Financial services session
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Agenda

► Introductions and overview
► Market update
► European Union (EU) update – financial services trends
► Mobility hot topics with a focus on current key organizational challenges
► Insights from Deutsche Bank
► Q&A/closing remarks
Introductions and overview

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A key challenge in banking
Clarity on roles and governance between three lines of defense

Definitions and principles

Enablers

Responsibilities
Talent analytics
Talent expects it

Talent expects an “experience” rooted in insights, and delivered through both technology and leadership.

► Within the next 5-10 years, most managers and employees will have been raised with the expectation that their best organizational relationships have invested the time to understand their preferences and priorities.

► These same managers and employees will also comprise a significant portion of the investor community.

► Companies who use talent analytics and talent models to prioritize their investment in human capital acquisition, development and deployment will enjoy cost and performance advantages.

► They will also enjoy a very real competitive advantage in both revenue capture (through social marketing) and margin/risk management (through talent).

More than 60% of studied organizations are increasing investment in talent analytics.¹

Based on a survey of 436 companies ... advanced talent analytics is helping achieve better talent outcomes in terms of leadership pipelines, talent cost reductions, efficiency gains and talent mobility — moving the right people into the right jobs.²


EU update – financial services trends
EU update – financial services trends

► Background – an international regulatory push for enhanced risk governance
► Section 1: Higher expectations for boards collectively and directors individually
► Section 2: Elevated focus on conduct risk and risk culture
► Section 3: More detailed expectations of boards and management – the role of the remuneration committee
► Summary
On 9 July 2015, the Basel Committee released revised principles on corporate governance for banks.

The principles build on work by the Financial Stability Board (FSB) and various regulatory and international agencies following the financial crisis.

Key changes from the Basel Committee on Banking Supervision’s (BCBSs) previous (October 2010) principles include:

- Higher expectations for boards collectively and directors individually, notably a broader oversight role and a more systematic approach to director selection
- A much stronger focus on the need for fully functioning three lines of defense, particularly frontline and individual accountability, second-line risk aggregation and high-quality third-line assurance
- An elevated focus on conduct risk and risk culture
- More detailed expectations of boards and management with regard to key, new regulatory requirements, such as subsidiary governance, stress testing and outsourcing
Section 1: Higher expectations for boards collectively and directors individually
Section 1: Higher expectations for boards collectively and directors individually

Current transition plans, proposed by the regulator, introduce two key milestones with the second currently proposed to be 12 months after the first.

► Regime commencement on 7 March 2016 — focused on establishing the regimes to cover senior management functions (SMFs), all certified staff, non-approved non-executive adjustments (NEDs) and commencement of new enforcement regime

► Full regime implementation on 7 March 2017 — deadline by which all certified staff should be issued with fit and proper certificates and all conduct staff should be identified and managed in line with Conduct Rules

► SMR, which enhances the accountability and responsibilities of a narrower and more senior set of individuals, anticipated to be drawn from members of the boards and executive committees of firms

► Certification Regime, which requires a broader number of individuals to be licensed as “fit and proper” with the onus for the performance of this certification now becoming a firm responsibility rather than a regulator responsibility

► Conduct Rules, which set out the behavioral standards expected of broadly all employees and individuals associated with a regulated firm

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- **Board of directors**
- **Executive committee**
- **Senior Managers Regime**
- **Certification Regime**
- **Material risk takers and their managers**
- **Former approved persons and their managers**
- **All staff not explicitly exempt by SMR**
- **Ancillary staff who perform a role not specific to the financial services (FS) business of the firm (e.g., security, cleaners)**

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Higher expectations for boards collectively and directors individually
What does the individual accountability regime (IAR) mean for HR?

The new regulatory framework for individual accountability will impact every part of the employee life cycle in affected firms. Few, if any, staff will be untouched by the new rules and all will be affected by the culture change that this will drive.

- Are your policies clear about misconduct issues?
- Do your leaver processes link to reward for malus and clawback?
- How do the new SMF and certified function (CF) requirements impact your succession planning?
- Are you testing fitness and propriety on promotion?
- How do conduct issues affect accrual and allocation of incentives both at business unit and individual levels?
- Are your malus and clawback processes clearly defined and effective?
- How are nonfinancial metrics and behaviors measured?
- How do these link into development and training plans for SMFs?
- How is performance management integrated with breach management?

- Are accountabilities, responsibilities, necessary qualifications and competencies clear and current for defined roles?
- How are you assessing fitness and propriety against the role?
- How will you prove to new recruits in SMF/CF roles that controls are in place to support them?
- How are you establishing the appropriate behaviors and ensuring attestation and certification is in place?
- What range of training do you have in place to ensure that the messages are embedded at all levels of the organization?
Section 2: Elevated focus on conduct risk and risk culture
Elevated focus on conduct risk and risk culture
European banks are coming under pressure to control soaring misconduct costs, while US regulators keep up the intense scrutiny

Regulatory scrutiny continues to increase in the European banking industry
► Between 2010–2014, conduct-related charges of the major European banks amounted to £84.9 billion.
► European banks have been under intense scrutiny by regulatory authorities for a wide range of conduct issues, and many of these remain unresolved.
► Participants in foreign exchange (FX) markets will face further changes related to ethics and processes from European regulators, even after implementing the recent FSB Report on Foreign Exchange Benchmarks (Sep 2014). In addition, strengthened standards on accountability will apply in the UK in March 2016.

Increasing compliance costs are of rising concern to investors, analysts and regulators
► With banks still facing multi-billion dollar fines for compliance failures, investors and analysts are questioning the quality and efficiency of banks’ compliance spending.
► European regulators are strengthening provisioning rules for reputational and legal risks: Regulators want future stress tests to include misconduct costs and extra measures, such as forcing banks to hold more capital to cover potential fallout from big fines.
European banks have already invested significant capital, time and resources towards achieving regulatory compliance, but more investment will be required before banks can be confident of their compliance and control processes.

Global compliance spend* is forecast to rise 7.5% – 8% in 2015, reaching US$2.6 billion from US$2.4 billion in 2014, and is likely to grow at similar pace in 2016.

Banks continue to strengthen their compliance functions and increase resource allocation to manage misconduct issues.

Banks’ focus areas

Setup/enhance the compliance function

What are the banks doing?

Barclays plans to build a global compliance function.

BNP improved its group’s control mechanisms and implemented remediation plans to ensure compliance of all group businesses.

Increase compliance staff

UBS plans to hire an additional 350 employees to monitor regulatory compliance in 2015.

Barclays created a “Compliance Career Academy” for training on compliance.

SCB linked performance and rewards to personal values and behaviors.

Increase compliance budget

DB plans to spend €1 billion to reinforce systems and controls and adapt these to changes in regulation by 2015.

*Source: June 2015 TABB Group
Elevated focus on conduct risk and risk culture
Conduct risk – heightened regulatory focus

Conduct risk covers the identification and management of risks relating to the provision of financial services that leads to or could lead to the unfair treatment of customers and delivery of inappropriate outcomes.

The risk of causing detriment to customers because of systemic or inherent failures may or may not result in financial and/or reputational detriment to the company

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<th>Considerations</th>
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<td>► Firms need to look beyond processes and their associated controls and look at people issues, including culture.</td>
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<td>► Treating Customers Fairly (TCF) is a building block; it’s not the answer.</td>
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<td>► Requirement to ensure fair customer outcomes is undiminished.</td>
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<td>► Monitoring outcomes alone is not sufficient.</td>
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<td>► Regulators are looking to see a strategic response that encompasses business and operational strategy.</td>
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<td>► Regulators are now looking to ensure conduct risks are identified and mitigated to prevent future failures.</td>
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<td>► Firms must set their conduct risk appetite and manage within it.</td>
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Elevated focus on conduct risk and risk culture
Shift more people into “sustainable performance” quadrant

We know from experience:

► We always find that there are good people doing the right thing.
  ► Who are they?
  ► What makes them perform?
► Successful organizations:
  ► Do not drive change with a “one-size-fits-all” approach
  ► Look for good practice in the current set up and contrast and compare with under-performing units
  ► Identify the traits of high-performing people and teams, codify and drive through the rest of the organization
Section 3: More detailed expectations of boards and management – the role of the remuneration committee
The introduction of the conduct risk agenda does not mean the rules have changed or even that expectations have changed. It means that regulators now expect firms to have a clear view of what, within their business model, could result in inappropriate customer outcomes in order to mitigate the risk and prevent failure from occurring.

The implementation of a conduct risk strategy requires firms to apply a top-down approach to the identification of potential conduct risk failure. It means firms need to move away from being driven by hard-line rule requirements.

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<th>Increased governance</th>
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<th>Greater emphasis on the “how” within performance assessment</th>
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<td>2</td>
<td>Reduction in number of incentive schemes</td>
<td>5</td>
<td>The link between production/sales and incentives starting to take account of more nonfinancial metrics</td>
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<td>3</td>
<td>Increased use of discretionary arrangements but also increased definition of what discretion means</td>
<td>6</td>
<td>Quality gateways commonplace</td>
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<td>4</td>
<td>Introduction of balanced scorecards, including financial and nonfinancial measures</td>
<td>7</td>
<td>Increased focus on nonfinancial metrics, e.g., internal recognition for positive performance, learning and development (L&amp;D) opportunities</td>
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Mobility hot topics with a focus on current key organizational challenges
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- DB background
  - Previous: Regional Hub based teams with all operations and advisory work done on the ground
  - Current: operations and advisory in near-shore locations, i.e., Birmingham, UK; Manila, Philippines and Eschborn, Germany
    - One Governance person in each Hub location, New York, London, Frankfurt and Singapore

- Operating model
  - Roles and governance
    - 3 Teams of Global Mobility Specialists (Birmingham, Hong Kong and Eschborn)
    - 2 Teams of Transaction Managers (Eschborn and Manila)
  - Strategic enablement
    - Policy change - tailored expat package whereby certain assignment benefits can picked rather than all or nothing
    - Producing multiple cost estimates per request, looking at a variety of different package scenarios (technology enabled)
Areas of focus

- Cost containment/reduction-fewer full expat packages, more reduced packages
- 20% reduction of LTAs
- Increased local transfers and STAs
- Heightened need for STBTs but increased regulatory demands
- Shadow payrolls to comply with tax withholding requirements for non-treaty countries
Mobility hot topics with a focus on current key organizational challenges

► Roles and governance structures
  ► Mobility team structures
  ► Mobility – strategic partner for talent management
► Managing cost and risk
  ► Impact on nature of assignments
  ► Impact on policies
  ► Communications
  ► Focus on cost accruals and data
  ► Risk culture and competency reviews
► Increased focus on short-term business travelers (STBTs)
► Global payroll and compliance landscape
Align mobility processes and policies with talent strategy to increase productivity and talent retention while lowering costs.

Life cycle

- **Pre-placement**
  - Relocation measure: visa, housing and relocation costs

- **During placement**
  - Staff costs measure: staff salary, bonuses, benefits and subsistence against local peer group
  - Maintain talent measure: retention of local staff following placement against peer group
  - Admin costs measure: tax and other support costs against local

- **Post-placement**
  - Relocation measure: relocation costs

**Attracting talent measure**: attractiveness of program on the labor market; expenditure against peer group

**Global network measure**: new projects initiated; long-term benefits

**Knowledge transfer measure**: handover rate to local resource; subsequent performance

**Maintain talent measure**: retention rate against peer group

**Future leaders measure**: career path against peer group; outside hires at top level
Increased focus on STBTs

1. Shifting from assignment or transfer to business trips

2. Accelerating pace of globalization

3. Increasing regulatory and enforcement scrutiny

- Domestic and global business travel is increasing.
- Governments need revenue and are seeking to protect local labor markets.
- Governments are taking a tougher line on enforcement; tax and immigration audits are increasing.
- Disclosure requirements are strengthening. In the new environment, companies need to be “audit ready.”
- Authorities are becoming increasingly sophisticated with enhanced information sharing.
- Companies are:
  - Quantifying risk
  - Reviewing policies, processes and controls
  - Addressing compliance
Global payroll and compliance landscape

Main drivers of existing payroll operating models

- Organization’s historical practice: 54%
- Cost: 14%
- Lack of confidence in alternative models: 7%
- Control/risk management: 6%

Top three payroll issues organizations are facing

1. Global compliance
2. Process consistency
3. Right payroll talent

35% of companies anticipate entering new global markets

11% are actively pursuing a global payroll solution

Source: Global payroll: myth or reality, EYGM Limited, April 2013.
Q&A/closing remarks