



A Strategy paper on the framework for the future development of Compliance Consultants' Professionalism and Competence

Introduction

The purpose of this paper is to propose an industry-led structure to maintain and further the development of competence and professionalism across the compliance consultancy sector. The paper sets out the benefits of a new strategic approach, identifying a series of objectives and proposes a framework of common standards. This paper provides a basis for starting that process.

In summary this paper focuses on the need to move the organisation forward.

There are three key drivers for change:

1. Enhancing the reputation of the APCC and its members within the industry as a whole.
2. Increasing the commercial advantage for APCC members in attracting new clients by being a member of an increasingly well respected body.
3. To provide independent assurance to the FSA and regulated firms that APCC members are a resource that will assist both the FSA in meeting its statutory objectives and regulated firms in meeting their compliance obligations.

The Association of Professional Compliance Consultants, or APCC, is the body for compliance consultants who advise firms regulated by the Financial Services Authority in the UK. The APCC commenced activity in 2004. The organisation has grown from a loose association of firms to a trade body and is now looking to become a professional body but without losing its role as a communications channel for all compliance consultants. To do this the organisation needs a more structured approach to membership and to be able call on more resources to support its objectives. For the reasons set out below we believe this will be to the benefit of the organisation's members, the compliance consultancy industry and regulated firms.

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1. Today's opportunity- The Regulatory Dividend

Regulatory developments such as Principle Based Regulation (PBR) and the Retail Distribution Review (RDR) have created a significant opportunity to move the APCC to a new position and to play a lead role in the further 'professionalising' of the compliance industry across all sectors.

The opportunity is not likely to be available indefinitely and so action needs to be taken now and resources marshalled to ensure the opportunity is maximised.

The FSA in the Compliance Consultancy Outsourcing Report (April 2007) and the RDR (paragraphs 3.33 to 3.35) recognises the important role undertaken by the consultancy industry but has expressed some concerns about the effectiveness of the compliance consultancy 'system'. In addition, it is also evident from the comments in the RDR, recent documents such as PBR plus discussions with the FSA that in future a 'Regulatory Dividend' is being considered for regulated firms who can display a strong compliant culture, progressive management, robust systems and a well capitalised and financially sound operation.

The compliance consultancy industry can play a vital part in helping firms achieve the Regulatory Dividend.

There have been strong indications that part of FSA's strategy is to encourage the development of a professional framework for regulated firms, with a particular impact on retail firms. The development of a professional framework for regulated firms leads inevitably to a need for the equivalent development for the consultancy profession. If the APCC, through its members, is to lead the industry in developing this framework then the APCC will need to:

- set standards for compliance consultants raising the overall effectiveness of consultancy, especially in the small firms retail sector;
- promote these standards so that the FSA and regulated firms recognise the overall value that compliance consultancies can add to their business; and
- establish a competency assurance system for these standards so that the FSA and regulated firms recognise those compliance consultancies who are able to undertake S166 (skilled persons reports) or similar projects

2. What does a Professional Framework look like?

A Professional Framework should contain the following attributes:

- a system of raising and maintaining standards;
- a framework that includes the ethical behaviour elements of professionalism as well as qualifications/experience and continuing professional education;
- contains certain barriers / hurdles to entry by setting minimum standards;
- a sign of quality that offers firms some degree of safe harbour and the FSA can publicly recognise;
- the opportunity to shape the future regulatory agenda and for instance achieve a more objective basis for awarding S166 commissions and to become a focal point for compliance issues, consultations and standards.

3. The Financial Services Skills Council Competency Standards as a Model

The Financial Services Skills Council (FSCC) has issued a suite of competency standards¹ for staff working in compliance and anti money laundering. These form a benchmark

¹ Details of the [Financial Services Skills Council Competency Framework](http://www.fssc.org.uk) can be found on www.fssc.org.uk. It is simple to register and the competency standards can then be downloaded.

against which potential recruits into the industry can be measured and has knock on effects for compliance consultants whose competency can be measured against these criteria.

An examination framework has been developed against these competency standards and further modules can be developed to test the competencies required as a compliance professional in the consultancy market. The APCC could approach suitable examining bodies to develop specific modules to meet the standards and create something complementary to the wealth of experience and existing professional qualifications already held by the very best consultants. This type of qualification could be a benchmark standard against which the FSA and the industry would be willing to accept consultants as suitable for S166 type work as an alternative to large 'big 4' type consultancy firms.

4. Future Direction

4.1 A new class of membership

The APCC is very keen to retain its current membership but in this developing regime it recognises that it will also need to have an additional class of membership, which takes firms to a higher level of competency and professionalism. This will enable the FSA, regulated firms and other stakeholders to recognise the key role played by the APCC and all its members in the Financial Services Industry.

This new class of membership will need to demonstrate certain increased standards; either through qualification, or experience or other transparent and credible criteria.

4.2 Maintaining membership standards

The APCC will need to have mechanisms for accepting, monitoring and continuing to develop its members; and to ultimately discipline/remove members if necessary. Currently barriers to entry are relatively low in comparison to other professional organisations in that whilst we have a solid code of ethics and a developing set of professional standards, we have a low fee structure, a benign application process and minimal on-going monitoring of member firms.

4.3 Developing compliance industry standards

The APCC is the natural body for setting and/or vetting of compliance industry standards and will need to be seen as such in order to develop its status as a professional body.

4.4 Resource Requirements

The APCC does not currently have the resources in place to be able to provide all the services it believes it now needs to provide and so will need to partner with other stakeholders within the financial services industry in order to achieve its objectives. A basis for collaboration is needed but the key point is that the APCC should take the leadership role, irrespective of its size.

Even with partnering with other industry stakeholders the proposed developments will lead to an increase in fees for all firms who are APCC members. We believe that this will however be amply repaid by the enhanced standing of the APCC and all its members.

5. Proposed Developments

1. To have classes of membership that reflects the range of activities, the experience and capabilities of consultants.
2. To introduce a system that recognises areas of expertise and to confirm the activities that the consultancy wishes to be involved with including new areas of expertise requiring development.
3. To introduce an appropriate 'hurdle to entry' as a professional consultancy that will take the current Code of Ethics and application process up a level by introducing a more robust method of becoming a member. It is anticipated that the costs for processing an application is likely to increase and this will also have an impact on fees.
4. To introduce a Competency Assurance scheme that covers:
 - Experience verification
 - Examination recognition
 - Competency assessment
 - Structured CPE
 - Service levels and deliverables
 - Monitoring

It is proposed that in the long term the cost of running the Competency Assurance scheme will be borne by those member firms who are within the scheme and those that apply to be within the scheme. Initially the costs of setting up the scheme will have to be borne by all member firms.

5. To provide a wider range of enhanced member benefits such as technical support, education and training, mentoring and networking. It is proposed that the cost of providing these services will be borne by all member firms.

6. Timeframe

- September 2007: Strategy paper issued to membership and responses requested
- October to December 2007: APCC discussions with interested third parties and stakeholders such as FSA, CI and ICA plus others where considered appropriate. 1st, 8th and 15th November (Bristol, London and Wolverhampton – Yorkshire to be arranged for December) APCC seminars with the opportunity to discuss this Strategy Paper and the responses and comments to date.
- 31st December 2007: Consultation period ends.
- Quarter 1 2008: APCC strategy agreed and implementation to begin.
- Quarter 3 2008 onwards APCC strategy implemented.

7. What would we like from APCC members?

All APCC members are encouraged to take part in the debate by attending the proposed forums and submitting their detailed views to the Steering Council in writing to hilary.spivey@apcc.org.uk or to our usual address:

Mrs Hilary Spivey

The Association of Professional Compliance Consultants
26 Throgmorton Street, London, EC2N 2AN

The APCC Steering Council
September 2007

APPENDIX 1: APCC General Information

Background to the APCC

The APCC is the body for compliance consultants who advise firms regulated by the Financial Services Authority in the UK. The APCC commenced activity in 2004.

The APCC has created its own website (www.apcc.org.uk) which has recently been upgraded; it issues mailings on matters affecting compliance consultants, holds forum events to discuss topical issues in the compliance field and liaises with the FSA on these issues. The APCC meets regularly with FSA and provides a communication channel between the FSA and compliance consultants.

The APCC is active in enhancing the professional standards of compliance consultants and is recognised as a trade body by the FSA.

Compliance consultancy firms who support the APCC's objectives are eligible to become members of the APCC. Membership gives priority booking at APCC events, improved access to the FSA and enhanced professional standing. Membership of the APCC is open to firms who support the APCC's objectives and principles, agree to comply with the APCC Code of Ethics, which include the APCC Professional Standards, and meet its eligibility criteria.

The Steering Council of the APCC recognises that there needs to be greater development of the organisation as the financial services market place develops and the role of consultants becomes of greater importance given the move towards Principles Based Regulation (PBR). The development of the organisation has, up to now, been restricted by the limited financial and human resource available to it.

Original Objectives of APCC

- Promote the professional standards of its members
- Communication channel between consultancy firms and the FSA
- Provide information on services provided by members
- Accreditation of membership
- Recognition as a Trade Body by the FSA

Principles of APCC

- Competence
- Standards of Professional Conduct
- Objectivity
- Confidentiality
- Good repute
- Integrity

The APCC Professional Standards

The APCC has commenced development of a framework of Professional Standards setting out best practice guidance for compliance consultants. These Professional Standards are to be adapted to meet particular client circumstances and are not intended to be rigid statements of required conduct.

- The Professional Standards have been developed to cover the following areas:
 - Healthcheck reports to clients
 - Procedures on change of appointment
 - Compliance outsourcing services
 - Disciplinary Process

APPENDIX 2: APCC Facts and Figures

Current Membership

The APCC has just over 100 member firms of which 56% are sole consultant firms, 28% have between 2 and 5 consultants, 9% have between 6 and 10 consultants and 7% of member firms have more than 10 consultants.

Many APCC member firms serve a spectrum of clients and many cover different areas of the market place, our membership database gives the following information:

Member firms serving insurance broking clients:	25%
Member firms serving mortgage broking clients:	25%
Member firms serving IFA clients:	30%
Member firms serving institutional clients:	40%
Member firms serving wholesale:	25%

Current Revenue and Resources

The APCC can currently rely on income of just over £30,000 per annum and its forecast costs for the year to 30th June 2008 are:

	£
Administrative support costs	17,000
Web site development and support costs	6,000
Event costs	2,500
Travel expenses	2,000
Other	3,500
Total	<hr/> £31,000 <hr/>

Currently the APCC has the resources of its Chairman, the Secretary, an administrative assistant and the Steering Council members. In the last 12 months the Chairman has spent about 35 days on the organisation's affairs and the Secretary about 48 days. The Committee including the chairman only recover expenses. The Secretary's costs are covered in the administrative support cost above.

APPENDIX 3: Extract from the Retail Distribution Review DP 07/01

3.33 The group made three main recommendations to enhance the effectiveness of the current regulatory framework for smaller firms:

- an individual risk rating for all smaller firms supervised by the FSA;
- collection of appropriate data from smaller firms and other sources to support risk rating of firms; and
- regulatory oversight of smaller firms could place reliance on a wider network of bodies including the FSA, compliance consultants, networks, service providers (subject to no conflicts of interest), trade associations and professional bodies.

3.34 The group's view was that the FSA would thus be able to move to a principles-based approach to regulating small firms, knowing that well-resourced larger firms/bodies were partners in compliance support and oversight. For all parties to have confidence in such a system the various players being relied on would have to be able to prove the value they were adding.

3.35 We do not believe authorising compliance service providers under the Financial Services and Markets Act 2000 would be appropriate because they do not provide financial services to consumers. However, we may be able to use the results of the service providers' guidance to small firms more pro-actively in our supervision and regulatory activity. This may mean that small firms are given incentives to employ compliance service providers to advise on how to ensure the quality of their advice, and provide quality assurance. These incentives could take the form of reductions in risk-based financial resources requirements. We could only do this, however, where we were able to satisfy ourselves that the compliance service provider was itself capable of making assessments that we could take into account.