COMPLIANCE AND REGULATION IN UK WEALTH MANAGEMENT:

PERSPECTIVES, BUDGETS, VIEWS AND INTENTIONS

MAY 2018

Contents

Wealth Manager Interview Research

Compliance and regulation in UK wealth management: perspectives, budgets, views and intentions

About the firms in this survey*

i) Private Banks. Firms who are licensed deposit takers. These include subsidiaries or branches of foreign banks, together with the Private Banking divisions of major UK universal banks and smaller niche players. Treasury income and investment management fees account for over two thirds of their total revenue.

ii) Private Client Investment Managers. These firms are differentiated from the Private Banks in that they operate under client money rules rather than as licensed deposit takers and rely mostly on investment management fees for their revenues.

iii) Full Service Wealth Managers. Firms that focus on private client discretionary and advisory business, often supplemented by wider financial planning services. Investment management fees form a large part of their revenues, but because of their historical link to the stockbroking business model, a large proportion of their revenue is in the form of commissions. These firms are further differentiated by their membership of the London Stock Exchange.

This survey's participants are responsible for managing £350bn of private client assets—almost 40% of the industry's total assets under management (AUM).

The smallest firms, which comprised 30% of the survey's participants, had less than £2.5bn AUM on average. Twenty-five per cent of firms were medium-sized, with AUM of between £2.5+bn and under £10bn. The largest group, which accounted for 53% of the survey, had AUM in excess of £10bn. AUM averaged £11.7bn per firm.

Of those firms which provided figures, 65% are aiming to grow AUM by more than 60% over the next five years. (In the period 2011-2016—and excluding market growth—wealth management assets grew by just 23%.)

* JHC are proud research partners of Compeer Ltd's 2017 compliance survey - the graphs contained in the report are taken directly from the research published by Compeer Ltd in February 2018

Compliance is coming of age

The nature, role and view of compliance are in the process of transformation. From being an occasional and inconvenient function, compliance is now a vital and ongoing activity for all financial institutions. As compliance is also a key aspect of our business, we have to understand what constant regulatory change represents in every day terms for our clients—life at the 'coal face' of compliance, so to speak. We also want to know how the compliance function is evolving in terms of spending, headcount and technology. By talking to those who ultimately carry the compliance can—and listening to their views and their plans—we will have a more rounded and deeper understanding of the regulatory issues our clients face.

To glean those insights we partnered with wealth management benchmarking specialists, *Compeer,* who produced this review.

The survey is interspersed with percentages—some surprising, some not. But if you take a step back from the numbers, the bigger picture emerges, of which the most striking features are:

- Firms are gearing up for an increase in compliance-related demands and activity: more people are being employed, processes are being updated and businesses are making better use of technology
- With the right preparation, planning and attitude—and despite the difficulties—every new rule and regulation can ultimately be turned to commercial advantage
- High standards of compliance do nothing but good for the business
- Because many regulatory changes affect the entire enterprise, the costs of compliance are seen as a core business cost rather than a department-specific expense
- The tasks and responsibilities of compliance are being delegated across the firm
- Operational risk—and the management of it—is firmly on the agenda

Being providers of core technology to financial institutions, we too have an obligation to keep up with regulatory developments. To ensure our clients become and remain compliant, it is incumbent on us to incorporate changes fully and correctly in all our platforms and tools. But we go further than that.

Our approach to regulatory compliance is proactive and all-embracing. When clients need help with regulatory issues, we provide a qualified, informed and objective opinion. An evolving compliance regime requires us to look beyond the boundaries of the past and expand our service to reflect the new regulatory environment.

And one final comment: it must be obvious to all but the most hopeful of optimists, that the volume of compliance-related work will not only continue to grow but will also become more precise, complex and operationally demanding as the years roll by!

I hope you enjoy reading this report—your feedback is welcome and encouraged.

John Blackman
CEO, JHC

Introduction

This survey forms part of Compeer's ongoing investigation of the compliance and regulatory challenges faced by UK wealth management firms.

In the latter part of 2017 and in the opening months of 2018, Compeer conducted face-to-face interviews with heads of compliance and senior compliance executives at thirty different financial institutions.

The main purpose of the survey was to assess how compliance departments (and other functions) had been—and will be—affected by the pace, nature, volume and timing of regulation.

During the course of the interviews, the survey's participants expounded their views and intentions on a wide range of compliance and regulatory topics, including...

- MiFID II and GDPR—lessons learned
- The role of compliance in growing AUM and business development
- Specific areas of regulation where firms had encountered the biggest difficulties
- Headcount, costs and budgets
- Sources of information, support and clarification—who stepped up to the plate and who didn't
- Turning compliance to commercial advantage
- Delegating responsibility, spreading the load
- The management of risk

The results of the survey were presented in summary form at Compeer's annual compliance event—'Preparing for the Inevitable'—which took place at Merchant Taylors' Hall, London on 8th February 2018.

Executive summary

Compliance: more an opportunity than an inconvenience?

Regulatory change affects more than the compliance function: it leads to new initiatives, influences attitudes and creates revenue-building possibilities.

- The changes to personal pensions for example, benefit not only pension holders but also hold significant new business opportunities for financial institutions

- Rather than viewing each new regulation as an inconvenience, firms are beginning to use the time, effort and cost of remaining compliant, to competitive advantage. Ninety-three per cent of interviewees now consider compliance to be a strategically significant business activity

Another interesting example of using compliance changes to your advantage, can be seen in the area of client communications. Instead of simply reporting the ins and outs of each new regulatory rule or directive, firms are taking a more positive approach to the subject. They're explaining to clients that as tiresome as some changes may be, heightened regulation raises service standards which is of benefit to all clients.

One final important point, is that firms which are 'squeaky clean' in compliance terms, are significantly more attractive to any potential acquisitor, partner or affiliate, than those that aren't.

A voice at the top

Although compliance representation at board level has increased over the last few years, that is not a universal situation. The fact that 31% of the survey's interviewees were unable to specify their firm's plans for growth, suggests that compliance is not party to that information. If it is accepted that compliance is now a key aspect of day-to-day operations, would the business be in a better position to grow, exploit compliance-related strategic opportunities and create a compliance-conscious culture across the firm, if compliance were represented at board level…?

Investing in risk

Ask most wealth managers about the size of their risk management departments and until quite recently their answers would have ranged from small to miniscule—next year, the answers are likely to be quite different. In the coming twelve months, 62% of firms intend adding (or introducing) risk management staff as well as spending more on risk management processes and frameworks. With regard to suitability and portfolio monitoring, 40% of firms are now conducting assessments on at least a quarterly basis. Given that the regulator intends to take a greater interest in risk management procedures, risk and portfolio monitoring are two aspects of operations that wealth managers will be taking more seriously.

Remember MiFID II?

A number of interviewees regretted not starting their MiFID II preparations earlier. Many were of the view that the timing and nature of guidance had made project planning and budgeting more difficult than it should have been. Because the cost of rectifying mistakes (made through the misinterpretation of rules) was likely to be significant, a number of firms had elected to use working peer groups to interpret regulations, as they emerged. The survey also revealed that smaller firms simply held back on work until guidance was finalised, which brought about an implementation 'race' in the run up to the MiFID II deadline.

Executive Summary

Conspicuous by their absence

Most interviewees believed that PIMFA and TISA had provided good levels of support throughout their MiFID II preparations, via working groups and useful documentation: the same could not be said of the FCA. Many interviewees felt that the regulator i) had not responded in a timely manner to questions ii) had failed to engage with firms and iii) had provided little in the way of support. (An issue the FCA may care to address at some point?) In the FCA's defence, it must be remembered that MiFID II was made more difficult because ESMA were seeking consistent application and implementation of the regulations, as such, the FCA was not in a position to provide interpretation or guidance…

It's a team thing

Experience of MiFID II and previous regulatory projects has proved that the sooner firms start the ball rolling on compliance, the better. By assigning tasks late in the day, team members may not see the 'big picture' and/or appreciate how regulatory change benefits clients and can be of real strategic value to the enterprise.
As compliance has become a business-wide responsibility, the front, middle and back offices must grasp how regulatory change is ultimately of benefit to the firm's clients.

Technology is on the up, but could do more

Compliance departments are making better use of technology. But before initiating any changes to IT purely for regulatory reasons, firms have to consider how their clients will view the changes and whether they will make it any easier for clients to deal with the firm or not. Although firms never used to expect their service providers to be well versed in matters of regulatory compliance, the situation is changing. Those vendors who help their clients interpret the regulations and are capable of providing technical support for as long as support is required, will be more successful than those service providers who don't.

Comment

Regulatory compliance is like wallpaper

No sooner is one wrinkle ironed out, than another appears. Perhaps that explains why wealth managers find regulation so unsettling—they're never quite sure if all the wrinkles have been dealt with?

With each new rule, regulation and directive, comes different challenges. Precedents (to learn from) are few and far between, so the interpretation and implementation process invariably starts with a blank sheet. In other words, nothing in regulatory compliance is ever straightforward, which probably explains why so many firms turn to the big consultancy firms for support and guidance. But seeking advice from accountants and lawyers is not the only option wealth managers have.

Time to go the extra mile?

Financial institutions sometimes forget that their service providers are also in the firing line when it comes to compliance. Incorporating major regulatory changes in a multi-office operating platform for example, involves many people and a great deal of work; what you might call the 'back end' of change. But could vendors do more than implement? In our view, yes they could. Service providers should engage themselves in all aspects of regulatory change, rather than just part of it. Assuming of course they have the expertise and resource to do so.

All contributions gratefully received

The 'front end' of regulation is the interpretation—i.e., the dissection, analysis and clarification—of regulation as it materialises. Working alongside their clients, and to avoid potentially costly mistakes, vendors should also be sufficiently informed to impart their understanding of the regulators' requirements to their clients. In other words, vendors ought to be present at the start of the process (interpretation) as well as at the end (implementation). Not all vendors are able or willing to do that.

Engaging, listening and learning

To paraphrase one of the survey's interviewees: it's not just a question of understanding regulation as it is written, but how it affects the business and the end client.

By studying the FCA's and ESMA's guidelines and directives—and engaging directly with trade bodies such as PIMFA and TISA—we can substantiate (or not) a firm's interpretation of the regulations. When new guidance emerges, we bring together those that are directly affected by new rules and regs (our clients) to debate the changes, establish a consensus and assess the likely impact on operations. Given our large and diverse client base, we hear a wide range of observations and opinions.

Other key elements of our brief include:

- Keeping firms informed of new regulatory changes (and changes to changes)
- Assessing and anticipating the impacts of new compliance obligations on the firm and its clients
- Helping firms gauge accurately—and budget for—the type and volume of work that each new directive entails
- Providing advice on IT
- Demonstrating how firms can use compliance to their advantage
- Guidance on budgets and setting priorities

One of the key points emerging from the survey is that compliance, in common with portfolio management, account administration and client service, is now part of the fabric of the wealth management business.

No longer the poor relation—or a necessary evil—compliance has a part to play in a firm's growth and business development strategies. By taking a positive approach to regulation, firms will stop wasting time and other resources on 'firefighting' tasks, use each new rule and directive to strategic advantage and have the confidence of knowing that their regulatory status is unimpeachable and wrinkle-free.

Andrew Watson,
Head of Regulatory Change, JHC

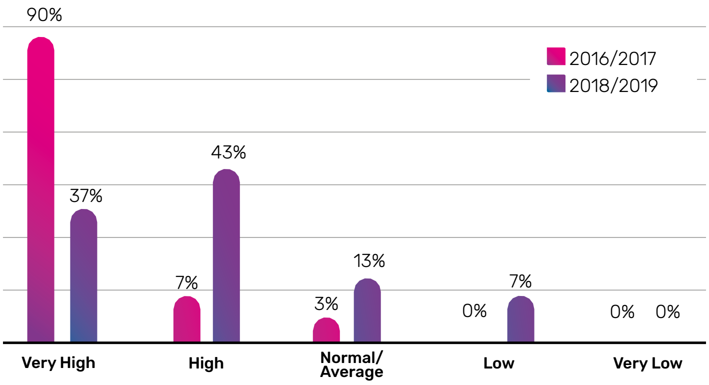
Results

Overview—change

Pace of change

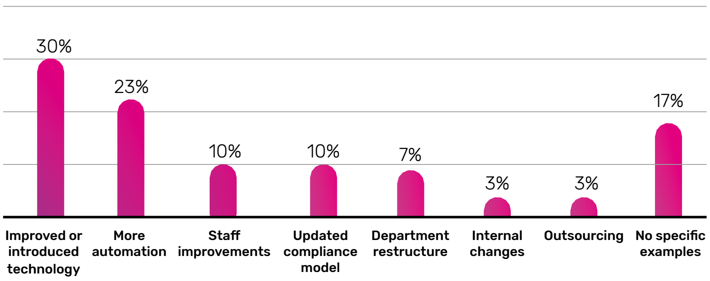
Ninety per cent of respondents stated that the pace of regulatory change in 2017 was considerably higher than in 2016. In fact, most interviewees thought it to be one of the 'busiest' years ever. A calculation performed by one of the survey's participants appears to support that view: in 2016, the number of pages logged from the FCA was 13,000—a year later, it was 20,000.

How would you rate the pace and volume of regulatory change across 2016 and 2017?



Another contributory factor may have been the February 2016 extension of the MiFID II deadline, which resulted in much of the guidance not being released until 2017. That might explain why the pace of change in that year was so much faster than in the previous year.

How have your compliance processes adapted and become more efficient over the last five years?



Volume of change

The majority of firms expect the amount of change in 2019 to be greater than in 2018. Thirty-seven per cent expect it to be 'very high'; 43% expect it to be 'high'. On that basis, the volume of compliance work will continue to increase.

Notification of change

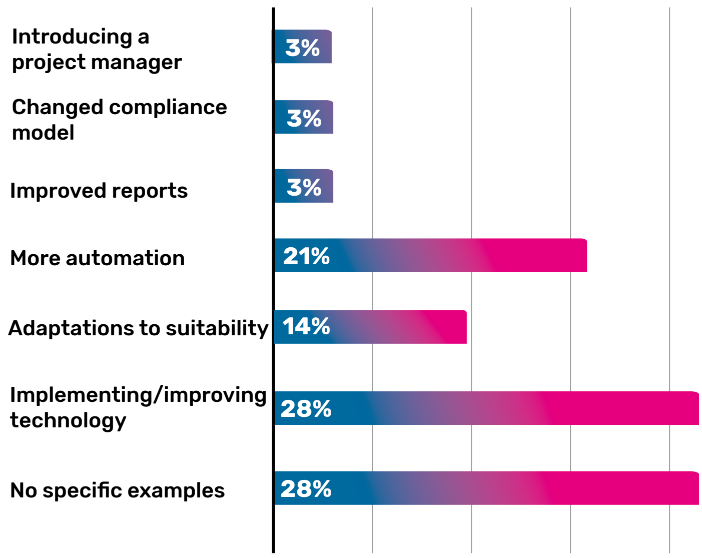
Just 10% of firms are kept up to date with regulatory changes by third parties. The most frequently mentioned source of information was the FCA, although 17%* of interviewees had a dedicated role or team to monitor forthcoming regulation.

Nature of change

In terms of IT for example, just under a third of those interviewed have made substantial changes to their core platforms—whether in-house or outsourced. Compliance departments are making greater use of technology generally and are gradually introducing automation in areas such as risk management and suitability checking. One participant stated that the introduction of a CRM system had made compliance reporting easier and more streamlined.

A number of firms mentioned that changes to compliance had been made with their clients' interests in mind: a significant shift in thinking compared to previous years when compliance was considered a mere box-ticking exercise. It can also be seen that certain types of regulatory changes affect the whole business and not just compliance. A pertinent example being the 10% of firms which have introduced the 'three lines of defence' model where compliance responsibilities are distributed across the firm.

Are there any further adaptations you plan to make?



* Of those interviewees who answered the question.

Overview—strategic compliance

- In the 2017 Compeer and JHC compliance research survey, firms were asked if they thought that viewing compliance differently to their peers might provide a competitive advantage—65% answered positively
- This year, firms were asked if they believed that compliance and regulation could be used strategically: 93% said yes—a significant increase

Compliance is therefore evolving from a purely administrative function to a strategic tool. However, only 7% of interviewees are using compliance strategically.

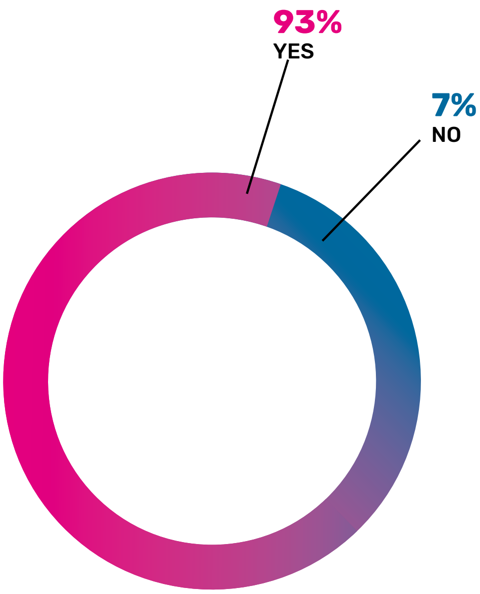
Firms are starting to quantify (in terms clients can relate to) how regulatory change can be used to the client's advantage. Others are considering the impact of change on clients before the regulatory work begins, by taking account of all aspects of upcoming regulation in 'one hit' and making thematic changes, instead of on a regulation-by-regulation basis.

Focussing client communication on the benefits new regulation provides, rather than on the plain vanilla details, helps convey to clients how regulatory change is always to their advantage. As one interviewee put it… *"Compliance can help firms work towards the best client outcome, influence how services are offered and support acquisition decisions."*

On the subject of acquisitions, it was agreed that having strong and efficient compliance processes in place would make a positive impression on the acquisition candidate, whereas questionable compliance standards would not. Apart from underpinning a firm's growth strategy, maintaining high standards of compliance can also add credence to the need for change elsewhere in the business, by driving cultural improvements which might otherwise be difficult to implement.

When asked if they believed that compliance and regulation could be used strategically, 93% of firms said yes.

Do you think compliance/regulation can be used strategically?



Overview—a place at the top table?

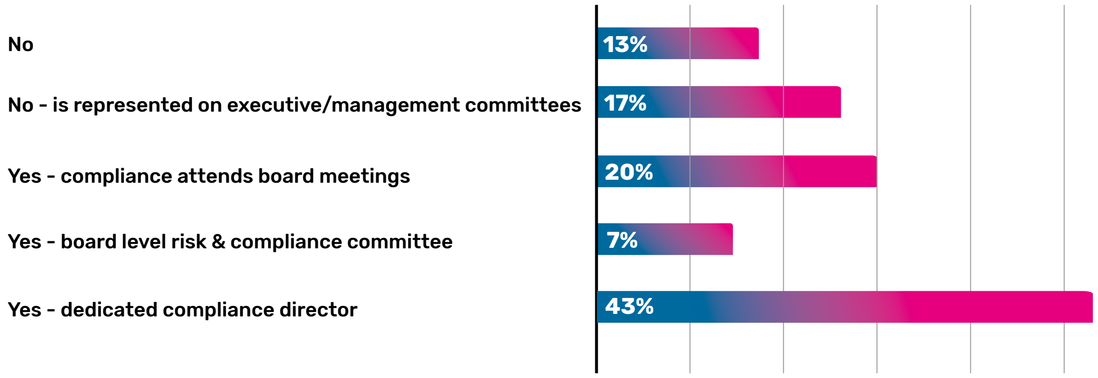
Compliance' presence at board level has strengthened over the past five years. More than 40% of firms now have a dedicated compliance director and a further 27% confirmed that compliance either attended main board meetings or had a seat on board-level committees.

Conversely, a third of interviewees had no voice at board level and almost 33% of the heads of compliance interviewed were not informed of their firm's growth targets.

With the 2019 Senior Managers and Certification Regime changes—and a heightened focus on accountability—it is likely that compliance will be better represented at board level in the coming years.

To fully exploit the strategic potential compliance holds, heads of compliance should be aware of the strategic plans for the business, otherwise they are in no position to support key objectives.

Is compliance represented at board level?



Almost 33% of compliance department heads have no knowledge of their firm's growth targets.

Finance and budgets—headcounts, compliance

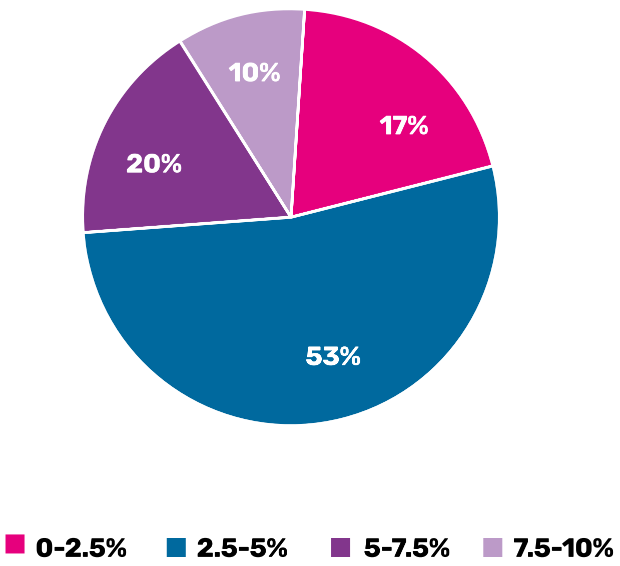
More than half the firms interviewed had compliance departmental costs (including staff costs) of between 2.5% and 5% of revenues; the average is 3.4%. Generally speaking, the smaller firm, the higher their compliance costs are as a proportion of the firm's revenue.

Survey participants were asked about the number of full-time compliance and risk management staff they employed. As a percentage of all employees (and based on our calculations) the number varied between 1% and 12%, averaging out at 3%.

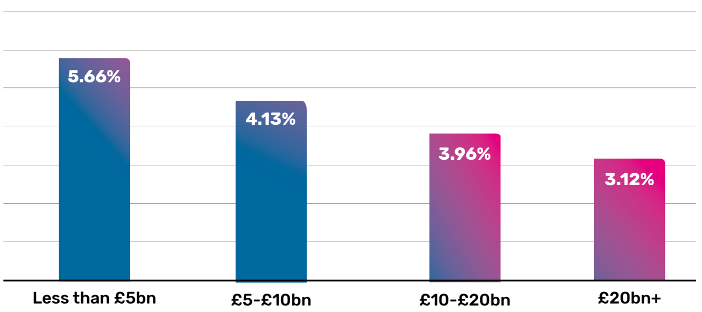
In total, 83% of all firms' compliance departments accounted for 5%, or less, of all staff, which is in line with the industry average of 4.7%.

Apart from the 25% of firms where staff numbers overall had reduced or not changed, almost half had seen a 50+% increase in compliance staff. That increase can be attributed to the compliance department scaling up in line with the firm's AUM and keeping pace with the rising tide of regulations. (With so much competition for staff, firms are finding it increasingly difficult to attract quality candidates.)

Compliance department costs as a % of revenue



Compliance department costs as a % of AUM



Finance and budgets - headcounts, risk

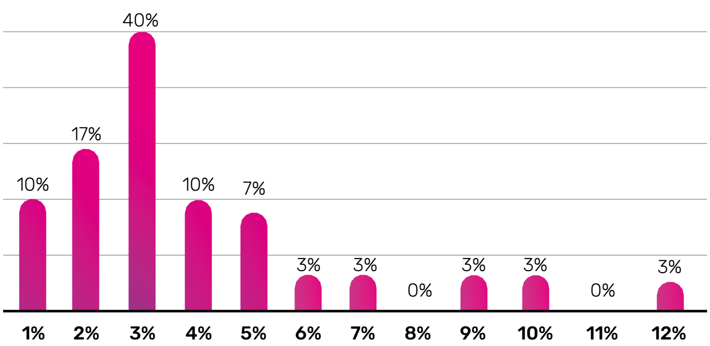
Forty-one per cent of firms either had no dedicated risk management staff, or the numbers were so insignificant that they rounded down to 0% of all staff. Of those firms which do employ dedicated risk management personnel, they account for 1% of all employees.

Compared to compliance staff numbers, the proportion (and absolute number) of dedicated risk management staff is much smaller—typically less than half of the compliance department.

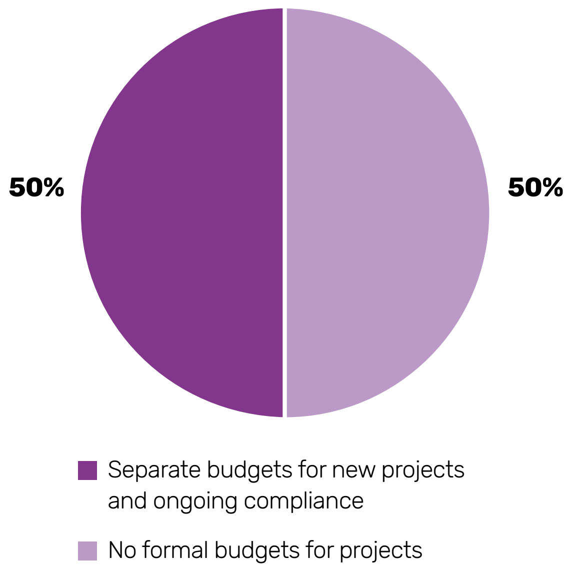
As risk management is a key function for all firms, it seems odd that staff numbers are so much smaller than compliance. When interviewees were asked to compare their current risk management staff numbers to those of five years ago, the question for many participants was almost redundant, as 46% did not have a risk management department in 2012.

Corporate governance best practice states that even small firms should have a risk committee, so it is surprising that risk management staff numbers remain as small as they are. Could it be that the different types of risk—operational, investment, reputational etc.—are managed by different departments/functions as part of business as usual? Without dedicated staff overseeing each of those procedures, there can be no daily oversight: risk representation at board level cannot hope to maintain the same degree of vigilance as a day-to-day presence at the 'sharp end' provides.

What are your total compliance staff numbers as a % of total in-house staff?



How are compliance budgets calculated?



Finance and budgets - projects

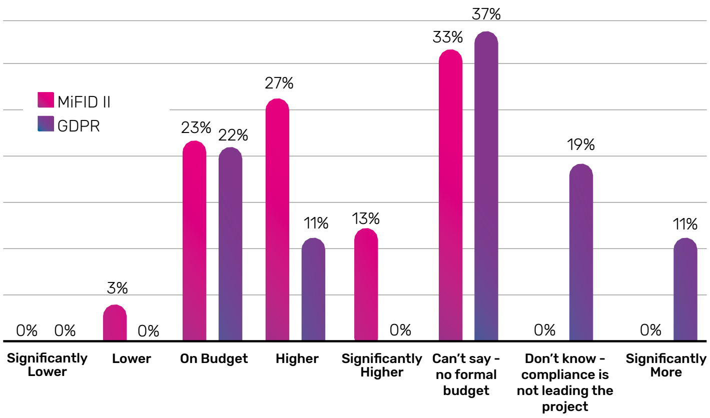
Half of all firms interviewed did not establish budgets for individual compliance projects. As compliance projects are deemed to be essential rather than discretionary, the prevailing view is that the costs are attributable to the business as a whole and not just one department. Another reason given for not setting budgets, concerned the timing of release of guidance.

Because MiFID II guidance for example (and in particular) was issued late, interviewees claimed they did not have time to interpret neither the regulations—nor the consequences—fully. Without a complete understanding of a) the requirements and b) the nature of the changes, firms were not in a position to plan and budget for the work involved.

With regard to spending on compliance and risk in 2018, the most frequent response from compliance was 'the same as last year', although 43% of firms will either be spending more, or significantly more. Those answers are based predominantly on the assumption that staff numbers will continue to rise in line with previous years.

Fifty per cent of interviewees intend spending more on risk management in 2018 than they did in 2017—with 8% saying they will be spending significantly more. In addition to investing in operational risk frameworks and risk monitoring tools, firms intend hiring more staff to concentrate on risk. (Given the focus on responsibility of the Senior Managers and Certification Regime, it is almost certain that spending on dedicated risk management staff will increase.)

How do actual project costs compare to budgeted costs for MiFID II and GDPR?



Part of the increase in spend on risk management can be attributed to the purchase of risk analysis tools (half of firms currently utilise tools and processes developed in house). Four per cent of firms were conducting risk analysis manually: 7% do not use in-house tools and processes, relying instead on third-party solutions.

MiFIDII and GDPR

For both MiFID II and GDPR, less than a third of firms stated that costs were either on budget or below: almost as many again had no budgets in place to compare actual costs with. In some cases (and as touched on earlier) that was because of the timing of the release of guidance. On occasions, the IT department was responsible for setting MiFID II budgets, simply because that was where the largest volume of change was occurring.

It would appear that some service providers also experienced similar cost-related issues as one interviewee recalled seeing an unexpected increase in fees because of MiFID II.

As GDPR projects were ongoing, it was difficult for firms to say definitively whether costs were higher than budgeted. As was the case for MiFID II, not all interviewees had established a project budget for GDPR.

In 2018, 43% of firms will be spending more—or significantly more—on compliance and risk than they spent in 2017.

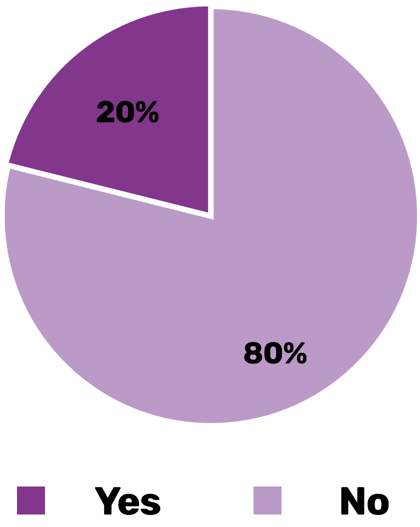
Technology—what's changed?

The majority of firms had to change their IT set up solely to cope with the demands made by the MiFID II, Suitability, PRIIPs and Anti Money Laundering regulations. Systems were also upgraded to deal with specific operational areas and requirements such as risk management, best execution, investment risk and ethical investing. And it was not just those firms with in-house systems that needed to modify their IT—vendors also had to make significant changes to their software.

Some firms have taken on new technologies—particularly in the areas of best execution, portfolio monitoring, transaction reporting, email monitoring and performance metrics. One firm had installed software which tracks the use of investment research: an innovation made in response to MiFID II's research rules perhaps?

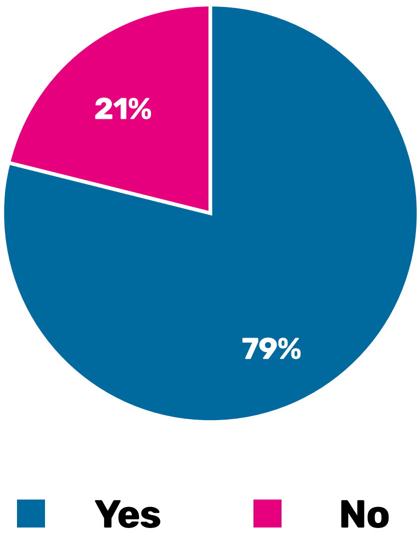
It seems that technology will continue to adapt in compliance departments, and firms will carry on introducing automation in areas such as suitability. Interestingly, despite there having been a focus on suitability in recent years, it appears that further changes will be made to these processes.

Have any IT systems been changed as a result of regulation in the last five years?



The majority of firms had to change their IT set up solely to cope with the demands of MiFID II.

Have you introduced technology to deal specifically with either new or ongoing regulatory projects?



Preparation and implementation

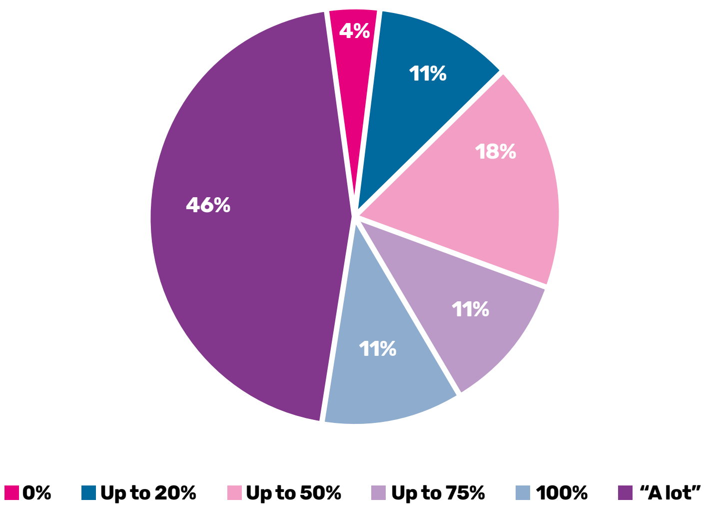
External work

Two fifths of interviewees said that over 50% of project work was performed outside the department. Where it was difficult to provide an accurate percentage, it was thought to be 'a lot', with 68% of interviewees estimating it to be in the region of 50+%.

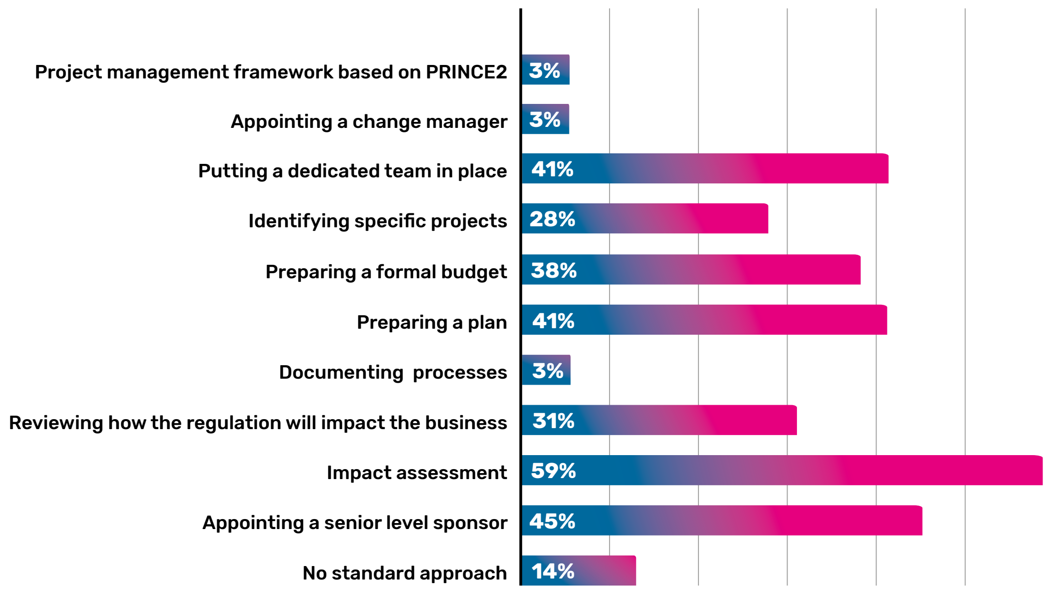
Anecdotally, compliance has traditionally been treated as an advisor to the business and as such, has not conducted the majority of project work, primarily because compliance departments do not always have the requisite skills. Indeed, of the firms where compliance assumed responsibility for MiFID II projects, a frequent reflection was that a dedicated project manager should have been appointed to oversee the project. It is therefore surprising to learn that 4% of firms stated that no project work is performed outside the department.

Furthermore, comments regarding lessons learned from previous projects show that the business as a whole should be involved in compliance projects. Spreading the regulatory load not only brings the entire firm up to speed on new regulation and its principles at an early stage, it also ensures that the business itself (and not just one department) 'owns' the change process. By delegating compliance activity, all departments gain a clearer understanding of why regulatory change can benefit the firm's clients and how those changes can be used to improve client service.

What percentage of compliance project work takes place outside of your compliance department?



Please outline the steps taken for each new regulatory project as part of your standard approach



Preparation and implementation

Approach

Eighty-six per cent of firms now adopt a standard approach to new regulatory projects. The appointment of a senior level sponsor—an individual who is able to convince the business as a whole of the need for change—was a common course of action. But there is no one-size-fits-all answer.

Just 38% of interviewees stated that the preparation of a formal budget was part of their standard approach. (Some were of the view that regulatory projects are not optional and as such, the business as a whole should absorb the costs of implementation.)

It was also mentioned that it can be difficult to set a budget at the start of every project, as not all guidance is released at an early stage—i.e., it is impossible to budget for the unknown. And not all firms have the resources to set up a dedicated project team: only 4% of firms had appointed a dedicated change manager.

Once compliance projects are signed off and the regulation comes into play, the business usually assumes responsibility for compliance, although, compliance continues to perform a monitoring and oversight role. Where firms have introduced, or are introducing, a 'three lines of defence' model, compliance represents the third line of defence.

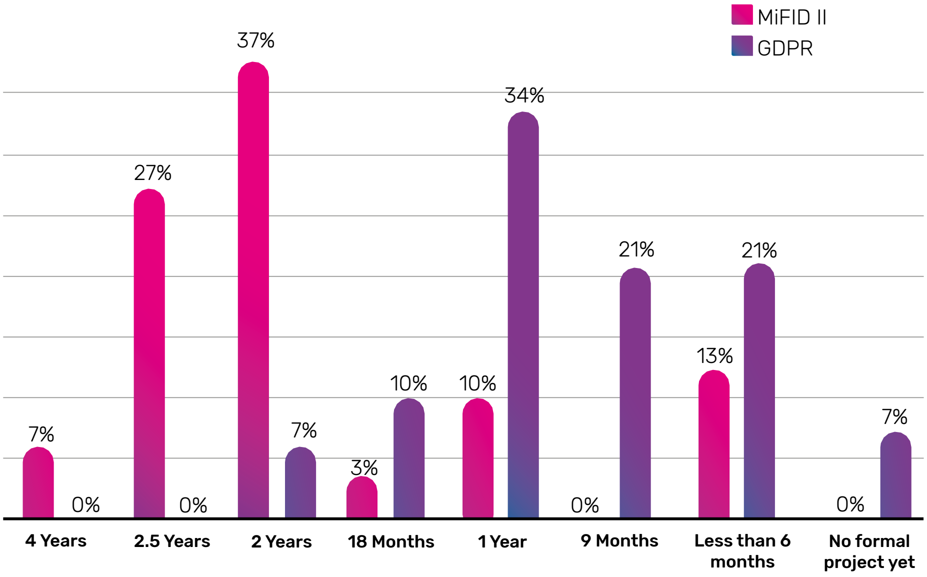
Timing

Most firms started looking at MiFID II more than two years ahead of the eventual 2018 deadline; initial investigations commenced much later for GDPR. Although the deadline extension for MiFID II was helpful, some firms wished they had continued with their preparatory work simply because of the size of the task.

As certain areas of guidance were delayed—and lacking the internal resource to implement changes that might later need radical amendment—some smaller firms waited to see how their peers would interpret the regulations and/or participated in peer-to-peer working groups.

Approximately 7% of firms began work on GDPR two years prior to the 25 May 2018 deadline and it is possible that MiFID II projects were (and still are) a contributing factor in this.

How far in advance of the implementation date did you start preparing for MiFID II and GDPR?



Risk management

Risk management is an important element for the majority of compliance functions—but less so for front office functions. Given that the front office and the investment management departments conduct frequent suitability reviews, perhaps that situation is understandable.

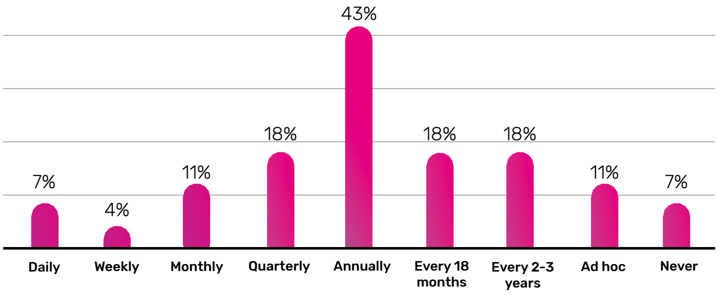
Those same departments also represent the first line of defence for the firm's Anti-Money Laundering (AML) procedures. The 5% of firms which stated that risk management was not important in their daily investment management and front office functions, explained that AML was conducted by the Money Laundering Reporting Officer, so negating the need for separate and additional risk management capabilities.

On a similar note, we asked how frequently portfolios are monitored for suitability. The answers do not add up to 100%, as firms typically conduct an initial suitability assessment followed by ongoing, but more informal, reviews.

For 7% of firms, the informal reviews were conducted on a daily basis by the first line of defence, implying that risk management is an important element of front office and investment management functions.

In total, 40% of firms were monitoring suitability on at least a quarterly basis, while more formal suitability reviews were conducted less frequently: from once a year to once every two or three years.

How regularly does your firm currently test/assess ongoing suitability?



MiFID II and GDPR—lessons learned

Although every project was different and conducted differently, a common theme was the importance of engaging the rest of the business—the front office and operations for example—in the project at an earlier stage.

It was recognised that regulation affects the whole business and that compliance is there to provide advice and oversight of projects. Once a project has been signed off, the responsibility for day-to-day compliance then sits with the business, not the compliance department. That's why it is important that the whole business assumes ownership of changes.

For example, one of the firms interviewed in a previous survey said that part of their approach to new regulation is to go through each change line by line and apportion the resulting work to business groups. As they want the business to feel ownership of the change, each group is chaired by the business. Breaking the work down by business function makes life easier for the front line people and allows for greater clarity when communicating the requirements to the rest of the business.

Interestingly, a number of firms brought up the topic of the regulator and the trade bodies. One quote, which sums up the attitude fairly well, was that firms would have 'shouted louder' at both the regulator and the trade associations or would have pushed the trade bodies earlier. As a result of those comments and others, participants were asked how well PIMFA and the FCA had supported them over MiFID II: views on that topic can be seen on page 18.

Forty per cent of firms are monitoring suitability on at least a quarterly basis.

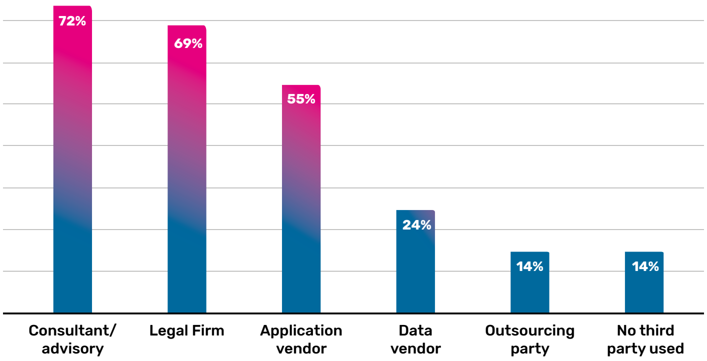
External support

Planning and implementation

Eighty-six per cent of firms relied on a third party to help them implement MiFID II and/or GDPR. Of those firms that had called on external assistance, 84% used consultants, which incidentally, were more likely to be consulted for work on MiFID II than GDPR. (Perhaps that is because the former started earlier and was more complex than the latter?) Legal firms were used by 69% of interviewees, frequently to help prepare Terms and Conditions under GDPR.

The 14% of firms who did not employ outside help for MiFID II and GDPR, either had well-resourced internal change teams or could not afford to hire consultancies.

Did you use, or are you using, a third party to aid planning and implementation for MiFID II and GDPR?



The regulator and trade bodies

PIMFA were perceived to have been supportive, particularly its peer working groups which a number of firms appreciated. As one interviewee put it, *"it's useful to see where you are in the crowd".*

Participating in peer working groups helped firms with their interpretation of the regulation, as did documents produced by PIMFA, which was also seen as an organisation that was very responsive to questions. A couple of interviewees did mention that the working groups tailed off as the implementation date drew closer.

One piece of constructive criticism arising from the survey is that PIMFA could have communicated better with the FCA and pressed the regulator for greater clarity.

The interviewees' generally positive attitude towards PIMFA did not apply however to the FCA.

Some commented that the FCA did not respond in a timely manner to questions, left communications too late and/or did not provide the level of clarity in communication that firms would have liked.

Several interviewees were of the view that the FCA's lack of guidance amounted to a cop-out. At the same time, it was recognised that the MiFID II is a European piece of legislation; even so, the level of support provided by the regulator was deemed to be too small. Furthermore, it was expressed that the FCA was in 'listening mode' and not in dialogue with firms.

This issue was responded to by the FCA's Nick Miller at the launch event of this report. Nick confirmed that the FCA will be looking to see how to better support firms in future, but in this instance its hands were somewhat tied by ESMA's wish for a standardised implementation of MiFID II across all member states.

However, it seems that there could have been more active engagement by the FCA with UK wealth managers under MiFID II. The regulator should have also tried to influence the interpretation of the regulation at ESMA level.

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