KPMG

Navigating tomorrow – Risk Management, Compliance and Financial Resilience

Wealth and Asset Management Risk and ICARA Benchmarking Survey

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22 January 2024

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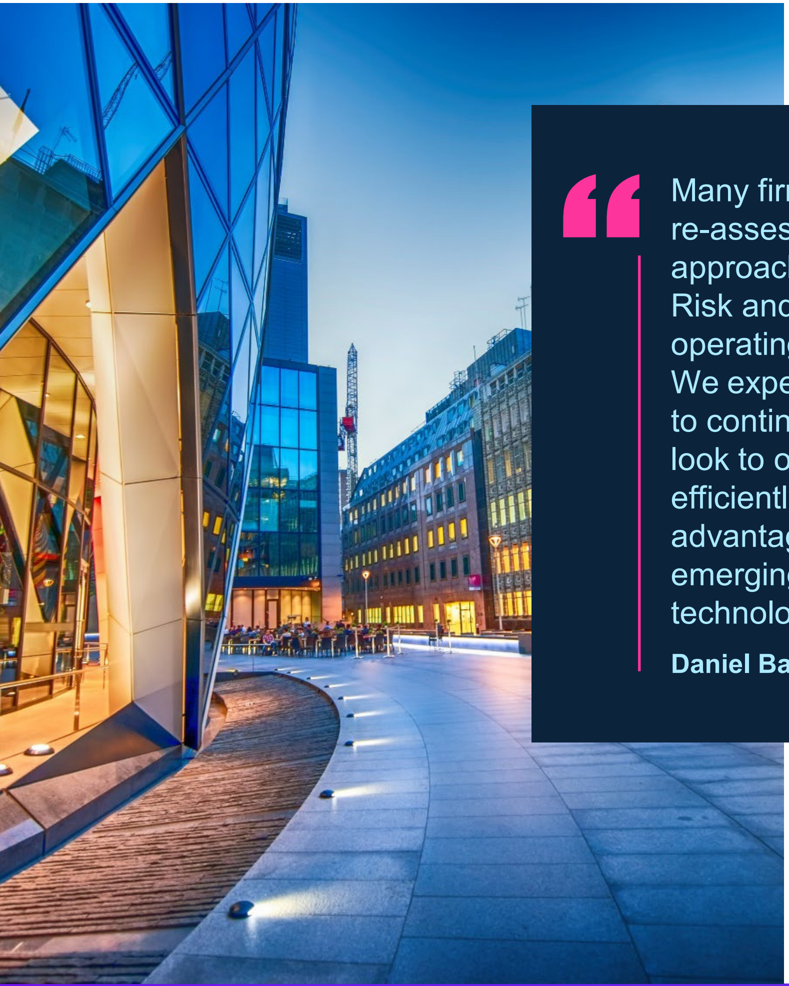
Foreword



> Many firms are re-assessing their approach to their Risk and Compliance operating model. We expect this to continue as firms look to operate more efficiently and take advantage of emerging technologies.
>
> **Daniel Barry, Partner**

Focus of the survey and key takeaways

Our risk management and financial resilience survey for the Wealth and Asset Management sector this year focuses on three key areas:

1. **Risk management and compliance trends:** assessment of the top risks firms are focused on, the design and structure of Risk and Compliance functions, and how firms are using technology in Risk and Compliance;
2. **Regulatory change**: a deep-dive into four key areas of regulatory change impacting many firms. We focus on the Consumer Duty, ESG, operational resilience and fund liquidity risk management.
3. **Financial resilience**; benchmarking the approaches of investment managers to both the ICARA and WDP. Notably, this includes the results of FCA supervisory reviews for the first time since the new prudential regime came into force

Risk management and compliance trends

The top risks firms are focused on are ESG and climate risk, regulatory change and macroeconomic conditions. This reflects the significant levels of regulatory change in the pipeline and a more volatile market environment. In response, many firms are re-assessing their approach to their Risk and Compliance operating model.

We expect this to continue as firms look to operate more efficiently and take advantage of emerging technologies. 70% of our survey participants are considering deploying further technologies across Risk and Compliance. This aligns with the findings of our recent CEO Outlook report, which found that for 70% of CEO's investing in Generative AI is their top priority.

Regulatory change

Regulatory change is a key risk area on the agenda. For ESG, labelling and disclosure rules are the key areas of focus. Firms are, however, adopting different approaches to ESG risk management.

Notably, greenwashing risk management is an area where some firms may be falling short in their ongoing monitoring of this risk.

Approaches to the Consumer Duty, operational resilience and fund liquidity also show different levels of maturity in firms' approaches to implementation.

Financial resilience

Overall levels of capital and liquidity requirements for investment managers are consistent with previous years. In a departure from historical experience, firms subject to FCA review are now less likely to receive capital add-ons. While this is a welcomed development, where issues are identified this leads to higher add-ons. The regulator remains focused on capital assessments for ongoing risks and their embeddedness in the risk management framework. We have observed substantial FCA focus on wind-down planning during supervisory reviews. There is a clear expectation that all firms have robust and detailed WDPs which meet regulatory guidance. Where firms fell short this often led to significant capital increases and risk mitigation measures.

About the research

Our 2023 benchmarking approach

For our 2023 benchmarking survey, we have received responses from a broad range of firms across the investment management industry. Our respondents include large global asset managers through to smaller UK-based firms that provide a limited range of investment management services. All firms are prudentially regulated by the Financial Conduct Authority ("FCA") and subject to the Investment Firms Prudential Regime ("IFPR").

Participant background

This year's survey is based on 37 participating firms of various scale as indicated by their assets under management, advice, or administration ("AUM/A")[1]. Nine participants manage assets in excess of GBP 200 billion while six firms have less than GBP 20 billion under management. From a regulatory perspective, approximately 62% of our participants are classified as P1 and P2 firms (many of whom were subject to FCA review in 2022-2023) whilst the remaining 38% are P3 firms, some of whom have never been through a regulatory review.

Our areas of focus

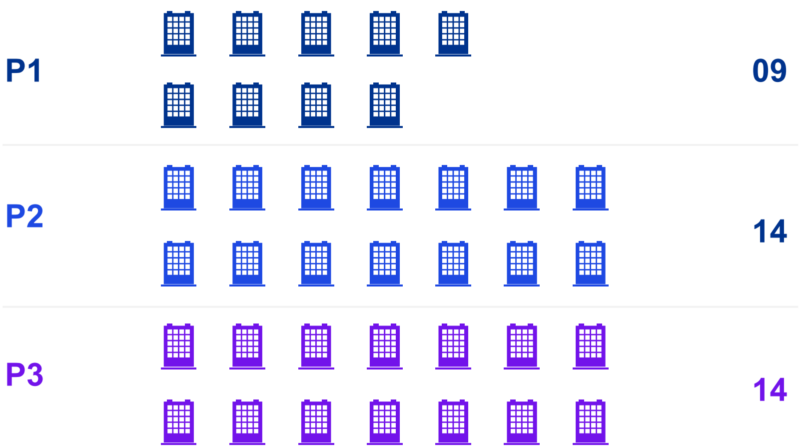
Our survey focuses on Risk and Compliance topics, emerging areas of regulation and the IFPR, the prudential regime for investment firms. This includes the industry's approach to operating their Risk and Compliance functions, the potential impact and key focus areas for regulatory change, and the outcomes of recent SREP's conducted by the FCA.

Acknowledgments

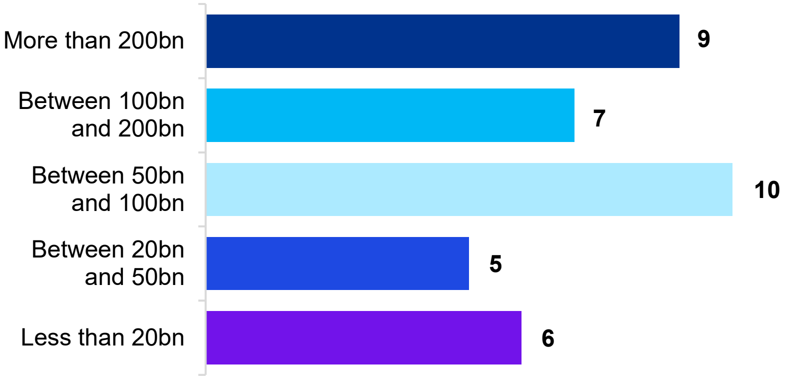
We would like to thank all of the firms that participated in the survey. A special thanks to our survey team, Rob Crawford, Jack Machell, Harun Sandhu and Kishan Unadkat.

Daniel Barry
Partner

Split of participating firms by prudential category



Number of participating firms by AUM/A (£)



> This year's survey includes responses from 37 investment management firms. Each respondent is subject to the FCA's IFPR rules and the survey population covers a significant proportion of the AUM/A in the sector.

[1] Note that throughout our report we use the term AUM/A to refer to the assets that each investment firm manages, administers or advises on. This includes AUM/A from MiFID activities and other regulated activities outside of MiFID (e.g. managing a UCITS) and is based on participant's own definitions of AUM/A.

01

Risk management and compliance trends

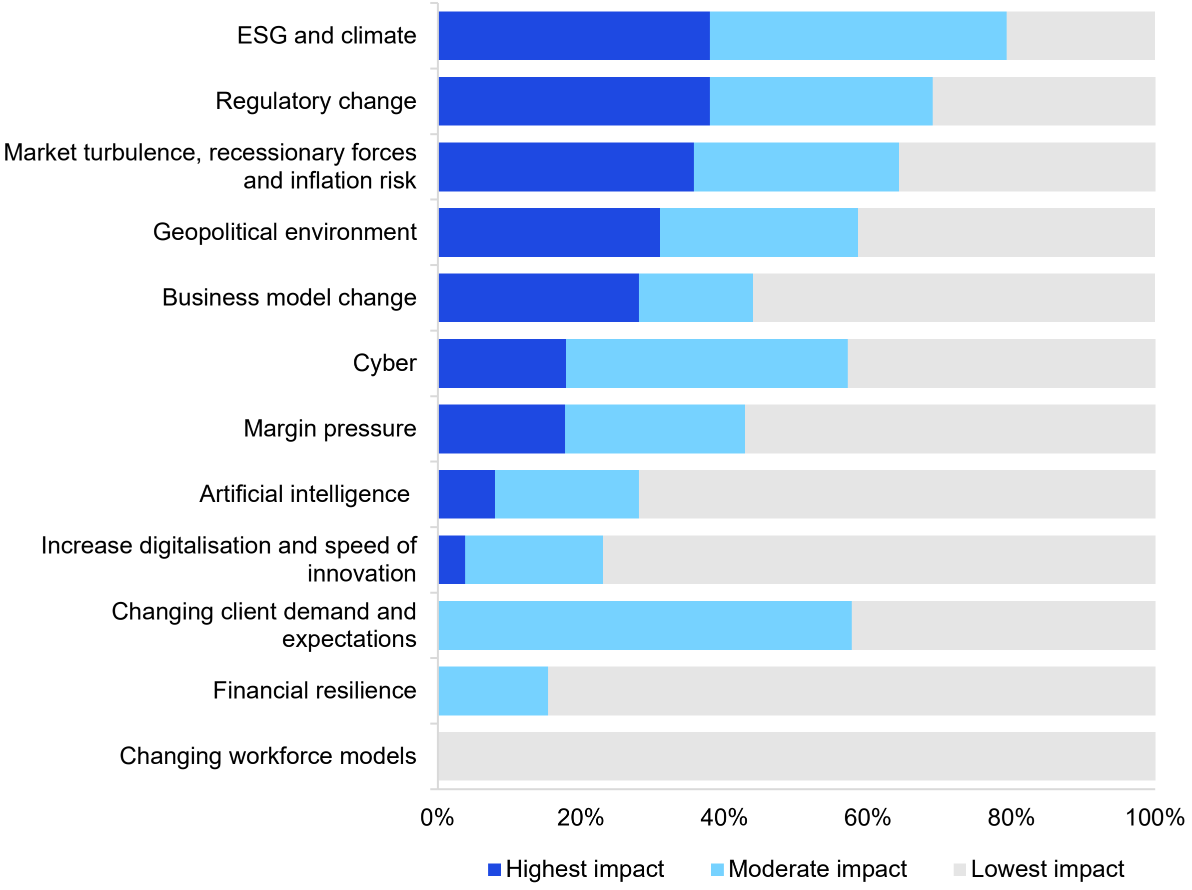
Risk themes

We asked participants to identify the most significant areas of risk in the next three years – nearly all firms identified ESG and climate, Regulatory change and market turbulence as key areas of risk.

Trends in the data

- The top 3 key areas of risk are the same as last year, but ESG and climate now rank the highest compared to Market turbulence in 2022's survey.
- External factors (those factors not unique to the firm) are deemed to have the highest potential impact on participants. With many participants highlighting wider-macro trends as having the highest potential impact.
- Less than 10% identified artificial intelligence as a high impact area. Around 70% of participants actually identified AI as having a low impact.

Most impactful areas of risk identified by survey participants



KPMG View

ESG and climate related risks have a significant impact on wealth and asset managers across the risk landscape. In 2023 we experienced continued focus on ESG. With significant change and regulatory interventions where firms have got it wrong. We are seeing regulators focus on greenwashing, and fines have been issued for identified failings, this no doubt raising ESG even higher on the agenda.

Given the macroeconomic uncertainty we saw in 2023, many firms have this high on their risk agenda. This coming year also poses significant geopolitical uncertainty with an estimated 2 billion people heading to the polls at some point in 2024, not just the US and UK. The wider geopolitical environment remains a key risk theme with political uncertainty a continued threat to strategic objectives. This theme is also highly correlated with sustainability risk and emphasises the importance of resilience in this challenging environment.

Alongside these market events, the industry is going through fast paced regulatory changes (including Consumer Duty in the UK and DORA in the EU). These regulations may have a significant impact on operating models and the way firms approach risk management.

Design of Risk and Compliance functions

Approaches to the design and the structure of Risk and Compliance functions differ across the investment industry.

Trends in the data

- Compared to previous years, more firms are opting for standalone functions. Standalone functions are separate Risk and Compliance teams with different reporting lines into the CEO and Board. Some firms have switched from partially integrated arrangements to standalone functions since our last report.
- 63% of participants either have or are implementing a model with dedicated risk resourcing in the fist line of defence (either dedicated Risk teams, 1.5 Line Risk teams or First line Risk champions).
- 42% of participants operate their first line function with support from the wider risk function. Typically following a 1.5 line of defence model.
- The headcount within Risk and Compliance functions scales with AUM/A. The only outlier to this trend, firms with between £100bn and £200bn in AUM/A, is caused by the nature of our survey participants, such as platform providers, which typically require less headcount than other investment management activities

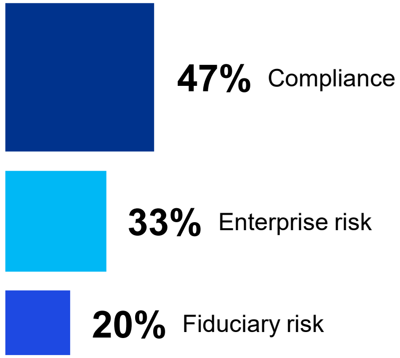
How firms design their Risk and Compliance functions (percentage of firms adopting the following approaches)

52%	29%	19%
Standalone functions	Fully integrated functions	Partially integrated functions

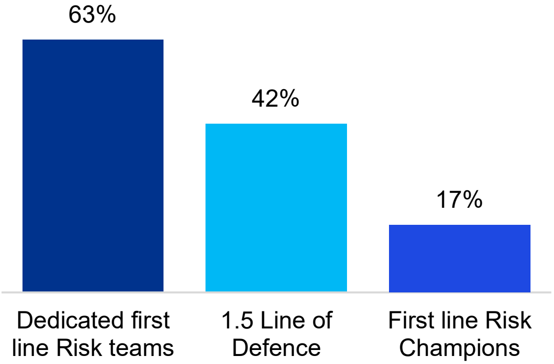
Average headcount of Risk and Compliance functions (First and Second line) for firms by AUM/A

55	20	36	52	39	121
All firms	Less than £20bn	Between £20bn and £50bn	Between £50bn and £100bn	Between £100bn and £200bn	More than £200bn

Average split of headcount across Risk and Compliance functions all lines of defense



Percentage of firms adopting the following approaches across first line risk and control functions



KPMG View

Our survey indicates a return to standalone risk and compliance functions, deviating from the historical trend of combining certain aspects of Risk and Compliance capability, such as operational or framework design and maintenance.

Investment managers are reevaluating their Risk and Compliance structures due to various factors, from organisational growth to firm wide efficiency drives aimed at minimising overlap between First and Second line and Risk and Compliance.

While there's no universal blueprint for Risk and Compliance models, the rise of digitisation is prompting firms to refine the distribution of roles and responsibilities, ensuring clear demarcation between the First and Second Line, as well as between Risk and Compliances, to avoid overlap.

Typically, larger firms have more extensive Risk and Compliance teams, reflecting the increased risk and complexity that comes with scale. As expected, smaller firms have smaller teams and typically rely on more experienced team members who provide a range of high value technical risk management and regulatory compliance advice to the business.

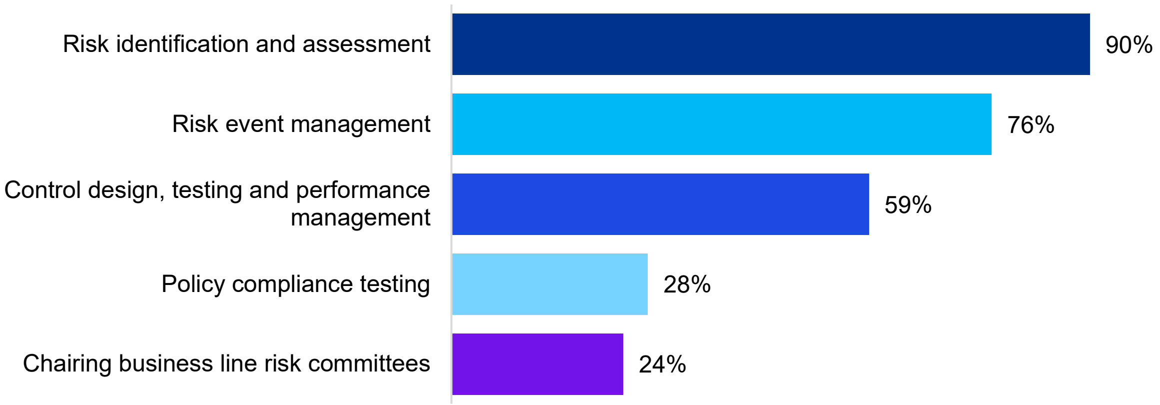
First line responsibilities for Risk and Compliance

Firms are using First Line Risk and Compliance teams to support the business in risk and compliance management.

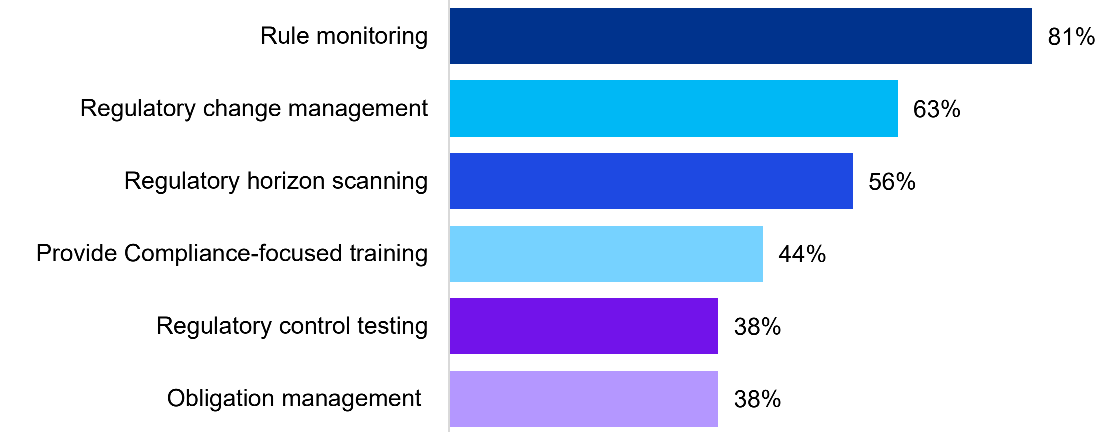
Trends in the data

- The majority of firms (72%) use formal First Line Risk resource. Where participants use these, the most common activities they performed were risk identification and assessment (90%), risk event management (76%), and control design, testing and performance management (59%). This is broadly consistent with the activities these teams performed in previous years.
- Approaches to First Line Risk functions vary; some firms implement functions which cover all parts of the business, while others have specialist first line risk teams for key risk areas (e.g. cyber).
- 45% use a formal First Line Compliance function. The most common activities they performed were rule monitoring (81%), regulatory change management (63%), and regulatory horizon scanning (56%).

Activities performed by specialist First Line Risk resources



Activities performed by First Line Compliance



KPMG View

Firms are more likely to reconsider Risk and Compliance activities in the first line in response to changing technologies and wider risk transformation initiatives. Dedicated first line functions can lead to a more robust and consistent approach to Risk and Compliance management. Leading firms underpin this with a clear operating model across Risk and Compliance and embed technology at the core. We are now seeing leading firms implementing emerging technologies to support the dynamic identification and assessment of their regulatory footprint and associated regulatory obligations.

For both Risk and Compliance, many firms in the survey focus on the first line performing core activities (i.e. risk identification and assessment, risk event management and compliance rule monitoring). Leading firms tend to embed a greater variety of activities in the first line to demonstrate a clear ownership of Risk and Compliance activities in the business.

Increasingly, activities that we would historically associate with Second Line oversight from a compliance perspective now appear to be embedded within the business itself. This can also result in Second Line functions providing a greater level of challenge to the business and independent reporting to the Board.

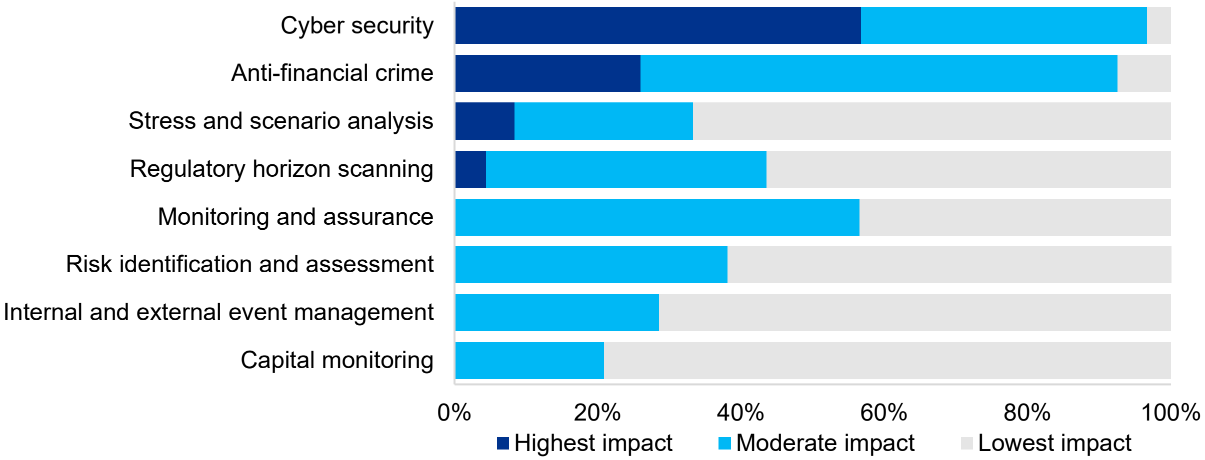
Technology risks and adoption of technology in Risk functions

Participants expect cyber security and financial crime risk processes be impacted the most by digitalisation and disruptive technologies.

Trends in the data

- Nearly all firms highlighted the potential impact on cyber security presented by digitalisation and disruptive technologies. This is consistent with last year's survey where this was also the top issue. Almost all firms also expect financial crime to be heavily impacted by these changes.
- Risk and Compliance functions typically implement a range of technologies to support their capabilities. Over 75% of firms use a Governance, Risk and Compliance ("GRC") system. This is usually supported with cloud base storage and internal/external data analytics tools.
- Nearly 70% of firms are considering implementation of new technologies within Risk and Compliance, with cloud-based analytic solutions, AI and machine learning, and process automation key areas of focus.

Areas of risk management firms expect will be impacted by digitisation and disruptive technologies



Top three most widely used technologies in Risk and Compliance functions

67% Utilise some form of Cloud data storage

67% Use internal data analytics tools

63% Use external data analytics tools

Top three emerging and new technologies Risk and Compliance functions are considering

01 Cloud-based analytics solutions

02 Artificial Intelligence and machine learning

03 Process automation

KPMG View

Firms see both cyber security and financial crime as areas of risk management most likely to be impacted by digitisation and disruptive technologies. This impacts both risk profiles (which are constantly evolving for these risks) and the risk management processes implemented in response. In our experience these are also areas where firms have heavily invested in both new technology and additional skills and capabilities to help mitigate risks. We expect this to continue as the impact of digital transformation of operating models is likely to continue to cause risk pressures.

Technology adoption in Risk and Compliance functions is now widespread across the industry, with the majority of firms using a GRC system as a baseline Risk/Compliance tool. We have also worked with a number of firms to upgrade their GRC tooling to benefit from new technologies (such as using real time dashboards for risk reporting). In the short term, we also expect many firms to invest in process automation, artificial intelligence and machine learning tools. We are seeing success using these tools to support regulatory horizon scanning and connectivity to obligations categorised by legal entity, jurisdiction, function, process, risk and control.

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Evolving areas of regulation

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Consumer Duty

Consumer Duty is a key priority area of the FCA. Many firms, however, are still focussed on carrying over 'Day 1' requirements.

Trends in the data

- While Consumer Duty came into force in July 2023, many firms (44%) still intend to focus on 'Day 1' implementation activities in the next 12 months.
- The approach to embedding Consumer Duty in governance frameworks shows that the vast majority of firms (85% of participants) have integrated Consumer Duty specific oversight into their existing governance structures. Only 9% of participants established new specific customer committees.
- Over the next 12 months, the top three areas of focus for firms are management information and internal reporting (84%), price and value (75%), and outcomes testing (63%).

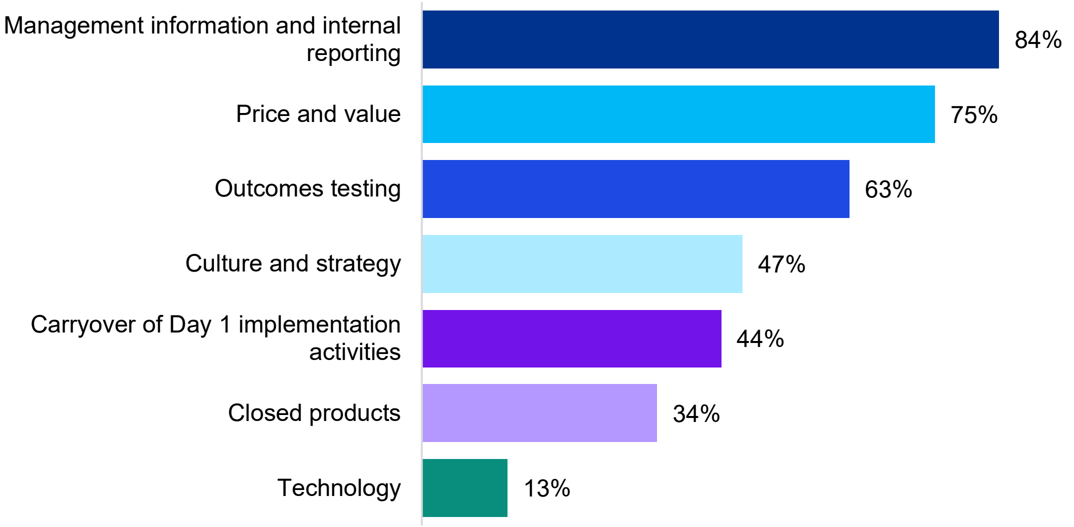
Status and approaches to Consumer Duty implementation

44% of firms are focusing on carrying over 'Day 1' implementation

56% of firms updated their Risk Management Framework to consider Consumer Duty

9% of firms have established a new specific customer committee

Area of implementation that firms expect to focus on in the next 12 months



KPMG View

Consumer Duty implementation did not end with the entry into force of the rules on 31 July 2023. A substantial amount of work remains to embed new systems and processes and demonstrate the continuous learning and improvement that the FCA expects firms to be able to evidence.

Key areas of focus for asset managers include the further development of management information and internal reporting and testing customer outcomes, particularly with a view to producing the first iteration of the annual Consumer Duty Board Report.

Price and value is also going to continue to be a focus as fund managers process and react to the FCA s 2023 Assessment of Value supervisory findings as well as changes in the competitive environment on pricing structure and strategy. Activity based cost allocation and product level profitability is a specific challenge for all firms.

Given the close links with MI and its critical ability in supporting the delivery of a robust and efficient Consumer Duty operating model, it is surprising that technology is not an area of focus for more asset managers.

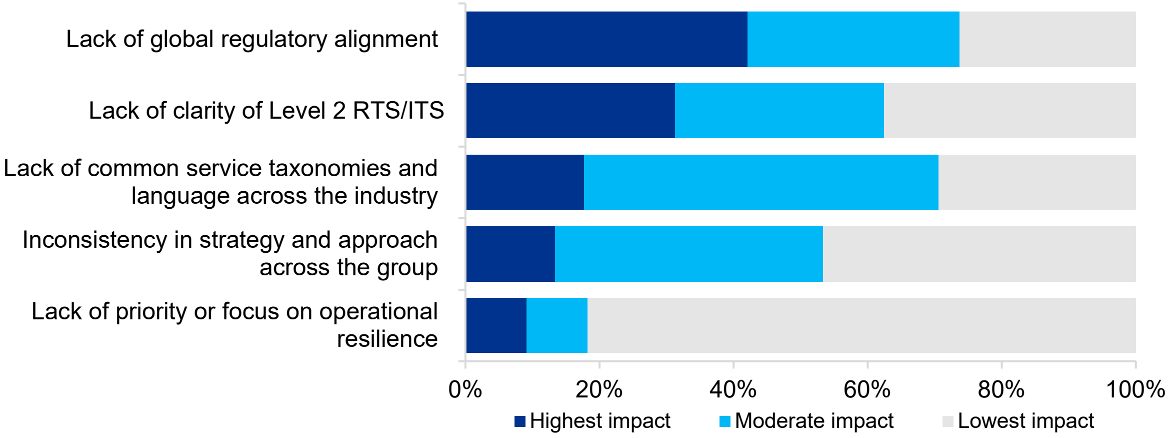
Digital Operational Resilience Act

The EU Digital Operational Resilience Act (DORA) is likely to impact all investment managers with activities in the EU and potentially those that provide services to EU entities. Firms are clearly concerned around implementation challenges given the scope and complexity of the prescriptive nature of DORA requirements.

Trends in the data

- DORA implementation programmes at all firms are in development. Of the 49% of firms in the survey who expect to be in scope, 30% have not yet fully established their implementation programme.
- 30% of firms subject to DORA have already completed their initial gap analysis.
- No firms have completed the design of their target operating model for DORA compliance.
- 39% of survey participants identified Digital Operational Resilience testing as the most impactful DORA topic. However, some participants with significant third parties identified the management of third party risk as a key area of focus.

Most impactful challenges for DORA implementation



Key areas of focus

01 Digital Operational Resilience testing

02 Management of Third Party risk

03 ICT Risk Management

Implementation priorities

01 Gap analysis of current capabilities against DORA

02 Mapping existing regulations to DORA

03 Analysis of scope and applicability of DORA

KPMG View

Resilience is a competitive advantage in the marketplace and presents a strategic opportunity to earn customer and regulatory trust. Regulators expect this to be a board level priority with a clear tone from the top.

Firms need to act fast on mobilising their DORA programmes with a clear focus to harmonize multiple operational resilience initiatives to capitalize on potential synergies.

This is key as digital resilience is a subset of operational resilience and a lot of foundational work done under existing initiatives can be well leveraged to achieve DORA readiness. An integrated approach will drive immediate and longer term operating model synergies and cost benefits across programme and BAU activities.

Firms can also view this as an opportunity to standardise multiple taxonomies across resilience, risk & recovery landscape. This standardisation can lead to a multitude of benefits as supervisors & clients will be able to see a consistent view across varied reporting requirements e.g. Incident notification, vulnerability postures etc.

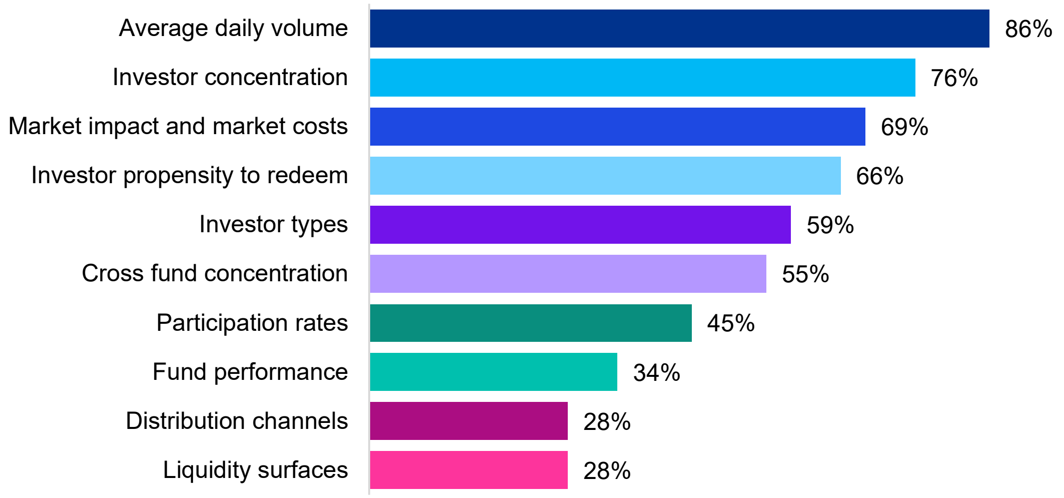
Fund Liquidity Risk Management

There is divergence across firms in terms of governance over fund liquidity risk management and how this is embedded in the risk framework.

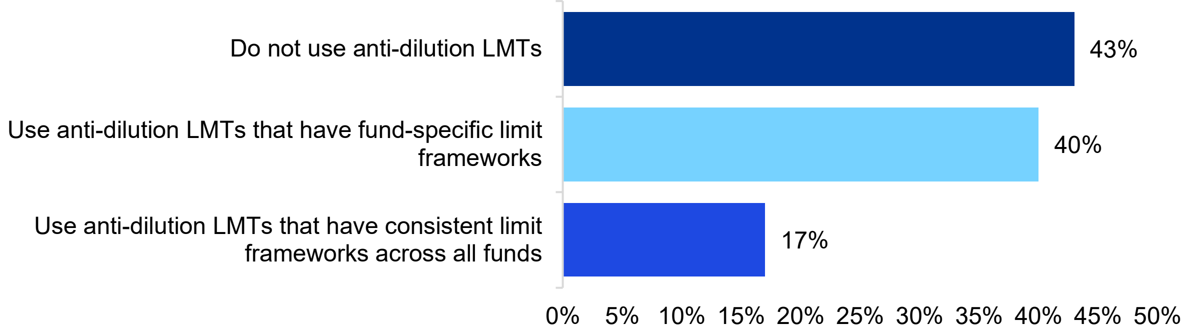
Trends in the data

- Governance arrangements for fund liquidity risk management oversight differ across all firms. 22% use their Enterprise Risk and Compliance Committee, 16% use a standalone Fund Liquidity Risk Committee and 16% their Investment Risk Committee.
- When managing fund level liquidity risk, participants are evenly split between considering this as a component of investment risk or as an individually defined risk with set appetite and tolerances (39% of participants use each approach, with the remaining 22% adopting different approaches).
- For fund stress testing, all participants consider at least two input variables across stress testing scenarios (e.g. average daily volume and investor concentration). Over 70% of firms consider five or more input variables when performing fund liquidity stress testing.

Most commonly used fund liquidity stress testing input variables



Use of fund liquidity management tools



KPMG View

This topic continues to be a focus at global level, with the Financial Stability Board and IOSCO having recently finalised their recommendations and guidance on liquidity management tools respectively. In their July 2023 multi firm review publication, the FCA highlighted concerns in relation to firms liquidity risk governance frameworks and controls.

We can clearly see significant divergence between firms on how they consider, manage and oversee liquidity within their funds. While different approaches may be acceptable and there not a defined standard market practice", robust governance arrangements are essential. With some firms working to connect relevant aspects of corporate and fund liquidity with operational resilience triggers.

Stress testing remains an area of concern for regulators. The survey data show firms consider a broad range of factors. However, the FCA have highlighted concerns around model assumptions, especially in relation to use of waterfall methodologies, and ensuring models are sufficiently reviewed and challenged. Responses show that use of LMTs significantly differs across participants. The FCA have hinted at more prescriptive guidance in relation to LMT usage, whilst in the EU the review of the AIFMD will tighten up requirements.

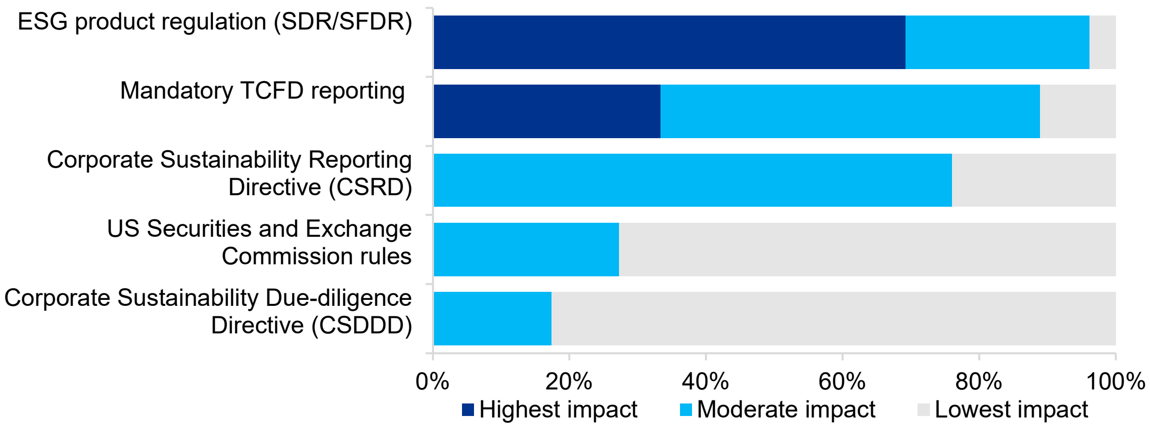
ESG regulatory change

ESG regulatory change is a key challenge for investment firms. Survey participants identified ESG product regulation as the most impactful.

Trends in the data

- For the UK SDR regulation, a majority of firms see product labelling and product level disclosures as the greatest implementation challenges. The anti-greenwashing rule was joint third, with naming and marketing restrictions fourth most impactful.
- 59% of firms have dedicated ESG-focussed committees, whilst 24% have integrated ESG considerations into existing committees or set up focus groups which input into broader committees.
- 58% of participants have no individuals performing specific sustainability roles within the second line. Where firms do have this capability, teams are typically small (a median FTE of 2).

Most impactful ESG regulations



Approach to embedding ESG risks

41% Included ESG specific risks within existing risk taxonomy

30% Assessed how existing risks may be impacted by ESG

18% Included ESG as a standalone areas of their risk framework

11% Other

Processes firms have implemented to monitor greenwashing risk

- 60% of firms perform regular product reviews of ESG-badged products.
- 60% of firms conduct periodic anti-greenwashing or more general ESG training for relevant staff.
- 53% of firms have integrated greenwashing risk into the wider RMF.
- 25% of firms have conducted a thematic greenwashing review.

KPMG View

The volume and complexity of sustainability related regulatory change continues to present a significant challenge for wealth and asset managers. This is unlikely to abate over the coming year as firms implement the UK SDR requirements, CSRD moves up the agenda for firms with material EU operations and the staggered implementation of mandatory TCFD reporting is extended to smaller asset managers.

We have seen many firms adopting highly tactical solutions to address different sustainability related regulations. Now, firms are beginning to take a more strategic perspective on their operating model for integrating ESG into the investment process and reporting on sustainability matters. Aiming to develop a unified operating model designed to discharge as many regulatory obligations as possible while minimizing the operational burden on key functions. Leveraging the firms existing risk taxonomy to manage ESG risk should drive consistent internal risk management standards and enable more 'like for like' key risk and control comparisons.

This is likely to lead to better controls in the investment process, more robust and auditable reporting and a lower risk of greenwashing, which remains very high on the agenda of regulators across the globe.

03

Capital and liquidity requirements

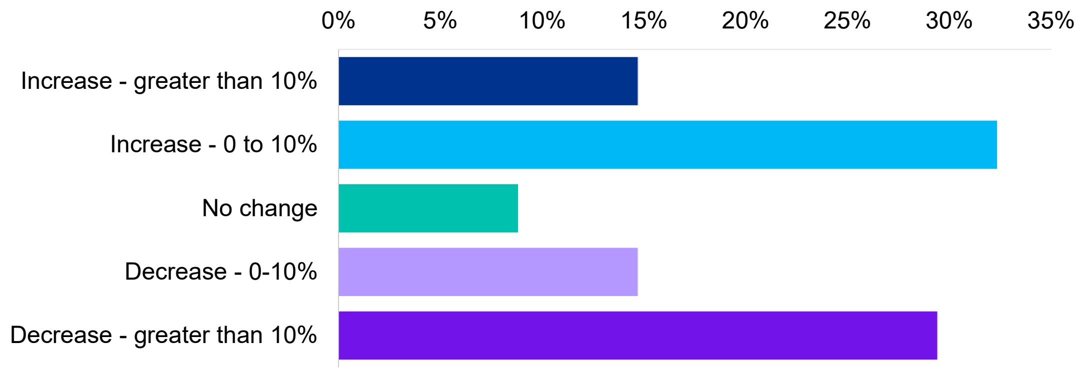
Changes in capital and liquidity requirements in 2023

Year-on-year changes in capital and liquidity requirements vary and there is no clear trend across the industry of increases or decreases.

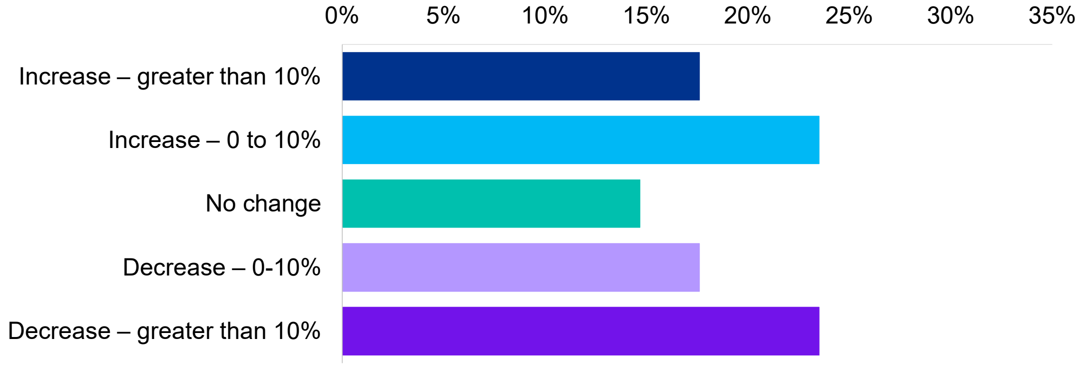
Trends in the data

- 47% of firms have seen an increase in their overall capital requirements.
- 42% of firms have seen an increase in their liquidity requirements.
- 44% of firms have reductions in their overall capital requirements. Over 90% of these firms had been subject to a regulatory add-on following a review by the FCA under the previous regulatory regime. These regulatory add-ons have now ceased to apply and firm capital requirements have reduced as a result.

Change in capital requirements for firms between 2022 and 2023



Change in liquidity requirements for firms between 2022 and 2023



KPMG View

Two years into the new prudential regime, our survey shows that changes in capital and liquidity requirements are driven predominantly by firm self assessments and the removal of FCA requirements. For a small number of firms increases are due to FCA feedback on their ICARA and WDP processes following a SREP (which we assess later in the survey).

For some investment managers, 2023 was a testing year with challenges in some markets and net outflows reducing AUM. For these firms, we would expect reductions in their financial resource assessments due to corresponding changes in their size and risk profile. The largest reductions were typically driven, however, by the expiration of capital guidance issued under the previous regime (which was significantly higher than self assessments for some firms).

On the other hand, firms with higher requirements were more likely to identify less significant increases (between 0 10%) for both capital and liquidity. This likely reflects incremental growth, as opposed to significant shifts in risk profile.

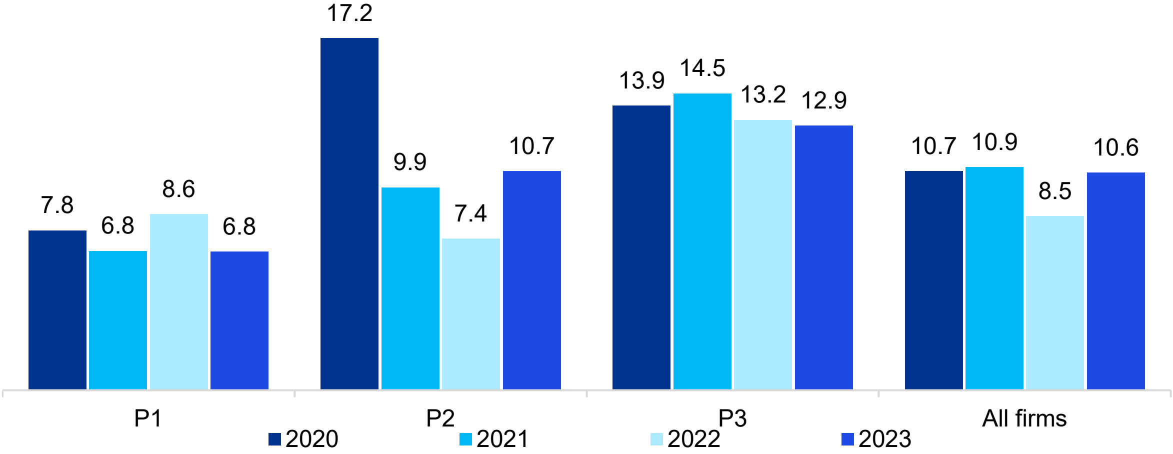
Overall capital requirements

Overall capital requirements as a proportion of AUM/A remain broadly stable year-on-year. Larger firms continue to have proportionally lower requirements than smaller firms.

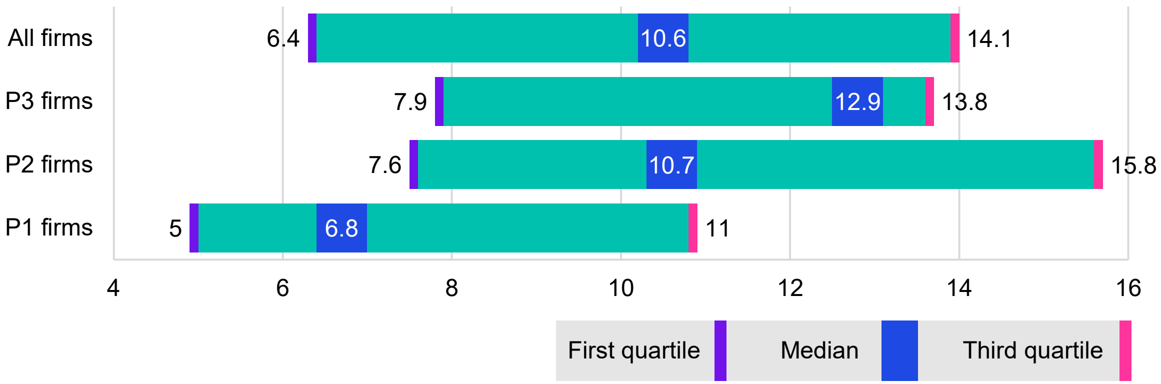
Trends in the data

- The median capital requirement for P1 firms has decreased to 6.8bps of AUM/A (2022: 8.6). A significant driver for this is removal of previous capital guidance issued by the regulator under the pre-IFPR regime. Many P1 firms have been subject to a SREP, however, only a limited number received capital add-ons.
- For P2 firms, the median requirement has increased to 10.7bps (2022: 7.4). P2 firms have the widest observed variance, with a significant range of proportional requirements across survey participants.
- P3 firms continue to have the proportionally greatest requirements. This is relatively stable year-on-year. None of these firms have been subject to FCA supervisory reviews and, therefore, requirements reflect their own self-assessments.

Median overall capital requirements as a proportion of AUM/A (in basis points)



Distribution of overall capital requirements as a proportion of AUM/A (in basis points)



KPMG View

Reductions in requirements for the largest investment management firms are a reflection of a trend in FCA reviews whereby fewer firms receive capital add ons than under the previous regime. Many firms will welcome this as a signal that the FCA is taking a more proportionate approach to prudential supervision for the investment management industry.

Significant dispersion in requirements shows that there is no one size fits all approach to capital for investment managers. We typically see significant variances between firms who have similar business models on the surface.

Throughout recent years, our survey has always shown that smaller firms hold proportionally more capital than larger ones. This potentially constrains the ability of smaller firms to invest in and grow their business. We expect some of these firms to re assess their approaches to capital and liquidity assessments in coming years given this challenge. There is an opportunity for them to adopt more sophisticated approaches to risk assessments and potentially reduce requirements as a result.

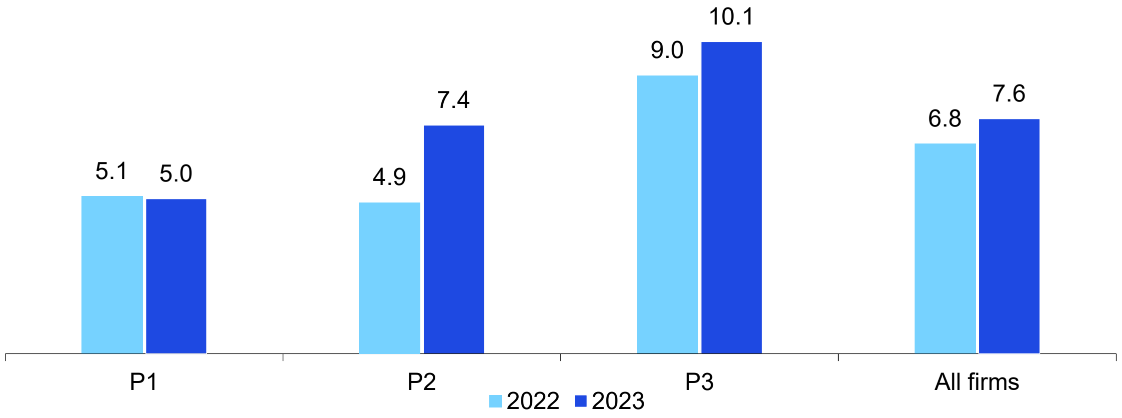
Overall liquidity requirements

Liquidity requirements for smaller firms are also proportionally greater than larger ones.

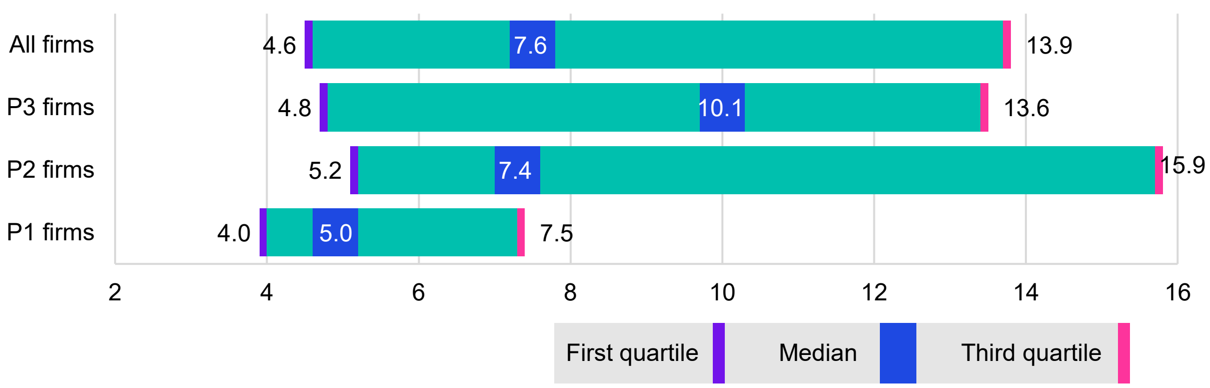
Trends in the data

- The smallest firms in our survey, P3 firms, hold a median of 10.1 bps of AUM/A as a liquidity requirement. In contrast, the largest firms hold a median of 5.0 bps of AUM/A as a liquidity requirement.
- There is significant variance in requirements within the P2 population where the largest liquidity requirements are typically driven by wind-down assessments.
- Across all firms, the median overall liquidity requirement is 138% of their fixed overheads requirement. This suggests most firms hold at least three months of fixed costs through their regulatory liquidity requirement.

Median overall liquidity requirements as a proportion of AUM/A (in basis points)



Distribution of overall liquidity requirements as a proportion of AUM/A (in basis points)



KPMG View

With IFPR being in force for two years now, our benchmarking shows liquidity requirements across all firms are relatively stable. As with capital, larger firms hold proportionally lower requirements. This could be due to these organisations benefitting from economies of scale in a wind down (which is a significant liquidity requirement for some firms) or due to more sophisticated approaches adopted to liquidity risk management.

We also see significant levels of dispersion across different firm types (particularly in the P2 firm category). In our experience, some firms can be overly conservative in their liquidity risk assessments and this may explain particularly high levels of requirement for some.

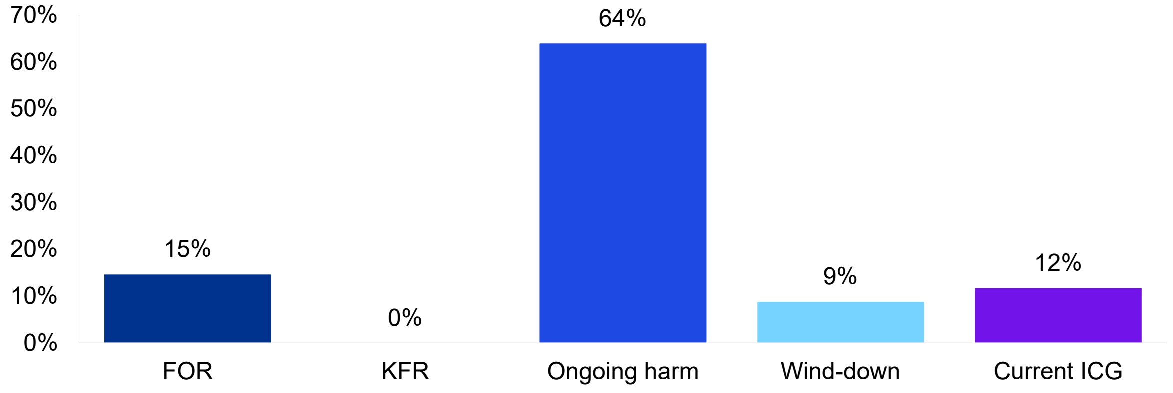
We expect many to re assess their approaches to liquidity risk assessments under the ICARA in the next year. This may be driven by additional FCA guidance on what good looks like' and the significant levels of requirement some firms have self assessed.

Drivers of capital and liquidity requirements

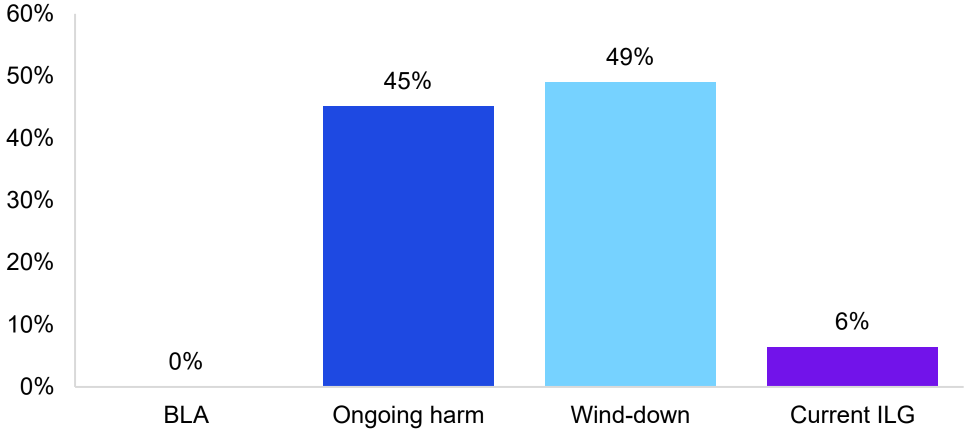
Capital requirements are driven by the ICARA assessment of ongoing harms for the majority of firms. For liquidity the opposite is true, requirements are driven by the wind-down assessment.

- For capital, on average, the ongoing harm assessment is 33% higher than the wind-down assessment. This reflects that many firms self-assess significant levels of capital to cover harms arising from risks linked to ongoing operations.
- In last year's survey 48% of participants had capital requirements set by transitional ICG requirements. Following the expiry of these requirements and the first round of FCA supervisory reviews, only 12% of participants have requirements set by the FCA.
- For liquidity, only 23% of P1 and P2 firms assess their wind-down liquidity requirement to be greater than the ongoing harm assessment. 67% for P3 firms, however, have identified the liquidity required to wind-down is the binding constraint in their business.
- For the first time, 6% of firms have a liquidity requirement set by the FCA.

Overall capital requirements: driver of the capital requirement for each firm



Overall liquidity requirements: driver of the liquidity requirement for each firm



KPMG View

We expect the majority of firms to self assess both capital and liquidity requirements to be higher than the regulatory minimum. In our experience, the 15% of firms who have not identified any additional capital requirements above these are likely to be challenged by the FCA on their approach to the assessment.

We continue to see a trend of the ongoing harm assessment driving capital requirements. This reflects the significant exposure investment management firms have to operational risks.

For liquidity, wind down becomes the binding capital constraint for almost half of firms. This likely reflects that winding down is a liquidity intensive exercise and that many firms have evolved their approach to this in recent years due to publication of FCA guidance.

The FCA has always set capital requirements for investment managers. Setting of liquidity requirements for the first time shows the regulator is willing to use new powers provided to them under the IFPR. In our experience, firms are issued liquidity requirements where their liquidity risk framework or wind down plans have significant weaknesses.

04 The ICARA

Capital requirement assessments in the ICARA

Operational risk continues to be the most significant risk for survey participants. Typically this forms over 80% of a firm's capital requirement.

Trends in the data

- One of the key changes in the IFPR regime is a removal of minimum regulatory capital requirements for credit and market risk. Survey participants, however, continue to hold capital for these risks based on their own self-assessments (credit risk: 79%, market risk: 73%).
- Larger firms typically hold proportionally more capital for credit risk compared to other participants.
- Smaller firms typically hold proportionally more capital for market risk compared to other participants.
- 27% of survey participants also hold capital for other risk types (such as group risk or pension obligation risk). Typically, this formed 7% of their capital requirement.

Percentage of firms holding capital for harm arising from the following risk types

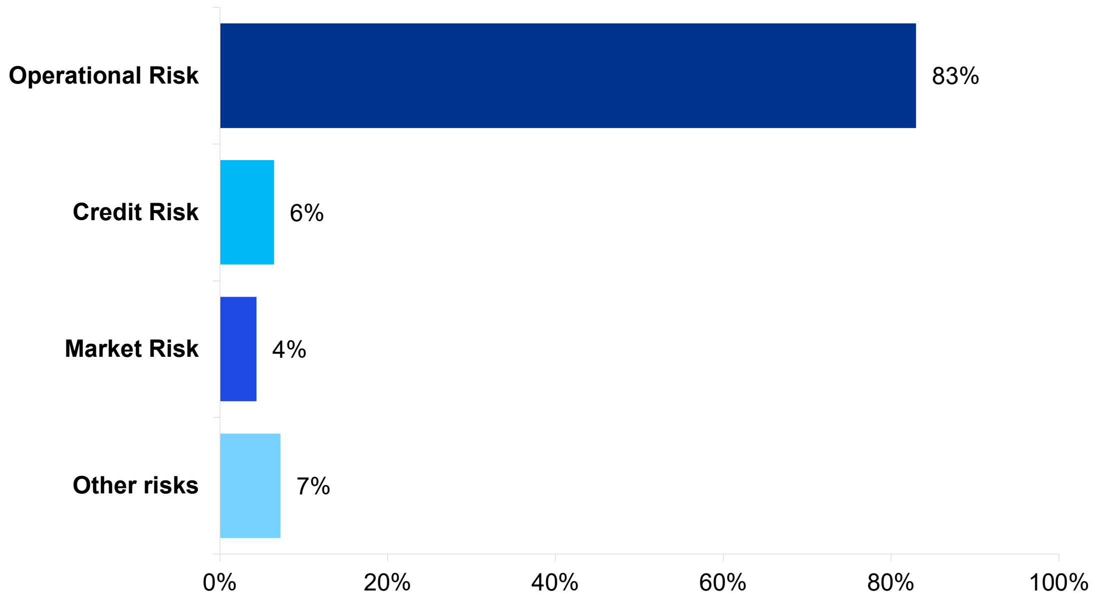
100% Operational risk

79% Credit risk

73% Market risk

27% Other risks

Median percentage of capital held for each risk type as part of the harm assessment



KPMG View

Operational risk is the most significant risk investment management firms are exposed to and, therefore, this is a core part of the ongoing harm assessment for all firms and we would expect this to form the vast majority of an investment management firm s capital requirement.

While the new regime removed market and credit risk requirements for all firms, we have observed FCA focus on these risk assessments through the SREP. Therefore, firms who perform a self assessment and hold capital for this risk are more likely to meet regulatory expectations. In our experience, significant FCA scrutiny on these risk areas is typically also result of more significant exposures to these risks for some investment firms.

Assessments of other risks (e.g. pension obligation risk, transition risk, group risk) are usually driven by firm specific risk profiles. Group risk continues to be an area of FCA focus during the SREP and, while we would not expect all firms to hold capital for this, all firms part of a group are required to formally assess this in the ICARA.

KPMG

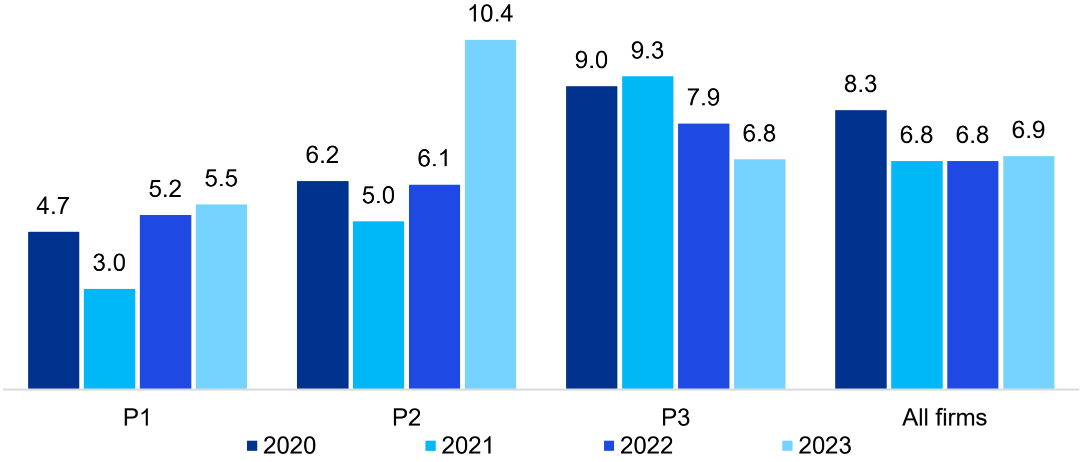
Operational risk capital requirements

Last year we highlighted how operational risk requirements for the largest firms had begun to increase, while the opposite was true for smaller firms. This trend has continued.

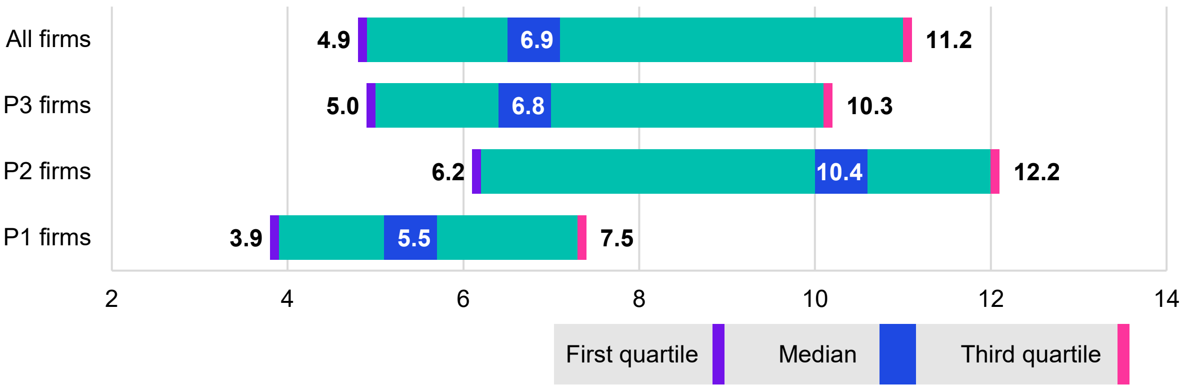
Trends in the data

- Proportionally, P1 firms hold 5.5bps of capital as a proportion of AUM/A for operational risk, an amount broadly consistent with 2022. P2 firms hold 10.4bps and P3 firms 6.8bps. For P2 firms this represents a significant year-on-year increase. However, further analysis shows that this increase is driven by changes in the survey participants as opposed to year-on-year increases across firms across the board.
- This year, we have included data on the range of operational risk capital assessments across different prudential categories. This shows that assessments can vary significantly. For all firms in our survey, at the first quartile the proportional requirement is 4.9 bps of AUM. At the third quartile this more than doubles to 11.2 bps of AUM.

Median operational risk requirements as a proportion of AUM/A (in basis points)



Distribution of operational risk requirements as a proportion of AUM/A (in basis points)



KPMG View

In our experience, many, if not all firms, continued to use the same approach to assessing operational risk under the IFPR regime. In 2023, this continues to be the case with many firms adopting the same assessment. Therefore, we would not expect significant variability in proportion of AUM/A year on year.

The dispersion of operational risk assessments shows both that these assessment are highly judgmental and that investment management firms have significantly different risk profiles. The simplest firms providing a limited number of services to institutional clients are typically far more likely to have lower requirements than more complex firms with a broad range of products and client types.

Approaches to operational risk assessments

Operational risk capital assessment approaches are largely consistent year on year, with few firms changing their approach.

Trends in the data

- On a median basis, survey participants are modelling fewer operational risk scenarios across several of the Basel categories compared to previous years. In 2023, participants modelled a median of 10 operational risk scenarios, compared to 12 in 2022.
- 56% of firms use a statistical model to assess operational risk (2022: 48%).
- Where firms use a statistical model, 75% assume some form of diversification benefit (i.e. assuming that not all scenarios will occur in the same time period). Where firms use diversification, the median reduction in capital requirements is 32% (2022: 31%).
- Firms using statistical models typically hold proportionally less operational risk capital.
- Only 8% of survey participants reduce their capital requirements by using insurance as a mitigant for operational risk. Where firms use insurance, the median reduction in capital requirements is 7% (2022: 15%).

Median number of operational risk scenarios by Basel category

Basel category	Median number
Execution, delivery and process management	2
Clients, products and business practices	2
Business disruption and system failures	2
Employment practices and workplace safety	1
External fraud	1
Internal fraud	1
Damage to physical assets	0

Diversification benefit use in assessments using a model

75%
Firms using operational risk diversification in a statistical model

32%
Median capital reduction applied in a statistical model

Insurance mitigation use in all assessments

8%
Firms using insurance mitigation

7%
Median capital reduction applied

KPMG View

Operational risk capital assessments are typically open to significant amounts of expert judgement and subjectivity. Recent FCA guidance is clear that there is a continued expectation that firms clearly link their risk management framework and ongoing risk assessments (e.g. RCSAs) to scenario analysis performed for operational risk and this is the area we often see firms falling short.

We continue to see smaller firms adopting simpler approaches and opting not to use statistical models for capital quantification. Our survey, however, shows this typically results in higher capital requirements.

Where a model is used, 25% of firms do not apply any diversification to operational risk scenarios. Diversification would reduce requirements and these firms may start to consider applying diversification now that we are two years into the new regime.

Recent FCA publications have set out expectations that, where models are used, firms should be able to demonstrate robust model risk governance and independent validation processes. Therefore, we expect use of models in operational risk to be an area of focus under the SREP in future years.

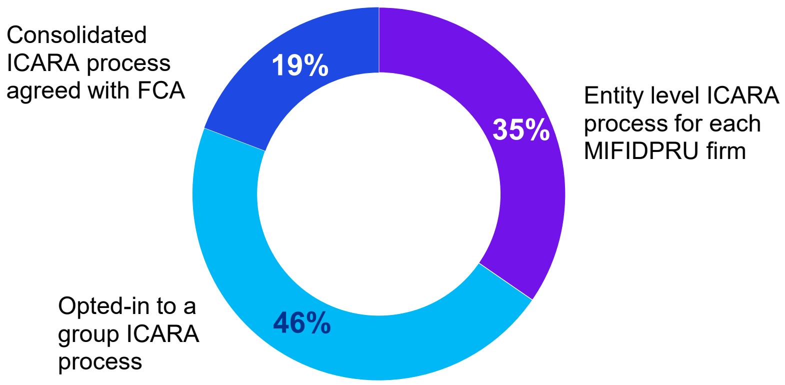
Approaches to the ICARA for firms in a group

Where firms are included in an investment firm group, the majority perform the ICARA assessment on a group basis.

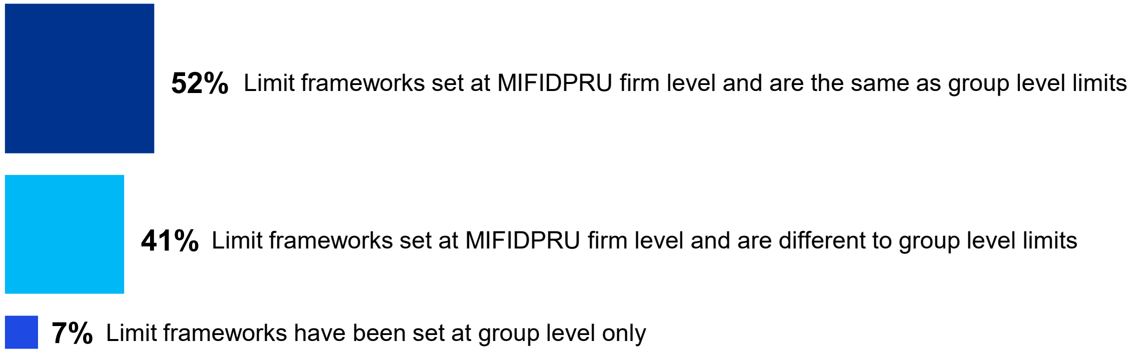
Trends in the data

- As part of the group ICARA process, firms typically allocate capital to underlying entities using either a metric-based allocation (e.g. by AUM, headcount) or an activity-based allocation (based on the underlying risks and activities of each entity).
- 38% of firms in a group have identified increased entity requirements following the allocation of capital from a group ICARA process. None of these firms received capital add-ons through the SREP.
- When cascading group level limit frameworks, firms which approved these on an entity level and made entity specific adjustments did not receive any FCA add-on. Conversely, firms who did not make any entity specific adjustments were more likely to receive FCA feedback regarding their risk management arrangements.

Approaches to the ICARA process where firms are part of an investment firm group



Approaches to limit frameworks where firms are part of an investment firm group



KPMG View

Recent FCA publications have focused on the approaches adopted by firms who perform a group ICARA process. In our experience, many firms opted in to this process as part of IFPR implementation as it reflects the way in which they manage risk within their business. Our survey shows this continues to be adopted by almost half of firms. The FCA has also already used their powers under the IFPR rules to mandate a consolidated ICARA process, which is an additional requirement, for some firms.

Firms must clearly demonstrate they meet a range of criteria to perform a group ICARA this process. This includes assessing that entity level capital is appropriate and setting limit frameworks in regulated entities. Our survey shows the ones who were unable to do so were more likely to receive capital add ons through the SREP. We expect continued focus on firms performing a group ICARA and the approach to this under future supervisory reviews.

Leading firms in this area have sometimes made significant changes to both their Risk Management Frameworks (to better reflect an entity level view) and prudential assessments (i.e. the ICARA and WDP) ensure they can demonstrate a robust approach to the FCA.

05

Wind-down plans

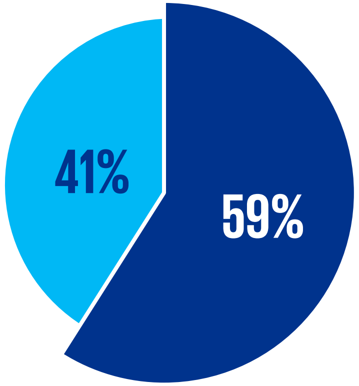
Key assumptions in wind-down plans

As wind-down planning matures, a consistent approach has been adopted across firms year-on-year.

Trends in the data

- The majority of firms assume a wind-down time period of at least 18 months which is in line with previous years.
- Industry participants also continue to assume either a full liquidation of client portfolios (59%) or a transfer to a third party (41%) in a wind-down scenario.
- 94% of firms assume that they continue to generate revenue during the early stages of wind-down, decreasing in proportion with the business winding down.
- 62% of firms assume that they will pay between 50% an 100% retention bonuses to their key employees as part of their wind-down plan, with only 12% not modelling any form of retention bonus.
- For firms in a group, 60% of firms have a single wind-down plan document, with 40% producing a full wind-down plan document for each in-scope entity

Wind-down scenario approach



- Full liquidation/termination of client relationships
- Transfer/sale of a book of business but for a notional amount (i.e. sale value is £1)

Approach to wind-down planning within groups

- **40%** Full wind-down plans for each in-scope entity
- **30%** Single wind-down plan, with an appendix for each in-scope entity
- **26%** Single wind-down plan, with each in-scope entity discussed throughout the document
- **4%** Single Group focused wind-down plan

Most common issues identified in wind-down plans by the FCA

- **100%** Robustness of wind-down planning document
- **75%** Triggers and early warning indicators
- **63%** Assumptions within wind-down plan
- **63%** Level of stress in scenario
- **50%** Liquidity modelling in plan

KPMG View

Wind down planning is a significant area of FCA focus for all firms subject to FCA review. In our experience, the FCA expects firms to implement a separate wind down planning document to the ICARA assessment and for a detailed assessment of the operational steps required to wind down. While the core assumptions in plans remain consistent across the industry, where firms typically fall short is by not having a plan that is sufficiently detailed (including meeting all FCA guidance), practical and maintained on an ongoing basis. For many firms, this can occur where changes to the business are not reflected in an updated plan.

This is reflected in FCA feedback to firms subject to the SREP where the key issues raised are around the robustness of plans and the wind down triggers firms have embedded in the risk management framework.

In our experience, firms with leading wind down plans are able to demonstrate robust governance of the plan (including ownership by the business), clear roles and responsibilities for maintaining the plan, significant levels of business engagement in the planning process and integration into the Risk Management Framework.

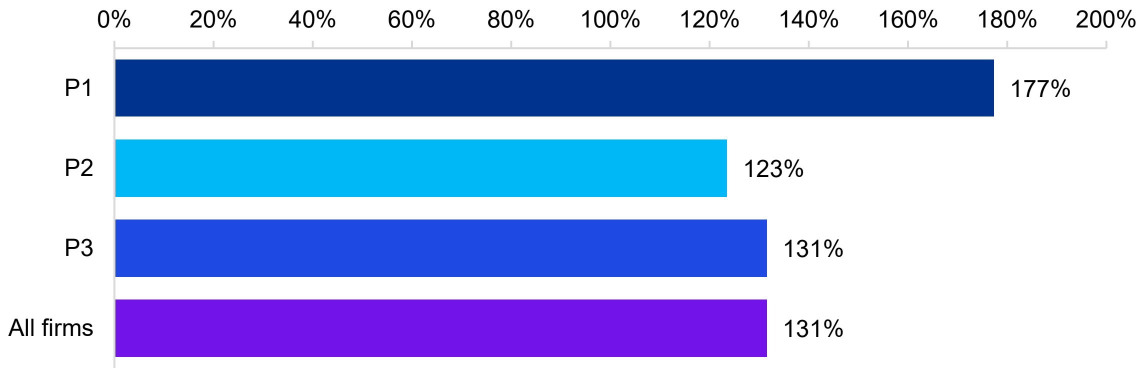
Adequate financial resource assessments

Compared to ongoing costs, the wind-down capital and liquidity requirements for larger firms are proportionally higher than for smaller firms.

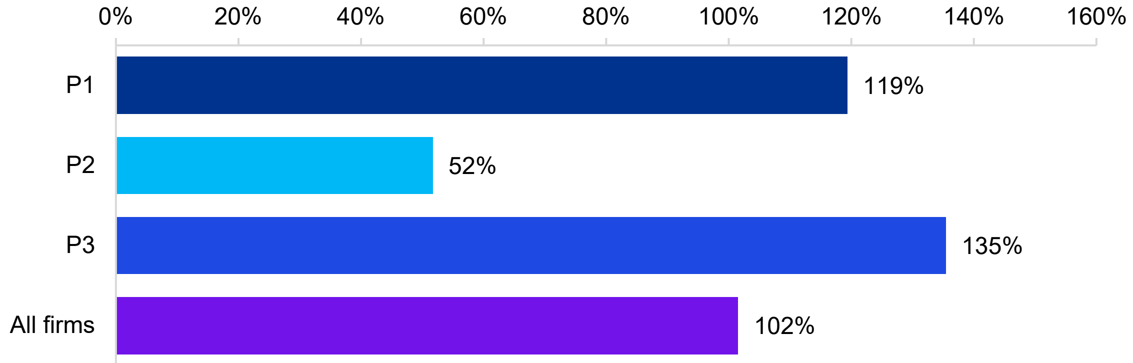
Trends in the data

- Comparing the costs of wind-down reported by surveyed firms against the fixed overheads requirement we see that for larger and more complex firms, the median cost of wind-down is 177% (2022: 183%) of the FOR. For smaller firms, this figure is 131% (2022: 136%).
- When we consider the liquidity requirement the same relationship appears to exist.
- We have also observed that some firms have equal requirements (6%), this indicates that they may not have performed liquidity specific wind-down modelling or considered the potential impact of winding down their balance sheet. Additionally, 24% of firms had a bigger wind-down liquidity requirement compared to capital requirement.
- The cashflow modelling performed by firms typically considers monthly cashflows (79%). 12% of firms perform daily cashflow analysis as part of their wind-down plan modelling.

Median wind-down capital requirement as a proportion of the FOR



Median wind-down liquidity requirement as a proportion of the FOR



KPMG View

Financial resource assessments of the cost to wind down are a key area of focus under the IFPR regime. Our survey shows that some firms have weaknesses in this area where they do not meet FCA expectations, for example identifying the same capital and liquidity cost to wind down when regulatory guidance clearly expects these assessments to have differences.

Robust analysis of the cost to wind down is dependent on a detailed operational steps plan. This must be supplemented with key financial assumptions on the timing and size of cashflows in a wind down scenario. Regulatory focus in wind down is on the ability of a firm to ensure it can meet all funding obligations as they fall due. Therefore, we expect firms to perform detailed financial modelling of wind down costs on at least a monthly basis, with many firms opting to perform this on a more frequent basis (e.g. daily) where appropriate.

The SREP 06

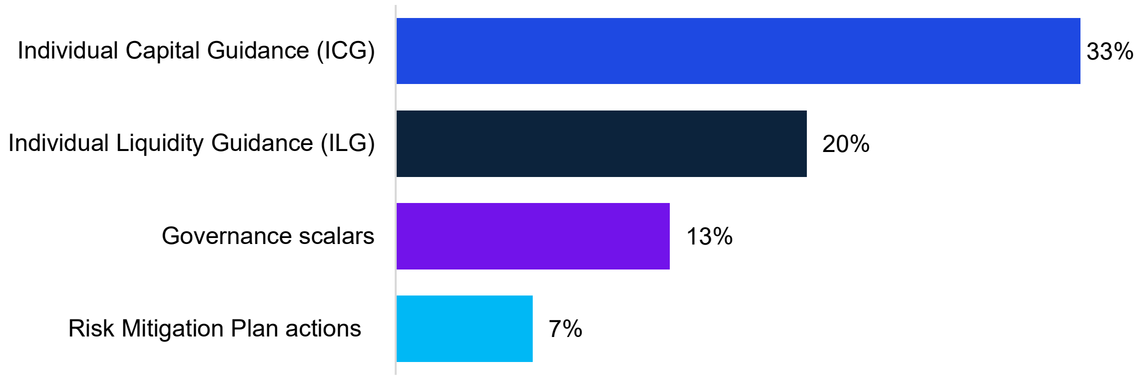
Outcomes of recent FCA SREPs

43% of survey participants have been subject to a SREP since the IFPR came into force. Of these firms, over 40% were issued with additional capital or liquidity requirements.

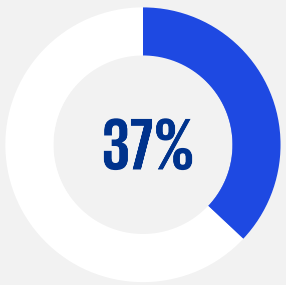
Trends in the data

- Prior to the IFPR coming into force, 89% of SREPs resulted in firms receiving an ICG. Under the IFPR this has decreased significantly, to only 33%.
- The FCA's use other regulatory tools has also decreased. Governance scalars were issued to 26% of firms pre-IFPR, compared to 13% in 2023. Risk Mitigation Plans were issued to 42% of firms pre-IFPR to only 7% in 2023.
- The median increase in capital requirements where firms are issued an ICG is 37%. This is higher than previous years where over half of firms had an increase of less than 25%.
- 20% of SREPs resulted in the FCA applying liquidity add-ons to firms. The median increase in liquidity requirements where firms are issued an ILG is 28%.

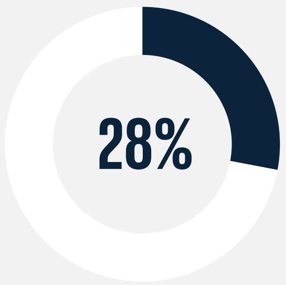
Outcomes of FCA SREP reviews since the IFPR came into force



Median impact of a capital add-on under the IFPR



Median impact of a liquidity add-on under the IFPR



KPMG View

This year s survey includes the results of firms subject to an IFPR supervisory review for the first time. This shows a clear change in the FCA s approach; fewer firms are receiving capital guidance from the regulator than under the previous regime. Many in the industry will welcome this as evidence that approaches to financial resource assessments have significantly improved since we started the survey in 2015. This also likely reflects that the FCA reviewed the largest firms in their first round of IFPR supervisory reviews. These firms are more likely to have mature approaches to financial resource assessments.

Where firms do receive add ons, however, these can still be significant and are more likely to lead to greater increases in capital compared to the previous regime. The FCA clearly still intends to issue additional financial resource requirements where weaknesses are identified and to use other tools, such as risk mitigation plan actions, to ensure firms rectify these. In our experience, where firms do receive add ons, these can be removed once remediation is completed. Therefore, firms are able to mitigate the impact of higher requirements if actions are successfully implemented.

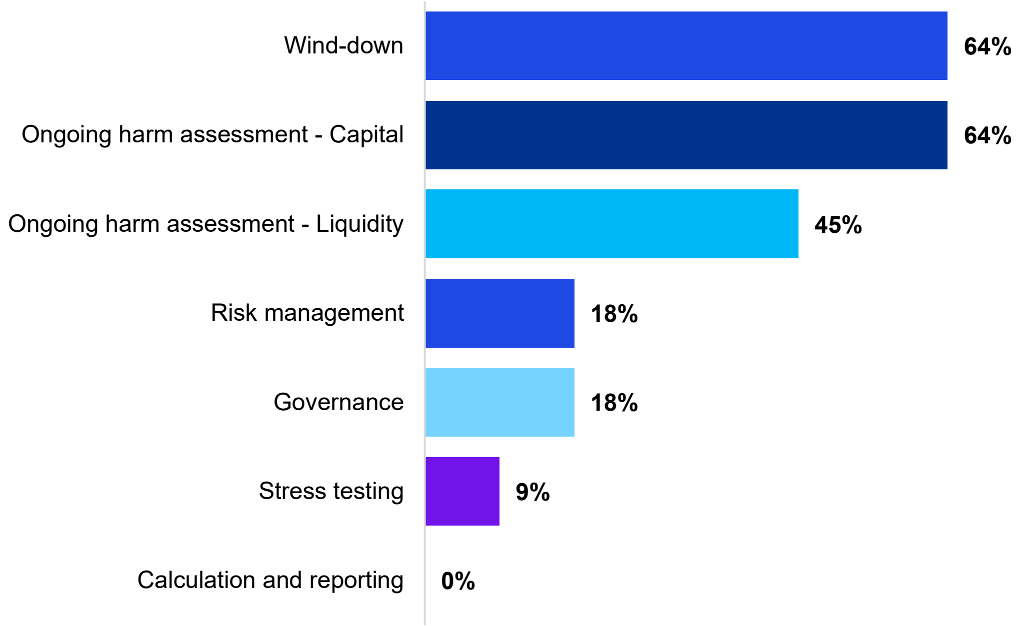
Key areas of FCA focus during the SREP

FCA feedback to firms focussed on their assessment of wind-down and their ongoing harm assessments.

Trends in the data

- Before the IFPR came into force, wind-down planning was the fourth most common issue raised as FCA feedback in our survey. In 2023, wind-down in now one of the most common issues raised during the SREP.
- 64% of survey participants subject to a SREP received feedback on their ongoing assessment of capital requirements. The most commonly raised points focused on operational risk modelling (58% of firms received feedback on this).
- 45% of these firms also received FCA feedback on their ongoing liquidity assessment.
- Prior to the IFPR coming into force, stress testing was the second most common area of FCA feedback in our survey. Under the IFPR, only 9% of firms received feedback on their stress testing.

Proportion of respondents stating they received FCA feedback on the following areas as a result the SREP



KPMG View

We ve outlined in earlier sections of our report how wind down planning is a significant area of FCA focus and this is shown in the feedback firms received during the SREP. In our experience, firms who receive significant FCA feedback typically do not have a separate wind down planning document, have gaps in their plan against FCA guidance documents and have focused predominantly on financial, instead of operational analysis.

Capital requirement assessments in the ICARA for ongoing harm are, unsurprisingly, a key area of FCA focus. The focus on operational risk modelling for some firms reflects the FCA s recent publication whereby weaknesses in modelling approaches were identified. As firms embed their assessment approaches in 2024, we expect refinements of methodologies for the approach to, and governance of, these risk assessments.

Historically, risk management and governance frameworks were a significant area of FCA feedback on the SREP. Relatively few firms receiving feedback on this indicates either greater maturity across the industry or that recent FCA reviews have focused on assessments of capital and liquidity in the ICARA and WDP.

07

How KPMG can help

How KPMG can help – Risk and Compliance transformation

Target operating model – design and implementation

Client challenges

A British banking group was experiencing continued difficulties within their existing compliance function. They asked for our support to design and implement a target operating model for their compliance function.

Our response

We worked closely with the client to design a bespoke operating model tailored to their compliance needs. We then guided them through the implementation process. We operated in a phased approach , deploying tactical solutions while longer term strategic solutions were developed.

Potential benefits

Once implemented, the new operating model significantly improved the efficiency and accuracy of the client's compliance function. Updated processes saved them time and resources while also enhancing their ability to meet regulatory requirements.

Enterprise risk management framework model refresh

Client challenges

A global banking group, with investment management activities partnered with KPMG to deliver enhancements to their enterprise risk management framework (ERMF).

Our response

We supported our client to conduct a complete refresh of their ERMF model. This included detailed analysis of their risk lifecycle model, how risks are identified, assessed, managed, monitored and reported. Each step in this lifecycle was assessed and refined. This included developing the existing Risk and Control Self Assessments (RCSA), implementing more automated processes.

Potential benefits

Our support led to the delivery of a more robust and effective enterprise risk management framework. The enhancements in their RCSA processes significantly reduced the time required and enabled the client to reorganise their Risk function to better deliver on their key responsibilities.

Risk function integration

Client challenges

A banking group going through an acquisition requested our support to integrate risk functions. Within their existing arrangements there were inconsistencies and inefficiencies, which were hampering their ability to effectively manage risk.

Our response

We stood up a dedicated integration team, who provided complete risk function integration support. We worked closely with the client to understand their specific challenges and needs. This includes creating a unified framework and providing guidance on best practices for integration projects based on our historic experience.

Potential benefits

Our project team delivered significant transformation to the client's risk management approach. We helped the client to establish a more cohesive and effective risk management framework, which improved their ability to identify, assess, and mitigate risks. This not only saved them from potential financial loses but also enhanced their operational efficiency and regulatory compliance.

Risk management – Global enhancement programme

Client challenges

A European client asked KPMG to overhaul their existing risk management framework. They required our assistance to develop their policies, procedures, RCSA, controls, risk appetite, Management Information and reporting.

Our response

We outlined an extensive project plan to revamp their risk management framework. Working closely with the client to develop policies and procedures, enhance their RCSA framework and controls, redefine their risk appetites and develop associated reporting. This was accompanied by significant developments to their wider Management Information and reporting processes..

Potential benefits

Our work led to a more complete and effective risk management framework for the client. They were able to better manage and escalate risks, leading to safer and more confident decision-making. The improved Management Information provided the client with more accurate and relevant data, enhancing their operational efficiency.

How KPMG can help – evolving areas of regulation

Review of fund liquidity risk management framework

Client challenges

A large UK investment manager was struggling to meet fund liquidity requirements under UK and EU regulations. They needed our help to review their Liquidity Risk Management Framework (LRMF) and ensure compliance.

Our response

We conducted a thorough review of their LRMF, identifying weaknesses and providing recommendations for improvement. We assessed the division of roles and responsibilities, handover processes, and reporting arrangements to senior management. We also advised on potential enhancements to their existing liquidity management tools and suggested additional tools which met the clients needs.

Potential benefits

Our review led to a robust and compliant LRMF, saving the client significant time and reducing the risk of regulatory penalties. They can now confidently manage their fund liquidity, allowing them to focus more on their core investment management activities.

DORA gap analysis and readiness review

Client challenges

Our client needed KPMG help to conduct a gap analysis of their existing operational resilience capabilities against the DORA requirements and to propose recommendation to close any gaps

Our response

We conducted a comprehensive gap analysis, comparing their current operational resilience capabilities with the DORA requirements. We identified areas where the client may not be meeting these requirements and proposed tailored recommendation to remediate these gaps.

Potential benefits

Our in-depth analysis and recommendation provided the client with a clear roadmap to enhance their operational resilience arrangements and comply with the DORA requirements. This not only saved them significant time in trying to navigate the complex regulatory landscape but also reduced the risk of non-compliance and potential penalties. With a more resilient operational framework in place, the client can now focus more on their core business activities, confident in their compliance with DORA.

Design and implementation of Consumer Duty programme

Client challenges

The asset management arm of a global financial services group was facing challenges in implementing Consumer Duty. They needed our assistance with distributor due diligence, oversight and information exchange, customer outcomes monitoring, development of MI and board reporting, and updates to policies and procedures. They also sought our insights on emerging industry developments related to Consumer Duty rules and FCA expectations.

Our response

We provided comprehensive support in all required areas, conducting distributor due diligence, overseeing information exchange, monitoring customer outcomes, developing MI and board reporting, and updating policies and procedures. We also shared our insights on emerging industry developments related to Consumer Duty rules and FCA expectations..

Potential benefits

Our support streamlined their Consumer Duty implementation, saving time and resources. They also gained valuable industry insights, helping them stay ahead of regulatory changes.

Global ESG programme implementation and ongoing support

Client challenges

A US-based asset manager with over $2 trillion AUM needed help implementing a Global ESG programme across their North America, Europe, and Asia operations. The programme included ESG reporting, data, ESG product roll-out, and regulatory reporting. They needed support to align and assess their investment team deliverables, operations, data, reporting, and technology team requirements.

Our response

We worked to ensure clear alignment across all areas. We conducted a detailed assessment of their requirements and capabilities, highlighting the scalability of the process and systems in their current state. We created detailed business and operational requirements for ESG products with a focus on Compliance technology and fund regulatory requirements.

Potential benefits

Our support streamlined their Global ESG programme implementation, saving them time and resources. They now have fully integrated, on-the-group support to further enable them to meet their ESG goals efficiently.

How KPMG can help – Financial Resilience

Board training session

Client challenges

Due to changes in Board membership, our client required external support in providing Board training to make all Board members aware of ICARA/WDP requirements and FCA expectations before going through a SREP.

Our response

We designed and delivered tailored training sessions for the Board and key stakeholders, focusing on the latest FCA areas of focus based on our direct experience of helping other firms in this area. Our team used real-world examples to clearly articulate the FCA's expectations and how they impacted each areas of the business. This included recapping on the firm's ICARA approach and the FCA's expectations for Board knowledge of these.

Potential benefits

Following our training sessions, each Board member had a clear understanding of the regulatory landscape, their ICARA process and areas the FCA would expect them to have knowledge of during the SREP.

Regulatory calculations, methodology and reporting review

Client challenges

Our client had a new Finance team in place and was facing challenges in the complexity of their methodologies and reporting for regulatory capital/liquidity. They were subject to a wider range of requirements across the group (for wealth managers, investment firms, and fund managers) and had multiple regulated entities.

Our response

We reviewed all of the client's calculation methodologies, including key interpretations, against FCA rules and guidance. We also reviewed all prudential regulatory reporting provided by the FCA to assess whether this was in line with regulatory requirements and guidance. Additionally, we performed a high-level assessment of the client's methodology and reporting control environment to identify any key gaps and provide recommendations for key controls.

Potential benefits

Our review enable Senior Management and the Finance team to obtain an independent external view on the accuracy of regulatory reporting and validation of key areas of judgement.

Review of ICARA document

Client challenges

Our client, a large UK asset manager, wanted to benchmark their ICARA document against peer firms following the completion of their first assessment under the IFPR rules.

Our response

We performed a comprehensive review of their ICARA document, assessing its alignment with regulatory requirements set out within the MIFIDPRU chapter of the FCA handbook, industry practice we observed at peers and our experience of FCA expectations through the SREP. We worked with the client to identify their peer group and provided an anonymised assessment of their approaches compared to peer firms. The outcome of this was a KPMG report with clear and pragmatic actions for the firm to implemented, scored from high to low.

Potential benefits

Our review enabled the client to understand the maturity of their ICARA process compared to peers, identify the key actions required to enhance the document and to prioritize these. This enabled the client to create an action project plan, allocate internal resources to higher priority areas and demonstrate the outcomes of this to the Board.

Implementation and enhancement of ICARA process

Client challenges

A listed UK wealth manager wanted to external support to implement an enhanced ICARA process following changes to Risk function personnel after the completion of their initial ICARA document.

Our response

We worked alongside the client to manager the ICARA enhancement project and provided SME insight into key areas, such as wind-down planning, stress testing, and operational risk modeling. We worked to build out the client's capabilities and held multiple workshops over the course of several weeks with all levels of staff (ranging from risk SMEs through to Board members). We identified areas for further future enhancement and recommended strategies to improve capital and liquidity efficiencies.

Potential benefits

With our support, the client successfully completed their ICARA enhancement project. Our work resulted in a more robust approach to the ICARA assessment and also resulted in changes to capital and liquidity requirements being supported by detailed rationale.

How KPMG can help – Financial Resilience

Operational risk model - Design and implementation

Client challenges

An existing client wanted to implement a more robust approach to quantifying operational risk across their organisation. This was a result of Board feedback on the process and them holding significantly more capital than peer firms.

Our response

We worked closely with the client to design a bespoke operational risk model which was tailored to their specific needs based on the risks to their business and the skills and capabilities of their Risk team. We advised them through the implementation process (including model build, parallel runs and final implementation), ensuring the model was understood by key stakeholders and supported by robust model documentation. We also providing training sessions to the Executive and the Board so that they were able to appropriately challenge it's output.

Potential benefits

Our implementation resulted in a robust and effective operational risk model owned by the firm. This enable the firm to adopt a more targeted and less judgmental approach to operational risk in the ICARA.

Operational risk model – Validation and testing

Client challenges

A large investment management firm needed a strategic partner to enhance their Model Risk Management function, including policy updates, validation planning, and model validation. They also required flexibility to increase resources during busy periods.

Our response

KPMG stepped in as a strategic partner, providing extensive support in updating policies and standards, validation planning, and model validation. We offered a managed service agreement that allowed the client to increase their resources during busy periods and provided oversight and additional review from our senior leadership. Our approach was tailored to the client's specific needs and aligned with industry best practices and standards.

Potential benefits

Our support enable to the client to obtain external validation of key models, for example for operational risk, and to enhance their overall model risk management and governance framework. This also enabled them to draw on support during key busy periods when resource was constrained.

Review of wind-down plan ad wind-down plan testing

Client challenges

Our client, a global asset manager with a significant European business across all asset classes, needed support through an external review of their wind-down plan following the publication of FCA guidance.

Our response

We conducted a full review of their wind-down plan, assessing its alignment with regulatory requirements, guidance and our experience of FCA feedback. We identified multiple areas for improvement and provided targeted recommendations, graded by priority, to enhance the plan's effectiveness. We also advised on appropriate approaches to winding down their balance sheet to ensure wind-down liquidity requirements were robustly assessed.

Potential benefits

Our review resulted in a robust and operational wind-down plan which met the FCA's expectations during the SREP.

We are now working with the client to test key components of their plan through Board and Executive 'fire drill' sessions to ensure it remains fit for purpose.

Wind-down plan remediation support

Client challenges

The asset management arm of a financial conglomerate required support in developing their wind-down plan following an FCA SREP.

Our response

KPMG worked alongside the firm to complete a wholesale overhaul of their wind-down plan. This included using a template document tested with the FCA, conducting a thorough analysis of the client's business operations through multiple workshops across all business functions to identify the key wind-down steps required and providing subject matter expertise on key areas of FCA scrutiny (e.g. liquidity, triggers). We also provided training and facilitated wind-down challenge sessions with the executive and the Board.

Potential benefits

Our support enabled the client to develop a more robust wind-down plan which was aligned with the regulators expectations and enabled them to address a Risk Mitigation Plan.

Contact us

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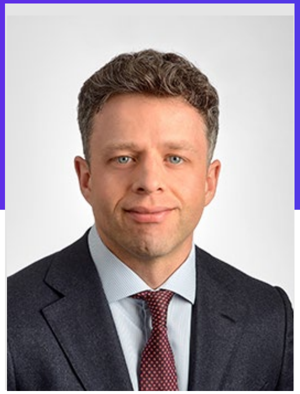

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