

## Editorial

# Optimization of the Capital Markets Compliance Value Chain

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In the last few years capital markets compliance<sup>1</sup> was the subject of intensified focus on the part of stakeholders and the general public. The implementation of MiFID led to extended tasks and responsibilities when it comes to compliance. Several law suits were fought due to low quality of advisory services in the securities business which results in financial and reputational risks for banks. Expected costs in this regard may easily reach 1 million Euros per suit.

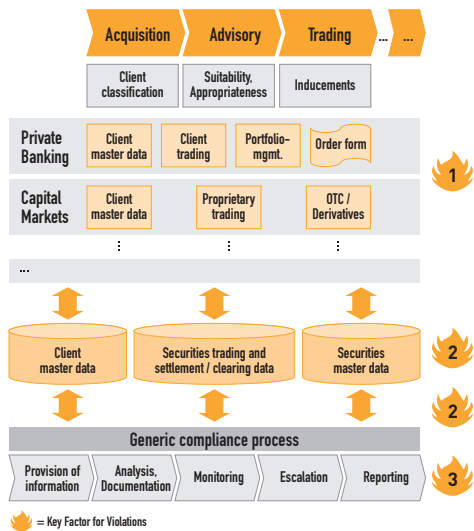


Figure 1: Architecture of the compliance value chain

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On 18<sup>th</sup> February 09 the German Federal Ministry of Justice issued a draft law setting up increased requirements for advisory services, which will lead to even higher compliance risks. In recent projects we observed three key factors that could lead to violations of regulatory rules:

### 1. Lack of compliance awareness

In most business units there is an unsatisfactory level of awareness and knowledge surrounding compliance issues. A **lack of defined compliance quality standards** for process outputs (e.g. advisory service) and a **poor process harmonization** should be seen as a reason for that (see figure 1 **hotspot 1**).

### 2. Lack of information supply

The compliance unit at most banks is not fully integrated into the business processes. Very often there is a lack of standardized reporting tools and processes for compliance-relevant information.

### 3. High costs for compliance controls

Different business units in the securities business use various IT systems in the front and back office. This leads to high costs for the required compliance controls due to **different**

**data quality and source systems** (see figure 1 **hotspot 2**).

Moreover, a **low level of process standardization within the compliance unit** is a crucial factor for high control costs (see figure 1 **hotspot 3**).

In order to reduce compliance risks a thorough analysis focuses on process-related key factors of potential violations and technical support. The definition and communication of quality standards for process outputs of the business units will develop higher compliance awareness. So called "quality checkpoints" are to be implemented on various parts of a process. Business units should be responsible for and measured by compliance with these quality features. Standardized, process-oriented compliance monitoring based on a single data basis guarantees on-time identification of quality failures. Management of non-compliant process outputs is possible due to this compliance "early-warning system". This approach contributes to a reduction in the financial and reputational risk for the bank and reduces process costs for compliance controls.

<sup>1)</sup> Capital markets compliance guarantees compliant services and actions with regard to specific laws and regulations in the context of securities services.



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