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TRAINING THAT MAKES A DIFFERENCE

COMPLIANCE UPDATER

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SEC agrees to introduce best interest rule for stockbrokers.

The US Securities and Exchange Commission (SEC) agreed a new rule that will see far greater disclosure of conflicts of interests between brokers and their clients. The new rule, referred to as 'Regulation Best Interest', will take US brokers closer to the standard required of US investment advisers. Investment advisers have a fiduciary responsibility to their retail clients that means they need to continually monitor their clients' best interest. Brokers will be required to adhere to best interest standards only at the point of a recommendation. Brokers currently only need to consider suitability, which requires their recommendations to meet an investor's goals and risk tolerance. The new rule will mean brokers will also have to consider other factors that may create conflicts of interest, such as differing rates of commission on products. Such conflicts are expected to be dealt with mainly by clear disclosure to the investors. However, some forms of incentive will be banned, including sales contests that give free trips to the winning broker and bonuses that reward brokers for selling specific products.

Woodford problems highlight the failure of the ACD.

The problems at Neil Woodford's Equity Income Fund - which has been 'gated' meaning investors cannot withdraw any of their money - is beginning to highlight the failure of the Authorised Corporate Director (ACD) at the fund, Link Fund Solutions. The ACD should have ensured the fund complies with the rules and appears to have been unable to cope with the complexities of Mr Woodford's activities. These included moving unquoted shares to 'quoted' shares by listing them on the relatively illiquid Guernsey Stock Exchange, thereby reducing the fund's unlisted proportion to meet regulatory requirements.

'Ethical failures' at US arm of KPMG.

KPMG agreed to pay $50m to settle US Securities and Exchange Commission (SEC) charges that it changed past audit files ahead of inspections by the Public Company Accounting Oversight Board (PCAOB). The additional identified 'ethical failure' according to the SEC was that numerous audit professionals at KPMG had cheated in their internal training exams.

PWC faces £4.6m audit penalty.

PWC was fined £4.6m by the Financial Reporting Council and two partners were each fined £140,000. The fines were the result of audit failings at Yorkshire-based Redcentric, an IT services group. After being given a clean bill of health by PWC, Redcentric has since admitted to overstating its assets by £13m and its profits by £9.5m.

RBS report described as a 'whitewash'.

The UK's Financial Conduct Authority (FCA) published its report into why it failed to take action against the Royal Bank of Scotland (RBS) over its disgraced restructuring unit. The Global Restructuring Group of the bank has now been closed but was accused of exploiting small businesses following the 2007/8 financial crisis by pushing them to sell assets at reduced prices. The FCA said it had no power to take action against unregulated areas of RBS's business including commercial lending. It also found no evidence of dishonesty by senior individuals. The All Party Parliamentary Group on Fair Business Banking called the report a 'complete whitewash'.

Lloyds freezes 8,000 offshore accounts.

The UK's Lloyds Banking Group has been forced to freeze 8,000 offshore bank accounts as it attempts to meet more stringent 'know your customer' rules to prevent and detect money laundering. The customers are all clients of Lloyds Bank International based in Jersey and the freezing does not relate to specific money laundering concerns. The accounts have been frozen after multiple attempts to contact the customers have failed to generate the necessary identification documents.

Former UBS Compliance Officer found guilty of insider trading.

A former member of the UBS compliance team in London was found guilty of insider trading in Southwark Crown Court. The individual (Fabiana Abdel-Malek) passed tips on deals to her friend Anis Choucair who made around £1.4m in profit between 2013 and 2014 trading contracts for difference based on those tips. Whilst Abdel-Malek received no proceeds, she did benefit from Anis Choucair's favour, including time spent at exclusive Mayfair nightclub Tramp. Both individuals were sentenced to three years in prison.

Deutsche Bank facing US whistleblower complaint.

Deutsche Bank is reported as being under criminal investigation in the US in connection with alleged failures to comply with anti-money laundering laws in connection with transactions involving Donald Trump-controlled entities and companies controlled by President Trump's son-in-law Jared Kushner. A whistleblower former compliance officer in one of the bank's Florida offices alleges flagging potentially suspicious transactions that were ignored by the bank. She was subsequently sacked.

Varley cleared in Barclay's Qatari funding trial.

Former CEO at Barclays, John Varley, was cleared in relation to the fraud trial that alleged payments were made by the bank to secure investment from the Qataris in the financial crisis of 2008. Mr Varley's three former colleagues who also face similar allegations will face a retrial.

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FCA endorses FX Global Code of Conduct.

The UK's FCA endorsed a voluntary code outlining good conduct in currency trading. The FX Global Code of Conduct was created by 16 central banks and the private sector following a mandate from the Bank of International Settlements to draw up a new code after a string of scandals and fines. The FCA has linked compliance with the code as indicative of acceptable conduct under its Senior Managers and Certification Regime (SM&CR).

Danske senior manager fired for mis-selling issues.

The senior manager at Danske Bank who was made interim Chief Executive after the €200bn money laundering scandal surrounding the Danish bank's Estonian branch, has been dismissed over a separate mis-selling issue. Jesper Nielsen was fired due to his failure to ensure that a wealth management product – Flexinvest Fri – was suitable for the bank's customers. 87,000 customers are in line for compensation amounting to around DKr400m ($61m) in total because of being overcharged fees on the product in comparison with expected returns.

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