INTERNAL AUDIT SUPPORT

BANKING & BUILDING SOCIETIES UPDATE

February 2023

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BDO's Banking & Building Societies Update summarises the key regulatory developments and emerging business risks relevant for all banks, building societies and, where flagged, for alternative finance providers (i.e. peer-to-peer lenders, card providers, E-money services providers and debt management companies).

Our FS Advisory Services team are working with more than 50 banks and building societies as internal auditors and advisors, giving us a broad perspective on the issues facing the sector. We have aggregated insights from our in-house research, client base, the Regulators and professional bodies, including the Chartered Institute of Internal Auditors (CIIA), to support your audit plans and activities.

We hope this pack provides value to you and your colleagues; please do share with us any feedback you may have for our future editions.

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2023 REGULATORY PRIORITIES – PRA "DEAR CEO" LETTER FOR DEPOSIT-TAKERS

Credit Risk	***Sector risk:*** The impact of increasing interest rates, inflation and high cost of living, geo-political uncertainty, and supply chain disruptions is expected to pose challenges to firms' credit portfolios. In recent years, firms have tightened underwriting standards, enhanced forbearance tools, and increased operational preparedness for collections. However, these enhancements are untested under the current combination of risk factors. ***PRA focus:*** Focus will centre on higher risk areas including retail credit card portfolios, unsecured personal loans, leveraged lending, commercial real estate, buy-to-let, and lending to SMEs. The PRA will review firms' early warning indicator frameworks and make requests for enhanced data and analysis.
Financial Resilience	*Sector risk:* The PRA expects firms to take proactive steps to assess the implications of the evolving economic outlook on the sustainability of their business models. This should include consideration of broader structural changes, such as the evolution of new financial technology and competition. *PRA focus:* The PRA will continue ongoing assessment of individual firm's capital and liquidity positions as well as how these may evolve in light of potential headwinds. Areas of focus will include the impact of evolving retail and wholesale funding conditions, as well as scheduled maturities of drawings from the Term Funding Scheme in the coming years. Supervisors will continue to work with firms as they seek to enhance their own testing and scenario development capabilities in response to the current environment.
Risk Management & Governance	*Sector risk:* The default of Archegos Capital Management and recent market volatility from the Russia/Ukraine conflict have shown that firms continue to unintentionally accrue large and concentrated exposures to single counterparties, without fully understanding the risks that could arise. *PRA focus:* PRA will continue to assess firms' risk management and control frameworks through individual and cross-firm thematic reviews. Regulatory supervisors will focus on firms' ability to monitor and manage counterparty exposures, particularly to non-bank financial institutions. Given the global nature of market events, the PRA will continue to work closely with its global regulatory counterparts on these topics.
Operational Risk & Resilience	*Sector risk:* In response to increasing digitisation, changes in payment systems and the need to address legacy IT systems, many firms are executing large and complex programmes of IT change. There has been a material increase in services being outsourced, particularly to cloud providers, and the number of firms offering crypto products continues to grow, presenting new challenges for risk management. *PRA focus:* The PRA will continue assessment of firms against the operational resilience requirements, firms' own self-assessments, and the testing that firms are conducting. The PRA also expects large-scale IT changes to be well managed with the associated transition and execution risks appropriately mitigated, outsourcing arrangements to meet the expectations on outsourcing and third party risk management. Focus will include firms' use of new technologies, and advancements in asset tokenisation as firms are expected to have fully understood the impact of offering crypto products on their operational resilience.
Model Risk	*Sector risk:* The weaknesses that the PRA highlighted in its 2022 priorities letter for Model Risk Management remain a priority. *PRA focus:* The PRA expects to publish finalised MRM principles for banks in H1 2023. For Internal Ratings Based models, the regulator will continue to focus on three key workstreams: the implementation of IRB Hybrid mortgage models; the IRB Roadmap for non-mortgage portfolios; and IRB aspirant firm model applications. Focus will include new Fundamental Review of Trading Book (FRTB) models and firms' intended methodologies.
Regulatory Reporting	*Sector risk:* Repeatedly identified deficiencies in the controls over data, governance, systems, and production controls related to regulatory reporting. *PRA focus:* The PRA expects firms to consider the thematic findings set out in its communications on regulatory reporting to help improve future submission and the regulator will continue to use skilled persons reviews in this area in 2023.
Climate Change	*Sector risk:* The level of embeddedness of PRA climate change financial risk requirements (PRA SS3/19) varies across firms. *PRA focus:* The PRA expects firms to take a proactive and proportionate approach to addressing risks in this area as set out in its most recent Dear CEO letter.
Diversity, Equity & Inclusion	A new consultation paper expected this year setting out proposals to introduce a new regulatory framework on DEI in the financial sector.
Resolution	Firms need to continue to ensure that they achieve, and can continue to maintain, the resolvability outcomes of the Resolvability Assessment Framework, and ensure that they are transparent in their disclosures about their preparations for resolution.

CREDIT RISK MANAGEMENT: INSIGHT FROM A SKILLED PERSON


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► Credit Risk Management

As the widely termed “Cost of Living Crisis” continues and the UK economy moves closer towards a “profound economic crisis”, as noted by the latest Prime Minister, banks, building societies and other lenders are likely to see increased requests for forbearance measures from borrowers, an uptick in the number of their borrowers who default and, accordingly, an upward trend within impairments and provisioning levels.

Unsurprisingly, it is likely that credit risk management and responsible lending arrangements will come under even greater scrutiny from the regulator in the coming months. Such scrutiny may include the regulator increasing its use of Skilled Person Reports, or Section 166 reviews.

In this article we examine the common scopes of Skilled Person Reviews for Credit Risk Management, as well as common themes emerging from our recent reviews.

► Skilled Person Review scope for Credit Risk Management

Lenders are required to have adequate arrangements for managing Credit Risk. This includes but is not limited to:

- clear governance arrangements for the oversight of Credit Risk;
- robust arrangements for the origination and monitoring of credit facilities;
- processes and adequate resources for identifying and dealing with customers exhibiting signs of distress and Credit Risk deterioration.

Accordingly, Skilled Person scopes tend to cover the following key areas:

- the design and effectiveness of the firm’s Risk Appetite Statement, including consideration for geographical and sectoral exposures;
- the design and effectiveness of the firm’s early alert framework and monitoring of non-performing loans, including the adequacy of early warning indicators, arrears and forbearance arrangements and treating customers fairly practices;
- Governance Structures and their oversight of credit risk, including management information and portfolio monitoring arrangements;
- the quality of first and second lines of defence, including resource, knowledge, training and level of challenge.

In addition, most Skilled Person Reviews will require an in-depth review of a sample of credit files. The sample will often be significant and reflective of the size of business conducted by the firm and stratified across the products and services offered.

► What should Internal Audit teams be thinking about?

Internal Audit teams within banks and building societies, amongst other regulated lenders, should consider the following risks, drawn from our Skilled Person review experience, when producing RCMs for assurance engagements over the firm’s credit risk management and responsible lending controls:

- **Record Keeping:** unclear or lack of documented rationale for accepting, declining or amending facilities, as well as lack of evidence to support figures used in affordability assessments or desktop-based valuations. For example, where third party sources of information are relied upon, these should be evidenced within the credit file with an appropriate date stamp.
- **Board and Committee Discussions:** a lack of adequate discussion or scrutiny of credit risk metrics and/or specific cases (e.g., non-performing assets or arrears/forbearance) being evident within meeting packs and minutes. For example, minutes should detail where discussions have been had, who has raised challenges or concerns and what the outcome of the discussions were. In addition, firms should have clear action trackers and credit files reflecting any relevant discussions or approvals.
- **Management Information:** a lack of detailed root cause analysis and adequate oversight of portfolio performances. For example, we would expect Management Information to pull out trends that are occurring from Compliance or Internal Audit reviews. Firms should also be reporting on why cases have gone into arrears or been written off to establish if there are any “lessons to be learned”.
- **Risk Appetite Statements:** lack of consideration for geographical or sector exposures as well as unclear risk definitions, trigger and threshold limits. Firms need to ensure that risks are clearly defined and are not generic or all-encompassing.
- **Policies and Procedures:** policies and procedures lacking practical guidance for employees, specifically around ensuring early warning indicators are appropriately considered. In addition, firms should ensure that written policies and procedures are being consistently adhered to in practice.
- **Responsible Lending:** a lack of rationale within the credit file for ensuring terms are appropriate, in particular when they extend into retirement. Firms should ensure that they account for these additional risks when liaising with borrowers and documenting their approval for a new facility.
- **Affordability Assessments:** inadequate record keeping for why certain figures have been used as part of the assessment. In addition, a lack of robust scrutiny of the wealth of guarantors.

CREDIT RISK MANAGEMENT: INSIGHT FROM A SKILLED PERSON

- **Commercial Rationale: f**irms should ensure that there is adequate consideration of financial and non-financial factors when approving, declining or altering a credit facility. Lenders should not necessarily rely on the length of the relationship with the client as a means of discounting other early warning signs.
- **Training and Resource: f**irst and second line colleagues not receiving product specific training or becoming overly reliant on the expertise of third parties, such as property valuers and lawyers. Firms should ensure that employees are appropriately trained in their products and service offerings, policies and procedures, as well as the wider markets and sectors that they operate in.
- **Internal Reviews and Audits:** evidence of reviews becoming "tick box" exercises and lacking in-depth scrutiny of whether internal policies, procedures, systems and other controls are appropriate and operating effectively. In addition, where accounts become non-performing, firms should ensure that an independent review of the case is conducted to see if there are any lessons to be learnt.
- **Development Finance:** a lack of robust scrutiny of proposed project plans for development finance loans, as well as a lack of ongoing monitoring to assess that projects are on track.
- **Data Protection:** cross-contamination of client files and templates containing legacy information from other cases. Firms should ensure that a "copy and paste" approach isn't taken for rationale and that templates used for affordability and stress testing are not overwritten by mistake.

▶ Skilled Person Reviews: Horizon Scanning for Internal Audit teams

In the current economic climate, and with the incoming Consumer Duty, the following areas may receive increased levels of regulator interest:

- **Product Suitability:** firms should be alert to Responsible Lending practices and ensure that products being provided are in the best interest of the customer. Firms will need to be able to demonstrate in all instances that products were suitable and, in more complex cases, why offers were or were not withdrawn.
- **Affordability Assessments and Stress Testing:** Firms should maintain robust rationale around the levels of stress used as benchmarks for testing. Firms will need to demonstrate that they are continually considering the volatility in the economy.
- **Forbearance and Arrears Arrangements:** There will likely be an increased focus on the measures that firms are affording customers in financial difficulty and the systems and controls in place to flag accounts showing signs of distress.
- **Liquidity:** Regulators will likely want reassurance of the firm's cash position and liquidity. There may be greater scrutiny of firms where the mortgage book is reliant on wholesale funding to ensure mismatches between credit risk and forbearance are avoided.
- **Customer Service and Complaints:** In the current economic climate, regulators may wish to assess how firm's are assessing consumer views. This may include reviewing how the firm is addressing complaints and handling expressions of dissatisfaction. Firms will need to ensure that where complaints are being made, root cause analysis and remediation is taking place.

ESG PRIORITIES 2023:
KEY DEVELOPMENTS TO WATCH OUT FOR

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The scrutiny and relevance of ESG is likely to continue to increase in 2023, with important consequences for the financial sector and the economy.

We saw in 2022 the FCA and the FRC focus on disclosures and they published their feedback in July. This was followed by PRA Thematic Review on how firms were implementing the requirements set out in their Supervisory Statement 3/19 (“SS3/19”), and the FCA closed the year with the publication of their Consultation Paper on the proposed Sustainable Disclosures Regulations and Labelling Regime. This year firms should watch out for:

► Increased regulation and supervision

The Bank of England announced its priorities for banks, insurers and wealth managers in January, and it included climate change and diversity, equity and inclusion (“DEI”).

The Bank reiterated that its active supervision of firms on climate change matters commenced in 2022. In 2023, more firms will be directly approached by the PRA to explain the extent to which their risk management frameworks are compliant with SS3/19 and subsequent Dear CEO Letters. The Boards of non-compliant firms will be asked to provide the PRA with a plan on how they intend to become compliant. As for others matters, firms will be hold accountable for the implementation and embeddedness of the plans.

DEI will also continue to be a topic of focus that firms need to continue to embed in their cultures in 2023. The PRA’s DEI Consultation Paper expected for 2023 will set out proposals to introduce a new regulatory framework on DEI in the financial sector.

► Increased focus on reporting and disclosures such as TCFD

In 2023 a new cohort of FCA regulated organisations will be subject to mandatory climate reporting, with many other organisations’ reporting periods commencing this year, in anticipation of mandatory reporting from 2024 onwards. This in addition to banks, insurers, listed entities and large occupational pension schemes who are already subject to mandatory reporting on climate change.

Engaging with the TCFD reporting framework has been a PRA expectation since 2019 as set out in SS3/19. More recently, in October 2022, the PRA indicated that all firms will need to continue to evolve their disclosures as they develop their understanding of the climate risks relevant to their business. The ‘Annual Report Season’ will be taken as an opportunity by regulators to assess the extent to which regulated firms are meeting the expected standards.

► Greenwashing

Regulators have been expressing growing concerns that some firms may be making exaggerated misleading or unsubstantiated sustainability-related claims about their products, not only in the UK but also in other countries. To address this concern, the FCA has proposed a general ‘anti-greenwashing’ rule for all regulated firms. Their sustainability-related claims must be clear, fair, not misleading and should be able to stand closer scrutiny over how this claims are executed. This would come into effect immediately on publishing the Policy Statement (“PS”) on Sustainability Disclosure Requirements (“SDR”) and Investment Labels Consultation Paper which closed for consultation in January 2023.

In 2023, firms will need to carefully reflect on the claims they make over the products they offer to customers and how these meet the new anti-greenwashing rule. In addition, the use of certain sustainability-related terms in product names and marketing materials will be restricted unless the product uses a sustainable investment label: ‘Sustainable’, ‘Improvers’ or ‘Focused’. Therefore, from Q3 2023 asset and wealth managers, their distributors (including payment service providers) and some advisers can expect to be busy engaging with the labelling and disclosures new regime, ensuring the requirements are fully understood and ready to be implemented.

► The economy and green investment

In 2022 we saw increasing pressure on the UK economy, multiple changes in government and the UK Green Taxonomy being delayed to 2023. This has lead to concerns around the future of mobilising finance for green growth, and the ambition to develop a world-class international centre for green finance in the UK, as indicated in the government’s 2019 Green Finance Strategy. In 2023, the government will potentially re-engage with its strategic approach, through a number of initiatives:

- The UK Green Taxonomy as it will allow the implementation of the Sustainable Disclosures Regulations (“SDR”) and Labelling Regime;
- A Sector-Neutral Framework for private sector transition plans developed by the Transition Plan Taskforce, which is expected to align with 2021 TCFD disclosures guidance; and
- The government’s revived Green Finance Strategy, which should address current challenges such as data, alignment of international regulation, green homes and flow of finance.

The ESG landscape is evolving at a rapid pace and this sometimes requires additional resources or guidance to keep up with the pace. If you have any questions, please contact a member of BDO’s ESG team, we will be happy to talk to you and discuss our and your views on what to watch out for in 2023.

ECONOMIC CRIME PRIORITIES 2023: KEY DEVELOPMENTS TO WATCH OUT FOR

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A new year always bring excitement and looking into the horizon to see what may be coming. On the regulatory side of things, it is usually time for firms to sit down and plan what their key focus areas are going to be for the year ahead. But how do we know what the so-called 'hot topics' will be, if they haven't happened yet?

The best way, is to look at the previous year and determine which key events and developments have made the most ripples, or have longer last lasting effects…where did the regulator identify weaknesses in the market which are likely to focus its attention in the coming year.

In the realm of financial crime prevention, three key areas had podium finishes last year which will undoubtedly continue to be 'hot topics', shaping Compliance Monitoring and Internal Audit plans alike in 2023.

► Fraud Risk Management

If 2022 taught us anything, it is that fraud is on the rise. Fraud makes up 41% of all crime against individuals in England and Wales. Everyone is vulnerable to fraudsters, regardless of background or age. After two years of being in and out of lockdowns we came in to 2022 with all the advances in science and technology that COVID-19 had accelerated, and unsurprisingly fraudsters have taken advantage of the changes in the way we live, whilst continuing to commit crimes using traditional methods as well.

Authorised Push Payment (APP) Fraud
APP scams continue to be a problem and have a devastating impact on the people who fall victim. APP scams are now the largest type of payment fraud in the UK. The Payment Service Regulator's ongoing work identified concerns about outcomes for victims under the current voluntary approach taken by banks and building societies. In 2022, the PSR consulted on how it intends to implement mandatory reimbursement for all online and mobile payments. Its key proposal is that mandatory reimbursement obligations should apply to all APP fraud cases above a minimum threshold of £100. Further to the consultation, the PSR is expected to publish a Policy Statement in early 2023.

FCA focus
In the FCA's 2022/23 Business Plan, Focus 1 refers to "Reducing and preventing serious harm" with a key area being reducing and preventing financial crime. The first outcome the FCA is aiming for is to slow growth in investment and APP losses, with clear commentary outlining how they will measure progress.

These points were further reiterated when the FCA set out its 2022-2025 Strategy outlining that it aims to move towards better use of data by converting it into actionable intelligence and improving real time understanding of emerging risks.

Failure to Prevent Fraud
Following the Law Commission's Corporate Criminal Liability review, recent Parliamentary debate suggests that the Economic Crime and Corporate Transparency Bill will bring the biggest change in corporate criminal offences since the Bribery Act 2010 and Criminal Finances Act 2017.

Whilst the details of legislative amendments are still being discussed as the Bill moves through Parliament, what has been made clear is that a 'failure to prevent fraud' offence is coming imminently. It is likely this would follow a similar format to the offences of failure to prevent bribery and failure to prevent the facilitation of tax evasion.

► FCA supervision and scrutiny of firms' AML systems and controls will likely ramp up

In 2022, we continued to see the FCA ramp up its enforcement action and fines, as it found that firms were still falling victim to the same failures as in previous years.

Over the last 12 months the FCA imposed four fines relating to Anti-Money Laundering ("AML") failures which totalled c.£117m. What this eye-watering figure shows is that AML is still the leader of the pack in terms of financial crime prevention and that the FCA will not tread lightly on firms that are failing in their obligations. Another key example of the FCA's supervision over the year, was its review of the financial crime controls in place at Challenger Banks, which similarly highlighted areas where firms are still struggling with their obligations.

In the final few weeks of 2022, HM Treasury released its tenth report on AML and CTF supervision in the UK, which included an overview of the FCA's supervisory and enforcement activities from April 2020 to April 2022. Most interestingly, the report provides an insight into the FCA's supervisory work in recent years. In particular, during the 2021/22 period the FCA conducted 78 desk-based reviews (approximately 0.4% of its regulated population), which is a significant decline from the previous period, and no reported onsite visits. The report concludes with a summary of the common areas where the FCA identified AML-related discrepancies through its reviews.

Collectively, the fines issued by the regulator, the results of its Challenger Bank review, and the HM Treasury report highlighted shared pain points across the financial services sector – namely, in respect of the following areas:

ECONOMIC CRIME PRIORITIES 2023: KEY DEVELOPMENTS TO WATCH OUT FOR

- Three Lines of Defence
- Policies & Procedures
- Business Wide Risk Assessment
- Customer Risk Assessments
- Due Diligence
- Ongoing Monitoring
- Training

► Sanctions

In the wake of the Russian invasion of Ukraine, the global response saw a wave of sanctions measures being imposed.

Whilst different governments have their own sanctions against Russia, key actions covered both financial and economic measures, and there have been a number of collaborated global responses, for example Russia's access to global banking was revoked, and key Russian banks (such as VTB) were removed from the international financial messaging system – SWIFT. In addition to the sanctioning of Russia's banks, key individuals and companies are also captured under a number of global sanctions regimes. The UK alone had sanctioned around 775 Russian individuals at the start of the Ukraine war.

Further to the implementation of sanctions measures against Russia, the FCA, NCA and OFSI all published guidance last year aimed at reminding firms of how they can do their part to help authorities identify sanctions evasion and providing guidance on some of the key sanctions typologies that firms may face.

For example, in July, the NCA and OFSI jointly issued the first of its kind red alert on financial sanctions evasion typologies by Russian elites and enablers, such as solicitors, accountants, wealth managers, estate agents, company directors, intermediaries/agents, etc. The purpose of the red alert was to provide guidance on some of the common practises Designated Persons and their UK enablers are suspected of using to evade financial sanctions.

What made the rapidly evolving sanctions landscape even more of a minefield for firms to traverse was the expansion of the UK's sanctions legislation under the Economic Crime (Transparency and Enforcement) Act 2022. Certain provisions in the Act ramped up the stakes and made the cost of failure all the worse.

For example, the Act removed the requirement that to receive a fine for sanctions breaches, a person or body must have known or suspected they were breaching sanctions law. Previously OFSI could impose such civil monetary penalties only if it was satisfied, on the balance of probabilities, that:

a) the person had breached a prohibition, or failed to comply with an obligation, that is imposed by or under financial sanctions legislation, and

b) the person knew, or had reasonable cause to suspect, that the person was in breach of the prohibition or (as the case may be) had failed to comply with the obligation.

The Act removed limb b) above, and OFSI is now able to impose civil monetary penalties on a 'strict liability' basis (i.e. to impose a civil monetary penalty, OFSI only needs to be satisfied, on the balance of probabilities, that a breach of financial sanctions occurred).

► Additional Considerations

Making Due Diligence 'harder'

In Q4 2022, the Court of Justice of the EU ("CJEU") ruled that uninhibited public access to beneficial ownership information is not compatible with "fundamental rights." Namely, the CJEU decided that Article 30 of the 4th Anti Money Laundering Directive, under which EU Member States are required to make the beneficial ownership registers fully accessible to the general public, is in breach of the EU fundamental rights to respect for private life and to the protection of personal data.

Almost immediately, a number of EU Member States began blocking access to their beneficial ownership registers.

Whilst the ruling is (following Brexit) not binding on the UK, if the access to beneficial ownership registers continues to be restricted, this will make it harder for firms, which deal with EU registered corporate customers, to meet their Due Diligence obligations. What does this mean in practice in 2023? UK financial services firms will no longer be able to rely on the ease of public registers to establish beneficial ownership information of their EU corporate customers. This may in turn require a return to some of the more archaic Due Diligence practices (such as requiring certified copies of documents such as Beneficial Ownership registers to be obtained) which would only add to the burden placed upon firms in terms of fulfilling their Due Diligence requirements.

Extension to Discrepancy Reporting

The Money Laundering and Terrorist Financing (Amendment) (No 2) Regulations 2022 extended the scope of the discrepancy reporting regime.

ECONOMIC CRIME PRIORITIES 2023: KEY DEVELOPMENTS TO WATCH OUT FOR

The regime requires firms to report to the Registrar of Companies any discrepancies between the information they hold about the beneficial owners of companies, as a result of Due Diligence measures, and the information recorded by Companies House. From April 2023, the discrepancy reporting obligation will apply on an ongoing basis, rather than just when establishing a business relationship.

► The FCA steps up its scrutiny of firms' Market Abuse prevention controls

Market Abuse certainly is not a new topic for firms to be aware – for example the criminal offence of Insider Dealing has been around since the Criminal Justice Act 1993. However, in 2022, we saw the FCA ramp up its supervision and scrutiny of firms' Market Abuse prevention and detection arrangements, finishing the year with nearly £18 million of fines handed out. Interestingly, this amount was comprised of only three separate fines, the core themes of which related to the following areas - Market Abuse Risk Assessments; order and trade surveillance systems and controls; and Governance arrangements.

As part of the FCA's 2022 – 2025 Strategy, one of the key focus areas is delivering assertive action on Market Abuse. The Strategy notes that the FCA will continue to supervise firms' systems and controls around Market Abuse – particularly their ability to spot and report Market Abuse – with an enhanced focus on firms where the risk is highest. As such, in 2023, firms need to ensure they are paying keen attention to the adequacy and effectiveness of their Market Abuse prevention and detection systems and controls.

► What should Internal Audit teams be thinking about?

- Be prepared for the FCA to turn up the heat both in respect of the volume of reviews which the regulator will be conducting, and in terms of the types of review (now that COVID-19 is mostly behind us, onsite visits will re-commence).
- Firms should ensure their anti-fraud systems and controls are able to stand up to the unavoidable wave of scrutiny that is coming given the focus on fraud prevention.
- Firms must assess their risk exposure – AML, Fraud Risk Management, Sanctions Compliance, and Market Abuse prevention all require firms to carry out assessments of the extent to which their businesses are exposed to the respective risks. The expectation is that the results of these risk assessments will then inform the design and granularity of a firm's control framework
- Firms should also note that the Money Laundering and Terrorist Financing (Amendment) (No 2) Regulations 2022 introduced the need to assess proliferation financing risk exposure.
- Firms should use the results of the FCA's supervisory work as a guide against which to assess and enhance their own AML frameworks to ensure that they don't repeat the mistakes of the past.
- Firms should examine the calibration and frequency of update of their screening systems. With sanctions lists being frequently changed and updated in the current circumstances, firms should confirm that the third party providers supplying watchlist data are continuing to ensure that every amendment to the various sanctions lists is promptly captured.
- Firms should review, monitor, and test the adequacy of their Market Abuse order and trade surveillance systems and controls. FCA guidance contained in publications, such as Market Watch 69, provides a comprehensive overview of the regulator's expectations.
- Firms should begin updating their polices and procedures, and their ongoing monitoring arrangements to capture the requirement to identify and report any beneficial ownership discrepancies.
- Firms should ensure that Internal Audit Plans devote sufficient time and resource to providing assurance in respect of the effectiveness of financial crime controls. The UK's financial crime landscape is only going to further evolve and become more complex. Firms need to ensure they are giving sufficient attention to the assessing the effectiveness of their control frameworks

A ROUNDUP FROM THE REGULATORS

REGULATOR	DATE	DOCUMENT	WHAT'S NEW?
FCA	04/01/2023	DP21/2	FCA confirms that a consultation on D&I proposals will take place in 2023
FSB	04/01/2023	Consultation Feedback	Public responses to FSB's Proposed Framework for International Regulation of Crypto-asset Activities
BoE/PRA	10/01/2023	Dear CEO Letter	2023 regulatory priorities for international banks active in the UK
BoE/PRA	10/01/2023	Dear CEO Letter	2023 regulatory priorities for UK deposit-takers
FSB	10/01/2023	Consultation Feedback	Public responses to consultation on achieving greater convergence in cyber incident reporting
EBA	11/01/2023	Peer Review	EBA publishes peer review on authorisation under the Payment Services Directive
EBA	13/01/2023	Report	EBA reports that the liquidity coverage ratio of EU banks declined in the first half of 2022
FSB	18/01/2023	Report	G20 Non-Bank Financial Intermediation Reforms, e.g., Basel III reforms to mitigate spill overs between banks and non-bank financial entities
EBA	19/01/2023	Report	EBA observed a significant increase in the number of high earners across EU banks in 2021
FCA	25/01/2023	Thematic Review	FCA findings from its recent review of firms' plans to embed the Consumer Duty
EBA	26/01/2023	Opinion	EBA issues Opinion to the EC regarding the draft European Sustainability Reporting Standards
BoE/PRA/FCA	31/01/2023	Thematic Review	Thematic findings from the 2022 CBEST assessments of firms' security controls and capabilities when faced with a simulated cyberattack
EBA	31/01/2023	Stress Test	EBA launches 2023 EU-wide stress test and released the macroeconomic scenarios for the testing

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