

# Boardroom questions

## A sustainable approach to Regulatory Compliance Transformation

The pace and complexity of **regulatory change**, coupled with the increase in **regulatory scrutiny and enforcement action** by relevant authorities, continues to make **compliance** a **top concern** for the board.

**Compliance accountability** starts with a **strong compliance culture** with **tone at the top**, and reaches across the **3 Lines of Defence**.

### Compliance framework

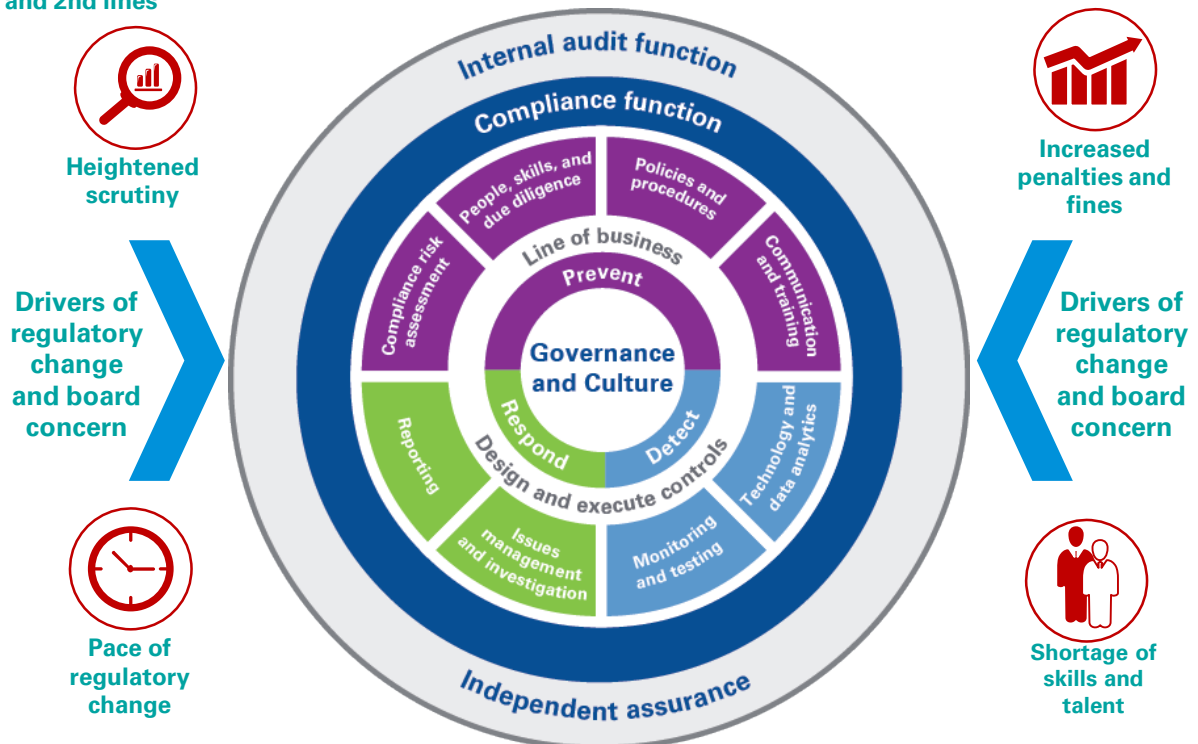
The 3 Lines of Defence are:

1. Business that is responsible for the design and execution of controls
2. Compliance that oversees/ implements the programme to advise, challenge and assess compliance
3. Internal audit that provides the independent assurance of the 1st and 2nd lines



Board oversight

KPMG believes a Compliance Transformation framework, that includes 8 key elements that drive **Prevention**, **Detection** and **Response** with governance at the core, is key to enhancing compliance.





## What are the attributes of a 'good culture'?

A 'good culture' is marked by specific values – **integrity, trust and respect for the law** – carried out with the spirit of a **fiduciary-type duty towards customers** and a **moral obligation towards market integrity**. It fosters an environment conducive to timely recognition, escalation, and control of emerging risks and risk-taking activities that are beyond a firm's **risk appetite statement**. A culture is influenced by multiple facets, though indicators of a '**good culture**' include:

1

**Focus on the 'customer'** – Doing what is 'right' (i.e. right price, right allocation, equal treatment) and keeping the customer's best interests at the heart of the business model

2

**Tone from the top** – The board and senior management set the core values and expectations for the firm and their behaviour is consistent with those values and expectations

3

**Accountability** – All employees know the core values and expectations as well as that consequences for failure to uphold them will be enforced

4

**Effective challenge** – Decision-making considers a range of views, practices are tested, and open discussion is encouraged

5

**Incentives** – Financial and non-financial compensation available to all levels of employees rewards behaviours that support the core values and expectations

## How can the board be more proactive in this area?



### Confirm that the board ...

- Understands the **key regulatory compliance risks** facing the company
- Defines the **role of the board and board committees** in oversight of regulatory compliance
- Has the **information** needed to do the job, and exercises **healthy scepticism** in its oversight
- **Monitors the company's compliance capabilities** – framework, organisational structure, resources, talent
- Understands if and how **company culture and compensation incentives** are **creating or reducing risk**
- Requires **independent assurance** of compliance as appropriate
- **Holds business leaders accountable** for regulatory compliance as well as business growth
- Establishes a strong **tone at the top**

### Confirm that management ...

- Establishes the **right compliance culture** and expresses a **strong tone at the top**
- Actively models and communicates a **culture of compliance with adequate authority and accountability**
- Stays **up to date** on the latest legislative and regulatory changes and emerging risk
- Understands the board's involvement for holding management accountable for driving effective **compliance policies**
- **Understands the implications** and ensures that the company adjusts to **comply with new regulations** and **heightened industry expectations**
- **Benchmarks against competitors** to enhance the company's compliance strategies
- Receives **regular and meaningful reports** to **understand the state of compliance**
- Understands how **complaints, litigation and other indicators of increasing regulatory risk** are **identified, tracked and trended**
- Requires that **third parties providing services** to the company **do so in compliance** with applicable regulations

# Contact us

## Shanghai

---

### Li Fern Woo

Partner,  
Risk Consulting  
**T:** +86 (21) 2212 2603  
**E:** lifern.woo@kpmg.com

### Grace Chen

Partner,  
Risk Consulting  
**T:** +86 (21) 2212 2780  
**E:** grace.xh.chen@kpmg.com

### Joyce Ge

Director,  
Risk Consulting  
**T:** +86 (21) 2212 3295  
**E:** joyce.ge@kpmg.com

## Beijing

---

### Frank Mei

Partner,  
Risk Consulting  
**T:** +86 (10) 8508 7188  
**E:** frank.mei@kpmg.com

### Jessica Xu

Partner,  
Risk Consulting  
**T:** +86 (10) 8508 5952  
**E:** jessica.xu@kpmg.com

### Johnson Li

Partner,  
Risk Consulting  
**T:** +86 (10) 8508 5975  
**E:** johnson.li@kpmg.com

### Shirly Wang

Director,  
Risk Consulting  
**T:** +86 (10) 8508 5113  
**E:** shirly.wang@kpmg.com

## Hong Kong

---

### Paul McSheaffrey

Partner,  
Risk Consulting  
**T:** +852 2978 8236  
**E:** paul.mcsheaffrey@kpmg.com

### Jia Ning Song

Partner,  
Risk Consulting  
**T:** +852 2978 8101  
**E:** jianing.n.song@kpmg.com

### Alva Lee

Partner,  
Risk Consulting  
**T:** +852 2143 8764  
**E:** alva.lee@kpmg.com

### Jeffrey Hau

Director,  
Risk Consulting  
**T:** +852 2685 7780  
**E:** jeffrey.hau@kpmg.com

## Guangzhou/Shenzhen

---

### Kelvin Leung

Partner,  
Risk Consulting  
**T:** +86 (755) 2547 3338  
**E:** kelvin.oc.leung@kpmg.com

### Daisy Du

Director,  
Risk Consulting  
**T:** +86 (755) 2547 1168  
**E:** daisy.du@kpmg.com

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



This document was originally published by KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG Advisory (China) Limited, a wholly foreign owned enterprise in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.