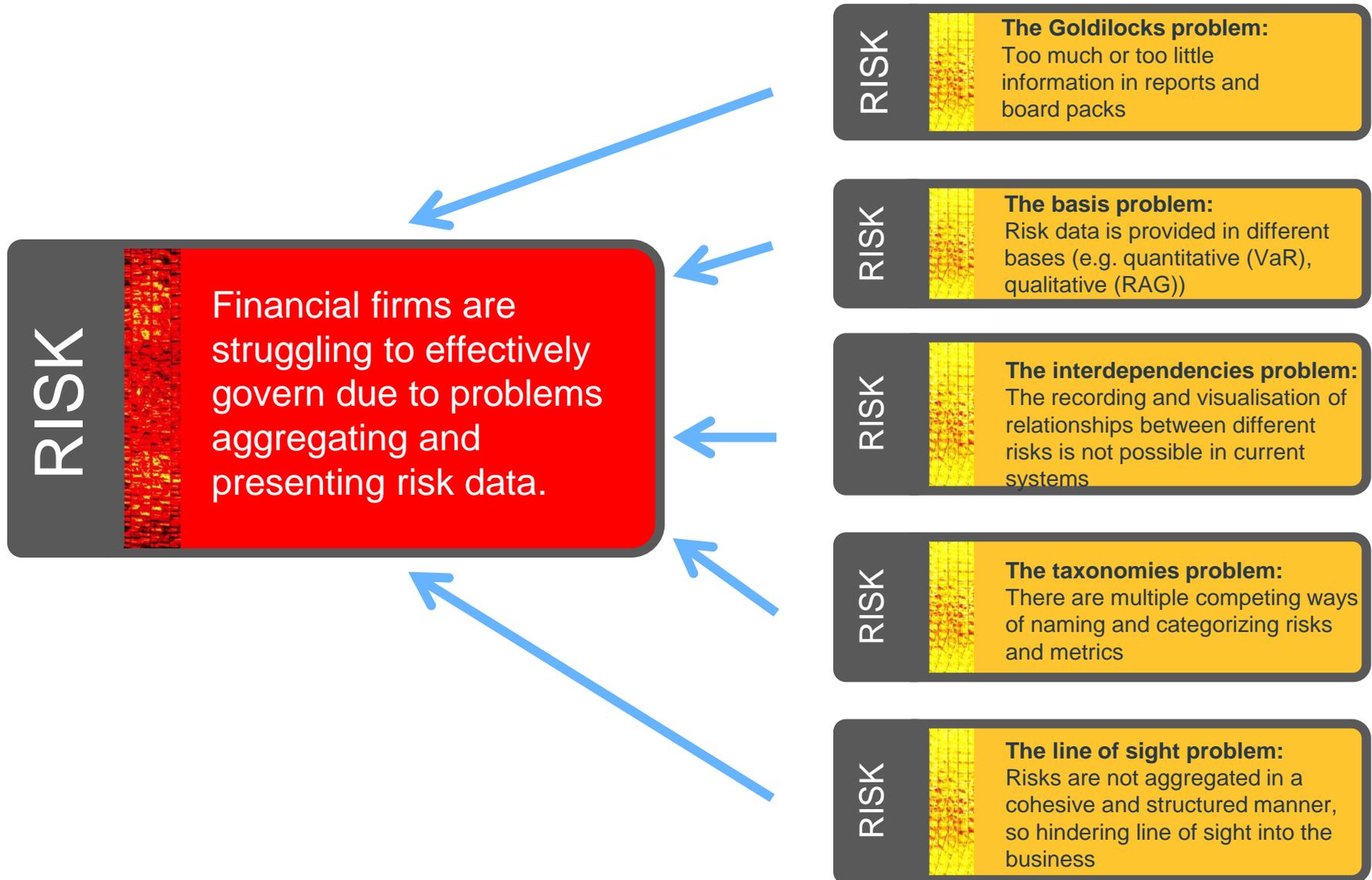
Financial firms are struggling to effectively govern due to problems aggregating and presenting risk data.



RISK

A vertical decorative bar with a red and orange mosaic pattern.

Without good line of sight into the business, senior executives and board members have much higher personal risk



TASK

The Goldilocks problem:
Clear definition of scope and materiality to ensure right data for right people

TASK

The basis problem:
All data should be presented in RAG status based upon the firm's risk appetite

TASK

The interdependencies problem:
Capture linkages and relationships across silos

TASK

The taxonomies problem:
Define one standard taxonomy and map it to others already in use

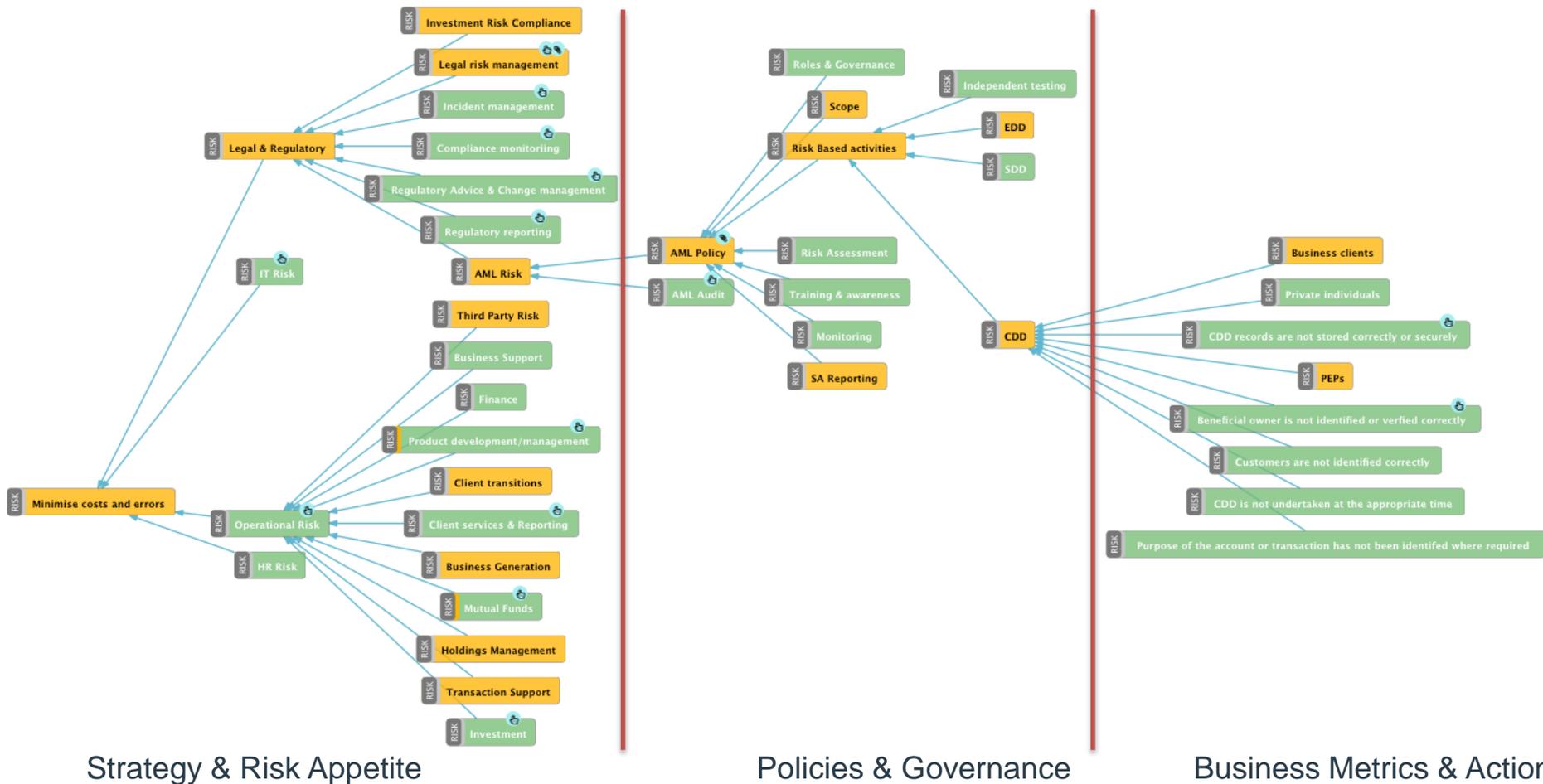
TASK

The line of sight problem:
Design rules to aggregate risks. Provide drill through to lower level risks.

Join the dots



- Decisions at the top should be based upon business metrics and risk appetite
- Action items in the business should be tracked in relation to the strategic goals



Strategy & Risk Appetite

Policies & Governance

Business Metrics & Actions





Context! Context!
My Kingdom For Context!

with apologies to William Shakespeare

Have a clear process, set of milestones, set of touch points

Show the assumptions (particularly the qualitative ones)

How are the assumptions different from other stress tests

What are the key tenets of the model

What is the model governance?

Why did you write the document?

What process has it been through to get here?

Where does it sit in your overall framework?

How will I know that you are implementing it or following it?

What do you want me to do with it?

What documents do they need up front?

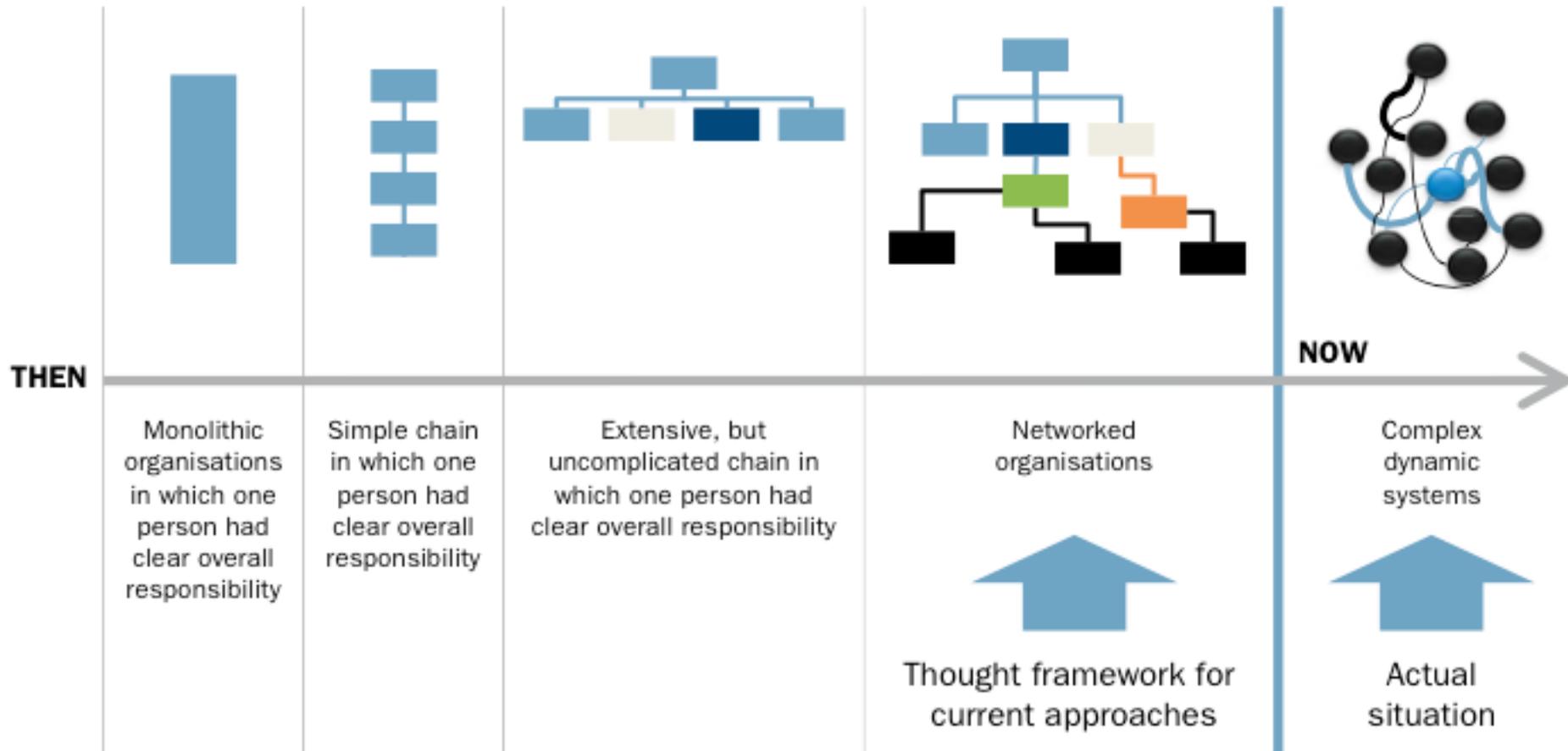
Assume they are read and understood

Provide brief summary

Be prepared to answer detailed questions but
don't make it up!

Ensure that items are followed up

Governance Challenges



Governance Challenges



Sitting in a 3.8-metre sea
kayak and watching
a four-metre great
white approach you is
a fairly tense experience

Topic 3

Enda Twomey – Head of Irish Chapter IOR

“Objectives & Membership Benefits and Ireland Chapter – 2016 Events”

Tony Moroney – Managing Director | International Financial Services / BRG

“BRG/IOR Cyber Risk Preparedness Benchmark”

Who and What is the IOR

- Not for profit association of operational risk practitioners
- Established in 2003
- Members elect directors of Council, directors elect a Chair
- Council determines strategy and central control functions such as membership, governance etc.
- Local activities driven by local Chapters, each of which has a local Chapter Committee

Current Local Chapter Network

- England and Wales
- Scotland
- Germany
- Netherlands
- Hong Kong
- South Africa
- Denmark
- Nigeria
- Ireland

Membership

- Two primary forms:
 - Individual
 - Corporate
- Individual membership grades:
 - Fellow
 - Professional Member
 - Associate Member
 - Student
- Corporate Members have Corporate Representatives

Centralised Activities

- Certificate in Operational Risk
- International regulatory engagement
- Members Newsletter
- IOR website
- IOR Linked-In Group
- Administration

Local Chapter Activities

- Member networking opportunities
- Leveraging IOR Local Chapter Global Network - Annual calendar of events on the way
- Local events:
 - Breakfast/evening discussions
 - Half-day events
 - Full day or multi-day events
- Local regulatory engagement
- Mentoring programmes

Overview

<https://www.ior-institute.org/about-us>

Local Chapters

Our membership growth is led by the Chapters who are mature and stable enough to lead our local voice with regulators, press and other stakeholders.

There are clear mandates that allow the centre to ensure compliance to protect our brand and reputation.

Strategy is set by the centre who also provide a shared services model at cost.

Membership income is shared appropriately.

Education

Our education programmes are valued and sought after within our chosen markets. We are an accredited body. Education enterprises are our main source of income.

Finance

We have sustainable, long term finances with reserves.

Operations

We are an Institute supported by paid resources. Our model is 100% outsourced excluding a salaried core. Our model is to automate where possible. Our governance processes and procedures meet the standards of an accredited body.

Priorities of Irish Chapter 2016

- Irish Local Committee* to continue formal establishment of Irish Chapter
- Grow membership of the Irish Chapter
- Create network of Op Risk Professionals
- Host four events in 2016 – See Irish Chapter Topics Survey
- Leverage off other IOR Local Chapter network activities
- Be recognised as thought leaders in Op Risk

* (Enda Twomey, AIB, Enda Collins, GE Capital, Tony Moroney, BRG, Alan Stewart, Pioneer Investments and Ronan Scully, AIB)

BRG/IOR Cyber Risk Preparedness Benchmark



IOR-BRG Cybersecurity Preparedness Benchmarking Study

Introduction

BRG, in conjunction with IOR, is conducting an international cybersecurity preparedness benchmarking study with participants representing a broad industry demographic. The study is designed to deliver security performance metrics and benchmarks that will help organizations:

- Build a security performance management program based on objective, fact-based metrics
- Compare how the security programs of survey respondents measure against internal organizational goals, approved risk-management profiles, and industry peers

This survey will take approximately 60 minutes to complete.

BRG/IOR Cyber Risk Preparedness Benchmark

PROJECT SCOPE

RISK MANAGEMENT

An understanding of how to manage cybersecurity risks, including systems, assets, data, and capabilities. Analyze cyber-budget priorities and program oversight.

INCIDENT RESPONSE

Business continuity plans to maintain resilience and recover capabilities in case of a cyber-breach. Analyze protective, detection, and responsive system controls.

ESSENTIAL PROTECTION

Understanding of the concepts behind prevalent threats, tactics, and procedures. Review security operations, vulnerability management protocols, architecture design, and technology solutions.

SECURITY CULTURE

Policies, awareness efforts, and training can help organizations effectively manage cyber-risk. Ratio of full-time staff devoted to IT security.

INFORMATION GOVERNANCE

Review pressure points, including communications plan, regulatory framework, data management, and eDiscovery



ADDITIONAL KEY FOCUS AREAS WILL INCLUDE

- Measuring cybersecurity program return on investment
- Prominent security issues at the organization
- Primary methods that organizations use to conduct cybersecurity training
- Tools and methods used to measure success of security initiative

BRG/IOR Cyber Risk Preparedness Benchmark

- Participation is key – the survey closes 29th Feb
- The survey will cover financial services as well as a broad range of industries
- We will have the results available early April
- We plan to present the findings at a Chapter event late April/early May
- Thanks in anticipation for your support

Questions and Comments



- **Contact Details:**
- Enda Twomey, Head of the Irish Chapter of IOR
 - E-mail : IrishChapter@ior-institute.org
 - URL : www.ior-institute.org