

08.

# Automating compliance programs in the wake of regulatory reform

**Banks are recording an increase in the cost of compliance to manage the risks associated with regulatory reform. Maryam Zaman explains how compliance functions are expected to undergo a digital transformation journey supported by their governance, risk management and compliance (GRC) tools to automate business as usual.**

As per KPMG's 2022 Global CEO Outlook report, regulatory concerns remain one of the key risks to growth over the next three years. Some of the critical regulatory concerns include navigating the emerging and complex compliance landscape given the increasing risks in the digital age. The Central Bank of the UAE (CBUAE) has passed important regulations and standards in the recent years to ensure adequate supervision of financial institutions in the UAE (e.g. model management, anti-money laundering, consumer protection, etc.). It has also imposed administrative and financial sanctions on a number of licensed financial institutions with weak compliance programs, resulting in fines and penalties surpassing AED 8 million in 2022.

Over the last three years from 2019 till early 2022, the Middle East recorded a 63% increase in the size of its organizations' compliance teams. The total projected cost of financial crime compliance is USD 4.2 billion in early 2022, with the UAE representing a sizeable chunk of this at USD 1.7 billion (40%). Therefore, it is anticipated that compliance functions will implement technology platforms to maintain and monitor regulatory obligations, enabling compliance risk assessments, alerting potential non-compliance incidents, and allowing action plan tracking. They are also likely to integrate existing technology platforms with compliance/GRC platforms to streamline workflows, and adopt innovative RegTech solutions to automate their operations.

## Increased focus on regulating virtual assets and cryptocurrencies

2022 was a challenging journey for cryptocurrencies. With a loss of USD 2 trillion in market value and lack of public confidence in the viability and durability of virtual assets, the CBUAE, Dubai Financial Services

Authority (DFSA), Financial Services Regulatory Authority (FSRA), and Virtual Assets Regulatory Authority (VARA) are all currently focusing on enhancing their regulatory framework. Their aim is to protect consumers from fraud, prevent money laundering and terrorist financing, and provide a legal framework for the use and trading of cryptocurrencies.

Local and global regulators are implementing a comprehensive and multi-pronged approach to effectively tackle the risks associated with the cryptocurrency industry.

Some of these measures include:

- Licensing and registration requirements for cryptocurrency exchanges and other entities that handle virtual currencies. This can help to ensure that only legitimate businesses operate in the industry.
- Anti-money laundering (AML) and know-your-customer (KYC) regulations which can help prevent the use of virtual currencies for illegal activities such as money laundering and terrorist financing
- Investor protection measures such as requiring disclosures and providing education to investors about the risks associated with virtual currencies
- Monitoring and enforcement activities to detect and deter fraudulent activity
- International cooperation with other regulators and law enforcement agencies to share information and coordinate efforts to combat fraud in the virtual currency industry
- Review of the regulations and adapt them as the technology evolves.

The collapse of FTX has deterred investors, who are ambivalent about stability and security of virtual assets, to invest in cryptocurrencies. The impending flood of litigations by investors who may not recover their assets is another cause for concern. In the UAE, VARA revoked the approvals for FTX's local counterpart and implemented measures to ensure that FTX MENA cannot onboard and service new clients.



**The Central Bank of the UAE (CBUAE) has passed important regulations and standards in the recent years to ensure adequate supervision of financial institutions in the UAE (e.g. model management, anti-money laundering, consumer protection, etc.). It has also imposed administrative and financial sanctions on a number of licensed financial institutions with weak compliance programs, resulting in fines and penalties surpassing AED 8 million in 2022.**

Regulators see this collapse as a justification for tightening regulatory scrutiny of virtual assets. In cases of misuse of funds or limited disclosures by FTX, regulators will deep dive into stringent policies and real-time monitoring of such platforms.

To remediate the gaps observed in the downfall of FTX, financial institutions and virtual asset service providers may need to take additional steps in implementing stricter internal compliance and audit functions. Some of the breaches observed during this collapse included the commingling of company and customer funds, inadequate corporate governance and financial reporting, incomplete records of payments, and the lack of an accounting function/CFO and risk management policies.



**Maryam Zaman**  
Partner, Head of Corporate Governance